Trusted to Lead Series

The Strategy & Science of Extraordinary Leadership

How to Transform an Organization

What the CEO Must Know About How to Change Organizations Successfully (with the least Resistance)

By Robert Porter Lynch

How to Transform an Organization

A Practitioners Guide

Usage Guidelines

Acknowledgements

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Methodology

The methodology and opinions expressed in the *Practitioners Guide* are solely those of The Warren Company. This approach is the result of twenty five years of research, development, and application of best practices in strategic alliances, collaborative innovation, high performance teams, trust building, and organizatioinal transformation.

Productivity Alberta specifically takes no responsibility for application of the ideas and recommended actions included in this Guide.

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About The Warren Company

The Warren Company is a consulting organization that specializes in the development, management and revitalization of strategic alliances, high performance teams, and other collaborative relationships, especially those that include the need for high-trust.

Through our network of consultants in the United States and Canada, we apply a variety of proprietary processes to help increase the success of collaborative ventures. Our professionals provide consulting, training, benchmarking and best practices research, facilitation of the development process, and diagnostic assessments to large multinational, middle-market companies, and small businesses, as well as non-profits and governmental agencies.

The Principles, Processes, and Practices in this Practicioners Guide have been used extensively in companies such as Cisco Systems, Eli Lilly, Procter & Gamble, and Dupont, among numerous others to produce extraordinary results, streams of innovation, new products, increased revenues, and sustainable competitive advantage..

We sincerely hope you will experience similar results.

What Senior Executives Must Know About Organization Transformation

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Executive Summary

Tne Steps of Organizational Transformation

(Note: update this section at conclusion of the writing) Critical Steps in Orchestrating Collaborative Innovation Transformation (see change model)

Myths & Realities of Organizational Transformation

Alignment is about Internal and External Alliances

Understanding How to Focus Human Behavior

Step 1: Compelling Rationale

Step 2: United Leadership Team

Step 3: Clear Vision, Value & Strategic Pathway

Step 4: Create Rapid Results

Step 5: Build a Foundation of Trust & Teamwork

Step 6: Build Support Systems & Embed Infrastructure

Step 7: Reduce the Risk & Resistance to Change

Step 8: Celebrate and Promote Victories

Step 9: ReAlign the Organization

Step 10. Refine, Measure, & Innovate

Compelling Rationale

Sense of Urgency or Need

Gap between Today's Reality and Tomorrow's Requirement with some measure of the Magnitude of the Gap

Clear Value or Danger

Leadership United

Strong Voices aligned in their call to action

Use of the Influence of Authority & Peer Groups

Willingness to change voiced by those "in the know"

Clear Vision & Strategic Pathway

Strategy to Win vs Competition

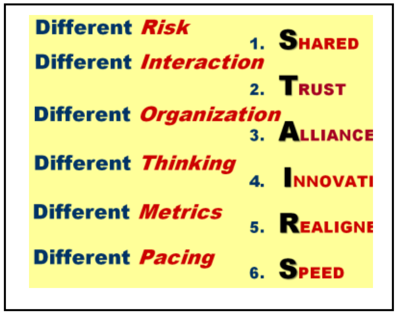
Specific Goals & Targets

Can-Do Attitude

Integrity of Actions & Words

Constant Communications

Leaders are Fully Engaged in as living symbols of the new vision



Build a Foundation of Trust

Ensure the change is Safe, Secure, Fair, Honorable, and Ethical

Engage those who will be part of the new strategy in developing its implementation

Address Resistance to Change

Training Programs

Lower the Threshold of Risk & Fear

Define New Standards of Behavior

Simplify the Transition

Create Evidence & Belief

Give the Skeptics something to deny the Cynics

Gain Traction with Quick Wins

Align Measures & Rewards

Ensure new metrics & rewards match the new vision and behavior (old measures must change)

Ensure required results are multi-dimensional (financial, attitudinal, behavioral, creative, etc.)

Reward & Recognize individuals & teams that produce the right results the right way

1.
2. Resistance to Change in the Non-Crisis situation:
3. People change when
4. Value proposition is compelling (smoking is bad or you versus you will die in 6 months if you don't quit now
5. Trust is high – It's safe and secure to change
6. Pathway to Perdition is clearly avoided
7. FUDD of change has been reduced or eliminated
8. The business world is torn between two masters: the Wall Street master and the higher master of Trust, and, for the most part (bell curve) has chosen the middle ground, straddling the bridge, taking the safe route because of the dangers and uncertainty.
9. I could have been a Contender
10. The Science of Muddling Through
11. Be the Champion of Your Destiny

Realities of Organizational Transformation

Don't Call It "Change"

I hear it all the time: "Organizational Change" launched by "Change Agents." Whoever invented these words never listened to the people on the other side of the "change process."

Anyone who hears those word "change" has a high likelihood of cringing. Not all change is good; change can be for the better or the worse; change can be enlightening or painful; change can be forward or backward; change can bring meaning and purpose or strip life of its glory; change can propel or regress; change can inspire or depress.

In other words, change has no inherently positive or negative meaning – for some it is good; for others, bad. Thus, for many, the idea of organizational "change" automatically triggers "resistance to change," which then makes everything more difficult from the outset.

Shift and Collaborative Innovation

What should we call the transformation effort, if not "change." Having tested words with thousands of workshop participants, there are several words that are more universally accepted as positive: *shift*, *evolution*, *next generation*, *game changer*, or *transformation*. We will use these somewhat interchangeably, but not refer to the idea of *change.*

Alignment is about Internal and External Alliances

In the end, transformation requires a realignment of internal and external relationships and structures, which ultimately produce a company that has multiple internal alliances. Each functional element must be in alliance with every other function for the transformation to produce success.

For this reason, many of the best principles, processes, and practices that produce success in external alliances are just as applicable to internal alliances. This monograph will employ many of the best learnings from strategic alliances.

Strategic Systems

Overall, the organization transformation must be *systemic*, meaning it has an impact on every dimension of the organization, human, technological, organizational, policy, program, functional, financial, and so forth. And it must simultaneously be *strategic* in that it impacts the long-term future of the organization. Smaller, program or tactical changes in the organization done simply for the purpose of improving efficiency or profitability do not qualify as being transformational.

When planning a transformation, the *strategic* and *systemic* issues need to be considered carefully, because each is inter-twined and interactive – changing one thing impacts multiple others.Any major transformation should have four essential alignments. (see Figure 1) Without thinking about these in advance, when leaders arrive at the later stages of the transformation, it will be very difficult to realign the organization in a synergistic system.

The first alignment is *aspirational*, meaning the mission/purpose of the organization, its vision and its values. Without a powerful and inspirational purpose, people will be without a guiding star, without a sense of worth, without an ultimate aim that their lives and their hard work will truly make a difference. It is the *raison d'etre* – our reason for existence.

Figure 1: The Four Alignments

Any transformation will either be initiated because the organizations aspirations are in need of a major shift, or because it is unable or ineffective in achieving its current aspirations. While this is an essential part of the transform-ation, it is the least involved and least time consuming. General it is the role of the Board of Directors and the Senior Executive Team to ensure Aspirational Alignment is clear.

The *bulk of the transformation effort* involves solving three simultaneous organizational functions referred to as "three dimensional alignment model:" (see Figure 2). If these three dimensions are not well integrated, the transformation will lack synergy and synchronicity, resulting in dysfunctional behavior, conflict, and silos.

- <u>STRATEGIC ALIGNMENT</u>:
  Set a Powerful/Noble ***Vision*** that inspires, and chart an Innovative ***Strategy*** that generates a significant advantage over the ordinary.
- <u>CULTURAL ALIGNMENT</u>:
  Create ***Culture of Trust*** that channels team *Energy* and unleashes *Co-Creativity*, which is focused towards the *strategic vision* and *drives out fear*.
- <u>OPERATIONAL ALIGNMENT</u>:
  Establish coherent system of Functional Excellence with ***Processes***, ***Measures***, and ***Rewards*** that achieves #1 and aligns to support #2.

Figure 2: 3-Dimensional Alignment

As we journey through the process of transformation, we will look at these three dimensions and how, together, they enable transformation to be embraced "systematically," not piecemeal to produce an integrated, synergistic result.

STRATEGIC ALIGNMENT

This dimension addresses those critical issues and decisions that will essentially impact the destiny of the organization. The transformation should change the end-game, the direction, and the purpose of the organization in some meaningful way. It should create a competitive advantage that is clear and bound to give the organization a long term, sustainable position in its market space.

Without Strategic Alignment, an organization is without direction, focus on purpose, and essentially has no meaningful meta-goal. When it's missing, people either wander, forgetting their real purpose and become disengaged, or they stake out their own territories, battling over who's more important or powerful.

In gaining Strategic Alignment it's vital for the leadership first to set a powerful/noble *vision* (Aspirational Alignment) that inspires people to come to work, and then chart an innovative *strategy* that generates a significant advantage over the ordinary.

This is the first step in creating *competitive advantage.* This dimension focuses on several core issues:

- The organization's long term direction and destiny How the organization achieves its mission/purpose
- How the organization interacts with its environment
- How effective is the creation of competitive advantage Positioning the company to enable it to compete effectively in a competitive marketplace.
- Developing a powerful value proposition
- Clarity & coordination of goals & priorities
- Growth strategy that allocates resources to:
    - Internal (organic) growth
    - Formation of external partners/alliances
    - Acquisition of new business
    - Divestiture of non-core business
- How well do we regenerate, renew & innovate

CULTURAL ALIGNMENT

While many leaders may, at first, balk at considering the importance of culture, here's the reason:

> *Culture, when right, will be the glue that binds people into teams, the grease that makes a smooth running organization, the connectivity that enables sharing of ideas, the values that transform into value creation, and the alignment mechanism that keeps everything on track.*

Because culture looks soft and invisible, many leaders believe it is not important.

Quite to the contrary, just ask any sports coach about the importance of teamwork and trust to the outcome of the season. Think of culture as the "invisible secret sauce" that makes it extremely difficult for competitors to see, understand, and copy your competitive advantage because it's your unique way of gaining the highest productivity from people without bludgeoning them for results. And, when done effectively, culture enables people to adapt quickly to change, embracing risks, new learnings, and creative opportunity very rapidly.

Cultural alignment takes into consideration:

- How leadership directs, inspires and encourages people – their morale and their spirit
- How people interact to create high performance teams
- How trust underpins the organization to ensure the highest quality of human interaction
- How people are measured & rewarded for their efforts

It is inside the culture that human spirit is either energized or demoralized. Culture channels team energy and unleashes co-creativity, which is focused towards the strategic vision while drives out fear, anxiety, and distress.

The essential ingredients in culture are:

- Trust, respect ethics, & integrity
- Delegation & lower level decisions
- Teamwork, cooperation, and working well with others
- Synchronizing our efforts
- Innovating and creating together
- Learning from each other
- Solving everyday problems effortlessly
- People measured & rewarded for achievement of mission & goals

OPERATIONAL ALIGNMENT

The key to operational alignment is the creation of a coherent system of excellence composed of ***Processes***, ***Measures***, and ***Rewards*** that achieve achieve the Strategic Vision and are consistent and aligned with a high performance, high innovation culture.

Fundamentally, operational excellence aims at converting inputs (materials, human energy, ideas, money, etc) into *value* that customers will be willing to pay for.

Ultimately, if value created is less than competitors create, the firm will cease to exist.

Capitalism is, by its nature, a force of *creative destruction.* Like the changing seasons, the new -- the more functional, efficient, integrated – is always superceding the old.

Thus teams must *not just perform well*, they must also *innovate to produce the next generation* of product or service that is better, faster, more functional, or less costly. In a world that is moving faster and changing more rapidly, collaborative innovation is essential to survival.

For example, after Apple introduced the iPhone in 2007, Nokia, Blackberry, and Motorola did not innovate to meet the competitive offering. Within five years these companies had lost so much market share as to be nearly negligible competitors.

In operational alignment, critical issues are addressed, including:

- How the functional branches integrate/join forces/create teams to achieve the strategy
- Use of best processes and best practices
- Operational value creation
- High performance teamwork
- Collaborative innovation
- Coordination & synchronicity
- Proficient/competent management
- Low levels of non-value added work
- Interaction at multiple levels
- Conflict is channeled positively
- Cross boundary integration -- encouragement to cross internal & external boundaries
- Critical metrics of performance
- Reciprocal relationships, including shared assets, sharing strengths & information, shared risk & reward

Operational alignment produces actions that can be measured against standards of excellence. Often however, difficulties that manifest in operations are actually caused in the strategic or cultural dimensions.

Without keeping an eye on the three dimensions of transformation integration at the initiation, the final stages of transformation will inevitably fail (see Step 9)

MYTHS & MISCONCEPTIONS

Because of the difficulties encountered by many who have undertaken have run into extensive difficulties or aborted their efforts. Most of these unsuccessful ventures did not employ the strategies and practices we include here. However, because of the high failure rates, many myths and misconceptions have arisen. (A myth is a half-lie, half-truth, disguised as the truth.) We will address them directly.

#1: It's Hard to Change Culture

Because culture is so deeply engrained in an organization, it is indeed difficult to change, especially if you do not understand behavior, trust, and leverage, and best practices.

To change culture, follow the steps in this monograph, and, while it will never be "easy," culture is malleable.

It is absolutely essential that those involved in transformation understand human behavior. (see next section). People are not locked into patterns of behavior – more often than not they act in response to the environment around them. If the climate is hostile, aggressive, threatening, deceptive, unfair, or uncompassionate, then people will act accordingly.

Changing culture usually involves increasing the trust people have in their leaders.

By making trust the *central organizing principle* of culture, people are willing to change rather quickly.

#2: It Takes Time to Change Culture

Most organizational development specialists will say it takes 3-5 years for a transformation to complete its cycle.

This is basically true, but if leaders focus on trust and best practices outlined herein, the time can be substantially reduced.

Further, if the organization is in crisis, and the approach used here is employed, the time cycle is closer to 15-18 months.

#3: People Resist Change

This is a myth. Most people change if there is a compelling rationale, the stakes are high, and there is a strong support system to prevent cataclysm in the event of a mishap.

The primary reasons for resistance are lack of benefit, fear off the unknown, or loss of money or prestige or impotent-ence, or negativity Overcome these, and most people will shift.

Human Behavior is not a phenomenon hard and fast carved in stone – a trusted leader brings out the best in people. (see NUMMI case in Appendix A to understand how resistance to change is softened under excellent leadership.)

The exceptions are cynics, the stubbornly resistant, and the walking wounded. These may have to be released from the transformation effort.

#4: Must Reorganize to Improve Performance

Many companies reorganize in a makeshift attempt to improve performance. However, just ask any of the people who are on the receiving end of a reorg and listen to their observations: "no improvement," "a waste of time," "too much confusion," "no sooner had we figured out the new relationships , but we reorganized again.

Any reorganization that comes from a transformation should be designed to support communications, speed of performance, flow of innovation, and eliminate non-value.

#5: Transformation is Expensive

Because of the complexities of transformation it can be expensive, not just in terms of money, but also time. For this reason, use of the right transformation frameworks can reduce the time and money substantially.

Further, a company should not undertake a transformation unless there is a substantial return on the investment and the transformation begins to produce early results.

Transformations that linger and are tiresome should not be attempted.

#6: Culture is Separate and Distinct from Strategy

Because culture is closely linked to the human spirit, it is also linked to the energies of operational teamwork and strategic initiatives.

Anyone who tries to split culture off and work on it in isolation makes a major mistake.

Also, because high performance, high innovation cultures are fundamentally based on the existence of a high trust business environment, culture is inseparable from any other leadership initiative.

Understanding How to Focus Human Behavior

Importance of People United

The success of all strategy and implementation is totally dependent on how well leadership marshals and focuses human energy. From top to bottom of an organization, people must work together synergistically to achieve the goals of the transformation.

If people are not united, divisiveness, rancor, and even betrayal will undermine, torpedo, and subvert the transformation.

Uniting people starts with understanding the key forces that drive human behavior.

Four Drives – The Nature of Human Nature[1]

In the last decade a number of breakthrough studies give us a better understanding of what's happening inside our skulls. Knowing more about what's happening in the brain gives a leader clear guidance on how to "turn on the switches" that light up collaborative innovation. (Don't panic; we're going to make brain science easy to understand.)

While our brains are the most complex mechanisms on the planet, there are some basic circuits that control our behavior in a normally functioning brain, and different parts of the brain are assigned responsibilities for performing these functions. Most things in the brain happen automatically, without conscious thinking, like breathing, heartbeats, and digestion, to name just a few. "Drives" are the ultimate, irreducible motives of human behavior, and there are four basic drives in all healthy human beings:

> Drive to ***Acquire*** – seeking food, shelter, reproduction, and even pleasure. Attached to this drive are certain very *basic emotions* such as *desire, greed*, and *lust*. When other species are on the receiving end of this drive, they perceive it as aggression or domination, and typically respond with the next drive:

> Drive to ***Defend*** – protecting ourselves from threats and aggressors that will prolong individual survival and even prevent our extinction as a species. Attached to this basic drive is the basic emotion of *fear*, and its derivatives such as *anger* and *vindictiveness*.

These basic brain functions together are often termed "self-interest" or "self-preservation." These two drives mostly use evolutionarily-old brain regions that humans share with fish and reptiles. When a leader triggers these two drives excessively, however, collaborative innovation circuitry in the brain is inhibited, as we will explain later.

Important Characteristics of All Mammals

Because humans are mammals, our brains share certain functions that are common among all mammals. The most important one for our immediate purpose is:

> Yearning to ***Bond*** ––the drive to live and work in groups, such as teams or herds.[2] This "communal instinct" starts with our nurturing of our young. Associated with this drive are some of emotions exhibited by humans and a few higher mammals –*love, empathy, happiness, playfulness, loyalty,* and *gratitude*, to name a few. The bonding impulse is especially strong in humans. It started with the pair-bonding that gave us the nuclear family and later tribal cohesion. It is extremely important because it provides the natural desire for humans to *collaborate,* coordinating their actions for their mutual benefit, and the desire to work for the "greater good."

In any group or organization, a leader must consciously work to meet the needs of every human to balance or align the drives to *Acquire* resources and *Defend* one's turf (self-interest) with the needs of humans to *Bond* with others to achieve something they could not accomplish alone (mutual-interest).

Unique Human Brain Circuitry

Human beings have high-order cognitive capacities that allow us to create, comprehend, find meaning, and learn. Located primarily in the comparatively over-sized prefrontal cortex, this capacity gives humans the ability to weigh, balance, and align the drives to *Acquire*, *Bond*, and *Defend*. We term this capacity:

> Drive to ***Create*** – the unceasing impulse of humans to comprehend the world around them, to find meaning, to imagine a better future, to solve problems and puzzles, and to build new and better things. Attached to this drive are emotions we often call *spiritual* such as *inspiration*, *wonder*, and *awe*. We see the drive to *Create* manifesting in children at a very early age; people are just naturally innovative.

It is this very human drive to *Create* that every leader seeking *innovation* needs to support and catalyze along with the *collaborative* drive to *Bond*. In tandem, these two drives give people a deeper sense of meaning and purpose, as well as what we often refer to as *conscience*.[3] Further, the drive to *Bond* activates the pleasure circuitry of the drive to *Acquire*. This gives leaders a "win-win" way to stimulate innovation: it benefits both the individual and the group.

> We've arrayed the four drives in the form of a "leadership compass." (see Figure 3) The four drives are easy to remember: A, B, C, & D) All drives operate independently and each must be satisfied in some reasonable proportion, otherwise people will feel unfulfilled. And if people feel unfulfilled, they will seek fulfillment of the drive that's lacking in some other way. A leader's every action reinforces or suppresses these drives with rewards and punishments.

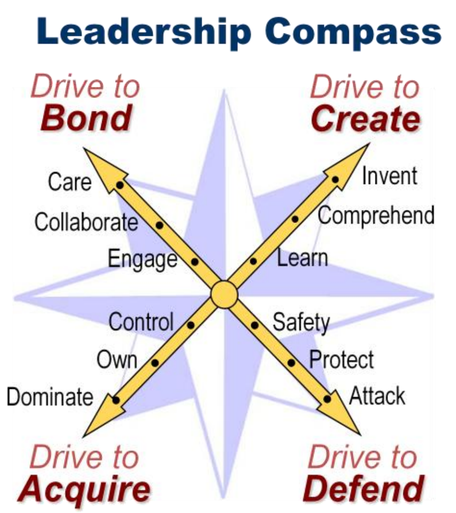


Figure 3: Four Drive Leadership Compass

By reinforcing the drive to *Bond,* a leader emphasizes *collaboration,* and by simultaneously reinforcing the drive to *Create* the leader stimulates *innovation.*

The good news is that it doesn't require hiring new people, just tapping the massive capacity for innovation already within its organizational boundaries, as Robinson and Stern, in their book *Corporate Creativity*, explain:

> *Given the creative potential already present in most companies, the environment is the determining factor for promoting overall corporate creativity… Alignment is the first essential element.*[4]

But exactly how does a leader know just what proportions of these drives are needed? How does one steer the organizational ship with the compass? How do we stay on the collaborative innovation course?

To illustrate, think of your car's front-end when you are driving: if the one of the wheels is unbalanced, you get feedback from the pounding the tire creates when it's bouncing and not running smoothly. And when the front end is out of alignment, the car is always pulling to one side or another, constantly needing correction.

> ***It's important for a leader to know how the brain's chemistry responds directly to what is being sensed in one's immediate environment.***

Our brains give us similar feedback if we tune into its signals. When everything is tuned right, we trust, when out of balance and alignment, we distrust. Our brains produce specific chemicals called "neurotransmitters" that signal whether we have too much of one thing and not another, whether we are "unbalanced" or "out of alignment."

Because the brain's chemistry responds directly to what is being sensed in one's immediate environment, it's important for a leader to know the basics about how this system operates.

During every phase of the transformation, leaders must be aware of how these drives are being satisfied or deprived. This will have a direct impact on both the organization's culture and individual's behavior.

Foundational Mindsets about Human Behavior

1. Human Nature: People have evolved four drives, ultimate survival motives that need to be satisfied. Their drives to *Bond & Create* must come first if one wants to be collaborative innovators. The drives to *Acquire & Defend* must *support* the first two drives, *not predominate*.

2. Trust: Trust is essential to innovative collaboration. The basic elements of trust are fairness, honesty, respect, integrity, and empathy. When leaders start with command and control as the first principle of alignment, they quickly trigger the *Acquire* and *Defend* drives, suppressing trust. Leaders who fail to create trust limit their range of motivational options to fear and force.
3. Teamwork: Most people want to work together; only five percent are anti-social. Be careful about putting even highly creative lone rangers in charge of innovation teams; they knock out the collaborative side of the innovation equation.
4. Fear: Fear can be a tool or a weapon; it's a tool when the fear is focused *externally* to the organization, but an innovation killer when used *internally*. Don't use fear as a spur, don't create artificial internal crises, and don't punish people who are well intentioned. Weed out those who believe that command by fear is the best way to get results.
5. Creativity: People are born creative; it's natural to want to bring new ideas into the work world. Let creativity be demonstrated by small as well as big hits.
6. Alignment: Aligning people on a common goal and purpose requires they can trust each other while they walk the same path. Start first by aligning around the four drives of the customer, and then the four drives of the key stakeholders, employees, stockholders, and suppliers.
7. Synergy: The attainment of synergy is possible only when built on a foundation of trust that honors differentials in thinking and the creative passion of people. If synergy is absent, look for distrust as the first culprit.
8. Eliminate Bad Apples: Remove senior and middle management leaders who rule by manipulation, fear, hording, or sheer power. In failing organizations, it is not unusual to find a large proportion of senior management attached to these beliefs. If these leaders are firm in their attachment to this belief, they need to find work elsewhere.
9. Reconfigure Metrics & Rewards: One common cause for failure is putting in place a new innovation initiative, but leaving the old metrics and rewards in place. This leads to dysfunction and frustration, for the reward system doesn't match what is truly valued. Be sure to measure and reward collaborative innovation.

10. Create a Four Drive Honor Code: Many organizations have created "Values Statements." While there is nothing wrong with this, the values often are weighty and abstracted from everyday life. Instead, ask people/teams to create day-to-day Operating Principles (typically less than 1 page) that will govern their interactions. We suggest using the Four Drive Honor Code (seeFigure 9) or the Principles in Figure 4 as a starting place, adapting it to their unique needs and circumstances.

Create a Four Drive Honor Code

In honor of another's drive to ***Acquire*:**

Enhance People's Capacity to Acquire necessary Resources to Succeed.
Give People the Autonomy and Authority to Solve Problems
Reward People for their Contribution and Commitment to Overall Goals

In honor of another's drive to ***Bond*:**

Keep Promises and Commitments,
Seek Fair exchanges rather than cheating.
Don't forsake the "Greater Good" in favor of one's "Self-Interest"

In honor of another's drive to ***Create:***

Tell truths rather than falsehoods
Share Useful Information and insights rather than withholding it.
Respect Other's Beliefs, even in disagreement, rather than ridiculing them.
Honor Diversity of Opinions and Points of View that stimulate new ideas

In honor of another's drive to ***Defend*:**

Help Protect Others, their loved ones and their property.
Detect and Punish cheaters.
Insist on a Reasonable Level of Safety and Security

Figure 4: Four Drive Honor Code

Key Steps in Organizational Transformation

Step 1: Compelling Rationale

Step 2: United Leadership Team

Step 3: Clear Vision, Value & Strategic Pathway

Step 4: Create Rapid Results

Step 5: Build a Foundation of Trust & Teamwork

Step 6: Build Diffused Infrastructure

Step 7: Reduce the Risk & Resistance to Change

Step 8: Celebrate and Promote Victories

Step 9: ReAlign the Organization

Step 10. Refine, Measure, & Innovate

Step 1: Compelling Rationale

Initiating an Organizational Transformation or Turnaround has been considered the ultimate test of a leader. Transformation is the process of re-invention and resurrection.

This is often not an easy task, as there are ingrained attitudes, habits, and core processes that must be cast aside, replaced by new mindsets, new perspectives, and new skills.

Sometimes the transformation is initiated by leaders who recognize that, though successful, the company is on a risky slippery slope of decline. More frequently the transformation is being forced by a major decline or even bankruptcy. In the former case, the transformation may be rather incremental, proceeding under the nomincature of initiatives like lean management, six sigma, reengineering, or culture change.

Whatever the name, the implications are the same – without a change in course, the company will not survive in its current condition, or will have to be sold piecemeal.

Regardless of the scope and scale of the initiative, there are certain steps or phases that a leader must traverse. Skipping one or more, or addressing the steps too superficially usually creates greater difficulties later, like a ship that leaves its dock with much of the crew still on shore.

Sense of Urgency or Need

The first place to start is determining if there is a gap between today's reality and tomorrow's requirement for success, with some measure of the magnitude of the gap.

APPLICATION

Sense of Urgency

If there is no urgency, no matter how important the initiative, people will place it low on their priority lists. Day-to-day demands will occupy their time. Further, there may be few rewards for engaging in a long-term, ill-defined venture.

Many leaders will communicating an impending crisis, or even create a crisis just to get people's undivided attention. Harvard Business School Professor John Kotter[1] examined over 100 change efforts and found over 50% of the companies failed at creating and communicating a sense of urgency. They were doomed from the get-go.

Successful initiatives examine their competitive situation in detail, then "find ways to communicate this information broadly and dramatically, especially with respect to crises, potential crises, or great opportunities that are very timely." However, "executives underestimate how hard it can be to drive people out of their comfort zones."

Clear Danger or Value -- Crisis or Vision????

Initiating a change is more compelling when the situation is dire than when it is preemptive. In the words of one European CEO, when 75% of management is genuinely convinced that the status quo is "more dangerous than launching into the unknown,"then the time is right to launch a program.

Fear of the unknown, the ambiguity of untried strategies, and the unpredictable outcomes from alien programs will render many senior managers impotent, unless there is a compelling rationale.

In surveys done during our workshops, we ask senior participants, from their experience, what percentage of change initiatives are caused by crisis, and what percentage by vision?

Their response: 85-90% are caused by crisis.

Analysis paralysis is one major obstacle to transformation. Leaders are urged to use intuitive thinking at the point when indecision gains ground. Morever, in companies where trust is lacking, a black hole of fear, uncertainty, doubt and distrust ("fudd") will siphon away the energies of those needing to design plans and take action.

APPLICATION

Clear Danger or Value—Crisis or Vision

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[1] Kotter, John; Leading Change; Why Transformation Efforts Fail, Harvard Business Review, March-April, 1995

Awareness of the Problem & Opportunity

Mobilizing human energy is the essential success ingredient. People who are affected by the problem need to know about it, understand its causes, and be empowered to contribute solutions.

For example, if the problem is one of technological obsolescence, then resources must be marshaled to produce more innovation. However, obsolete engineering may be caused by obsolete engineers, and entrenched personnel may be the cause. Under these circumstances, outside resources may be required to address the issues.

Leaders should beware that those who are responsible for the problem will often deflect responsibility, especially in low trust situations. No one wants to accept responsibility for a problem if the blame-game is too intense. This will stop the transformation dead in its tracks.

Gaining sufficient critical mass of people who are intensely committed to supporting the change is essential. This will probably take more effort and energy than planned. Leaders should anticipate having briefings, training programs, root cause workshops, guest speakers, and distribution of materials to gain the high ground on awareness of the difficulties and possible solutions.

Most people are hesitant to embark on a journey for which they have no map, for fear of wandering into swamps, deserts, and jungles. Therefore, providing case studies, process maps, and causal analyses are often used to move people's minds from fear and anxiety to possibility and progress.

Powerful Messaging

Getting the message out to people who can take some responsibility for the solution is critical. In the messaging, just one to three messages elements is sufficient; too much creates data overload and confusion about priorities.

Because the intensity of messaging will cause fear and anxiety, any messaging without aiming at solutions is debilitating.

Messages should address issues couched in language the embraces each of the 4 drives of human behavior – drives to *Acquire, Bond, Create, Defend.*

Our work in the field also demonstrates the acute value of putting clear metrics in the messaging. Metrics motivate the mind to action and drive concrete clarity.

APPLICATION

Awareness of Problem or Opportunity

:

APPLICATION

Powerful Messaging

For example, compare these two statements from 1962: .

We will win the Space Race.
(a common theme in the Cold War)

We will put a man on the moon and bring him back alive by the end of the decade.
(J.F. Kennedy - 1962).

The first is fuzzy and vague, the second is precise because ther e are numerous measurable achievement and standards; the first is just a pile of political blabbery, the second motivated action, achievement, and success.

Conduct an Analysis of Threats, Weaknesses, Opportunities, & Strengths

The transformation effort should begin to embed strategic, cultural, and operational thinking (3-dimensional alignment) into work teams and and develop a set of relationship-building skills that will give the organization a powerful competitive weapon.

One of the ways to get people more enthused and inspired about the possibilities is to conduct a series of TWOS Analyses (SWAT Analysis but in a more important sequence.) throughout the company. It should start with senior executives and then to middle managers.

Threats to our future existence and prosperity

Weaknesses that will render us obsolete

Opportunities to create a bold new future

Strengths we must create to sieze the future and create superior outcomes

By addressing Threats & Weaknesses first, people come to see the difficulties; then by shifting Opportunities and Strengths, people turn to their potential impact and potency to affect their future in a positive way.

APPLICATION

Conduct a TWOS Analysis

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Step 2: United Leadership Team

Strong Voices Aligned in their Call to Action

Employees have an uncanny ability to read the signals that come from senior leaders. If executives are fuzzy, indecisive, or uncommitted, that intent comes through loud and clear. And the converse is just as true – passion, dedication, and focus on results will also be sensed immediately.

Gaining rapid momentum in the program is dependent on gaining the commitment of top leaders delivering messages, supporting initiatives, providing air cover to middle level champions who are willing to launch pilot projects, and rewarding those who take the early risks to make a difference.[2]

One mistake made all-too-often is to think of this as a "change management" task. Such is nothing but foolishness. First, we have admonished the use of the word "change" for it connotes turmoil and lack of direction to many. Second, transformative efforts are not "managed;" it is, unconditionally, a "leadershship" initiative. (Management is reserved for keeping things on course efficiently, leadership entails changing course strategically.) Third, this is not simply a "task," it is a programattic initiative that is far broader than just a task.

Notes Harvard's John Kotter, the organization's entire leadership team must "come together and develop a shared commitment to excellent performance through renewal."

[2] If the transformation initiative is organization wide, then the Board and CEO must be fully engaged; if the initiative is regional or at a branch level, then the approapriate senior officer in charge must be 100% behind the effort.

APPLICATION

Strong Voices Aligned in their Call to Action

Use of the Influence of Authority

While many of the aspects of transformative efforts must be delegated, the entire senior executive team must be vocal and active in their roles. Less than 100% support means the leadership team is not fully engaged, and the employees will pick this off immediately. And possibly worse, the efforts will be undermined by an executive who sees the transformation working against his beliefs, power base, or personal skills level.

In many cases I have seen executives who were not engaged subtley pull down major initiatives; withhold precious resources, delay commitments, and actually set people up for failure. In these situations, the real failure was the CEO who did not put an end to such negativity and sabotage. In the case of Gordon Bethune's turnaround at Continental Airlines in the mid-1990s, he had to remove 25% of the senior executives because their mindsets were causing the entire organization to fail. In the case of a General Motors plant, the entire management team had to be replaced. (see NUMMI case in Appendix A.) Removing entrenched senior executives may seem extreme, however it may be necessary. This takes courage, which is a fundamental attribute to any transformation effort; the very survival of the organization is at stake.

Willingness to change voiced by those "in the know"

Every organization has both a formal and informal leadership structure. Engaging the informa leadership early in the process is important. These people's voice carries farther than their rank. Often these are older, verbal employees, sometimes they are the "young turks;" or they may be a union leader. The by-word is:

People support what they help create.

Get informal leaders involved early and fully. They will then use peer group engagement to further the cause.

APPLICATION

Use of Influence of Authority

Willingness to Change by Informal Leaders

Put Champions in Charge

In the end, successful transformations are "championed," not just led. Champions are influential people who have both the "head and the heart" to move the initiative forward. They are the true believers who see the effort as making the real difference between life and death for the organization, thus giving the program a real vitality.

Our teams have had years of experience working with leaders who also have "champion qualities." Here's what they typically look like:

- Vision of the Future & Value Creator*
- Strong Values: Ability to Build Trust*
- Passionate Crusader with Demonstrated Leadership
- Committed to "Greater Good"
- Entrepreneurial, Risk Taker
- Stands for "Win-Win"
- Can do Attitude - Defaults to Action
- Successful Track Record
- Well Versed in Collaborative Best Practices
- Walk the Halls of Power – Influence: upward & outward & downward

Jack Welch, the now retired CEO stated the qualities he looked for in champions:[3]

"I want people with passion…. an inner hunger…who want to win and make it happen , who like to get results…. They must have good values….that can bring a strong team together….. It's about energizing people, the ability to excite people to create energy ….caring about people, which is essential to winning. … We reward those who find ideas, not just those who create ideas.

[3] Interview with Tim Russert, 11/25/01

APPLICATION

Put Champions in Charge

Give the Champions Air Cover

Being a champion within a transformational change effort is a dangerous position because there will be many people who will misinterpret the champion's "greater good" motives as a foil for their personal gains for influence, recognition, or financial reward. Over the many years of alliance formations, we have seen many champions sabotaged by their own people because, by their nature, champions are "professional irritants" always trying to change things.

Senior executives need to give them more than just "support," they need "air cover" to protect them from cynics and others who are opposed to the changes needed. Some advice to senior execs about champions;

- tolerate them, even when they don't play by the rules; remember they are trying to change the rules
- give them clear boundaries, but let them range broadly within these boundaries
- make them catalysts for change, push them to have a powerful breakthrough value proposition to overcome the inertia of most organizations

Remember, champions will often ask forgiveness after the fact, rather than permission before the fact, mainly because they expect that if they ask permission to take bold action, their request will be denied.

Courage enlarges, cowardice diminishes resources.
In dangerous straits, the fears of the timid
aggravate the dangers that imperil the brave.
--*Bouvee (1820-1904)*

APPLICATION

Put Champions in Charge

Leaders Take Action and Build Trust

In our experience, companies change for two reasons: either there is:

- a major crisis and people are shocked into change, or
- a very visionary, charismatic leader who inspires change.

In the crisis situation, people are more ready to change their thinking and behavior; and willing to tackle the trust issue directly.

Without a crisis, however, raising the trust issue can cause defensiveness and resistance because people do not see themselves as the cause of the problem – it's others fault. In this situation, companies must have a very compelling value proposition linked to a strategy that addresses trust issues "sideways," using trust as an integral part of "another major initiative." These other major initiatives address important business leverage points such as:

- High Performance Teamwork,
- Lean Management and Collaborative Innovation,
- Supply Chain Integrity,
- Alliance & Acquisition Effectiveness,
- Human Resource Development,
- Customer Relationship Management, and so forth

Influencing Without Authority

Leaders who are most effective at transformation take a page out of the "leading volunteers handbook"—they understand that, in the end, they are best off not commanding people to change, but inspiring them and influencing at the level of each of the 4 drives of human behavior. First and foremost, to influence without authority, leaders must be able to:

- Be seen as having VALUE
- Be seen as being TRUSTWORTHY (In later sections we will lay out methods for achieving these two objectives)

APPLICATION

Leaders Take Action & Build Trust

Influencing without Authority

Seven Principles of Transformation

1. **Principle of Crisis and Fear**

   85-90% of all change is driven by a Crisis or Fear or some outside force, such as a competitive maneuver/shift or government regulation

   Leaves 10-15% to the Visionary (requires 6-10X more effort/imagination/leadership)

2. **Principle of Belief & Evidence**

   No Change is Permanent unless Beliefs Change

   Evidence Reinforces Beliefs

3 & 4. Principles of Swiftness or Least Resistance

Leaders must decide, early on, the pathway for transformation, much of which depends on the circumstances. Either

- *Get the changes over with fast so that no one has time to ruminate about it, or*
- *Change in small increments, creating positive evidence and reinforcement along the way, rather than in large leaps which might induce deep resistance*

5. **Principle of Stability versus Change**

   People will prefer Stability over Change, unless the change has significant advantage (usually by a factor advantage of a minimum of 15-20%), otherwise the risks of change will seemingly outweigh the rewards

6. **Principle of Conflict and Confusion**

   Conflict and Confusion will be normal in any change effort

7. **Principle of Co-Creation**

   People Support What They Help Create

APPLICATION

Seven Principles of Transformation

Step 3: Clear Vision, Value & Strategic Pathway

The Vision

To set the new course for a transformation effort, a vision is vital. Without it there is no "guiding star" to navigate into the future.

However, for then most part, vision statements are too vague to be of much use as a stand-alone declaration of the future. A good vision for a transformation should create a clear, unambiguous view of

- ✓ Driving Forces that are necessitating a new path
- ✓ Vision of the Future Result(s) Needed
- ✓ Value Proposition that speaks about the impact
- ✓ Strategies to Succeed
- ✓ Actions, Practices & Priorities Required to Win
- ✓ Metrics to Measure & Drive Success
- ✓ Rewards & Compensation

Without clarity in these dimensions, the vision is too vague to be of value.

APPLICATION

Seven Principles of Transformation

Value Evolution

The primary reasons transformation is required today (and more frequently now than ever before) is because what is valued by customers is constantly changing, and more rapidly than any other time in history (with the exception of wartime).

As value changes, evolves, and migrates, companies must follow suit – evolve or die. Capitalism's driving demand is *creative destruction* whereby the old is constantly replaced by newer, better, and more economical products and services. Creative destruction means that no company is immune from having to reinvent itself.

This problem nearly destroyed IBM in the early 1990s as personal computers began to destroy the main-frame computer market, and also replaced the IBM Selectric typewriter that had been a standard for decades. IBM had tried to get into the telecommunications business with an acquisition of Rholm, but failed. By the early 1990s IBM was loosing money by the billions. Pundits saw its demise. Lou Gerstner was hired to resurrect IBM. When he was asked by the business press if he had a vision statement for IBM's future, he retorted that the last thing I BM needed at tha t moment was a vision statement when it was hemorrhaging cash. The press raked Gerstner over the coals for lack of vision.

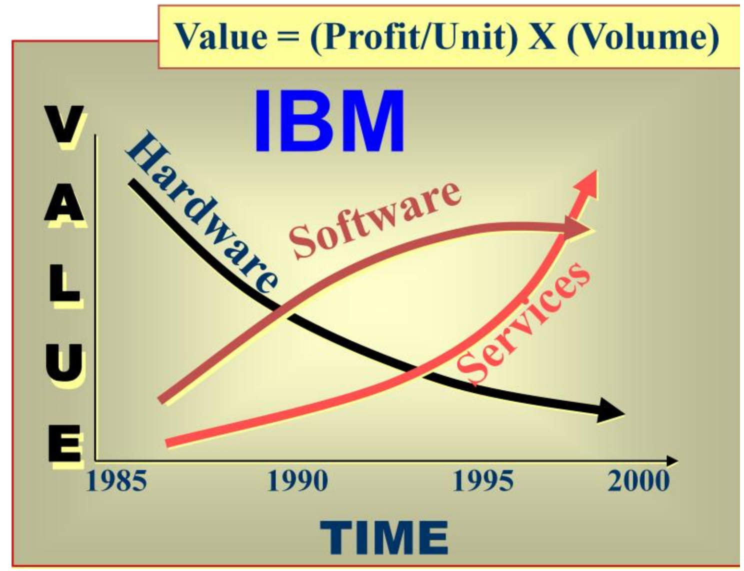

Figure 5: Value Evolution

WHY VALUE MIGRATES

- **Technology Changes**
- **Unmet Needs**
- **New Entrants with New Solutions**
- **External Environment Changes**
- **People with New Rules of the Game**
- **Cultural Differences**
- **Integrated Solutions**
- **Speed & Innovation**
- **Capitalism's Creative Destruction**

What they didn't hear was that he had a very clear view of where I BM needed to go to survive. He called it the evolution of value (or value migration). I attended a session where he went to a white board and in a few bold strokes mapped the past present, and future of IBM.(see Figure 5).

It was elegant in its simplicity. In just a few strokes of the pen he mapped path forward for IBM. He showed how the electronic hardware business (with a few high value exceptions like the Watson super computer) would be commoditized to a point that there would be no real money to be made int that sector. But, he said, if IBM took a strong position serving its many market niches with a powerful set of software solutions, and also got into the business of serving its customer base with fully integrated methods for adding value to their business, IBM would thrive.

And, indeed, it has. Years later, I asked IBMers about that simple value evolution chart, and every one of them can draw the map just as accurately as Gerstner did twenty years ago. Today the new curves would show ecommerce, cloud computing, and Smarter Planet on the upswing in value.

When engaging in any kind of transformational effort, create a value evolution map for the unique field of endeavor of your efforts. Do it as a joint excersice with insiders and outsiders. Ask customers and suppliers for inputs. Then you will have an idea about the direction to place the energies and efforts.

Any areas that ride the downswing of the curves tend to be ripe for "consolidation" or exit as cost cutting and rationalization are the driving forces. Low margins prevail here, and the business will have significantly have less margin for error and less profit to allocate..It is normally advisable to reevaluate these value migration curves on at least an annual basis, because rapid innovation in the industry or changing customer demands may further repositioning.

The Value Proposition

The value proposition aligns different people, groups, and partners on a very specific and tangible value for the ultimate customer and for themselves. This requires a clear and explicit definition of what "value" is actually going to be produced by the alliance. Because transformation requires an extra effort and expenditure of resources, its essential that the incremental value produced is greater than the incremental resources expended.

The Value Proposition Should Define and Measure Synergy

The value proposition must be clear and visible internally and externally.

It clarifies 1+1=3.

The value proposition should not be vague—in other words, it must be something more than "excellent quality," "good service," etc. Define the value proposition in terms of measurable results, so teams will have clear benchmarks for its performance.

Value Migration Checklist

Customers

___ Who is the customer?

___ Has our target customer changed, or are we now focused on new customers?

___ Are decision makers and influencers changing?
___ What are the customer's needs and values?
___ Which customer needs are mature and require a more cost-effective solution? Which needs are emerging and require a high-performance solution?
___ Given the customer's needs and value profile, how are their priorities changing?
___ What do you think will be the customer's most important future needs?

New Business Designs

__ How many distinct new business models have been introduced in our industry segment in the past five years?
___ What is their customer and economic rationale?
___ How do their economics compare with ours, and what do we need to learn from these new models?

Value Movement

__ What is the current status of the value migration curve that enabled us to gain our present position?
___ What is the total market value of our industry? What is our share of that value? Who is gaining share of value most rapidly?
___ What is the next shift in value migration we can either anticipate or lead?
___ How will the rules of the game change in the future based on the new value migration?

While value migration describes the direction of value, value propositions actually create a vivid picture of value in the short/medium term. A good value proposition focuses, energizes, and challenges people to stretch into the future.

There are actually several value propositions for a transformation, one describing customer value, and others define the value for other key stakeholders.(see Figure 6)

The *customer value proposition* communicates directly to the customer why this transformation will be beneficial, exactly what value it adds, and why the customer will profit. For example, the customer value proposition might show how the newapproach will potentially be

- **Better**
- **Cheaper**
- **Faster**
- **Safer**
- **Easier**
- **More Accurate**
- **More Reliable**
- **More Integrated**
- **More Sustainable**
- **Reduced Carbon Footpring**
- **Increased Productivity**
- **Improved Efficiency**
- **Improved Quality**
- **Improved Customer Satisfaction**
- **Greater Innovation Flow**
- **Less Headaches**

Here are some examples :

❖ **Intel:**

➢ The Capacity of a Computer Chip will Double every 18 months and its price will drop by 1/2

❖ **FedEx:**

➢ We will deliver anywhere in the US by the next day

❖ **3-M**

➢ 40% of our sales will come from new products designed in the last 4 years

What's in if for our Customers?

What's in it for our Survival?

What's in it for our Thrival?

What's in it for US? WIIFUS

What's in it for ME? WIIFME

What's in it for our Investors & Stakeholders?

Figure 6: Target Groups for Value Propositions

A Powerful Value Proposition consists of:

➢ **Vision** embracing something important, larger, or worthwhile to others

➢ **Metrics** describing how *much*, or how *often*, or how *good*,
or how *many*, or how *soon* the vision will manifest as something tangible that the user can appreciate or utilize which drive…

➢ **Major Outcomes** that are feasible
(but often an important breakthrough)

➢ **Written from the User / Customer's Perspective**
so that the user sees/experiences the value

The Strategic Pathway

Creating a shared vision is critical, but unless people see a well conceived plan and means of delivering on the plan, there will be uncertainty and doubt.

A good

The Competition

The Potential Allies

The Leadership & Teamwork Required

The Operations Plan

Powerful Best Practices Methodology

Financial Modeling

The Program

Goals

Actions

Communicate & Train

Over-communicate

Message in the 4 Drives

The Power of the Written Word

The Power of Stories

Train Mindsets, Skillsets & Toolsets

Strategy to Win vs Competition

Specific Goals & Targets

Can-Do Attitude

Collaborative Innovation

Create Value in entire value chain

Build Allances

Get Rid of NVA & VD

Create a Collaborative System

3. Lacking a vision. Without a coherent and sensible vision, a change effort dissolves into a list of confusing and incompatible projects. If you can't communicate the vision in five minutes or less and get a reaction

That indicates both understanding and interest, your work in this stage isn't done.

Ensure that Shared Vision has depth & Clarity

Value propositions

Collaborative Innovation

Psychological Warfare & Propaganda Lessons

4. Undercommunicating the vision by a factor of ten. Use every existing communication vehicle

to get the vision out. Incorporate the vision into routine discussions about business problems.

Five Strategic Principles

Principle of Pro-Action

First Mover has the early Advantage (if the is idea well thought out & supported)

There is nothing so powerful as an idea whose time has come

Principle of Vision

Where there is no Vision, everything defaults to Politics

Principle of Primacy

The First Impression will color all other impressions

Principle of Connectivity

It is a Small World; Information travels fast

People are joined by a myriad of networks and interest groups

There will be few secrets

Principle of Unintended Consequences (Antithesis of Principle of Serendipity)

The World does not exhibit logical manners

Every Adversarial Move you make will trigger a set of Counter-Moves by others

Failure to make a move may trigger even larger consequences

The communication plan

Strategic sourcing usually entails significant change--and in times of change, communication that is open, consistent and accurate fosters trust and helps ensure a strong relationship. Effective communication helps employees understand what the sourcing relationship is designed to achieve, and their roles in the sourcing relationship's future success. Thus, it is important to develop a communication plan that describes how and when the organization will discuss and explain the outsourcing-related changes to employees.

As one executive points out, "Looking back over the process, you can't communicate enough to combat rumors, control communication and manage expectations. It is important that staff understand what is going to happen to them, how it will effect them and what form the outsourced services will take."

In general, the organization should establish a formal communication program that:

encourages two-way interaction between management and employees.

ensures that messages are delivered consistently to all audiences.

encompasses everything from group meetings and newsletters to one-on-one meetings.

includes feedback mechanisms that allow executives to track results.

Step 4: Create Rapid Results

Create Evidence & Belief

Give the Skeptics something to deny the Cynics

Gain Traction with Quick Wins

Manage Risk by focusing on Value Added, Collaboration, Teamwork, Trust, and Alliances

12. 6. Not systematically planning for and creating short-term wins. Clearly recognizable victories within the first year or two of a change effort help convince doubters that the change effort is going to be worth all
13. the trouble.

Capture the Learning

Distinguish the Old Way from the New Way

Communicate the Results

Redouble the Effort

Six Principles of Negotiation

Principle of Co-Creation

People Support What they Help Create

Principle of Fear

A Crisis where something will be lost is a greater motivator than a Vision where something may be gained

Principle of Trust

Trust will enable negotiations to proceed at a far faster pace with high degrees of innovation.

Corollary: Without trust, the future will be a reaction to the past

Principle of Unintended Consequences

Every Action causes a set of Reactions; a large number of which will be either unanticipated or adverse to your interests

Corollary: Trust will increase the chances of positive unintended consequences, and distrust will increase negative consequences

Principle of Bridge-burning

The toe you stepped on yesterday is likely to be connected to the hand you need to shake tomorrow.

Principle of Wrath

Let the sun not set on thy anger

Step 5: Build a Foundation of Trust & Teamwork

Ensure the change is Safe, Secure, Fair, Honorable, and Ethical

Engage those who will be part of the new strategy in developing its implementation

Make Trust a Priority

Leaders have clear choices in the way they create value for their stakeholders. Much of the choice depends upon what you choose to believe about: the nature people, how to create competitive advantage, if people are a cost or an asset, and what constitutes a sustainable strategy for the future.

What's vital is to take action, make corrective improvements, and ensure that metrics and rewards for performance are realigned to reinforce the new vision, values, and vocabulary being implemented. Executives will be challenged to be sure their actions and their words are filled with integrity. But the challenge, effectively addressed, produces massive rewards.

Embedding a system of trust into your organization yields enormous rewards for all stakeholders. Trust unleashes latent human energy and enables it to be aligned on a common purpose.

Teamwork means Alliances

Bottom Line: At the current pace of change, only leading in ways that build trust will prepare leaders and organizations to survive and thrive in challenging times.

Trust as a Central Organizing Principle of Organizational Culture

Trust is central element in organizational culture, yet, for most leaders, trust is regarded as a soft and mushy field, which business schools and analysts typically fail to address. This is a major mistake. We believe that trust should be the central organizing principle of organization culture.[5] As Lou Gerstner stated about his turnaround of IBM:

> *"I came to see, in my time at IBM, that culture isn't just one of the aspects of the game – it is the game. In the end, an organization is nothing more than the collective capacity of its people to create value. Vision, strategy, marketing, financial management – any management system, in fact – can set you on the right path and carry you for while. But no enterprise –*

whether in business, government, education, healthcare, or any area of endeavor – will succeed over the long haul if those elements aren't part of its DNA.

"Successful institutions almost always develop a strong culture that reinforces those elements that make the institution great. They reflect the environment from which they emerged."[6]

Every senior executive must pay attention to the Trust Factor, as it is one of the most important elements of gaining competitive advantage, with a small financial investment, which yields a massive Return on Investment.

Trust and the Creation of Value

Trust enables a company to gain traction because it shifts the game of business from *transactionary exchange* to *value creation*, (and prevents value destruction) as illustrated in Figure 7: Power of Trust on Value Creation.

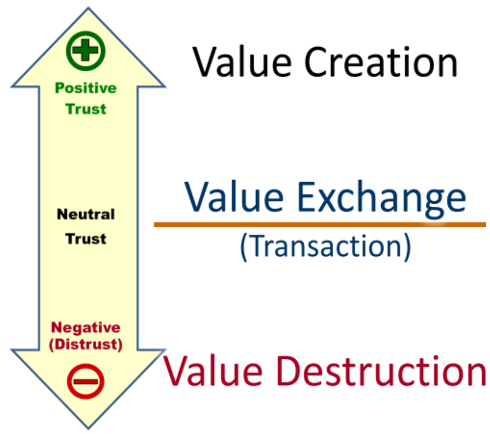

Figure 7: Power of Trust on Value Creation

In the previous section, we explored how Toyota and Honda beat the Big Three by shifting from a Value Exchange interaction with suppliers to a Value Creation relationship. Trust enabled the game changer. The ***Continental Case*** (mentioned earlier) illustrated just one element of how the Economics of Value Creation actually operates, when triggered by a high-trust corporate environment:

"We [told] the field that we wanted our employees to use their judgment, not follow some rigid manual. When faced with an atypical situation, employees were instructed to do what was right for the customer and right for the company.

"If you start writing rules to cover every tiny eventuality, you kill your employees' creativity; their ability to solve problems. If every time they start to address a problem they think, "geez, if I do this the wrong way headquarters is going to be calling me and reaming me out," They stopped thinking; they figured, well, let headquarters tell me what to do in that case -- people were suddenly permitted to think for themselves. In fact, they were encouraged to."[7]

"Trusting our employees didn't mean ignoring the business and letting it run itself, and it didn't mean that no matter what anybody did it was okay."[8] *We want employees to use their judgment.*

Triumph of Small Numbers*: At Continental Airlines, in the trust-enlivened atmosphere, every employee was given the ability to solve minor and sometimes major problems. All the little solutions begin to add up into a major profit:*

Bottom Line*: "Multiply every little solution by more than 2000 flights a day, by millions of telephone calls to our reservation centers, by thousands of bags that might have missed a plane if someone didn't hustle, by thousands of gate agents taking thousands of decisions to keep passengers happy and planes moving. You can see the impact our new policy has…. We want employees to make smart decisions, not blindly follow rules. Suddenly our employees are running a good airline."*[9]

The power and success of trust seldom occurs in the meteoric manifestation of one grandiose act or event, but in the subtle, almost invisible multiplication of thousands of small decisions, actions, and better results – the [Triumph of Small Numbers][4] – adding a slight percentage here, a small advantage there, a minute shift in weight in another place, and then pulsing as a shock wave, like the proverbial straw that broke the camel's back.

Bottom Line: Trust makes eminent financial sense, accelerating and amplifying the creation and sustainability of value.

But Trust is actually not the goal; it is the foundation for the real goals: innovation and high performance teamwork.

Trust as the Foundation of High Performance Teamwork

"Not finance. Not strategy. Not technology. It is teamwork that remains the ultimate competitive advantage, both because it is so powerful and so rare,"[10]

stated Patrick Lencioni in the opening of his best-selling book, *The Five Dysfunctions of a Team*. In his research, Lencioni found that virtually all teams are potentially dysfunctional. To improve the functioning of a team, it is critical to understand the type and level of dysfunction; here's the list of the most critical dysfunctions ranked in order of their importance to high performance teamwork: (see Figure 8)[5]

Figure 8: Key Elements of High Performance Teams

The pyramid model is a hierarchical progression of team development in which each must be completed to move on to the next. Kenneth P. De Meuse of Korn-Ferry in his analysis of the seven most popular models of teams writes:

"In today's corporate environment, it appears the team – not the individual – holds the key to business success."[11]

One of the common core elements for the seven models of high performance teams: TRUST.[6] *De Meuse went on to say:*

"Teams have the potential to be one of the most powerful drivers of success in an organization today. However, highly performing teams simply don't happen. They take time to evolve and mature….. It is up to you to understand how teams function, and then improve the cohesiveness, chemistry, and productivity of the team. Talent

[4] Author's Note: The principle of the "triumph of small numbers" and its corollary "tyranny of small numbers" indicates when a small increase in a small number/percentage occurs, a large increase in another number will occur. This is particularly true regarding profitability when revenues increase and costs decrease (or vice versa) by small numbers.

[5] Author's Note: Again, there is no universally agreed definition of TRUST. (see [Trust Definition with Precision]) In our approach to trust, three of Lencioni's other factors: #2: Fear of Conflict, #3: Lack of Commitment, #4: Avoidance of Accountability, are sub-sets of trust. This leaves only two real causes of dysfunctional teams: #1: Distrust, and #2: Inattention to Results.

[6] Author's Note: In our review of the high performance team models, there was one glaring weakness of all the team models --all called for emphasizing TRUST. But all had an extremely weak framework for understanding the nature and best practices of trust. This led to our rigorous development of the [Architecture of Trust]©.

is not enough! .. After all, as noted major league baseball coach Casey Stengel said: 'It's easy to get good players. Getting 'em to play together, that's the hard part.'"

However, while high performance teamwork is essentially the vehicle through which value is delivered in the modern corporation, teamwork *without trust* is like a marriage without love, it simply won't last.

Trust is Essential: Numerous studies[12] have shown that teamwork has positive impacts on work satisfaction only if the teams had trust and were given a reasonable level of autonomy to make decisions that affected their ability to perform. Teams that only received information from management, but had little trust and little authority, not only did not perform at higher levels, but, in at least one study, received adverse new levels of stress.

Bottom Line: Organizational Performance, whether it's regular work or development of continuous improvements and innovation, is delivered through teams.

Without trust, the teams are apt to deliver mediocre performance, have higher turnover, and suffer the negative consequences of stress. Today's workforce is highly intelligent and inspired to learn, increase performance, and create better solutions given the proper organizational environment, in which trust plays a pivotal role.

Ten Foundational Mindsets about Trust and Collaborative Innovation

The structure we've outlined about the function of trust in generating collaborative innovation can only be realized when it is converted from knowledge to action, which starts with how one perceives opportunity and how one thinks:

<u>Human Nature</u>: People have evolved four drives, ultimate survival motives that need to be satisfied. Their drives to *Bond & Create* must come first if one wants to be collaborative innovators. The drives to *Acquire & Defend* must *support* the first two drives, *not predominate*.

<u>Trust</u>: Trust is essential to innovative collaboration. The basic elements of trust are fairness, honesty, respect, integrity, and empathy. When leaders start with command and control as the first principle of alignment, they quickly trigger the *Acquire* and *Defend* drives, suppressing trust. Leaders who fail to create trust limit their range of motivational options to fear and force.

<u>Teamwork</u>: Most people want to work together; only five percent are anti-social. Be careful about putting even highly creative lone rangers in charge of innovation teams; they knock out the collaborative side of the innovation equation.

<u>Fear</u>: Fear can be a tool or a weapon; it's a tool when the fear is focused *externally* to the organization, but an innovation killer when used *internally*. Don't use fear as a spur, don't create artificial internal crises, and don't punish people who are well intentioned. Weed out those who believe that command by fear is the best way to get results.

<u>Creativity</u>: People are born creative; it's natural to want to bring new ideas into the work world. Let creativity be demonstrated by small as well as big hits.

<u>Alignment</u>: Aligning people on a common goal and purpose requires they can trust each other while they walk the same path. Start first by aligning around the four drives of the customer, and then the four drives of the key stakeholders, employees, stockholders, and suppliers.

<u>Synergy</u>: The attainment of synergy is possible only when built on a foundation

of trust that honors differentials in thinking and the creative passion of people. If synergy is absent, look for distrust as the first culprit.

Eliminate Bad Apples: Remove senior and middle management leaders who rule by manipulation, fear, hording, or sheer power. In failing organizations, it is not unusual to find a large proportion of senior management attached to these beliefs. If these leaders are firm in their attachment to this belief, they need to find work elsewhere.

Reconfigure Metrics & Rewards: One common cause for failure is putting in place a new innovation initiative, but leaving the old metrics and rewards in place. This leads to dysfunction and frustration, for the reward system doesn't match what is truly valued.

Create a Four Drive Honor Code

In honor of another's drive to ***Acquire***:

Enhance People's Capacity to Acquire necessary Resources to Succeed.
Give People the Autonomy and Authority to Solve Problems
Reward People for their Contribution and Commitment to Overall Goals

In honor of another's drive to ***Bond***:

Keep Promises and Commitments,
Seek Fair exchanges rather than cheating.
Don't forsake the "Greater Good" in favor of one's "Self-Interest"

In honor of another's drive to ***Create:***

Tell truths rather than falsehoods

Be sure to measure and reward collaborative innovation.

Create a Four Drive Honor Code: Many organizations have created "Values Statements." While there is nothing wrong with this, the values often are weighty and abstracted from everyday life. Instead, ask people/teams to create day-to-day Operating Principles (typically less than 1 page) that will govern their interactions. We suggest using the Four Drive Honor Code (see Figure 9) or the Principles in Figure 4 as a starting place, adapting it to their unique needs and circumstances.

Use the "FARTHEST" Principles[13]

After retrospectively reviewing a multitude of alliance operating principles, there was an obvious correlation: virtually all the alliance operating principles were essentially the same as the guiding principles articulated by successful turnaround leaders.

The acronym for the Eight Principles (Pillars) of Trust is ***FARTHEST***:

Fairness & Reciprocity for the Good of All

Accountability (external) & Integrity (internal)

Respect, Empathy, & Honor to All

Truthfulness, Candor & Courage

Honorable Purpose & Commitment

Ethics & Excellence of Standards

Safety (physical) & Security (social & economic)

Transparency & Openness

Operating Principles of Great Leaders

During my career building strategic alliances around the world in a wide variety of industries, one of the most important joint trust-building exercises the potential alliance partners would do was to jointly develop a set of 'operating principles." The operating principles were intended to serve as honorable rules of engagement for their interaction.

In the analysis of their actions, there was a clear pattern of thinking shared by virtually all the leaders. This pattern could be thought of an inner set of "guiding principles" – the essence of their belief system about how to inspire and treat others.

Here are some leadership practices you can use for building trust in your organization that yields enormous rewards for all stakeholders. These most aptly embrace the multi-dimensional richness of TRUST[14]. Bear in mind that these principles are 'holistic' in that they should be used in concert with each; used singly they may prove ineffective or counter-productive:

14. ***Fairness* in all your dealings to be sure that everyone gets a fair shake.** Successful leaders are perceived as being even handed, good listeners, and balanced in their approach.

Trustworthy leaders are fair, impartial, and ensure everyone gets compassionate justice. They are good listeners. They ensure people are rewarded for their hard work. They focus on balancing the self interest of everyone with the greater good of all.

High trust companies place a strong emphasis on playing fair. At Nucor Steel, Employee Relations Principles emphasize fair treatment:

Management is obligated to manage Nucor in such a way that employees will have the opportunity to earn according to their productivity.

Employees should feel confident that if they do their jobs properly, they will have a job tomorrow.

Employees have the right to be treated fairly and must believe that they will be.

Employees must have an avenue of appeal when they believe they are being treated unfairly.

Ken Iverson, Chairman of Nucor Steel states,

"Workers know if they have a suggestion, their idea won't get buried in bureaucracy. When a complaint does come up, Nucor has a straightforward way of handling it: Nucor allows any employee to ask for a review of the complaint if he or she feels the supervisor has not provided a fair hearing. The employee can move the appeal quickly to the general

manager and then to the corporate office for consideration.[15]

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 it's business strategies needed a massive shift. Gerstner stated he had one major advantage: the pre-existing culture held several major strengths he could build upon based on IBM's founder dating back into the 1920's:

"The defining ethos of Thomas Watson, Sr. was everywhere. He left his imprint on every aspect of IBM. It became part of the company's DNA. His personal philosophies and values – hard work, decent working conditions, fairness, honesty, ethical behavior, respect, impeccable customer service, jobs for life – defined the IBM culture. A sense of integrity, of responsibility, flows through the veins of IBM in a way I've never seen in any other company. IBM people are committed – committed to their company, and committed to what their company does.

"All leaders face the inevitable challenge to maintain an environment of fairness and principled judgment.[16]

Bottom Line: Always treat everyone fairly and justly to be perceived as trustworthy.

15. ***Accountable*** for your actions, never engaging in blame, deceit, or manipulation. When you make a mistake, admit it and move on.

Accountability is the external manifestation of internal Integrity. Leaders without integrity are quickly dismissed as hypocrites.

"Integrity is an important factor in the performance of top-level executives and middle-level managers" and "at the heart of integrity is being consistent, honest, moral and trustworthy….A leader's character shapes the culture of his or her organization and also public opinion about an organization." [17]

Trust only works when it is reciprocal. In order to be trusted, we must extend trust to others In his article Creating a High Trust Organization, John Mackey, CEO of Whole Foods says that

"I know that in virtually everything that I say and do, our team members are always studying me, trying to determine whether they can trust me and the mission of the company. I'm always on stage. So walking the talk is very important…High trust organizations and hypocritical leadership are mutually exclusive."[18]

"Many leaders make the mistake of believing that the key to increasing organizational trust is to somehow get the work force to trust the leadership more. While this is obviously very important, it is equally important that the leadership trust the workforce."[19]

Lou Gertner, the turnaround CEO at IBM observed:

"Top-rung executives have to ensure that the organization they lead are committed to a strict code of conduct. This is not merely good corporate hygiene. It requires management discipline and putting in place checks and balances to ensure compliance…. I believe the vast majority of our business leaders are good, hard-working people who live up to the standards of integrity that we expect of all those whom we entrust with power and authority.[20]

"No one should be entrusted to lead any business or institution unless he or she has impeccable personal integrity.[21]

Much of what a leader does today requires the ability to influence, often without 9or with limited) authority. To influence without authority, one must be valued and trusted – trust enables influence.

Bottom Line: Be accountable: When you make a mistake, admit it and move on. Avoid the blame game at all costs.

16. ***Respect*** for others, especially those with differences in skill-sets and points of view.

Without respect for others, trust cannot be built. People who bitch, blame, gossip, and complain are disrespectful. Giving respect is a critical step in gaining trust – then moving forward to build a bond with those who have differences in thinking and values.

17. Listening is an essential skill in showing respect. When we listen with compassion, learning, and constructive inquiry, we begin to build trust. People feel like they are receiving *support*. Executive that stop listening stop caring. When leadership doesn't care, the workforce reciprocates. In his book "*From Worst to First*," CEO Gordon Bethune, describes how he had to combat a plague of distrust in his dramatic turnaround at Continental Airlines:

"An incipient bankruptcy, our third, which would probably kill us.... The challenge was to try to save a company desperate straits. Continental employees were disgruntled, angry, mistrustful, but straightforward lot."[22]

"We tried to improve our relationship with customers, suppliers, and creditors by treating them with a little respect. The most important change to make [was with our employees]. I could tell what was wrong with this company the minute I walked in: It was a crummy place to work. Not just because of the bad pay and distrust of the managers and the lousy service and the angry customers. But because, in that environment, the employees no longer trusted even each other -- and they treated each other like [RPL: Fix missing links here] whole team is what got you to the top, and if you discard them because you're at the top, you will go to the bottom in a hurry .... Communication is often they didn't.

"Always listen to your employees and your customers, and remember that nobody can do this alone: your one of the first things to go ... Management stops listening to the people who helped them in the first place and those people stop telling them what's going on"[23]

"Nobody likes being miserable or being mistreated by anybody .... Therefore, one of the most important points in our management philosophy was that it was time to start treating each other with dignity and respect."[24]

Bottom Line: Trustworthy leaders always respect others, even those with whom they disagree.

18. ***Truth*** **builds a sense of reliability, while reducing energy-depleting uncertainty. Truth** is an absolutely essential component of building the type of trust that triggers teamwork and innovation.

Being open and transparent is not enough without also being open to input from others about how the organization and its leaders can improve. When someone in the organization raises a concern about leadership, leaders in high-trust organizations welcome it. They listen to understand, rather than becoming defensive, and respond to expressed concerns with a willingness to change if that is what is needed. This willingness to change requires humility and the ability to set aside ego for the success of the organization.

The first task of a great leader is define reality, for without the truth, no vision, no strategy, and no trust can be built that will move the organization forward. When Gordon Bethune assumed command of the ailing Continental Airlines, he found trust embedded in the rocks of despair, with lying rampant everywhere:

> *"When I took over this airline, what the employees had learned from us often turned out to be inaccurate. We had to change from a culture where leaders instinctively kept information from employees into one where we naturally shared it with them, constantly telling the truth. Unless there was a good reason not to share information (it would have broken the law, or a ruling or a negotiation), it caused misunderstandings or misinterpretations.*
>
> *"We told our employees everything we knew about Continental. We changed from a culture where much of what management said was misleading or just plain faulty to a place where we simply told employees the truth -- all the time.*
>
> *"Never lie to your employees…. You must promise to tell the truth, the whole truth, and nothing but the truth. If you want to be honest with your employees, you have to do that. Not telling them stuff that will deeply affect them is just like lying to them in a sneakier, less overt way.*
>
> *"We stopped lying to our employees; we stopped withholding information from them……In fact, there are three golden rules about lying: Never lie to your doctor. Never lie to your attorney. And never lie to your employees. Don't lie to the people who are going to save you, because if they don't know the whole story, they might not be able to save you…..We don't lie to our employees.[25] … The truth isn't always fun, but if you work for Continental, you know you can get the truth about your company, you know where and how to get it -- always."[26]*
>
> *[RPL: Add paragraph on candor & courage]*

Remember, your emotions or perceptions are seldom real truths. Stick to the facts – things that are measurable or concrete. And remember, a critical comment has about five times the impact as a positive comment. So balance your truths carefully.

: Trust is never gained in a world of untruths. The face of truth is always simple, but deceit wears a thousand disguises. The problem with falsehood is that it occurs not just in business, but in even the most vaunted organizations. Stick to the facts – things that are measurable or concrete. And remember, a critical comment has about five times the impact as a positive comment. So balance your truths carefully.

19. ***Honorable purpose*** **brings meaning and shared vision to high performance teams**. If people perceive your purpose for innovating as strictly for selfish purposes, without a component impacting the 'greater good,' you will not be perceived as trustworthy.

Focusing on Honorable Purpose means leaders at all levels of the organization are being entrusted with the responsibility to create win-win interactions. All normal human are both capable and desirous of addressing both the 'self-oriented' and the 'other-oriented' aspects of conflicted issues simultaneously, given the capacity of the brain which has evolved to search out win-win solutions to these conflicts

> *the people in accounting didn't come to work -- or if the big shots were taking home the canvas bags with dollar signs on the side while flight attendants were taking pay cuts. That kind of stuff breeds internal dissension, unhappiness, and eventually, poor performance. Everybody had to be winning, or Continental wasn't going to fly successfully.*

> *"I think that when we started to tell them -- and show them -- that they were all part of what we were doing, they truly started to believe it -- to believe that we could be a different kind of company, that this could be a place to enjoy coming to work."*[27]

Negative, cynical interpretations of reality are just as devastating, such as fear losing so much you become overprotective, letting anger or revenge or retaliation interfere with rationality, failing to prepare for a big event, doing everything yourself because you trust no one else, and putting your faith in deceptive, Machiavellian actions.

To prevent long-term problems that erode trust, we need to stop untrustworthy behaviors as soon as they happen. According to a *Harvard Business Review* article,

> *"Workplaces lacking in trust often have a culture of 'every employee for himself,' in which people feel that they must be vigilant about protecting their interests. Employees can become reluctant to help others because they're unsure of whether their efforts will be reciprocated or recognized."*[28]

Honorable purpose is the reason great sports coaches emphasize "There is no 'I' in 'TEAM." Keeping everyone focused on the ultimate purpose – winning together – is the honorable path.

If people perceive your purpose as strictly for selfish purposes (without a component impacting the 'greater good)' you will be perceived as self-centered, greedy, and untrustworthy. As a leader, emphasizing Honorable Purpose has the added advantage of giving employees a greater sense of meaning and purpose in their lives.

20. ***Ethics & excellence*** in standards and values brings out the best in everyone.

High Performance and innovation is propelled by the idea of always getting better, improving continually, reaching for the highest level of performance – it's called the "power of progression."

"25 Behaviors That Foster Mistrust" names a wide variety of less obvious negative behaviors including failing to keep commitments, micromanaging, not telling the truth, hijaking meetings and taking them off topic, judging others without giving them the benefit of the doubt, and refusing to be held accountable.[29]

Consequences: Most organizations have untrustworthy behaviors happen from time to time[RPL: insert Dekhes quote on consequences] The real test is how they are handled.

> *"If bad behavior is not checked, other employees (consciously or unconsciously) perceive that the employer accepts the behavior and will tend to adopt it as well. Problem behavior can undermine an organization's culture."*[30]

Setting high standards ensures that everyone on a team knows that others are giving at least 100% effort. Once any one person stops giving an all-out effort, trust begins to erode. This can happen even to the best teams. Ethics and excellence is not a constant, it must be forever renewed by vigilance, always asking the question:

"How can we, as a team or group, do better, more, quicker, safer?"

These types of questions are designed to push people into vigilance and renewed innovation. Standing still in a fast moving, rapidly changing world is actually falling backward relative to the competitive landscape.

Success does not necessarily breed success, it can also give birth to complacency. When complacency sets in, a team begins to lose its edge, to lose trust and confidence in itself, it begins to remember its failures, then the seeds of doubt sprout about its leadership, and ultimately each individual starts to question everything.

If anyone sloughs off, they must realign to the highest measures, otherwise others will be resentful or fall off in their performance.

21. ***Safety & security*** **are the essence of a solid foundation of trust for all human beings.** This includes ensuring that there is "No such thing as Failure, Only Learning." Be careful not to punish what might look like a failed attempt at creative solutions; encourage learning from failure. And always avoid the Blame Game. Fear does not produce innovation. You will know when people feel safe – they will begin laughing. Creativity is not all grinding labor; it's having fun and laughing a lot, spontaneously creating in the moment – that's magical. Research shows that laughter releases endorphins that trigger creativity.

Those who don't feel safe in a leader's presence will be protective or fearful. As human beings, we aren't wired to trust what we fear. Feeling safe means more than knowing that you won't intentionally hurt me; safe means they must be emotionally safe and physically safe. That's why safety and security are at the root of so many labor disputes.

But at a deeper higher level, it's *reliance* -- knowing that a leader 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. Bethune comments:

Safety and security includes ensuring that there is "No such thing as Failure, Only Learning." Be careful not to punish what might look like a failed attempt at creative solutions; encourage learning from failure.

22. ***Transparency & openness*** enable everyone to see intentions, share data, and exchange ideas in a culture that supports challenging of ideas and develops new insights.

Being open and transparent helps to build trust in leadership. The strongest trust builders seem to have a humbleness that reflects a very secure ego. Invariably, they give the credit for achievement away to their team members, and take the blame for any inadequacies

Do not mistake humbleness for weakness; trustworthy leaders are tough, demanding, and driven people.

Bottom Line: ***Leaders must guard against being seen as having hidden agendas, intentions different from what they***

Importance Rankings of Leadership Competencies
Source: Korn/Ferry

Competency	Ranked by Top Ten in North America
Integrity and Trust[7]	1
Customer Focus	2
Ethics and Values	3
Drive for Results	4
Decision Quality	5
Functional/Technical Skills	6
Priority Setting	7
Problem Solving	8
Building Effective Teams	9
Motivating Others	10

state, and any action that is defensive, manipulative, disrespectful, or unnecessarily aggressive.

–

Teamwork Means an Alliance Mentality

Teamwork also creates peer group acceptance

Why Fear Fails

Fear of my own Failure

Fear of my Teammates

Fear of my Boss

Fear of the Competition

Black Hole Where there is no trust, fear and uncertainty fill the void

Table 1: Leadership Competency Rankings

Bottom Line: One of the highest priorities of Leadership is to understand the importance of trust in building competitive advantage, high performance teams, and retention of the highest quality

[7] Author's Note: How Trust Factors are categorized is not universal. We believe that "TRUST" is the larger category, and items such as "Integrity," "Ethics," and "Values" are subsets of "TRUST." (see Precision Definition of Trust)

What is Trust Worth?

A recent study of nearly 30,000 U.S. and Canadian citizens by John Helliwell of the Economics Department of the University of British Columbia indicates that just a 10% increase in perceived trust creates the same sense of well-being in individuals as a $40,000 pay raise.

And it's not unusual for people to find, for the first time, a sense of real meaning and purpose to their work when trust is present.

Economic Value of Trust

High Character, High Innovation Team

Integrity of Actions & Words

Constant Communications

Leaders are Fully Engaged in as living symbols of the new vision

Cooperation Message

Insist on Results, not Intentions

Demand

Demand Loyalty to the Mission, if not the Methods

Remove leaders who are distrustful

Leadership Competencies -- a Global Perspective

Korn/Ferry, an international executive search and recruit firm, tracks leadership competencies and skills around the world. Their current (2009-2010) data assessed leadership competencies in 67 different areas. [31] In total, 7,575 managers and executives were evaluated.

Step 6: Build Diffused Infrastructure

Why "Diffused" – Culture has to show up everywhere

Centralized Leadership Mission, but the effort shows up everywhere (insert shifts chart)

No "Change Czar"

Key Components

Metrics & Rewards

Ensure new metrics & rewards match the new vision and behavior (old measures must change)

Ensure required results are multi-dimensional (financial, attitudinal, behavioral, creative, etc.)

Reward & Recognize individuals & teams that produce the right results the right way

Get those who are cynics, stubbornly resistant, and walking wounded out of the way

Training

Don't create a Czar that will be the target of angst and retaliation who is the "enforcer" of the creed.

Manuals & Procedures

Career Pathways & Promotion

23. win, but it's catastrophic to declare the war over.
24.
25. 8. Not anchoring changes in the corporation's culture. If they are to stick, new behaviors must be rooted in the social norms and shared values of a corporation. To accomplish this, make a conscious attempt to show people that the new behaviors and approaches have improved performance. Also, make sure that the next generation of top management embodies the new approach.

26. The business world is torn between two masters: the Wall Street master and the higher master of Trust, and, for the most part (bell curve) has chosen the middle ground, straddling the bridge, taking the safe route because of the dangers and uncertainty.
27. I could have been a Contender
28. The Science of Muddling Through

Be the Champion of Your Destiny

Step 7: Reduce the Risk & Resistance to Change

Resistance to Change What Causes Resistance to Change?

Fear

Uncertainty

Doubt

Distrust

Loss

Ego

Training Programs

Lower the Threshold of Risk & Fear

Define New Standards of Behavior

Simplify the Transition

Cynics

29. 5. Not removing obstacles to the new vision. Renewal requires the removal of obstacles— company's ransformation ground to a halt because the executive in charge of the largest division didn't change his own
30. behavior, didn't reward the unconventional ideas called for in the vision, and left the human resource systems ntact even though they were incompatible with the new ideals.
31.
32. Resistance to Change in the Non-Crisis situation:
33. People change when
34. Value proposition is compelling (smoking is bad or you versus you will die in 6 months if you don't quit now
35. Trust is high – It's safe and secure to change
36. Pathway to Perdition is clearly avoided
37. FUDD of change has been reduced or eliminated

38. Too Much Fear
39. Uncertainty & Fear too High
40. Distrust the Messenger /Leader
41. Too Little Safety, Security, or Compassion
42. Too much Ambiguity & Complexity
43. Brain's Pattern Recognition & Prediction Capability is Confounded or says "No!"
44. Insufficient Training/Knowledge/Education
45. Too Little Engagement
46. People Support What They Help Create
47. Too Little Leadership
48. Innovation Needs Champions
49. Too Little Evidence
50. Need a Pilot Program to demonstrate value
51. Too Much Risk -- Insufficient Value Proposition
52. Needs Measurable Impact above Hurdle Rate
53. Downside looks greater than Upside
54. Too Few Rewards -- Rewards & Measures Reinforce Old Behavior
55. Must realign Rewards & Metrics

Risk Management Modeling

High Resistance to Change comes when people see their future of embracing the change is far more risky than staying where they are.

Change changes power structures (dAcquire), relationships (dBond), core understandings of how things work and get done (dCreate), and the need to be secure in one's job (dDefend)

Caution: Beware the Beast

Machiavelli, no man to be trifled with, warned the Medieval *Prince* that

"Man is half man, and half beast; " thus the Prince "must know how to use both natures…. and that the one without the other is not durable." Machiavelli goes on to warn the Prince that "in the actions of men…. the ends justifies the means."[32]

He advises the Prince by asking the question, "Is it better to be loved more than feared, or feared more than loved? …. Men in general are ungrateful, voluable, dissemblers, anxious to avoid danger, and covetous."[33]

These oft-quoted Machiavellian insights* contain sufficient truth to be worthy of consideration, but are not universally true.

It is true that every leader should beware the beast in some people. Studies show, which are borne by anecdotal evidence, that about 95% of

* Note: Machiavelli creates a two-dimensional mental trap for the reader, pairing "love" against "fear," but never offering "trust" as a third alternative. Similarly, his assessment of human character is true for the lowest caliber people, but certainly not generalizable for all people.

the general population will act in a trustworthy manner if put in a culture that reinforces trustworthiness.

However, there is a strong body of evidence that people with psychopathic tendencies gravitate to the upper echelons of corporations, hence the proliferation of shady, fraudulent, and criminal behavior that one can read about in any edition of the Wall Street Journal.

Robert Hare and Paul Babiak[34]*, two of the top authorities in the study of psychopaths,*[35] *examined 250 senior managers in a cross section of U.S corporations and found that:*

80% were honest "normal" people, but

10% were of shady character, and another

10% scored in the same category of prisoners in jail.

The difference: these people were too smart to get caught or knew exactly the fine boundary between breaking the law and skirting the law. [36]

What distinguishes the high-trust from the low-trust companies? The former screen out the "bad guys" and the "grey guys" before they can do significant damage.

Ridding the Beast:

For companies that have caught the disease of distrust and have a significant number of senior managers who behave with less than trustworthy demeanor, the leader has three choices:

Do Nothing: let the person(s) remain.
Consequences: one bad apple will spoil the entire barrel

Apply Ethical Pressure: exhort this person to do the right thing
Consequences: this may work with those of marginal character (the "grey" category, but beware, this will require attention and vigilance.

Exit Strategy: find a way for their inauspicious removal, acknowledging their contribution and hard-nosed capabilities
Consequences: In a head to head battle, the beast usually wins. (see "Snakes in Suits" by Babiak & Hare). A less confrontational strategy is usually best unless there is clearly illegal activity involved.

Bottom Line: In the long run, the best strategy for building a high-trust, high-performance, high-innovation culture starts with choosing and promoting the right people for your company, always ensuring that the measures and rewards for performance align with the four drive honor code and meet the FARTHEST standards for trust.

1. No matter what you do, there will always be 5-10% who are stubbornly resistant
2. Causes

Sideline the Stubbornly Resistant

3. Good: Good People with Older Mind/Skill Sets

4. Mediocre (Isolate or remove)
5. Ugly
6. Cynics
7. Fearful
8. Loss of Power/Control
9. Stubborn
10. Egotistical
11. Isolationists
12. (see bad team member profiles)
13. Alternatives
14. Firing
15. Retiring
16. Demoting
17. Pass Over
18. Isolate
19. Put into "Pockets of the Past" (Legacy/ Classic systems – old cars, antique restoration, old computer systems, specialized analog production, for example: Polaroid film, legacy computers, repair of older jet engines, example Volvo cars versus Volvo Trucks

Step 8: Celebrate and Promote Victories

Celebrate

Peer Group Acceptance – Redefine Peer Group Standards

Certifications

Promote

Promote Victory

Promote Victors

Awards and Recognition

Gather Learnings

Multiply Learnings

With no Metrics, there are no clear victories

Give the credit away

7. Declaring victory too soon. At this stage, it's fine to celebrate a short-term

Step 9: ReAlign the Organization

The purpose of Alignment is to be sure all the forces, focus, dynamics, and energies are unified. When a transformation occurs, the old forces, cultures, behaviours, rewards, and measures must also be reoriented. If not, the organization and its people will be very confused, torn in different directions, and dysfunctional.

Think of your car's front end; if the wheels are severely out of alignment, the car won't go in the right direction, and you will be forever correcting, and if you don't pay constant attention, in must moments you will be in a ditch or collision.

In their book, *Triple Crown Leadership*, authors Bob and Greg Vanourek describe the power of alignment as the dynamic energy of *flow:*

> *Moments of peak performance occur across domains, from sports and the arts to programming and chess. Improvisational jazz musicians get lost "in the groove." Athletes describe it as being "in the zone." We know that organizations can also achieve flow. How do we know? We have experienced it.*
>
> *Flow changes everything. Once you experience flow, you are changed forever, hooked for life on a different way of working. After jockey Red Pollard's come-back ride aboard Seabiscuit at the famous "hundred grander" at Santa Anita, a spectator said Pollard looked like "a man who temporarily had visited Olympus and still was no longer for this world."*[37]
>
> *Mihaly Csikszentmihalyi, a psychology professor at Claremont Graduate University, has dedicated much of his life to studying flow. The term comes from his interviews with people who have moved into a state of "optimal experience."*

Alignment is essential to any living organism (including organizations). The human body is composed of many systems, each of which is aligned in multiple ways. For example, the skeletal system is carefully aligned so that all the bones work in conjunction with their adjacent bones. The cardio-vascular system is aligned to enable the heart to pump in alignment with the needs of the lungs, and muscles. When we feel hungry, our body is telling us out nutritional needs n are out of alignment our nutritional reserves.

Our brain is naturally programmed to receive sensory *feedback* to ensure that needs, requirements, and demands are synchronized and modulated, which is essential for survival and performance. Alignment integrates many things, including synchronization, coordination, direction, and purpose. Taken as a whole, the human body, when fully aligned, becomes a *synergistic system*. When misalignment occurs, we call that *illness* or *disease*.

He called it flow because many of them described it as if a rushing current of water carried them along. In flow, he says, we feel "a sense of exhilaration, a deep sense of enjoyment that is long cherished and that becomes a landmark in memory for what life should be like. This is what we mean by optimal experience."[38]

Flow is a state of almost effortless attention and peak performance. Studies have shown that, in flow, heart rate and blood pressure actually decrease, and facial muscles relax.[39]

Alignment is a transformational leadership process for achieving peak performance.[40]

In many organizations, though people work hard, they accomplish little because they are disconnected and disjointed in their efforts, unclear about how their work fits into the bigger picture. People are stymied by lack of clarity, conflicting priorities, and poor follow-up. This condition leads to frustration, cynicism, and lower performance.[41]

If goals are not clear, different people will bring different expectations and unintentionally work at cross-purposes. If people do not see how their work fits into the organizational context, they may inadvertently do things that are disruptive, or that do not help the enterprise advance its real aims. If they do not receive feedback on their efforts, they will continue to do the wrong things.[42]

The benefits of alignment are numerous. It:

- *Clarifies the elements for success*
- *Focuses people*
- *Eliminates unessential work*
- *Connects people and departments*
- *Builds trust*
- *Provides continual feedback*
- *Motivates people*
- *Fosters teamwork*
- *Instills discipline*
- *Builds buy-in and commitment*
- *Unleashes talent*

Headline: Chicago

20 year old Rookie fans 20, Ties Record

Kerry Wood was just playing catch. That's how it seemed, anyway.

In just the fifth start of his major league career, his pitches were all but untouchable, dipping through the strike zone at unreachable angles or roaring past the bats of the Houston Astros at speeds up to 100 mph.

AI couldn't imagine ever doing this, to tell you the truth,@ Wood said after tying the major league record with 20 strikeouts yesterday, pitching a one-hitter to lead the Chicago Cubs over the Astros 2-0. AI wasn't really worried about strikeouts....it was just one of those days where everything you throw is crossing the plate. It just felt like playing catch.@

Wood said he didn't have good stuff warming up. Further, he was working with catcher Sandy Martinez for the first time, adding to the difficulty of the accomplishment.

"We were on the same page. Every sign [the catcher] put down I already had the grip in my glove,@ Wood said. "It felt like we could have gone out there with no signals.''[1]

1 Rick Gano, Associated Press, May 7, 1998

Tony Hsieh, CEO of Zappos.com, told the Vanoureks, "An organization can be both values-centered and performance-driven. The key is aligning the organization's values and performance objectives. My role is to try to get everyone in the organization aligned."

- *Reinforces the organizational colors and culture of character*
- *Facilitates stewardship*
- *Creates the conditions for flow*[43]

Ultimately, senior management must realign four inter-related aspects of alignment: *aspirational*, *strategic*, *cultural*, and *operational*. (see Figure 10)

Aspriatonal Alignment

Think of firing a cannon: The process requires *selecting a worthwhile target*, then aiming by determining trajectory -- *height* and *direction*. So too with aspirational alignment.

1. ***Purpose***: A worthwhile target is the purpose of the new, transformed organization. Without an honourable and valued purpose, people don't get excited about the company. People yearn for meaning and purpose in their lives. Purpose inspires and enthuses people.
2. ***Vision:*** the *direction* the company is going over the long haul. Leaders with vision are articulate about where the team is headed, no matter what the storm, no matter what the the obstacle. When leaders describe the vision, it should have a clear sense of achievement (d*Acquire*) that excites and energies people. The vision should describe what success looks and feels like and be considered worthwhile by all stakeholders.
3. ***Values***: the height of a trajectory is akin to a company's values. It's what leaders consider worthwhile and inherent in the achievement of goals. Values set the standard of excellence and emphasize what's truly important. Values must be embraced and adhered to by all as they unite people.

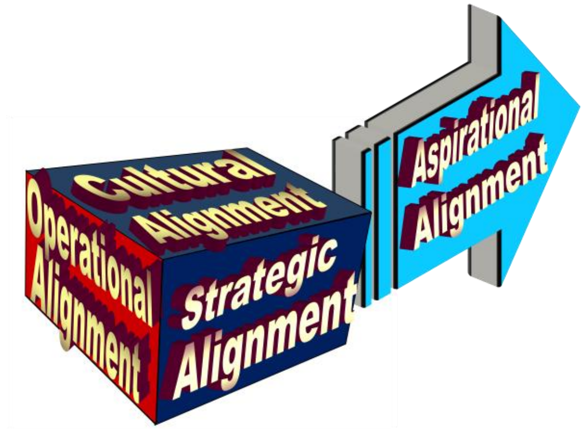

Figure 10: The Four Alignments

Why meaning and purpose is so important

With meaning and purpose, work fulfills important needs and drives in the individual. It answers every employee's deepest questions:

- Do I have some significance?
- Am I making some kind of difference in the world?
- Am I doing something my conscience says is important?
- Am I contributing to the greater good?
- Can I fulfill my obligations to be a useful, productive, honest, economically sufficient, and respected person?

Workers with no meaning and purpose in their daily lives become *disengaged*.

Strategic Alignment

While Aspirational Alignment focuses on very high level issues, such as vision and values, Strategic Alignment addresses *how* the organization creates value, creates competitive advantage, and gains synergies from innovation and stakeholder engagement, including customers and suppliers.

The primary objective of strategic alignment addresses two fundamental questions:

1. What should we do/where should we go to *create competitive advantage*?
2. How should we get *there fast with limited resources*

In a fast moving, rapidly changing world, *innovation is essential* to achieving strategic alignment. Invariably this means a combination of strategic initiatives, including: (see Figure 11: Innovation Engine)

- Developing or introducting new technologies
- Finding better ways to solve customer problems
- Integrating fragmented delivery into simple systems
- Streamlining process flows and eliminating non-value add
- Initiating new business models
- Providing new goods and services to customer
- Orchestrating more effective use of suppliers and alliance partners
- Improving the customer experience
- Committing relentlessly to continuous improvement

To translate long-term mission into medium-term value delivery, companies put forth a *value proposition*that excites and energizes customers, internal teams, and suppliers. The value proposition aligns people to achieve something valuable that will create real competitive advantage. Here are some examples of value propositions that have made a major difference:

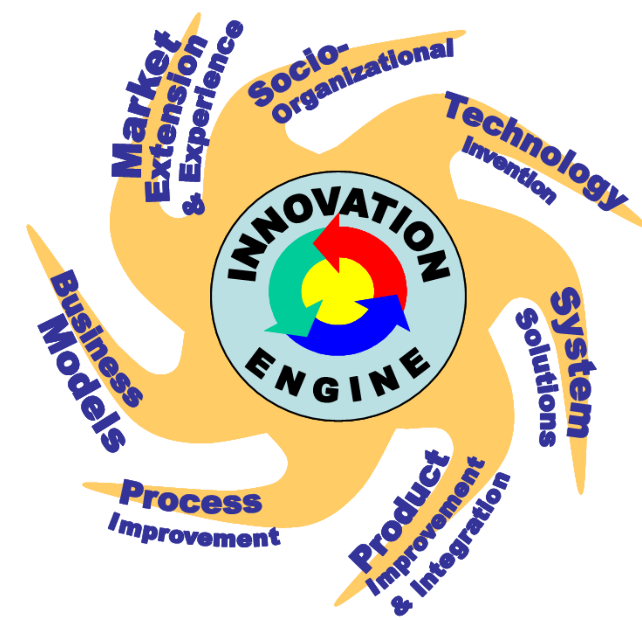

Figure 11: Innovation Engine

A Value Proposition is a
VISION made *MEASURABLE*

Strategic Alignment ensures the organizaton's direction and structure support high performance teamwork and innovation

- Intel: Moore's Law -- The Capacity of a Computer Chip will Double every 18 months and its price will drop by 1/2
- FedEx: We will deliver anywhere in the US by the next day
- 3-M: 40% of our sales will come from new products designed in the last 4 years
- P& G: 50% of our innovation will come from outside sources within 5 years (without laying off any of our R&D Team)
- Thomas Edison: Our laboratory will create a minor invention every ten days and a big one every six months (1879) [The laboratory went on to register an average of one new patent every three weeks, along with thousands of minor inventions] *"I will only invent things people want to buy."*

Structure is an essential component of strategic alignment. There are eight essential considerations in structure –

Does the structure:

1. Support the *strategy* and *facilitate operationa l excellence*?
2. Enable rapid *achievement of goals and objectives?*
3. Reduce *siloes, internal conflict,* and *obstacles to innovation?*
4. Correlate with *metrics of achievement and rewards?*
5. Enhance *communications, decision-making*, and *feedback?*
6. *Integrate diverse functions* internally and externally (across the entire value chain)?
7. *Empower people* to achieve goals, work in teams, innovate, and have a deep sense of accomplishment and camaraderie.
8. *Provide resources* (time, money, people) to achieve goals?

A Great Value Proposition will highlight a product, service, or solution that is *measurably*:

- Better
- Cheaper
- Faster
- Safer
- More Reliable
- More Versatile
- More Accurate
- More Compatible
- More Sustainable
- Reduced Expenses
- Increased Productivity
- Improved Efficiency
- Improved Quality
- Improved Customer Satisfaction
- Greater Innovation Flow

Reorganize/Restructure only if it will significantly improve operational performance. Ensure Daily Operational Metrics are in line with Aspirations, Strategy, and Culture

Any efforts to transform an organization must reexamine its strategic alignment to ensure that the new organization is effectively aligned strategically and structurally.

Cultural Alignment

The most misunderstood alignment, but ultimately the most important, is *cultural alignment*. Culture is the nearly invisible, but highly impactful means by which organizations communicate their values, standards, work ethics, attitudes, and means of human interaction.

Ultimately, it is culture that makes the real difference between winning and losing over the long haul because it guides both mindsets and behavior.

Cultural alignment involves three critical aspects of the organizational transformation*: leadership*, *trust*, and how people *are measured and rewarded*. Each can be highly visible, explicit, and quite tangible, with the ultimate purpose of supporting high performance and high innovation.

Leadership is the hallmark and pivot point of any organization's culture. Its purpose is to focus human on:

- Achieving the organization's mission, strategy, and goals
- Inspiring and encouraging people to perform in teams at the highest standards of excellence
- Valuing high morale, high performance, and team spirit

Trust must be the *central organizing principle* of any organization's culture. Any emphasis on such sociological issues as norms, values and ethics will be for naught unless trust is paramount. Trust is not an ideological goal; it's the essential and practical foundation for teamwork and innovation.

Building the trust foundation starts with hiring the right people to start with. The Human Resource department should engage in the realignment by choosing new hires, training existing people, and promoting those who are strong in the "Six Cs:"

-Competence	-Character	-Creativity
-Collaboration	-Champion	-Compassion

CULTURE AND THE TRANSFORMATION OF IBM

When newly appointed CEO Lou Gerstner took command of IBM in 1993, the company was aground, hemorrhaging cash, and the stock was sinking fast. There was no clear future. Plans were afoot to break up the company, selling off divisions. Pundits predicted its rapid demise. Bloated and lacking a strategy, Gerstner had to act quickly to get his ship afloat. Internal signals of distrust were everywhere:

> *"Turf battles and backstabbing were art-form….units competed with one another, hid things from one another, and …. instead of facilitating coordination, they manned the barricades and protected the borders … jockeying for position trying to protect the prerogatives, resources, and profits …and thousands more trying to bestow order and standards on the mob….the number one most troublesome area: Loss of Customer Trust."*[1]

But Gerstner said he had one major advantage: the pre-existing culture held several major strengths he could build upon based onIBM's founder dating back into the 1920s:

> *"The defining ethos of Thomas Watson, Sr. was everywhere. He left his imprint on every aspect of IBM. It became part of the company's DNA. His personal philosophies and values – hard work, decent working conditions, fairness, honesty, ethical behavior, respect, impeccable customer service, jobs for life – defined the IBM culture. A sense of integrity, of responsibility, flows through the veins of IBM in a way I've never seen in any other company."*[1]

Metrics & Rewards are the ways the corporate culture evaluates success (or failure) and then provides some reward (or punishment) for what is valued. All too often the new vision and values, strategic goals, and operational realignments are not re-programmed with a new set of metrics and rewards.

For example, the supply management team, in the new transformed organization, may set a strategic goal to have their suppliers bring new innovations into the company, but they may still be measured and rewarded for cutting costs, which is, more than likely, antithetical to cost reduction.

Because trustworthiness, teamwork, and innovation become paramount in the new organization, people and teams should be measured and rewarded for these qualities.

Often companies mistakenly believe that individuals should receive financial rewards for innovative ideas. This is a mistake. Reward teams, or reward the whole organization (such as profit sharing), not individuals. Why? Because you do not want people to fight over who played what part in creating and implementing the new idea. Reward individuals with promotions, otherwise reward teams.

Breaches of trust must be addressed; looking the other way actually reinforces distrust. It's *not the magnitude of the consequence, but the speed and certainty* that matters most. *Consequences must be swift and predictable.* Trust breakdowns without consequences or response means trust is unimportant or that you accept the breakdown. When a trust breakdown occurs, take the following action:

- Declare breakdown, then position for breakthrough, or
- Using the Ladder of Trust scale, overtly call out the type of behavior, then declare the level on the Ladder you want to see occur
- Do not respond, Tit-For-Tat, but identify then punish any person who acts maliciously
- Be sure to provide an open avenue for rebuilding trust, then trust but verify

Reinforce Idea Generation & Implementation

Too often the Metrics and Rewards of Innovation are not reinforced. Ask these questions:

1. *How many new ideas & innovations are presented by our team , our partners, our suppliers every year?*
2. *How many new ideas & innovations are implemented every year?*
3. *Are our team, partners, and suppliers rewarded for new ideas & innovations?*
4. *Are people rewarded for working innovatively with other teams, branches, and outside partners?*
5. *How well do we train & support our partners to collaborate & innovate?*
6. *What should we do to put a partner innovation program into place?*

Negative Reinforcement

Don't tolerate behavior that destroys trust, such as:

- Judgment, Gossip, Betrayal
- Criticism, Attacks, Negativity
- Defensiveness, Complaints
- Character Assassination
- Wallowing in the Past
- Blame Game, Demeaning Others

Operational Alignment

This aspect of the transformational realignment cannot be overlooked because it is in this dimension that strategy, trust, and teamwork are converted to concrete, visible *action.* It's the realm where ideas are converted to results, which can be measured, rewarded, and tested against strategic goals.

Operational Structure

Operational Processes

Operational Metrics, Risks & Rewards

Operations is:

- where strategy and philosophy meet reality
- the final act in the value creation process
- the immediate, short term engagement of all longer term planning, analysis, research, design, engineering and coordination
- driven by core processes which demand teamwork and excellence

Everything in the other alignments (aspiration, strategy, culture) must be intrinsically embedded into operations to complete the alignment process. If not, the organization will be dysfunctional because it will lack integrity by saying one thing then doing something different. A house divided against itself cannot stand.

Value Creation is *the fundamental purpose of operational alignment*. Everything relating to operations should create, augment, support, or facilitate value creation and, ultimately, competitive advantage.

Removal of non-value added (NVA) work and any process that destroys value is the first task of operational realignment. Lean Management methodologies are very effective at this task. (Caution: do not employ Lean Management without engaging in strategic and cultural/trust realignment). Most companies have an over-abundance of non-value added processes and functions that have accumulated over the years that must be weeded out. It is not

TRANSFORMATION OF IBM (continued)

Gerstner wrote about the historic foundations of IBM's culture:

> *IBM people are committed – committed to their company, and committed to what their company does. Watson summarized his basic beliefs:*
>
> - Excellence in everything we do
> - Superior customer service
> - Respect for the individual[1]"
>
> *"I came to see, in my time at IBM, that culture isn't just one of the aspects of the game – it* is *the game. In the end, an organization is nothing more than the collective capacity of its people to create value. Vision, strategy, marketing, financial management – any management system, in fact – can set you on the right path and carry you for while. But no enterprise – whether in business, government, education, healthcare, or* any *area of endeavor – will succeed over the long haul if those elements aren't part of its DNA.*
>
> *"Successful institutions almost always develop a strong culture that reinforces those elements that make the institution great. They reflect the environment from which they emerged."*[1]

Thomas Watson, Jr., the legendary son of the founder, was once asked: "What is the number one job of a CEO?" Without hesitation, he responded *"To Manage Morale."*[1]

unusual, after having done audited NVA, to find that 50% (or more) of all the work done adds no value to what the customer is willing to pay for.

Value Chain Analysis is another essential review. Value creation is a process that converts inputs (materials, ideas, people, money, time, etc.) into outputs (goods, services, solutions, etc.) that created revenues (sales). The company that has the most efficient and innovative set of operational conversion processes tends to be highly competitive.

In doing a Value Chain Analysis, leaders should first look inside the company, and then at their outside interfaces to determine if every system, structure, process, practice and policy aligns with the strategic and cultural realignments. All too often there are legacy functions that are contradictory, dysfunctional or outdated. For example, many reports, evaluations, and core processes may no longer support the realignment, or may create non-value added work, or may create boundaries and barriers, and so forth.

Hidden Assets in Supply Chains: For product-oriented companies, the supply chain is usually ripe for realignment. Senior Executives should ask several fundamental questions to determine if the supply chain is truly a strategic asset and creates real value:

1. What percentage (%) of your entire corporate spend goes to outside suppliers?
    - For the typical product-oriented company this percentage will range between 50-70%
    - Service-oriented companies may have a very large number of sub-contractors.
2. Does this make your supply chain a strategic asset?
    - If the percentage of corporate expenses is significant (any % above 20-25%), then the supply chain is truly a strategic asset and should be realigned.
    - For most companies, procurement and supply chain management

Expert Advice on Alignment

Because realignment is part of a transformation, the experience of turnaround experts, Bob and Greg Vanourek is valueable, as they recount in "Triple Crown Leadership:"

> Each alignment step should link with the other steps. The steps should cohere and give organizations …. "operating rhythm."
>
> Alignment takes time and patience. It can be messy and frustrating, requiring many midcourse corrections.
>
> The first time, it can take up to three to twelve months to move through all the alignment steps, depending on the organization and the severity of its issues. It takes time for ideas to simmer, for feedback to percolate from all parts of the organization, and for consensus and buy-in to develop. Recognize that alignment is an ongoing process, not a one-shot fix.
>
> There are many causes of alignment breakdowns: lack of commitment, focus on wordsmithing documents instead of generating action, abandonment of the process midstream (usually to put out fires, a symptom of misalignment), and lack of discipline and accountability.

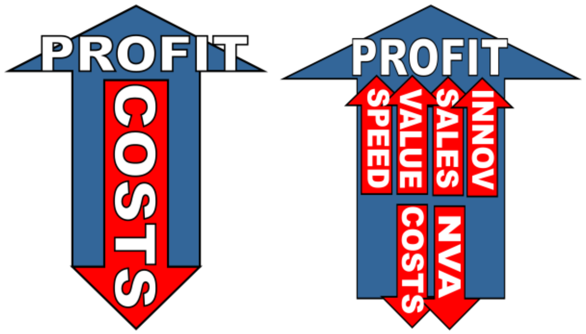

Figure 12: Cost Cutting versus Value Creation

reside in the corporate backwater, where little attention is paid to this critical input. Thus it looks like a cost-center ripe for cost-cutting and rude treatment of vendors.

3. What does this suggest about the competitive advantage potential of your "value chain"?
    - Supply chains are typically the most overlooked part of a company because it seems "outside." Thus there is the potential of generating innovation using strategic supplier alliances.
    - Separate suppliers into three categories:
        1. Commodity Vendors – differentiated primarily by cost, quality, and delivery
        2. Preferred Suppliers – important to the company, reliability and personal relationships critical to success
        3. Strategic Alliance Suppliers – mission critical and differentiated by close integration of their products and services, innovative capacity to create advantages vital to your customers, etc.

In this realignment, supply chain shifts from a cost-center to a value creation center, adding significant competitive advantage.

Transactional Exchange Analysis: Traditionally companies view their economic processes from a *transactional exchange* perspective – a dollar given for a dollar's worth in return. While there is nothing inherently wrong with this approach, it overlooks a more fundamental issue of *value creation.* All too often little value is *created* in mere exchanges, which are often nothing more than *handoffs* across functional boundaries.

For example, marketing may provide profiles of potential customers to sales people, who get rewarded for meeting their sales quota. This traditional approach is ripe for a shift to a *value creation* process whereby sales and service people visit their customers (and even their customer's customers) to find out how a product/service is used, how it could be made better, if there are other suppliers with whom our offering could be better integrated to provide a

Alignment Must Be Collaborative

Turnaround experts, Bob and Greg Vanourek, writing *in Triple Crown Leadership*, state,

> Alignment is easy to understand, but hard to create and maintain. In our experience, many leaders try it only episodically, moving in fits and starts.
>
> - The vision or values gather dust.
> - Leaders do not share the strategy summary with employees.
> - The goals do not cohere across departments.
> - There are no consequences for missed deadlines.
> - There is no effective follow-up system or operating rhythm.
>
> Alignment requires extensive, multidirectional communication, with deep listening and dialogue, not edicts from the top. Alignment is a back and forth, up, down, and sideways leadership process that should touch everyone in the organization, even some outside stakeholders on some steps. A coalition of enthusiastic volunteers representing a cross-section of the organization can shepherd the process with support from top leaders and assistance from outside facilitators, if desired.
>
> Leaders must ensure the process taps into the tremendous capabilities of the people in the enterprise. Alignment is a "we" process, not an "I" process -- a group performance.
>
> An autocratic leader may get faster action but will not tap into the creativity and commitment of the people.

complete solution, and so forth. In Figure 12 Cost-Cutting is a simplistic, transactional way to increase profits, whereas Value Creation involves increasing a number of factors, such as accelerating flow and speed of delivery, maximizing the use of suppliers and alliances as well as internal innovation to create value, and finding new solutions to produce revenues. In the Value Creation approach, costs are typically reduced by increasing trust, lowering transactional costs, and eliminating non-value added work.

Customer Relationships: The major source of revenue generation in most companies is from customers. Typically (except for retailers) businesses get a large amount of their business from a small percentage of their customer base. In realignment, the relationship with customers should be shifting from a trans-actional (vendor to buyer) relationship to a more integrated, trust-based, solution-oriented interaction. A realignment that does not include the customer base will miss the mark and have little strategic/competitive value. (see sidebar: Strengthing the Customer & the Relationship)

Collaborative Negotiations: A reexamination of the legacy alignments with supplier s and customers, as well as antagonistic internal relationships between departments and functions is critical. Using the old transactional models of negotiation, including "squeeze the vendor," "win-lose bargaining," and "trick the customer" must be supplanted by real, trust-based, value-creating relationships.

Transactional win-lose negotiations will create anxiety and fear, dooming any trust, long-term relationship, while just adding the excess baggage and burdens of contracts, legal maneauvering, and non-value added work.

Internal Processes: Unlike leadership, strategy, and trust building, which are guided by principles, operations tends to be guided by processes made up a a sequence of practices. These processes and practices enable people to operate in a predictable, defined manner that increases the likelihood of a specific result. Policies and rules are designed to keep the processes within certain boundaries to avoid confusion, unethical behavior, and ensure clarity of roles and responsibilities.

Strengthing the Customer & the Relationship

Flextronics is a $30billion electronics manufacturing firm that makes printers, copiers, cell phones, and other equipment for brand name companies like Hewlett Packard and Xerox. Before reoriented their business, their transactional mission was "Design, Build, Ship."

A shift to a stronger customer relationship required a new, strategic realationship focus. Now their mission is "Creating Value that Increases Customer Competitiveness." Their primary interest is how to make their customers stronger and more sustainable. It's good for Flextronics' customers, and solidifies a long-term business relationship.

Great Negotiators are characterized not by their techniques, nor by their hard-nosed toughness, but rather by their:

- Integrity & Ability to Build Trust
- Breadth of Interpersonal Capabilities & Business Knowledge
- Depth of Discovery/Inquiry, Listening & Understanding
- Anticipation of Needs & Unarticulated Fears, Insightfulness into human dynamics
- Flexibility , Adaptability & Creativity

across a broad range of strategies and situations yielding mutual possibilities and sustainable results.

Conflict is seldom the problem, rather, it is our *reaction to fear & control* that's usually the real issue.

When realigning operations, inevitably there will be countless legacy directives, frameworks, programs, policies, controls, budgeting cycles, standards, risks, and rewards that reflect pre-transformation realities. These represent the way each department works, for better or for worse.

Underlying all processes are organizational hierarchies, power structures, communications channels, decision-making methods, and governance systems. The older the organization, the higher the likelihood these are intricate and deeply embedded. With this historic baggage comes a massive amount of learning, predictability, evidence, and rationale, which those who have resistance to change (see Chapter 8) are likely to use to validate the preservation of the past.

In some cases the past is worth preserving, while in other cases, the newly charted innovations must replace the old. Transformation teams need to be assigned to tackle shifting from the old to the new. Operational people tend to focus on the immediate, practical, and functional. They love management tools and techniques, often neglecting larger aims, strategies, trust protocols, and teamwork requirements. Leaders of the transformation teams should be alert to be sure the big picture stays in focus. One method we have used effectively to address transformation is called the IMPACT model:

- ➔ **I**nnovate **?** (create or develop)
- ➔ **M**aintain **?** (or preserve)
- ➔ **P**rotect **?** (or avoid)
- ➔ **A**chieve **?** (align or acquire)
- ➔ **C**onnect **?** (unite or integrate)
- ➔ **T**rust **?** (people or values)

The output from the IMPACT exercise should be a series of action plans for operational realignment. The plans are typically coordinated through a governance process that will ensure people are delt with fairly, the new approach is streamlined and easy to use, the integration (functionally and structurally) is effective, and the result will reflect the goals of the transformation.

Expert Advice on Alignment

(continued advice from Triple Crown Leadership)

Where to start alignment depends on where the organization is at the time. Organizations in crisis cannot afford three-day retreats to ponder long-term issues. First, they must stop the bleeding.

If the organization is stable but needs to get reenergized or bring disparate elements together, then starting with a reexamination of purpose, values, and vision is logical, beginning with the board and senior management team, with drafts cascading out and around for input. A V.P. should not be asked to draft goals for next year without knowing what the CEO's goals are. Aligned goals require coordination and transparency, not guesswork.

This simple cascading step changes the dynamic between the boss and employee, because the employee can also see whether the boss is meeting the goals. Such openness promotes teamwork and trust.

Alignment should occur at multiple levels: enterprise-wide, departmental, team, and individual. Each group can benefit from its own alignment process, even with its own departmental purpose, values, and vision, as long as they cohere with the enterprise-wide statements. Each individual's goals, strategies, and action plans should map to those of the relevant team, and from team to department, all the way up to the enterprise.

Bear in mind that alignment in and of itself does not work magic. With a flawed strategy or poor execution, even an aligned organization will falter.

Also, organizations can align toward the wrong things. For example, a company totally aligned on meeting earnings targets each quarter to prop up its share price may very well achieve that, but perhaps by cutting corners, destroying long-term shareholder value, and utilizing unsustainable practices.

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Step 10. Refine, Measure, & Innovate

Don't Get Arrogant

Keep Learning

Make it Better – It's Never "Good Enough"

Keep Looking for the Next Paradigm

Keep Competitors One Step Behind

Meaning and Purpose in the Hospitality Business -- Story from Robert Porter Lynch

For a number of years my family ran the Nathaniel Porter Inn, a historic inn and restaurant in New England.

Its purpose was to "give its customers the most romantic atmosphere, finest food, and heart-touching service."

The Inn won many awards; hundreds of people came to celebrate their anniveraries and birthdays, giving us the responsibility to fulfill their most important moments of their lives. Many people proposed marriage in the glow of candlelight, fireplaces, and classical music.

There was no job position called "waitress" in the restaurant – every person who waited on tables was called a "hostess," responsible to their "guests" for providing them the most exceptional, heart-felt service. We trained "hostesses" to deliver a quality of personal service to befit our purpose. Quite a few of our "hostesses" received standing ovations from their guests who spontaneously stood and applauded their server, displaying their deepest appreciation for caring service.

We worked very consciously on being sure there was a high degree of teamwork and coordination between the front-line hostesses and the kitchen personnel (called back-of-the-house in the industry) Frequently the chef was called from the kitchen to the dining tables to receive accolades from the guests.

The inn engaged in honorable purpose; it excited the staff and the customers loved it.

TRUSTED TO LEAD SERIES

Conclusions about Trust

While this CEO Handbook may not hold all the answers, we believe it provides concrete evidence to draw very powerful conclusions sufficient to make decisive decisions about the future of business.

Trust's Impact on Competitive Advantage

There are two schools of thought about the purpose of business.

Shareholder Value School (which is in vogue on Wall Street) states the purpose of business is to make money and maximize profits for investors. This approach seeks to squeeze money out of every source, placing it on the bottom line, and distributing the capital to investors. Our evidence indicates this creates sub-standard results.

Trust Generates Rewards School (held by a strong minority) proclaims that business is designed to sell goods and services competitively, at a profit, maximizing value for its stakeholders: customers, owners, employees, suppliers, and its community. This strategy aims at creating value from every resource, innovating, cutting waste, and aligning human energy. For this strategy to work, trust is essential.

Trust makes a company strategically and operationally more competitive;
and trust makes competitiveness sustainable year after year.

Conclusions

All innovation today is collaborative, and without trust, the collaborative component is unattainable.

Trust is also the key that unlocks the synergy source code.

To understand trust, one should understand the Four Human Drives and the neurochemistry that underpins the drives.

Trust unleashes latent human energy and enables it to be aligned on a common purpose, a search for four-drive solutions for all the stakeholders.

Using trust as the pivot point, it's not unusual to see culture turn around in 12-14 months.

Building trust is an essential leadership responsibility that can be learned. Why: because trust is already hard-wired into all normal human beings (thus we don't actually have to learn the Trust Architecture)

High-trust organizations have a powerful cultural dynamic that creates extraordinary results. Trust produces highly effective people, high performance teams, useful ideas and innovations, and people who want to come to work because it is an energizing, co-creative experience.

Trust enables a company to gain traction because it shifts the game of business from transactionary exchange to value creation through innovation and rapid recovery from mistakes.

The power and success of trust seldom occurs in the meteoric manifestation of one grandiose act or event, but in the subtle, almost invisible multiplication of thousands of small decisions, actions, and better results – the Triumph of Small Numbers – adding a slight percentage here, a small advantage there, a minute shift in weight in another place, and, as all these small shifts accumulate, they pulse as a shock wave triggering an avalanche of competitive advantage.

Bottom Line: Trust makes eminent financial sense, accelerating and amplifying the creation and sustainability of value.

The real advantage of trust? It is the deepest yearning of all humans; we were born with it, and it's our birthright to retain or regain it. Many leadership situations require influencing without authority, which can only happen when those we wish to influence trust and value us. Trust produces highly effective people, high performance teams, useful ideas and innovations, and people who want to come to work because it is an energizing, co-creative experience.

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We believe the factual, quantifiable data tells a compelling story about the reason why companies succeed and fail, and what constitutes effective leadership and leads to a powerful insight:

Great Leaders do Three Things Well:

Strategy:
Set an Inspirational Vision, then chart an Innovative Course that generates a Significant Advantage or Improvement over ordinary alternatives.

Trust:
Create a Culture/System of Trust that Unleashes & Focuses Human Energy & Co-Creativity on Achieving the Strategic Vision.

Operations:
Establish Excellent Organizational Processes, Measures, & Rewards that achieve #1 (strategy) and coherently reinforce #2 (trust).

End-note References

The late Paul R. Lawrence of Harvard Business School saw the power of trust with deep insight:

Trust determines the course of history, the destinies of nations, and the fate of people

References

Chapter Four

Why a Co-Creation team?

There are several reasons for using a team, rather than a sole deal maker, in Co-Creation. The team approach:

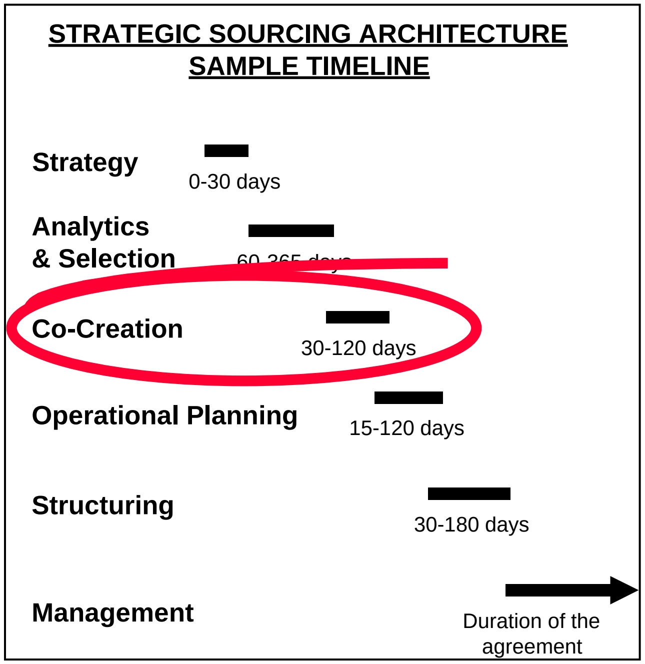
Helps ensure that all the details, contingencies and opportunities are thought through.

Allows middle managers to get involved, ensuring that operational views are included.

Provides an opportunity to gain full understanding and commitment among all those who will be involved in structuring and maintaining the relationship. Provides opportunities for experts within the organization to examine the alliance its opportunities for success.

Builds the foundation for future teamwork.

Co-Creation



The Co-Creation phase marks a key departure from the typical head-to-head negotiations of traditional outsourcing. Instead of behaving as adversaries, potential sourcing partners work to understand each other's requirements and find approaches that will benefit both parties. The output of the Co-Creation phase is a memorandum of understanding that describes the broad goals and nature of the relationship.

In the Co-Creation phase, work is done primarily by a small Co-Creation team that is formed at the beginning of the phase. Co-Creation team members should have excellent communication and business skills, as well as skills in the business process that is to be outsourced. If possible, the team should also include members who have been involved previously in other alliance or strategic sourcing relationships.

Finally, it's important to note that although Co-Creation is treated here as a separate phase of the strategic sourcing process, it should actually overlap several other phases. From the initial meetings with a potential partner through the signing of a contract and ongoing operations, the two organizations should be working to understand each other's needs and to find ways to combine their competencies to create new opportunities.

The action steps of the Co-Creation phase are:

1. Plan the Co-Creation approach.
2. Conduct joint exploration and design of the venture.
3. **Create a memorandum of understanding.**

Who should be part of the Co-Creation team?

Unlike the traditional merger process, which separates deal makers from those who will ultimately work in the trenches, Co-Creation involves the people who will eventually be responsible for managing the operation of the relationship.

The Co-Creation team can be small--perhaps 4-10 people. It should include:

One or more senior executives who have a clear grasp of the strategic direction of your company and an appreciation of how strategic outsourcing fits with that direction.

External people from consulting and outsourcing companies who have managed and delivered large outsourcing relationships.

People with skills in negotiating and project management.

Managers who will eventually "run" the relationship.

The alliance champion.

Co-Creation

ACTION STEPS

1. Plan the Co-Creation approach.

This initial step sets a direction for developing the relationship with a sourcing partner. That is, develops a framework for how the two organizations will work together to understand each other's needs and explore a wide range of opportunities that they can pursue together.

The effort begins with the creation of a small Co-Creation team -- consisting of 4 to 10 people -- that has the authority to hold discussions and make decisions about the outsourcing relationship. The team members should possess skills in contract creation, program administration and the process that is being outsourced.

The Co-Creation team will handle discussions with the sourcing provider through the Co-Creation phase and into the next phase, Structuring. In addition to the alliance champion, the team should include a relationship manager who will eventually be responsible for day-to-day operations (the champion and the alliance manager can be the same person). It is important to identify this individual early in the Co-Creation phase so that he or she can influence discussions and develop a sense of ownership toward the relationship. The team also should include the operational managers who will be involved in the relationship on an ongoing basis. Hold preparatory sessions to familiarize the team with the tools and concepts of Co-Creation.

Consider using outside facilitators throughout this phase to keep discussions moving forward and to help identify and overcome personal and cultural differences. Make sure the facilitators understand the concept of strategic sourcing and have experience in creating higher-level relationships. Spend time with the facilitators before Co-Creation discussions begin so that they understand your strategic intent and the concept of Co-Creation.

The role of the facilitator

"We did have a professional facilitator work with us," says an executive at a large energy company. "He was there to make sure we stayed on the right path. In the formative stages, we benefited from the facilitator not being totally immersed in the process--with the ability to stand back objectively and mentor the participants. This person has to have an intimate understanding of the end state you wish to achieve."

What to cover

In joint exploration and design sessions, you should:

Review the business case.

Discuss each party's objectives.

Evaluate benchmark information.

Examine objectives and possible concerns of partners.

Look for opportunities to combine companywide requirements to gain leverage.

Assess how critical the arrangement is to both sides.

Analyze pricing and financial considerations.

Define positions regarding contract terms and conditions, schedules, deliverables, support, maintenance, distribution and logistics.

Agree on the role of team members.

Consider potential volume commitments.

Discuss the positions, biases and styles of both organizations.

Overall, be sure to address four difficult issues that are key to the sourcing relationship:

Who gets transferred and how? This is often an uncomfortable point: Heightened sensitivity to the feelings of the staff being transferred is vital.

How will measurements be established? Instead of writing key performance measures up front, consider defining a process for the mutual setting, measuring and reporting of objectives as you go along.

Where will savings come from? Work together to understand the process's cost profile before the sourcing partner takes over, so that you can quantify looked-for and actual improvements.

Compensation for performance. Will the sourcing partner's compensation be based to some extent on the new value that is created?

Train for success

Strategic sourcing relationships often require people to have new abilities and skills. It is important to consider the use of training for key individuals. For example:

Alliance managers should be trained in successful leadership and management techniques.

Teams should cross-train with their counterparts in the other organization, particularly in the areas where sales, technology development and service delivery must be highly integrated.

Key managers should be "seconded"--that is, given short- to medium-term assignments in the partner company to learn how things work at that organization.

Structuring & Governance

ACTION STEPS

1. Prepare an organizational structure chart.

Create an organizational "map" and define the functions, team leaders and other personnel for each organizational unit. The most important role is that of the alliance manager -- the individual who will be responsible for the overall success of the relationship. The alliance manager should be a person who is well-respected and who has access to decision makers at all levels of his or her organization. The alliance manager should also be able to relate well to the sourcing partner's organization, because a critical aspect of strategic sourcing is the chemistry between the two organizations. Over the long term, the alliance manager plays an essential role in solving problems, addressing conflicts that arise, and helping to keep the relationship on track when a shift in business conditions takes place.

Once the organizational structure chart is complete, review it carefully to be sure it truly supports the operational plan.

The organizational structure chart

The typical strategic sourcing organizational structure chart will include:

Alliance managers.

Champions.

Content specialists.

Special task force(s).

Delivery teams.

Support teams.

Other teams, such as R&D, purchasing, production or logistics, as required.

continued...

Content specialists

In creating an organizational structure chart, "content specialists" bear special consideration. These specialists are people with experience in the outsourced process who are retained by the organization, rather than transferred to the sourcing partner. Keeping these content specialists on staff helps ensure that the organization continues to have the expertise needed to monitor the outsourced process and manage the strategic sourcing relationship. These specialists do not need to be involved in the day-to-day oversight of the relationship, and they will normally have other duties within the parent organization. But they are nevertheless important to the relationship because they provide a vital "institutional memory."

The organizational structure chart, *continued.*

For each of these groups, it is necessary to define the:

Functions the group will handle.

Individual personnel assignments.

Team leader(s).

Be sure to balance the teams by including personnel from each of the organizations, taking into consideration the capabilities and responsibilities of each organization. Consider using a "matrix evaluation chart" (similar to the responsibility chart used in Chapter 5 for allocating operational responsibilities) in order to gauge how well your selections balance capabilities and responsibilities.

Finally, you should designate a key individual to act as a "learning liaison." This person should be responsible for identifying and gathering the knowledge and learning that is gained from the alliance and for disseminating it throughout the parent company.

2. Prepare a summary of the governance structure and control mechanisms.

A strategic sourcing relationship requires more ongoing management oversight than does a traditional outsourcing arrangement. At the highest level, the relationship should have a joint governance board or steering committee that includes senior executives from your company and your provider(s). This body should guide policy, review the relationship's performance regularly, and generally be responsible for keeping the relationship "healthy" and focused on continued improvement.

The joint governance board

An effective joint governance board or steering committee will have five fundamental responsibilities:

Policy guidance: Maintaining strategic and operational direction.

Performance review: Controlling the alliance by measuring progress or missed milestones.

Pressure: Motivating and empowering the alliance to encourage innovation and improvement.

Problem solving: Overcoming difficulties in operations.

0 Partnership relations: Maintaining a win-win approach and keeping communications open.

Generally, the governance board will have five to seven members, including:

Champions (in some cases, the champion and the alliance manager may be the same person).

Alliance manager or managers who oversee the day-to-day operations of the relationship.

Key delivery team leaders.

Special task force leaders (if any).

In general, the board should meet:

Immediately after the relationship is finalized.

At least monthly for the first six months, to ensure that the new relationship gets off to a good start.

As needed after the first six months, but never less than quarterly.

Nearly every outsourcing relationship incorporates meetings between the participating organizations, but enthusiasm often falls off over time, and meetings occur less frequently or on a lower and lower level, and thus become less effective. The continuation of regular meetings, even when they may not seem absolutely necessary, will help the relationship succeed.

Although the legal agreement for the relationship may call for a formal governance-board voting procedure, successful boards *never* rule by voting, but by unanimous consensus.

Staying in control

Overseeing a strategic sourcing relationship requires an approach to management control that is new to many executives. In a strategic sourcing relationship, control tends to be an *empowering* process, instead of the traditional *limiting* process, and tends to be exercised in the following ways:

Control systems: Establish an effective reporting system that lets your organization know if specific goals are being met and that lets both partners know when corrective action is needed. Monitor performance against STROI goals, such as innovation capacity, organizational capability and competitive advantage, in order to have a forward-looking control mechanism that focuses on the key strategic objectives of the venture.

Conception: Gain mutual agreement at the top and middle ranks of both organizations so that all key players have a "common vision." This empowers people to act as a team and ensures alignment of activities. An operational plan that clarifies expectations keeps everyone marching toward the same destination.

Coordination: Use project management techniques that break down the tasks of the alliance into discrete process steps.

Communication: Communicate extensively, using technology to augment face-to-face communications. Many companies are now linked to each other via Electronic Data Interchange (EDI), videoconferencing and computer networks, making a broad range of communication possible.

Chemistry: Good chemistry is critical to controlling and empowering an alliance. With trust as an underpinning, partners can remain confident that the alliance will not careen out of control due to unscrupulous behavior.

Creativity: Work to develop and support creativity and flexibility. By maintaining a strong vision, and allowing a fairly high level of experimentation to exist, managers can help the relationship expand its horizons.

Commitment: Success relies on persistence and commitment. Top-rank support from both sides of a relationship sets a clear direction and helps put strength and credibility behind reward systems.

Clarity: When goals, milestones and responsibilities have been established and are regularly monitored, people will know what they need to do and where they are going.

Consistency: Consistency forms the basis for effective decision making and for reward and incentive processes, because it allows people to know what to expect and what is expected of them.

The structure of an alliance should provide a mix of autonomy, support and control. Effective control will come from using all nine of these mechanisms together as a whole system. Take away one or two of them, or substitute the more traditional--and limiting--auditing and reporting systems, and the alliance will suffer.

At the same time, however, remember this advice from Kenichi Ohmae of McKinsey and Company: "Few businesses succeed because of control. Most make it because of motivation, entrepreneurship, customer relations, creativity, persistence and attention to the 'softer' aspects of organization, such as values and skills."

3. Agree on performance objectives and operating measures.

Work with your sourcing partner(s) to finalize the performance objectives and operating measures that will be used to evaluate the relationship and determine the sharing of risks and rewards. Many of these objectives and measures will have been tentatively established in the Analytics and Selection phase (Chapter Three), and more clearly defined in the memorandum of understanding developed during the Co-Creation phase (Chapter Four).

At times, rolling targets are more appropriate than fixed targets. As one executive says of his company's arrangement: "Instead of writing key performance measures, we've defined a process for setting, measuring and reporting objectives as we go along." Because the ability to adapt to change is so important to the success of collaborative relationships, this kind of flexible approach to performance measures can be valuable.

Effective measurements will be critical to the success of the relationship. As discussed earlier in this guide, strategic sourcing measurement systems should look at more than the costs of the outsourced business process. Instead, they should look at whether the relationship is generating the overall business results that you want to achieve. That means that STROI measurements (innovation capacity, market impact, etc.) or some other balanced measures should be at the heart of the performance-reporting system.

Management & Innovation

In the Management & Innovation phase, the agreement established in the Structuring phase is implemented and managed over time. This phase involves two teams: the operational team and the joint governance board.

The joint governance board, which was formed in the Structuring phase, includes executives from your company and your provider(s). This board guides policy, reviews the relationship's performance regularly, and is generally responsible for keeping the relationship "healthy" and focused on continued improvement.

The operational team, which is was formed in the Operational Planning phase, is responsible for ensuring that the sourcing agreement is implemented and managed. This team also works with the joint governance board to ensure that issues are handled in a timely manner. Team members should have a clear understanding of the business process in question and of the nature and expected benefits of the relationship. At the same time, team members should have strong communication and problem-solving skills that will allow the partner organizations to work together to find new approaches and breakthroughs beyond those spelled out in the original agreement.

The action steps of the Management and Innovation phase are:

Hold initial implementation meeting.

Maintain continuity of personnel.

Monitor performance.

Exploit short-term opportunities.

Review service levels.

Resolve problems.

Maintain top-management support.

Maintain motivation of alliance managers.

Renew the alliance by focusing on Continuous Innovation.

Building teamwork

Several qualities and techniques can help build a cohesive team:

Responsibility: Individuals should be given enough responsibility to feel a sense of control and personal satisfaction.

Creativity: Team members should be allowed to offer new ideas and alternatives before tackling a project. Foster creativity by focusing on results, rather than dictating processes and procedures.

Focus: Make the team's mission and responsibilities clear.

Communication: Teams should be provided with accurate information and timely feedback.

The "big picture" view: Keep the team focused on the results being produced for the customer, and the value being created by the team's work and the overall strategic sourcing relationship.

Intervention: Managers should act quickly to stop anti-team behavior.

3. Values. Review the core values outlined in the memorandum of understanding.

4. The plan and the goals. Be sure everyone understands their roles and responsibilities, and what is expected of them. Refine any plans that are unclear or incomplete.

5. Potential problems. Identify possible problems, and develop approaches to resolving such problems. Pay particular attention to making the people who are being transferred feel secure in the new working environment.

6. Breakthrough projects. Identify any elements of the plan that require extraordinary results or quantum leaps in performance.

2. Maintain continuity of personnel.

In a strategic sourcing relationship, all parties need time to build trust and understanding. Excessive turnover in the operational team can result in:

Loss of direction.

Lack of confidence in an organization's commitment to the relationship.

Missed opportunities for learning.

Loss of institutional knowledge.

The collapse of the relationship.

In short, continuity of personnel is essential if a strategic relationship is to thrive. Try to avoid the typical 18-month management rotation cycle, and consider three-to-five-year stints for senior alliance managers and key staff. Also, provide for six-month overlaps for new people coming into key positions; this will give them time to become acclimated and to understand the nature and value of the relationship.

3. Monitor performance.

Monitor the service levels and performance indicators finalized in the Structuring phase, including the broader indicators of business results, such as customer satisfaction, market share, product-development cycles and so on.

In the first few months of the relationship, allow for a "discovery period" in which to compare actual performance and expected performance. Remain flexible enough to change measures and adjust incentives so that you are accurately tracking and motivating performance under real-world conditions.

In general, measures evolve over time in a strategic sourcing relationship. In the early stages, they tend to be tightly defined, but as the relationship grows more strategic, and a sense of trust develops, broader measures and increased flexibility come into play.

Hold regular, formal performance-review meetings. Otherwise, problems will tend to "slip through the cracks," and changes in the business environment that are altering the dynamics of the relationships may go undetected. Regular meetings allow people to plan ahead in discussing issues, clarifying roles, presenting new ideas and so forth.

In addition to performance indicators, monitor the state of the relationship itself, using surveys, interviews and informal conversations. Keep tabs on your sourcing partner's needs and objectives, as well as your own, and make adjustments to the risk-and-reward formula to ensure that the arrangement continues to be attractive and profitable for both parties.

Early warning signs

There are several early warning signs that indicate potential problems in the strategic sourcing relationship. Watch for danger signs such as:

Too many tasks on the "back burner." One or more of the parties doesn't give top priority to getting the job done.

Missed deadlines, which usually signals unforeseen problems, poor planning or poor management. In particular, watch for a spiraling progression of missed deadlines.

Role confusion. If a team does not seem to understand its assignments, clarify roles and expectations immediately.

"Winners and losers." Be on guard against any feeling that one partner is gaining at the other's expense.

Cost overruns: Early-stage cost overruns may indicate inaccuracies in risk analysis and planning.

Missed goals and milestones, which are particularly troubling early in the relationship, because they tend to create problems that are amplified over the long term.

Breakthrough project criteria

Breakthrough teams should focus on opportunities that:

Are driven by an urgent, compelling goal.

Have a quick, achievable first step.

Can show a measurable, bottom-line result.

Have a benchmark standard for comparison.

Can be achieved using available resources.

4. Exploit short-term opportunities.

Short-term opportunities are small, measurable successes. In the short term, they provide tangible evidence of success; in the long run, many quick wins can add up to fairly significant benefits.

Create breakthrough project teams charged with identifying and exploiting opportunities for quick performance improvement. You don't need to invest a lot of money in such teams - the idea is to produce better results with the same resources. Consider appointing those who participated in the Co-Creation process as leaders of these breakthrough project teams, in order to tap into their understanding of the relationship and their already-established interest in its success.

Conditions for breakthroughs

Breakthroughs in performance are enabled by a variety of conditions, such as:

Triggering conditions.

Breakdowns or conditions of stress

Demands for extraordinary action

Operational conditions.

Diversity of input/viewpoints

Willingness to confront traditional paradigms

Willingness to diagnose and to seek new patterns

A belief that new levels of performance can be achieved quickly

Supportive conditions.

High expectations

Top-rank support

Existence of a focused team

Adapting to change

During the course of a strategic relationship, there will inevitably be changes in the strategic and operational environments and in the chemistry that exists between partners.

Potential changes in the *strategic environment:*

Price changes

Change in technology

Competitors entering the market

Market changes

Production-cost increases or decreases

Potential changes in the *operational environment:*

Internal financial problems

Production and marketing costs

Lack of productivity

Potential changes in *chemistry:*

Change of key personnel

Lack of commitment and support

Conflicting organizational values

Problem-solving "rules of thumb"

Deal with problems quickly. Problems sometimes seem to "go away" on their own, but in reality they fester and grow.

Work through problems together. Rushing to place blame on the other party will doom the relationship. Partners should engage in a full discussion of the issues, and an exploration of alternatives, and try to reach a consensus on actions to be taken.

Make a commitment to action. Once a solution is found, take the initiative; set deadlines and milestones, and ensure that results are achieved.

Communicate. No alliance has ever failed because of over-communication. Be sensitive to the difficulties and delays that sometimes occur when communicating across corporate boundaries, and make sure that the right people from both sides of the relationship are involved in problem-solving discussions.

Keep your partner whole. Keep your partner's best interest in mind.

6. Resolve problems.

Aggressive schedules and extensive change make some friction inevitable, so make sure that processes are in place for resolving issues as quickly as possible.

When problems arise, use the principles of the three-dimensional fit (strategy, operations, chemistry) described in Chapter 3 to isolate the root causes. Determine whether the problem stems from *strategic* changes (such as a change in market conditions), whether it is chemistry-related (has one of the partners lost interest?), or whether it is operational (is there a problem in management, marketing or production?).

In resolving problems, remain flexible -- and avoid going to court. To address operational issues, bring teams together for problem-solving sessions. For chemistry-related or strategic issues, consider going to senior management and the use of "summit meetings" to get things back on track. "You need a way to escalate issues so they don't boil over and cause an 'I'm-going-to-get-my-lawyer' reaction," says one executive at a major aerospace company. "It's important to develop an ongoing relationship. Once you have to start looking at the small print, you've lost the spirit of it."

Don't rely solely on formal problem-solving mechanisms, however. Active communication - informal and formal - will help you identify problems and find solutions before problems fester and endanger the relationship. "You need to have open and honest communication and raise issues early, and not wait until the quarterly review meeting," says one computer-company executive.

Finally, try to see the opportunities that are often hidden in problems - that is, try to turn breakdowns into breakthroughs, and draw on the "creative tension" that is present when two groups work together. Understand the differences in viewpoints and culture that partner organizations bring to the table, and incorporate those diverse views into plans and operations. The interplay of different and even opposing ideas helps uncover new approaches and drives new levels of performance.

State of the Market

Appendix A – NUMMI Case Study

The Union from Hell -- NUMMI Case Study

Management Turned Good People into Monsters[xliv]

After twenty frustrating years, in 1982, General Motors threw in the towel on its plant in Fremont, California, south of Oakland. When GM, Ford, Chrysler lost $5.5 billion to overseas competitors in 1980-81, a new sense of reality hit senior executives. The Japanese, led by Toyota and Honda, were making better cars at lower prices. Hundreds of thousands of workers received pink slips. GM was convinced that the plant that loomed like a big battleship of three million square feet had become a battleground for labor and management to tussle and squabble daily.

GM saw the union as the problem, after all was the union that was instigating all the turmoil, and protecting the jobs of hippies, drug-addicts, and scoundrels. The United Auto Workers (UAW), who controlled the labor force, also saw this as their worst workforce in any plant in the United States, including GM's competitors. Workers were boozed up or drugged up on the job. The absenteeism was so high that often the production line couldn't be started, which meant production halted. Workers regularly sabotaged cars on the assembly line, putting ball bearings or Coke bottles in the doors and frames so they would rattle around and annoy unsuspecting buyers.

Rancor and distrust was so thick you see, smell, and taste it. Self-esteem was destroyed, and adolescent revolt became everyday adult action. Eventually GM's leadership became demoralized with the workforce that chose to respond with apathy when they didn't show up, and conflict when they did. The conflict had all four drives (Acquire, Bond, Create, and Defend) revved up, supercharged, and in high gear to produce powerful results – the wrong results:

Despite millions invested in updating the plant, labor conflict was remained rampant. "We've been trained to fight with management," proclaimed Tony DeJesus, president of the United auto workers who had dozens of strikes, sick outs, and shutdowns at Fremont. "And management guys were trained to fight with the union. Both sides were good at it; we fought like hell."

"It was, by far, the worst of GM's plants in terms of quality and productivity: double-digit defects in every car, and far higher than average hours to assemble any vehicle. Distrust ran so high that the labor contract is crammed with over 400 pages of legal doublespeak. But it didn't serve as a basis for mutual understanding. If details were the weapons cache that armed all their flights.

The lack of employee pride and confidence was evidenced by the absence of Fremont-built cars in the employee parking lot. The workers wanted nothing to do with the cars they built nevermind own one.

Labor conditions were militant, toxic, even violent, with multiple strikes and sick outs by the UAW. The plant had a backlog of some 5000 union grievances, absenteeism exceeded 20%, requiring the hiring many more workers on any shift."

Drug and alcohol abuse was so rampant that a special cleaning crew was required to police the parking lot after every shift change to dispose of liquor bottles and drug paraphernalia. When GM closed the books on the worst disciplinary situation in the whole company, there were more than 800 union-filed grievances and 60 contested firings as part of the baggage they left behind. That's what happens to teams in which everyone's first priority is to first put a shell around his or her position, and to guard that domain against everyone breaking in. [xlv]

When Toyota approached GM in 1984 with an offer to establish a Joint Venture in the United States, GM was faced with a dilemma. Toyota, was a competitive threat and growing quickly, becoming the world's third largest auto producer. "Buy-American" sentiment in Congress meant Toyota should consider U.S. manufacturing, rather than import all their vehicles. A joint venture with their arch rival, GM, would make Toyota look less like a threat, and more like a partner. Toyota would take over the plant, up-grade the manufacturing line, and take back the labor union, but only a handful of the GM management.

On the GM side, this would be an opportunity to learn the Toyota LEAN Management System. (There is speculation that behind the scenes that GM also thought, "Let's give them that horrible union, and Toyota will quickly learn it should never have come to America. One year with the plague of locusts that union will bring, and Toyota will close the plant, never to return again to our shores.")

NUMMI -- also promised to rehire many of the people who worked at the plant before. They even trusted Tony DeJesus, the former strike leader, to help evaluate job candidates.

In return, the union let go of something they had always thought essential. Previously, all the jobs at Fremont had been divided into 100 different classifications. The idea had been to protect jobs, but the effect had been to slow line to crawl several times a day, while everyone waited for the"right worker to come along and take care of a task anyone could have done

Within Toyota, the management team was split on whether they should launch NUMMI. However the Toyota production system was in many ways an outgrowth of Deming's work at quality control, and after all, Deming was an American, so the production system could be tested in another culture.

Toyota hired back 85% of the Fremont hourly union workforce. Workers would have a strong voice in plant operations. A no layoff policy was instituted. Toyota spent $3 million to send 450 new group and team leaders to Toyota city for training in Toyota reduction system.

Under GM, the UAW had overwhelmed hundreds different job descriptions. Under Toyota these were replaced with one job description: team member. *The 14 levels of management hierarchy under the GM regime was pancaked down to three: plant management, group leader, team leader, then team member.*

*Employees began participating in decisions regarding their work. Team members were trained in problem solving and quality practices to become experts in their respective operations. Employee roles expanded, the primary responsibility becoming one of proactive thinking and improving simply not doing. (d*Create + *d*Bond*) team leaders and members began engaging in group problem solving. Ideas for improvement were quickly implemented by team members, with successful solutions becoming standardized. All associates were empowered to stop the line at any time to fix a problem by pulling a cord running around the entire facility. Cooperation and confidence replaced coercion and conflict.*

By the time the facility was fully operational, quality defects and dropped to only one per vehicle. Cars were assembled in just half the time. Absenteeism dropped to 3%. Worker satisfaction and engagement soared. Operational innovation was on the rise, with over 90% of employees participating in the innovation program and nearly 10,000 ideas were implemented. These were the same people, the same union, the same equipment. But the outcome was radically different. All in under two years."[xlvi]

After two years in operation, the once antagonistic NUMMI workers had built more than 200,000 cars and were winning national recognition. The United States Department of Labor highlighted NUMMI as a model of positive labor management relations. *Newsweek* magazine spotlighted it as "a model of industrial tranquility." *Fortune* pronounced it "the most important labor relations experiment in the US today." *Industry Week* ranked the plant among America's 12 best manufacturing plants.[xlvii]

However, even though the GM managers trained at NUMMI learned Toyota's LEAN Management System, GM was still unable to implement it in rest of the United States. Why? Because the "invisible" part of LEAN is about trust and collaboration, which GM management was loathe to support.

Lesson Learned: Human Behavior is not a phenomenon carved in stone – a trusted leader brings out the best in people.

Great teamwork is based on all human energy from the four drives flowing in a single, unified, aligned, and integrated direction. This is the leader's most important task in building trust, generating innovation, and achieving high performance, day in and day out.

[1]Originally published by Lawrence & Lynch, Leadership and the Structure of Trust, European Business Review, May-June 2011

[2] Scientists have studied this quality going back all the way to the ancient Greeks and have concluded time and again that these characteristics all have served very important evolutionary functions to give mammals a competitive advantage over reptiles. A very small percentage of any species of mammal seems to be born without this quality. In humans we call these psycho- or socio-paths.

[3] Psychopaths are defined as people without conscience; they lack empathy because their brains have an impaired capacity to process oxytocin. Darwin maintained that a conscience was the primary feature that distinguished humans from other animals.

[4] Robinson, Alan G; & Stern, Sam; *Corporate Creativity, How Innovation and Improvement Actually Happen*, Berrett–Koehler, 1997, p 29, 89

[5] See McEvily, Bill; Perrone, Vincenzo; Zaheer, Akbar; *Organization Science;* Jan/Feb 2003; 14, 1; ABI/INFORM Global pg. 91 [the assert that]"Trust binds and blinds, making economic actors insufficiently vigilant and excessively vulnerable…. reflects an under-socialized view of the organization and coordination of economic activity and the relationships between economic actors, based on a limited understanding of how trust really works. Rather than limiting economic progress, trust in fact is a basic necessity for virtually all forms of exchange (Arrow 1974). From our perspective, trust expands the opportunity set for the coordination of work both inside and outside the organization (Barney and Hansen 1994). Without trust, the uncertainty that pervades the organization and coordination of economic activity would be debilitating. Although trust is not the only solution to the organization of work, trust can generate efficiencies by conserving cognitive resources, lowering transaction costs, and simplifying decision making. Moreover, trust may enhance the value of transactions (Zajac and Olsen 1993).

[6] Gerstner, Lou; Who Says Elephants Can't Dance – Inside IBM's Historic Turnaround; Harper Business, 2002, pp 114; p 182

[7] Bethune, Gordon; From Worst to First, Behind the Scenes of Continental's Remarkable Comeback, Wiley, 1998, p 130

[8] Bethune, p 134

[9] Bethune, p 112

[10] Lencioni, Patrick; *The Five Dysfunctions of a Team,* 2002 p. vii. He described the five dysfunctions thusly:

#1: Absence of Trust: This outcome occurs when team members are reluctant to be vulnerable with one another and are unwilling to admit their mistakes, weaknesses, or need for help. Without a certain comfort level among team members, a foundation of trust is not possible.

#2: Fear of Conflict: Teams that are lacking trust are incapable of engaging in unfiltered, passionate debate about key issues. It creates situations where team conflict can easily turn into veiled discussions and back channel comments. In a work setting where team members do not openly air their opinions, inferior decisions result. Without conflict, it is difficult for team members to commit to decisions, fostering an environment where ambiguity prevails.

#3: Lack of Commitment: Without conflict, it is difficult for team members to commit to decisions, fostering an environment where ambiguity prevails. Lack of direction and commitment can make employees, particularly star employees, disgruntled and disenfranchised.

#4: Avoidance of Accountability: When teams do not commit to a clear plan of action, even the most

focused and driven individuals are hesitant to call their peers on actions and behaviors that may seem counterproductive to the overall good of the team.

#5: Inattention to Results: Team members naturally tend to put their own needs (e.g., ego, career development, recognition, and so on) ahead of the collective goals of the team when individuals are not held accountable

[11] DeMeuse, Kenneth; A Comparative Analysis of the Korn/Ferry T7 Model With Other Popular Team Models, Korn/Ferry Institute, 2008. The whitepaper first presents and reviews the Korn/Ferry T7 Model of Team Effectiveness followed by an examination of five most frequently cited team models:.

- Rubin, Plovnick, and Fry (1977)
- Katzenbach and Smith (1993)
- LaFasto and Larson (2001)
- Hackman (2002)
- Lencioni (2005)

The whitepaper summarizes the differences and similarities between the models, with the intention that the approach to assessing team effectiveness can offer a powerful framework for improving their work teams.

[12] Teamwork and High Performance Work Organization, European Foundation for the Improvement of Living and Working Conditions, 2007 website: www.eurofound.europa.eu The hypotheses to be tested: "According to the majority opinion of specialists in various fields, teamwork should help both to improve company performance and also to boost employees' well-being (Gulowsen, 1972; Hayes, 2005). Provided that the conditions of autonomous decision-making are in place, with the corresponding powers and responsibilities for assigned tasks, teamwork enhances employees' interest and motivation, not just in the context of the employee's work task but also in the context of the corporate strategy as a whole. The key to increased company productivity should be increased employee satisfaction (Moldaschl and Weber, 1998). According to Nicky Hayes (2005), teamwork reduces fluctuations in performance and improves work morale. Leading researchers in the field of work organisation, Katzenbach and Smith (1993), are convinced that people working in a team function more efficiently, are less prone to stress and make a greater effort in their work. Furthermore, they spend less time incapacitated for work, come up with new ideas and try to improve their work. The expert community can thus be divided into two groups of opinion: The larger group comprises advocates of teamwork, who usually claim that teamwork has positive impacts on employees and work organisation, for example in reducing the rate of work injuries, fewer absences from work and increased work productivity. The other group believes that teamwork and other aspects of HPWO may have 'detrimental effects on workers by increasing work-related health problems and the risk of occupational hazards' (Bauer, 2004; Askenazy, 2001; Brenner, Fairris and Ruser, 2004). Job rotation and

greater responsibility on employees for product quality increase the pace of work; job rotation and rapid organisational changes facilitated by flexible production processes reduce workers' chances to improve safety through work routines and learning on the job." The study did not necessarily confirm these hypotheses. The meta-studythoroughly examined research studies of teamwork and working conditions, first addressing how teamwork has been incorporated into companies' overall organizational strategy, then considering whether teamwork helps to give workers greater autonomy and higher job satisfaction, and finally ascertaining whether the presence of teamwork influences the learning environment in a business enterprise. This study also paid attention to the possible negative impacts of teamwork, such as higher work intensity and work overload. Hundreds of studies, and thousands of survey answers were examined. The conclusions:

1. ***Learning***: Working in a team is closely associated with the possibility to learn new things and perform complex tasks
2. ***Teamwork Introduction***: Teamwork is typically introduced into companies followed by an intensification of work pressures, being driven by time pressure and tight time schedules.
3. ***Work Satisfaction***: Teamwork contributes to job satisfaction only when teams are given the necessary scope for control and decision-making on how to meet increased demands. , it is likely that employees will experience higher levels of stress and work pressure.
4. ***Increased Stress***: The study makes it clear that the This higher work intensity is problematic from the employee's point of view mainly if the job enlargement is not accompanied by a greater possibility for control over one's work
5. ***Impact on Health*****:** The health of teamworkers is negatively affected by their work more than the health of employees not working in teams is. The report attributed this impact to work pressure being demonstrably greater among teamworkers than among other employees. "It is highly probable that this fact also has an impact on the health of employees working in teams."

[13] Lynch, Robert Porter, excerpted from *Trust: the Economic Game Changer*, published in Trust Inc. Strategies for Building Your Company's Most Valuable Asset, New Decade Press, 2013 pp 71-80

[14] Anyone who reads several books about trust will immediately be struck by the many definitions of trust: it's about reciprocity, it's about accountability, it's about vulnerability, it's about safety, it's about respect, it's about altruism and on and on. To me, each of these definitions are so limiting, ineffective, and inappropriate. Trust is multi-dimensional and any reference to trust that makes it mono-syllabic is inherently deceptive.

[15] Iverson, Ken; Plain Talk, Lessons from a Business Maverick; John Wiley & Sons, 1998

[16] Gerstner, p 240-41

[17] Gentry, Cullen, & Altman (2012)

[18] Mackey, J. (2010, March 14). *Creating a High Trust Organization.* Retrieved from huffingtonpost.com:

http://www.huffingtonpost.com/john-mackey/creating-the-high-trust-o_b_497589.html

[19] Mackey (2010)

[20] Gerstner, p 240-41

[21] Gerstner, p 240-41

[22] Bethune, p 6

[23] Bethune, p 159

[24] Bethune, p 135-136

[25] Bethune, p 200-201

[26]Bethune, p, 204, 208-209

[27] Bethune, p 127

[28] Cuddy, A., Cohut, M., & Neffinger, J. (2013, July August). Connect, Then Lead. *Harvard Business Review*, Executive Summary, http://hbr.org/2013/07/connect-then-lead/ar/2

[29] Vajda, P. (2009, May 7). *25 Behaviors That Foster MisTrust.* Retrieved from TrustedAdvisor.com: http://trustedadvisor.com/trustmatters/25-behaviors-that-foster-mistrust

[30] Howard, M. (2011). *Ready, Aim, Coach: How HR Can (and Should) Coach Managers on Handling Problem Employees.* Retrieved from Kenan-Flagler Business School at UNC: http://www.kenan-flagler.unc.edu/~/media/Files/documents/executive-development/ready-aim-coach.pdf

[31] Dai, Guangrong; Tang, King Yii; The Leadership Architect 2009 Global Norms, Korn Ferry Technical Report October 2009
De Meuse, Kenneth P. King Yii Tang, Kevin J.Mlodzik, Guangrong Dai The World Is Flat …and so are Leadership Competencies, Korn Ferry , 2010 Only competency ratings collected between 2008 and 2009 were analyzed to current talent management trends. The rated managers and executives worked in a variety of organizational settings located in the following six regions of the world: (a) North America (*n* = 3,353), (b) Europe (*n* = 1,371), (c) New Zealand/Australia (*n* = 826), (d) Asia (*n* = 903), (e) South America (*n* = 224), and (f) Africa (*n* = 86). There were 812 managers and executives who did not specify their location. Data were obtained from organizations from a number of different industry sectors, including industrial, consumer, communications, healthcare/life sciences, financial services, and technology.

[32] Machiavelli, Niccolo; The Prince, Chapter XXIII, 1513

[33] Machiavelli, Ibid, Chapter XVII

[34] See their books: “Snakes in Suits” and “Without Conscience”

[35] It is not just the problem of psychopaths, but also narcissists and “Machiavellians” that team up to wreak havoc in organizations. These three are referred to as the “dark triad,” which is a bona fide field of study among prominent organizational psychologists (just Google “Dark Triad”)

[36] Babiak, Paul; Hare, Robert D.; Neumann, Craig S.; Corporate Psychopathy: Talking the Walk, Wiley Interscience, 28: 1-20, (2010)

[37] Laura Hillenbrand, *Seabiscuit: An American Legend* (New York: Ballantine Books, 2001), 324.

[38] Mihaly Csikszentmihalyi, *Flow: The Psychology of Optimal Experience* (New York: Harper Perennial, 1990), 3.

[39] Örjan de Manzano et al., "The Psychophysiology of Flow during Piano Playing," *Emotion,* Volume 10, Number 3, June 2010, 301-311.

[40] Vanourek, Bob and Greg, Triple Crown Leadership , p ________

[41] Vanourek, Ibid, p ________

[42] Vanourek, Ibid, p ______

[43] Vanourek, Ibid, p_

[xliv] Source: Wikipedia, Pat Riley: Winner Within p23-26 and the

[xlv] Elegant Solution, Matthew May p 61-65

[xlvi] Ibid

[xlvii] When GM declared bankruptcy in 2009, it forced the end of the Joint Venture. The plant was temporarily closed, and Toyota, in conjunction with Telsa Motors, a manufacturer of new generation electric cars, now occupy the facility.