**The Science, Strategy & Structure of Extraordinary Leadership**

# Economics of Trust

*How Trust Creates Economic Power*

*For Financial Officers, Supply Chain Managers, Financial Analysts, Legal Counsel and Organizational Development Specialists*
*FIRST EDITION*

by Robert Porter Lynch, and Paul R. Lawrence with Foreword by …..

**Why You Should Read THE ENOMICS OF TRUST**

As a Senior Financial Executive you are in the cross-fire from every direction – bombarded by Wall Street to make the numbers, by the Government to comply with regulations, by Competitors with new advantages, by Customers to cut costs, by Predators that want to devoir your precious business …..

**Read this book for one primary reason**: To understand how a high-trust business culture will create enormous economic and competitive advantage.

# DRAFT VERSION
# NOT FOR PUBLICATION

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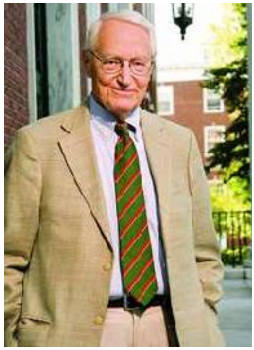
I would personally like to thank a number of people for their contributions to the thinking embraced in this report: Paul R. Lawrence, Bob Vanourek, , Tom Stallkamp, Gary Loblick, Todd Welch, Barbara and Jordan Kimmel, Lori Schmidt, Robert Reyes, Chris Elliot, Robert Edwards….and others.

# *Special Dedication to Paul R. Lawrence*

Paul R. Lawrence



Over the years, Paul Lawrence's work always been far ahead it its time -- his thinking has influenced my view of the world for the last forty years, ever since being exposed to his remarkable work on the unique aspects of organizational integration across boundaries. He broke new ground then, and has continued his breakthrough thinking with Driven to Lead.

As a student of both history and organizational behavior, I have tested Paul's 4-Drive Model extensively. When used in assessing political, corporate, or military characters, the 4-Drive Model is proving to be remarkably useful in understanding motivation, predicting behavior, and assessing a person's capacity to succeed in a leadership role.

What's been sorely missing in the world of human behavior is a useful model for understanding the nature of people -- the core of what drives people to act the way they do. In many way's Paul Lawrence's 4-Drive model is powerful "unification theory" that's far more useful and scientifically based than either McGregor's Theory X/Y, or Maslow's Hierarchy of Needs.

What makes the 4-Drive model so valuable is its ability to derive simplicity on the far side of complexity -- much like Einstein's $E=mc^2$.

Earlier in my career, when designing Strategic Alliance Architecture, Paul's compelling work in the understanding of Differentiation & Integration in organizations stood as the underpinning of what turned out to be the foundational framework for alliances around the world. Now, as I've been focusing more on Collaborative Innovation and Trust Architectures, again Paul's avante-guard insight has laid the cornerstone for a new level of thinking about how to improve the quality of leadership.

For those who serve on Boards of Directors and CEOs, this book is a must before selecting senior executives for the corporation. And for those seeking deeper meaning and purpose in their lives, Chapter 7 on Leadership and Human Meaning is a tour-de-force that masterfully unifies scientific and spiritual thinking. For those in government trying to balance the needs of the private and public sector, Paul's insights into checks and balances and leadership without conscience is outstanding.

This is a book that will forever shift the way you think about leadership, and give you actionable insights into human behavior in everyday life. -30-

## *For Further Reading and Team Development*

This book has been written for the financial executive, legal counsel, risk manager, and procurement executive focusing on the financial and economic issues that impact trust. Several "companion" books are also available:

1. "CEO's Executive Guide to the Economic and Innovative Potential of Trust" is for senior executives. It addresses the major issues in this book, but focuses more intensely on the economic value that trust creates in a 'big picture' format. It is designed to be a quick read, 130 pages emphasis on senior actions and bottom line impacts.
2. "Building a Team You Can Trust" is for middle managers. It addresses the major issues in this book in more detail to enable implementation of the central ideas and themes contained here. It is 360 pages filled with more examples and advice about execution, aimed at high performance, high innovation teamwork.
3. "Leadership and the Architecture of Trust" is currently in the final stages of development. It is aimed at the newly minted MBA leader who wants even more case examples, strategic advice, economic analysis, and organization transformation strategy. It is 475 pages with more analysis, case studies, and deeper insights.
4. "Trust to Negotiate" is interim development stages
5. "Trust to Sell" is in interim development stages

Each book contains common "core" concepts which are fundamental in understanding and using the trust material -- including the Four Drive Model of Human Behavior, the Ladder of Trust, and the Eight Principles of Trust. Around this "core" each book builds unique points of view and specialized applications focused on different target audiences.

For more information, free downloads, direct assistance, and for MBA professors desiring to contribute to further work, or receive presentation materials, please visit:

www.TrustedtoLead.com

# Contents

# Executive Summary

**[RPL: UPDATE THIS SECTION BEFORE FINAL DRAFT]**

— Why Trust is Important —

- High Levels of Trust Enable:
  - Very High Performance
  - Greater Innovation, Creativity & Synergy
  - Expansion of Possibilities
  - Enhanced Problem Resolution
  - Faster Action/Implementation and...
  - Lower Transaction Costs
  - Ability to Sustain Synergy
  - Strong Financial Results
- Trust, up to this point, has been a soft and fuzzy field, filled with platitudes and aphorisms, with little sound science, strategy, or economics. The economic architecture of trust in this book creates a firm and structured framework for using trust to create economic value – answering the fundamental question of how to "monetize the value of trust." This has important implications on changing what heretofore have been cost centers into profit centers – supply chain, strategic alliances, and human labour.

- Trustworthiness is a Powerful Competitive Advantage in a Fast Moving World
- 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.

# A Breakthrough in Understanding Business Success

*What the Senior Executive Must Know about the Economic Power of Trust*

Why should you read this CEO Handbook?

Thousands of articles and books have been written about what's necessary for business success. Professors teach, research, and write business fundamentals searching for the answer.

- What light could we possibly shed on such a thoroughly documented field?
- How can your business achieve excellent results on a sustained basis, engaging employees, winning loyal customers, and innovating in your industry?

After a career that has embraced starting several companies, buying and selling businesses, financing business expansions, creating strategic alliances, advising senior executives, and teaching executive MBAs, I came to see that there was something glaringly missing our approach to leadership success – the understanding of the TRUST FACTOR in business.

Why had so many people miss the TRUST FACTOR?

There are three primary reasons:

*Imprecise Value:* Numerous articles written on trust have inferred that trust creates value, but no systematic analysis had examined the economic impact of trust on business

*Fuzzy & Soft:* Trust has been the domain of psychologists and sociologists, whose approach often lacks analytic rigor and clarity of direction that influences hard-nosed business leaders

*Leadership Theory:* Most books and articles, along with executive and MBA courses on leadership, give the TRUST a cursory glance, but do not systematically address why, what, and how leaders should act to trigger the benefits of trust.

In this book, we will directly address the problem of Imprecise Value by showing specifically the value that is created by trust, tying it directly to the creation of sustainable competitive advantage, new insights on what's been missing in economic and financial thinking, and how trust links to key areas on the Profit & Loss Statement. Then we will apply hard science to the understanding of trust, taking it out of the soft arena into something firm and smart. Lastly, we will identify concrete ways leaders can build trust.[*]

# Chapter 1. Financial Impact of Trust

Every professional sports coach knows that trust profoundly impacts the performance of teams.

Does business respond the same way?

*Bottom Line:* We conclude that without trust, even the best strategies, execution, or core competencies will fall short of their potential.

Trust alone does not "cause" high performance, but it is a critical and essential ingredient that, if missing, will dull or even demolish high performance teamwork.

The insights detailed here apply equally to the publicly held *Fortune* 100 firms or a privately held, small business owners. This CEO Handbook shows the close correlation between a trustworthy business and sustained high performance, as well as how to build a trust-based culture:

- Correlation between trust and excellent financial performance
- Impact of trust on strategic and operational results
- Leadership required to build a trustworthy business

## Creative Destruction Endangers Survival in Business

Since 1990, 50% of the Fortune 500 have are no longer on the list, and only 11% remain from the original cast when the list was created in 1955. Nearly 9 out of 10 have either gone bankrupt, merged, gone private, or still exist but fallen from dominance. Of the S&P 500, at the current turnover rate, 75% will be replaced in 15 years.[1] The cause: like the inevitability of the four seasons, the relentless and merciless force of *creative destruction of capitalism.*[2] Just look at what happened in five years to high-flyers Nokia, Blackberry, and Motorola when they failed to accelerate innovation in the smart-phone market against rival Apple.

## *Role of Trust in Competitive Advantage*

Historically trust has been the purview of psychologists and social scientists, which has led to perception that trust is fuzzy and soft, or that trust is about ethics or well-being or altruism.

- This CEO Handbook aims to look at trust from a much more disciplined, economic, and strategic perspective that will enable senior leaders to take concrete actions to produce competitive and economic advantage.
- What's more, the evidence tells us: "Trust is the wisest means of gaining the *most effective Return on Investment* for any business."

As a CEO, senior executive, board member, corporate officer, or business owner, you are always seeking ways to master the forces of creative destruction, outperform the competition, and beat the market averages. Harnessing the power of the "trust engine" will prove to provide a continuous stream rewards, both in the short and long term.

And there's one great by-product: High trust enables many managers and employees to find meaning and purpose in their work, which, in turn, improves productivity in multiple ways.

## TRUSTWORTHY COMPANIES OUTPERFORM FINANCIALLY

How serious is the "trust deficit"? One index, the Edelman Trust Barometer, points out:

- Only 53% of respondents trust business.[3]
- Only 18% of the general population trust business leaders to tell the truth regardless of how complex or unpopular the truth is.

This "trust deficit" is not just another sociological slam against business. It has serious and widespread ramifications – two major bottom-line impacts:

- Share Price and Profitability
- Sustainable Competitive Advantage

The "trust deficit" acts like high blood pressure – a silent killer from hardening of the arteries – that can go unnoticed for years, but will take you out by heart attack or stroke. If your company suffers from the "trust deficit," it's diminishing your revenue, market share, brand reputation, talent turnover, employee engagement, cost levels, stock price, and bottom line profitability.

## *Data Confirms Trust & Superior Financial Performance*

A compelling body of evidence shows the clear correlation between trustworthiness and superior financial performance.

*Bottom Line:* As a senior business leader, you cannot risk ignoring these facts.

*Note:* Over the past decade, a series of studies have built a strong case for senior business leaders to put building trust among stakeholders high on their priority list. While none of these studies are perfect,[4] over the next decade their results will be increasingly compelling. The studies shown below do not rely on companies that nominate themselves, or submit private data that cannot be verified, so any self-selection bias is removed from these correlations.

## *Trust and Stock Market Performance*

- *Fortune's* "100 Best Companies to Work For" and "Great Places to Work" have tracked financial performance based on Trust comprising 60% of the evaluation criteria The listed companies earned "over four times the returns of the [S&P 500]over the past seven years."[5] (see Figure 1)
- *Forbes* and GMI Ratings have produced the "Most Trustworthy Companies" list for the past six years.[6] They concluded Trustworthy Companies:
- have a lower cost of capital
- outperform their peers over the long run

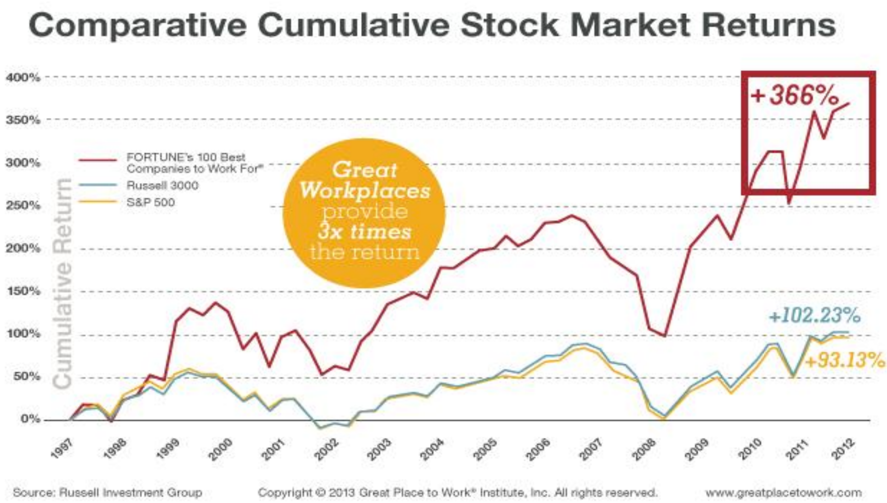



**Figure 1: High Trust Companies Outperform the Market**

- have minimized their risk of negative events[7]

3. FACTS®: After years of reviewing such studies and vetting independent data providers, Trust Across America – Trust Around the World (TAA-TAW) blends five indicators of trustworthy business in its unique FACTS® Framework[8]: Financial Stability, Accounting Integrity, Corporate Governance, Transparency, and Sustainability. The FACTS Framework shows trustworthy companies outperform the S&P 500 index by a factor of double.

*Bottom Line:* Trusted organizations outperform their competitors in on Wall Street

## *Trust and Long Term Profitability By Industry Sector*

To determine if trust really had an impact on competitiveness and financial success, along with the late Paul R. Lawrence, Professor Emeritus of Harvard Business School, we did an analysis of the industries in which exemplary companies do business.[9] The major source of competitive success was derived from trustworthiness. We isolated trustworthy leadership practices from other dynamics that affect performance. We explored five industries in intense competitive environments: airlines, autos, groceries, insurance and steel. For these industries:

- Resource inputs were the same
- Strategy was not a major differentiator
- Advanced Technology was available for all
- Rate of change was reasonably constant
- Product and service outputs were the same

*Airline Industry:* All airlines buy their planes from predominantly two or three manufacturers, use the same basic IT systems, fly out of the same airports, buy fuel from the same petroleum companies, and have the same unions. Price competition is fierce.

Profitability: In the U.S. the high-trust culture belongs to Southwest[10,] and it has been the most consistently profitable airline. In Canada, there are two primary airlines: Air Canada and West Jet, (which modeled itself after Southwest). West Jet consistently outperforms its rival Air Canada.

*Auto Industry:* All have the same suppliers who provide 80% of the parts, build cars with the same configurations, and have similar dealerships across the land. Price competition is fierce.

Profitability: In the U.S. the most consistently profitable companies have been the high-trust companies, the Japanese Manufacturers: Toyota, Honda, and Nissan.

*Grocery Sector:* All grocery chains buy their food from the same sources, run similar stores, use similar IT systems, and sell to the same local customers. Price competition is fierce.

Profitability: In the U.S. the most consistently profitable companies have been the high-trust companies: Publix, Whole Foods, and Wegmans.

*Insurance Sector:* All insurance companies offer the same basic products, have access to the same actuarial statistics and customer base, and use similar IT systems. Price competition is fierce.

Profitability: In the U.S. the most consistently profitable company with the highest customer service ratings, highest trust, and lowest cost of delivery has been: USAA

*Steel Industry:* All steel companies have the same access to iron ore, billets, or scrap, as well as the furnace technologies, have same access to labor pools, and must abide by the same federal regulations. Price competition is fierce.

Profitability: In the U.S. the most consistently profitable company has been the high-trust company: Nucor Steel

***Bottom Line***: Over the last two decades, the high trust companies gained a major competitive advantage. For the most profitable companies, their success came, not from a technology “big bang,” but engaging their workforce in thousands of small improvements that impacted their overall profitability.

## *Investor’s View of Financial Success & Correlation to Trust*

In case after case, the “investment divide” is marked by short versus longer term gains. Investors committed to day-trading and flipping of stocks will not find this CEO Handbook of value. But those who are in for the long haul and seek to find companies who build value, avoid litigation and corporate scandals, and have a lower cost of doing business will gain great wealth by heeding this advice.

Numerous indirect indicators of trust also show a direct correlation to superior financial performance in detailed analytical reports from companies such as: Goldman Sachs,[11] Deutsche Bank,[12] **Colonial First State Global Asset Management**,[13] Global Alliance for Banking on Values,[14] and Towers Watson Wyatt.[15] These studies are bolstered by numerous other analyses from respected sources such as the American Association of Individual Investors,[16] the Dutch University of Maastricht and Erasmus University,[17] INSEAD in France, and Harvard Business Review.[18]

## Focus on Leading, Not Lagging, Indicators

In the last twenty years, the "clock speed" of business has jumped to an astronomical level. This means if senior executives run their businesses off their analysis of the Profit and Loss statement they are doomed to looking at the future in a rear view mirror. Financials are an "after the fact" reflection of what other, more significant forces in the competitive landscape, had already caused to happen. P&Ls can be likened to archeology.

### *Strategic Return on Investment*

Over twenty years ago we pioneered the focus on leading, not lagging, indicators as a means of managing the dynamics of strategic alliances. We coined the methodology "Strategic Return On Investment" (STROI).[19] STROI is a balanced scorecard tool for estimating the results that a strategy will bring to your company and for determining how your company and its partners derive value. The essential insight behind the STROI scorecard is that success should not be measured only in short-term financial results, but takes into account other measures: (see Figure 2)


Figure 2: Strategic Return On Investment

We believe that seeing the trustworthy companies through the performance lens of STROI helps understand how trust first triggered high impacts on the *leading* indicators, and then later revealed itself on the *lagging* indicator: Finance. Stated another way, four indicators (Market Impact, Organizational Effectiveness, Innovative Capacity, and Competitive

Advantage) are *Strategic and Operational Outcomes,* and are therefore more important in predicting future success than the financial element, which is a *lagging* indicator.

The cases and data analyses cited above are a "macro" view, but fail to give sufficient detailed insight to take concrete action. From a senior leadership perspective, the essential questions are:

- Why do trustworthy businesses have superior financial performance?
- How did these companies actually produce such success?
- Exactly where on the P&L line items did trust shift the game?

The answers lie in the strategic and operational advantages built by trustworthy businesses addressed in the next section

# Chapter 2. Strategic & Operational Impact of Trust

In this section we look the corporation

*Strategically* – ability to create Sustainable Competitive Advantage,

*Operationally* – effectiveness in Generating and Distributing Profit,

*Prudently* – Management & Reduction of Risks

Strategically and operationally, we examine trust's relationship to and impact on:

Revenue Growth & Market Share
Operational Effectiveness
Innovation & Turnaround Performance
Acquisition & Alliance Success
Value/Supply Chain Advantages
Human Resource Strategy

From the perspective of risk management/reduction, we examine trust's impact on:

Employee Morale/Engagement
Project Management
Legal Affairs
Insurance

***Senior Executive Analysis***: As you read each sub-section, ask your Executive Team or Board:

"If we increased trust just 10%, what would be the % or $ impact on ….?"

## Revenue Growth & Market Share

Revenue growth is the hallmark of every successful company. Revenue growth is enhanced by long-term, trusting customer relationships for joint problem solving and value creation. Customers and suppliers share valuable information for deeper insights into emerging customer needs, industry trends, problem solving, and opportunities for adding greater value.

### *Brand Reputation*

Brand reputation is all about trust. Consumers are 3 ½ times more likely to buy a trusted brand than one they've never heard of or tried before.[20] A brand that's not trusted is not competitive and loses market share. Distrust will either shut down the information flow, or cause the customer to find another supplier. For example, Dell experienced significant loss of market share when they outsourced their customer service activities. They lost trust with users who needed technical assistance.[21]

### *Market Share*

Many industries have powerful examples of how trusted companies increase market share:

In the airline industry, the company that has the highest trust among customers and employees is Southwest. Southwest has consistently outperformed its rivals in market share growth and profitability. The turmoil of labor-management conflict that epitomizes low trust companies have severely damaged American, Delta, and United, contributing to their lower levels of service and profitability.

Grocery stores have some of the thinnest profit margins of any industry (typically 1-2%), and bankruptcies are frequent.

In the highly competitive Florida market, Publix, the high trust competitor, holds nearly a 53%% market share compared to only 14% by Wal-Mart. Publix has a compound growth of 18% per year, as opposed to Wal-Mart's 10.5%.[22] Publix's high productivity from its workforce forced Winn-Dixie, its oldest rival into bankruptcy and Albertson's out of the market.

Wegman's grocery chain in the mid-Atlantic region has been in the top ten of Best Places to Work frequently. They spend a great deal of effort on employee engagement, trust, and employee development. CEO Colleen Wegman, when asked by an analyst how she can afford to spend so many millions of dollars developing people, laughed and said, "How can I afford not to? I save over $300 million annually over my competition due to lower turnover. That comes from developing the people in the organization."[23]

***Bottom Line***: These two industry examples are not unique; in industry after industry, the high trust leaders hold a substantial market share, and it's usually growing.

## *Customer Loyalty and Retention*

Study after study reaches the same conclusion: Trusted companies will retain their customers at a rate many times higher than companies that don't listen to their customer's needs, don't provide good service, or will sell the customer something unsuitable to make quota.

***Bottom Line***: Customer turnover is expensive: most analyses peg the cost of replacing an old customer at 4-5 times the cost of retaining an existing one.

## *Sales Force Effectiveness*

Customers are far more likely to buy from a highly trusted sales person, who will close more sales than sales people with whom the customer is hesitant, worried about service, or bound in negative experiences. A trusted engagement between buyer and seller has a 20-50% higher chance of ending successfully.

***Bottom Line***: The speed of selling will increase dramatically, by similar percentages, regardless of price. Customers will not return to buy from sources they don't trust.

***Senior Executive Analysis***: If we increased trust just 10%, what would be the % or $ impact on Market Share and Revenues?

## Operational Effectiveness

Every business leader and entrepreneur is seeking to create a competitive advantage. Some do it with great strategy, some with technology, some with marketing, and some with speed.

But regardless of the strategy you use to build your business, it can be accelerated like a rocket by adding good "chemistry" – high trust.

We all know that high trust improves speed, performance, and innovation. But by just how much? Knowing the amount of impact of trust enables us to calibrate its importance and to gauge the value of a trust effort.

To gain a better understanding of the financial impact, we developed a structured way of learning form seasoned managers the amount or level of impact or "boost" created by higher levels of trust, and, conversely, the level of "drag" from distrust.

### *Evidence from Managers in the Trenches*

[It might be useful to know that I do a lot of workshops with organizations, ranging from large corporations to start-up businesses throughout North America, and also work with government agencies across the span of Canada. All these workshops become a "laboratory" to test new ideas and validate theories. As of February, 2013, over 2650 mid-to-senior executives have participated in the Economics of Trust analysis.]

To test the economic impact of trust, my team (made up of two experts in cross-boundary economic analysis) first developed a

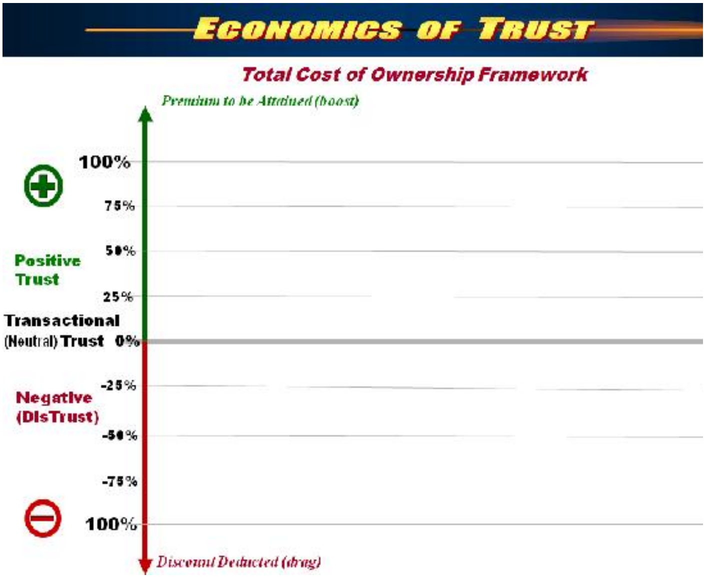



Figure 3: Economics of Trust Scale

measuring scale (see **Error! Reference source not found.**). As rust increased from a “neutral trust” (neither trust nor distrust) into very high levels of trust, we wanted to know how much “boost” was achieved on a scale of 1-100%. And we wanted to know the converse: how much drag was imposed from high levels of distrust.

We then chose 16 high-impact dimensions of “Total Cost of Ownership.” These are somewhat standard measures in the supply chain management field:

PRODUCTIVITY, TIME WASTERS, REDUNDANCY, INTEGRATION, SHARED RESOURCES, PROCUREMENT, JOINT PLANNING, FORECASTING, EARLY WARNING SYSTEMS, RISK MANAGEMENT, PROBLEM SOLVING, LABOR RELATIONS, STRATEGIC ALIGNMENT, & COORDINATION. For good measure we added a last dimension: HUMAN ENERGY – the level of enthusiasm or depression one experiences in either a high trust or distrustful environment. (see **Error! Reference source not found.**)

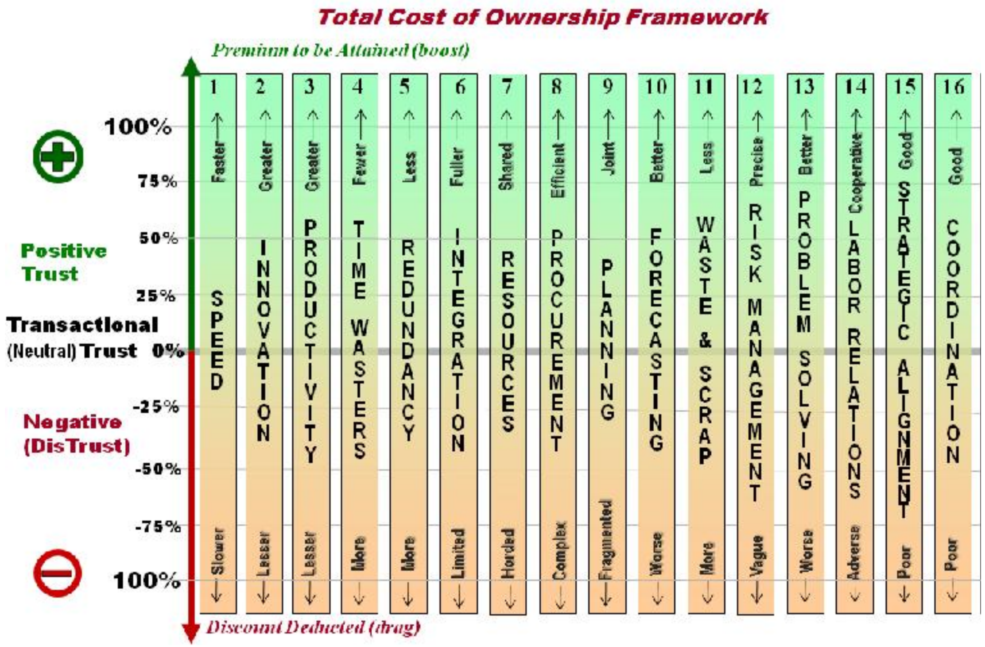



Figure 4: Economics of Trust -- 17 dimensions for Analysis

Then we asked over 3000[24] senior managers to answer two questions:

First, where there is a high level of trust, what is the "boost" or "premium" an organization receives in each of the dimensions?

Second, in situations of strong distrust, what is the "drag" or "discount" for each of the factors?

The answers astounded us. The *average* "boost" ranges between 50-65% above that with just "neutral" or "transactional" trust. And, on the downside, for intense distrust, the average "drag" ranges between 50-75% reduction in efficiencies and energies. (See Figure 5

We then ask the senior teams to calculate the "differential" between the average highs (for trust) and average lows (for distrust). Consistently the differential is ranging between 130-165%.[25]

Consider the implications of this data for a moment – according to the 3000 senior managers surveyed, a high trust environment

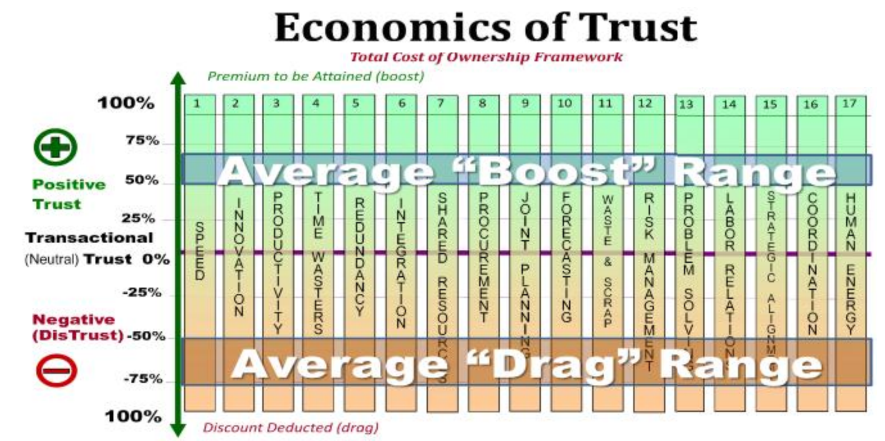



Figure 5 Average Boost & Drag from Trust & Distrust

will produce a powerful "uplift" that will provide a "secret' competitive advantage that your competitors can't see (because trust is invisible). I tell people that trust gives a 25% competitive advantage, but the data from individuals with senior level experience says it's far greater than that – more like 50%! (If I told people trust gave them a 50% competitive advantage, no one would believe me, but senior managers consistently report that level of performance increase.)

For example, Southwest Airlines is considered a paragon from the perspective of trust between labor and management. It is no coincidence it also has had 30 straight years of profitability -- which is unparalleled in the airline industry.[26] Certainly Southwest has a good strategy, but that alone doesn't explain its phenomenal success. The economics of trust provide the competitive advantage that truly makes a difference.

The investment in trust is actually very small, but produces probably the largest return on investment of all, as well as a massive competitive advantage. But exactly how does trust and distrust create or destroy value?

## *Leadership & Employee Commitment*

While the idea of employee ownership is not essential, in our work with companies around the globe there is becomes obvious that the more the employees are committed to their company, the more they have a vested interest in their organization's future, and the more the organization's management is committed to a culture of trust, the greater the employee performance.

Procter & Gamble is a good example of this. From the moment I started working with P&G on an assignment to build innovation and collaboration into their supply chain, I noticed a difference in the way people came to the problem and created opportunities. Not coincidently, a large number of employees are also shareholders. P&G set up its employee ownership plan in 1875.

Southwest, and its Canadian clone, Westjet (which is also highly profitable), are employee owned.[27] Every day trust enables Southwest's workforce to collaborate to turn around its planes at airports faster than its competitors. Pilots work with attendants to get the planes cleaned quickly. Mechanics work with ground crews to reduce cycle times. Small time savers and on-site innovations all add up daily to cut the waste out of operations, enhancing competitiveness.[28]

Southwest is also the most heavily unionized of the major airlines, but its labor relations are certainly far more collaborative than American Airlines, which is renowned for adversarial interaction that borders on civil war. It is not a coincidence that American Airlines has also lost a lot of money and wallowed in bankruptcy.

Other companies, like Publix grocery stores, are heavily owned by employees, show strong profits, and pay its store managers extremely well. Sundt Construction in Arizona has been employee owned for several decades and creates strong bottom line performance. The best example may be Springfield Remanufacturing, whose leader, Jack Stack, revitalized a dirty old diesel motor rebuilding company into a thriving enterprise, making every employee an entrepreneur. Stack's well-documented approach is outlined in his two books.[29]

Profit sharing programs are the other variant of employee engagement that is highly effective when enabled in an environment of trust. In the steel industry, American companies have to compete against Chinese and other foreign rivals. Nucor Steel's enormous success in large measure can be traced to the way it has built trust in its steel plants and between its divisions. Continental Airline's turnaround under Gordon Bethune in the mid 1990s combined trust and profit sharing for enormous gains in customer service and bottom line performance.

Trust is the enabler of both productivity and innovation.

***Bottom Line***: According to the senior managers surveyed, the average "uplift" that can be gained by a high trust environment across the 17 factors: 65-68%.

***Senior Executive Analysis***: If we increased trust just 10%, what would be the % or $ impact on
any of the Organizational Effectiveness factors?

## INNOVATION & TURNAROUND PERFORMANCE

[The cases cited below are just a few of the many we have collected that illustrate how trust impacts success. See the website for more case studies and more details.]

### *Impact of Trust on Innovation*

One highly impactful aspect of trust is its impact on innovation.

### *The Microsoft Case*

Ross Smith, a senior director at Microsoft tested the assumption that trust and collaborative innovation are highly linked. He selected the members of the debugging teams based on their willingness to act in a highly trustworthy manner, focusing on key *actions* that promoted trust. (see more detail in Chap. 5)

***Bottom Line***: Smith's teams have outperformed regular teams by factors ranging from 20% to 200%. Just as importantly, the teams want to stick together, bringing the learning from one project to the next.[30]

## *Impact of Trust on Turnarounds*

### *Continental Airlines Case*

When a company no longer trusts its employees, the effect becomes cyclical: employees stop trusting the company. Distrust and cynicism plagued the company. In 1994 Continental Airlines was ready to file for bankruptcy for the third time in several years. Newly minted CEO Gordon Bethune took concrete action to rebuild trust, throwing out old policies, empowering people to do what was right for the customers and for the company.

"We wanted our employees to use their judgment," Bethune put his faith in trusting people. 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.

"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 making thousands of decisions to keep passengers happy and planes moving .... Suddenly our employees are running a good airline."[31]

"Once we started making profits and writing profit-sharing checks -- 15% of our pretax profits are distributed to our employees -- it's their own money "[32]

***Bottom Line***: Within six months, Bethune's strategy was showing positive performance;[33] problems were being solved rapidly, new innovations being implemented, and within one year, a decade of bankruptcies and losses was being reversed by excellent profits and new revenue growth from satisfied customers. Trust unleashed the naturally inherent creative energies of the workforce and the new management aligned those energies on productive activity.

## Impact of Trust on Impossible Situations

### *Rocky Flats Case*

The Rocky Flats nuclear site was considered one of the most dangerous locations in the U.S., the onsite workforce was demoralized. Department of Energy (DOE) officials estimated the cleanup task was so complex with so many unknowns that it would cost of over $30 billion and take a minimum of sixty five years. Many believed it was doomed to fail.

DOE awarded a five-year, $3.5 billion contract to Kaiser Hill, (a joint venture between CH2M Hill, an employee-owned [34]engineering firm and Kaiser Engineering) for cleanup, which would require continuous innovation, a highly motivated workforce, and high levels of trust.

Once Kaiser Hill took over operations, they found a "bankrupt culture of strained relations, mistrust, and lack of leadership."[35] Bold thinking dramatically changed the mindset at Rocky Flats; they had to reengage the same workers, reestablishing trust, and getting the workforce to be productive and innovative.

***Bottom Line***: Kaiser-Hill completed its contract fourteen months ahead of schedule, more than $500 million under budget. Company leaders shared the financial gains with the workforce; Kaiser-Hill paid out nearly 20 percent of its total project profits -- over $100 million in incentives to employees. The results beat every estimate and every probability of success. Rocky Flats is now a national wildlife refuge.

## Impact of Trust in Public Emergencies

### Santa Monica Expressway Case

When the Northridge Earthquake hit Los Angeles in 1994, the devastation to the Santa Monica Expressway was catastrophic. Consisting of a myriad of 8-lane highways, overpasses, and clover leafs, it's one of the most travelled highways in the world moving 400,000 vehicles per day, and prone to massive traffic jams at rush hour. The governor's office estimated that each day the freeway was closed cost the local economy more than $1 million in lost production and wages.[36]

CalTrans, the state agency overseeing the reconstruction project, knowing a project of this magnitude normally requires two years to complete--one year for design planning and award of contracts, and one for actual construction -- demanded completion in 140 days, including demolition, design to upgraded earthquake-proof specs, construction, and time for the concrete to harden sufficiently, or the contractor would face stiff penalties. Construction firm C.C. Meyers was selected for the job. It was done in a remarkable 66 days, 74 days ahead of schedule. Meyers received a $14.8 million bonus for outstanding work.

How did they pull off such a complex project? Paperwork was minimized, decisions were streamlined; and, according to a senior government engineer,

"A lot of work was done ….. with a handshake … we caught up with the documentation [later]... But this had to be based upon teamwork, partnering, good communications, good decision making. And you've got to build upon your mutual respect, trust, pride, and just being fair."[37]

Was this a fluke? Meyers uses teamwork and trust to produce rapid results regularly.[38]

***Bottom Line***: A large body of evidence[39] indicates that shifting from an antagonistic, adversarial approach to a highly collaborative management system underpinned by trust decreases project completion risk by at least 30% on long term, capital intensive projects.

## *Lean Manufacturing Failures & Successes*

One of the most acclaimed methods of collaborative innovation today is the vaunted Toyota Production System, often referred to as "Lean Production." Practitioners worldwide have tried to implement Lean, and have accumulated a dismal track record of failure. It has been estimated by the Lean Enterprise Institute, that over 90% of the Lean implementations either fail to produce significant results or are abandoned early.[40] Why?

Lean, to succeed, requires a culture of trust to ensure people will work together to remove non-value added work from their traditional work flows. However, most engineers are not tuned to the issue of trust, and thus overlook the importance of creating a culture of trust to underpin the Lean program, hence failure.

*Bottom Line*: In situations where a foundation of trust is developed first, Lean programs prove to be highly successful,[41] proving what Toyota was able to establish: an average worker, in a high-trust, high-innovation environment can produce about one good idea every ten days, and implement over 80% of the ideas,[42] while reducing non-value added work by 20-30% or more.

## *Insight from Customer Relationships*

The existence of trust enables the flow of information and innovation across the buyer-seller relationship, whereas distrust will either shut down the flow or cause the customer to find another supplier.

***Bottom Line***: Sustainable revenue growth is greatly enhanced when customers and suppliers share valuable information across the buyer-seller interface, and that information becomes the source of deeper insights into emerging customer needs, industry trends, problems needing solving, and opportunities for adding greater value.

### *Reduction of Resistance to Change*

People love consistency, stability, and predictability – it's a natural part of the human condition. However, today's fast-moving, rapidly changing environment flies smack in the face of the uncertainty we face in today's world.

***Bottom Line***: Without trust, people are far more likely to resist change, hold on to old ways, and fear what the future may bring. Trust enables people to be more adaptable, more open to new ideas, and feeling more in control of their destiny.

***Senior Executive Analysis***: If we increased trust just 10%, what would be the % or $ impact on any of the Innovation and Turnaround efforts?

## ACQUISITIONS AND ALLIANCES

Fundamentally, a company has three growth options: Internal (organic) growth, acquisitions, and alliances. For many companies, both acquisitions and alliances have presented difficulties; trust is important in their success.

### *Acquisitions*

Acquisitions are highly complex, but often chosen as a growth option because companies believe they retain control over the process and outcome. But the success rate of acquisitions, based on numerous studies over the last two decades, is a dismal 30%. Of the remaining 70% that fail, the minority crash because of strategic mismatches or over-valuation at the outset; but the majority underperform because of poor operational integration.

Numerous authorities maintain that trust plays a major role in the successful integration of a new company. When trust is absent, the best people leave first,[43] leaving the core of the acquisition target hollowed out, with the second-rate players remaining. Poor future prospects and high levels of job insecurity/uncertainty in the failed acquisitions trigger mass desertions. Customers, feeling unsupported, find other suppliers. Financial performance fails to live up to expectations.

Post-acquisition integration is a highly complex organizational process. Experts estimate, in the typical acquisition, there are tens of thousands of points of integration (interfaces) that must be carefully managed. At each integration interface, trust will enhance the chances of a successful outcome during the transition. Conversely, where distrust is rampant, the interface relationships become poisoned, resistance to change is exacerbated, time and effort increases, and the chance of success at the interface are diminished.

Exactly how important is trust? A detailed study the trust dynamics of acquisitions in the U.S., Europe, and Asia by INSEAD[44] found that, among all the factors that enabled successful post-acquisition integration, trust was the most critical. Specifically, trust in the acquirer's management by the target firm's members was directly correlated to and enhanced:

- the greater the speed of integration (by competent acquirers)[45]
- the greater the levels of cultural tolerance and sensitivity,[46]
- the greater the post-acquisition reward and job security enhancement
- the more credible the acquirer's communication is and the more it meets the target firm's needs in terms of quality, timing, and relevance,

***Bottom Line***: High levels of trust in the acquiring firm's management positively affects financial performance and success rates of acquisitions.

## *Alliances*

Alliances, even more than acquisitions, are highly reliant on trust. Because alliance partners have no real control over each other, they must work together because they share a common vision and value proposition, and trust each other sufficiently to engage in joint activities. The underlying proposition of alliance leadership is one's ability to *influence without authority*, which is possible only when the other party *values* what you have to offer, and *trusts* you to act in the mutual interest.

Scores of studies of alliances have highlighted the critical importance of trust in producing successful outcomes. Unlike acquisitions, over the last two decades the success rate of alliances has increased considerably,[47] primarily because of a concerted effort on the part of the profession to continually improve its practices and understandings of the intricate dynamics. Many alliance professionals regularly achieve 75-80% success rates. What has caused this increase? It is attributed to those who use 'best practices' which emphasize trust building, mutual win-win, cultural sensitivity, and embracing diversity as a source of innovation, along with strategic alignment and operational excellence.

Alliances join "differentials" in capabilities and thinking, and thus are excellent vehicles for of innovation that push the limits of possibility – but only when trust enables co-creation.

***Bottom Line***: Synergy is the 'holy grail' of both acquisitions and alliances. Without trust, the quest for synergy will be met with frustration and failure.

***Senior Executive Analysis***: If we increased trust just 10%, what would be the % or $ impact on
our Alliances & Acquisitions?

## VALUE/SUPPLY CHAIN ADVANTAGES

Most companies think of their supply chain as the backwater of their business; a place where suppliers (all-too-often called 'vendors' in a demeaning manner) can be manipulated and squeezed at will to gain concessions and played off against each other.

These tactics are foolish, particularly if a company makes products, and the supply chain consumes a large portion of corporate expenses. Case in point:

Most product-oriented companies spend between 40-70% of their corporate expenses on supply chain,[48] but fail to consider the function 'strategic' to their business. Typically only a mere 3-8% of all their suppliers account for 80% of the supply spend – it's in that small percentage of suppliers that are the bulk of their strategic suppliers who should be delivering innovation.

More importantly, a company's supply chain is just the 'external' part of a 'value chain' that includes 'internal' functions, such as Engineering, R&D, Operations, Marketing/Sales and

| |
|---|
| Suppliers ↔ Engineering ↔ Operations ↔ Marketing/Sales ↔ Product/Service Delivery ↔ Customers |

Product/Service delivery. Each function is designed to make value-added transformations in the work flow. In the value chain framework, it's critical to enhance and accelerate the interactive flow of ideas, innovation, information and emerging needs -- unimpeded by distrust.

***Bottom Line***: Competitive advantage is created not just by lower costs, but also by innovation flows through the entire value chain, which are facilitated and amplified by trust.

## Auto Industry Case[49]

To illustrate how high-trust value chains can generate value, the following case examines the impact of trust in the auto industry:

Today, most cars are assembled from components (typically 70-80% of an auto's content, such as seats, wheels, radios, and tires provided by outside suppliers.) The remaining components(such as engines and transmissions) are made by the manufacturer, who then completes the final assembly.

Historically Detroit's Big Three – GM, Ford, and Chrysler – bludgeoned their suppliers, using adversarial, short -sighted relationships with their key suppliers. It saved money in the short run, but at the at the expense of consumer value who received poor quality cars; and the suppliers were financially weakened .

As the Japanese manufacturers – Toyota, Honda, and then Nissan –based their supply chain strategy on trust: high levels of cooperation, respect, mutual sharing of ideas, continuous innovation, and a willingness to share in the cost savings those new ideas would bring. The Japanese manufacturers saw suppliers as critical partners in the whole chain of value creation. An annual automotive study in 2004[50] sent emergency signals unequivocally:

U.S. suppliers … are shifting their loyalties – and resources (capital and R&D expenditures, service and support) – to their Japanese customers at the expense of the domestic Big Three.

US automakers have little regard for their suppliers, they communicate very poorly and they generally treat suppliers as adversaries rather than trusted partners. In all the other industries studied such as aerospace, electronics, and computers, no one treats their suppliers as poorly as the US automakers do.

The greater the trust between buyer and supplier, the more suppliers are willing share and invest in new technology, and provide higher quality goods and higher levels of service, which lead to greater competitive advantage and market share.

In the five year period between 2004-2008, the Big Three collectively lost over $100 billion, while their Japanese competitors were all profitable. Jeffery Dyer of the School of Business at Brigham Young University investigated transaction costs and information sharing in a sample of 344 supplier-automaker exchange relationships in the United States, Japan, and Korea.[51] He found trustworthiness was an important source of competitive advantage,

"Trustworthiness reduced transaction costs and is correlated with greater information sharing in supplier-buyer relationships. The cost disparity between the highest and lowest trust competitors was extreme, with the low trust relationships producing procurement (transaction) costs that were almost six times higher for the least trusted automaker, thereby improving the profitability of the most trusted company."

***Bottom Line***: Dyer concluded that current thinking about transaction costs is restrictive, focusing "almost completely on *cost minimizing* rather than *value creation*."

"By comparison, trust not only minimizes transaction costs, but also appears to have a mutually causal relationship with information sharing that also creates value in the exchange relationship..[thus making] … trust unique as a governance mechanism because the investments that trading partners make to build trust often simultaneously create economic value (beyond minimizing transaction costs) in the exchange relationship."

### *Alberta Supply Chain Simulation Case*

Is this auto industry example unique? To test and teach the impact of trust on procurement managers' ability to produce innovative solutions, Productivity Alberta[52] designed a realistic simulation[53] of a five tiered buying scenario in which an End Customer places an order to a Wholesale Distributor who, in turn places an order to an Assembler who then orders from a Component Manufacturer who then orders Materials from the last supplier in the chain. The computer-based simulation, based on real data from industry, has been run scores of times with experienced procurement personnel – over 500 people.

In the first scenario, the buying process through the supply chain is done with the traditional transactional 'three bids and a buy' approach where low bidder gets the supply contract. In this scenario, none of the suppliers can talk to each other, they just blindly engage in placing an order, a generating a bid, a confirmation, and purchase order, straight down the line (a 'serial chain').

In the final scenario, managers from each member of the chain are instructed to operate collaboratively, acting in a trustworthy manner, charging a fair price, sharing information with all members (which enables the suppliers to act as an 'integrated network') to solve bottlenecks, better predict demand, and ensure having only the 'right/just-in-time' inventory.

The difference in performance between the 'transactionary chain using the three-bids-and-a-buy' approach (the baseline) compared to the 'integrated network using collaboration' is extraordinary:

Fulfillment rates nearly double from ~50% to ~95%,

More than half the teams were able to reduce costs of inventory and transportation by more than 90% ,

***Bottom Line***: The economic value of trust enables collaborative innovation to make it possible for a 'value network'[54] to produce extremely powerful results – lower costs, faster speed, innovative solutions, more accurate forecasting, and very high customer satisfaction; while ensuring each supplier makes a fair profit..

***Senior Executive Analysis***: If we increased trust just 10%, what would be the % or $ impact on
Supply, Procurement, and Outsourcing?

## HUMAN RESOURCE ADVANTAGES & IMPACTS

Employee 'engagement' and employee 'participation' are hallmarks of 'high-trust' cultures. In the high-trust companies, people and the HR Department are considered a strategic asset. In low-trust cultures employees are considered a 'liability,' 'cost-center,' or 'replaceable parts.'

### *Employee Engagement*

In an insightful essay -- the "Business Case for Trust"—authors Barbara Kimmel and Charles Green,[55] state that disengagement occurs when people put in just enough effort to avoid getting fired but don't contribute their talent, creativity, energy or passion. In economic terms, they under-perform. The problem is serious:

- Gallup Polls research[56] finds 71% of U.S. workers as either not engaged or actively disengaged.
- The price tag of disengagement is $350 billion a year[57]. That roughly approximates the annual combined revenue of Apple, General Motors and General Electric.
- According to *The Economist*, 84 % of senior leaders say disengaged employees are considered one of the biggest threats facing their business. However, only 12 % of them reported doing anything about this problem.[58]

Kimmel and Green go on to ask: *What does disengagement have to do with trust?* Everything. In a Deloitte ethics and workplace survey[59], the number one reason given for employees planning to seek a new job was:

- A loss of *trust* in their employer based on decisions made during the Great Recession (48 %), followed by the next two reasons (which are also *trust issues*)
- A lack of *transparency* in leadership communication (46 %);
- *Unfair* or *unethical* treatment by employers over the last 18 to 24 months (40 %).

***Bottom Line*:** Trust keeps employees engaged, creative and productive. Lack of trust drives away the best employees, or in many cases causes them to be asleep on the job. Poor trust leads to poor productivity.

Gallup has conducted a Meta-Analysis[60] of hundreds of companies, millions of employees and numerous studies on the relationship between employee engagement and performance. Comparing the top half of companies on employee engagement with the bottom half, they found those that emphasized people had, on average:

- 56% higher success rate on customer loyalty metrics
- 44% higher success rate on turnover (lower probability of turnover)
- 38% higher success rate on productivity outcomes

- 27% higher success rate on profitability
- 44% higher success rate on safety (lower probability of injuries or lost workdays)

***Bottom Line***: Trust enables Employee Engagement which increases productivity and profit.

## *Employee Retention*

University of British Columbia Economist John Helliwell[61] has conducted extensive research to correlate trust, well-being, and hard-core economic value. He and his team have surveyed nearly 30,000 people across the United States and Canada; his findings are quite revealing and have important implications on employee engagement and retention:

- A 10% increase in trust in management is equivalent to more than a 30% increase in monetary income in terms of one's sense of well-being.
- Out of all the factors contributing to a strong sense of well-being (including neighborhood factors), work-place factors -- such as trust in co-workers -- was by far the most influential.

Stated another way:

High trust is essential to the sense of well-being workers receive; it:

- keeps them engaged, and
- diminishes their desire to seek jobs elsewhere.

***Bottom Line***: From our experience with scores of companies and anecdotal evidence, high trust companies have annual employee retention rates between 1-3%, and absenteeism rates of 3% or less. Companies with higher rates should pay attention to the trust issue – every percent turnover and absenteeism is costly.

## *Turnover and the Cost of Employee Replacement*

***Direct Costs***: Economists Heather Boushey and Sarah Jane Glynn[62] researched thirty case studies taken from the 11 most-relevant research papers on the costs of employee turnover and found that direct-costs for replacement amount to about one-fifth of a worker's salary. Moreover about one-fifth (20%) of workers voluntarily leave their job each year and an additional one-sixth (18%) are fired or otherwise let go involuntarily (total 38%).

"For businesses that experience high levels of turnover, this can add up to represent significant costs that can potentially be avoided."

***Indirect Costs:*** Experts agree that *direct* costs are only the tip of the iceberg when assessing the total cost of employee turnover. *Indirect* costs are substantially greater, comprising of: interviewer's time and salary, training time and trainer's salary, and, often the most important, lost productivity due to lack of deep knowledge of the way the business really works, needing to gain systems and process experience, and build customer and team relationships.

Depending upon the study, indirect costs are pegged at between of $7,000 – $10,000 per employee on the low side to 30%-150% of the employee's salary on the high side.

Some industries have exceedingly high turnover rates. For example, 37 % of hotel/motel and food services employees voluntarily quit a job in 2011 – one of the reasons that profit margins in the food service industry are stressed. However, the exceptions prove the power of high-trust, high engagement. For example, in Fortune's *Top 100 Best Companies to Work For*,[63] only three grocery chains qualified:

Wegmans Food Markets ranks #5
(8.3% annual job growth, 44,000 employees,)
Fortune's Assessment: Turnover is an exceptionally low 3.6%. Many workers like it there so much they bring in relatives—one in five employees are related.

Whole Foods ranks #71
(7.2% annual job growth, 64,000 employees)
Fortune's Assessment: This pioneering natural-foods grocer is all about transparency: Employees can vote on new hires, go on field trips to meet suppliers, and are able to see everyone's salary.

Publix ranks #77
(.7% annual job growth, 151,000 employees)
Fortune's Assessment: The chain of more than 1,000 supermarkets in five Southeastern states boasts low full-time turnover of 3.2%—unheard of in the grocery industry.

***Bottom Line***: Employee turnover is expensive; and the productivity losses of high turnover can be staggering. Small improvements in this category can have large impacts on profits.

## *Employee Engagement, Ownership & Profit Sharing*

It's perhaps no coincidence that high trust companies have a high propensity to share the rewards of their efforts with investors *and* employees in the form of ownership and/or profit sharing. An analysis of 26 econo-metric studies of High Performance Systems by economist Jeffrey Kling[64] found that:

"Productivity was generally 3 to 5 % higher in firms with profit sharing plans than in those without. Firms implementing profit sharing showed similar gains after adaptation[65]…… A study of 112 companies that use IMPROSHARE [gain sharing in which workers are paid bonuses equal to one-half of any increase in productivity] showed that [both] defect and downtime rates fell 23 % in the first year, and the overall increase in productivity was more than 5% in the first 3 months, and totaled more than 15% by the third year (in comparison, productivity increased by an average of roughly 6% over 3 years the manufacturing industries of which the firms were part.[66]"

Southwest Airlines, Proctor and Gamble, and Publix Grocery are sterling examples with sustained, excellent financial performance that employ ESOP's and profit-sharing practices.[67] These are some of the most successful and profitable businesses in America, having sustained their competitive year after year. Over the last two decades, Employee-Owned companies have outperformed the standard stock indexes. [68]They thrive on trust, which enables them be more adaptable, flexible, and innovative.

***Bottom Line***: Sharing rewards (equity or profit) with employees increases trust.[69]

***Senior Executive Analysis***: If we increased trust just 10%, what would be the % or $ impact on
Employee Innovation, Engagement, Retention, Stress Reduction, or Productivity?

## *Workplace Trust & Return On Investment*

What is the biggest factor in a person's well-being? This question was posed by John Helliwell of the University of British Columbia Economics Department. He and his team conducted several studies between 2001 and 2010, and analyzed nearly 30,000 survey responses across the United States and Canada. He found that, surprisingly, it was neither money nor education that produced the highest well-being ratings.

> *"Workplace trust is one of the most important [factors] in explaining well-being, across groups of populations, across surveys, and across countries."*

He also observed that significant trust in workplace colleagues carried over into personal friendships and close relationships with these same people outside of work, and in the community in general, stating:

> *"Without trust, people are loath to reach out, and to make the social connections that underpin any collaborative action." He concluded stating simply: "Trust improves health and saves lives."*

Helliwell's findings also noted a difference between men and women:

> *"Women are significantly more trusting of their co-workers [than men] …. attaching higher values to workplace trust and choosing workplaces marked by higher trust ….but are less likely to place trust in strangers."*

Helliwell's other conclusions were quite revealing, and some might be considered astonishing:

> *"Our results show that those who feel themselves to be living in a trustworthy environment have much higher levels of subjective well-being.*
>
> *"Household income does not appear in the trust equations, since it was found to have no significant effects."*
>
> *Having high trust in co-workers, which we find to be the largest of all the specific directional trust measures, is associated with 7.6% higher life satisfaction.*
>
> *This is followed trust in neighbors (5%), confidence in police (3%), and a belief that a stranger would return your lost wallet (2.5%).*
>
> *How much higher life satisfaction is for those who have high levels of trust in all these life domains? The answer is more than 18%.*
>
> *After trust, the highest correlations to well-being were good health and a belief in God.*
>
> *Increasing trust in management by just one point higher on a ten-point scale has the equivalent effect on life satisfaction as a 40% increase in income.* [70]

## Conclusion

If your company has low trust, it probably has high absenteeism, high turnover, a bad attitude, labor strife, unhealthy workers, and poor performance.

Just improving trust by a factor of ten percent would remedy many of the ills of the company, increase profitability, and provide as much increase in people's overall life satisfaction as a

40% pay raise. Where absenteeism and turnover is above the 3-5% norm, look for distrust to be the culprit.

Creating a culture of trust may have the most powerful returns on investment.

## Impact on Health & Wellbeing

It's been proven in study after study that stress has a highly detrimental impact on health and well being.

Stress is the emotional and physical strain caused by our response to pressures from the outside world or seemingly being out of our control.

### Causes of Stress

There are two basic causes of stress: *Fear* and *Loss.*

*Loss* includes things such as:

- loss of a Loved One (death, grieving),
- loss of Financial Security (bankruptcy, job loss),
- loss of Home (foreclosure, moving, hurricane), or
- Major Disruption (divorce, parents in ill health, child being arrested).

*Fear* manifests where there is some threat of harm or conflict, whether:

- *Physical* (such as a fistfight, being raped, or robbed or attacked by a deadly weapon) or
- *Psychological* (such as heated arguments or verbal abuse or increased competition among co-workers who fear a layoff).

*Fear* is typically accompanied by *Anxiety* and *Distress*:

ANXIETY is the *anticipation* of being harmed in the *future*,

FEAR is the *anticipation* of being harmed in the *present*.

DISTRESS is the awareness of *actually being harmed* at this *particular moment.*

Lumped together, these forms of *Fear* and *Loss* are termed "*Stress*."

If the *Fear* or *Loss* is related to *other humans* (not natural causes), then *Distrust* is at play. Distrust is not benign; it not only causes economic damage, it can wreak havoc on one's health. (Later we'll show how.)

### *Fear Can Kill*

For example, the theory that fear alone can kill people is backed by compelling evidence from a study of deaths following the 1994 Los Angeles earthquake. Dr Robert Kloner, a cardiologist at the Good Samaritan Hospital in Los Angeles, analyzed the records of the Los Angeles County Coroner's Department for the week before the earthquake, the day of the earthquake and corresponding control periods in 1991, 1992 and 1993.

His team found that on the day of the quake, the coroner recorded five times more sudden cardiac deaths than would ordinarily be expected. None of the deaths were related to people having a heart attack from over exertion as they dug themselves out of the rubble. Dr Kloner said: "The typical story was that a patient clutched his chest, described chest pain, and dropped over dead."

Other research has shown that chronic anxiety may increase the risk of sudden cardiac death, and that even low-to-moderate levels of anxiety may be capable of increasing that risk. A 2008 report from the Archives of General Psychiatry examined more than 2,700 Americans before and after the terrorist attacks of September 11th, 2001. For the next several years after the attacks the scientists monitored the impact of people's fears of terrorism. They found that the most fearful people— about 6 percent of the sample – were three to five times more likely than the rest to receive diagnoses of new cardiovascular ailments.

### *Not all stress is bad; Stress is Not Created Equal*

A little stress can do us good—it pushes us to compete and innovate. And the type of emotional stress one experiences makes a very large difference.

Many professions, such as business executives, doctors, police, and firefighters live in high-stress environments, and there is no evidence that they have higher rates of cancer, heart disease, or stroke. But when the effects of job-related stress were measured, researchers found that those people who were unable to exert much control over their workplace destinies (clerks, secretaries, low-level factory workers, for example) suffered much worse from stress than their bosses.

Why? Because those who respond well to stress believe they have reasonable control over their lives and the lives of others. These people believe they are able to solve most of their problems. They don't feel helpless in dealing with their problems in life. They affirm that what happens to them in the future depends mainly on their own abilities; and they can do just about anything they really set my mind to do.

People who answer positively to questions about being in control of their destinies report very strong satisfaction with life. Giving a person some sense of control over their own destiny evidently turns job related stress into something that's exhilarating rather than debilitating.

It's when people don't feel like they have any control over their outcome, or they're victims of an ugly fate, or that life has no meaning or purpose, that stress becomes mentally depressing, and can then turn deadly.

### *Impact of Stress on Personal Health*

The after-effects on health caused by stress have been studied extensively by the medical profession.

Stress often triggers major physical reactions, including tension, irritability, inability to concentrate, poor decision making, and anxiety, along with a variety of physical symptoms that include headache and a fast heartbeat.

If the stress is prolonged, serious physical effects then damage the immune system, resulting in disease. (This occurs because continued stress produces a never-ending release of hormones that, while good in the short run to defend against danger, ultimately turn destructive against the immune system.) Stress has been directly attributed as a major causative factor in fatalities from heart disease, and stroke, as well as suicides, auto fatalities, headaches, diarrhea, absenteeism, and increased illness, and the ability to recover from cancer. According to the American Academy of Family Physicians, *two-thirds of office visits to family doctors are for stress-related symptoms. (*Other physicians claim this percentage is actually closer to 70-80%.) The economic cost in terms of both lost productivity and additional healthcare demands is extraordinary.

### *Trusting Attitudes and Beliefs Saves Lives*

Trust can play an important role in such matters of life and death.

There is a strong case to be made that people who are capable of building trusting relationships have more supportive people in their lives who will come to their aid in times of adversity. These relationships make a big difference in mortality. According to one study, middle-aged men under severe stress who lacked emotional support were five times more likely to die within seven years than those who had the same amount of stress but had close personal ties.

People who are trusting tend to be optimistic, and those who distrust tend to be pessimistic. What difference does that make? Optimists live longer, healthier lives than pessimists.

Researchers at University of Pittsburgh, led Dr. Hilary Tindle, examined the death rates and chronic health conditions among participants of the Women's Health Initiative study, which tracked more than 100,000 women ages 50 and over for fifteen years, since 1994.

Women who were optimistic were 14 percent less likely to die from any cause than pessimists and 30 percent less likely to die from heart disease after eight years of follow up in the study. Optimists also were also less likely to have high blood pressure, diabetes or smoke cigarettes.

Other studies have shown that people who go to church regularly or believe in God live three years longer and report higher levels of well-being. Researchers have also found that married persons have higher well-being scores than divorced ones. . Higher levels of trust are associated with lower national suicide rates.

Clearly, the role of trust in the health and well-being of our society is enormous. It certainly points to the conclusion that creating trust should be a vital component of our educational system, and a priority in our workplaces.

Trust, per se, is not the goal.
Trust is the foundation for the real goal: high performance.

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

### *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 30-40% 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**

# Chapter 3. How Trust Generates Economic Advantage

Exactly how does trust produce such enormous economic and competitive advantage? To help understand this, my colleague, Gary Loblick, who is a senior turnaround executive, innovator, and creator of “collaborative lean management” looked deeply into a on-going lean management programs[71] our team was undertaking in the manufacturing and service sectors.

## The Essence of Non-Value Added Work

In lean production systems pioneered by Toyota and then Honda, one of the primary objectives is to remove “Non-Value Added” (NVA)[72] work, such as wasted time moving parts from one location to another, or redundancies, or paperwork – many of the factors considered in “total cost of ownership.” Most of this “extra work” evolves over time because people, teams, departments, divisions, customers, and suppliers don’t cooperate, trust, or respect each other. This manifests as too many reports, too many cross-checks, too much redundancy, too few face-to-face problem solving meetings, too much fear of failure, and poor communications.

For example, one company I decided not to work with was an electrical and electronics distributor in New Hampshire. When meeting with the company's president, I asked him about the organizational chart. One the right side of the chart was the Marketing Division, on the opposite side of the chart was the Sales Division. I asked why Marketing and Sales were on different ends of the chart, as it was essential for these to functions to work hand-in-glove. The president responded "Oh the Marketing VP and the Sales VP just don't get along; they haven't for years. I make sure the important information gets to the right people." Distrust was killing the company, and they were paying a hefty price. When I told the president that I couldn't create a set of strategic alliances that would put other companies square in the middle of his company's civil war, he shrugged and said he wasn't willing to disrupt the status quo, no matter how dysfunctional it was.

Distrust creates adverse dynamics in organizations. With "transactional trust" (neutral trust), Non-Value Added builds because the linkage within and between organizations is not highly integrated. As one progresses down into the Tornado of Distrust (see Chapter 3) the proliferation of Non-Value Added escalates in the zone of Fuzzy Distrust, where ambiguity and uncertainty prevail.

## Value Destroyers

Then, as one spins into the vortex of the Tornado, Non-Value Added turns bitter and ugly, and even evil. "Value Destroyers" start emerging, such as absenteeism, and labor grievances. Left unchecked, the vicious cycle feeds on itself as former team mates now become bitter rivals.

Subversion, lose-lose behavior, and the blame-game become normative. One only has to observe the behavior of Republicans versus Democrats in Congress or any major labor strike or any war to see Value Destroyers crippling both sides, wreaking damage to the physical and mental condition of everyone.  Don't think of NVA as "benign parasites," but as "deadly viruses" that could, unchecked, blow an organization apart.

To understand Value Destroyer and how they differ from NVA, let's look at four key areas for winning in an organization:

- Time,
- Human Energy
- Direction & Alignment
- Communications

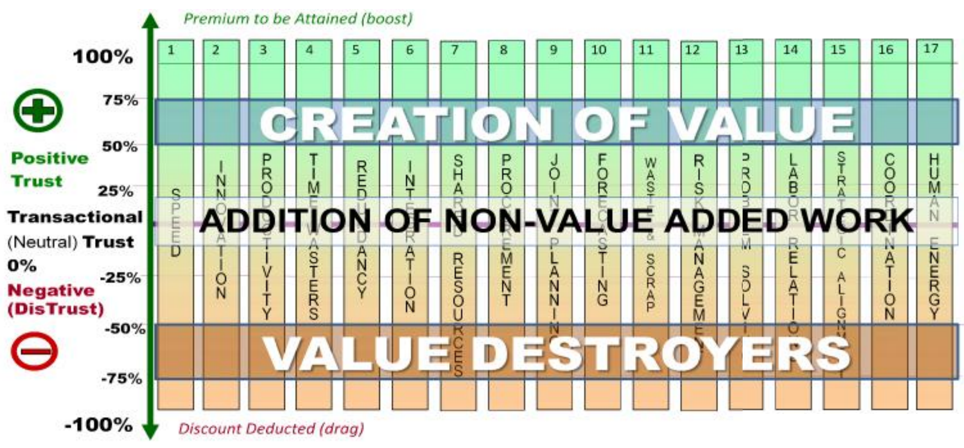



Figure 6 Trust, Value Creation, NVA, & Value Destroyers

In each of these situations, we will look at Value Destruction and Distrust, compared with Value Creation and Trust.

First, **Time**:

Condition: *Distrust*

Destructive Time is when people use their time to protect, argue, or fight

Condition: *Trust*

Time is used to understand, communicate productively, learn, understand, and find ways of being productive, learn, or create. Synchronicity is normal.

Second, **Human Energy**:

Condition: *Distrust*

Destructive Energy is conflictive, vindictive, confused, or depressed, goals is to avoid fear or attack with more greater aggression

Condition: *Trust*

Positive Energy is harmonious, enthusiastic, innovative, or synergistic

Third, **Direction & Alignment**

Condition: *Distrust*

Destructive Direction(s) –Misalign, lose-lose, subsystems working in opposition

Condition: *Trust*

Integrated, coordinated, and aligned direction – win-win, collaborative innovation

Fourth, **Communications**

Condition: *Distrust:*

Malicious, Deceptive, Blame-oriented fostering non/faulty communications

Condition: *Trust*

Interactive/real time communications of information, useful knowledge, wisdom, insight, & compassion

***Bottom Line***: The shift from Value Destruction to Value Creation can be dramatic and fast. Here's what Gordon Bethune, Chairman & CEO of Continental Airlines said to his shareholders in 1998[73]:

"Working together is the major difference between a dysfunctional airline with a $175 million market value in 1995 and a two-time J.D. Power Award winner with more than a $4billion market value today@

" We treat each other with the dignity and respect each member of this championship team deserves. We communicate openly and honestly, and we listen to each other."

## THE POWER OF VALUE CHAINS

A value chain is a series of suppliers and customers. Each supplier adds some value, then passes on the transformed goods or services to a customer. The final customer is often the "consumer."

Historically, especially in the absence of trust, buyers and sellers (vendors) act as distinctly separate business entities, typically governed by complex rules and contracts. For example, in the outsourcing of Procter & Gamble's Information System to Hewlett Packard, the negotiations went on for months, and the result was a difficult 1500 page contract filled with legal jargon, penalties, and procedures.

Because the companies see themselves as separate and independent, they typically act in their sole interest, regardless of the impact on the supplier or customer. Bargaining is the norm between buyer and seller, all looking to maximize profit for themselves, the other party be damned. Seldom does innovation or streamlining of the entire chain ever occur. Distrust among companies in the chain keeps each company as its own fiefdom, seldom willing to share strategies and information that would enable the entire chain to be extremely competitive.

In Toyota's battle against the Big Three Detroit auto manufacturers, the Japanese saw the competitive battle as the battle of value chains – from suppliers to manufacturers to dealers – every member of the chain should be collaborative and a value creator. Thus the entire Toyota value chain would outperform the GM, Ford, or Chrysler chains, which were all highly adversarial.

*The Big Three made the mistake of trying to cost-cut their way to prosperity.*

By designing the relationship with suppliers and dealers as trusting and collaborative, the Toyota chain produced and sold better cars more profitably, grabbing market share along the way. The fundamental difference was the Japanese saw suppliers and dealers as value creators, doing a better job at everything: Design, Innovation, Marketing, Supplier Relationships, Customer Service.; while the Big Three made the mistake of trying to cost-cut their way to prosperity.

Organizationally, the Big Three turned their value chains into medieval fiefdoms: lots of little empires, turf battles, and silos, both internally and externally.

> General Motors Executive Vice President William E. Hoglund, stated that that the world's largest automaker is still struggling to find its way, because the "major obstacle has been the inability to eliminate the old GM culture that pitted one department against another, often at the expense of the company as a whole. The new management has been trying to replace that system with teamwork.
>
> "We still haven't gotten the message down through the ranks." [74]

The internal fiefdoms engaged in power struggles that defeated General Motors. The now defunct Oldsmobile division was a good example. Ten years before its demise, the struggling Oldsmobile division's general manager John Rock stated:

> "GM and Oldsmobilie still are working to change the attitude of many middle managers ...many of them are from the old command and control school" and are unwilling to give up their traditional areas of power within the corporation." [75]

Obviously the effort to create cooperation, trust, and teamwork inside the unit failed, and Oldsmobile ceased operations in 2004, after 107 years in existence, the oldest marque among American car companies. Efforts to extort price cuts from suppliers, who produced 60-70% of the components that went into the car, could not save the company from clandestine, a cloak and dagger games inside the castle walls. It was a culture befitting Machiavelli's medieval world.

Rather than endure such painful interaction with GM, many suppliers simply moved out of the industry, to other industries where the margins were more sustainable. Still others just closed their businesses, seeing no future in a business where their competitors were no better than cut-throat pirates. By 2007 the Wall Street Journal reported 500 auto industry suppliers annually closing their doors.

On the other hand, Toyota and Honda saw their suppliers as part of a family, a group of trusted affiliates and alliance partners that were to be trusted and engaged to add value at every step of the way, every year increasing the value created.


**Figure 7: Value Chain Configuration – Three Basic Options**


Figure 7: Value Chain Configuration – Three Basic Optionsprovides a framework for the three basic options one has in creating a relationships with suppliers and customers.

This is especially important, and often overlooked because 100% of revenues come from customers, and, in product-

> My neighbor, Kenny, is a real classic hot-rod enthusiast, with a great collection of muscle cars. He tells the story of his first car he modified years ago: a 1940 Ford with an old flat head engine. He pulled out the engine, installing a fire-breathing, stroked and bored Pontiac engine with a big four-barrel carburetor. Then put in a Hurst four-speed transmission, along with oversized tires. His creation blew the socks off other cars, but every ten days the old Ford differential broke down. Kenny created a monster but did not focus on the entire Power Train – the differential was the weakest link. Similarly, we need to look at the entire Value Chain When we look to create competitive advantage.

centered companies, typically 40-70% of expenses come from suppliers. If the relationship is adversarial and distrustful (discussed in Chapter 5), then the costs of doing business (non-value added work) will increase dramatically; and the competitive advantage of the chain will be diminished. The objective is not to maximize profit for each individual company, resulting in fiefdoms. The objective is to create a value chain that is *the best at every step in value creation* – that's a winning strategy.

What's equally important to understand is that changing the relationship in a value chain from adversarial to collaborative actually changes the configuration of the chain from a linear, serial arrangement to a network of players all of whom are communicating, solving problems, and innovating.

## *Value Creation versus Value Exchange*

The analysis of the economic impact of trust at the individual and organizational level is compelling, as the preceding examples demonstrate. But what is the economic impact of trust across organizations, specifically across supply chains? Can this be quantified and tested in an objective way?

To address this question, our firm's Canadian division, The Winslow Group, under contract with Productivity Alberta, designed a supply chain management simulation to test how collaboration and trust impacts an entire supply chain.

## *Value Chain's Economic Impact Simulation*

Based on real supply data from real companies, the simulation was based on companies who supply the oil and gas industry, which is booming in Alberta.[76] Inefficient supply chains are reducing efficiency, increasing cycle-times for construction, and lowering innovation. Our experience showed massive levels of Non-Value Added work in supply chains, often exceeding 90 percent. Understanding how to maximize flow through the chain and reduce Non-Value Added work could have significant economic impact on a region.

The Supply Chain Simulation is a real simulation based on real data from the metal fabrication industry. Teams use their computers to make decisions on ordering, pricing, lead-times, inventory, and fulfillment.

Starting with an end-use customer in the oil fields who places an order for industrial equipment, the order first goes to an industrial distributor, who then sends the equipment order to an equipment product assembler, who, in turn, orders components from a manufacturer, who, then in turn orders core materials for the production to begin.

For the purpose of the base line, the supply chain has only about 50% of the stock of components and materials in the chain needed to fulfill the order.

Then the fun begins. Real procurement managers and clerks from real companies participate in the simulation, so we don't get anyone trying to use academic theory in the game.

Three different phases of the simulation are run:

- TRANSACTIONAL Phase: This is a traditional blind purchase process where each company looks to optimize its own performance. This is popularly known as the "3-bids and a buy" scenario –- send out a request for a bid to three competitors, the buyer keeps his cards close to his chest, and the low bidder (assuming equal quality and logistics.)

  In the Transactional Phase, none of the members of the supply chain talk to each other because they are all in a competitive bidding war and see each other as the "enemy." This method causes the players to run blind, but, at least in theory, the buyer will use the competitive bidding process to get the lowest cost.

- TRANSPARENT Phase: In this phase, each of the members of the supply chain are given complete visibility into the supply status, including inventory on hand and pricing.

  Thus along the entire supply chain each participant sees the inventory and procurement status for each member of the supply chain and acts accordingly. At no time, however, are any of the members allowed to talk to other members in the chain. Thus there is no real communications, no cooperation, no collusion, and no trust.

- COLLABORATIVE Phase: This phase takes a very different course. The participants are told to create a win-win for everyone to the largest extent possible. They work together to flow material through the supply chain as rapidly as possible to support the final customer, while making a reasonable profit themselves.

  In this collaborative environment, the participants are encouraged to work as a team across their corporate boundaries, making decisions to optimize the results for the end-use customer. Everyone gets to make a "fair" profit, and the objective is to be sure the final customer is truly satisfied so the end-use customer doesn't desert the chain and start doing business with another group of competitors.

## *Surprising Value Chain Simulation Results*

Before starting the simulation, we expected that the Transactional Phase would produce low prices, mediocre inventory management, and slow fulfillment rates. Based on what everyone has said about the importance and benefits of *transparency,* we expected that the Transparent Phase would produce significantly better results, and those results would get even better in the Collaborative Phase.

However, people don't always behave according to theories. Almost immediately we began seeing anomalies. (see Figure 8: Comparison of Results from Supply Chain Simulation)

| | 1. Traditional BLIND PURCHASE Model (no TRANSPARENCY, NO COLLABORATION) | 2. TRANSPARENCY (without COLLABORATION) along Supply Chain | 3. COLLABORATION with TRANSPARENCY along Supply Chain |
|---|---|---|---|
| Average Order Fill Rates | 50% to 60% | 40% to 55% | 85% to 100% |
| Average Cost to Run the Entire Chain | $63,064 | $122,891 | $12,512 |

**Figure 8: Comparison of Results from Supply Chain Simulation**

We expected to see both Fulfillment Rates and Costs to Run the Entire Chain to drop by a significant level as we progressed through the phases. Conventional literature says that transparency is good and creates higher levels of trust.

But, in fact, the benefits of Transparency were mixed at best. While the averages in Figure 8 show that Transparency dropped the Fulfillment Rates (by 5-10%), and Costs to Run the Chain doubled, (from $63,000 to $123,000), a deeper analysis of the performance data revealed a more insightful understanding of human behavior. (see Figure 9)

| Scores -- Transparency Phase: Visibility Along the Supply Chain without Collaboration | |
|---|---|
| Significantly Improved (25% +) | 30% |
| Showed Minor Improvement (5-10% +) | 20% |
| Worsened Significantly (50-200% -) | 50% |

Figure 9: Analysis of Transparency Phase Performance

Averages can be quite deceiving, as the Analysis of the Transparency Phase demonstrates. (

| Scores -- Transparency Phase: Visibility Along the Supply Chain without Collaboration | |
|---|---|
| Significantly Improved (25% +) | 30% |
| Showed Minor Improvement (5-10% +) | 20% |
| Worsened Significantly (50-200% -) | 50% |

Figure 9) About half the teams actually found benefit from transparency, with 30% showing significant improvement of 25% or more, and 20% showing incremental benefit of 5-10%, But on the contrary side, the other half of the participants showed major declines in performance, from 50-200% worse.

We asked many of the participants who fared poorly during the Transparency Phase as to why they did worse when more became visible to them. Typically their answers followed three patterns:

- Transparency creates greater Complexity, Ambiguity, and Uncertainty
- Transparency creates the opportunity to "Game" the system
- Transparency without communication or cooperation increases *Distrust*[77]

Ultimately, the game was won by those who worked together for the greater good of the whole, who, in the spirit of teamwork and trust, used their skills to come up with the best solution for all. (see Figure 8: Comparison of Results from Supply Chain Simulation) The average team was able to reduce the Costs Of Running The Supply Chain by 80% (from $63,000 to $12,500) and increase Fulfillment Rates by 75-80%. Unquestionably, these performance improvement are powerful testimony to the economic value of trust.

But a simulation, while having "scientific" validity, is not the same thing as the real thing. Does the power of collaboration in supply chains work in the real world? From our experience in the Alberta supply chains, using the trust frameworks we taught to the participants, they reported massive improvements in the field, and sustained profitability performance. Yet this anecdotal evidence is not enough to prove the case.

## *Myopia of Transactional Analysis*

The U.S. auto industry collapsed in 2008, with GM and Chrysler declaring bankruptcy, and Ford nearly avoiding it. Taxpayers bailed out these venerable, bankrupt companies. But the problem was brewing for twenty years, and the collective losses of the Big Three were in excess of $100 billion dollars leading up to the bailout. It's important to understand the flawed thinking that permeates much of business to understand how this problem could occur. A little history is appropriate.

Toyota and Honda (then followed by Nissan) launched major supply chain collaborations when they entered the manufacturing market in the United States in the 1980s. What Toyota did with the NUMMI employees (see Chapter 7) was essentially replicated with their U.S. based suppliers, building collaboration to foster quality and innovation.

Working with a wide variety of auto supply companies in the 1990s was very revealing. Most auto suppliers provided parts for General Motors, Ford, Chrysler. Some were qualified as outsourcers for Honda or Toyota. For those that supplied both US and Japanese auto manufacturers, I would ask about their experiences. The worst buyer was, unquestionably GM, followed closely by Ford. Both were notorious for nickel and diming their suppliers, bullying behavior, and illegally canceling contracts or violating proprietary material of their suppliers.

At one workshop I conducted in Detroit for CEOs of auto suppliers, I asked what kind of cars they drove themselves? Universally all the CEOs said their personal cars were Japanese. I asked "why?" They all agreed: "Because we know what goes into them!" One CEO meekly raised his hand and said "We have a token GM car which we only drive to meetings with GM for fear of retaliation."

Managing supply chain relationships is quite important because 70-80% of a car is actually produced by suppliers, not by the auto manufacturer.

The lack of cooperation was extremely costly, as the Lordstown case with GM's Sunbird and Cavalier exemplifies.

## GM's Sad Cavalier & Sunbird Saga

In the early 1990's, in an effort to reduce costs, General Motors redesigned and reengineered its plant and supplier relationships to produce the second generation of Sunbirds and Cavaliers – a model which had been extremely popular, contributing about $8 Billion in revenue over the model run. Proudly boasting that the new system would save GM $2 Billion in production costs, Chief of Procurement, Ignacio Lopez was anxious to prove his hard-handed dealing with suppliers would result in renewed profits for GM.

Dealer showrooms were filled with brochures, and customers began ordering the cars. However, GM was not able to fulfill the orders, buyers became disillusioned, and bought Hondas, Toyotas, and Fords instead. In the process of trying save $2 billion, GM lost $8 billion in future revenue streams and about 2 percentage points in market share. It turned out to be the worst product launch in GM's history as this next article summarizes: (see Figure 10)

Cavalier was the nation's fourth-highest seller in 1993. But due to the Lordstown debacle, Cavalier and Sunbird sales plunged more than 30% and the models never regained their market position. In 1995, the Cavalier/Sunfire line produced half of the expected volume of vehicles.

# What Has It Cost To Open Too Late?

**By Greg Gardner** **Knight-Ridder Newspapers September 1995**

If there is a model of how General-Motors is trying to make itself more competitive, Lordstown, Ohio, would appear to be it.

GM spent nearly $1 billion to gut and retool the plant to assemble two of its most important new cars – the redesigned '95 Chevrolet Cavalier and the Pontiac Sunfire.

The cars' design was simplified to require fewer parts and allow the assembly line to be shortened. Employees agreed to rotate shifts and were trained to work under a new system that empowers them to stop production any time they see a defect.

But two months after building the first '95 Cavalier, Lordstown is more a symbol of how far GM has yet to go.

The plant's building only about 50 cars a day. It was scheduled to build 4,400 cars in September. It assembled fewer than 900.

October's production schedule initially called for it to build more than 21,000 cars, a target Lordstown won't come close to meeting.

Engineers and other GM officials say everything from the new assembly line rules to late design changes and untested suppliers has contributed to the slow start.

(continued on next page)

Figure 10: Lordstown Debacle

Lopez had run roughshod over every supplier in GM's supply base, using ignominious and illegal tactics to pressure every supplier into price cutting that left them either abandoning GM or selling to GM below their costs of production. The new suppliers were not in place by accident, it was Lopez' direct intervention in an effort to reduce parts costs.

While GM was botching its future, Toyota and Honda were

## What Has It Cost To Open Too Late? (continued)

Not only is Cavalier GM's best-selling car, it's the fourth best-selling car in America and the top-selling compact. Joseph Phillippi, a leading auto industry analyst for Lehman Bros., has called it "a monumentally important" car for GM.

When asked why Lordstown is stumbling, GM engineers and officials point to key factors:

**1)** Too many totally new suppliers who had never done business before with GM. When Jose Ignacio Lopez took over GM's purchasing business in May 1992, he rebid every parts contract in an effort to get cheaper components.

Last weekend, for example, one supplier of aluminum casters used in windshield wipers literally bailed out saying it couldn't meet the production schedule.

**2)** Too many late changes to the car's interior even though GM has repeatedly said it wants to break itself of this bad habit.

Cavalier and Sunfire planners initially wanted Prince Corp., the Holland, Mich.-based supplier, to coordinate interior development. When a similar approach on the 1992 Pontiac Grand Am, Oldsmobile Achieva and Buick Skylark proved more expensive than expected, Prince was told GM would deal with each interior supplier separately.

The Cavalier and Sunfire are GM's first cars to incorporate what the company calls a "design for manufacturing." They have 30 percent fewer parts than their '94 models they replace.

gaining ground fast. By building trust with their suppliers and treating them fairly, each grabbed a larger chunk of market share and profitability. But they didn't do it on the backs of their suppliers.

## *How Honda Won the Hearts & Trust of Suppliers*

Speaking with Honda Senior VP of Procurement, Dave Nelson, he spoke of the insights Honda had about human behavior. He said the Golden Rule prevailed – treat people with dignity and respect, don't beat up on suppliers like lowly vendors, and never play the blame game when something goes wrong.

I asked Nelson about innovation with his suppliers, and his remarks were quite insightful, (and very different from my experience with GM's Lopez):

> *"When we receive a suggestion from our suppliers, we split the savings 50/50. However, if a supplier is not making their profit numbers, we give them a larger percentage of the savings (in the short term), sometimes up to 100%. It helps them out."* [78]

Having spoken with GM suppliers who indicated that their relationships with GM were unprofitable, I asked Nelson about costs over the course of model run. He mapped the cost structure on a pad of paper using a target costing approach. (see Figure 11) He smiled and as he said that a product that cost $1.00 to manufacture had been reduced to $.58 by the end of the model run, which put over a billion dollars a year on the Honda's bottom line.

Not totally convinced that this was in the best interests of suppliers, I asked Nelson about supplier profitability over

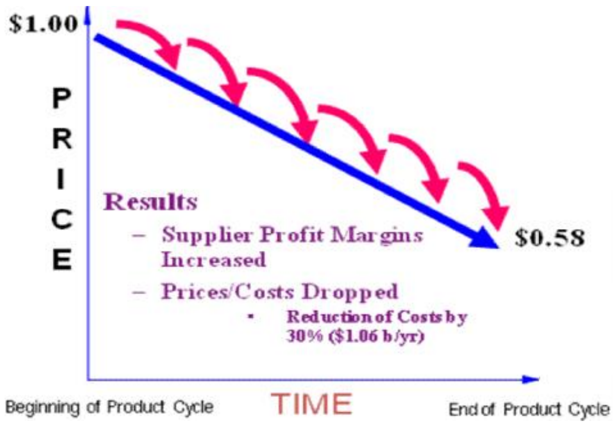



Figure 11: Cost Reductions by Honda Suppliers

the product life cycle. He assured me everyone gained by this approach. Pressing farther, I challenged him. Honda was committed to ensuring the sustainability of their supply base. "We regularly monitor the financial condition of our suppliers. I can assure you they are *more* profitable at the end of the product life cycle than at the beginning."[79]

## This requires a High Trust, High Innovation environment (See Chapter 5. Synergistic Economics

Adversarial versus Collaborative Commerce), and cannot exist in an combative, win-lose game, which will constrain the creation of value, limiting the game to value exchange at best, and value destruction at worst.

# Chapter 4. Trust Creates Wealth of Industries & Nations

## IMPACT OF TRUST ON PROFITABILITY – INDUSTRY ANALYSIS

While the Chrysler case is certainly compelling, especially because it gives a look into the power of trust to transform a company, and then be completely reversed, with adverse results.

While the examples of individual companies are revealing for their details, the question of the true competitive advantage of trust can only be addressed in the context of each of the industries those companies compete within.

Taken from another perspective, does the high trust competitor regularly produce successful results and profits?

To determine if trust really had an impact on competitiveness and financial success during the last twenty years, we took did an analysis of the industries in which our exemplary companies do business. Was the major source of competitiveness from their internal leadership approach? Specifically did a powerful approach to trust and the way leaders thought about and treated their people affect the company's competitive position in relative to their rivals? To accomplish this we needed to isolate these leadership factors from other dynamic that might affect performance. For example the telecommunications industry is highly dynamic, rapidly changing with quick product life cycles, and filled with mergers and acquisitions that throw too many variables into the mix. We found three major industries that existed relatively stable competitive environments: airlines, autos, and steel. For each of these three industries, for all the key competitors:

- Inputs are the Same
- Strategy is not a Major Differentiator
- Advanced Technology is Available for All
- Rate of Change is Reasonably Constant/Linear
- Outputs are the Same

For all three industries, these characteristics allow one to look at the impact of culture, specifically trust, on both innovation and operational performance. All three industries are quite similar in that the "inputs" into each industry are basically distributed equally to all players. (see Figure 14: Industry Analysis -- Competitive Advantage of Trust, Figure 13, Figure 14)

For example, in the airline industry, all airlines buy their planes from predominantly two or three manufacturers, use the same basic IT systems, fly out of the same airports, buy fuel from the same petroleum companies, and have the same unions.

The auto industry, in the same vein, has the same suppliers who provide 80% of the parts, build cars with the same configurations, and have similar dealerships across the land. For both industries, price competition is fierce.

In the steel industry, all steel companies have the same access to iron ore, or billets or scrap, as well as the furnace technologies to melt the steel and forge it into plate, rod, or girders.

## *Analysis of Three Industries*

In these industries, strategy plays only a very limited role, technology is equalized, change is linear, & the inputs and outputs are the same for virtually all competitors:

### *Airline Industry:*

Inputs -- All Airline Companies:

- Buy planes from the same three/four Aircraft Manufacturers
- Use the same Airports
- Have the same Unions and access to same Labor Pool
- Abide by the same Federal Regulations
- Utilize the same IT infrastructures

Outputs: All Airline Companies

- Fly Passengers and Cargo to the same Destinations
- Compete for the same sources of Revenue

Profitability:

- In the U.S. the High-Trust Culture belongs to **Southwes**t, and it has been the most consistently profitable airline
- In Canada, there are two primary airlines: Air Canada and West Jet, which modeled itself after Southwest. **West Jet** consistently outperforms Air Canada.

**Figure 12: Industry Analysis -- Competitive Advantage of Trust**

## *Analysis of Three Industries*

In these industries, strategy plays only a very limited role, technology is equalized, change is linear, & the inputs and outputs are the same for virtually all competitors:

### *Automobile Industry:*

Inputs -- All Auto Manufacturers:

- Procure 70-80% of the components of an auto from the same Supply Base
- Buy Manufacturing Equipment from the same companies
- Have the same access to Labor Pools
- Abide by the same Federal Regulations

Outputs: All Auto Manufacturers

- Produce cars and trucks with the same Basic Configurations
- Sell and service through the same types of Dealerships

Profitability:

- In the U.S. the most consistently profitable companies have been the High-Trust companies, the Japanese Manufacturers: **Toyota, Honda, Nissan, Subaru,** (and Chrysler from 1992-98)

**Figure 13: Industry Analysis -- Competitive Advantage of Trust**

## *Analysis of Three Industries*

In these industries, strategy plays only a very limited role, technology is equalized, change is linear, & the inputs and outputs are the same for virtually all competitors:

### *Steel Industry:*

Inputs -- All Steel Companies:

- Procure either Steel Billets or Scrap Iron/Steel from the same Supply Base
- Buy Steel Manufacturing Equipment from the same Suppliers
- Have the same access to Labor Pools
- Abide by the same Federal Regulations

Outputs: All Steel Companies:

- Produce with the same Basic Configurations: Plate, Sheet, Girders, Tubing, Wire, etc.
- Sell to the same Customer Base

Profitability:

- In the U.S. the most consistently profitable company has been **Nucor Steel --** the High-Trust, High Collaboration Company

**Figure 14: Industry Analysis -- Competitive Advantage of Trust**

In each of the industries, the "high trust" companies had the best track records for highly sustainable profitability and innovation. In airlines it was Southwest[80], followed by Continental (although the upcoming merger with United may change this) and in autos it was the Japanese – Toyota, Honda, and Nissan. Over the last two decades, the high trust companies a major competitive advantage.

In each of the cases of the most profitable companies in the industry segment, their innovations came not from a technology "big bang," but from literally thousands of often small improvements that impacted the overall efficiency of the company.

For example, Southwest, using collaboration, shaved time off its gate turnaround to get more efficiency out of each plane. Toyota's North American operations receives over 900,000 suggestions from its employees every year on how to improve its functioning, and implements nearly 90% of them. The trusting relationship between the Japanese OEMs and their American suppliers is one of the primary reasons supplier innovations flowed directly to the Japanese producers; while Ford, GM, and Chrysler abused their domestic suppliers with dishonorable negotiations tactics, and received few of the innovations from suppliers their Japanese rivals received.

## *Health Care Industry Analysis – Cost of Distrust*

What is the real impact on organizations when distrust prevails? I posed the question to Robert Chalice, a health care expert who specializes in using "lean" methods in hospitals. He is author of "Improving Healthcare Using Toyota Lean Production Methods.[81] We explored not just the impact on a hospital, but on the "health care system," which included providers (doctors & hospitals), patients, medicine, insurers, suppliers, and others.

***Bottom Line***: Distrust adds about 25 cents to every health care dollar.

**Question**: Why? (The answer was shocking and compelling. Here is the conversation with Robert Chalice:)

> **Answer**: Here's a quick list of where the distrust manifests as extra costs imbedded in the cost structure:

1. malpractice insurance costs,
2. insurance verification processes for patients,
3. excessive insurance underwriting,
4. any high administrative costs,
5. billing and collection processes,
6. multiple inspections,
7. quality monitoring,
8. productivity monitoring,
9. Medicare/Medicaid/insurance billing,
10. large administrative structures/staffs,
11. duplication of services among competing providers,
12. all extraneous paperwork,

Chalice elaborated,

> "All of the above are either fully or partly non--value added, compared to being seen by a doctor or other valued provider such as a nurse practitioner, physician's assistant, or therapist.
>
> "The only things that patients really want to pay for are their actual treatments like tests actually needed, surgeries. If you think about it, the perfect medical system would only do these "truly valued added activities" and nothing else. Then all the non-value added costs would disappear and could then be applied to delivering actual healthcare."

**Question**: What about the issue of defensive medicine?

> **Answer**:
>
> "That's when Doctors do more tests than needed for fear of being sued. It's a trust issue."

**Question:** How much NVA is in the Healthcare system?

> **Answer**:
>
> "It's been estimated, that if just the non-value added paperwork were removed from the US healthcare system, there would be enough money saved to pay for insurance of all US uninsured."

"In today's heated health care debate, if we could reduce distrust in the "system" we would generate enough money that is currently being wasted to pay for all Americans to have health care coverage without paying an additional tax dollar.

"Dr. Donald Berwick, director of the Center for Medicare/Medicaid Services, has publicly estimated 40% waste in healthcare, and I would concur with that based on the non-value added components. He knows what he's talking about, and it agrees with my past observations and experience.

" So there is lots of room for improvement. There's a quote in my book on Cindy Jimmerson RN who states[82] "The national numbers for waste in healthcare are between 30 and 40 percent, but the reality of what we've observed doing minute-by-minute observation over the last three years is closer to 60 percent. That's waste of time, waste of money, waste of material resources. It's nasty etc…." [83]

**Question:** What are some typical Value Destroyers?

**Answer**: Value Destroyers inject Fear into the System and trigger defensiveness, including:

- Adversarial Legal Processes
- ugly negotiations, labor turmoil, grievances
- Law suits and onerous contracts,
- too much/over control
- sabotage, withholding information, lack of response,
- silos that refuse to communicate, poor cooperation, coordination, and teamwork among different organizational structures.
- buying equipment that could have been shared
- all the mistakes/errors made in medicine that one might classify as distrust due to lack of competence
- poor morale and high employee turnover
- fraud, faulty work practices, illegitimate claims, and duplicity.

**Question**: What about the impact of Distrust that creates Non-Value Added Work

**Answer**: There are typically 7 categories we look at:

1. Overproduction: We don't trust the forecast, etc
2. Improper utilization of staff: From 1970 to 1990 there was a 5-fold increase in number of Healthcare administrators. From 1970-2000, there was a 25-fold increase [84]
3. Defects and Rework
4. Waits and Delays – queuing , lack of communications
5. Transportation: Teamster contracts, poor movement of information, lack of compatible electronic records
6. Unnecessary motion of people and equipment
7. Excess Inventory
8. Excess Processing, multiple signatures, duplicate reports

**Question**: What is the impact of Competing Healthcare Systems?

**Answer**: Watching competing healthcare providers is like watching a war between countries. They are trying to destroy each other, destroying trust in the process. There are huge duplication and cost issues. Hospitals are built that aren't needed. Both may have advanced cardiac facilities, when only one is needed in the region.

**Question**: What about fraud?

**Answer**: Medicare/Medicaid fraud is corruption that introduces a high cost to the system, and generates mistrust among everyone.

**Question**: Given what we have discussed, on a broad, systems-basis, what is the impact of distrust on the cost of health care.

> **Answer**: If NVA is 40-60% of Healthcare, Distrust impacts a third to a half of it (which is 20-30%)

**Question**: Are there any other "Trust Busters" in healthcare that add tremendous cost?

> **Answer**:

- High Turnover causing low quality and high rehiring/training costs
- Union Grievances (due to some of the problems in the next set of bullets)
- Injecting Fear where Problem Solving would be more appropriate
- Animosities between doctors, nurses, support staff, administrators, board members, et al.
- Acting Inconsistently in what people say they will do
- Seeking Personal Gain above Shared Gain
- Withholding Information
- Telling Lies or Half Truths
- Being Closed Minded
- Being Disrespectful to Employees
- Withholding Support
- Breaking Promises and Commitments
- Betraying Confidences
- Ugly Negotiations
- Not Listening and Poor Communications
- Not Listening and responding to real needs
- Not embracing new innovations and employee generated ideas and suggestions
- Failure to jointly solve cross-boundary problems
- Not jointly achieving the “best” physical work arrangement or design or architectural design.
- Difficulties created by slowness of information flow

- o Bureaucratic costs/delay caused by inordinate amounts of time gaining consensus

Question to Michael Kaufmann, Lehigh Valley Health Network: What is the Cost of Distrust?

- o I would suggest that the cost of distrust in healthcare is associated, to a significant degree ~~to~~ with interactions between healthcare professionals from different disciplines. ie physician/nurse, primary care doc/specialist with or without the pt.
- o A typical example would be a physician who speaks abruptly with a nurse about a patient care intervention The nurse feels hurt by the tone of voice and in a defensive response checks on the patient more frequently than needed and neglects caring for other issues and as a result an adverse event occurs with another patient. So, I could go on and on with many other examples....

***********************

***Bottom Line***: To this point, we have direct evidence that trust creates powerful competitive advantages for:

- Individuals and Teams
- Alliances and Supply Chains
- Industry Competitors

But does this extend all the way to *nations*?

In other words, does trust impact the prosperity of people, as my mentor and colleague, Paul R. Lawrence proclaimed:

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

*– Paul R. Lawrence, Harvard Business School.*

The next section tests this assertion.

# TRUST AND THE WEALTH OF NATIONS

## *Trust and Corruption Rankings*

Transparency International is the acknowledged authority on corruption throughout the world. One of its functions is to rank nations across the globe. Highly ranked countries (see

| Sample Analysis of 25 Least Corrupt Countries (High Trust) and the Prosperity of their People | | | | | |
|---|---|---|---|---|---|
| Country Arranged by Highest Rank on Anti-Corruption | | Transparency International Corruption Index (low number =Low Trust) | Gallup Well-Being Index | | |
| | | | % Thriving | % Struggling | % Suffering |
| 1. | Denmark | 93 | 82 | 17 | 1 |
| 1. | New Zealand | 93 | 63 | 35 | 2 |
| 1. | Singapore | 93 | 19 | 75 | 6 |
| 4. | Finland | 92 | 75 | 23 | 2 |
| 4. | Sweden | 92 | 68 | 30 | 2 |
| 6. | Canada | 89 | 62 | 36 | 2 |
| 7. | Netherlands | 88 | 68 | 32 | 1 |
| 8. | Australia | 87 | 62 | 35 | 3 |
| 8. | Switzerland | 87 | 62 | 36 | 2 |
| 10. | Norway | 86 | 69 | 31 | 0 |
| 11. | Iceland | 85 | 47 | 49 | 4 |
| 12. | Luxembourg | 85 | 45 | 54 | 1 |
| 13. | Hong Kong | 84 | 19 | 65 | 16 |
| 14. | Ireland | 80 | 49 | 49 | 2 |
| 15. | Austria | 79 | 57 | 40 | 3 |
| 15. | Germany | 79 | 43 | 50 | 7 |
| 17. | Barbados | 78 | Data Not Available | | |
| 17. | Japan | 78 | 19 | 69 | 12 |
| 19. | Qatar | 77 | 41 | 58 | 1 |
| 20. | United Kingdom | 76 | 54 | 44 | 3 |

| | | | | | |
|---|---|---|---|---|---|
| 21. | Chile | 72 | 41 | 52 | 7 |
| 22. | Belgium | 71 | 56 | 41 | 3 |
| 22. | United States | 71 | 57 | 40 | 3 |
| 24. | Uruguay | 69 | 41 | 54 | 5 |
| 25. | France | 68 | 35 | 60 | 6 |
| | **AVERAGE** | **82.08** | **51%** | **45%** | **4%** |

Figure 15, first three columns) display very low levels of corruption (in other words, for our analysis, high trust[1]), and the worse countries are the most corrupt. [lf]

If there is a correlation between economic profitability and high trust, as demonstrated in supply chains, industries, and in the 3,000 people who engaged in the Economics of Trust analysis, does this power extend fully to nations as well?

To test this premise further, we examined how trust might impact the ability of an entire country to create economic prosperity for its people. Gallup International produces a "World Well-Being Index" which assesses how well off people are in each country. One of the key factors Gallup analyzes is the economic prosperity of nations by ranking them according to what % are "Thriving," what % are "Struggling," and what % are "below the poverty line." (see Figure 15, last three columns)

## *Economic Prosperity Rankings*

We looked at the countries with the highest level of trust (lowest corruption index[85]), and compared them to the highest levels of prosperity[86], as measured by the percentage of people who are considered "thriving" economically as opposed to "struggling."

---

[11] Author's Note: There are debates about whether Low Corruption is the same as High Trust, or High Ethics, or whether Highly Corrupt countries engage in unethical activities or practice low trust behaviors. We believe these debates are largely academic and do not significantly alter the impact of our findings.

| Sample Analysis of 25 Least Corrupt Countries (High Trust) and the Prosperity of their People | | | | | |
|---|---|---|---|---|---|
| Country Arranged by Highest Rank on Anti-Corruption | | Transparency International Corruption Index (low number =Low Trust) | Gallup Well-Being Index | | |
| | | | % Thriving | % Struggling | % Suffering |
| 1. | Denmark | 93 | 82 | 17 | 1 |
| 1. | New Zealand | 93 | 63 | 35 | 2 |
| 1. | Singapore | 93 | 19 | 75 | 6 |
| 4. | Finland | 92 | 75 | 23 | 2 |
| 4. | Sweden | 92 | 68 | 30 | 2 |
| 6. | Canada | 89 | 62 | 36 | 2 |
| 7. | Netherlands | 88 | 68 | 32 | 1 |
| 8. | Australia | 87 | 62 | 35 | 3 |
| 8. | Switzerland | 87 | 62 | 36 | 2 |
| 10. | Norway | 86 | 69 | 31 | 0 |
| 11. | Iceland | 85 | 47 | 49 | 4 |
| 12. | Luxembourg | 85 | 45 | 54 | 1 |
| 13. | Hong Kong | 84 | 19 | 65 | 16 |
| 14. | Ireland | 80 | 49 | 49 | 2 |
| 15. | Austria | 79 | 57 | 40 | 3 |
| 15. | Germany | 79 | 43 | 50 | 7 |
| 17. | Barbados | 78 | Data Not Available | | |
| 17. | Japan | 78 | 19 | 69 | 12 |
| 19. | Qatar | 77 | 41 | 58 | 1 |
| 20. | United Kingdom | 76 | 54 | 44 | 3 |
| 21. | Chile | 72 | 41 | 52 | 7 |
| 22. | Belgium | 71 | 56 | 41 | 3 |
| 22. | United States | 71 | 57 | 40 | 3 |
| 24. | Uruguay | 69 | 41 | 54 | 5 |
| 25. | France | 68 | 35 | 60 | 6 |
| | **AVERAGE** | **82.08** | **51%** | **45%** | **4%** |

Figure 15: Lowest Corruption Countries (#surveyed: 154 – only top 25 listed here). Correlation of High Trust to % Thriving = 90% among top 10, and 50% among those ranked 11-25.

The correlations between the two ratings are extraordinarily significant.

- The first tier of High Trust Countries (Top 10) produced a 9 out of 10 (90%) correlation of High Trust to People Thriving Economically (marked in green). This link between High Trust and High Prosperity in a country is extremely important.
- The correlation among the second tier of High Trust Countries (those ranked 11-25 which includes the United States) is 50% -- still very significant

(After the first and second tiers, the correlations of prosperity and trust are less significant.)

Then we analyzed the converse – the Low Trust Countries to see the impact of Corruption on Economic Prosperity. (see Figure 16)

Compared to Low Trust Countries, High Trust Countries are likely to have five times more of their population thriving (11% in Low Trust Countries compared to 51% in High Trust Countries). Conversely, those suffering are four times more likely in Low Trust than High Trust Countries ( 17% compared to 4%). Obviously this has important policy considerations for those trying to eradicate poverty in a country or a region.

Does this data also demonstrate a linkage between lack of corruption, trust, prosperity, and innovation? Yes, to a very large extent. Here’s why: High levels of corruption are a massive obstacle to innovation, making everything more cumbersome, clogging our world with thinking and behaviors that destroy, rather than create value. Too much time, money, and human energy is diverted to extraneous activity. And, what’s more, the risk factor in high-corruption countries escalates dramatically. Risk management – playing it safe – has to take precedence in corrupt countries. The risk of innovation plus the risk of protecting against corruption is simply too much of a burden.

| Sample Analysis of 25 Most Corrupt Countries (Low Trust) and the Prosperity of their People* | | | | | |
|---|---|---|---|---|---|
| Country | | Transparency International Corruption Index (Low Number = Low Trust)+ | Gallup Well-Being Index | | |
| | | | % Thriving | % Struggling | % Suffering |
| 1. | Togo | 30 | 1 | 67 | 31 |
| 2. | Cote d'Ivoire | 29 | 4 | 85 | 12 |
| 3. | Nicaragua | 29 | 30 | 53 | 17 |
| 4. | Uganda | 29 | 6 | 71 | 23 |
| 5. | Azerbaijan | 27 | 13 | 70 | 17 |
| 6. | Kenya | 27 | 9 | 78 | 13 |
| 7. | Nepal | 27 | 7 | 82 | 11 |
| 8. | Pakistan | 27 | 27 | 50 | 23 |
| 9. | Bangladesh | 26 | 16 | 71 | 13 |
| 10. | Syria | 26 | 10 | 66 | 24 |
| 11. | Ukraine | 26 | 21 | 53 | 26 |
| 12. | Paraguay | 25 | 32 | 59 | 9 |
| 13. | Kyrgyzstan | 24 | 13 | 81 | 7 |
| 14. | Yemen | 23 | 14 | 62 | 24 |
| 15. | Angola | 22 | 11 | 81 | 8 |
| 16. | Cambodia | 22 | 3 | 75 | 22 |
| 17. | Tajikistan | 22 | 7 | 74 | 19 |
| 18. | Dem. Rep. of Congo | 21 | 4 | 85 | 11 |
| 19. | Laos | 21 | 7 | 89 | 4 |
| 20. | Zimbabwe | 19 | 10 | 73 | 17 |
| 21. | Chad | 19 | 5 | 88 | 7 |
| 22. | Haiti | 19 | 4 | 60 | 35 |
| 23. | Iraq | 18 | 11 | 71 | 18 |
| 24. | Sudan | 13 | 7 | 81 | 12 |
| 25. | Afghanistan | 8 | 10 | 69 | 21 |
| | **AVERAGE** | **23** | **11%** | **72%** | **17%** |

Figure 16: Most Corrupt Countries: Correlation between Trust & Prosperity

## *Cause and Effect*

Seeing this data linking High Trust to Economic Prosperity might cause one to ask "What comes first?" "Does High Trust *cause* Prosperity, or does it *come from* Prosperity?" It is the former: High Trust *causes* Prosperity. Here's why:

In this chapter we have demonstrated that the relationship between high trust and success begins with action between individuals, and successful trust-laden interactions multiply as the scale increases from teams to organizations to supply chains to industries to nations.

The cause and effect also extends to mergers and acquisitions, as the Daimler-Chrysler example shows. Daimler should have seen that trust was one of Chrysler's most important strategic assets. Trust was one of the most important *causative* factors in Chrysler's financial success. Daimler saw only money, and tried to replicate success using outmoded command and control methods, with disastrous results.

[*Note: Oil Rich Countries such as Venezuela. Libya, Iran, etc. are omitted from the list as this natural resource creates a slight uplift in economic prosperity even in corrupt countries. Data Not Available for North Korea, which ranks at bottom of scale, and many other smaller African countries, which also rank at the low end of the Transparency International scale. ]

[+Note: Scale ranks from a high of 100(Good) to a low of 0(Awful]

Does Trust determine the fate of Nations, as Paul Lawrence stated? Where have the most wars been fought during the last 50 years? On the soil of trusted nations or on the lands of the most corrupt?

TRUSTED TO LEAD SERIES

# Chapter 5. Synergistic Economics

> Author’s Note: Before digesting this section, I as the reader to pause a moment and reflect on what the preceding pages indicate, taken as a whole. There is a powerful pattern of evidence that is not normally embraced in business, financial, economic or procurement thinking. The evidence is substantial, and not anecdotal.
>
> What you have seen to this point is the evidence of another realm of thinking that is not taught in schools, but produces tremendous impact in business, government, healthcare, families, and communities – wherever leadership is required.

## ADVERSARIAL VERSUS COLLABORATIVE COMMERCE

The almost now-forgotten story of Chrysler’s 1990s brush with near bankruptcy, dramatic resurrection, and post-acquisition demise by Daimler-Benz is ripe with lessons about the power of trust.

### *Sharing the Win-Win – An Interlude between Crises*

In the 1980s, Chrysler was on the verge of bankruptcy, averting a major cataclysm with a Federal bailout. Ultimately Lee Iacocca pulled off a miracle, and brought the company back to solvency.

What is not generally known is that by 1990 Chrysler was again precariously poised on the doorstep of doom. Chrysler was bleeding. Losses were mounting, cash reserves were depleted. To stay alive Chrysler was stretching its payments to suppliers, who were normally paid in 30 days, according to industry practice. Chrysler pushed its payments to the limit, hanging its suppliers out to dry; 120 days behind was the norm, which was bleeding the suppliers. Continuing on this path was a potential disaster. If the suppliers kept getting stretched, they'd go bankrupt. If the suppliers stopped delivering product, Chrysler would go bankrupt, and the suppliers might, if lucky, get back ten cents on the dollar.

There was one more card to play, and it took guts. Executive Vice President of Procurement, Tom Stallkamp, could take a radical departure for an American car company, and start working collaboratively with its suppliers. Recalling the definition of insanity, "Doing the same thing over and over again expecting a different result," Stallkamp seized the day. After he and his team were approached by several key suppliers (who also supplied Toyota and Honda), together they changed course. At that time Chrysler was beginning the process of launching the Chrysler LHS, which quickly got nicknamed "Last Hope for Survival."

Together with Chrysler, the suppliers were to be treated as trusted partners. They would be brought in early in the design process, not trashed like lowly vendors, and be given long term contracts to ensure they didn't have to waste time, energy, and precious trust on continually engaging in bidding wars with all the uncertainty and distrust the bidding process entailed.

### *Adversarial Commerce – Destruction of Value*

The follow is the story told in Tom Stallkamp's words (In the next chapter we will outline a 'Four-Drive" model for human behavior. In the story, note carefully how the drive to *Acquire* and the drive to *Defend* are the predominant themes in the relationship between buyer and seller in the midst of crisis, and the drives to *Bond* and *Create* are the basis for saving the company.):

"Adversarial commerce is based on using short-term leverage from the value of the business to produce equally quick results. The major, were dominant, side is usually the manufacturer of the final product.... A minor, or submissive, side is a vendor of a necessary component or service, such as an automotive parts supplier or grocery vendor. In these situations the dominant side manages and controls the final production or distribution of the final distribution or production of the end product.

"Under adversarial commerce, the dominant party applies economic leverage in a dictatorial, arbitrary manner. The dominant company forces the subordinate party to concede to demands without considering the financial hardship or long-term affects those demands might create. This might seem to be a natural byproduct of size, responsibility, or power, but the negative aspect it creates colors the entire relationship. ……the adversarial firm concentrates on short-term results instead of building a sustainable and growing relationship. This battle for total control produces a situation like that between a drug dealer and a user. Both need each other, but only one is in control of the situation. The drug dealer uses his access to the product to control the user, just as the original equipment manufacturer uses his purchase contracts to control the supplier.[87]

"The greatest problem that adversarial commerce brings is escalation in the amount of control exercised throughout the company both internally and externally. Control is a natural state that all people strive to achieve, and it is the same for corporations. We all like to be in a stable environment in which we principally decide our own actions. Managers and corporations want the same, and they often use control tactics to try to stabilize and direct the business. Most people are disturbed by uncertainty; to remove that condition, managers often gravitate to using more aggressive command and control styles. Strong control systems have been built into our organizations, from very early examples including the military and the Catholic

Church. It is no accident that our commercial system uses similar rules and direction to establish some degree of control.[88]

"Older, established companies are more inclined to fall into the adversarial trap the newer firms. This assumption can be explained by the fact that an established culture tries any means to defend itself and to make itself independent from others. As a firm ages, the bureaucratic aspects of the organization feed on this quest for independence. This action could make trust of extended partners more difficult."[89]

"To a large extent, we have been conditioned and educated to accept some amount of control from the proper authority. Problems arise when the manner and tone of control gets too one sided, two arbitrary, and often too illogical for the other party to accept. In these cases, using control steps beyond trying to bring order to the relationship and moves into trying to dominate it….Managers' overwhelming concern for control causes them to be overyly imaginative in protecting their "interests"[90]

"Adversarial commerce forces the two parties into a defensive posture that is counterproductive to building long-term goals. Relationships built on distrust between two parties force them to protect their own profit position instead of work for joint solutions to joint problems. An underlying atmosphere of antagonism and defensiveness permeates the environment under this management style. Even though they are doing business together the firms build barriers between each other, when they should be working more closely. Under adversarial commerce, companies use tactics that intentionally keep the relationship tense and unstable. The subsequent tendency is for both sides to seek maximum control over the other party and try to regain advantage.[91]

"Conflicts over control are common today because companies sometimes mouth the words of mutual co-existence and partnership, but …. maintain [their] old style monitoring and financial control reporting structure [thus] defeating the purpose of letting people or suppliers manage their own actions. This act of not "letting go" of the military-like review is one of the most damaging effects of adversarial commerce."[92]

"Arrogance and the self pride generated by an overriding need to exercise control can negatively influence the very relationships the company must have to survive and grow. This inward thinking orientation and defensive attitude has poisoned the ability of US automakers to react to change and has seriously endangered the very survival in the future."[93]

[By sharing information between buyer and supplier,] joint planning and sourcing can reduce a buyer's outlay for research and development and ensure less risky, much more secure return for the supplier. It might sound simple but in practice this type of sharing of information is discouraged under adversarial commerce."[94]

(Insert Destruction of Value from pages 67-69 and Trust Chart from page 12)

### *Collaborative Commerce – Mutual Value Creation*

"Collaboration permits companies related a common enterprise to streamline their mutual operations, reduce overhead costs, and speed up the product-development process. The advantages are that everyone can share in the sustained profitability and security of growth…. This is definitely not for the fainthearted or for managers who like to be on autopilot. Some people will not be able to make the conversion, but the good thing is that, for everyone who fails, there is at least one individual who will find the collaborative approach to be more rewarding and challenging. The transition will not be easy, but it certainly is less onerous than waiting for pink slip for watching stock prices fall because of the negative results of the command-and-control adversarial style.[95]

"From a practical standpoint, you might be tempted to question what is so wrong with companies using leverage to force suppliers into cooperation. Isn't this just the economic clout we would all expect a big firm to use? Many people think that, in the Ford example, the company was quite crafty in implementing its forced price reductions.

"The answer is that, under adversarial commerce, there isn't any true cooperation.

"The short-term advantages that might be gained are swamped by the long-term harm and incremental cost built into a very protective commercial system.

GM either showed an amazing lack of perception awareness when it telegraphed intentional signs of renewed adversarial behavior when it announced it could arbitrarily breaking the contract with only a 30 day notice. The industry press screamed that this is one of the most blatant abuses of leverage ever seen.

Later, GM senior management was forced to clarify the statement by saying that it would be used very seldom -- and only then as a last resort for quality problems. The management members probably could have created more trust had they thought about using those qualifications when announcing the new policy. Actually, if they were really interested in building trust, there probably wasn't a real need to make a formal announcement in the first place. Actions create perceptions, and trust is built only through a consistent application of principles. Any deviation creates suspicions, even if it is not intended to do so....

The respective parties must earn trust by acting consistently and openly. Management must be constantly aware of the actions of a few managers behaving badly can negatively impact program and destroy trust in the whole organization.. Stallkamp P 165 -66 (possibly link to principles)

"True, dictatorial methods might produce quick results. While producing those results these methods generate longer-lasting negative responses and also at cost the over the long term. Concentrating on immediate results builds in a bias against collaboration."[96]

"It takes a lot of time to rebuild an environment of trust after it has been damaged. Many large companies seem to care less about creating trust than about using adversarial tactics to gain what appeared to be advantages, even though these often prove to be short-term advantages."[97]…(In other words, the most *competitive* business strategy may use the the most *collaborative*, high trust tactics and methodologies because the collaborative approach reduces non-value added work and destructive behaviors which may attributed to distrust.)

### *Toyota's Collaborative Approach*

"Within the worst industry for adversarial commerce is a successful example of how a firm can use collaboration to achieve superior results. That example is Toyota. More than just a Japanese cultural anomaly, it is a mature company that continues to thrive and crush its competition through a carefully managed corporate philosophy of defining what is expected of itself and its suppliers. Toyota follows this process with consistency and fairness. The company is not "soft;" and consistently receives the highest marks of trust and relationships. The final coup de grace in the traditional mindset is that Toyota is also the most profitable and successful automaker in the 21st century to date.[98] Toyota has the advantage of the best manage collaborative relationship style in the auto industry and perhaps all of commerce. It is based on culture that is more *holistic* than merely Japanese.

"The elements of Toyota's overall culture combine to make collaboration produce a system in which trust replaces suspicion. Contrasting Toyota to the US big three, the following major differences show the way it conducts business across its own enterprise:

- Clear Definition Of Roles And Expectations
- Dedication To Long-Term Relationships
- Strict Performance Measurement With Feedback
- Transparent Measures of output, scrap, cost, quality that are probably shared with all involved parties inside and outside the firm
- Process Dedication

…Toyota has educated suppliers and associated companies and insisted that they utilize its elements as well…. Although Western firms have tried to copy the Toyota production system method, they have had only limited success in its implementation.[99]" This is primarily because companies fail to recognize somewhat invisible elements of the Toyota system, which include a clear understanding of collaborative strategy (or collaborative commerce), the need to build strategic alliances, the collaborative innovation required, and trust building elements. Note that in the above list, these invisible elements are not listed. It's what's not said is just as important as what is being said.

"Honest and open communication is the heart of building trust within the enterprise. Toyota's actions are collaborative because the company works closely with suppliers on new product development, but they are not arbitrary nor negative.[100]" In other words, there is not a highly critical style of superior demanding performance from subordinate, such as has characterized GM's relationship with suppliers. Relationships "are based in fact, not rumor, and the company's overall business relationships are viewed as tough but fair.[101]""

"This atmosphere of fairness makes the Toyota collaboration system function so well. The various constituents know what is expected of them and know that if they meet or exceed those goals, they will be rewarded with increased business -- business that is based on products that meet consumer objectives, not the cost minimization so prevalent in the domestic auto industry".[102 103]

The Japanese automakers are applying "pressure without resorting to threats (fear), with more consistency and greater spirit of cooperation," according to Jon Henke, a professor of management at Oakland University who has done significant research and supplier relationships.[104] (see next section for Henke's full report)

### *Nissan Shifts to Linking Trust with Innovation*

This distinction between harmonized trust (corresponding with fellowship and friendship on the Trust Ladder) and synergistic trust (corresponding with partnership and creationship) is well illustrated by what happened at Nissan: "Nissan recovered from virtual bankruptcy through the reorganization of talents Carlos Ghosn, sent in from Renault to protect its investment [they had made in Nissan eariler]. Ghosn's recovery plan for Nissan was to maintain collaborative Japanese approach while replacing the supply base. This might seem like a contradiction, but it is another example that collaboration itself isn't [necessarily]"soft," and can continue to be used while companies are in distress.

"Nissan became a victim of poor product planning and unimaginative design. The company maintains a keiretsu group of suppliers who were closely related to Nissan were not world-class. Ghosn realized both the danger of a weak supply system and the advantage of the close operation they enjoyed during the Japanese management's tenures. He opened up in Nissan's sourcing to other world-class global component suppliers but kept the elements of collaboration highlighted earlier in the Toyota discussion. It is a tribute to his organization and managerial abilities that Ghosn was able to accomplish this feat. Nissan is now on a roll. It has great new products which significantly improve profitability, and at this writing is the hottest, most successful car company around. It is a success story of both exceptional talent collaboration approach with a new twist.

“It shows a company in deep financial and product trouble can make major changes with its enterprise of still holding on to the principles of collaboration. In this case Nissan was able to replace its old closely held supply base with a new, more global one. The new suppliers realize the opportunity and pledged cooperation because they saw that Nissan was serious about making changes for long-term rather than quick fixes.

“Although the act of changing suppliers might seem adversarial, the manner in which it is conducted is the determining factor. Nissan follow the rules of collaboration by outlining the responsibilities suppliers, communicating its intent, following through in a consistent and predictable fashion. Certainly, the results cannot be considered “soft,” even though he approach was collaborative.[105]

### *Wielding Power with a Fist*

"Wielding power can be intoxicating… purchasing power in negotiations is always influenced by the size of the purchase or the body…. it’s easy to see how that leverage turned into raw power. It even affects the way people behave… power and leverage go hand-in-hand, and sometimes the hand turns into a fist."[106]

As Stallkamp stated above, fear often triggers an overwhelming concern for control, crucifying trust, leading to a hijacking of the creative intellect whereby people channel therir imaginative powers into finding new ways to protect self-interest and torpedo their sinister bosses. Examination of joint/mutual interests goes unattended.

Ten years after they forced a 5% reduction on suppliers, recognizing that more than half their costs came from suppliers, Ford initiated their Total Value Management (TVM) program to remove $3.2 billion in expenses. Forming joint teams made up buyers and engineers to work with suppliers. However, Ford's heavy-handed unwillingness to share costs savings with suppliers created stern reaction as supplier trust plummeted, and innovation streams flowed to Honda, Toyota, and Nissan. (– 23 Stallkamp, and 2004 PPI study).

To make trust matters worse, suppliers objected to Ford's the distorted and twisted intent to use dictatorial methods to make unreasonable demands by using unrealistic bids from suppliers who lacked qualifications to quote on costs. These illegitimate quotes were then used as leverage to force the suppliers to knuckle under in order to retain a contract.( – p23 Stallkamp).

After years of such iron-fisted domination, hundreds of vendors had no profit margin left, resulting in moving more and more subcontracting offshore to China, and driving suppliers out of business, thus reducing the supply base competitiveness. As one supplier stated in 2002, "All our business with Ford and GM only helps paying overhead costs, but makes no contribution to profit. In fact, we are now subsidizing these guys." (AGMA workshop in Detroit. This is the same workshop when suppliers said they only bought Japanese care, except for one meek response where the CEO stated he did have a GM car that they kept on the back lot for trips to the GM plant so they wouldn't be seen as treasonous.)

By 2007 (a year before the 2008 recession began), 500 suppliers a year were either driven out of the industry or laid to rest in the vendor graveyard.. – WSJ Article , August 2007

To survive, many simply shipped their work to overseas subcontractors.

Was this really necessary? Honda, Toyota, and then Nissan, with their more collaborative, trust-based approach to suppliers, built a strong North American base of suppliers. It may be surprising to some that Camry manufactured in their Georgetown, Kentucky plant, has the highest amount of American content than any Ford or GM product.

Stallkamp comments on the way General Motors conducted it's affairs:

"The techniques Lopez used were demanding an arbitrary. If suppliers would not agree to immediate price reductions, the contract was terminated and given to another lower-priced source. Existing multiyear contracts that had been negotiated before his arrival were ripped up….. One of Lopez's more flagrant actions was shipping proprietary drawings of unpatented items to offshore manufacturers with limited technology, to get a cheaper price. These lower overhead quotes were then used to force the inventing firm to lower its prices, or risk losing business….. Lopez forced and coerced his suppliers into submission … [and] transformed GM purchasing into an aggressive machine whose actions and tactics were both brutal and arbitrary[107] ….and dictatorial, placing the supplier at a disadvantage by always threatening to resource the business to a lower-cost[108] manufacturer found elsewhere."

"The arbitrary nature of Lopez's demands created deep-seated animosity within the General Motors supply community that impacted their development of new products. More than 25% of the parts had been sourced to new suppliers under Lopez during his short nine months he'd been in power. Industry and financial analysts have cited this action is one of the reasons why GM's quality deteriorated during this period. This outsourcing created turmoil and dislocation in a system is already fragile quality standpoint. (see Lordstown case)

Years after Lopez had left, GM executives confided to me they were still "worshipping at Lopez' alter."

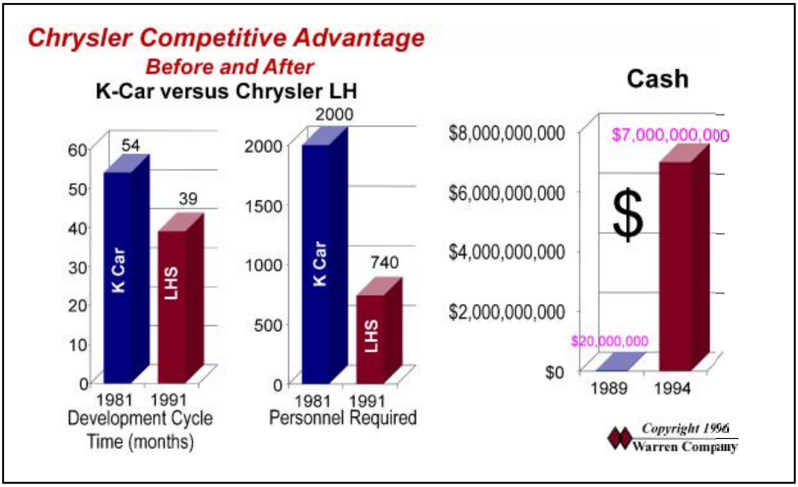
"Ford forced mandatory price reduction action on all its suppliers... By electronically modifying all its existing production purchase orders with thousands of suppliers to pay only 95% of what had been previously negotiated with them." "All invoices were factored to 95% of their value and Ford sent the reduced amount as full payment."[109]

Without question his actions were unorthodox, highly effective in achieving short term gains, and completely illegal. But they backfired in the end.

The damage was subtle. Innovation flowed away from GM & Ford, completely negating any cost saving they had attained. Because of the lack of trust, Innovation flowed away from GM & Ford, into Chrysler, Honda, and Ford.

When Lopez tore up the contracts, of all the hundreds of suppliers, only TRW took GM to court for breach of contract. All the other suppliers, in the face of such dominating force by GM, submitted or were outbid by lower price contractors. Quality slipped, and by the late '90s, warranty costs far exceeded profits. Stallkamp continues:

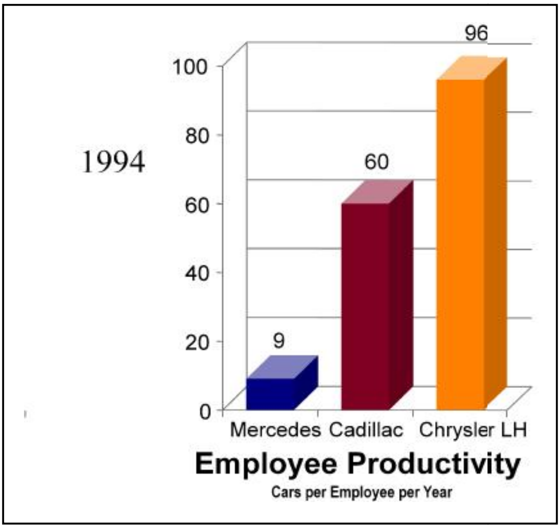
> "Ford and GM exhibited a negative and domineering manner …to control the relationships in normal business dealings….[110]"




### *A Positive Approach to Cost Reduction*

Stallkamp was an enlighten realist, taking a more insightful approach to human behavior and economic engagement.

He developed the *Supplier Cost Reduction Effort (SCORE), whose purpose was ringing costs out of the system by soliciting approved supplier ideas to change the old operating system…. Instead of mandating reductions are part of price decreases, Chrysler offered to work with its supply base to implement*



*submitted ideas to streamline the business are eliminated redundant efforts and costs. The concept was to treat suppliers and dealers as independent extensions of our firm. Their destiny and fortunes were directly linked to Chrysler's. Constructive supplier suggestions worked to reduce both suppliers cost and those at Chrysler. There were no firm rules for submitting the ideas, and no area of the company was off limits to outside ideas. An essential element was that the savings that resulted from these ideas were voluntary and up to the supplier to define an attribute. Chrysler did not dictate the amount nor the manner that the savings were to be achieved. Instead they turn the situation around and asked suppliers to identify ways that they could reduce their costs and doing business through their own eyes, rather than from Chrysler's view. This was previously unheard of in an industry where the big three always dominated the control.*

Chrysler encouraged suppliers to contribute most of the savings in the way of price reductions, but also encourage them to keep some of them, to reinforce their profit margins, and redirect it to into their own businesses.. This concept of sharing the savings with the suppliers was truly unique in the supply base members quickly supported. A relatively simple data system recorded and monitored the savings.

This approach required" operation among all areas of the

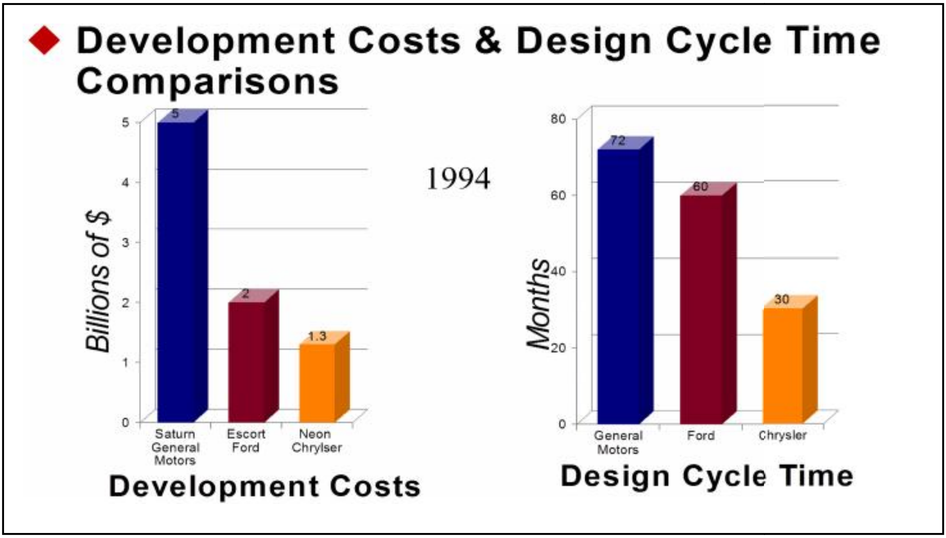
*Results - 1994*

– Alliance with Suppliers
– Few Formal Legal Agreements
– $1,000 price advantage per auto
– Most Profitable Auto Manufacturer
– Highest Return on Assets Auto Manufacturer
– Fastest Market Share Growth Auto Manufacturer

company, especially procurement and engineering. These two normally separate apartments jointly developed and shared cost reduction targets for score. Weekly reports follow the submission of supplier ideas and were tracked to the appropriate internal area that would approve the suggestion. This prevented ideas from languishing in the system, as have previous attempts to solicit ideas from supply base.

This concept also relied on the assumption that the business relationship would continue over time. As long as cost, quality, delivery, and technology targets were met, the business relationship would be preserved and not outsourced.... The supplier was given the chance to correct any problems before an alternative supplier introduced.

Chrysler system produced significant initial savings that




totaled more than $500 million in cumulative costs in the first year….and a total of $ 5.5 billion between 1992-1998," [111]

"The reason Chrysler survived and eventually prospered was the supplier support during our dark days. The suppliers literally saved the day and the firm.112… most important, many suppliers improve their profit margins on the Chrysler business and devoted increased funding to technology that supported the new vehicle that returned Chrysler to profitability during this period.113…. Chryslers net material costs declined year after year. Additionally the suggestions that came in from the suppliers compounded year after year because the parts often carried over for several years as the model remained in production.

[By 1998] “Chrysler had the lowest percentage of sales dedicated to research and development for new products, partially because we were leveraging the suppliers own work. This also permitted Chrysler to reduce their time to market with new models.[114] “Suppliers viewed the Chrysler business is a better place to invest their limited development money. Chrysler began to enjoy greater supplier investment in new products because the stable and defined relationships. Chrysler was able to introduce more new models faster using less of its own capital because suppliers were more inclined to bet on their futures[115].

The unwritten but implied assumption was that the savings would be split 50/50.[116] Chrysler scored higher [on the trust scale] in terms of having a true partnership with suppliers than any other American auto company… the program worked because of our willingness to let our partners be the experts. We finally admitted that they knew a lot more about their own business than we did.[117]

The Extended Enterprise used trust as its primary element,[118] [and was] based on the premise that it is important for firm directly plan and manage not only costs, but also relationships between companies.[119]…Unfortunately, it did not survive the infamous merger in any form other than name only.”[120]

“The principles of closer communication, shared forward plans, codependents in profit margins, senior management involvement, and long-term commitments under targeted goals apply to any general management situation. Unfortunately most companies not only ignore these areas, but they support the exact opposite: the protection of secrecy and compartmentalized planning. The effect is to stifle the cooperation between companies and fostered a negative non-collaborative atmosphere.” [121]

To make this collaborative approach work suppliers “needed to be shown that companies could be trusted because the system in which they operated for so long played on mistrust and suspicion…. relationships do matter"[122]

By making trust important, and giving the supply base some safety and security, suppliers "could count on Chrysler not to arbitrarily change its mind and demand more concessions, as long as the objectives were met. In this manner the stability of the commercial relationship was more secure. Stability meant less need for protective actions, such as front-loaded profits.

According to Stallkamp, "the practice of treating constituents of the firm (whether they are suppliers, dealers, employees, or managers) as enemies instead of allies cuts across all sectors the system isn't able to distinguish between firms that are in competition and the ones that are necessary parts of supply chain... Sometimes we view employees in the same manner as competitors inhibit building real alliances with them …. emphasizing direction instead of independent [innovative] thought. We view shareholders with a degree of benign tolerance rather than as owners. Egos get in the way because we see everything as separate rather than part of the large hole. Case studies and the business press have not only highlighted, but also encouraged, aggressive and sometimes ruthless management techniques…. In some cases, darker personalities concentrated on the harder side of control and suppression of ideas…. Adversarial techniques …sap the strength of our industrial base and erode our ability to compete against lower-cost areas of the world." [123]

"Because we value our independence…. we seem to have a natural inclination to run our own show and look like we are in control of our destiny. The truth is that companies are really much more interrelated than their management might want to believe or might even know…. This forces them to view each other with suspicion instead of trust. Business is controlled more by quotes and a bidding process than by long-standing relationships. Trust is essential to any relationship, but our present system actually inhibits rather than builds it.'[124]

What's wrong with whole process is that it's too sequential, supply chain is not united into a common goal or purpose[125] (Trust Principle One) states Tom Stallkamp. "The experience of Chrysler has proven that even during a financial crisis, suppliers can respond and rally behind a company in trouble if there is open communication of the situation."[126]

"Chrysler created a collaborative management philosophy that we termed our Extended Enterprise, in recognition that our business went far beyond the bounds of the walls or assembly plants. Our goal was to create an integrated, seamless system did much more than just pass parts from suppliers to our factories. He was a system of shared communications product plans and research concepts with those companies that need to operate in close cooperation with us. It stressed the shared destiny that our joint businesses were brought together but that previously overlooked or ignored under the force and harsh competition of adversarial management. In short, it was an open recognition that we need our suppliers as much as they needed us…. It not only worked -- it revitalized the company. Simply stated the Chrysler extended enterprise was when the largest and most successful approaches to industrial collaboration undertaken at a time."[127]

## *Metrics & Rewards*

Getting people to shift their belief systems, mindsets, behaviors, and attitudes is no easy task for any leader. From the Chrysler case, it is easy to see how effective the program was. Stallkamp reinforced the shift by emphasizing:

- A Clear Vision of the Outcome
- A Measurable Value Proposition reinforced by Evidence & Progress

- A Well Articulated Architecture, including a Plan, a Rationale, and Specific Actionable Goals
- Measures of Success
- Mutual Rewards for Action and Winning

Without measuring the new action's effectiveness and without changing rewards systems, no organization will ever sustain its shift. But even that is not enough, as the evolution of this highly effective program demonstrates. Figure 18: Collaborative versus Adversarial Commerce, compares Stallkamp's Collaborative Commerce with Lopez' Adversarial Commerce.

Stallkamp's plan worked beyond expectations. By 1998, Chrysler was highly profitably, and rolling in cash, with $7 billion in the bank. And suppliers were extraordinarily happy. When Chrysler decided to

**Comment by Thomas Stallkamp: President Chrysler: (prior to takeover)**

*"Suppliers are experts…part of a joint team focused on collaboration …contracts aren't based on old style relationships but on allied business and engineering systems."*

launch the Sebring convertible, the spirit of collaborative innovation prevailed. The suppliers all chipped in, helping to fund the development of the new model, which was launched in record time. The suppliers received, in return, long term contracts, a promise of collaboration, trust, and respect, and a share in any cost improvements they created. The price tag to Chrysler for developing the new model was only $200 million, an extraordinarily low cost compared to GM or Ford, whose new car development costs ranged from $2-5 billion.

The tremendous profitability of Chrysler, only seven years after its "Last Hope for Survival" was based on the miracle created by

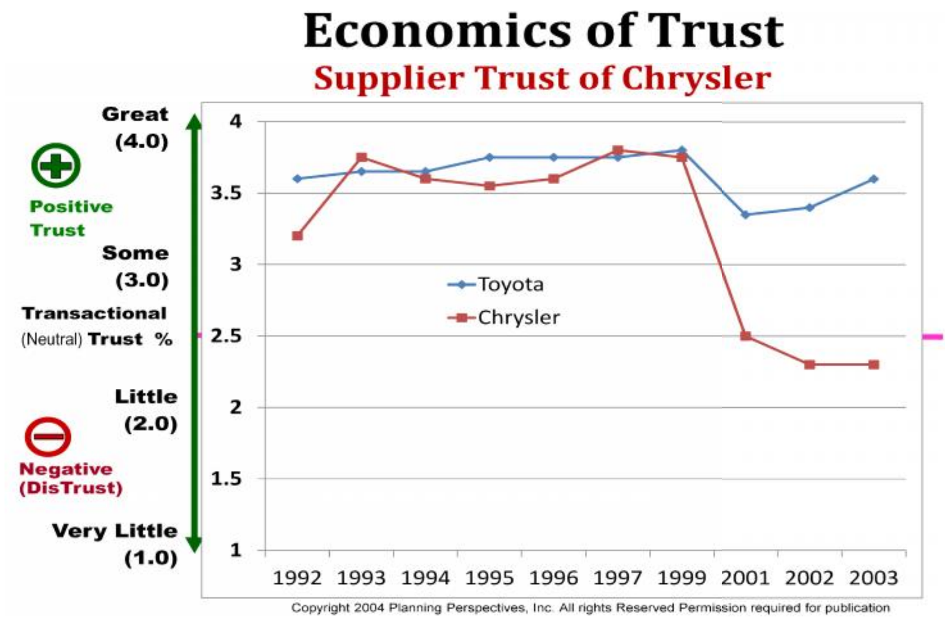



Figure 17: Supplier Trust of Chrysler

collaboration and trust. The company now had a market valuation of $36 billion, a far cry from the condition in 1991 when it teetered on the verge of bankruptcy.

German auto manufacturer, Daimler Benz, the maker of Mercedes, saw Chrysler as a great acquisition candidate and offered to acquire Chrysler.

However, Daimler-Benz did not recognize the unique value of the supply chain collaboration and the economics of trust.

Shortly after the acquisition, Daimler fired Stallkamp, who had become CEO, and ordered all its suppliers to cut costs by 15%, killing trust and collaborative innovation.

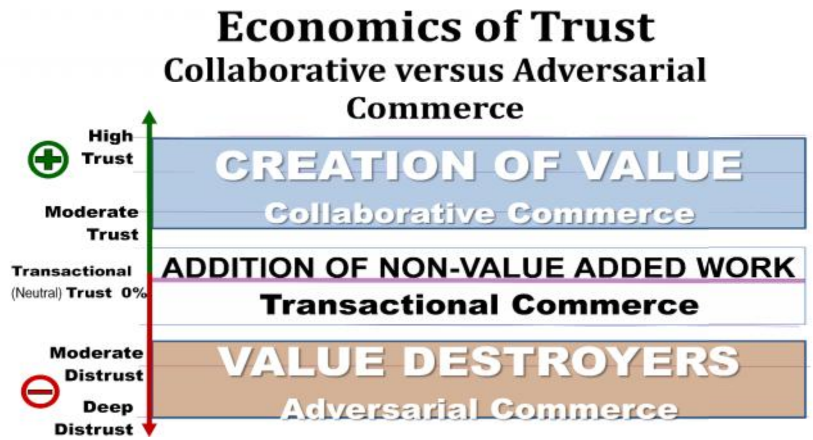



Figure 18: Collaborative versus Adversarial Commerce

Chrysler then went on to lose billions of dollars, and Daimler sold its interests to a private investment firm in 2007. From a market value of $36 billion in 1998, it was worth less than $10 billion in 2007. Where did the value go? Perhaps Figure 17: Supplier Trust of Chrysler from 1992-2003 will tell the story.

**Comment by Wolfgang Bernhard: COO Chrysler group after the Daimler takeover after demanding a 15% price cut from suppliers:**

*"Supplier relationships are based solely on competitiveness. We give no preference for the incumbent or reward for excellence…only competition."*

***Chrysler then lost several billion dollars, and was ultimately headed into bankruptcy.***

## STUDY MEASURES COMPETITIVE ADVANTAGE OF TRUST

After two decades of the battling over supply chains, the toll taken on US auto manufacturers was devastating. One would think the American and German car manufacturers would have learned an important. But *belief systems* die hard, in spite of overwhelming evidence.

The University of Michigan affiliated organization PPI identified the linkage of Cost and Innovation and Trust in their 2004 report. (The full Report is provided below.) While reading this report, ask yourself three questions:

- Does trust provide a Competitive Advantage?
- If so, how much?
- Is this data consistent with our findings in workshops and supply chain simulations.

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## *Planning Perspectives, Inc.* [128] Poor Relationships Costing US Automakers

### US Suppliers Shifting Support, R&D and Investment to Japanese Automakers, says Annual Benchmark Study

**BIRMINGHAM, Mich., Aug 2, 2004** — Findings of the annual OEM-Tier 1 Supplier Working Relations Study of automakers' relations with their suppliers suggest more trouble for US automakers' if they don't change the way they deal with their suppliers: The study shows that US suppliers are shifting their loyalties – and resources – to their Japanese customers at the expense of the domestic Big Three.

This trend began to show up in last year's study, but is picking up speed this year as US automakers continue hammering their suppliers for price reductions and multi-million dollar cash givebacks and suppliers are responding by giving them less support.

It is important to note, however, that this shift in loyalty is not driven by cost reduction pressures on suppliers, says the study's author, but rather on how the US automakers work with their suppliers across a wide range of business practices.

"The study shows, again this year, that the US automakers' primary orientation is toward cost reduction, *they have little regard for their suppliers, they communicate very poorly and they generally treat suppliers as adversaries rather than trusted partners. In all the other industries we've studied such as aerospace, electronics, and computers, no one treats their suppliers as poorly as the US automakers do,"*(emphasis added) said John W. Henke, Jr., Ph.D., whose Birmingham, Michigan-based firm, Planning Perspectives, Inc. conducts the annual study.

As a result of their respective handling of suppliers, there are some profound shifts going on in the industry that can't help but impact the US Big Three's ability to compete going forward, said Henke. These changes are summarized in the following points:

- Chrysler, Ford and GM supplier working relations are falling behind Honda and Toyota at an increasing rate
- Suppliers are shifting resources (capital and R&D expenditures, service and support) to Japanese Big Three, while reducing these for Domestic Big Three
- Suppliers are increasing product quality at a greater rate for the Japanese, while merely maintaining quality levels for US automakers

- *Supplier trust of Ford and General Motors has never been lower; conversely, trust for the Japanese OEMs has never been higher* (emphasis added)
- Suppliers increasingly see the opportunity to make an acceptable return as being with the foreign domestics, not with the US automakers
- Suppliers overwhelmingly prefer working with Honda and Toyota

The difference in how the US Big Three handle their suppliers, compared to how the Japanese OEMs work with their suppliers, is driving this shift, said Henke.

The study shows that the domestic Big Three and Japanese Big Three have fundamentally different approaches to working with their suppliers and suggests that this difference might well be a major factor in the consistently high quality and competitive gains by the Japanese. In fact, according to the study, *in the five key areas measured – Relationship, Communication, Help, Hindrance, and Profit Opportunity -- the US automakers are 180 degrees opposite their Japanese counterparts.* (emphasis added) (See Table 1)

It is also why US suppliers continue to prefer doing business with the Japanese, and in some cases would like to drop the US automakers if they could, according to the study.

The overall results of the annual study and the actions listed above are summarized by an annual ranking called the OEM-Supplier Working Relations Index (WRI).

The 2004 WRI shows the Japanese automakers continue to move up the scale toward even better relations with their suppliers, while the US automakers remain static at the bottom.

| TABLE 1 | | |
|---|---|---|
| **Criteria** | **US Big Three** | **Japanese Big Three** |
| Protect confidential info | Little regard for suppliers' proprietary information or intellectual property | High regard |
| Open, honest communication | Indifferent, late | High level, timely |
| Importance of cost vs quality & technology | Primary focus is on cost | Seek low cost, but balanced with quality and technology |
| Supplier survival | Little regard | Concern for long-term success |
| Relationship orientation | Adversarial; focus is on OEMs short-term gain | Strategically integrate suppliers into partnership-like relations |

Again in 2004, the Index shows Toyota and Honda far ahead and ranked at 399 and 384 and respectively, while GM and Ford are at the bottom with a ranking of 144 and 160 (see Table 2). Nissan was ranked 294, and Chrysler was 183.

### Table 2. Overall OEM – Supplier Working Relation Index for 2002 – 2004.

| OEM | YEAR | | | 2003 - 2004 % Change | 2002-2004 % Change |
|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | | |
| **Toyota** | 314 | 334 | 399 | 19.5% | 27.1% |
| **Honda** | 297 | 316 | 384 | 21.5% | 29.3% |
| **Nissan** | 227 | 259 | 294 | 13.5% | 29.5% |
| **Industry Mean** | 224 | 234 | 261 | 11.5% | 16.6% |
| **Chrysler** | 175 | 177 | 183 | 3.4% | 4.6% |
| **Ford** | 167 | 161 | 160 | -0.6% | -4.2% |
| **GM** | 161 | 156 | 144 | -7.8% | -10.6% |

The 2004 WRI shows that each of the Japanese Big Three significantly improved their positions over 2003 and are well above the industry mean, while Ford and GM are below the industry mean and losing ground. Chrysler was also below the industry mean but improved slightly.

*"It's important to note as well that the industry mean rose 16.6 % over the three-year period driven by gains made by the Japanese Big Three,"* said Henke. *"In other words, the Japanese OEMs keep raising the bar in the area of supplier working relations and are increasing the gap between themselves and the domestic Big Three.*

*"What is apparent is that the Japanese OEMs are applying continuous improvement practices to their supplier working relations just as they have done to their manufacturing processes, and as a result they continue to win the cost-quality-technology race."*

The 2004 study involved analyzing OEM-supplier relations across 852 buying situations and ranked the OEMs in five areas that comprise 17 variables. Based on this analysis, the WRI for 2004 did not change for the domestic OEMs, but improved for each of the Japanese Big Three. Notably, the price reduction demands an OEM makes on suppliers has zero impact on the WRI. Rather, it is the *total* working environment of the OEM that impacts the WRI.

*"It's clear from comparing our 2002 and 2003 studies with 2004, that the domestic OEMs have done virtually nothing to change their working relations with suppliers over the past four years, while the Japanese Big Three continue to improve. Both groups are seeing the results of their respective actions,"* said Henke.

*"The domestic OEMs have assumed that getting price reductions from their suppliers and having good supplier working relations are mutually exclusive. Nothing could be further from the truth. Honda, Toyota and Nissan, recognize that they can pressure their suppliers for considerable price reductions and quality improvements and still have good supplier working relations. It all comes down to how you work with people that determines whether or not you get the best performance from them."*

The results of the survey also indicate why *OEMs with good supplier working relations gain a competitive advantage.*(emphasis added )

*"Over the years, we have seen a consistent pattern that shows OEM working relations directly affects supplier behavior. Our studies show that the further up the Index an OEM moves, the more suppliers are willing to help the OEM. Suppliers will share more technology with the OEM, are more willing to invest in new technology in anticipation of new business, and will provide higher quality goods and higher levels of service to the OEM. The Japanese OEMs clearly understand this and it's helping them gain competitive advantage and market share,"* he said.

The 2004 supplier survey was conducted in July. This year, it involved responses from 223 Tier 1 suppliers including 36 of the Top 50 and was based on 852 buying situations. The participating suppliers' combined sales represent 48% of the OEM's annual purchase of components.

*****************************************

***Bottom Line***: We tracked the Auto Industry during the five year period after this study (from 2004 through 2008) and found that the American OEMs collectively lost $100 billion, while their Japanese rivals were all profitable during this same five year period. Two of the three American OEMs subsequently declared bankruptcy. Then, Chrysler and GM both declared bankruptcy, requiring a taxpayer bailout. In 2013 the city of Detroit is $14 billion in debt – declared bankruptcy, a "ward of the state."

The cost of distrust in the Motor City has exacted a toll only exceeded by the World War II bombings of Hamburg, Dresden, Warsaw, or Hiroshima. What's more, as the US Big Three auto manufacturers relentlessly tried unsuccessfully to squeeze their suppliers (mostly based around Detroit) to

> attain profitability, they drove five hundred suppliers a year out of business.[129]

The Japanese manufacturers had used American suppliers to produce innovations in the materials and processes to build cars that beat GM, Ford, and Daimler-Chrysler. The most innovative supply chain outperformed the vendors who were beaten to a pulp by pugilistic procurement practices.

One might ask if the Japanese auto manufacturers simply used a preponderance of Japanese suppliers to get quality up and prices down. Not true. The Toyota Camry produced in Georgetown, Kentucky has the highest percentage of American-made components than any of the American manufacturers.

Reiterating our hypothesis from earlier in this chapter: (see Figure 19: Trust & the Creation of Value)

- High Trust Creates Value
- Transactional Trust Creates Non-Value Added Work
- Distrust Results in Value Destroyers

*In 2007, Chrysler was sold at a value of $9.25 Billion ….*

*…. a loss of 75% of its former value!*

(Note: In 2007 I was personally asked by the EVP of Procurement at Chrysler to propose ideas on how to fix their problems, but the situation was too far in the tank by that time.)

*In 2009, Chrysler declared bankruptcy, followed by General Motors, who had not been able to manufacture cars profitably for twenty years.*

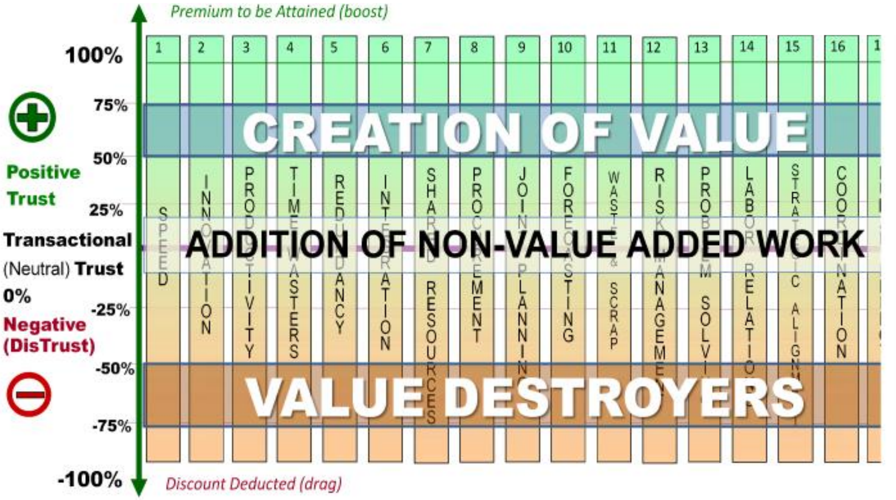


**Figure 19: Trust & the Creation of Value**

***Collaborative Systems[2] outperform Adversarial Systems because they enable far more efficient and effective use of resources.***

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[2] Note: An Adversarial System should not be confused with a Competitive System. A competitive system usually pits collaborative teams against each other. An Adversarial System is one that should be working collaboratively to create collective value or joint competitive advantage. For example, GM's supply chain management strategy was to make an enemy out of their suppliers. Similarly, GM's labor-management strategy was to make an enemy out of the union. This was an Adversarial Strategy.
Toyota, on the other hand saw suppliers and labor as teammates who would help them create competitive advantage against GM. In the end, GM squandered its precious resources and its dominant market share, while Toyota and Honda gained ground. It's not 'survival of the fittest,' it's 'thrival of the most collaborative.'

## COOPERATION AMONG COMPETITORS -- Supply Chain Case Example

A Smith Kline Beckman (later merged with Glaxo,) a large international pharmaceutical company had two highly competitive suppliers, one located in Philadelphia which served the Americas quite well, and the other located in London which served Eurasia very effectively. The pharmaceutical company needed the two companies to work together coordinating the delivery of products and services to the complex global organization. They asked me to help forge the alliance between these two suppliers.

The only real problem was a massive one: They were arch competitors who wished only to put the other out of business. Fortunately both competitors were reasonably ethical in their dealing. There was also a third major rival who had a very effective global presence, but had no supply relationship with the pharmaceutical company.

(Remember the learning from the Air Wars over Texas case example: Compete externally and Collaborate internally.) The pharmaceutical company was now asking the two companies to completely reconfigure what "internal" meant when their arch competitor was now going to be a partner.

Prior to bringing the two companies together to start negotiations, I insisted on a private one full day session with each negotiating team to go over the nature of the alliance, raising any concerns ahead of time, and explain the process and practices that would be needed to make an alliance of this sort successful. Ten days later the two prospective alliance partners would meet in the U.S. with the Pharmaceutical company to consummate the three-way alliance. About two hours into the session in London, the Chief Operating Officer, who was also heading up their negotiations team, became unglued when I began talking about a win-win arrangement between all three players. He started pounding on the table with exhortations (sounding like Winston Churchill railing against Hitler) "There's no such thing as a win-win! Everything in life is a win-lose. If we aren't out to win and put the competition out of business, we shouldn't even be in business…." His executive team, which was pan-European and represented the breadth of countries in the region, was aghast. They couldn't believe their COO was so hardened.

Immediately I called a break in the session and took the President of the company out in the hall. I told him, if he wanted the negotiations to be successful, the COO would have to be removed from the negotiations team. The President asked me, "Can't you fix him?" as if I might be able to train him to get over his natural cynicism.

I responded, "I would have to give him a Vulcan Mind-Meld."

The President nodded. Apparently this behavior was not new. "What do you suggest?" he asked. I told him he should leave the COO in London, and the President should head the negotiations team. After all, the contract was worth close to £1 billion.

In the U.S. ten days later, the alliance negotiations were a resounding success. Jointly the competitors came up with over 100 realistic ways to improve their customer's operations, while maintaining or improving their own profit margins. The competitors agreed to continue competing against each other, but always honorably, and seek other customers that needed a global presence that the alliance could serve.

## Why Cost Cutting Often Backfires

Ask any newly minted MBA how a company makes a profit, and they will tell you in simple terms:

Revenues minus Costs equals Profits.

Thus, the financial mantra: to increase profits, just cut costs. (see Figure 21

**Making a Profit**

The most basic approach to profitability is simply to cut costs.


Figure 21: Just Cut Costs!

Unfortunately this "apparent truth" is not as simple as the might meet the eye.

Every family uses this simplistic approach to monthly budgeting: when money is tight, just cut out anything not essential (like cinema and restaurants) and defer other expenses (like home repairs). Voila! Cash is preserved. What the family did, however, was not just to cut costs, but to cut "fat" – the cinema was non-essential. This is an example of a "non-value added" expense being cut from the budget.

In business, however, the idea of cost cutting presents a far more complex question. Business expenses are not all created equal; businesses are complex organizations with many levels of functioning, differentiated internal specializations, multiple distribution channels, and multiple sources of supply, and exists in changing strategic and competitive environments.

There are two fundamentally different ways to address the idea of cost in business:

- Component Cost Approach: Examine "component cost" to the business itself. This approach will dictate short term action associated with line-items on the Profit & Loss statement, like: cut health care costs, reduce supplier costs 15%, eliminate all consultants, pare down the advertising budget by 10% and so forth. Not included are life-cycle costs. For example, buy the drill that is the least expensive, not the drill that will be the most reliable over time.

- Maximize Value Creation Approach: View the company as a "value creator" and embrace the larger perspective of "value flow." This approach aims at differentiating strategic suppliers from vendors on the inflow side of the business, the supply chain to the company, and on to the customer base. Thus, it is actually far more effective to sort through exactly where value is created, destroyed, and wasted. Using this approach one would find the data on Figure 22 to be a typical finding of where value was truly added.

In the *Toyota versus General Motors* competition, Toyota used the

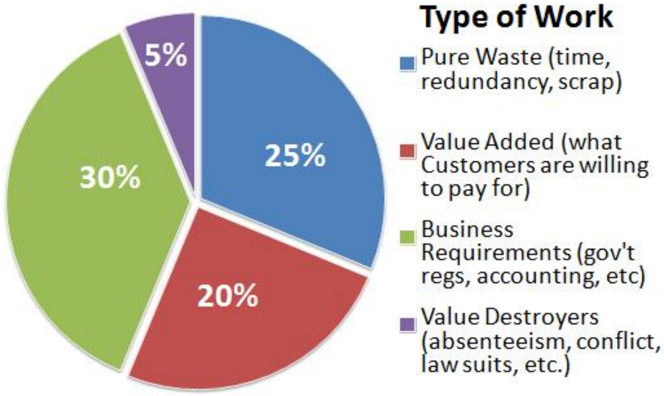



Figure 22: Typical Proportions of Work in an Organization

"maximize value creation" strategy against the General Motors' "component cost reduction" strategy. Toyota regarded suppliers as partners (because they produced 80% of the car), and encouraged innovation in more efficient process flows, eliminating waste and non-value added work in the entire value chain. That competition resulted in GM's bankruptcy.

Toyota saw the entire value chain as a set of alliance partners who were strategic to their future. They treated suppliers not as vendors, but as co-creators who would maximize the proportion of value-added work through innovation. The entire value stream, from suppliers to manufacturer to dealer to customer was a value creation process for mutual advantage. (see Figure 23)

Toyota and Honda, and then Chrysler during the Stallkamp years,

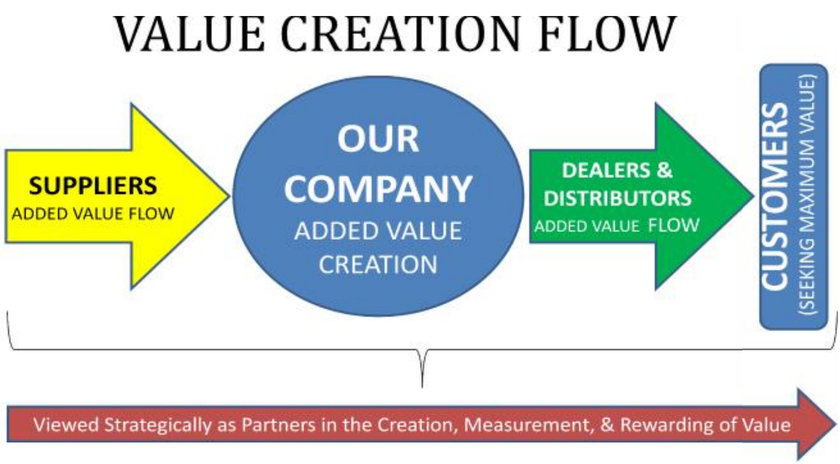



**Figure 23: Creation & Flow of Value**

recognized that this value creation could only be achieved in a high-trust, low-fear environment. Their concept of profit maximization was totally different from the simplistic "cost-cutting" paradigm. (see Figure 24)

GM and Ford, and then Daimler after buying Chrysler, played a different game, believing fear and force would brutally beat sense into their submissive vendors and labor unions into compliance. They were wrong.

Insert ***Motorola Case Study*** here

(see Ron Steffel)

**Where Profit Comes From**


**Figure 24: Economics of Trust Profit Model embracing Mutual Value Creation**

"Beyond [their hostile attitudes toward] suppliers and unions, the attitude of "us against the world" was reflected in the automakers feelings toward their own dealers. The auto retailing system uses independent dealers to move the product. This relationship has often been one of antagonism instead of partnership….Arrogance and self-pride generated by an overriding need to exercise control can negatively influence the very relationships that a company must have to survive and grow. This inward-thinking orientation and defensive attitude has poisoned the ability of U.S. automakers to react to change and has seriously endangered their very survival in the future. [130]

"The existing system of quarterly reporting to Wall Street keeps the overall focus on the short term. This short-run focus is also a result of the inward bias that exists in organizations that practice adversarial commerce routinely …. resulting in the generation of internal costs….As a company…protects those things it does to a fault, it might refuse to accept other approaches that actually would be more efficient. To offset these internal inefficiencies, the companies turn against the remaining outside partners with a greater degree of negativism. The management attitude becomes overly focused on the cost control side of the equation instead of [innovation and] revenue generation."[131]

"Wall Street and institutional investors often encourage this "slash and burn" approach. However, the danger is that concentrating on inward negative thinking creates a downward spiral as the company gets smaller and has higher costs, which, in turn, generates even more reduction actions and forces the firm to take less risk and implement less innovation.[132]"

"Instead of using the leverage of working with outside partners to reduce capital, internally focused development increases capital requirements…..the demand for arbitrary cost reductions and threats of canceling contracts with no warning created more suspicions in the minds of suppliers about their ability to trust clients…at the very time [they should be] working on joint development and jointly sharing the costs that are saved.[133]

"Companies that treat suppliers, dealers, or customers poorly will not find it easy to add a new development partner under acceptable terms."[134]

## ECONOMICS OF EXPANDABLES

One of the difficulties that has made the clarity and understanding *of Synergistic Economics* is that financial analysts have tried unsuccessfully to understand it through the lens of *Transactional Economics*. This is like trying to understand the workings of a computer if all you've ever known was a mechanical watch; or a cave man trying to read a book.

For example, during the time Chrysler was in its heyday in the mid-1990s, Wall Street analysts focused on Chrysler's success and their excellent cash flow, but few, if any, understood *how* Chrysler actually created the value that became financial wealth. The highly intelligent MBAs that had graduated from the best business schools tried to use standard business analysis to interpret a non-standard approach, and came up empty-handed.

The same thing happened when Toyota invited General Motors executives and engineers to observe the Toyota Lean Management System. While GM analyzed, studied, dissected, measured, and queried Toyota, they still failed to see what was right under their eyes. Toyota had an "invisible" set of operational conditions what were woven into the pattern of their cultural fabric, hidden in plain sight.

The first "hidden" or "invisible" factor was the trust and respect Toyota had for its employees. This trust produced an environment that fostered respect, teamwork, and learning.

The second factor perhaps even Toyota had not fully understood (except intuitively) – they felt it, sensed it, nurtured it, but didn't describe it – "it" was the self-regenerative power of collaborative innovation: the ability of people, when put in the right environment, to create, improve, and invent together.

Thus, when those from an older paradigm looked at a new paradigm, they tried to interpret it from the old framework, and thus failed, like cavemen trying to read a book, or Victorian watchmakers trying to repair a computer.

### *Classical Theory of Expendables*

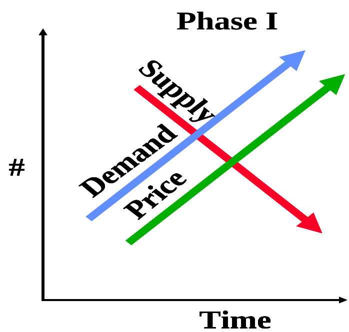
Anyone who has studied even the most basic economics has learned the Law of Supply and Demand. It is the basis of all traditional transactional economics, which are typically "expendable" goods or services.

## Exp<u>e</u>ndable resources are *depleted* and *decrease* upon usage.

Let's use gasoline as an example of an expendable. In this case, all the normal laws of supply and demand prevail. When you use a gallon of gasoline, the gasoline is gone forever – kaput. Each gallon of gas you use diminishes the supply of gas. As demand goes up, supply goes down, driving the price up (see **Error! Reference source not found.**).

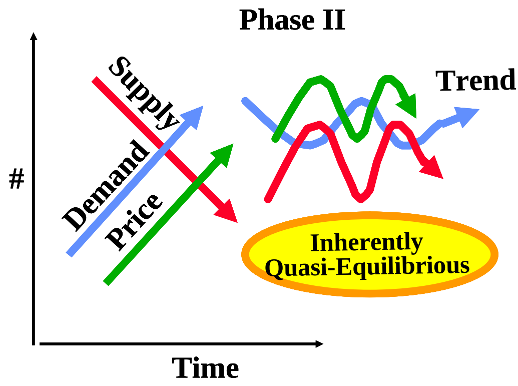
In the first phase of the Supply & Demand cycle, if supply exceeds demand, the market becomes flooded with unsold goods, demand reverses course downward, supply increases, and price goes down. During the time the gasoline sits in your car when you aren't driving, the utility (or value) of the gasoline remains stable.

Figure 25: Economics of Expendables Phase I




Then, as price is driven up, suppliers are encouraged to produce more because they can make significantly more profit, which increases supply, which in turn drives down prices. Eventually some zone of equilibrium is achieved in which prices and supply and demand tend to stay within a range. ( Figure 26 demonstrates this graphically.)

**Figure 26: Economics of Expendables Phase II**




That's pretty obvious and pretty simple.

The transactional exchange, rational self-interest, free market paradigm is seductively deceptive because of its simplicity, perhaps even tragically flawed, because it fails to embrace the existence of a parallel, value creation model of economic activity that includes what seem to be two "hidden" factors: the first is trust and the second is what we term "exp***a***ndables."

### *The Hidden Economics of Expandables*

We have addressed trust in detail throughout this entire book; now it's time to delve into the nature of how trust is related to "expandables." While you weren't taught the Economics of Exp***a***ndables in school, and can't see as easily, most of us know it from experience. The stories throughout this book and particularly the preceding examples in this chapter, make in this idea tangible, measurable, understandable, and, most importantly, credible.

Economists were puzzled by it when they saw productivity increase dramatically in the 1990's, but couldn't explain it with traditional thinking. Here's why: Unlike exp***e***ndables (which adhere to the universal price laws of supply and demand)

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

This is how 1+1 can equal 3 or more.

Because this is a new concept, let's look at a few more examples of the economics of exp***a***ndables in practice to gain a fuller understanding.

Take Edison's invention of the phonograph over a hundred years ago as an early technological example in the "analog age." Once Edison created phonograph technology, each single record could be reproduced at an extremely low incremental cost of production, though selling for a premium.

Unlike consumables like bread or horse feed, playing the record did not "use it up;" the more it was used, the more utility was derived.[135] Phonographs were then superseded by radios, which extended the range and utility of phonograph records even further.

Here's another more modern example that will illustrate the concept of exp***a***ndables from a more dramatic perspective:

*While the distinction between Synergistic Mutual Value Creation and Transactional Exchange describes the* **Economic System**, *the distinction between Exp**e**ndables and Exp**a**ndables describes the* **Nature or Properties of the Interchange.**

Software is a modern and extreme version of Edison's phenomenon in the digital age. Software is one of the most cheaply reproduced products in the world, and is inherently an exp*a*ndable resource.Unlike something expendable, like a car or a washing machine, the after the first version is produced, each succeeding edition costs virtually nothing. A disk or CD costs virtually nothing to produce (the CD or Disk's value is less than $1, and an Internet download is almost free), but the software may be valued at tens or hundreds of dollars, or more. In this software example, the incremental cost of production of the next package of software is so low, that the cost is next to negligible.

Using it daily does not diminish its size or impact.

To the contrary, using software creates more value every time it is used -- therefore it expands. It's best used when shared, transferred and transmitted; hording it diminishes its value; using this resource brings it to life.

Capturing the learning and sharing the knowledge generated by software only makes it more valuable, reaching more people, and generating more future possibilities. Software is inherently invisible, being only a series of magnetic imprints on a media.

Most software can be moved across continents instantaneously on the internet for virtually nothing; zero transportation or shipping costs.

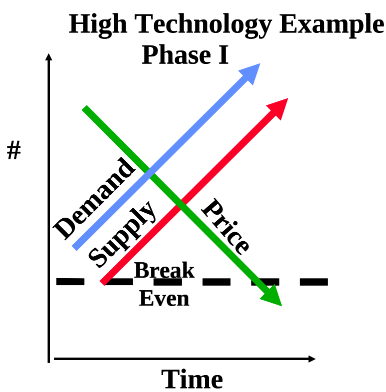
As software demand increases, the supply is not used up; the incremental cost of multiplying it is negligible. Then, once it is installed on a computer, the more it is used, the more valuable it becomes as each user creates data and adds value by sharing knowledge. Using the software more does not create less of it; to the contrary it produces *more of it*. Therefore:

> First, the traditional economic laws of supply, demand, and price do not prevail in the system of Economics of Expandables.
>
> Second, the Economics of Expandables, because it tends also to work in tandem with the synergistic mutual value creation, can reasonably thought of as the "economics of abundance."[136]

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

This same phenomenon has brought the music industry to its knees as songs are exchanged over the Internet or on flash drives for free, making their price infinitesimally low. Figure 27: Economics of Expandables Phase I -- Software demonstrates what happens on the supply, demand, and price curves.

Figure 27: Economics of Expandables Phase I -- Software




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

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

But seldom can this strategy last forever. Microsoft's Office Suite, which retails for $400 is now forced to compete with Sun's Open Office, which downloads for free; and because Firefox's Internet browser is free, Microsoft's Internet Explorer is also free.

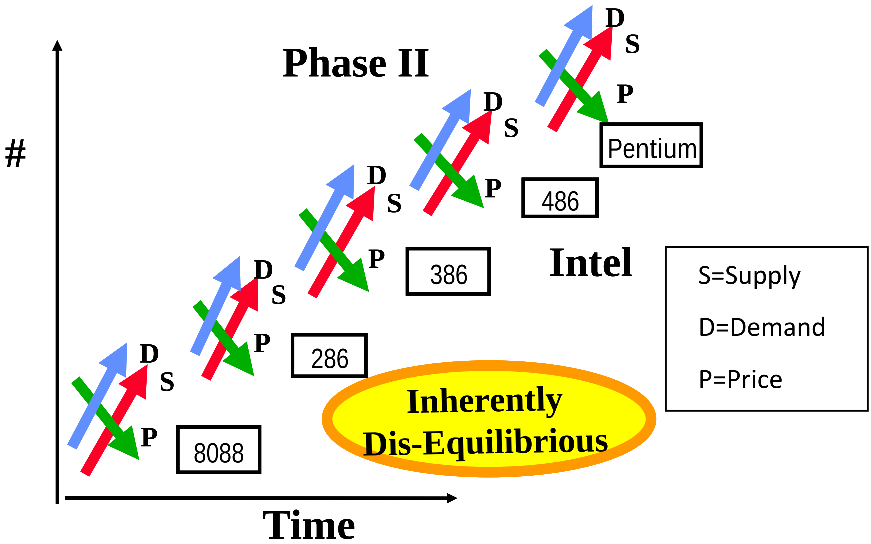
The other option calls for a *regenerative strategy* by which a new and better version of the technology or offering is regenerated in a newer version with great rapidity to obsolete the earlier version, thus creating the second phase (or generation) of the evolution.

Figure 27: Economics of Expandables Phase I -- Software illustrates the strategy of Intel from the perspective of the *Economics of Expandables* (note: silicon, the major component of a computer chip, is one of the most abundant minerals on the earth.) Intel's constant regeneration is based on "Moore's Law" (proposed by Intel's CEO Gordon Moore in the 1970s), that demands "the capacity of a computer chip double every eighteen months, and the price per byte will drop by one half."

Intel created "Moore's "Law" to drive regeneration. Their popular 8086 chip, followed by the 8088 powered the personal computer revolution in the 1980s. These were quickly superseded by the by 1990, 286 chip, which had more power than the computers that put a man on the moon twenty years before. Other computer chip manufacturers are forced to adhere or to beat Moore's law, thus they track along this second regenerative phase.

A chip manufacturing plant and the associated design capabilities are expensive. But once one the chip fabrication plant is up and running, the incremental cost of production of the succeeding chip is very small, price competition can become fierce, resulting in over-capacity

**Figure 28: Economics of Expandables – Regenerative Example -- Intel**




and price wars. This creates a condition that is inherently dis-equilibrious (unstable, erratic, unpredictable). A price war is ruinous as there could be no bottom to the price decline.

Thus the regenerative strategy enables competitors to survive only if they innovate quickly. Those who fail to innovate will be caught in a price war that strips them of the financial resources necessary to invest in the next round of innovation.

For Intel, this price/demand/supply relationship burns itself out every 18 months (Moore's Law), unless Intel creates a totally new level of chips. The 8086 chip of the early 1980s had had to be supplanted by the 8088, then 286, then the 386, then the 486, then the Pentium I, II, III, IV, V, then the i2,i3,i5,i7 and onward. (see Figure 28)

This same regenerative strategy was used competitively by Apple with the introduction of the iPhone in 2007, then creating a new generation phone about every twelve months, putting its rivals Motorola, Blackberry, and Nokia in the tank.

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

Now, for another leap in thinking: What other phenomenon demonstrate virtually unlimited supply, while its frequent use does not “use it up?” How about *creativity*, or *trust*, or *teamwork*, or *communication or compassion or courage*? Creating demand for co-operation, and developing skills in cooperation does not “use it up;” but instead, the more it is used, the more utility it generates – thus becoming a “regenerative system.” These human systems act just like software – they expand and regenerate upon greater use.

This regenerative, expandable power is evident everywhere. When a person, team, or business partners engage creatively to invent a new product, process, technology, or idea, their creative “juices” are not “used up” when they are put into play. Quite to the contrary, their creativity expands based on their trust of each other and their willingness to *share* resources. This is the economic version of synergy in action. The relationship between the players acts as a

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

"creationship" – the highest level on the Ladder of Trust. (see Chapter 3)

Accessing the expansive possibility of sharing begins with the mutual belief that "the more you give, the more you're going to get." When both partners hold this belief, it manifests. The general rule for the Law of Exp***a***ndables is:

### *Sharing Expands, Hording Contracts*

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

**Belief systems can both destroy or empower.**

A destructive but inaccurate belief system was the basis of Hitler's war on the world to prove the superiority of the Aryan race.

Similarly not long ago we believed that Blacks could not fly airplanes or play quarterback on a football team. Or that male is smarter than female.

Our beliefs about beating up on "vendors" to get a better value is what is called an "undifferentiated" or "monolithic" belief system. It is correct in some circumstances, but erroneous in others. Great leaders are able to make the distinctions about when and how to make these distinctions.

There's an old Japanese saying: "when all you have is a hammer, everything looks like a nail."

Knowing the pros and cons of one's own belief systems is not easy – requiring constant vigilance, and self correction.

## DISTINGUISHING BETWEEN ECONOMIC SYSTEMS

Not everyone is attuned to or supportive of *Synergistic Mutual Value Creation* nor the nature of trust and collaboration. Typically "deal makers," steeped in the traditional transactional model of exchange (and rewarded for quick turnarounds), focus solely on the *self-interest based exchange* model, failing to see or understand the *value creation* model may be a more effective alternative, principally because it is a much longer-term approach.

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

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

The following chart (see Figure 29) compares aspects of the Dual Economic Systems to help one distinguish the differences.

| *Dual Economic Systems Operating Simultaneously* | |
|---|---|
| Transactional Exchange Economics<br>*(Survival of the Fittest)* | Synergistic Mutual Value Creation Economics<br>*(Thrival of the Collaboratively Innovative)* |
| Transactional Relationship between Buyer & Seller | Strategic Relationship between Buyer & Seller |
| "Fair Trade" -- Bargaining Purchase Goods & Services according to Specification | "Mutual Value Creation" Generate Flow of Innovation attached to Goods & Services |
| Maximize Profit & Investor Return,<br>Minimize Risk<br>for each Link in the Chain | Maximize Competitive Advantage,<br>Minimize Non-Value Added in the Value Network |
| Independence/Autonomy in Chain | Interdependence in Value Network |
| Closed/Sub-Optimized Boundaries Limits Potential for Mutual Advantage | Open/Optimized Boundary Creates System-wide Mutual Advantage |
| Frequently "Expendables" are traded between parties | Frequently "Expandables" are created between the parties |
| Negotiations focus on Lowest Price | Negotiations focus on mutual benefit and mutual advantage |

**Figure 29: Comparing Transactional & Synergistic Economics**

| *Typical Thinking & Method with Suppliers, Labor, & Customers* | |
|---|---|
| Win-Lose Economics<br>*Traditional Vendor Approach* | Synergistic Mutual Value Creation Economics<br>*Collaborative Innovation & Strategic Alliance Approach* |
| *Beat up the Supplier and Customer!*<br>*Focus on Price*<br>➢ *Play "Torque-Master" against the vendor on Prices*<br>➢ *Play the Manipulative Game Short-Term – Trick & Switch*<br>➢ *OK if: Suppliers are Commodity Vendors ("3 Bids & a Buy")* | *Fortify the Supplier and Customer!*<br>*Focus on Value & Strategy*<br>➢ *Improve their Capacity & Capability*<br>➢ *Create Better Margins for everyone*<br>➢ *Improve Competitive Advantages in Your Value Chain*<br>➢ *Trusting Relationships are Essential* |
| *Concept of Profit Maximization*<br><br> | *Concept of Profit Maximization*<br><br> |
| *Supply Chain is an Expense therefore cut costs* | *Supply Chain is an Asset therefore use it as a means of generating innovation* |
| *Customers are to be bargained with to extract maximum price/value relationship* | *Create value that increases customer competitiveness over long term* |

**Figure 30: Distinguishing Customer & Supplier Strategies & Tactics**

A major difficulty arises in business decision making when one cannot distinguish between the Economic Systems models: we get a muddle

– choosing a portion of a belief system or tactic from one model and mixing it with a portion of an incompatible system, ending up with an awful oil and water mix, sending confusing and misaligned signals to others. For this reason, our team created the Supply Chain Simulation referred to earlier in this chapter. The Simulation was designed not just to test the performance advantages of collaboration, but also to enable participants to clearly distinguish the different types of Economic Systems thinking that underpinned the Simulation. After the Simulation, participants then engaged in a rigorous 2-day action-planning workshop with their customers and suppliers to implement the Synergistic Mutual Value Creation Economic Strategy in their supply chains. (see Figure 30 for one of the frameworks presented in the 2-day workshop)

Here's one good case where this type of thinking makes a big difference:

Flextronics is a $30 billion company that makes electronics devices that are branded under other company's names. Your HP printer or Xerox copier or Kodak camera was probably made by Flextronics. Flextronics is an industry where the profit margins are razor thin. Typically, in this industry, customers are trained to beat down on vendors, which creates a potentially adversarial relationship between buyer in seller.

In an effort to shift the paradigm, Vice President Patrick Hehir took up the challenge. In 2007, Flextronics' motto was "Design, Build, Ship." I asked Patrick what was the result of that motto. Lamentively he said that vendor bashing, low margins, and hence limited R&D was the norm in the industry.

Together we explored in detail the ideas summarized Figure 30. By the end of the hour we had charted out a new path for Flextronics and a new motto to match it:

*Creating Value that Increases Customer Competitiveness*[137]

In those six words we crystalized a shift from being a "vendor" to being an alliance partner that was more interested in keeping its customer's thriving, alive, and propelling themselves into the future in a fast-moving, rapidly-changing world that needed.

Today, Flextronics now views and describes itself in a very different manner than the transactions "Design, Build, Ship" vision it had several years ago:

> At Flextronics, impossible is where breakthrough begins….[we are] unique in our ability to provide end-to-end solutions …. all to enhance customer competitiveness and success.
>
> What Flextronics creates is value. By increasing speed to market and driving competitive positioning for customers, Flextronics in essence solves customers' most challenging problems better, faster and more cost effectively than any other company. Flextronics is able to manage big data in a way that allows for trending in market environments that are in flux, allowing the Company to provide solutions for customers, often before a challenge is ever realized.[138]

Being able to distinguish between *Tactical-Transactional Exchange* and *Synergistic Mutual Value Creation* IS essential. It can be a bit disconcerting to give up the tactical-transactional game plan between buyer and seller to jump into a new order based on the *mutual creation of value* where buyer and seller are strategically linked in an alliance, and see their interests as synergistically intertwined with suppliers and customers working jointly.

And the failure to make this distinction is exactly why the American auto industry collapsed in the face of Japanese competition, the former didn't see the difference, the latter did and took advantage of that insight.

Shifting the game from the left column to the right column in Figure 30 is not an overnight fix; it requires reprogramming the sales force, the service delivery force, the engineering staff, the customer base and the supply chain to enable them to understand the nature of a new game with new rules. This takes time, but can be extremely rewarding, as Tom Stallkamp discovered at Chrysler. But one can only gain these rewards first by believing it is possible, and by not denying the evidence.

A strategic relationship requires a strong foundation of trust that enables synergies to generate additional value. Collaborative strategies and structures are ideal generating innovation in this situation; Trust is a propellant of innovation. Yet, because trust, creativity, and synergy tend to be largely "invisible," economic theorists have shied away from developing an economic model for this type of "creative capitalism."

## Belief Systems Underpin Action

Our world is, in large measure, our creation, formed and molded by the lens of belief systems that guide the decisions we make or avoid, consciously, conflicted, or unconsciously.

After effectively twenty five hundred years since the dawn of modern Western civilization, why are too many of our choices the result of ill-conceived or conflicting values, or without conscious awareness of the key issues and their consequences?

How could General Motors, in the face of twenty five years of competitive intelligence about how the Japanese ran supply chain, not change their ways? Why could Daimler-Benz reverse the phenomenal engine of innovation with suppliers at Chrysler? How could American Airlines keep fighting its unions after seeing Southwest then Continental take their market away through cooperation? How could the steel industry let itself go virtually extinct in America in the face of foreign competition, with the sole exception of Nucor Steel?

Look at Detroit today – it is a dying city with abandoned houses and a declining population as people desert their sinking ship. Detroit, like Allentown, Pennsylvania, the home of Bethlehem Steel, is bleak testimony to leaders who were caught in paradigm paralysis, hooked to an outmoded, inaccurate, and unsustainable belief system that was doomed in the face of competitors who had found a better way.

Why has our presumably civilized world been stymied and confounded to the point that often business leaders seem to lack vision, coherency, insight, and direction?

One culprit lays in our core belief systems themselves.

Belief Systems are the *central organizing principles* for humans to make order out of the seemingly chaotic inputs that come into our brains. And the more complex our world – the type of world we are in today – the more important are our belief systems as we strive to make order out of ever-changing new inputs.

Our brain is a massive pattern recognition and prediction system. It is designed to spot new situations, then fit the new data into some past pattern it has recognized, and act accordingly. That is why you can drive down the road almost unconsciously, changing lanes, stopping at traffic signals, and arrive at your destination virtually without thinking at all.

The brain is designed this way so it doesn't become gridlocked, confounded with having to analyze every new situation and make complex, time-consuming decisions that would put us in jeopardy trying to decide whether to go right or left, what to eat, how to put on our clothes, or how to behave in public. And this "already knowing" is both a blessing and a curse.

*What gets us in trouble is not what we don't know.*

*It's what we know for sure that just ain't so.*

*--Mark Twain*

When the subtle patterns shift, especially in things as ephemeral as relationships, our brain may not recognize the shift unless someone points it out in a meaningfully communicated manner; often this means with data, evidence, new frameworks, and clear pathways for action.

Most people's belief systems come not from deep introspection and analysis, but from our culture. Because babies are not born with the knowledge of the parents already imprinted on their brains, we rely on culture to pass down knowledge from one generation to another. That is the role of the educational system.

For example, if you are born into a Christian culture, you will most likely adopt a Christian belief system, and never challenge it; if you are born into a culture that cherishes a monarchy, unless the monarch is despotic, you may never challenge it.

Even in the face of overwhelming evidence that invalidates their belief system; many people will refuse to change their behavior, because belief systems become habits. For example, the dangers of smoking have been widely known for fifty years. But many people believe cancer won't happen to them; they think they are impervious to carcinogens.

A corrupted belief system is like having a corrupted operating system in your computer. At best the computer will operate erratically. Even worse, it will be marginally functional, or be perversely dysfunctional or will shut down entirely.

To make a belief system workable, we tend to simplify it, because complex belief systems tend to be too intricate and convoluted to be quick references for decision making.

> *Incoherent belief systems yield incoherent results.*
>
> *Coherent belief systems become Grand Unifying Principles*
>
> A multitude of problems arise when we marry ½ truths with ½ illusions or mistruths, (making a "Myth") which is then passed off to others as a full truth.

For example, for years financial officers in companies adhered to the idea that to make a profit, one must cut costs; squeezing suppliers became an art-form. In the short term, profits went up, supposedly validating the belief system; therefore: squeeze more. However, suppliers cut corners, quality went down, warranty costs went up, and profits diminished. The belief system was inadequate, but most still adhere to these dysfunctional beliefs.

In the year 2000, I was asked by General Motors to present a set of ideas for improving their ability to innovate with suppliers. After the meeting, which was cordial and well receive, one of the senior executives put his hand on my shoulder, looked at me with saddened eyes, and said: "Your ideas are exactly what we need around here. But we still worship at the [Jose Ignacio] Lopez alter. I'm afraid top management will reject all these ideas, even though you are right." Belief systems are hard to crack.

## Belief Seeks Simplicity

Complexity can easily dissipate the brain's effectiveness by making everything slow down and more difficult to accomplish. Think of a government bureaucracy. One reason people detest it is because it makes everything more difficult and less efficient.

The passionate zest for life can get blocked when our belief systems are confused, confounded, conflicted, or entangled in complexified contradictions, all of which conspire to prevent consistency and convergence of thought and action.

Simplicity, on the other hand, focuses the brain's effort. For example, it's a lot easier to make all encompassing statement of belief than complex ones. Anyone can say "All men who wear red ties must be passionate." It makes decision-making quite simple, but totally wrong.

We must always be alert to "dumb" simplicity and "smart" simplicity. Oliver Wendell Holmes Jr. expressed the difference:

> *I wouldn't give a fig for the simplicity on this side of complexity;*

*I would give my right arm for the simplicity on the far side of complexity.*

"Make everything as simple as possible, but not simpler"
Albert Einstein

A good example of this smart simplicity on the *far* side of complexity is Einstein's $E=mc^2$. The scientific/mathematical proof of this equation is very complex, but the relationship between its core elements: energy, matter, and the speed of light is quite basic. One cannot derive this simplicity on the near (dumb) side of complexity.

*Simple solutions on the far side of complexity tend to be much more elegant unifying solutions.*

We will see how undifferentiated thinking about economics and finance obscure some simple realities. That obscurity costs us a lot every day.

# Chapter 6.
# Understanding Economic & Human Behavior

## *The Problem*

Historically, economics and human behavior have existed in totally different worlds. Economic theory is based more on statistical analysis – a somewhat scientific approach because of its mathematical foundation.

The problem is that economic theory has too many anomalies, contradictions, and irrational behavior.

## *Core Beliefs versus Hard Reality*

For half a century the prevailing theory of human decision-making that underpins economic theory is that people act in their "rational self-interest" and that markets are self correcting.

The problem is multi-fold.

First, people don't act rationally. If they did there would be no "boom and bust' cycle

Second, unethical people manipulate markets and act unscrupulously.

> Third, fear and greed are often more potent directive forces than rationality.

This problem is amplified because the culture of any organization is fundamentally built upon core beliefs, which then are transformed into values, which are the foundation of operating principles and procedures, supported by measures and rewards and education. sn

Culture =Core Beliefs → Values → Operating Principles & Procedures → Metrics & Reward Systems →Education → Behavior

This is a self-reinforcing cycle. But if the core beliefs are fundamentally flawed, the whole culture suffers.

> Life is a choice. But much of those choices are filtered and directed by what you think is true – your "belief systems." If you believe blacks can't fly airplanes, you never make them ace fighter pilots. If you believe blacks can't be quarterbacks, then they never get a chance to star in football. If you believe the world is flat, you never try to sail around it.
>
> Similarly, if you believe people are inherently greedy, selfish, and only motivated by money, that's all you see.

In this section we will look at the realities of human behavior – the good, the glorious, the bad, and the ugly – with the intention of explaining economic behavior from the perspective of what "drives" humans to do what they do.

By understanding the nature of humans, we can then adroitly enable them to create, innovate, and work better in teams.

## THE NATURE OF HUMAN NATURE

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 teamwork, joint innovation, and personal achievement. (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 a few.

"Drives" as we use the term are the ultimate, irreducible motives of human behavior. These are like *energy forces*. There are four basic drives – A, B, C, & D -- in all healthy human beings:

1) 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:
2) 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. Together, the drives to *Acquire* and *Defend* are often called the "ego drives."

When a leader triggers these two drives excessively, however, other circuitry in the brain is inhibited, as will be explained below.

## *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:

3) Drive to ***Bond*** ––the drive to live and work in groups, such as teams or herds.[139] 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). If these leader creates situations putting these drives into conflict then the leader must resolve this or cooperation and group performance will be diminished. (in Chapters Five: Trust Principles & Six: Trust Skills Building, we provide more this on how to do this guidance.)

## *Unique Human Brain Circuitry*

Human beings have very 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:

4) 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 person seeking to build a better world 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*[140] or *soul.* Further, the drive to *Bond* activates the pleasure circuitry of the drive to *Acquire*. This gives leaders a "win-win" way to stimulate new ideas, possibilities, and bold new futures: it benefits both the individual and the group.

We've arrayed the four drives in the form of a "Human Nature Compass." (see Figure 31) 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. While each drive is independent, they are not fully autonomous in that the exercise of one drive influences the other.

If people feel unfulfilled, they will seek fulfillment of the drive that's lacking in some other way. People who play a leadership role or are in the position of authority trigger responses in each of the drives. Rewards and punishments are designed to stimulate or repress the drives.

For example, by reinforcing the drive to *Bond,* a leader emphasizes *teamwork,* and by simultaneously reinforcing the drive to *Create* the leader stimulates *joint problem solving* and *collaborative innovation.*

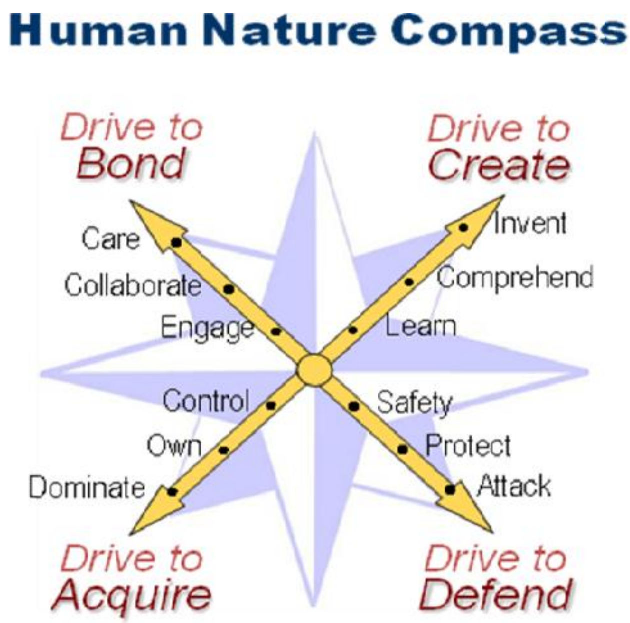



**Figure 31: Four Drive Compass**

A leader can focus the drive to *Acquire* by aiming at clear goals and objectives. However, by pushing *Acquire* too hard and without the drive to *Bond*, greedy self-interest will prevail.

Providing an environment of safety and security will satisfy the drive to *Defend*. While depriving people of the resources they need to survive will trigger fear, the drive to *Defend* in overdrive.

But exactly how does one know just what proportions of these drives are needed to build trust? How does one steer the ship with the Human Nature Compass? How do we stay on course of integrity and honorable purpose?

The answer lies in *balance* and *alignment* of the drives. When the drives are out of alignment, you will get very strong signals – in the form of emotions. Emotions are "markers" that give us feedback that the drives are *in* or *out* of alignment.

> In the companies where trust is high, people are less defensive (drive to *Defend*), are given the resources and recognition they need to do the job (drive to *Acquire*), work together as a team without boundaries (drive to *Bond*), and find opportunities to see and solve problems (drive to *Create*). All four drives are working in tandem, in alignment, and in balance.
>
> In companies where labor and management are constantly fighting, the drives to *Acquire* and *Defend* are predominant, and collaborative innovation (drives to *Bond* & *Create*) is repressed or acts in subversion mode (see the Labor Union from Hell! in Chapter 7). Non-Value Added escalates, and, at worst people engage in Value Destruction.

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, not running smoothly. And when the front end is out of alignment, the car is always pulling to one side, constantly needing correction.

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.

Everyone's brain is designed to respond within ¼ second to sensory inputs -- sight, sound, touch, taste, smell, and vibration -- from the external environment. Every time you are in someone's presence, you send signals to their brain that triggers each of the four drives.

## *Comparing the Four Drive Model to Maslow*

It will be natural to compare Lawrence's "Four Drive Model" to Maslow's well-known "Hierarchy of Needs."

There are some important differences.

First, Maslow sees humans as having "needs," and thus we strive to meet those needs. Lawrence perceives these as "drives" which are innate in the brain structure of modern humans. We do not have a real choice in some of our behavior because the drive is a causative force for many of our actions.

Second, Maslow's Hierarchy assumes that one's basic needs for food and shelter must be satisfied first before other needs. Lawrence makes a different observation: that the basic needs (which are the Drives to *Acquire* and *Defend*) are not always fully satisfied in all people. In fact, some people are obsessive about these drives, often becoming controlling and dominating in their obsession.

Third, the Drive to *Create* (&*Comprehend*) is uniquely human and cannot be left to wait until other needs are met. Nor can the Drive to *Bond* be ignored, as these two Drives are inextricably built into the human brain structure. Thus the four drives are always in constant tension to find some *balance* within the context of one's environment; or better: a *synergistic alignment*.

Fourth, unlike Maslow's model that makes the epitome of human existence a sense of "self actualization," Lawrence contends that the Drive to *Create/Comprehend* has no limit, and the Drive to Bond is not simply about self, but about the nature of humans as a collaborative species seeking an ever evolving synergy.

Fifth, Lawrence does make exceptions for psychopathic behavior. Lacking the Drive to *Bond,* referring to them as "people without conscience," they behave outside the norm for humans.

Lawrence's model has another added advantage over Maslow's model, which lacks the rigor of both scientific foundations and an evolutionary basis in man's fight for survival and reproduction; Lawrence grounds his model deeply in evolutionary competitive advantage, behavioral studies, and neuroscientific research.

## *How Brain Chemistry Works to Build Trust*

It's important for you to know about how the brain's chemistry responds directly to what is people sense in your presence.

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."

Each of the four drives has a primary neurochemical that it utilizes. While all these drives use a combination of neurotransmitters, focusing on the primary neurochemistry of the four drives provides additional insights into how to harness them.[141]

Four brain chemicals can be mapped into the four drives (see Figure 32). The drive to *Acquire* primarily uses dopamine, the drive to *Defend* causes the release of norepinepherine (the brain-version of adrenaline), the drive to *Bond* uses oxytocin as discussed above, and the drive to *Create* is driven by the brain's opioids. Here's how they work:

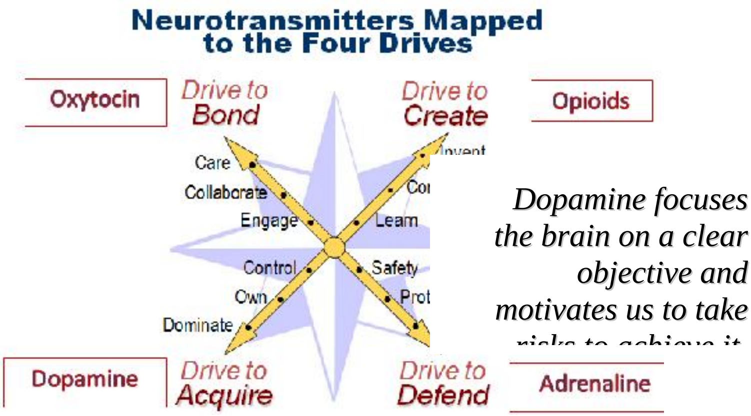



Figure 32: Four Neurotransmitters & the Four

### *Dopamine & the Drive to Acquire*

Dopamine is part of the brain's "wanting system." It orients us to find resources such as food, fluids, shelter and a mate. It focuses the brain on a limited objective and motivates us to take risks to obtain this objective. Having a "goal" enables the brain to sort through the clutter of life and stay honed in on something it discerns as valuable. The "wanting system" is rapid and automatic, for example, it activates quickly when a person smells aromatic food, or when someone smiles at us. It's saying, "this is good, do more of it."

*People whose brains produce too little dopamine are lethargic, risk-averse and unfocused, while those with too much dopamine become obsessive, possessive, risk-loving, and overly selfish.*

*To keep dopamine in the "balanced" range – not too much, not too little – we need to align on a clear goal that benefits both you and me., not just me. If only I benefit, but you don't, I will trigger fear (drive to* Defend*) in you, because my self-interest looks like greed to you.*

*If the goal is not mutually beneficial, the self-centered goal will tend to inhibit oxytocin associated with the drive to* Bond*.*

*Dopamine makes us "want" the goal by making us anticipate how it will feel when we achieve it.* Goals with greater meaning and broader values help this balance.

### *Oxytocin & the Drive to Bond*

*Oxytocin enables trust, caring, and love, especially in tough*

Oxytocin is the "collaboration" molecule. When it is present, people link together in close relationships; they trust; they care for each other; they support each other in tough times.

To build trust in a relationship, you need to understand several key cause-effect interactions.

- *Oxytocin is typically released in positive human interactions and motivates us to approach and engage with others, including strangers.*
- *Oxytocin is the foundation for enabling trust between friends and strangers, but its release is inhibited when*

> *one's immediate environment, either team or physical surroundings, are threatening. Fear has a profound negative effect on the release of oxytocin.*

One of the great qualities of oxytocin is that apparently the brain cannot become overdosed on it, thus large amounts are fully tolerated, and there is no dulling effect, meaning that prolonged exposure to it does not require more of it to produce the same effect. In fact, oxytocin-driven bonding is more likely the more the trust-connection brain circuit is engaged.

Every person who wants collaboration – loving relationships, teamwork, trust, alliances, or cooperation -- must pay attention to creating environments that are reasonably secure, because the presence of oxytocin is highly dependent upon not having too much adrenaline caused by triggering the drive to *Defend*.

It is in this type of circumstances when the aphorism: "*Trust means feeling I will be safe in your presence"* has some merit.

It is not a coincidence that the most innovative companies are also the most likely to have reasonable levels of job security. For example, highly rated innovators like Southwest Airlines, Procter & Gamble, Toyota, or Nucor Steel are known for their deep reluctance to lay off employees.

Security, trust, and collaborative innovation are highly interdependent. High stress/fear inhibits oxytocin release in the brain and the desire to collaborate with others.

But, in an evolutionary adaption that makes cooperation more likely, moderate stress, including the anticipation of a rewarding goal identified by the drive to *Acquire*, tends to increase the release of oxytocin. Having a goal to achieve makes us reach out and trust others in order to reach it.

### *Adrenaline & the Drive to Defend*

Adrenaline is the "fear" chemical. When the leader plays with fear, they play with fire; it can be a weapon or a tool, and must be used with great delicacy.

Whenever a person experiences a threatening situation, within a quarter-second adrenaline begins pumping through the body sending the "high alert" signal. Depending upon the person's makeup and the situation, the response will be *fight, flight,* or *freeze.* While it is possible for people to override this response, it is such a powerful human response that it has an almost irrepressible capacity to override every other human desire, including sex, food, and money.

*Adrenaline is the "fear" chemical that has a strong tendency to override every other*

It's noteworthy that fear also has the capacity to "sear" a frightful event onto the brain's long-term memory. That's why we remember bad events so clearly, even if they happened dozens of years ago. This is nature's way of helping us recognize danger and take rapid evasive action if that pattern shows up again. When the brain's circuitry becomes overloaded with too much fear, people can become paralyzed because it keeps reoccurring in our memory; we call it Post Traumatic Stress Disorder -- one of the terrible after-effects of war, but it doesn't take a war to produce it. Too much stress at work will cause the same pattern of behavior.

On the other hand, studies have shown that not enough adrenaline makes people lethargic, overly satisfied, and complacent. A small amount of adrenaline keeps people alert, on their toes. But too much adrenaline shuts down the *Bonding* neurochemical[142], as well as the *Create* and *Acquire* hormones.

The "executive center" of the brain, the prefrontal cortex, can discern an *internal* threat from an *external* one. Thus, if one's *inner* team, within the organization, is trusted, and the threat is from an *outside* competitor, then the collaborative circuitry will stay functionally intact. However, as soon as the threat is seen as *internal* – within the *family* – all hell breaks loose; people experience *betrayal* – the worst form of distrust; they get very angry and are loathe to forget. The drive to *Defend* is one of the foundations of healthy competition and therefore should not be avoided, just channeled in a productive manner.

### *Opioids & the Drive to Create*

The brain has an innovation circuit located in the "newer" part of the brain, the neocortex, which has played an essential role of our evolutionary history as inventive beings. This is where the fourth drive starts its action.

The brain's opioids[143], among these are endorphins, modulate pleasure and pain while releasing dopamine, the *Acquisition* neurotransmitter. The release of opioids causes us to enjoy experiencing the attainment of a goal we were seeking.

*The drives to Acquire and Bond can work synergistically to release the opioids*

In addition, when we exercise, opioids are released, triggering creative imagination as well as dulling pain. Opioid action in the frontal cortex is associated with flashes of insight and creativity which generates a brief "learning high."

Brain imaging studies of the frontal cortex show that while the presence of opioids varies greatly among individuals (depending upon their number of "mu" opioid receptors), all humans have them. Some studies explain that it is the presence of this receptor that makes a creative leap so pleasurable.

> Flooding the brain with chemicals that "mimic" opioids, such as morphine or heroin, does not improve creativity. Morphine binds to 'mu' receptors, giving an artificial high, without the benefit of productive

We praise those with creative insights as this is the "spark" of innovation. Artists, musicians, writers, and inventors have known this for at least two thousand years. What's more, the drives to

*Acquire* and *Bond* can work synergistically to release the opioids for the drive to *Create*.

## *Interaction of the Neuro-Chemicals*

The brain is designed to respond in very special ways to sensory inputs. Figure 33 illustrates how different levels of stress impact the brain. When stress is too low, we are lethargic, not alert, and marginally functional. For most of us, this is how we feel when we are first wakening and not very energized. Our brain's neurotransmitters are in a "slow" state. We are neither creative, nor paying attention to others, nor aimed at accomplishing something.

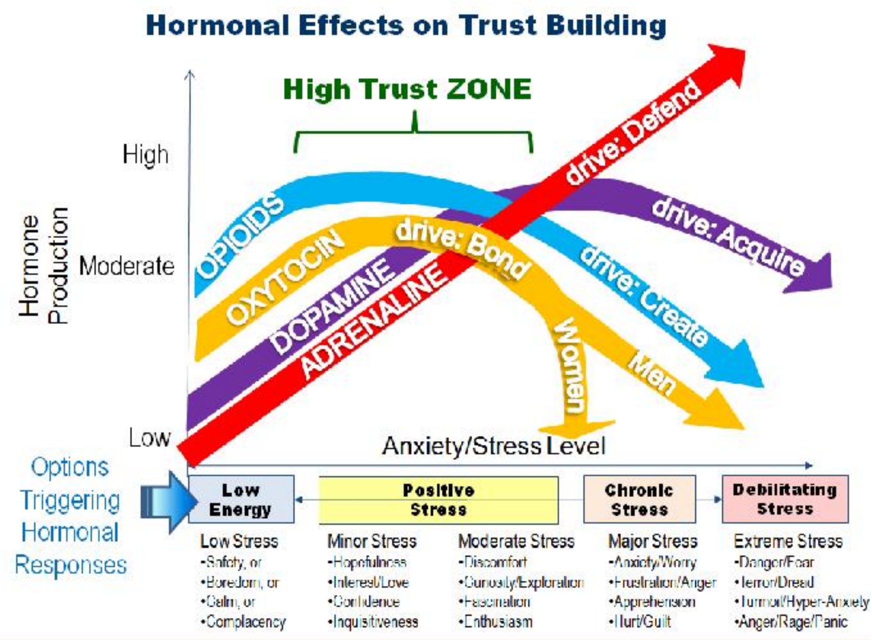



**Figure 33: Brain Hormone Interaction under Stress**

So what do most people do when they are in this state of mind? Have a cup of coffee.

Why? Because coffee triggers the production of adrenaline, which, in low doses, has a synergistic effect on the production of the other three primary neuro-transmitters: dopamine, oxytocin, and opioids.

This moves us into the zone of positive stress, where we become more hopeful, interested, caring, confident, and inquisitive. For many people, they assume that if one cup of coffee is so beneficial in “waking up” that a second cup will be even more beneficial. Perhaps the second cup makes you more intense, more curious, more enthused, more focused.

But if you assume that two cups is so good, then some conclude that a third cup in rapid succession will be triply good! You are then surprised the third cup is actually counter-productive producing feelings of high stress with symptoms of anxiety, worry, frustration, apprehension, and even anger.

Why did the third cup of java have a negative effect on you productivity? Because too much adrenaline actually causes the other three neuro-transmitters to decline, and then shut down, (see Figure 33) starting first with oxytocin (*Bond*), then opioids (*Create*), then dopamine (*Acquire:Goal Setting*).

This set of interactions of the brain’s neurotransmitters occurs every time you interact with another person. Your smile, your criticisms, your turn of the eye, your lack of attention, your self-interest, your compassion, your giving another person credit – everything you do is sensed by others that triggers neurotransmission..

If you do something that triggers anxiety or worry or you send signals that result in fear, dread, or hurt in another person, you cannot be trusted – fear drives  down the other chemicals upon which trust relies.

## *Why Men are from Mars*

Humans are mammals, and all mammals have a herd instinct: humans are family oriented and tribal, wolves form packs, cows herd, dolphin pods. The neurotransmitter that enables this communal instinct is oxytocin (which is not present in reptiles).

While men's and women's brain neuro-transmitters operate in basically the same manner, there is one exception that is quite noteworthy. (This explanation is *not* a "guys are better than gals" thing; it's scientific and proven by innumerable mammalian studies)

Women are female mammals, and all female mammals are designed with a safety mechanism that goes far back into the prehistoric origin of mammals. Unlike reptiles that lay eggs and leave their offspring to fend for themselves, mammals give live birth, then care for the young for a substantial amount of time.

When mammals give birth, the process leaves the female extremely vulnerable. And if danger is present, her birthing process is shut down to ensure that she doesn't risk her own life and protects the life of the new born. It's nature's way of ensuring the survival of the species.

You will note on the chart (Figure 33), that the oxytocin curve for women is different from that of men. This represents the difference in how females diverge from males in their response to high stress (intense anxiety, fear, anger, and such) situations.

Let's illustrate with an example anyone with a few years of marital experience experienced this seemingly mysterious behavior:(this is a composite case history based, not just on my experience, but from interviews of dozens of people who've had similar interactions.)

### *The Lovers Battle – Case Study*

> First, think back to a time when you and your loved one had a big fight or argument. You were really upset with him or her, and the verbal exchanges became extremely heated. The woman was so mad she could spit, caught in the grip of anger.
>
> At that moment, the man looks at his woman and says:

> *"Aw, come on honey, I still love you!*
> *I know you are angry but we can still hug and make up.*
> *Just give me a kiss to show me you still love me!"*

He then moves closer, arms open, sad eyes, ready to give her a hug. From the woman's view, she is totally shocked by such crude and unsympathetic behavior. How could her man be so callous? He just doesn't get it! He's clueless! She shoots back:

> *"Get away from me! (extending her arms to push him back) Don't you dare come closer to me!*
> *(thinking, "I really want to kick you where it hurts!*
> *After all you've hurt me so deeply!)*
> *Just get away from me.*
> *I can't believe you can be so uncaring!!!…… "*

The man is totally perplexed. If he is wise, he retreats with a kind word, and doesn't escalate the fight, until she cools down. He then wanders to his local bar and, crying in his beer, says:

> *"I just don't get women.*
> *Gals are supposed to be kind and loving.*
> *We just had a fight and you'd think she'd respond positively when I told her I loved her and tried to hug her to show my affection.*
> *Instead, she wanted to tear my heart out!*
> *I just don't get it!........"*

Meanwhile, the woman is calling her girl friend, equally perplexed:

> *"I know guys are clueless, but this one beats them all!*
> *My guy just did (insert the foolish act)*
> *……and on top of that he (insert second foolish act)…..*
> *He didn't seem to care for my feelings at all.*
> *That just sent me over the top!*
> *I told him where he could go and how fast he should*

*get there. Then -- can you believe the insensitivity of this guy -- He tried to hug me and told me he loved me! Sure!*
*With those big sad eyes!*
*He must have been kidding! It was a cruel joke!*
*And, you know, I think he even wanted to take me to bed!*
*Are all men such jerks?.......”*

********

If you’ve ever experienced some version of this interaction, rest assured; it’s normal. On the surface, this looks like bizarre behavior. Brain chemistry explains why it happens.

In the story above, when the woman’s brain experienced intense anger, her supply of the bonding (love and trust) hormone oxytocin, was shut down, dropping to virtually zero. She had no intention or desire to hug, kiss, or touch. Consequently, she had no brain receptors that would connect to her man; she couldn’t believe how a man could respond so inappropriately.

On the other hand, the man’s oxytocin level had dropped to only 50% of normal. He was angry, but he still had half his capacity to love and care for his woman, and wanted to express that caring with a hug. And, to complicate matters, his “adrenaline rush” was also a sexual turn-on.

Had the encounter escalated for the worse -- she begins screaming at him and demeaning him -- his oxytocin level probably would have dropped to zero. At that point he might have become violent with her. Then it’s time for the police to break up a domestic violence dispute. Venus and Mars are unique breeds!

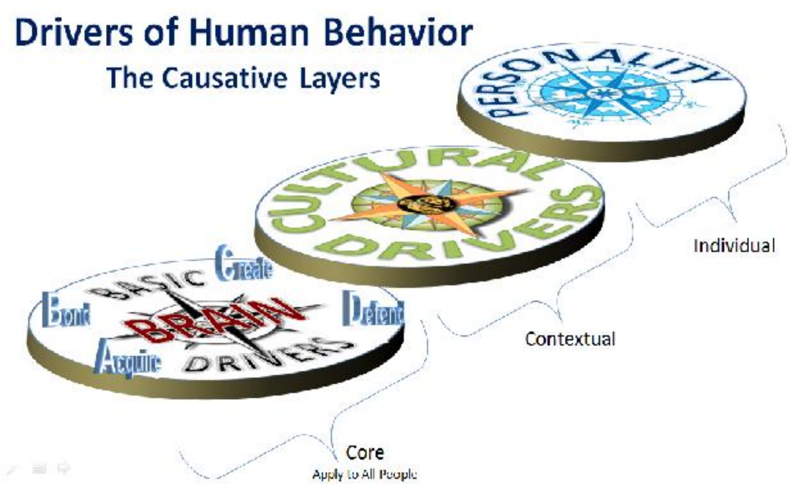
## *The Role of Culture on Behavior*

The Four Drives are common to all human beings around the world, regardless of culture or personality. They might be considered the “natural” or “core” energies of humans. However, explaining why people behave in unique ways cannot be completely laid on the foundation of the natural or core causations.

Culture, the ways our society decides what's "normal:" what's to be valued, what's to be punished, what's to be rewarded, also plays a major role. Culture is so important, that it simply cannot be overlooked or underestimated.

Individual behavior is also influenced by our personal experiences and unique personalities. Together, 1) the Four Drives, 2) a person's culture, (family, community, nation, and so forth) and 3) one's beliefs, along with one's personality and personal experiences together determine behavior. (see Figure 34). For the sake of simplicity we will only address the Four Drives in this volume because they are common to all humans throughout the world.

**Figure 34: Causative Layers of Human Behavior**



## *The Union from Hell -- NUMMI Case Study*

### *Management Turned Good People into Monsters*[144]

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.* [145]

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."*[146]

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.[147]

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.

## *Are humans Competitive or Collaborative?*

It's an important question because it lies at the heart of understanding our nature. Fortunately the Four-Drive Model gives us a very clear understanding: We are *both*. Here's the explanation:

We are *competitive* because we evolved having to compete for resources to survive in hostile environments. This is true for every animal species on the planet. It is the core of our drive to *Acquire.* Without this drive we would not be able to maintain our existence, nor propagate the species. The drive to *Acquire* also embodies status and sex, pleasure and power. Our drive to *Defend* evolved simultaneously to preserve what we acquire and to protect our safety. We might refer to these as the "ego" drives; we all have them, and they are inherent in our nature.

At the same time, we are also *collaborative.* Cooperation is inherent to the nature of all mammals, no matter the type. One of the brain characteristics that distinguishes mammals from reptiles is the presence of a "limbic" system that is home the home of the bonding instinct (drive to *Bond*), something not present in reptiles. Mammals congregate in herds or pods or packs, and care for their young, reptiles don't.

What's even more important, humans have a conscience – what Darwin referred to as our most distinguishing and important characteristic. Our higher intellectual powers from our drive to *Create*, combined with our drive to *Bond* gave rise to the development of a conscience. Darwin maintained that a conscience evolved as the key factor in our ability to progress as a species far more rapidly than any other species on the planet. In other words, it was our combined ability to collaborate (d*Bond*) and innovate (d*Create*) that is the essence of our competitive advantage on earth.

Sports are a deep reflection of our inner nature, that's why we love our teams so ardently, and follow them with such great passion. The most successful sports teams, no matter the sport, maximize both their competitive and collaborative drives. Just watch a team sport game – whether it be hockey, basketball, baseball, soccer, football, or even car racing (remember the pit crew). The winner is the best team that combines a great competitive drive and impeccable collaborative coordination. When these two forces are linked and energized, we call it synergy.

The team with the greatest synergy is able to think best on its feet, creating in the moment, responding to breakdowns and unexpected

*Sports provides an excellent example of the relationship between Cooperation and Collaboration in an Innovative Environment.*

*Basketball is a highly innovative sport. Every moment, every play is improvised to the rapidly changing conditions.*

A good illustration of a team with too much competitiveness and insufficient collaboration (teamwork) was the Superstar U.S. 2004 Olympic basketball squad. Playing in Athens, the U.S. Team, stacked with individual Superstars, lost to Puerto Rico by nearly twenty points in the first game for the most lopsided defeat in the history of U.S. Olympic basketball. This "Dream Team" of high-ego stars then lost to Lithuania and Argentina. The humiliation was due to individual competence being defeated by teams with passion, coordination, and commitment.

In the following Olympics in 2008, the U.S. Basketball team was coached by Mike Krzyzewski, an ardent advocate of team-first principles that instill trust.

With Krzyzewski at the helm, Team USA reclaimed the gold medal at the Beijing Olympics, guiding the U.S. squad to a perfect 8-0 record, winning by an average margin of 28 points per contest – a far cry from the 2004 "Dream Team."

Another great example of how the right combination of collaboration and competition can produce extraordinary results is the Ice Dancing competition at the 2010 Olympics. The Canadian Team of Tessa Virtue & Scott Moir trained everyday with their partners, and competitors from the U.S. Meryl Davis and Charlie White, side-by-side, in the same ice rink. Each team lifted the other to greater heights – Winning the Gold and Silver medals – the first Canadians and Americans to do so, as they ended the Russians 30 year reign. And the Canadian pair was the youngest to ever win the title. The right combination of competition and collaboration can produce superior performance moves by the competition in a rapid and forthright way. This is referred to as being "in the zone;" and it's pure delight to watch from afar as well as to experience on the field. It's also the time when all the brain's hormones have just the right balance to produce optimum creativity, physical performance/endurance, and team coordination. This is what every great coach aspires to do.

### *Collaborate Internally, Compete Externally*

When threats are perceived as *external* but collaboration is high *internally,* the brain modulates its chemistry to enable the drives to *Acquire* & *Defend* to be on alert, (but not in overdrive) and the drives to *Bond* & *Create* to predominate.

When threats are perceived as both *internal and external,* the drives to *Acquire* & *Defend* go into overdrive, triggering behaviors such as panic, fight, flight, freeze, or protect, while the drives to *Bond* and *Create* are subordinated.

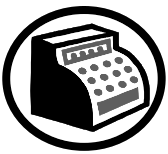
No group can be successful when the team members work against each other instead of together. If you have winners and losers inside the organization, you can't focus on beating the competition outside the organization.[148]

# Chapter 7.
# Building a World You Can Trust

## *Tornado of Distrust*

Reassess the *Union from Hell* case (in the previous chapter) through the lens of the Four Drive framework, the interactions between labor and management over-emphasized the drives to *Acquire* and *Defend,* resulting in nothing less than self-annihilation. The biggest problem with such situations is that they can be *self-degenerative*, an ever-escalating, anger-driven, revenge-based relationships, epitomized by the Tornado of Distrust (see Figure 35 ). Here's a description of the associated behavior (from neutral to worst):

### *TRANSACTION – Neutral: Neither Trust Nor Distrust*



To understand a transaction, think of a toll-booth on the turnpike or paying the attendant at a parking garage. That's a transaction, pure and simple: an exchange of value -- money for use of their road, or parking lot. Can you remember the name of the tollbooth attendant? Of course not, because a transaction is not a relationship, which adds heart and soul into the equation: compassion, commitment, engagement, shared risk and shared reward. The transaction is, pure and simple, a "trade-off," a transactionary experience, one based simply on exchange. There was sufficient trust

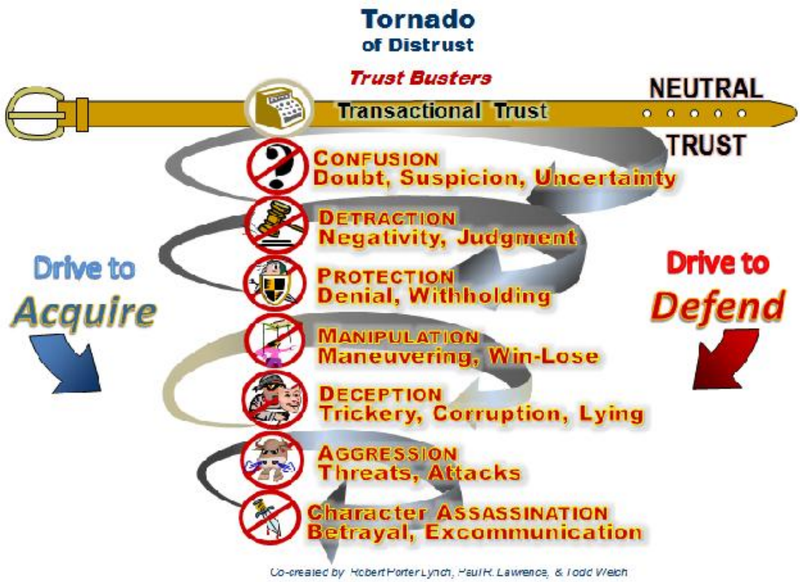



Figure 35: Tornado of Distrust

to do the exchange, but certainly if there were a significant amount of money at stake, you would have wanted the safety and security of a strong relationship based on trust or a good contract.

This is why we put transactions right on the neutral trust line – neither trust nor distrust. It's at this level we have placed a "belt" on the Ladder of Trust to indicate that any action below the level of a transaction is off limits: 'below the belt'.

Transactions happen every day: at the grocery store, at the mall, at the gas station. When shopping, we put enough trust in the "brand" or the store's reputation to complete the exchange of goods or services for money, but not enough trust to engage in any form of deeper relationship. When you buy a house or purchase a car, you do so in a transaction. Often the bank and the seller are not people you know well. But they attempt to protect their loan with a pile of contracts.

This is the arena where the "deal" takes form. Contracts are the presumed basis for creating the safety and security necessary to transact very large deals. The use of the word transaction is important, because it connotes an action across a boundary.

### *CONFUSION – Doubt, Suspicion, Uncertainty*

This is the least destructive and most easily cured form of distrust. Think of it as "Fuzzy Distrust," It shows up when there's too much confusion, lack of direction, unpredictable response, mixed messages, unclear intension, and inconsistency. It's not caused by malice, evil, or greed, but it may show up as selfishness, refrain from risk-taking, and protectiveness.

Not all distrust comes simply from fear; much distrust originates from a very undefined feeling of anxiety or stress; it's the sense of being ill-at-ease in anticipation of fear or harm. The symptoms and conditions of fuzzy distrust are: uncertainty and ambiguity, paradoxical complexity, continual reorganization, continuous change, conflicting goals, unclear direction, fuzzy mission statements, mixed messages, misaligned rewards, mixed leadership styles, political cross-fire, insufficient collaboration, silo mentality (organizational isolation), chaos & turbulence, anxiety and stress.

These conditions are disturbing to the brain, because the Brain is a "pattern recognition machine;" it looks for logical outcomes, regular sequences, cause and effect, and predictable repetitions. When the conditions above prevail, the brain has no pattern or an incomplete or unaligned pattern.

In these situations, the brain makes assumptions to complete the recognition of a pattern, but the chance of accuracy is based only on experience. If experience or culture has been negative, the assumption is negative.

This causes people to refrain from engagement, seek protection behind the "castle walls" of departments or professional certification or lawyers, and so forth. Fuzzy distrust, and the anticipated fear associated with it, is inherently *degenerative* – often triggering deeper, more intense fear and resistance to change.

### *DETRACTION, Negativity & Judgment*

Detraction and negativity come in many forms: the chronic evaluator, the overly judgmental critic, and the cynical. They are quick to judge something wrong, play holier-than-thou, or subtly find a way to make others look reckless, inexperienced, or unworthy and thus make themselves seem stronger, or make you look reckless, inexperienced, unworthy, or just not part of the club. Critical evaluation is a "one-upsmanship" play that seeks to invalidate another person.

One form of detraction is the put-down. Have you ever accused someone of having "rocks for brains" or a similar put- down? That attack is only intended to demean someone, to make them less than human, making them feel insecure, uncertain, and unconfident.

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

Detractors are so engaged in critical judgment they deprive themselves of engaging your creativity and experiencing your skills. Nor can they tap into your unique talents, insights. [149]

(We don't to imply that one should never carefully evaluate people nor make judgments; there's a distinct difference between judging people/situations objectively and making it a personality trait.)

The leader who feasts on a diet of cynicism, and rule by fear may get an emotional power-high, but in the long run, with each passing day, sustainable energy is drained as they wallow in depressive counter-attack, surreptitious spying, cavorting, and deceit.

### PROTECTION, Denial & Withholding

Protection and Deniability (*Defend*) typically comes in two forms: active and passive. Active protectors will often hide behind mountains of legal agreements, non-disclosures, red-tape, and anything that will cover them in the event of a collapse or blame from above. They often have an excuse for everything and a lawyer in the next room.

By being overly protective and by having an infinite repertoire of excuses for their risk-proof behavior, they actually create the very distrust that they attempt to protect themselves from. The legal profession is designed to “protect its clients.” The lower the trust, the greater the thickness of the contracts, riddled with clauses designed to ensure no dishonorable action could produce harm, while the very existence of these clauses actually causes more distrust.

Passive protectors withdraw, flee, hide, or remain silent – making no commitments, avoiding interaction, and taking no risks. Passing the buck is a good way to keep out of the line of fire. Ducking issues is a form of protection. Bureaucrats are professional protectors, deflecting responsibility with obscure rules, convoluted processes, and abstract reasoning.

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

### MANIPULATION, Maneuvering & Win-Lose

The mind of the manipulator has determined they cannot trust their world to respond in predictable and reasonable ways, so they have to trick their world into responding opportunistically to their advantage, which usually sets up a circular, self-fulfilling prophesy.

The most typical manipulation game is whining or complaining. This method attacks others by focusing attention on how everyone else is wrong, bad, guilty, or incompetent. The whiner is seeking to get their own way by maneuvering others into the "bad guy" role, with themselves as the 'rescuer'. They often get away with it because it is easier to placate them than to confront their dysfunctional games.

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

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

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

## *Deception, Corruption, Trickery & Lying*

The purpose of deception is to twist the truth. Lies are nearly always the base of deception. It takes a variety of forms from the innocuous to the sinister. Sometimes it's so subtle it's hardly noticeable. Subtle forms of deception create illusions that something is totally true when it's not. Not giving all the information one should have is deception.

Making others believe something with a half-truth is another example. Twisting the truth makes others insecure, uncertain, and unconfident.

Fraud is another form of deception with the clear intent to swindle someone.

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

While lies are always dishonorable and destructive, in their worst form they can be downright evil, intending to harm, hurt, or damage another person. Lies often place the victim in the unenviable position of having to defend themselves against some allegation that was never true in the first place. The victim then has to go to inordinate lengths to prove that something never happened.

Theft is also an ugly form of corrupt deception resulting in a physical loss of a possession.

## *AGGRESSION, Threats & Attacks*

Aggression is the use of someone's power in a way that seeks to threaten or harm. It represents the extremes of the drive to *Defend* (attack) and the drive to *Acquire* (dominate). The intimidator believes the best defense is a good offense: take the initiative to demonstrate superiority, strength, and power.

For the overt aggressor, it's "either my way or the highway;" and "he who has the gold, rules." They may bellow and bluster. They may vividly demonstrate their power symbolically by sitting higher than others in their office, or telling stories about their aggressiveness, or speaking crassly in public, or insisting their answer is the only right one. The outwardly aggressive person believes the best defense is a good offense: take the initiative to demonstrate superiority, strength, and power. Trust is destroyed as they always put themselves first.

Because outright aggression is pretty obvious, highly intelligent people quickly learn it's frowned upon. So they develop a trickier game, becoming obstructionists by offering resistance that shows up as helplessness, procrastination, upsets, hurt feelings, resentment or inaction even after multiple requests to stop. It's called "passive-aggressive."

The victim of the passive-aggressor may become angry, but because there's no overt attack, they don't fight back. Instead they clam up; shut down; just obey. Commitment and creativity dies; caring and learning halts; despondency and cynicism prevails.

Sometimes the passive-aggressive person has developed such a habitual use of this trick that they are no longer conscious that they do it. For example, the passive-aggressive might be habitually late to anything they don't want to engage in. Beware of the passive-aggressive – they are usually highly intelligent, often outwardly successful, and very observant of your behavior, seeing you as a threat to their position.

## *Character Assassination, Betrayal & Excommunication*

While murder may be the ultimate assassination, the more common version in organizations is *character assassination*. This takes the form of persistent efforts to destroy the other's reputation, to scapegoat or demonize the other. *Betrayal* is an even more extreme form of character assassination.

Talk to anyone around you, and ask them "Have you ever been betrayed?" Then watch their response. Usually it's one of intense emotional pain. Their hurt is carried around like a private wound, often with guarded silence as they suffer in the quietude of self-imposed exile. Many respond to betrayal with revenge or demonization.

Historically, betrayal has always been the worst of sins. In Dante's *Inferno* the lowest level of Hell was assigned to those who had betrayed trust.

Purposeful betrayal is all too common in our daily world today. Its corrosive force destroys teamwork, co-creativity, and the spiritual sense of community. In response to betrayal, people typically withdraw into their protective cocoon, or the opposite, fight with a vengeful energy that creates no possibility of reconciliation. When done unintentionally, betrayal usually takes a variety of forms, such as selfishness or insecurity, and often manifests as creeping dissent, an angst of complaint, blame, undermining, resentment, negativity, fault-finding, character assassination, and endless complaints. It's in this swamp of despair that betrayal breeds like mosquitoes – small, hard to see, but voracious, ugly, and disease ridden.

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

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

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

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

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

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

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

## TRUST LADDER

By respecting the dynamic interplay of different combinations of the four drives, the leader can completely change the results produced. To illustrate how the emphasis on different drives operates, we have developed a "Trust Ladder" that symbolizes how emphasizing different combinations of the Four Drives can alter the collaborative innovation dynamics (see Figure 36). We symbolize the neutral trust level by a "belt." People using this graphic constantly refer to specific actions as "above" or "below" the belt.

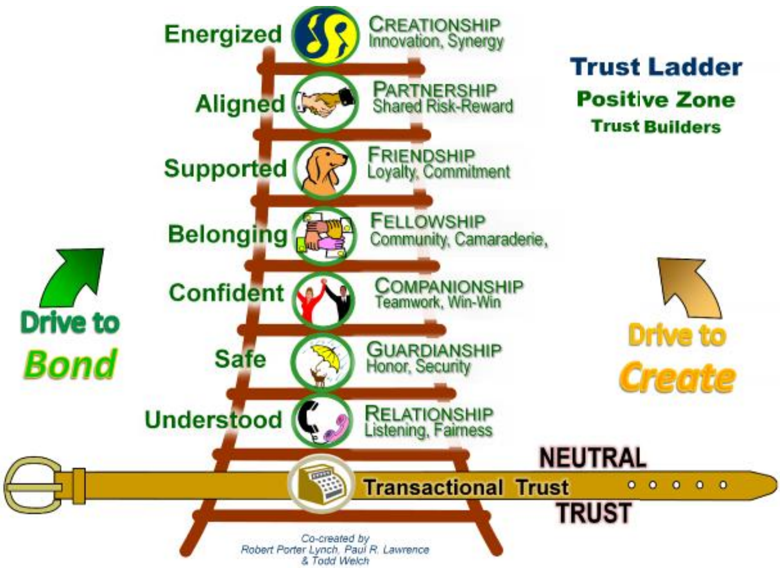



**Figure 36: Trust Ladder**

By placing increased emphasis on the *Bond* and *Create* aspects of an organization's culture, the higher the trust. And conversely, by embodying and over-emphasis on the *Acquire* and *Defend* traits, distrust will manifest.

*Senior Executive Action*: Assess your organization's level of trust and the implications on productivity, innovation, and profitability.

### RELATIONSHIP

The trust journey begins simply with building a relationship with other people by *listening* -- not judgmental listening -- but connected listening that simply validates the other person's point of view. When we listen with compassion, learning, and constructive inquiry, we begin to build trust. People feel like they are receiving *support* because they are heard.

Listening and inquiring with interest and compassion means you start with an open mind (*Create*) and a caring heart (*Bond*) -- no assumptions and no expectations which impair our ability to see things as they really are.

When building a trusting relationship, the minimal boundary conditions must be satisfied – both parties must feel respected, both can be counted on to understand the personal interests, needs, and concerns of the other, which gives both the assurance that each will be better off from having met. If this does not happen, then the relationship is broken and fallen into the Zone of Distrust.

However, leaders that only engage their teams at this first relationship level, while being appreciated for their compassion are not going far enough.

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

### GUARDIANSHIP

The next level of trust provides *safety* and *security* (*Defend*) to the other person. A guardianship can be one-way, much like a parent provides to a child, or a mutual guardianship like soldiers on a battlefield. Every employer has a duty and responsibility, both morally and legally, to protect their employees' safety on the job, provide a fair, living wage, pay their unemployment taxes, protect their civil rights, and provide a work environment free of harassment. In return, employees are expected to maintain a guardianship over the work-place by not stealing, reporting hazards, contributing ideas to improve competitive advantage, and ensuring the well-being of their teammates.

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

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

At the Guardianship level, the issue of honor and integrity becomes critical to building trust, knowing that I will not just respect you, but more: I will honor your essence and defend you from attack by others, and I can expect the same from you.

## COMPANIONSHIP

Being a companion means trusting enough to work productively in teams – "teamship." Each individual must feel safe and secure, knowing that breakdowns will not be destructive; thoughts, workspace, and concerns can be shared without fear of retribution, disrespect, or dishonor -- we are symbiotic[150]

Our group truly acts, thinks, and sees itself as a team. In a companionship or team, we contribute to each other's well-being by keeping our family, community, team or business unit successful, thus preserving my family's future, my neighborhood, my job, my employers business, and my personal integrity.

Confidence stems from placing self interest at least on a par with mutual interest as win-win emerges as essential. Every decision embraces what's in the interests not just of the individual, but in the greater good of the organization, the team, and the future of the business.

At this level the world is seen through a common vision and aligned interests. We expect reciprocity: shared ideas, giving at least as much, if not more, than we expect to take back; everyone begins to give more than they expect in return. Individuals come to the realization, sometimes painfully, that they win or lose together, as a team -- in the same boat, facing the same storm together.

When everyone begins to give more than they expect in return, the symbiosis of an organization is taking its first step to transforming into a synergistic organization.

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

## *FELLOWSHIP*

This means much more than "membership" to an organization, company, or club; it's more than a company picnic or sales rally. Fellowship implies a powerful attraction, commitment, and buy-in to the values, hearts, and minds of the other members of the community (common-unity). You might think of fellowship as "belongingship." It's the group you connect with that feels like your extended home. You feel nurtured, a sense of comradeship – this is my place, my people, my "tribe," my family away from home where we have a shared dedication to common interests.

Community means "common unity" which means people have high standards, a sense of fair play, a willingness to work and play together and a belief that ethical behavior is prized.

Fellowship creates a brethren bond between people, an esprit de corps, such as the U.S. Marines. Fellowship is often a spiritual experience that one gains from being a member of a close-knit team.

Because of the weakening bonds of the modern family structure, for many, their workplace becomes a surrogate family, thus the workplace carries with it an additional desire for fellowship. Great leaders capitalize on building companionship and fellowship not just because it produces great results, but because it tends to endure the ups and downs of life -- economic cycles, natural disasters, or personal crises -- like a gyroscope keeps steady when the world rocks around it.

The motto of the Three Musketeers: "One for All, and All for One" would be one description of fellowship.

At the level of fellowship, having a powerful set of common values, a sense of purpose, and a unique frame of reference to view the world generates a dedication and energy that is difficult to defeat.

## *Friendship*

For this level of trust, we use the symbol of the dog. Why? Because the dog is actually a creation of the human being; 10,000 years of selective breeding of what started off originally as a wolf has left us with what we want in humans and can't seem to get. Ask any dog owner, particularly women, what they like in their dog. Typically they will say:

> *He's always there for me, always happy to see me, loyal, faithful, protective, never carries a grudge or the baggage of unfulfilled expectations, playful, makes me smile.*

In other words, the very qualities we wish we experienced in other people! What we are really saying is that dogs are more trusting and trustworthy than people! (Are we really saying we should be more like dogs?)

*The dog is the only species on this planet that loves his master more than himself.*

The power of friendship lies not just in the bond of familiarity, but in the mutual commitment to each other's well being. For a friend, we are always present and always committed to *their* best interests. When they're in difficulty, we help; when hurting, succor; when in doubt, counsel; when confused, clarity, when self-deceived, honesty.

When we build trust at the friendship level, we embrace all the prior levels of trust, but add some very energizing and vitality- creating forces into the relationship.

*Friendship is the only cement that will ever hold the world together – Woodrow Wilson*

First is deep compassion. We are never judgmental nor distant.

Next is protection. When our friend is attacked or harm comes their way, we respond with aid. If they have done something wrong, we stand by them to help them right the wrong. When unfairly accused, we defend them. This is what loyalty is all about.

*To a friend's house,*
*the way is never long.*
*-- Viola Lynch*

Friendship often also implies a playfulness that brings out the child within. This playfulness brings us back to our days when we had fewer worries, less concern about achievement or looking good. At this level of trust, we can let our egos melt away and engage at a more soulful level.

In a friendship, trust enables our goals and fears, our deepest yearnings and our personal limits/failures to be put out in the open with no sense of diminishment. We are willing to be open and transparent with no hidden agendas because the trust is firm and strong.

Did you ever wonder why many of us have so few real friends. You've heard the term “fair weather friend” -- a person who is there for you only in good times. But woe the day when you hit a personal crisis -- maybe a divorce, or an illness, or a financial disaster – the presumed friend is gone with the wind; you had a relationship that you falsely elevated to friendship status.

Friendships grow up in organizations alongside trust, but leaders should be watchful that they do not grow into favoritism.

***Trust the person who:***
***lays down his/her self-interest for that of another,***

***tells the truth when it’s not to his/her advantage,***

***and honors his/her highest values in times of chaos and strife.***

## PARTNERSHIP

A partnership is designed to respect and cherish the differences in thinking and capabilities between two or more people or organizations. It is the combination of *differing* strengths with the *alignment* of common purpose that makes a partnership effective. For example, in business one person does outside sales, another keeps the finances on track, while another runs operations. In a family, the work load of the home is shared fairly by all according to their skills and abilities.

Based on our years of successful alliance formation, we know the mindsets and skillsets this takes is a step above the rest, requiring:

*Shared Vision:* Trust is built by the power of the commitment to a shared view of the unfolding future. Great partnerships are always looking one step ahead to find the new opportunity, to design the future, to turn adversity to advantage.

*Strong Trust:* No legal agreement can make a partnership or alliance work. It must function because the parties can trust at the highest levels of integrity. Diminish the trust, and the relationship rapidly deteriorates.

*Roy Rogers, commenting on his long marriage to Dale Evans: "A great marriage is not a 50-50 arrangement. Both partners have to give at least 100%."*

*Committed Champions*:
Passionate people who stand for the greater good of the partnering arrangement are essential to hold the vision and the values high above the rattle of daily strife. Absent the person with the honesty and integrity to stand for what's right over what's expedient, and the venture will soon shatter.

*Shared Values*: The winds and tides of change will challenge any partnership. Building relationships on strong values can endure the forces of a fast moving, rapidly changing world. Often this is the critical "anchor to windward" in a stormy sea that keeps our bow headed safely in the right direction.

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

*Joint Planning:* People support what they help create. This builds trust because those thus engaged are consulted and their ideas are valued, which, in turn builds even stronger commitment to the future.

*Shared Resources:* Partnerships leverage their capabilities by sharing key assets such as technology, customer base, plant facilities, sales forces, and research, gaining major leverage of precious resources.

*Shared Risk and Reward:* By sharing risk and reward, the partnership becomes a high-order trust-building vehicle, because people have "skin in the game." The more everyone shares risks and rewards, the more powerful the level of commitment, which is why employees who have some level of risk in the future of a company and are rewarded for hard or innovative work are the most likely to help propel success.

*Aligned Metrics & Rewards*: People aim their actions at what gets measured, and thus rewarded. Misaligned metrics cause dysfunctional actions, poor results, and ultimately distrust.

### Creationship

For this level of trust we had to create a new word. A "creationship" implies that we can do something extraordinary – we can co-create together. A creationship embraces prior elements of trust-building, and then, secure in the absence of fear, unleashes a connection between the hearts and minds of the co-creators – new ideas generate like spontaneous combustion. Creationships occur when two people's drives to *Bond* and *Create* form a unified voice, vision, and value structure that lets the go beyond their individual identities – the song of the soul – *synergy*.

For example, if you ever enjoyed the wonderful music of Broadway productions such as My Fair Lady, Camelot, Sound of Music, or South Pacific, you have heard and felt the powerful synergy of musical composer teams of Lerner and Loewe or Rogers and Hammerstein. The co-creative force can also be seen in science with the Watson-Krick discoveries of DNA, or in the NASA teams bringing a man to the moon.

Virtually all the great discoveries and innovations in today's world are happening in-between industries and technologies. Take the Genomics Project as an example; it's the confluence between medicine, mathematics, informatics, and computers. Or in an auto-mobile today, 25-40% of its value is now in electronics, (not mechanics), up from just 1% twenty five years ago.

How does one foster creationships? Here are some ways:

*Purpose and Destiny:* Some of the most co-creative people on the planet have a deep central sense of personal purpose or destiny. This kind of purpose gives meaning and value to whatever we do – there is a reason for *being* and *doing* in our daily lives. Destiny means we aim our purpose higher, to achieve something worthy of our collective effort, something we and our children would be proud of. To accomplish this mission, we must engage others. If you have one or more of these rare people in your organization, nurture them.

*Contribute and Build on Ideas:* Encourage everyone to offer at least an idea-a-day. Ideas are the fuel of the innovation engine. When someone offers an idea, reinforce a culture that builds on the idea. If everyone builds on other people's ideas, refraining from being judgmental, joint imagination light-bulbs are turned on like spontaneous combustion. It's not nearly as important who originates an idea as how many people contribute to its evolution into action.

*Noble Cause:* People are turned-on by dedicating themselves to a cause larger than themselves. It can be as simple as breaking a time record or cutting out waste. Or it can be greater, like finding a cancer cure.

*Synchronicity:* Coordinated *timing* creates a sense of unity, teamwork, and synergy. This is *synchronistic trust*. You can see synchronistic trust anytime you watch a double play combination in baseball, or a perfect pass in football. When synchronicity occurs, people’s energy jumps higher as they sense confidence in themselves and in their team. Synchronistic timing is an enervating flow and inspiring unity.

*No Evaluation or Criticism:* Negativity, blaming, judgmental critiques, and skepticism all contribute to a culture that discourages a creationship. Studies all over the world show that the most important thing an entrepreneur can do to build a trustworthy innovation engine is to create a culture in the company that encourages innovation day in and day out. Be sure to focus metrics and rewards on collaborative innovation, not just people working independently.

*No such thing as Failure, Only Learning:* Be careful not to punish what might look like a failed attempt at creative solutions. Be sure to encourage learning from failures. Remember, high performance teams fail more often than low performance teams; the difference is how they learn -- then innovate from what's learned.

*Cherish and Synergize Differences:* It's been said that we build communities with people who are similar, but learn from people who are different. The collaborative entrepreneur's task is to join these two forces together – cherish the differences and build a fellowship that thrives on differences in thinking. Remember, if everyone thinks alike, there is no innovation.

*Use Conflict to Advantage:* Whenever there's change, conflict is inevitable as systems, strategies, roles, and perspectives shift, even in a trusting environment. Don't shove conflict under the rug, but use it as a learning mechanism. Focus on shifting perspectives; prevent people from becoming entrenched in one point of view.

*Laugh! C*reationship teams are not all grinding labor; it's having fun with what they do and laughing a lot, spontaneously creating in the moment – that's magical. Research shows that laughter releases endorphins that trigger creativity. Laughter expresses the absence of fear.

Building a creationship can be one of the most rewarding experiences in life. It can happen between two people, or within a family, community, team or even a company.

When people engage in a creationship, they seem to abound with an

*In everyone's life, at some time,*
*our inner fire goes out.*
*It is then burst into flame*
*by an encounter with another human being.*
*We should all be thankful for those people*
*who rekindle the inner spirit.*
*– Albert Schweitzer*

endless source of regenerative energy. Some people describe this as *entering a fourth dimension* – it's invisible but quite real.

Unlike the Tornado of Distrust, the Ladder is not self-regenerating or self-sustaining. A leader must work on keeping people working at the highest levels.

Knowing what type of trust is either appropriate in a relationship or desired by someone is essential to your ability to design and discuss how to get there.

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

*Senior Executive Analysis*: Where on the Ladder of Trust (or Tornado of Distrust) are your most important interactions? What would be the value of a shift to a higher stage of trust?

Let's take a deeper look at what really happened to the forsaken GM plant and the Union from Hell from the perspective of the Four Drive model and the Trust Ladder:

## *Toyota's "Secret" Strategy with Union from Hell*

Why was Toyota so successful? Why did GM fail so miserably?

For decades engineers have studied and written about the vaunted Toyota Production System, which is also called "Lean" management. Over 90% of efforts to duplicate Toyota's results fail to achieve their objectives.[151] What did the engineers, analysts, and operations experts get wrong?

Engineers are trained to convert everything into a "process," a sequenced flow of interdependent procedures that consume resources (materials, time, people) which transform inputs into outputs. Engineers who assessed everything from an input-output perspective, were myopic to the human factors that were essential to the Toyota's success: shifting the trust level from GM's "below the belt" Tornado of Distrust, to "above the belt" actions on the Ladder of Trust. Toyota, to their credit, recognized they needed to go beyond treating workers with respect, and see the workforce in a "partnership" with management; and then go beyond, seeing the workers as intelligent problem solvers who, working collaboratively, could innovate every day – in "creationships."

This approach produced camaraderie, productivity, quality, and, for Toyota both profitability and market share growth.

The impact came not from a set of mechanical and operational processes and skillsets that supported these processes, but, first and foremost, a different mindset that recognized that trust was essential for high performance and productivity. But trust for Toyota was not a generic, monolithic concept; they saw trust in a refined spectrum (as represented on the Ladder of Trust, see Figure 36, and were honorable in maintaining that trust by adhering to trustworthy Operating Principles, see Figure 37)

Nevertheless, GM managers trained at NUMMI learned Toyota's Production System were unable to put it into effect successfully in GM – it was "invisible" to GM's management that couldn't conceive of the labor union as innovators working in collaboration with management – you get what you believe.

> ***Bottom Line***: Leaders should not expect sustained performance, productivity, innovation, or high morale without trust.

## *Trust as a Precondition for Innovation*

Installing a *culture of trust* disabled the hostile behavior and channeled energy into productivity. But more importantly, the trust enabled highly effective quality and innovation systems – the vaunted Lean Production System. The thousands of attempts to replicate LEAN have run largely run amok. In fact, the Lean Enterprise Institute estimates that over 90% fail. Why? The many engineers who studied the *processes* of Lean Production missed the underlying *philosophy and principles* that were the *preconditions* of productivity and innovation. Our experience (which has been highly successful) indicates that, without a culture of trust, collaborative innovation (d*Bond +* d*Create*) fails to materialize.

## *Trust as Central Organizing Principle for Culture*

For generations, executives have grappled with the concept of organizational *culture.* Most authorities tend to complexify the idea of culture with sociological obfuscation. For example, here's an abridged version of one definition:

> *Organizational culture is the behavior …. and the meanings that the people attach to their actions. Culture includes the organization values, visions, norms, working language, systems, symbols, beliefs, habits…. [and] the pattern of such collective behaviors and assumptions that are taught to new organizational members as a way of perceiving, and even thinking and feeling …a set of shared mental assumptions that guide interpretation and action in organizations by defining appropriate behavior for various situations.*[152]

Ugh! What is a senior executive expected to do with such a Gordian Knot? We can make it much simpler; *behold:*

> Make trust the *central organizing principle of culture,* and align everything else in support of high trust, high performance.

## *Winners Play "Above the Line"*

Professional football coach Bill Belichick has one of the best winning records in this highly competitive sport. His selection personnel is based on far more that just talent; trust is a critical. Belichick, as a coach, has to be sure players get the message about what's not acceptable and will hurt the team; he refers to this level of trust as "above or below the line:" (source: www.patriots.com Press Conference Dec 20, 2013)

> "Everybody has to understand that there's a below the line level. When it's below the line, we can't live with it. It hurts the team. Now, we're all going to make mistakes and nobody makes more of them than I do. I understand that mistakes are part of the game. I've been in it long enough to know there's no perfect player, no perfect game or practice. If you go out there and compete against high level competition, that they're going to make some plays too. But there's a below the line and we just can't live with that and expect to win. That's the bottom line. Things are going to happen that are below the line that we have to correct but we have to stay above the line. It's as simple as that.....The things that cause you to lose, you have to eliminate. Before you can win, you can't lose."

For Belicheck, there are two levels "below the line:"

1. What's intolerable – inexcusably too far below the line -- is behavior that is selfish or greedy, disruptive, antagonistic, or a negative attitude. Talented players with this character flaw are screened out well before being  considered to join the club. For those that slip through the screen, they are soon cut or traded.

2. The least offensive are those who temporarily slip just one level below the line. These are characterized by "mental mistakes" that cause unpredictable behavior – being in the wrong position, fumbling the ball, committing unnecessary penalties. (Think of these as "fuzzy distrust."). These will cause the team to lose the game, no matter how well it otherwise plays. Here's where the game of coaching gets intense. Belichick sees these players as redeemable – which is an important job of a coach. (see Ozzie Newsome story later in this chapter)

## Critical Operating Principles

### *Precision Definition of Trust*

We often get asked the question: What is your definition of "Trust?"

There is no universal definition of trust, which can cause innumerable problems when an executive tries to implement a trust program. Trust is not a simple process that offers a simple definition. Nor can trust be relegated to aphorisms (such as “trust but verify”) that apply to some situations, but are abjectly false in others.

Over the last twenty five years, our team pioneered the method by which alliance partners use best practices to create highly successful and innovative strategic alliances. One key method in the process is to have the partners develop Operating Principles that will engender and preserve trust while propelling them to exceptional performance. A retrospective review if a multitude of alliance Operating Principles over the years yielded a very universal set of dimensions of trust. There was an obvious correlation: virtually all the alliance operating principles were essentially the same as the guiding principles articulated by successful turnaround leaders.

### *Using the “FARTHEST” Principles*[153]

We have organized these principles into a memorable acronym: “FARTHEST”—eight key principles that *align* the four drives – *Acquire*, *Bond*, *Create*, and *Defend* – to ensure they are all satisfied, balanced, and focused on the task at hand – which ultimately results in the too-often-elusive “synergy” – the holy grail of all teams. (see Figure 37)

### *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.

***FARTHEST Principles***:

**F**airness & Reciprocity for the Good of All

**A**ccountability (external) & Integrity (internal)

**R**espect, Empathy, & Honor to All

**T**ruthfulness, Candor & Courage

**H**onorable Purpose & Commitment

**E**thics & Excellence of Standards

**S**afety (physical) & Security (social & economic)

**T**ransparency & Openness

**Figure 37: FARTHEST Principles**

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[154]. 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:

*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.[155]

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.[156]

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

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

This is where the adage: "Actions speak louder than words!" came to be. Trust those people who take actions committed to trustworthy results. While the action *may not always produce* the intended result, you can determine what is in the heart and soul of an individual by the actions they consistently take and the commitments they predictably make. Words can be hollow or even deceptive, whereas actions can be verified and measured.

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." [157]

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."[158]

> "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."[159]

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.[160]
>
> “No one should be entrusted to lead any business or institution unless he or she has impeccable personal integrity.[161]

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.

*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.

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."[162]
>
> "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 they didn't.
>
> "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."[163]
>
> "Always listen to your employees and your customers, and remember that nobody can do this alone: your 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 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"[164]

**Bottom Line:** Trustworthy leaders always respect others (even those with whom they disagree), act with integrity, and let their actions speak more loudly than their words

*Truth* b**uilds 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......tthere 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.[165] ... 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."[166]

The idea that "the truth will set you free" may be true in the long run, but in the shorter term, truth may be frightening, create denial, and a twisting of evidence to fit archaic or outmoded beliefs.

Candor is an essential element in communicating the truth. Laura Rittenhouse of Rittenhouse Rankings has correlated the use of candor in CEO communications to stock performance, finding companies ranked highest in candor, on average, outperform the S&P 500.[167] She states,

> [Candor] has the power to transform those who listen.. [because it] taps the creative, intuitive, emotional right side of the brain and the heart where courage, empathy, and wisdom reside.....Candor is defined as the 'quality of being honest and straightforward in attitude and speech and having the ability to make judgments free from discrimination or dishonesty.'[168]

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.

> **Bottom Line:** 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.

*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. Continental's Gordon Bethune understood this leadership responsibility of honorable purpose:

> "Every Continental employee has learned over the several years since I took over from the old regime that Continental Airlines is an all-for-one kind of proposition; not having internal winners and losers, making sure that everybody wins and loses together.
>
> "It wasn't any good to us if pilots were happy and the gate agents weren't, or if the baggage handlers were getting paid and reservation agents weren't, or if the mechanics were getting awards and 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."[169]

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.”[170]

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.

> **Bottom Line:** 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.

*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."

Ethics is, first and foremost, about *morality* – doing the right thing for the right reasons. It means that you know the boundaries between right and wrong and won't cross the line. This is essential for trust, because team members need to know they won't get screwed behind their backs.

However, ethics alone is not sufficient to build trust, because trust is about *relationships.* An ethical person can be cold, self-righteous, uncompassionate, and bureaucratic, all factors that do not instill trust. Thus the absence of ethics will kill trust, and the presence of ethics is a boundary condition for trust

In their book, *Triple Crown Leadership*[171], authors Bob and Greg Vanourek make ethics and excellence the foundation stones of enduring organizations. They document in detail the power of ethics and excellence to transform failing companies, resurrect dying dreams, and launch powerful new ventures. They maintain, however, that in none of the successful cases was ethics sacrificed for excellent results – they had to go hand-in-hand.

> Ethics simply means acting in accordance with accepted principles of right and wrong. …. It means paying attention to *how* the results are achieved …. doing the right thing…. Most ethical letdowns occur because there is pain or discomfort involved in ethical behavior.
>
> Often the ethical path is the harder one ….Ethical fortitude relies heavily on courage to face adversity and social pressure. [Great] leaders make ethical decisions after analysis, reflection, and consultation with colleagues and confidants. It helps to apply simple standards such as: "Would this violate any of our core beliefs?" "Can I live with this on my

conscience?" "How would I feel if this were on the front page of the newspaper?" "What would my family say about this decision?" [172]

There is strong evidence to link excellence and ethics. According to the Ethisphere Institute, the Most Ethical Companies have outperformed the S&P 500 by 7.3% since 2007. [RPL: check data source]

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?"

> *What is the use of living, if it be not to strive for noble causes and to make this muddled world a better place…?*
>
> *Winston Churchill*

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. Continental CEO Bethune explains:

> "It's a lot harder to *keep* things going great than to get them going great in the first place…. continuing to work at the same level of intensity is harder, because the Wolf isn't so close to the door anymore and the consequences of slowing down doesn't seem so dire.
>
> " It's something that doesn't have to do with money at all. It has to do with human nature. I can't say often enough that *business is about people,* so it's the human nature stuff that you really need to keep your eye on.

> "Little mistakes came out of one big mistake: taking success for granted…. It's human nature to want things to get easier. It's human nature to think that good things happen to you it must be *you,* not your hard work on your long hours, not your coworkers and your team and everything else that went into making a successful. [When you think this way everything could] stop in the blink of an eye.
>
> "You can't win forever unless you excel forever… it gets harder to keep up, and that's the next challenge you have to focus your business on….. Keep raising the bar… never losing track of the things we gain that made us good in the first place… The best way to keep the bar going up is measuring. I can't emphasize it enough: a company can't just stay in good. It has to keep getting *better*.
>
> "If you ignore your employees, your cash flow, your service, or your product, it'll disappear on you. It happens that quickly -- and that's simply. …..You can't take your eye off the ball it simply means living by those principles instilled during the turnaround from mediocrity to success."[173]

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.

Not to be overlooked is the issue of consequences when ethics and excellence standards are breeched. Most organizations have untrustworthy behaviors happen from time to time, lapses in unethical judgement, and lax standards of performance.

The problem is not just the breech of conduct. The real test is how they are handled. Silence is acquescence, Breeches much have consequences. It’s not the magnitude of the consequence that’s most important, it’s the swiftness and the certainty of the consequence that matters most. The high performance culture of the company and the commitment of its people is at stake.

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

### *High Standards of Excellence creates trusted winners*

Professional football coach Bill Belichick of the New England Patriots tells the story of how *excellence in performance standards* is the key to being trusted “above the line:”

> [If] you go out there and perform, [then] you don't drop below the [trust] line. Take Ozzie Newsome ….a good example right there. He played 13 years. When Ozzie was a rookie he fumbled, lost the ball, and the team lost the game. Never fumbled again for the rest of his career [662 receptions].
>
> Why is Ozzie Newsome in the Hall of Fame? That's why; that kind of commitment; that kind of performance. It was important enough to him. Fumbled once, didn't fumble again the rest of his entire career. Now think about that. Want to know how a guy gets in the Hall of Fame? That's one reason….
>
> We all make mistakes, even the great ones, but they don't repeat them, they don't make very many of them, they correct it, it's important enough to them to move on and get it right. That's how you do it. You get it right.
>
> (Source: www.patriots .com Press Conference, Dec 20, 2013)

*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:

> "We weren't willing to compromise safety for any other goal. There isn't one person -- not one -- in our company who would sacrifice safety for financial or any other goals. ….. The Main reason is, of course, that safety is just plain important. But if you push the moral importance of safety aside for a moment and presume that we're all greedy super-capitalists here who would gladly set up rattletrap airliners so long as we made a profit, take a look at any other company that has suffered the loss of an airplane lately. Crashing airplanes can put you out of business. Safety is first. Once you lose people's confidence (trust) in safety, they are gone. An unsafe airline is the worst business in the world."[174] (e.g. Value Jet)

> **Bottom Line:** 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.

*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. Continental's Bethune is a good example:

> "I started getting interviewed by newspapers and magazines about what was going right, and every time I talked to someone I said the same thing:
>
> *This entire team at Continental, working together, made this change happen*.
>
> Not just me, not just Gordon Bethune. I'm the head coach, sure. I'm getting the right players and hiring the right assistant coaches, and I'm listening to them. So we are designing plays we can win with, and recalling the right plays at the right time because we're all together. It's not me -- it's us.[175]

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

Over the last twenty years there government has adopted many open meeting laws and procedures to foster transparency and, hopefully build trust. As was evidenced in the Supply Chain Simulation (see Figure 9), transparency is only a component of trust; it is, in and of itself, insufficient to create trust. As communications specialist, Laura Rittenhouse explains:

> [Transparency is] concerned with "how things appear;" transparency describes how [something] is free from guile; that can be seen through. Transparent communications inform, educate, and teach others, but they do not necessarily build trust. They are not likely to transform others.[176]

**Bottom Line:** Leaders must guard against being seen as having hidden agendas, intentions different from what they state, and any action that is defensive, manipulative, disrespectful, or unnecessarily aggressive.

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# Chapter 8.
# Obstacles & Shifts in Thinking

## MYTHOLOGIES OF TRANSACTIONAL EXCHANGE

Myth: Definition: *a deceptive explanation popularly believed to be true combining a partial truth with a falsehood, which presumably explains events.*

As a new era of leaders transform organizations from transactional engagement into value networks, the question of how to deal make the shift must be addressed from a practical and realistic perspective. Economic and Negotiations *theory* is only as valuable as it can predict and direct operations people in the field to take actions that will, with consistency, produce effective results.

When eras shift, as they are doing now, paradigms from the past become obsolete, ineffective, or marginally correct as new paradigms, architectures, operations, and metrics shift thinking and practices. As old paradigms die, they are like dying stars: burning brilliantly in their final stage with a tour-de-force as they try to maintain their old dignity and position of prominence.

To illustrate the dramatic nature of the shift, it's useful to look at the more traditional thinking that currently exists, where it came from, and its implications and consequences:

## *The Mythical Quality of Traditional Assumptions about the Business World:*

### 1. Myth #1 -- The Purpose of Business is: To Make Money

(or its Wall Street Derivative: To Create Value for its Shareholders)

This is a myth based on narrow oversimplification solely from an investor's perspective.

The real purpose of business is: *to provide goods and services to customers competitively at a profit*.

Customers are the only source of operational revenues with which to create profits. There is no profit without customers. If the purpose of a business was primarily to make money, then the business should either: 1) just liquidate itself, take the money, distribute it to its shareholders, and call it a day, or 2) go into the investment business, where the only purpose is to make money.

Confusing the difference between "investment" and "business" takes a massive toll resulting in poor executive decision-making.

The "purpose is to make money" definition of business is especially troubling when applied to small and medium sized enterprises. Every examination of the rationale for creating start-up companies demonstrates that the primary reason for launching a startup is actually *not* to make money – that's usually the second reason. The primary reason entrepreneur's start a business is to *control one's destiny* or its axiomatic derivative, *to do it better than my big bureaucratic elephant company*.

Holding on to a mythical understanding of the purpose of business has major implications on negotiations, procurement, supply chain, and competitive advantage.

If two negotiators are trying to transact business between each other, it's in each business' *interests/purpose* to make a profit, regardless of the definition. A win-lose strategy for negotiations means one of the parties will be forced into a position of *not* operating in its best interests. Most companies will not put up with this option for long, if at all. If they work outside of their purpose/interest, they will ultimately be faced with bankruptcy. Therefore, they will, somewhere in the transaction, either get even, get out, or both.

For example, as a consequence of facing its suppliers with draconian negotiations tactics, General Motors, which often accounted for 25-50% of its supplier's volume, drove many of its suppliers into situations where they had to sell to GM at a loss. When confronted with this reality, the suppliers had a ready-made tactic for getting even: make back the losses on GM's change orders.[177] Some chose consolidation with the hope of reducing operational overhead, with little success. The bankruptcies of Dana Corp. and Delphi are just a few examples of the fallacy of this approach.[178]

At the small and medium enterprise (SME) level, the opportunity for avoiding win-lose negotiations may be deeper. Many owners simply opted out of the GM supply chain, choosing the relatively more friendly Honda or Toyota buyers.  Still others chose to get out of the industry totally or partially.

2. **Myth #2 – Because Buyer and Seller have differing assessments in how value is gauged in the transaction, in practice they have objectively conflictual interests.**

This myth is a myth because it is a part truth and a part misconception. What is truthful is that two parties engaging in a transaction have differing value gauges to determine whether it is in their best interests to engage in a "deal."

The parts of this myth that are either obsolete, secondary, or misconceived are important to the understanding the fundamental nature of economic interaction.

First, procurement is only a small component of how supply chains create value. A supply chain is fundamentally engaged in *transformation* of labor, materials, and technology into products and services that are of more value to a customer than a competitors products and services. Therefore, the procurement, deal-making, and bargaining processes must be viewed not in isolation, but how they affect the transformation processes into strategic competitive advantage. The critical element here is therefore not just price/cost, but how well the parties regard each other as a team to produce customer value.

The key components of this transformation are the ability to create strategic and operational synergies, specifically:

- The ability to *coordinate* work together, hence *trust* each other
- The ability to *co-create* together, hence *innovate* together
- The ability to *align* together, hence *synchronize* their operations together
- The ability to *adapt* to changes in the strategic environment, hence *reposition* together

Second, as the world has accelerated its clock speed, having to produce more and more with less and less and in far less time, the differentials of interests between buyer and seller have to be sublimated by necessity to the realities of speed, innovation, and integration. There is simply no room for bickering and dickering, which leads to excessive Non-Value Added costs, dysfunctional behavior, and wasted time which all translates into potentially devastating impacts on competitiveness. In addition, in a world of high complexity of technologies, unnecessary switching costs can produce lag times that are competitively crippling.

For example, a decade ago, when GM wanted to introduce its new model of Sunbird and Cavalier at their Lordstown plant, (See Lordstown Case earlier in this chapter) the two models comprised a significant portion of GM's market share. Driving too hard a bargain with their suppliers in the false assumption that their suppliers were making inordinately large profits, GM squeezed their suppliers mercilessly for cost cuts. GM did gain important cost advantages, on the surface. However, quality control and parts integration suffered horribly, resulting in an 18 month delay in new product introduction. Customers went to show-rooms, saw elegant brochures, and found no cars available; they bought Toyotas and Hondas instead. What GM had hoped for in cost savings of about $2 billion, instead resulted in a loss of about $8 billion in revenue, making the cost savings a Pyrrhic victory. By 2005 the Cavalier was destined for extinction.

Third, relationships are a very important component of the value analysis in any buyer-seller interaction. If the buyer and seller are to engage in just a one-time interaction, what they think of each other may not matter for much. But this changes entirely if the buyer and seller are to interact over a period of years or generations. Memories are long-lived. If a seller gets a raw deal, is not paid the proper amounts, is abused, is treated as a lowly "vendor," is the recipient of the worst end of a one-sided contract, is forced to stretch receivables interminably, then this will have a major impact not only on the next round of negotiations, but also on whether there are any negotiations at all, what the price will be to compensate for the abuse, and who gets the next round of new innovations.

For example, a well conceived and positive relationship with a supplier of Intuit's produced a virtually exclusive flow of all the new innovations from the supplier. Similarly, Honda and Toyota receive their suppliers innovation streams from their supplier, with whom they have the most positive relationship; while GM and Ford get the short end of the stick based on a poor relationship with suppliers. Procter & Gamble's supplier relationship program has paid of handsomely with innovation streams from suppliers, which translates directly into bottom line profits.

Thus, there is an important distinction to be made:

- *transactionary exchange* that occurs where there is low trust, low relationship, and low strategic importance with *vendors,* and
- *mutual value creation* that exists when the suppliers are strategic, interacting in a high trust environment generating innovation streams for mutual benefit and competitive advantage.

It is vital to understand that these two types of economic streams *can* exist *simultaneously, and in parallel* within the same company.

## 3. Myth #3 – Power is the primary basis for relative strength of the buyer-supplier relationship.

Again, like all myths there is an element to truth to this, but that small truth should not be extrapolated into a universal truth.

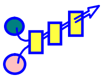
Here's is what's true: In some markets, some buyers and some sellers are dominant, to the point of having a monopoly. Consider Microsoft in software, Wal-Mart in retailing, or many airlines in their hub-city where they have a dominant position and therefore presumably control pricing with near monopolistic behavior. Or AT&T before the breakup. In these cases, the dominant player may control.

What happens in markets that are either buyer or seller are dominant, a monopoly occurs. Monopolies are inherently dysfunctional because innovation is stifled. Eventually other forces will destroy a monopoly, just as the railroad and steel monopolies were destroyed. Creative Destruction of the old by the new is inherent in the nature of capitalism.

The idea of "who has the power" is based on a very narrow definition of how power is used in any relationship whether it be inter-personal, inter-organizational, or inter-national. Power can be used in three fundamentally different ways:

DOMINANCE: POSITIONING Forces *AGAINST* to *OVERWHELM* an opponent an opponent in a Win-Lose Game

BALANCE: EQUALIZING Forces in a series of *TRADE-OFFS* and *COMPROMISES* to achieve an Quasi-Win-Win



ALIGNMENT: COORDINATING Forces with a strategic ally to create a *SYNERGISTIC, SYNCHRONISTIC,* and *SYSTEMATIC* Win-Win

Power Dominance probably prevails in 20 percent or so of the cases. In the other 80 percent of the situations, Power Balance or Power Alignment are far better options, and the effective negotiator will be adept in their use. (see next chapter for more practical use of these power models in negotiations)

## 4. Myth #4 – In a world of Scarcity, Win-Lose negotiations is the best approach

As Andrew Cox, Professor of Strategy and Procurement at the University of Birmingham, a proponent of the old paradigm recently stated: "Your purpose in a world of economic scarcity is not to be nice – it's all about win-lose. Win-Win is just B---S---."[179]

This idea is both dangerous and impractical. In a world of Scarcity, win-lose can only be used in a short-term, one-time play. Two examples will illustrate:

Labor Management Negotiations: This is a buyer (management) and seller (labor) relationship. Using win-lose approaches, which is the norm for many such negotiations, usually results in a lose-lose. General Motors has always lost in a strike, as have their UAW counterparts. GM's Japanese counterparts engage in win-win, and strikes don't happen. When win-lose begins, trust is broken. In environments of low trust, many grievances are filed. The total cost of ownership of a single grievance is between $10-20,000. Win-Lose usually produces losses for everyone but the lawyers in a long-term relationship because the loser will always try to get even in the next round. Just ask American Airlines, whose labor relations are considered perverse; the result: bankruptcy.

Commercial Airplanes: Airlines must replenish and modernize their fleets. In the large aircraft world, there are essentially only two competitors left – Boeing & Airbus -- now that Lockheed has opted out of the business and McDonnell-Douglas has merged with Boeing. Win-Lose negotiations on the part of buyers drove supplier consolidation. Should one or the other drop out of the market for lack of profits, the industry will be left with having to buy from a monopolistic supplier, who could and probably would raise prices to make a fine return on investment. A win-win approach would have been better from the start.

However, win-win is not just a matter of price. Innovation is a critical component of any value chain. Win-Lose shifts the focus of the paradigm into power, deal making, and transactions instead of alliances, strategy, and mutual value creation.

While win-lose negotiations may have value in a world of commodity procurement where there is an infinite number of nearly identical suppliers, it has no practical value in a world where these conditions exist:

- too few suppliers
- most suppliers making marginal profits
- supplier is strategic to our competitive position in market
- possibility of killing the supply base will ruin margins
- innovation is critical to competitive advantage

In most supply chains today, innovation is a critical element of competitive advantage. Win-lose negotiations will never create continuous streams of innovation. To the contrary, win-lose will stifle all innovation; consequently, win-lose, as a practical matter, has no business in most businesses in today's world.

The issue of win-lose is tied directly to the presumption that we live in a world of scarcity, and there is only so much to go around. This is the basis of the "haves" and "have nots" approach to economics. Malthus' dismal pessimism two hundred years ago proved mathematically (based on the geometric growth of population and the arithmetic growth of food suppliers) that the world could not produce enough food to support its population growth. He said:

> *"The power of population [growth] is so superior to the power of the earth to produce subsistence for man, that premature death must in some shape or other visit the human race. Sickly seasons, epidemics, pestilence, and plague, advance in terrific array … gigantic inevitable famine stalks in the rear, and with one mighty blow levels the population…of the world."*

The Malthusian fallacy is the failure to either acknowledge or stimulate human capacity to innovate by increases production methods in the food supply chain.

Similarly, innovation becomes the antidote for scarcity in many (but not all) situations. The reasons for this are based on the existence of not just one, but two economic systems working in parallel and simultaneously.

Classical economics is based on the two conjoined ideas: *Transactional Exchange* and *Economics of Expendables* (see references earlier in this chapter), which embrace traditional laws of supply and demand, and which do hold true in the environment of *scarcity*.

> For example, oil and gas are becoming scarce commodities priced according to supply and demand. As demand increases, supply diminishes, and price increases. As price continues to escalate, new innovations will come into play which either increase supply or create alternative fuels. In the world of scarcity, most players will chose to *horde* their resources.
>
> The Economics of Scarcity is akin to the the Economics of Expendables.

The second economic system is virtual economics, run by the laws of synergy and creativity in an environment of *abundance.*

For example, in a *mutual value creation* arrangement, a real estate developer may take a piece of raw land, bring together a team including planners, architects, and building contractors to transform the land into a housing development. They might choose to form a joint venture to share the risks and rewards of their efforts.[180] In this case, transactional trade is not an appropriate means of understanding their economic behavior.

In the *value creation* model of capitalism, *mutual* benefit is essential to success of the *strategic relationship* (this relationship should not be referred to as a *deal,* which is a term meaningful only to transactions). Creativity exists in and helps formulate the world of abundance. When a person, team, or business partners engage creatively to invent a new product, process, technology, or idea, their creative "juices" are not used up when they are put into play. Quite to the contrary, their creativity expands based on their trust of each other and their willingness to share resources.

The Economics of Abundance might be termed the Economics of Exp***a***ndables.

In the larger world of value chains and networks, it is crucial to understand how to negotiate a win-win so as to avoid creating adverse reactions in the world where scarcity prevails and, just as importantly, to know how to stimulate a parallel flow of innovation in the world of abundance.

### 5. Myth #5 – Win-Win is too fuzzy, it's basically anything you are happy with.

Understanding the dynamics of win-win is to be able to understand the metrics of winning, from three perspectives: the user, the buyer, and the seller, and be sure all three are in alignment. By alignment, this means not the same, but parallel, compatible, symbiotic, synchronistic, and, if possible, synergistic. If the metrics of winning are misaligned, some one of the three will lose, making the value proposition insufficient or unappealing.

Excellence in win-win negotiations is first based on knowing the "elements of victory" for each party, and then being committed to manifesting the idea of a win-win.

Elements of Victory: The most effective means of engaging in a win-win is to be clear, from both party's perspectives, what measurable results will represent a "win." This should be clear to each party. When negotiating the elements of victory, it's usually effective to understand that it is nearly always more than just money that the other party desires. In fact, if it is only money that's considered valuable, then the relationship is probably neither strategic nor innovative, and therefore is merely a tactical, making win-win a minor issue. The multi-dimensional analysis for measuring the win are:

- Market Impact
- Competitive Advantage
- Innovative Capacity
- Performance Effectiveness
- Financial Return

To keep the elements of victory in long-term alignment, a clear customer-focused value proposition should be the ultimate, over-riding aim of the relationship.

Where did these myths come from? Why have they endured for so long? Why have they been perpetuated despite the overwhelming evidence of their fallacies?

## THE SOURCE OF FALLACIES

## TRADITIONAL BELIEFS ABOUT ECONOMICS

In the latter half of the twentieth century, economists of the rational self-interest school[181] expounded on the idea that an *invisible hand* controlled economic behavior. This idea, which now underpins much of our economic structure, proposes that if multiple transactions occur in a rational market place which is free of constraints and coercions, the supply, demand, and price structures will reach an equilibrium that realistically defines market value.

Economists have developed sophisticated theories of free markets, justified deregulation, and produce detailed financial analyses based on Smith's theory proposed in 1776 in his ground-breaking book: *The Wealth of Nations*.

For transactional exchanges, this perpective is viable. However, it does have its limits, because it does not adequately explain highly collaborative enterprise, as we have described throughout this chapter embracng the idea of "mutual value creation." While trust is *helpful in transactional exchange*, it is a *vital core* to highly collaborative business relationships where the *creation of new innovations and value* are the objective.

### *Rational Self-Interest*

One of the chief proponents of the Rational Self-Interest school of thought was Alan Greenspan, who built his economic models on the foundation of Milton Friedman and Ayn Rand, who was his mentor. In Rand's book, Capitalism: the Unknown Ideal,[182] Greenspan penned these words, launching the "greed is good" era with this mantra:

> *"Protection of the consumer against dishonest and unscrupulous business practices has become a cardinal ingredient of [the] welfare state. Left to their own devices, it is alleged, businessmen would attempt to sell unsafe food and drugs, fraudulent securities, and shoddy buildings. Thus, it is argued, ….numerous regulatory agencies are indispensable if the consumer is to be protected from the "greed" of the businessman.*
>
> *"But it is precisely the 'greed' of the businessman or, more appropriately his profit-seeking, which is the unexcelled protector of the consumer." Greenspan then went on to say that "It is in the self-interest of every businessman to have a reputation for honest dealings and a quality product."*[183]

His rational idealism was based on a false belief that self-interest had its own moral imperative…..

> *"…the crucial importance of moral values which are the motive power of capitalism. Capitalism is based on self-interest, self-esteem; it holds integrity and trustworthiness as cardinal virtues and makes them pay off in the marketplace, thus demanding that men survive by means of virtues, not of vices."*[184]

This unabashed rational idealism, of course, laid the theory barren and was proven incredibly naïve, simplistic, and romantic as the financial community tore down the protective shield of investment laws like Glass-Steagall on its incestuous March to Meltdown. Greenspan got snookered by credit default swaps, mortgage fraud, and deceptive lending practices, which laid the foundation of capitalism open to economic collapse.

After the 2008 Financial Meltdown, Greenspan testified before Congress, incredulous that the financial community he had served was incapable of regulating itself.

*"Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity, myself included, are in a state of shocked disbelief, …… I've found a flaw [in my ideology]. I don't know how significant or permanent it is. But I've been very distressed by that fact."* [185]

*"Through all of my experience, what I never contemplated was that there were bankers who would purposely misrepresent facts to banking authorities….You were honor-bound to report accurately, and it never entered my mind that, aside from a fringe element, it would be otherwise. I was wrong."*[186]

Greenspan simply could not accept the fact that the finance industry was a magnet for attracting crooks, connivers, and con-artists – the very people who extolled his "greed is good" philosophy and helped keep him in power, supporting a public relations campaign to extol his virtues, while advocating behind the scenes with one of the most powerful lobbying machines in the world to tear down or overlook the regulations that were put in place to keep them honest.[187]

Greenspan had taken a very jaundiced view of all government regulation, including oversight of drugs, medicine, building codes, and financial institutions. In his commentary, his libertarian words were harsh and unequivocal:

*"Government regulation…does not build quality into goods or accuracy into information…At the bottom of*

> *the endless pile of paperwork which characterizes all regulation lies a gun...*
>
> *"Regulation – which is based on force and fear – undermines the moral base of business dealings. It becomes cheaper to bribe a building inspector than to meet his standards of construction….*
>
> *Regulation … is an act of expropriation of wealth…Businessmen are being subjected to governmental coercion prior to the commission of any crime."*[188]

This belief system was the foundation of Greenspan's failure to regulate the banking industry, leading to the 2008 collapse of banking system and worldwide recession.

Further, while this rational self-interest perspective is a reasonable explanation of how *investors* make decisions, it does not explain how *businesses* make decisions. It's important to note that business is made up of investors, entrepreneurs, employees, managers, customers, and suppliers, among others. Their decisions are not always driven by monetary gain, and when it is, the question of short-term versus long-term gain is always a critical distinction, as well as their appetite for risk. For example, while investors typically like more liquid, short-term gains, employees want longer-term security of their jobs. Businesses that make decisions simply for monetary gain place themselves at the mercy of rivals who are focused on creating competitive advantage.

## COSMIC CRACK IN THE ECONOMIC UNIVERSE

"Smith framed a global view of how market economies, just then emerging, worked. He offered the first comprehensive examination of why some countries are able to achieve high standards of living, while others make little progress."[189]

[Greenspan never mentions or acknowledged Smith's earlier work, TMS]

"The book he produced ….The Wealth of Nations, is one of the great achievements in intellectual history. In effect, Smith tried to answer what is probably the most important macroeconomic question: What makes an economy grow? In TWN, he accurately identified capital accumulation, free trade, and appropriate – but circumscribed – role for government, and the rule of law as keys to national prosperity. More important, he was the first to emphasize personal initiative [RPL: Entrepreneurship]. "The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security is so powerful a principle, that it is alone, and without any assistance….. capable of carrying on the society to wealth and prosperity."[190]

"This led Smith to his most famous turn of phrase: individuals who compete for private gain, he wrote, act as if "led by an invisible hand: to promote the public good."[RPL: check this precontext of this quote, I think Smith was talking about investors, not entrepreneurs] The metaphor of the invisible hand, of course, captured the world's imagination – possibly because it seems to impute a godlike benevolence and omniscience to the market, whose workings are in reality as impersonal as natural selection, which came alone and described more than a half century later. The expression "invisible hand" does not seem to have been very important to Smith; in all his writings, he used it only three times. The effect it describes, however, is something he discerns at every level of society, from the great flows of goods and commodities between nations to everyday neighborhood transactions: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest."[191]

"In Smith's view, if government simply provides stability and freedom, and otherwise stays out of the way, personal initiative will see to the common good."[192]

…." after World War II … the most prominent advocates of free-market capitalism were iconoclasts like Ayn Rand and Milton Friedman. The pendulum of economic thinking began to swing in Smith's favor in the late sixties, just as I began my public career."[193]

"For many, capitalism still seems difficult to accept, much less fully embrace."

"The problem is that the dynamic that defines capitalism, that of unforgiving market competition, clashes with the human desire for stability and certainty. Even more important, a large segment of society feels a grown sense of injustice about the allocation of capitalism's rewards. Competition, capitalism's greatest force, creates anxiety in all of us. One major source of it is the chronic fear of job loss. Another, more deeply felt anger stems from competition's perpetual disturbance of the status quo and style of living, good or bad, from which most people derive comfort."[194]

"Capitalism creates a tug-of-war within each of us. War are alternatively the aggressive entrepreneur and the couch potato, who subliminally prefers the lessened competitive stress of an economy where all participants have equal incomes. [195]

"Despite the heavy involvement of government in business since the 1930's, a number of countries have achieved high ratings for staying free of corruption, even though their civil servants have potentially sellable discretion in fulfilling their regulatory roles. Particularly impressive have been Finland, Sweden, Denmark, Iceland, Switzerland, New Zealand, and Singapore.
[Greenspan tried to make the reality of the world fit his philosophy of life and economics. He DID NOT observe the true behaviors of people, did not read the real Adam Smith or the real Charles Darwin, and formulated an unscrutinized architecture based on some true and other false assessments of human behavior. Trying to make policy fit into a pre-ordained but flawed and sloganized philosophy was the cosmic crack in the economic universe that tanked the world economy.

## NEW PERSPECTIVE ON ECONOMICS

### *More than Transactional Exchange*

Look back over the evidence in this chapter. It points to major distinctions in understanding the nature of *value.* In this section, we are going to step back, analyze the evidence, and propose a very different model for understanding economics, finance, and value creation based on a human behavior and trust.

Here's an interpretation that transcends transactional economic exchange:

This is not "new" thinking, in as much as people have been doing what follows for many millennia. The difference is that here we are going to give it *architecture:* a design, a system of operations, a method of understanding, a set of distinctions that allow us to navigate the often confusing landscape of money.

We are proposing that there are three fundamentally different *Economic Systems* working *simultaneously* in the world at any one time:

- *Transactional Exchang*e Economics
- *Synergistic Mutual Value Creation* Economics
- *Destructive Battlefield* Economics

First, let's start with *Transactional Exchange* because it's the most common and most studied -- the exchange of value in the form of goods and services. For the most part, *transactional exchange* is based on the simple idea that when one person exchanges something of value - like money - with another person for something else of value – like an apple or a gallon of gasoline – they complete a transaction. When buying goods, the product is also often *expendable.*

Here's an example: I might go to a restaurant, order a meal, whose price has been set, and pay for the meal after determining it met my expectations of value. I did not participate in the creation of the menu, nor the preparation of the meal, nor the risks of running the restaurant's business. My reward is simply receiving a quid-pro-quo for my money.

At this level, trust is important. This is where "brand image" is vital. One will buy a product because the "brand" is one you can trust. The buying situation is highly predictable. One's expectations are set before the sale, and there is seldom "buyer's remorse" after the sale. Brand imaging fills the airways on radio and TV every minute, whether it be for soapsuds, cosmetics, computers, food, or cars. The stock exchange and eBay auctions are also examples.

This model works fine for going to the grocery store or buying a product on eBay. But it fails to explain other forms of value dynamics.

Economics is far more than just a the agglomeration of a bunch of transactions.

### *Synergistic Economics—Value Creation*

The second simultaneous economic system is *Synergistic Economics* -- the spawning ground of mutual value creation. At this level, there is typically a large degree of strategic alignment between the parties, a close working relationship on a regular basis, the sharing of information as well as risks and rewards, and joint problem solving with innovation and idea creation. For this type of relationship, we might only have to look at a highly functional family, a winning sports team, a strategic alliance, a business partnership, a music band, or a great theatrical performance. This is the type of relationship that Stallkamp created at Chrysler and Ghosn created at Nissan, that prevails at Southwest Airlines, and that produces the highest orders of competitive advantage.

### *Battlefield Economics*

The third distinctive economic is Lose-Lose or Battlefield Economics – the irrational and destructive manner in which two parties can twist each other in negotiations, bash each other in pricing, and damage to themselves. Typical examples of battlefield economics actually occur in times of war, vicious labor strikes, and antics in divorce court, or Continental Airlines during the Frank Lorenzo years.

In **Error! Reference source not found.**, these three fundamentally

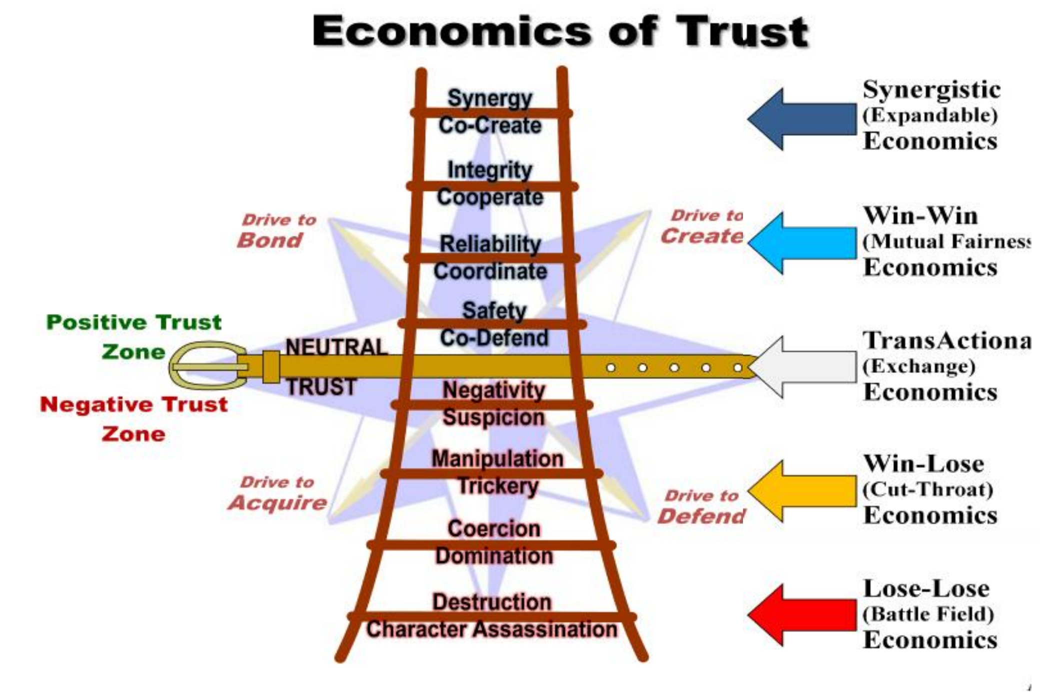



**Figure 38: Multiple Systems of Economic Interaction**

different systems models of value interchange are outlines, along with two intermediate methods: Win-Win (between Synergistic and Transactional) and Win-Lose (between Transactional and Lose-Lose). Each of these has been arranged on the Ladder of Trust. By focusing on the Four Drives of Human Behavior (drives to *Acquire*, *Bond*, *Create*, and *Defend*), we can better understand the behaviors that are engaged in each of the types of economics, predict outcomes, and shift to a higher level when stuck in "low gear."

(In the next chapter we will frame a negotiations framework for Transactional, Win-Win, and Synergistic Economics.)

**Conclusions:**

In this chapter, we have built a powerful case to prove:

1. Trust Creates Enormous Competitive Advantage
    - In Teams
    - In Alliances
    - In Organizations
    - In Supply Chains
    - In Industries
    - In Nations
2. A New & Powerful Economic Theory of Wealth Creation
    - Why Current Economic Theory is Inadequate to explain the Economics of Trust
    - Proposed Economic Theory: Synergistic Economics
    - Distinguishing the Nuances of how different economic systems and different interchange properties simultaneously exist in the economic world.

# Chapter 9.
# Impact of Trust on Risk Management

Risk management is a critical part of any business. The insurance industry exists to offset the occurrence of risky events.

Generally, risk is considered "an uncertain event or condition that, if it occurs, has a positive or negative effect on a project's or organization's objectives."

Because risk is inherent with any project or program, managers are trained to assess risks and develop risk management plans to mitigate risks.

The risk management plans typically contain an analysis of likely risks with both high and low impact, as well as mitigation strategies to help the project avoid being derailed should common problems arise.

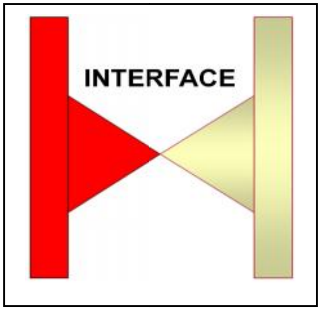
Examining risk is done in virtually all construction projects, information technology implementation, new product launches, business starts, major investments, and acquisitions of new companies, to name a few.

Nevertheless, a large proportion fails to deliver on time and on budget. In the IT industry, some surveys indicate up to 90% of projects fail to come in on time, or those that do come in on time pad the time schedules for unknowns so they look like they come in on time.

Despite a large body of knowledge about project management, and wide-scale accessibility of project management software tools, almost no projects are delivered on time.

## UNDERSTANDING BREAKDOWNS

The reason for so many miscalculations and poor on-time performance is, more often than not, the breakdown that occurs at the point of *interface*, where two or more different people, teams, or organizations don't communicate about what's needed, what difficulties they must overcome, or what expectations they have of each other. That's called a trust breakdown.




It's called a "socio-technical" interface because it usually involves two things happening simultaneously – different people (with different skills, or points of view, etc,)  and different technologies (methods, machines, functions, etc.) where they don't speak the same language, work on the same time schedules, or get rewarded by the same measures.

When a project planner "estimates" the amount of time to get a task

- *Frustrations of Project Management*
- *Over Budget, Over Schedule*

*Info Technology Projects:*

- **Successful Projects: 29%**
- **Challenged Projects: 53%**
- **Failed Projects: 18%**
- **Cost $50 - 80 billion annually**
    - **Standish Report: 2004**
- **62% failed to meet schedule**
- **49% suffered budget overruns**
- **47% higher-than-expected maintenance costs**

done, they typically think of what needs to be done, what could go wrong, and what the chances are that a task could go awry.

The problem of poor estimation of time is so flagrant that many organizations, such as state Departments of Transportation actually publish manuals for companies that bid on projects on the importance of and how build risk analysis into their estimates. As one state manual declares: “Estimators must be shielded from pressures to prepare estimates that match some preconceived notion of what a project should cost.”

Because of uncertainties, the time estimated to do something is extended to cover the level of ambiguity for that task. Depending on past experience, the estimator will “pad” their time to cover the unanticipated breakdown. Lots of padding will make the estimator look good, and enable a project that goes well to “beat the estimate.”

For example, airlines are measured for on-time delivery of passengers from point of departure to point of arrival. Many airlines pad their published arrival times by 5, 10, or 15 minutes to cover for uncertainties, such as late takeoff, bad weather, control tower delays, inability to handle baggage, and so forth. Every once in a while the plane arrives early, but then, more often than not, sits on the tarmac waiting for a plane that’s already in their gate position to clear out, negating the value of early arrival.

## Why Trust is Missing from Risk Management

Trust presents a unique problem for the project planner. First, it is not very measurable. Transparency International’s Corruption Scale is a good place to start to compare international risk, but it doesn’t help when one must consider the unique relationships of a specific project and the cultures of the people and organizations they represent.

Second, trust does not show up in risk manager’s minds. Most project estimators are analytical people who see data, facts, evidence, and adhere to measurable quantities. (these are often referred to as “left brainers” because the analytical function occurs on the left side of the brain., whereas trust is a relationships issue that happens on the right side of the brain.) This is reinforced by risk management authorities who instruct risk managers in what to consider a risk.

For example: Figure 43: *Relationship between Risk & Objectives* is an oft-cited risk management framework. Nowhere does it encourage a professional estimator to consider the trust factor. Thus trust, which we have learned earlier in this chapter is a massive factor in human performance, is completely left out out of the Risk Management Equation, often with tragic results.

How important is trust a factor in project management. Consider that the multi-billion dollar FX-35 fighter jet being developed by Lockheed Martin is far over budget and has taken years longer to develop. The VP of Procurement explained that a large measure of the problem was in the supply chain. Queried further, he explained that the supply chain problems were not primarily technical problems, only 30% was technical, and 70% was due to mistrust.[196]

*Avoid business involving moral risk….*
*You can’t write good contracts with bad people.*

*Warren Buffett*

| Type of risk management | Description | Sample objectives |
|---|---|---|
| Generic | Risk: any uncertainty that, if it occurs, would affect one or more *objectives*. | - |
| **Project risk management** | ***Project Risk:* any uncertainty that, if it occurs, would affect one or more *project objectives*.** | **Time, cost**, performance, quality, scope, client satisfaction. |
| Business risk management | *Business Risk:* any uncertainty that, if it occurs, would affect one or more *business objectives*. | Profitability, market share, competitiveness, Internal Rate of Return (IRR), reputation, repeat work, share price. |
| Safety risk management | *Safety Risk:* any uncertainty that, if it occurs, would affect one or more *safety objectives*. | Low accident rate, minimal lost days, reduced insurance premiums, regulatory compliance. |
| Technical risk management | *Technical Risk:* any uncertainty that, if it occurs, would affect one or more *technical objectives*. | Performance, functionality, reliability, maintainability. |
| Security risk management | *Technical Risk:* any uncertainty that, if it occurs, would affect one or more *security objectives*. | Information security, physical security, asset security, personnel security. |
| Credit: David Hillson, Effective Opportunity Management for Projects | | |

**Figure 39: Relationship between Risk & Objectives**

Lean management is still in vogue, but only 20% of Lean Management projects succeed, the other 80% fail. Why? Because Lean requires high levels of employee involvement. According to Gary Loblick, a highly successful Lean expert:

*"When managers try to impose Lean Management on their employees, if there is no trust, there is no collaboration. When people don't work together, they don't*

*give it their best effort, and they don't share ideas, build on each other's thinking, and engage in joint action.*

*"Because most Lean Management implementers are engineers (like me), we tend to overlook the most basic human factors, like trust, relationships, cooperation, and attitude. Our teams make this the first consideration before starting a Lean Management project. We've renamed it: 'Collaborative Lean." That's why our teams are so consistently successful."*[197]

Lack of trust causes projects to build in a lot of Non-Value Added work, such as more checks on others, more reports, more meetings, more redundancy, more confusion, and more bureaucracy.

Poor integration between organizations and differentiated tasks is also a major problem. Consider what project management authority Samuel Okoro observes:

*"In most projects, the final stage is an integration of the outputs of several previous paths. Assume in a particular project that the final stage is the integration of the results of five paths. Assume again that the time estimates for each of these five paths is such that there is an 80% chance of on time completion, what is the chance that integration will commence on time?*

*For the integration to commence on time, all the five paths must be complete. The chance that one path is completed on time is 80%. The chance that two paths are finished on time is 80% x 80% which is 64%. The chance that four paths are finished in time for integration is 64% x 64% or about 40%. The probability of all five paths being finished in time for integration to commence is about 33%! More likely than not, integration will commence late. Considering that in real life, projects are far more complex and integration will typically involve far more than five paths, it is no wonder many projects fall victim."*[198]

## TRUST, COMPLEXITY AND LAW OF COMPOUNDING RISK

Despite years of analysis and training, projects still get out of hand with the cost of billions of dollars and wasted man-hours. Ultimately, the reason is because three factors are at play in the risk management game:

- Denial
- Distrust
- Compounding Risks

*"The road to Project Perdition is paved with denials which manipulate reality by substituting illusion (or delusion)." -- RPL*

Denial occurs when someone sees the evidence but denies its existence. If people are fighting or not communicating, we can easily say it's not real, or idealize the situation by thinking we all should get along.

Distrust complexifies everything, throwing a wrench into the gears of progress, making everything more difficult and time consuming.

Ultimately these forces converge and are amplified when complex tasks must be integrated. And the higher the future ambiguity, the higher the probability of failure. Uncertainty breeds ambiguity, and ambiguity breeds distrust, which is the seed of project failures.

Many inexperienced project managers fall into the trap of inadvertently compounding risks. In particular, beware of entering new markets with new products using new technological processes with new partners. (see **Error! Reference source not found.**).

The complexity increases every time one new side of an interface encounters the other side. In **Error! Reference source not found.**, three new interfaces results in six areas of potential breakdown. Distrust and unknowns maximizes the probability of a breakdown at the point of interface.

In the next example, four new factors are compounded. Rather than the risks adding arithmetically, they compound by the almost the square of the number of new factors! [(N)(N-1). (see **Error! Reference source not found.**)

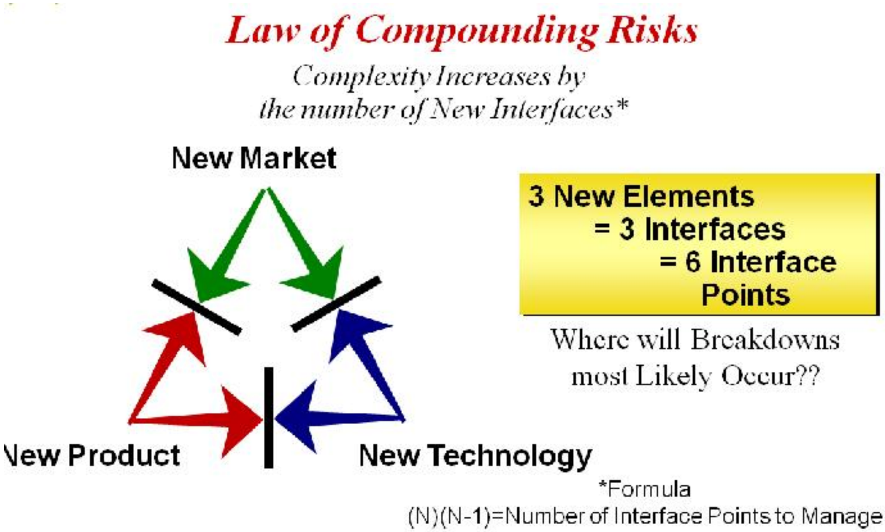



Figure 40: Law of Compounding Risks

This is why seasoned professionals understand it is far safer to work with known partners in an marketplace where everyone knows who can be trusted and who can't, than to migrate to a new region where trust levels between suppliers, providers, and customers are uncertain. (This is where the expression: "It's better to deal with the devil you know than you don't know!" comes from.)

An excellent example of this compounded risk trap was a joint venture by an American exhaust component manufacturer in Brazil who secured an order from a European auto manufacturer with a car assembly plant in Brazil. The American's new partner was in the metal fabrication business, and did not know the automotive marketplace. The seeds of failure were sown, when the American firm decided to set up their factory with a very new, and technologically advanced production process that had been used for only a limited time in the US.

Then the decision was made to fabricate with stainless steel, which is a very difficult material. No one in Brazil had experience with this metal for these purposes, and the procurement of the material was improperly handled when specifications were not accurately spelled out in the bid spec. The order for stainless steel was placed with a new Italian supplier who had underbid the competition and did not recognize the problems that would occur.

Timing of production was critical, because an entire Brazilian automobile assembly line needed the exhaust components as their line of cars.

The exhaust component factory was completed, and ready to go. The stainless steel arrived, but when it was placed on the bending machines, it cracked. There was no proper steel anywhere in Brazil, and shipments from Europe or America would take weeks. Attempts to get around the cracking problem failed. Clearly the product could not be delivered on time.

As a consequence, the auto assembly line had to be shut down for nearly a week, at a horrible expense to the car manufacturer. Heavy penalties were in place for late delivery, which cost the Americans dearly.

Ultimately, the problem was solved by the American firm having to go to one of their friendly competitors and ask the competitor to supply the parts -- at an obvious profit.

The exhaust system manager’s job was to maintain a win/win relationship with his customer, which was made impossible by building a house of cards on a foundation of the Law of Compounding Risks

Had the project management team limited the introduction of the number of new risks, the result would have been far different.

The Law of Compounding Risks gets even dicier when the same people are stretched out, working on multiple projects simultaneously. People act on their undeniable belief that they can successfully multi-task. Unpredicted demands from one project pull them away from the other project, often resulting in both projects falling behind simultaneously. Then everyone gets stressed out, people make commitments they can't make, and trust breaks down, and gets worse if someone starts the blame game.

Another example of the interplay between the Law of Compounded Risks and Trust shows up in start-up companies. If the entrepreneur does not hire or do business with people who can be trusted, their start-up will find itself tanking fast. Highly competent, but distrustful employees will vex any inspired entrepreneur.

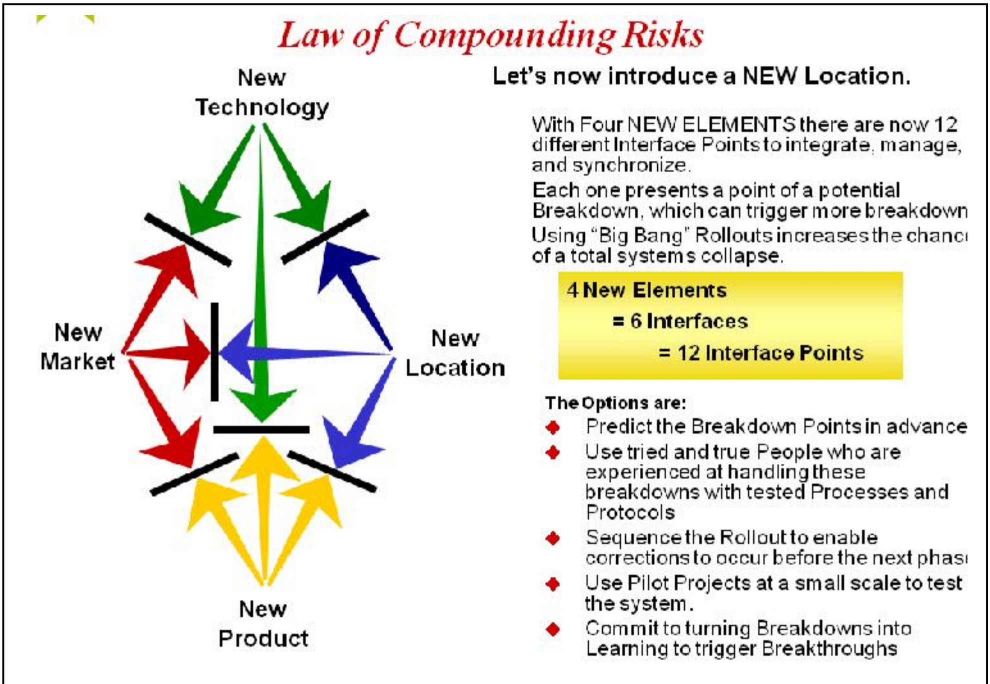



**Figure 41: Expanding the Complexity of Risk**

## IMPACT OF TRUST ON RISK MANAGEMENT

Risk management is a critical part of any business. Generally, risk is considered:

"An uncertain event or condition t or negative effect on a project's or

Because risk is inherent with a managers are trained to assess ri risk management plans, which ty risks with both high and low impa to help the project avoid being c arise. Risk Management seeks to "keep things on track," while ina innovation. Current Risk Manag calibrate the role of trust (or d performance. We believe this i consequences.

***Bottom Line***: Trust is an importan "surprise" to foster innovation; wh surprise often results in breakdow

> Trust and the Law of Unintended Consequences
>
> Trust (or its converse: distrust) will amplify/magnify the positive (or negative) consequences of any move on the strategic chessboard.

### *Trust's Impact on Morale*

"The most important job of a leader is the management of morale." -- Thomas Watson, Jr., former President of IBM & U.S. Ambassador [199]

Poor morale in organizations is not only another sign of disengagement, but of looming risk caused by distrust. It's common in the healthcare industry to see annual employee turnover among nurses as high as 20%. Just ask the exiting nurses, and they will describe the problems of trust and morale. Poor morale not only impacts productivity, but the chances of mistakes, duplication of work, and inadequate attention to detail. In an organization, like healthcare, the revolving door of personnel introduces new problems of errors, quality, inaccuracy, communications errors, reliability, and project execution.

Poor morale then introduces a very difficult risk factor: poor teamwork. Try working on a project with an organization which is a revolving door of people. Assuming a person assigned to a project is somewhat experienced with a year or two of seniority, they may have only a 50/50 chance of being there for you a year or two from now.

Here's an example of how absenteeism affects the delivery of education in our public schools, according to a recent report by the Center for American Progress (CAP), a Washington think tank, which examined data from the 2009-10 school year:[200]

> The study shows 50.2% of Rhode Island teachers were absent 10 days or more in 2009-10, compared with the national average of 36%. Educators in Utah had the fewest absences, with 20.9% of teachers out 10 days or more…. Teacher absences cost taxpayers $4 billion annually nationwide.[201]

***Bottom Line***: If Absenteeism & Employee Turnover is above 3%, look for distrust as a culprit.

## *Managing Legal Risk*[202]

In the worst situations where distrust runs rampant, the lawyers get involved. Because the task of any lawyer is to reduce risks for their client, the lawyer is then compelled to shed risk onto the other party, usually with layers of complex penalty clauses coupled with threats of litigation, destroying any chance of creating the trust necessary to resolve problems. (While not appropriate in all situations, when contractual members hold strategic relationships, the *shedding risk* problem can become especially gruesome; strategic relationships often call for *sharing of risks and rewards*, which produce better results)

Typically, when distrust is high, negotiations get thorny, which makes trust worse, which, in turn creates more threatening legal action, often ending in litigation. Any chance of taking advantage of the speed and innovation potential of trust is doomed. There is a commonly held observation in the legal profession:

"If you can't trust the other party, there is no legal contract that will protect you."

***Bottom Line***: Between trustworthy parties, spend time establishing operating principles that will help build and sustain trust. Use complex legal agreements to protect you from the untrustworthy: those ruthless predators, thieves, and scoundrels – then pray!

## *Managing Insurance Risk*

The insurance industry has found that trust is a powerful risk mitigator. USAA has some of the lowest costs of operations and the highest rebates on dividends because it learned that military personnel have high character, and are thus more trustworthy than the normal population. Charter Partners has twenty years of experience creating risk insurance pools based on groups of companies joining into *trust circles* to share best practices in risk reduction in their companies. The result: typically a 20% or better reduction in Property and Casualty (P&C) costs.

Trust can be a powerful mechanism for reducing risk and its affiliated costs, as the following case illustrates.

### *Trucking Industry Case*

Suffering from both from a frequency and severity of claims, in 2008 a New Jersey based trucking organization with 250 employees (members of the Teamsters Union) had been unsuccessful in securing Workers Compensation in the insurance marketplace. Their only alternative was to enter the N J state fund (high risk pool) where their premiums were elevated astronomically – nearly $3 million. They needed help fast to stay competitive and remain in business.

To solve the problem, a dramatic two-level strategy required a major change in the culture of both the trucking industry and the in the individual companies. (note: the trucking industry is a somewhat rough and tumble industry, known for its toughness): To do this an alliance was created between other similar companies who where in a similar risk pool. Charter Partners, serving as an insurance industry facilitator to develop and manages high trust risk insurance pools, engaged the truckers to begin the process.

First, the New Jersey truckers association had to:

Agree on common safety standards.

Agree to share best practices between competitors

Agree to an ethical standard between the members where they would not use confidentially shared information to any of the member's detriment (such as raiding each other's drivers, telling customers about inside information, etc)

Agree to develop better work practices within their companies to build trust with their drivers, especially considering that safety and personal health is critical to a driver's income-generating capabilities.

Charter Partners then conducted an on-site Trust Based Safety (TBS) Assessment with management as well as employees to identify the current reality of an organization's safety system, including philosophy and vision, to identify opportunities for improved performance. Participants were graded in 10 key areas with a total possible score of 1,000 (the best possible).

The company immediately began to aggressively implement the results of the TBS assessment with continuous focus and improvement within their organization. The cooperation of the truckers was essential; if they didn't have confidence in management's intentions, the whole program could backfire. As a result of this "transformational shift" by the trucking company, their loss experience dropped from:

- o 103 claims: $2,800,000 in premiums for 250 employees in 2008
(average $11,200 premium per employee) to
- o 64 claims: $586,00 in premiums in 2013
(average $2,344 per employee = nearly $10,000 per employee savings)
= $2,300,000 annual savings (almost $10 million over the next 4 years)

***Bottom Line***:These kind of turnaround numbers are common when their culture shifts and people trust that their personal safety is the #1 priority.

Acquisitions & Alliances Risks

Pressure on CEOs for growth.

Acquisitions are a perfect example of how the Law of Unintended Consequences impacts the outcome. Suppose the Acquieror ("A") spots a Target ("T) company. The very act of A acquiring T generates fear in T. If Target company's culture is already poor on the trust scale, this will be exacerbated in a hostile environment, making any post-acquistion integration extremely difficult. More often than not, was

## *Project Management Risks*

Trust has a major impact on Project Management. New initiatives, when they fall behind, can cost a corporation dearly.

In the pharmaceutical industry, just being a day late can result in the loss of $1 million in revenues.

In a large scale energy/oil & gas development project, the cost of being just 1 hour late can be $1 million[203] – and they normally come in 50% over budget and schedule.

Despite a large body of knowledge about project management, and wide-scale accessibility of project management software tools, all too many projects fail to be delivered on time and on budget. For example, in the IT (Information Technology) industry, some surveys indicate up to 90% of projects fail to come in on time, or those that do come in on time pad the time schedules for unknowns so they look like they come in on time.

The reason for so many miscalculations and poor on-time performance is often that a breakdown occurs where two or more different people, teams, or organizations don't communicate effectively about what's needed, what difficulties they must overcome, or what expectations they have of each other. That's called a trust breakdown. How important is trust a factor in project management?

### *Lockheed FX-35 Case*

How important is trust a factor in project management?

Consider that the multi-billion dollar FX-35 fighter jet being developed by Lockheed Martin is far over budget and has taken years longer to develop. The VP of Procurement explained that a large measure of the problem was in the supply chain. Queried further, he explained that the supply chain problems were not primarily technical problems, only 30% was technical, and 70% was due to mistrust.[204] Distrust cost Lockheed billions.

The key to on-time and on-budget project delivery is the ability of the project participants to collaborate, solve problems interactively, and adjust to changes in project scope and complexity – all requiring high levels of trust. In numerous analyses of successes and failures in on-time, on-budget delivery in project management in the construction industry, high trust, high collaboration relationships consistently demonstrate risk reduction of 10-30%.[205] The Rocky Flats and Santa Monica Expressway cases (above) illustrate the dramatic value of trust on fast-time project delivery.

### *Boston Big Dig Debacle Case:*

The Big Dig was the most expensive highway project in the U.S. and was plagued by escalating costs, scheduling overruns, leaks, design flaws, charges of poor execution and use of substandard materials, criminal arrests, and one death. Originally scheduled to be completed in 1998 at an estimated cost of $2.8 billion, it finished nearly 10 years over schedule and $12 billion over budget.[206]

How could so many people make such a mess of this project? George Jergeas, of the Engineering Department of the University of Calgary has analyzed scores of construction projects; he's concluded that high level of collaboration and trust become increasingly essential in managing project delivery risks, especially as projects increase in size, complexity, and uncertainty.[207] Jergeas has studied the good, the bad, and the ugly of construction for years, advising Risk Managers and Project Managers:

"Anyone who has been schooled in and practiced traditional project management and risk-management techniques knows the commandments: ''Define the scope and don't change it!'' ''Plan the work and work the plan!'' ''Set the goal and do whatever it takes to achieve it!'' These commandments are great ideas for projects of short duration and limited scope.

"But for major capital projects, spanning many years and facing many uncertainties that go beyond a project team's ability to control, we have proposed the counter-intuitive notion that leaders should be adaptive; willing to change the scope, adjust the plan, and even change the goals in order to increase the business value of the asset they are creating."[208]

How does one enable such adaptability in the face of massive costs, contracts, and unpredictable outcomes? Jergeas is firm advocate of doing business with people who are trustworthy to start with,[209] as the following example illustrates:

### *Australia-New Zealand Heavy Construction Case*

In Australia and New Zealand, large scale construction projects were plagued with problems of distrust and adversarial relationships. Massive overruns escalated the public sector risks in transportation, water, and building projects. Future investment in private sector projects in mining, oil, and gas were threatened by uncontrolled risks and problems in the field.

A group of insightful construction leaders decided to change the game, "creating no fault, no blame" construction cultures for each project based on the strategic alliance model.[210]

Over a 15 year period, encompassing 400 major projects, an alliance-based approach was developed. It relies on collaborative planning, streamlined cooperative contracting, integrated project delivery, making adjustments during the construction, joint risk-reward sharing, and all parties engaging in a trustworthy manner. The results have been tallied:[211]

- Projects come in consistently on-time and on-budget, or better, with
- Rapid Changes in Scope and Adroit Response to unforeseen circumstances,
- While not engaging in a single law suit

In our work developing alliances in the construction industry in North America, we regularly see how trust enables projects to come in on-time and on-budget.

***Bottom Line:*** Distrust is not necessarily a result of poor ethical behavior. The way business arrangements are *structured* can very often bring out either the best or worst in people (as the Continental and NUMMI cases in Part 3 illustrate).

### *Impact of Trust on Breakdowns at the Interface*

The reason for so many miscalculations and poor on-time performance is, more often than not, the breakdown that occurs at the point of *interface*, (see Figure 42: Breakdowns at the Interface where two or more different people, teams, or organizations don't communicate about what's needed, what difficulties they must

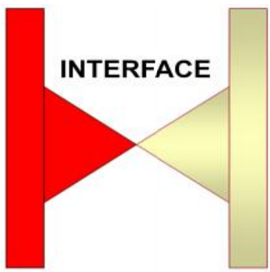



Figure 42: Breakdowns at the Interface

overcome, or what expectations they have of each other. That's called a trust breakdown.

When a project planner "estimates" the amount of time to get a task done, they typically think of what needs to be done, what could go wrong, and what the chances are that a task could go awry.

Trust presents unique problems for the project planner.

First, it is not very measurable. (Transparency International's Corruption Scale is a good place to start to compare international risk, but it doesn't help when one must consider the unique relationships of a specific project and the cultures of the people and organizations they represent.)

Second, trust does not show up in risk manager's minds. Most project estimators are analytical people who see data, facts, evidence, and adhere to measurable quantities. (these are often referred to as "left brainers" because the analytical function occurs on the left side of the brain, whereas trust is a relationships issue that happens on the right side of the brain.) This is reinforced by risk management authorities who instruct risk managers in what to consider a risk. For example: Figure 43: *Relationship between Risk & Objectives* is an oft-cited risk management framework.

Nowhere does it encourage a professional estimator to consider the trust factor.

***Bottom Line***: This whitepaper proves that trust is a massive factor in human performance -- completely left out of the Risk Management Equation, often with tragic results.

### *Lean Management Case*

Lean management is another example: less than 10% of Lean Management projects succeed, the other 90% fail. Why? Because Lean requires high levels of employee involvement. According to Gary Loblick, a highly successful Lean expert:

| Type of RISK Management | TYPICAL RISK OBJECTIVES |
|---|---|
| PROJECT RISK Management | Time, Cost, Performance, Quality, Scope, Client Satisfaction |
| BUSINESS RISK Management | Profitability, Market Share, Competitiveness, Internal Rate of Return, Reputation, Repeat Work, Share Price |
| SAFETY RISK Management | Low Accident Rate, Minimal Lost Days, Reduced Insurance premiums, Regulatory Compliance |
| TECHNICAL RISK Management | Performance, Functionality, Reliability, Maintainability |
| SECURITY RISK Management | Information Security, Physical Security, Asset Security, Personnel Security |

Source: David Hillison, Effective Opportunity Management for Projects

**Figure 43: Relationship between Risk & Objectives**

"When managers try to impose Lean Management on their employees, if there is no trust, there is no collaboration. When people don't work together, they don't give it their best effort, they don't share ideas, build on each other's thinking, and engage in joint action.

"Because most Lean Management implementers are engineers (like me), we tend to overlook the most basic human factors, like trust, relationships, cooperation, and attitude.  Our profession tends to see everything as numbers and work flows that can be broken down into core processes. Trust isn't a process, thus it is hard for engineers to address.

"Our teams make this the first consideration before starting a Lean Management project. We've renamed it: 'Collaborative Lean.' That's why our teams are so consistently successful."[212]

Lack of trust causes projects to build-in a lot of non-value added work, such as more checks on others, more reports, more meetings, more redundancy, more confusion, and more bureaucracy. The more complex the project, the more interface points, and the more critical the trust-based integration between organizations and differentiated tasks. Consider what project management authority Samuel Okoro observes:

"In most projects, the final stage is an integration of the outputs of several previous paths. Assume in a particular project that the final stage is the integration of the results of five paths. Assume again that the time estimates for each of these five paths is such that there is an 80% chance of on time completion, what is the chance that integration will commence on time?

"For the integration to commence on time, all the five paths must be complete. The chance that one path is completed on time is 80%. The chance that two paths are finished on time is 80% x 80% which is 64%. The chance that four paths are finished in time for integration is 64% x 64% or about 40%. The probability of all five paths being finished in time for integration to commence is about 33%! More likely than not, integration will commence late. Considering that in real life, projects are far more complex and integration will typically involve far more than five paths, it is no wonder many projects fall victim."[213]

***Bottom Line***: In today's fast moving, rapidly changing world, ambiguity and uncertainty is more and more prevalent. This can be a toxic environment when mixed with distrust.

***Senior Executive Analysis***: If we increased trust just 10%, what would be the % or $ impact on
the Reduction of Risks across our company?

***Bottom Line***: Trust makes a company strategically and operationally more competitive; Trust makes competitiveness sustainable year after year.

## THE RISK OF POOR MORALE

Poor morale in organizations is another sign of risk caused by distrust. In one of our healthcare clients, annual turnover is over 30%. Try working on a project with this organization, which is a revolving door of people. Assuming a person assigned to a project is somewhat experienced with a year or two of seniority, they may have only a 50/50 chance of being there for you a year from now.

Absenteeism is another massive problem associated with distrust, as was illustrated in the NUMMI Case (Chapter 7). Consider the delivery of education a "project" that lasts the cycle of the school year. When morale is down, both teachers and students exhibit high levels of absenteeism, making delivery of the educational project extremely difficult, which then results in high levels of school dropouts, which in turn costs the nation economy enormously. The high rates of absenteeism in schools are costing America dearly, according to a recent report:

> *The findings by the Center for American Progress (CAP), a think tank in Washington, D.C. – examined data from the 2009-10 school year originally compiled by the U.S. Department of Education.*
>
> *The study shows 50.2% of Rhode Island teachers were absent 10 days or more in 2009-10, compared with the national average of 36%. Educators in Utah had the fewest absences, with 20.9% of teachers out 10 days or more.*
>
> *Raegan Miller of CAP said teacher absences cost taxpayers $4 billion annually nationwide. "The costs of teacher absence, both in financial and academic terms, can no longer be borne in silence."*[214]

The high failure rate of Mergers and Acquisitions can also be correlated to the Trust Risk. The preponderance of acquisitions fail for what is called "cultural reasons." Underneath the cultural veil are two key factors causing this failure:

A. The company being acquired has a poor trust level before the acquisition, and the distrust just escalates during the acquisition process as fear runs rampant throughout the organization. The best A-level people, who have more opportunities for mobility jump ship for safer ground, leaving the company a hollow shell of B & C-level employees too scared to run.

B. The very process of the acquisition (drive to *Acquire*) is inherently predatory, and thus triggers fear in the target, who is afraid of being victimized (drive to Defend). The target company becomes highly protective. Some people leave, the remainder hunker down in their bunkers and silos, which can take years to break down, making integration of the new unit almost impossible.

In the worst situations where distrust runs rampant, the lawyers get involved. Because the task of any lawyer is to reduce risks for their client, the lawyer then tries to shed risk onto the other party, often coupled with the threat of litigation, destroying any chance of creating the trust necessary to resolve the problem.

| |
|---|
| Insert General Electric Nuclear Power case<br><br>(work expands to fit the time available) |

In situations ambiguity and distrust (or untested trust) start with the fewest number of risks, achieve success, then incrementally add new risks.

Because Risk Management frameworks typically don't consider either Trust or the Law of Compounding Risks, the economic cost is enormous.

## *Fear and the Psychology of Risk*

It's some risk managers don't like to talk about – fear. After all, risk management is supposed to be logical, analytical, and rational. This approach just masks over the reality – fear is the result of years of betrayal, manipulation, and deception that have occurred in our economy. Wall Street traverses the "fear & greed" cycle from bubble to burst on a regular periodic basis. The frequency of unscrupulous behavior is documented in every edition of the Wall Street Journal – just scan the pages to see the tyranny of distrust.

In the next section, we will address the realities of fear, the psychology of safety and security, and key actions to reduce risk from unscrupulous behavior.

**Richard Buckminster Fuller** (12 July 1895 – 1 July 1983) was an American philosopher, architect, and inventor, known to many of his friends and fans as **"Bucky" Fuller**.

*Synergetics: Explorations in the Geometry of Thinking* (1975)

- **Synergy is the only word in our language that means behavior of whole systems unpredicted by the separately observed behaviors of any of the system's separate parts or any subassembly of the system's parts.** There is nothing in the chemistry of a toenail that predicts the existence of a human being.
- **Universe is synergetic. Life is synergetic.**
- Synergy is the only word in our language which identifies the meaning for which it stands. Since the word is unknown to the average public, as I have already pointed out, it is not at all surprising that synergy has not been included in the economic accounting of our wealth transactions or in assessing our common wealth capabilities.

# Chapter 10.
# Beware the Beast

The Beast and the Psychology of Fear

Magnitude of the Beast

Newman & Hare Data

Quote from Machiavelli

Quote from Darwin

Ensuring Trustworthiness

Role of Law, Contracts, and Litigation

The Last Line – Dolphin Defense Strategy

## BEWARE THE BEAST & BAD MATES

Up to this point, we have taken a journey extolling the marvelous virtues of trust and some of the methods to build it. Fortunately, most people (probably in the vicinity of 95%) on the planet have the capacity to engage with you in a trusting manner.

However, that doesn't mean that everyone is trustworthy. Certainly not, and it's important to understand who can be trusted, who you much watch like a hawk, and who you should protect yourself from with extreme diligence.

This chapter addresses the harsh realities of distrust in your world, and what actions you should take.

## *Was Machiavelli Right?*

At the end of the Middle Ages, as the Renaissance was dawning in Italy, a masterful advisor to the royalty of the day named Niccolo Machiavelli wrote a book called *The Prince*[215] in which he provides extensive advice about how to survive in a world filled with connivers and deceivers.

Machiavelli is considered by many authorities as one of the most influential writers of the modern era. I'm going to quote Machiavelli here, and let you assess whether his advice is worth taking:

> *"A leader must not mind incurring the charge of being cruel if it is for the purpose of keeping his subjects united and faithful."*
>
> *"It is much better to be feared than loved,"*
>
> *"Man is semi-animal, semi-beast. The leader is thus obliged to know how to act as a beast, and must imitate the fox and the lion, for the fox can recognize traps, and the lion can intimidate. If all men were good, this would be poor advice; but as for those who are bad and will not be loyal to you, you are not bound to be loyal to them."*
>
> *"A leader must take great care to say only the words of mercy, faith, humanity, and morality, for men in general judge more by what they hear and see, than by what they experience. Everybody sees what you appear to be, few know who you really are. And the few who know who you really are will seldom dare to oppose you in light of the many who support you.*
>
> *"In the actions of leaders, the end justifies the means."*

Machiavelli has been the guiding light for many so-called *realists* who will sacrifice their principles for the sake of expediency. But do people who gamble their values become great leaders? We shall see in this chapter how tenuous this thinking is.

> *Vince Lombardi, the renowned football coach said:*
>
> *"Leadership is based on the spiritual power to inspire others to follow.*
>
> *This spiritual quality may be used for good or evil.*
>
> *When devoted toward personal ends, it is partly or wholly evil.*
>
> *Leadership which is evil, while it may*

## *The Dark Triad*

The term "Dark Triad" sounds like the title of a horror movie, and, in many ways it is. Many of the horrors of the world have been perpetrated by the people who qualify for their ranks.

The Dark Triad[216] consists of three character types that may legitimately be considered "evil": Psychopaths,[217] Machiavellians, and Narcissists. They do not typically engage in outright conspiracies, but are more likely to participate in informal collusions.

Here's what all members of the Dark Triad have in common:

**Lack of Conscience**

**A person without a conscience is incapable of feeling empathy, sympathy, or remorse.**

For Psychopaths, the genetic makeup of their brains physically lacks the capacity for a conscience[218], while Machiavellians and Narcissists have the *capacity* for a conscience, but *purposefully discount it* as having no value or it gets in the way of getting what they want.

All humans on this planet, with the exception of the Dark Triad, regularly use their conscience to navigate relationships. Actually all mammals demonstrate some small level of a conscience within their species, and dogs, especially, have a conscience toward their human masters, provided their master is kind and loving.

We often refer to people without a conscience as "reptiles" because reptiles also lack the part of their brain that contains the neurotransmitters associated with the emotions of love, trust, sympathy, compassion, and empathy.

### *Power of Conscience in the Evolution of Man*

Many people are of the false belief that Charles Darwin, the famous evolutionary biologist of the Victorian Era believed in survival of the fittest. This is clearly not what he intended.

Darwin was quite articulate about the importance of conscience and clearly thought that having a conscience was one of the most important factors in the successful evolution of humans over the last five thousand years. To set the record straight, let's examine what Darwin really said that disproves Machiavelli:[219]

> *Of all the differences between man and the lower animals, the Moral Sense of Conscience is by far the most important. It has rightful supremacy over every other principle of human action….*
>
> *Any animal whatever, endowed with well-marked social instincts,….would inevitably acquire a moral sense or conscience, as soon as its intellectual powers had become as well, or as nearly well developed, as in man:*
>
> *Firstly, the social instincts lead an animal to take pleasure in the society of its fellows, to feel a certain amount of sympathy with them, and to perform various services for them.*

*Secondly, from man's appreciation of the approbation and disappointment of his fellows.*

*Thirdly, from the high activity of his mental faculties, with past impressions extremely vivid.*

*[A conscience] is the most noble of all the attributes of man, leading him without a moment's hesitation to risk his life for that of a fellow creature; or … to sacrifice it for some great cause.*

*Immanuel Kant exclaims "Holding up thy naked law in the soul, and so extorting for thyself always reverent, if not always obedient"* [220]

*Conscience looks backwards, and serves as a guide for the future.*[221]

*The moral faculties [in humans] are generally and justly esteemed as of higher value than the intellectual powers.*[222]

Darwin went on to set forth the premise that it was man's conscience that gave humans the capacity to collaborate and use their imaginations to create, thus enabling the great civilizations that have emerged on this planet.

*Without the higher powers of the imagination and reason, no eminent success can be gained.*[223]

Darwin was also explicit about people who are incapable of feeling remorse (who we now call Psychopaths -- a modern term):

*Remorse is an overwhelming sense of repentance ….bearing the same relationship as rage does to anger, or agony to pain.*

*The nature and strength of feelings which we call regret, shame, repentance, or remorse, depend not only on the strength of the violated instinct, but partly on the strength of the temptation, and often still more on the judgment of our fellows.* [224] *[A person without sympathy and remorse] is essentially a bad man.*[225]

> *A man who possesses no trace of sympathy and social instincts [is] an unnatural monster.*[226]

Darwin was also quite direct about the value of cooperation:

> *Selfish and contentious people will not cohere, and without coherence nothing can be effected.*[227]
>
> *A tribe possessing a high degree of the spirit of patriotism, fidelity, obedience, courage, and sympathy, were always ready to aid one another, and to sacrifice themselves for the common good, would be victorious over other tribes; and this would be natural selection. Morality is one important element in their success.*[228]
>
> *The wonderful progress of the United States, as well as the character of the people, are the results of natural selection; for the more energetic, restless, and courageous men from all parts of Europe have emigrated during the last ten or twelve generations to that great country, and have succeeded best.*
>
> *A nation which produced … the greatest number of highly intellectual, energetic, brave, patriotic, and benevolent men, would generally prevail over less favoured nations.*[229]

You are encouraged to make your own decisions about the value of a conscience. When some pseudo-authorities proclaim that having a conscience is for sissies and fools, they set the stage for a world that has no trust; a world that doesn't and can't work; a world that must be rejected for it sets forth the course for its own doom and damnation.

### *What do Members of the Dark Triad Look Like?*

First, don't expect that members of the Dark Triad to look evil like serial killer Charles Manson; the majority of psychopaths look like the guy or gal next door. (Sociologists estimate that about 2% of males are psychopathic and 1% of females).

Second, there are very different types in each of the categories, so don't imagine that all of them will resemble or Hannibal Lecter in *Silence of the Lambs.* But they are all extremely dangerous to the health of any organization or institution. [Note: all of us have a "dark side." This is not to be confused with the "dark triad," which is evil personality]

### *- Psychopaths*

### *The Oxbow Incident*

In 1943, Henry Fonda starred in a classic film about an innocent man hung by a posse who lusted for revenge. In the movie, there is an archetypal scene where, after the man swings, Fonda reads a letter written by the dead victim to his wife:

*A man just naturally can't take the law into his own hands and hang people without hurtin' everybody in the world, 'cause then he's just not breaking one law but all laws.*

*Law is a lot more than words you put in a book, or judges or lawyers or sheriffs you hire to carry it out.*

*It's everything people ever have found out about justice and what's right and wrong.*

*It's the very conscience of humanity.*

*There can't be any such thing as civilization unless people have a conscience, because if people touch God anywhere, where is it except through their conscience?*

Here are some of the different types of psychopaths:

*Primary Psychopaths* are not responsive to punishment, apprehension, stress, or disapproval. While they are basically anti-social, they can fake relationships if it suits their needs. They have no life plan, but do take advantage of anything that will give them power or money. They cannot experience any of the emotions associated with love and caring.

*Secondary Psychopaths* are typically daring and adventurous, being prone to take risks, which apparently give them a high. They are likely reactive to stress, and thus will worry but are unable to resist temptation. As their anxiety increases toward some forbidden object, so does their attraction to it. They are unconventional people who play by their own rules early in life; later in life they will either break the law or enjoy pleasure in skirting the edges of the law.

Both primary and secondary psychopaths can be subdivided:

- *Distempered Psychopaths* will easily fly into a rage or frenzy. They are also usually men with incredibly strong sex drives, capable of astonishing feats of sexual energy, and seemingly obsessed by sexual urges during a large part of their waking lives. Powerful cravings also seem to characterize them, as in drug addiction, kleptomania, pedophilia, any illicit or illegal indulgence. They like the endorphin "high" or "rush" off of excitement, risk-taking, and drugs. In positions of power, they tend to be bullies.

- *Charismatic Psychopaths* are charming, attractive, manipulative irresistible liars. Highly intelligent and very adroit in the moment, they are usually fast-talkers, and possess an almost demonic ability to persuade others out of everything they own, even their lives. They are usually gifted at some talent or another, and they use it to their advantage in manipulating others.. Leaders of religious sects or cults, for example, might be psychopaths if they lead their followers to their deaths. They often come to believe in their own fictions – illusion is reality.

### - Machiavellians

Machiavellians, unlike psychopaths, actually do possess a conscience. However, they have made a choice that a conscience is like one's appendix – it serves no useful purpose and losing it would mean no harm. The Machiavellian's primary interest is in bettering themselves, even if it is at the expense of others, after all, others are poised and ready to do the same thing to him.

The ends always justifies the means, so anything maneuver is valid as long as the Machiavellian can get away with it to meet their objective, which is almost always more money, more power, more prestige, or more control. And if the rules say you can't get away with it, just work in the grey area of the rules, or find the loop holes, or, if necessary, change the laws and give a lot of good reasons why the old law stinks. If you get caught breaking the rules, just ask for the benevolent forgiveness of others.

Lies are seldom outright deceptions; usually they're attached to a number of facts which can be validated. Machiavellians rely on you believing the whole story because part of the story is true.

Being ethical has its place in their world; ethics is usually for other people, not themselves. They are survivors. They can be utterly ruthless, if that's what it takes to win. Life is a chess game; their range of acceptable tactics is far broader than even the most adroit tacticians; they have a move, a counter-move, and three options for a counter-counter move. They morph like chameleons, and thus look like they have multiple personality disorder (they don't). At one moment they are friendly and full of flattery, the next they can be confrontational, antagonistic, and downright mean, then flip back if it serves their interests.

Machiavellians may be high risk takers, but for them risk is calculated; high risk must be attached to a very high reward. They are generally quite competent and have mastered their profession.

### *- Narcissists*

Narcissists are "legends in their own mind," fully in love with themselves and will create any deceit, illusion, or twist of the facts to make them fit their glorious image they have of themselves. Because they believe they are the best, perfect, and gifted, they can do no wrong and the rest of the world should admire them and give them what they deserve. They tend to preach their doctrine, but take criticism poorly. This means they have compassion, but only for themselves, no others. Anyone who disagrees with them is wrong, stupid, and without merit or value.

More often than not, narcissists are extroverts, always ready to display their highly inflated image to the world. They are glory hounds, willing to put themselves in highly challenging, but visible situations just to show themselves off, but not to achieve a worthy standard of excellence. Because their actions are selfishly motivated, they don't care if other are damaged or disadvantaged from what they do, as long as it looks good for them, such as laying off workers as long as the shareholders admire them.

We have deep reason to be concerned about Narcissism because there is a large body of recent evidence that it's on the rise.

A University of Michigan study found that college students today are not nearly as empathetic as college students were in the 1980s and '90s. Researchers analyzed data on empathy collected from almost 14,000 college students over the last 30 years. According to Sara Konrath, at the U-M Institute for Social Research:[230]

> *"Many people see the current group of college students — sometimes called 'Generation Me' — as one of the most self-centered, narcissistic, confident and individualistic in recent history."*
>
> *"College kids today are about 40 percent lower in empathy than their counterparts of 20 or 30 years ago, as measured by standard tests of this personality trait."*

When college students of the late 1970s were compared with college students today, they are less likely to agree with statements such as "I sometimes try to understand my friends better by imagining how things look from their perspective" and "I often have tender, concerned feelings for people less fortunate than me."

In a related but separate analysis, Konrath found that nationally representative samples of Americans see changes in other people's kindness and helpfulness over a similar time period. Her colleague, Edward O'Brien stated:

> *"It's not surprising that this growing emphasis on the self is accompanied by a corresponding devaluation of others."*

### *What the Dark Triad has In Common*

What they all have in common:

- They are selfish, but always have a good rationale for their selfishness. It's always "me first" (although they might disguise this motive); always getting the biggest piece of the pie.
- They do not have a good history of relationships, they tend to be loners, but can hide their lack of friendships with superficial glad-handing.
- They do not trust others, because they cannot conceive of trust.
- They will use people for their own ends, as pawns in their game, casting you aside if you no longer fit their game.
- They will always think "what's in it for me," so any act of benevolence carries a hidden payback.
- They usually respond to a personal tragedy in someone else's life with something akin to "they must have deserved it."
- They will often prey upon your fears and worries to get you to do something they advocate that will make you feel safer or more secure.
- They lack soulful purpose and will lie, cheat, and manipulate to gain their selfish objectives.

- They actually feel happy when others are sad or disadvantaged.

Outthinking a member of the Dark Triad is very difficult because they think very differently, and unless you are trained in outmaneuvering one, you are likely to be caught in their trap.[231]

The biggest problem with the Dark Triad is where their journey takes them in search of money and power and prestige: to the top of organizations, in churches, community organizations, corporations, banks, and government. (Please, don't think everyone at the top of all organizations is a member of the Dark Triad.)

### *Is the Dark Triad Evil?*

If you asked a member of the Dark Triad "Are you evil?" they would look at you like you were from outer space, wondering how you could ask such a specious question.[232] They would say:

"Of course not, are you crazing? Only a person who was naively idealistic would ask such a foolish question. I live in the real world, which is a harsh world, where "survival of the fittest" reigns supreme. Adam Smith, the father of modern capitalism taught us we must all work in our self-interest. I work for my self-interest, and I would expect you to operate in yours! That's not evil, that's just smart, that's just common sense."

While this answer sounds plausible, it is simply an intellectual distortion of the truth to suit the needs of a predator.[233] You must always be alert for people who claim some intellectual high ground to create a smokescreen for their lack of conscience.

Science is now revealing what history and everyday common sense has long suspected—that some people actually do not have an innate conscience in their brain.[234] For this reason we certainly cannot advocate blind trust in all others. There are a few truly dangerous psychopaths in our midst.

## *How prevalent is the Dark Triad?*

The question of who to trust is as old as the human race. It's been on our minds since ancient times: the subject of the writings of the Greeks and Romans, and addressed in the Old and New Testaments. What can we add to that might shed light on this age-old issue?

Using the 4-Drive Model of Human Behavior (Chapter Two) it becomes clear that members of the Dark Triad effectively lack the drive to *Bond.* Thus:

*The Ultimate Caution*—Watch Out for *3-Drive Humans*

While building a system of trust is a noble endeavour, it cannot be conducted with naivite. Efforts can backfire without a healthy dose of reality to circumvent the Dark Triad.

While we are convinced the vast majority of people are capable of being trustworthy, a very small percentage of people (perhaps 1 ½ percent of the population[235]) are psychopaths actually genetically deficient, lacking the "bonding gene." Add to this figure the Narcissistic and Machiavellian members of the Dark Triad, and we can reasonably guess a total of about 5 percent.

For this small five percent segment, their remaining three drives (*Acquire*, *Create*, *Defend*) shift into overdrive. They are skilled at worming their way into positions of power, are highly intelligent, extremely manipulative, often charming, and will torpedo anyone that gets in their way. Because they lack empathy, shame, or remorse, other people are just tools for them to accumulate more power and wealth. Their lack of moral conscience can be masked with potent but hollow ideologies such as "the purpose of business is solely to make money."

To begin to understand just how prevalent psychopaths are in corporations, Babiak, Hare, and Newmann conducted a landmark study of over 200 U.S. Corporate Leaders and found that 4-6% of the executive suite was occupied by psychopaths – four to five times the rate expected in the normal population. This strongly suggests our corporations are becoming a magnet for psychopathic behavior. Figure 44 displays the results of the study.

What is very disturbing, but perhaps not surprising, is that the number of corporate executives who scored equal to or higher than a typical prisoner in jail was ten percent, and that fully twenty percent of the executive suite was in the risky zone or higher.[236]

[RPL: Add section from Altemeyer on Authoritarians: Compliance and the Narrowness of Presumed Conscience – Fundamentalism and the Danger of Simple Answers and Heartless Commands]

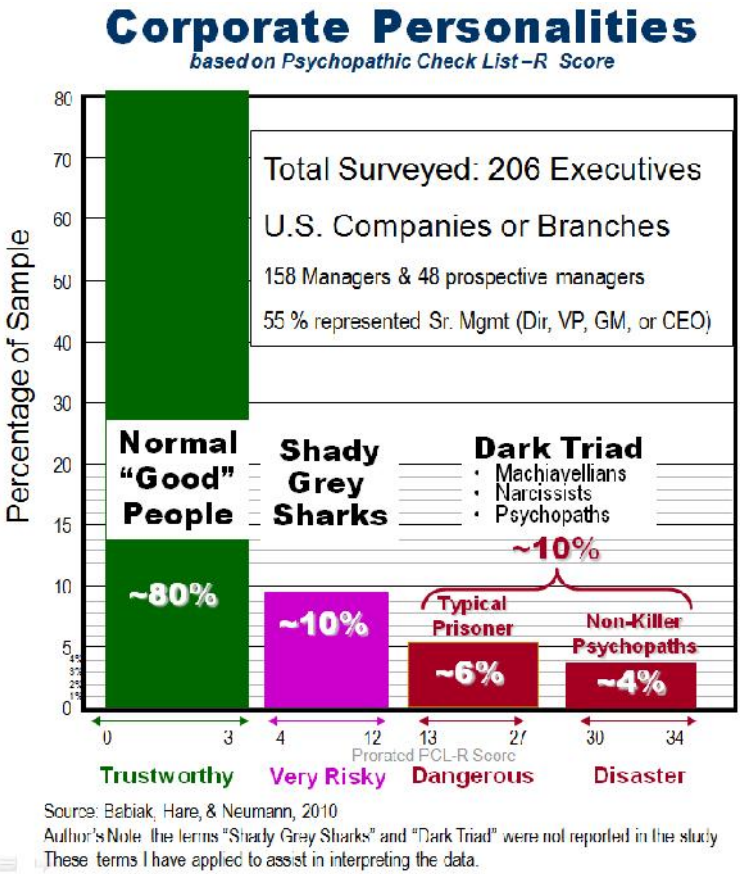



**Figure 44: Prevalence of Sr. Level Corporate Psychopathy**

Why such a high number of the Dark Triad in the top ranks?

First, their objective is Money, Power, and Prestige. It's natural for them to gravitate to the top of organizations. [237] Second, they are usually very good communicators, exuding superficial charm but with no real consideration for honesty, integrity, or human compassion. They highly creative, excellent strategic thinkers, and tough when making difficult decisions. Still, these leaders were recognized negatively because they had poor management styles and were not considered team players – the signals of a low drive to *Bond,* like Al "Chainsaw" Dunlap, (See sidebar story[238]) who manage like Genghis Khan. With their intelligence, they often Lacking the checks and balances of a *Bonding* drive, their *Acquire & Defend* drives are pushed to the limit, manifesting as domination and combative attack. Thus their modus operandi sees anyone opposed to them as the "enemy," requiring constant secret operations below the belt. Their unchallenged belief in competition calls for them to do anything to win, always narrowly focusing on the best way to move in for the "kill," highly untrustworthy.

Although the large preponderance of the population has the potential for engaging in strong trustful relationships, the Dark Triad, either because they were born without a conscience or with a betrayed, abused childhood, are incorrigably rooted in distrust.

The Dark Triad is prevalent in governments as well, even democracies. The collapse of the economy in 2008 was caused by people like Alan Greenspan who naively overlooked the systematic unraveling of financial regulations by members of the Dark Triad.[239] If you finds yourselfs in an organization with a person from the Dark Triad, it cannot be ignored or wished away. Action is called for. Our strategy is modeled after Dolphins.

If the Al Dunlap of "CHAINSAW" were a fictional character, he would be dismissed as a figment of bad writing, a one-dimensional caricature: He capitalized on his notoriety for mass layoffs by writing a book called Mean Business. He seemed to revel in firing people. He was fond of telling visitors, "I just love predators. They must go out and hunt and kill to survive." An egomaniac, he screamed at and purposefully humiliated his employees, including top management. He had a personal life to match: He cut himself off from his family, abused his first wife, and was stunningly stingy in child support payments to a son from his first marriage…..

When Sunbeam tapped Dunlap to run the company, Wall Street responded with hosannas. Share price rose a record 60 percent the day after the announcement of his hiring and continued to skyrocket during the first months of his tenure.

Dunlap quickly began ….his slash-and-burn [strategy]…. He soon announced plans to sell or close 18 of Sunbeam's 26 factories. Wall Street celebrated, and the company's share value continued to climb.

Profitable facilities were shut down and the costs incurred from production shifts could not be recouped in the foreseeable future. But Dunlap was determined to impress Wall Street with record jobs cuts, and he refused to listen to cautionary warnings. Sunbeam sellers had inflated sales by offering deep discounts. Product quality slipped.

As profitability plummeted and the company fell into the red, the Board of Directors turned on Dunlap and fired him. Soon it became clear that earlier evidence of increasing profitability had been the result of accounting tricks that auditors retrospectively disallowed.

What is most disturbing about the tale, perhaps, is how many accomplices Dunlap had as he wreaked havoc on a venerable company and the lives of thousands of employees. Executive after executive echoes the one who said, "I was a greedy son of a bitch along with everyone else" and willing to do whatever Dunlap demanded in exchange for the promise of a big payoff in stock options. The auditors were bullied into going along with questionable accounting measures. And Wall Street analysts, the Board of

## *Dolphin Defense Strategy*

Once one of the Dark Triad has infiltrated your organization, beware. Surviving in a predator-infested jungle is not a sport for the faint at heart.

How must we deal with them effectively, without having to engage Machiavellian counter strategies?

Quietly observe the suspect's behavior and take detailed notes. Start discussions with collegues who might well have noted the problem and compare observations. When well prepared, approach the most senior officer available with evidence and allies. The goal is to get the offender out of the organization. If illegalities are strongly suspected, of course, approach the appropriate officials of the law. If such efforts fail, our advice is to leave the organization. Do not allow yourself to be victimized.

Predators love to use the law as a tool of destruction, erosion, and depression. Out think him in ways he can't think, use alliances in ways he can't use collaboration, use his own words to undermine and boomerang upon him. Never show weakness, except as a feint, but learn his, for he has many.

Every corporate predator and dominator has a long history of flawed behavior; use his record of malice and victimization to sow the seeds of his own demise by gathering evidence. They have created many enemies who are often willing to bear witness or provide facts.

Find the source of his energy, and deplete it. Don't make him your "enemy" by surrounding him with your hatred, or you will become filled with the very poison you find so bitter. Show patience; the pathways of justice are often slow, winding, and indirect.

### *A Collaborative Defense Against Sharks*

Clearly, a predator-infested organization is dangerous for the normal Four-Drive human that wants an environment of trust, camaraderie, and co-creation. What should one do? While the last resort may be to exit the organization, here a great lesson from the sea – how dolphins avoid being devoured by sharks – provides a worthy lesson. With a small mouth and far fewer and more diminutive teeth, dolphins should be instant victims of sharks.

Using a collaborative dolphin-like strategy, surround yourself with others who can catch him in a cross-fire. Authors of *Strategy of the Dolphin,*[240] Dudley Lynch and Paul Kordis suggest:

> *Dolphins are some of the most prized creatures of the deep…..they are very intelligent [and highly collaborative] ….their brains are somewhat larger on average than the typical human brain … and the dolphin's associational cortex, the part of the brain specialized for abstract and conceptual thinking is larger than ours … and has been … for at least 30 million years.*
>
> *Dolphin behavior around sharks is legendary … using their intelligence and their wiles, they can be deadly to sharks. Bite them to death? Oh no. Dolphins circle and ram, circle and ram. Using their bulbous noses as amphibious bludgeons, they methodically crush the shark's rib cage until the murderous creature sinks helplessly to the bottom.*
>
> *But rather than its skill at shark combat … the dolphin symbolizes … coping and choice-making in rapid change times because of the mammal's natural abilities to think constructively, [collaboratively,] and creatively.*
>
> *With a twist of the mental and emotional kaleidoscope, the dolphin (the Human Variety) changes the nature, the rules, perhaps even the playing surface and the players themselves.*[241]

For anyone who has one or more sharks or other predators in their organization, the order of the day is to respond. Typically our choices have been *fight*, *fright*, or *freeze*. Apocalyptic strategists would advocate a response of Biblical proportions. Machiavelli and game theorists would propose a fight of cunning and coercion.

Sheds light on the realities of the dark force of the snakes and sharks, taking the *Strategy of the Dolphin*® to the human level:[242]

- Don't give up or give in easily until it makes a difference
- Don't be ideological, be willing to take the heat if the going gets tough
- Be careful about accepting the illusion of win-win trade-offs that are calculated to produce good feelings rather than outstanding results
- Be unyielding in principle unless the principle no longer makes sense
- Winning doesn't mean there must automatically be losers
- Tell the truth and thus avoid wasting time, energy, and resources on useless, unproductive drama [note: be prudent in how truth is used]
- Address threats and rapid change using cooperative strategies (teams, alliances, and networks. [Note: in the case of the most devious sharks, collaborations may have to fly under the radar in the early stages.]
- A vision of the way you want an organization to be is highly valuable; act on the "Big Picture," but be willing to focus on details
- Be quick to retaliate if situation calls for it, but be willing to forgive if the grudge is ultimately an insupportable barrier in a fluid universe

Trust is too precious to be sacrificed
at the alter of the unscrupulous.

## *Bad Teammates – The Untrustworthy*

Those who constitute the dark triad are only a small (but dangerous) part of the general population. They are highly destructive, and deserve to be isolated from any organization. It's more likely, however, that you will be faced with having to deal with corrosive people who just don't work well as teammates.

People who are poor team performers cannot be trusted for reasons


Figure 45: Bad Teammates

that extend well past ethical considerations; they lack the ability or drive to *Bond,* to work cohesively in a group.

There are six "bad teammate" character types (see Figure 45). Putting these people on any team will damage the team's capability to perform at the highest levels. The common denominator for all the bad teammate types is the manner in which they deal with fear. All of us have fear, but bad teammates choose to respond to fear in ways that are unhealthy to others. Consequently they choose actions that are represented by "below the belt" behaviors (see Ladder of Trust/Tornado of Distrust, **Error! Reference source not found.**.)

### *What Consistently Creates Successful Teams?*

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

Selfish, egotistical member of the squad can utterly destroy the ability of the team to perform, as the 2004 Olympic Basketball "Dream Team" nightmare illustrates. For decades the United States had dominated Olympic basketball, always winning the gold medals. In 2004 the stage was set in Athens. Everyone assumed the overwhelming U.S. supremacy would continue after fielding a squad stacked with high-scoring superstars.

They were crushed in the first game, losing to Puerto Rico by nearly twenty points, the most lopsided defeat in the history of U.S. Olympic basketball. This Dream Team of Superstars then lost to Lithuania and Argentina, soon becoming known as the Nightmare Team. Sports Illustrated said "covering Team Bad Vibe in Athens was about as pleasurable as getting a root canal."

In all of decades of Olympic history, the American teams had lost only two games; the Nightmare Team lost three, and didn't even make the final playoffs. The humiliation was due to individual competence being defeated by competitors who stressed teamwork passion, coordination, and commitment to what was best for the team. Self interest defeated teamwork and trust.

This Olympic example superbly demonstrates the lack of *synergy and synchronicity* that's necessary to generate great teamwork. Synergy enables a team to produce more than the sum of the individuals. Synchronicity is precision timing and anticipatory coordination that enables great teams to work in unison, both physically and mentally.

### *Teamwork at Disney*

"Togetherness for me means teamwork. In my business …many minds and hands must collaborate… The work seeks to comprehend the spiritual and material needs and yearnings of gregarious humanity.

"It makes us reflect on how completely dependent we are upon one another in our social and commercial life. The more diversified our labors and interest have become in the modern world, the more surely we need to integrate our efforts to justify our individual selves and our civilization." -- Walt Disney (P 90)

In the following 2008 Olympics, a new coach was appointed, Duke University's Mike Krzyzewski, who is a brilliant strategist, but more importantly a coach who looks for players with character and who play for the good of the team. Players that could trust each other to work as a unit, not as individual superstars, each looking for the spotlight. The team sparkled and went on to win the Gold Medal, undefeated, outscoring their opponents by an average of 28 points. Coach Kryzewski said after winning the Gold Medal: "We played with great character."

Krzyzewski is the winningest coach in college basketball history. A former army officer who was trained at West Point, he integrated the classical principles of honor, integrity, trust, loyalty, and duty into his coaching. Trust is a centerpiece of a winning strategy:

> *"In leadership, there are no words more important than trust. In any organization, trust must*

*be developed among every member of the team if success is going to be achieved."*

*"There are five fundamental qualities that make every team great: communication, trust, collective responsibility, caring and pride…. Any one individually is important. But all of them together are unbeatable."*[243]

*I'm looking for the kids who are good who want to play collectively. That's the beauty of our sport, our game. The pass is still the best play, because our game is a game of connecting. If you lose the connection, you lose the spirit and then you lose your game."* [244]

*"Throughout the season, I look into my players' eyes to gauge feelings, confidence levels, and to establish instant trust…Teams that trust one another and communicate are luckier...*

*"We're able to be successful only because we trust each one another. We work hard to focus on the truth, look one another in the eye, and then take action for the good of the team. And once the confrontation is done, it's done. The bond is not jeopardized, because ours is a relationship based on trust."* [245]

*'The quality that we need to teach the most is trust, to be honest with one another.* I have a rule on my team: when we talk to one another, we look each other right in the eye, because I think it's tough to lie to somebody. You give respect to somebody.

"The main thing that you do with crisis management is trust one another….*You have to have that trust develop before the crisis. If you haven't had it up to that time, and you have a crisis,*

> *then maybe you can use that crisis to develop it, but you're probably going to lose during that time. Maybe you can use that to mold your group together, as long as -- when those things happen -- you have a thing called collective responsibility. Everybody wants to take responsibility when you win, but when you fail, all these fingers are pointing.*"[246]

### *The Competitive-Cooperative Nature of Humans*

The debate as to whether humans are competitive or collaborative is completely misframed as a question. The reality is that humans are *dualistic.* We are competitive and we are collaborative. It is designed into the structure of the human brain. This is why team sports are so popular among sports fans all over the world. Against its rivals, fans love to watch a team demonstrate its competitive nature *externally,* while acting collaboratively *internally*.

### *Symptoms of Team Distrust*

Surprisingly, many organizations suffer from poor trust and teamwork but have tolerated it so long it feels normal because it's become an old habit, an accepted practice that goes with their organizational territory. Here are the symptoms typically indicating poor trust and poor teamwork:

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

If many of these symptoms are showing up in your organization, then probably other more severe teamwork problems are evident that can be traced back to poor trust. The first line of defense on preventing distrust from destroying teams is to use the earlier-cited Classical Trust Principles.

***Where there is no vision, everything defaults to politics;***

***where there is no trust, everything defaults to blame.***

## How do you Know you can Trust Someone?

Over many years of experience in business, government, and education, we've learned a number of signals emitted by those who are not trustworthy. We'll share then with you.

### Signs of the Untrustworthy

If someone says "It's not personal, just business," be prepared to make a gracious exit rapidly, for this person is serving notice that you will be taken advantage of at every opportunity, unless you carry a bigger stick wielded by a more aggressive attorney.

If you can't ever seem to get good, clear information about someone, beware. Or if a story is too good to be true, it probably is.

Beware of those who continually "keep score" to a fault. They are always looking for an exact quid pro quo arrangement, or "a favor for a favor," "give and take," "tit for tat", and "you scratch my back, and I'll scratch yours". While there is nothing inherently dangerous in this thinking, the give-and-take partner is more than likely to be highly transactional, and not interested in a long-term, mutually fruitful, trustful relationship. The opposite is also true: Beware of those who never keep score, always taking advantage without reciprocity.

Ask the question: "What has made you a success?" Responses focusing on "me, me, and more me" are danger signs. If the answer is: "I'm a pusher," " I work hard," "I am tough with my people," "I can squeeze a buck," "I watch the bottom line," or something in that vein, then more likely than not, there will not be enough "chemistry" to make the relationship successful. The trustworthy person will be humble, give credit to others, and even tell you of the failures and hurdles they experienced. Most will even deny that they are successful. If they are committed to a mission larger than themselves, all the better.

Discover who their favorite movies or personal heroes are and why.

This will give you insight into someone's role models. For example, one of Apple Computer's primary suppliers is led by an individual who considers his primary role model to be Genghis Khan, and conducts his affairs accordingly[247]-- certainly not an inspiration for conducting a trusting business relationship.

Sharing of risk, otherwise known as "skin in the game" is another criteria for assessing mutual guardianship in a trusting relationship. Is the other party willing to take a risk, and under what conditions?

Response under stress is a great indicator of a person's inner self – the real self. When stressed, do they blame others, or form teams? Do they act fairly, helping others, co-creating with their team, keeping their family or community together? Or is it "Every man and woman is forced protect their self interest?"Or be sure you have a good lawyer to protect you.

Akin to the stress factor is the way a person handles uncertainty and ambiguity. Do they get bossy and become control freaks, or do they pull their trusted team together to handle the problem?

Learn the other person's "rules of business." Everyone has them, sometimes articulated, sometimes sub-rosa. The untrustworthy will advocate something akin to the *Possessor's Golden Rule* in relationship: *"He who has the Gold: Rules."*

Observe the way people with these traits treat others when they are not in the limelight: the waitress at dinner, the janitor cleaning the office, or the cab driver. Are they fair and personable to all, or only to those who command it?

Be observant of what people do regularly, which will be indicative of what they believe. Beware of the people who:

- Are constantly blaming others, highly critical of others, or worse, cynical
- Make aggression as way of life, use fear and intimidation frequently
- Become very defensive when challenged; seldom

answer questions directly

- Must always be in control of others, creating crises that only they can solve
- Make every discussion a debate or argument that forces people into win-lose situations
- Have an overblown sense of self-importance, but never take responsibility for failures
- Don't give you straight answers, or give you answers that can't easily be verified.
- Don't have an ounce of humility, always taking the credit for themselves, never giving it to others.
- Tell half truths, intended to make you believe something that's really not very true.

### *Is Someone Lying?*

Knowing whether someone is telling the truth is not an easy task because good liars are often very skilled at their ignoble craft. Lying is all too common in our world. A study from DePaul University found that 92% of individuals admitted lying to a romantic partner or could recall times when they were not completely honest.[248]

There are four signs of truthful behavior we all look for:

1. *Sincerity*: genuineness, honesty, naturalness, earnestness. People who are sincere can be counted on to follow up their words with actions.
2. *Eye Contact*: Deceivers have shallow smiles, and make unnatural eye contact that lasts too long.
3. *Verbal & Non-Verbal Consistency*: Their words and their body communicate the same thing. Deceivers are inconsistent, nervous when they should be calm.
4. *Straightforward Answers*: Honest people give straight answers, deceivers' answers are convoluted or evasive or give too much information, most of which is irrelevant.

Many years of police investigation reveals a number of signals liars send. Here are a few techniques to help you spot the liar:[249]

- Is the answer to a question clear and direct, or is it unfathomable or does it divert the issue to something else? Do the facts bear witness to the story?
- Does a person shuffle or act nervously when asked a personal or uncomfortable question?
- Is the person purposefully omitting information (not good) or knowingly giving you erroneous information (very bad)?
- Does the person seem to over-play their role in an event or result?
- Is the person trying to cover up something they don't want you to know? Are they always changing the subject, changing the story, or diverting the answer?
- Does the person feel threatened and is innocently protecting himself?
- Are you really listening to the answers, or are you filtering all the answers through a preconceived framework? (If you perceive the other person as either a liar or a truth teller, you will preconceive their responses.)
- Is the story short on details, or do the details just not fit , or do the details change between stories?
- Is the person taking direct effort to help you understand the truth, or are they trying to manage your perceptions to make you believe something that's not true?
- Is the person so filled with excuses that they clearly can't be responsible for telling the truth?
- Does the individual stall for time to think through their answer for fear they might tell the wrong thing?
- Does the person flip the question back on you to avoid the answer?

- Do they embellish their story with irrelevant details because the real details are uncomfortable?
- Does the individual qualify what they say with things like “to be perfectly honest,” “to tell the truth?” It’s probably not so.

Don’t think you can tell a truth-teller if they look you in the eye. A professional con artist can do this exquisitely. Also, in some cultures like Japan, looking someone in the eye before they become friends is considered an intrusion into one’s soul.

The adage: ‘trust but verify’ is always good advice if in doubt. Is there independent evidence to back up the facts?

### *Breaches of Trust Must be Addressed*

What happens if you don’t address a breach of trust? You condone it! You just can’t look the other way and expect distrust to go away.

It’s not the magnitude of the consequence, but the speed & certainty that matters most. Trust breakdowns without consequences or response means trust is unimportant or that you accept the breakdown. Consequences must be swift and predictable

***Types of Consequences***

- ✓ *Declare Breakdown, then Position for Breakthrough, or*
- ✓ *Using Trust Scale, Overtly call out the type of Behavior.*
- ✓ *Do Not Respond, Tit-For-Tat*
- ✓ *Declare Level on the Ladder you want*
- ✓ *Punish the Malicious*
- ✓ *Open Avenue for Rebuilding Trust with*
    - *Prudent/Wise Forgiveness or*
    - *Trust but Verify*

[RPL: Insert section on why “tit for tat” is doomed to fail.]

# Chapter 11.
# Changing the Rules of the Game

When a car is in need of repair, the game plan is pretty easy: take it off the road, bring it to a competent mechanic, and put it back on the road when fixed. Unfortunately you just don't take organizations out of commission when they need fixing or upgrades – the repairs have to be done while running at high RPMs in the high speed lane.

Unlike a car, which can be fixed one component at a time, the organization is a complex, interrelated system. Changing one element affects every other part.

Trust cannot be wished into an organization, nor will a stream of exhortations be effective. Creating a trust-based organization requires a *realignment* or *transformation o*f major functions. These guidelines can help make the transition:

## TRANSFORMING THE ORGANIZATION

Key Steps of 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

## *For Further Reading and Team Development*

This book has been written for the financial executive, legal counsel, risk manager, and procurement executive focusing on the financial and economic issues that impact trust. Several "companion" books are also available:

1. "CEO's Executive Guide to the Economic and Innovative Potential of Trust" is for senior executives. It addresses the major issues in this book, but focuses more intensely on the economic value that trust creates in a 'big picture' format. It is designed to be a quick read, 130 pages emphasis on senior actions and bottom line impacts.
2. "Building a Team You Can Trust" is for middle managers. It addresses the major issues in this book in more detail to enable implementation of the central ideas and themes contained here. It is 360 pages filled with more examples and advice about execution, aimed at high performance, high innovation teamwork.
3. "Leadership and the Architecture of Trust" is currently in the final stages of development. It is aimed at the newly minted MBA leader who wants even more case examples, strategic advice, economic analysis, and organization transformation strategy. It is 475 pages with more analysis, case studies, and deeper insights.
4. "Trusted to Negotiate" is interim development stages
5. "Trusted to Sell" is in interim development stages

Each book contains common "core" concepts which are fundamental in understanding and using the trust material -- including the Four Drive Model of Human Behavior, the Ladder of Trust, and the Eight Principles of Trust. Around this "core" each book builds unique points of view and specialized applications focused on different target audiences.

For more information, free downloads, direct assistance, and for MBA professors desiring to contribute to further work, or receive presentation materials, please visit:

www.TrustedtoLead.com

# Appendix One

## MACHIAVELLIAN MYTHOLOGY

### *Lessons and Perversions in Leadership*

#### *Betwixt the Middle Ages and the Renaissance*

In the middle 1400s, Sir Thomas Mallory wrote his classic tale, *The Death of Arthur*,[250] of Camelot, King Arthur, the chivalry and honor of the Knights of the Round Table, the betrayal of Lancelot and Guinevere, and the manipulation of the evil Mordred. This story (more recently embodied in the musical and movie, *Camelot*), was a classic in its description of the conflict between ideals and realities of the times. It also was a prelude and warning to the emerging Renaissance, when Niccolo Machiavelli[251] wrote his own classic, *The Prince,* as a handbook for power and control.

One of the most important thought leaders of our modern world, Niccolo Machiavelli's *The Prince* has influenced many of today's leaders, who have modeled their actions on his advice. Gravitating to his cultural roots, he used both contemporary Italy and Roman history as the source of his conclusions about human nature. Seeing the same confounding behaviors in Roman history that he saw in Medieval Italy, Machiavelli naturally assumed he had found "the truth."

All writers are products of their times. (A few, a very few, writers are able to transcend their times. Plato and Socrates are two; Madison and Jefferson are two others.) Machiavelli was not one of those transcendent thinkers. His thinking was deeply influenced by the times and his patrons. His sources of Roman history such as Livy (Titus Livius)[252] and Seneca are suspect because both these authors worked for the ruling dictator of their times: Octavian (Augustus) and Nero, respectively. The Emperor (a euphemistic term for Dictator) paid their salaries; the wrong word, or even the wrong false accusation, and death was proscribed. Thus, the insights and possibilities of a world of honor and dignity, such as those that were commonplace in the Greek experience, carried little weight compared to the preponderance of evidence he saw in ancient Rome and his own Italy.

Machiavelli, a student of *real politic* (meaning: dire realist, devoid of any vestige of romantic idealism or enlightened vision), details the use of initiating manipulative techniques to offset, counter-balance, overthrow, or combat others engaged in manipulative, power-hungry actions. In *The Prince,* Machiavelli formalized and codified the Age of Intrigue, making betrayal, conniving, conspiracy, and scheming an art form.

Machiavelli could draw no inspiration or even guidance from the Dark Ages – a time when humans produced nothing significant.

Neither could he draw guidance from the leadership of the Christian Church of the last thousand years. Since its inception under the reign of Constantine in the fourth century, a long string of Popes had replicated the grandeur, dictatorial arrogance, and distance from the people that was the hallmark of the Roman Emperors. While certainly Christianity in the timeline between the Fall of Rome and the Renaissance (Rebirth) did produce monks in monasteries who were humble servants of God and their people, such as Francis of Assisi, this style of servant leadership was lost on the hierarchy of monsignors, bishops, cardinals and their succession of Popes. Between the Fall and the Rebirth, Christianity as a religion was usurped by authoritarian despots and firebrands who either conspired with crooked emperors devoid of conscience and possessed with greed, or using guilt and fear as a weapon manipulated their following to false truths, leaving no room for creativity and innovation.[253]

Machiavelli's *Prince* is not strictly evil, he is a fox. And a fox he must be in a world of Mordreds, where there may be limited options to slay the dragon Mordred. Outfoxing a kingdom well populated with Mordred's takes the cunning of a fox.

Many authorities have said that Machiavelli is one of the ten most influential writers in history and his influence on the world's leaders has been more than substantial. For this reason, I decided to get to know Machiavelli better and understand what he really said. What I found, frankly, surprised me, even after having read *The Prince*, once in college, and again several years ago. .

### *How Machiavelli Saw His World*

Machiavelli,[254] a young man of twenty-nine began his professional career in 1498 as a secretary for the Second Chancery, an office he was to hold for fourteen more years. As he began his job, the streets of Florence were abuzz with the execution of Friar Savonarola. This story well sets the stage for Machiavelli's view of humankind:

> Savonarola was an Italian Dominican friar, Scholastic, and an influential contributor to the politics of Florence from 1494 until his execution in 1498. He was known for his book burning, destruction of what he considered immoral art, and his perception of what he thought the Renaissance—which began in his Florence and was at its beginning—ought to become. He vehemently preached against the moral corruption of much of the clergy at the time, against his main opponent, Rodrigo Borgia otherwise known as Pope Alexander VI.
>
> A student of the Bible, St. Thomas Aquinas and Aristotle, Savonarola stood against morally corrupt clergy and prophesized the end of the world. Wanting to correct the transgressions of

worldly Popes and secularized members of the Church's wayward Roman Curia, he vehemently expressed his contempt for the Curia by terming it 'a false, proud wench'.

In Florence in 1490 he began to preach passionately about the Last Days, accompanied by testimony about his visions and prophetic announcements of direct communications with God and the saints.

Finally, with the year 1500 fast approaching, Savonarola saw the Last Days were impending. Eventually, the ruling de Medici family became targets of Savonarola's fiery preaching, not uncommon at the time. But a series of circumstances quickly brought Savonarola great success, as an epidemic of syphilis gave credibility to his proclamations.

After Charles VIII of France invaded Florence in 1494, the ruling Medici were overthrown and Savonarola emerged as the new leader of the city, combining in himself the role of leader and priest.

He set up a republic in Florence. Characterizing it as a "Christian and religious Republic," one of its first acts was to make sodomy, previously punishable by fine, into a capital offence. Homosexuality had previously been tolerated in the city, and many homosexuals from the elite now chose to leave Florence. His chief enemies -- the Duke of Milan and Pope Alexander VI -- issued numerous restraints against him, all of which were ignored.

In 1497, he and his followers carried out the *Bonfire of the Vanities*, sending boys from door to door collecting items associated with moral laxity: mirrors, cosmetics, lewd pictures, pagan books, immoral sculptures (which he wanted to be replaced by statues of the saints and modest depictions of biblical scenes), gaming tables, chess pieces, lutes and other musical instruments, fine dresses, women's hats, and the works of immoral and ancient poets, and burnt them all in a large pile in the Piazza in Florence.

Many fine Florentine Renaissance artworks were lost in Savonarola's notorious bonfires —he is alleged to have thrown some of the artworks into the fires himself.

Florence soon began to riot and revolt against Savonarola because of the city's continual political and economic miseries partially derived from Savonarola's opposition to trading and making money. When a Franciscan preacher challenged him to a trial by fire in the city centre and he declined, his following began to disappear. Dancing and singing returned as taverns reopened, and men again dared to gamble publicly.

Finally, a year before Machiavelli assumed his official duties, Savonarola was excommunicated by Pope Alexander VI. The following year, in 1498, Alexander demanded his arrest and execution.

As Machiavelli was waiting for his appointment, Savonarola surrendered along with two other friars, his two closest friends. Savonarola was charged with heresy, uttering prophecies, sedition, and other crimes (called religious errors by the Pope.)

During the next few weeks all three were tortured on the rack, the torturers sparing only Savonarola's right arm in order that he might be able to sign his confession. All three signed confessions.

On the day of their executions, they were ritually stripped of their clerical vestments, and degraded as heretics. The three were hanged in chains from a single cross and an enormous fire was lit beneath them. They were thereby executed in the same place where the "Bonfire of the Vanities" had been lit, and in the same manner that Savonarola had condemned other criminals himself during his own reign in Florence.

The historian of the day who was present at the incident wrote that his executioner lit the flame exclaiming, "The one who wanted to burn me is now himself put to the flames." The burning took several hours, and that the remains were several times broken apart and mixed with brushwood so that not the slightest piece could be later recovered, as the ecclesiastical authorities did not want Savonarola's followers to have any relics for a future generation of the rigorist preacher they considered a saint. The ashes of the three were afterwards thrown in the river that ran beneath the Ponte Vecchio.

In the intervening period, Machiavelli was deprived of office in 1512 by the returning Medici rulers. In 1513, Machiavelli was accused of conspiracy, and arrested and imprisoned and tortured ("with the rope", where the prisoner is hanged from his bound wrists, from the back, forcing the arms to bear the body's weight, thus dislocating the shoulders). Denying any involvement, he was released. (As the record contains no details, we can only image he was physically and spiritually damaged by this horrible incident.)

After being tortured, he wanted to ingratiate himself to the Medici family and become an advisor to them. At this time he wrote *The Prince*, which he described as being the un-embellished summary of his knowledge about the nature of princes and "the actions of great men", based not only on reading but also, unusually, on real experience.

### *Advice to the Prince*

In *The Prince*, Machiavelli shares his insights about power and leadership:

**Advice of Greatest Importance:** In the actions of men, and especially of Princes, one looks at the result; and the end justifies the means.

**Ambition:** Ambition is so powerful a passion in the human breast, that however high we reach we are never satisfied. Men rise from one ambition to another; first they seek to secure themselves from attack, then they attack others.

**Appearances:** A leader must take great care to say only the words of mercy, faith, humanity, and morality, for men in general judge more by what they hear and see, than by what they experience. Everybody sees what you appear to be, few know who you really are. And the few who know who you really are will seldom dare to oppose you in light of the many who support you.

**Arms:** There is no comparison whatever between an armed and disarmed man; it is not reasonable to suppose that one who is armed will obey willingly one who is unarmed; or that any unarmed man will remain safe....

**Conspiracy:** Whoever conspires cannot act alone, and cannot find companions except among those who are discontented; and as soon as you have disclosed your intention to a malcontent, you give him the means of satisfying himself, for by revealing it he can hope to secure everything he wants.

**Cruelty:** A leader must not mind incurring the charge of being cruel if it is for the purpose of keeping his subjects united and faithful.

**Deception:** So simple-minded are men and so controlled by immediate necessities, that a prince who deceives always finds men who let themselves be deceived.

**Fear:** It is much better to be feared than loved.

**Fighting:** There are two methods of fighting, the one by the law, the other by force: the first method is that of men, the second of beasts; but as the first method is often insufficient, one must have recourse to the second.

**Hate:** Hatred is gained as much by good works as by evil.

**Human Nature:** Man is semi-animal, semi-beast. The leader is thus obliged to know how to act as a beast, and must imitate the fox and the lion, for the fox can recognize traps, and the lion can intimidate. If all men were good, this would be poor advice; but as they are bad and will not be loyal to you, you are not bound to be loyal to them.

**Judgment:** Men in general judge more by the eyes than by the hands, for everyone can see, but very few have to feel. Everybody sees what you appear to be, few feel what you are, and those few will not dare to oppose themselves to the many, who have the majesty of the state to defend them.

**Leadership:** A prince who is ignorant of military matters, besides other misfortunes... cannot be esteemed by his soldiers, nor have confidence in them.

**Public Policy:** A prince must not mind incurring the charge of cruelty for the purpose of keeping his subjects united and faithful; for, with a very few examples, he will be more merciful than those who, from excess of tenderness, allow disorders to arise, from whence spring bloodshed; for these as a rule injure the whole community, while the executions carried out by the prince injure only individuals.

**Training:** The wise Prince never withdraws his thought from training for war; in peace he trains himself for it more than in time of war.

**Virtue:** It will be found that some things which seem virtuous, if followed, lead to one's ruin, and some others which appear vices result in one's greater security and well-being.

It cannot be called virtue to kill one's fellow citizens, betray one's friends, be without faith, without pity, and without religion; by these methods one may indeed gain power, but not glory.

**War:** A prince should therefore have no other aim or thought, nor take up any other thing for his study, but war and its organization and discipline, for that is the only art that is necessary to one who commands.... And one sees, on the other hand, that when princes think more of luxury than of arms, they

> lose their state. The chief cause of the loss of states, is the contempt of this art.

To the modern reader, the advice in *The Prince* seems immoral, manipulative, and perverse. Machiavelli's name is now indelibly associated with treachery and deceit.

The next book he wrote, the *Discourses on Livy*,[3] Machiavelli presents a series of lessons on how a *republic* should be started and structured. It is more than four times larger than *The Prince,* and it more openly explains the advantages of republics. It includes early versions of the concept of checks and balances, and asserts the superiority of a republic over a principality. It became one of the central texts of republicanism in the Age of Enlightenment. French Enlightenment philosopher, Jean-Jacques Rousseau considered the *Discourses* to be more representative of Machiavelli's true philosophy: [255]

> *Machiavelli was a proper man and a good citizen; …. he could not help veiling his love of liberty in the midst of his country's oppression. … The contradiction between the teaching of the Prince and that of the Discourses on Livy shows that this profound political thinker has so far been studied only by superficial or corrupt readers. The Court of Rome sternly prohibited his book. I can well believe it; for it is that Court it most clearly portrays.*

Unfortunately, the more licentious *Prince* is the one that nearly everyone associates with Machiavelli. Those who take the time to read the more principled *Discourses on Livy* discover another side of Machiavelli that advocates a more just government and understands the value of democratic justice. Perhaps the five years that it took to

[3] Author's Note: Today, while *The Prince* and *The Discourses* are often packaged as a single book, most people just read the earlier portion (first in the book) – *The Prince.* The second portion, which is less interesting, goes unread.

write the *Discourses* allowed his mind to heal from the torture at the hands of the Medici family.

If only more of today's leaders would give equal time to reading both *The Prince* and *The Discourses*, we would have a more balanced view of reality. (In Volume Six, I will quote from *The Discourses*.)

### *Machiavelli becomes imbedded in our culture*

As the Italian Renaissance evolved a century later into the English Age of Enlightenment, Shakespeare took Machiavelli to the theatre. Shakespearian tragedy is the personification of betrayal. *Romeo and Juliet*, is the story of the Quest for Synergy in the form of love betrayed by class distinction.

In *Macbeth* and *Hamlet* the audience is bedazzled by a string of multiple betrayals that enfolds us in the tragedy of a denied dream of collaboration, honor and joy.

In the *Merchant of Venice*, the hope for synergy[256] in Portia's Quality of Mercy speech is contrasted with Shylock's betrayal of the code of fairness in his desire to extract a pound of flesh.

*Julius Caesar* pits the betrayals by the conniving Cassius and the murderous Brutus against the vision of patriotism and honor of Mark Antony. As Cassius observes to Brutus of the evil:

> *Why, man, he doth bestride the narrow world ….*
> *Peep[ing] about to find ourselves dishonorable graves.*
> *Men at some time are masters of their fates: the fault, dear Brutus, is not in our stars, but in ourselves.*
>
> (Act I, Sc 2)

> *Think of him as a serpent's egg, which hatch'd, would, as his kind, grow mischevious, and kill him in the shell….*

*O Conspiracy,
Sham’st thou to show thy dangerous brow by night,
When evils are most free?....*

*How many ages hence
shall this … be acted o’er,
in states unborn and accents yet unknown!..
Oh! Pardon me,thou bleeding piece of earth,
that I am meek and gentle with these butchers!*

(Act II, Sc 1)

Then Caesar’s friend, Mark Antony proclaims:

*Friends, Romans, countrymen, lend me your ears;*

*I come to bury Caesar, not to praise him.*

*The evil that men do lives after them;
The good is oft interred with their bones….*

*Caesar … was my friend, faithful and just to me.*

(Act II, Sc2)

Here Shakespeare leaves us with an epic struggle with no classic heroes, no optimism for defeating Mordred or disarming Machiavelli.

In Henry VI, written in 1596, Shakespeare speaks of the *Machiavellian Prince*, a clear indication that Shakespeare had read Machiavelli, and more than likely had actually modeled many of his plays on the themes and strategies outlined in Machiavelli’s writing.

Queen Elizabeth, who reigned over England in Shakespeare’s day, was so concerned about Machiavelli’s *Prince* that she banned the book. Certainly, this factor alone would encourage Shakespeare to obtain a personal copy. Many scholars now believe that Shakespeare used *The Prince* as his handbook upon which to draw the characters of many of his tragic figures – role models for modern society to draw its view of life, now firmly implanted in movies, television, and theatre.

Consequently, despite the great artistic vision of the Renaissance, as a practical matter, western society was left with a helpless archetype for a role model, a modern Hamlet bedeviled by treachery, cunning, and manipulation, with few tools or strategies to create a sustainable Camelot. Only by combining iron will with the cunning of the ruler can the forces of Mordred be held back.

Literature that prevails in our hearts today like Alexander Dumas' *Three Musketeers* tells the tale of friendship through adventure. What could be more synergistic than the exploits of D'Artagnon, Athos, Portos, and Aramis?

### *Mordred & Machiavelli in the Modern World*

As the Age of Enlightenment unfolded in America, the synergy quest became the united passion of the founding fathers. Blessed with a deep understanding of the fundamentals of the Greek experiment with democracy and trained in reading the ancient Greek language, coupled with a strong foundation in Christian theology, a unique group (Jefferson, Madison, Adams, Franklin, et al) converged to frame the Declaration of Independence and later the Constitution.

Each document carefully outlines the vision for a synergistic new republic based upon a rebirth of Plato's Republic. The system of rights was designed to produce a win-win relationship between people and their society, while the system of checks and balances prevented tyrannical abuses from the Mordreds and Machiavellis that continually prowl and prey upon the idealistic vision of democracy.

The American Revolution produced its Mordred in the personage of Benedict Arnold. In the fifty year period after the revolution a string of Mordred's appeared, the most recognized today being Aaron Burr, or the scandalous theft of the presidential election of 1824 by John Quincy Adams and Henry Clay, along with other scoundrels of equal magnitude, despite their relative historical obscurity today.[257]

The American Civil war, with its monumental loss of 600,000 lives, is deep testimony to the commitment by Abraham Lincoln to the vision of unity and community, and the betrayal of those values by the South with its rigid adherence to an anachronistic system of economic piracy reliant upon the enslavement of others.

In Europe Marx and Engels produced a highly idealistic (and equally unrealistic) Communist Manifesto based on other movements in Europe and America to form economic communities and collaboratives based on common ownership and interest. Not having reconciled the relationship between common and self interest, and reacting more to the perceived enslavement of the working class by capitalism, Marx sought the unity of interest and the release from economic bondage of those less fortunate.

Similarly, the massive union movement of the late nineteenth and twentieth centuries drew passionate cries among the oppressed. Sharing in the wealth stimulated Robin Hood behavior in public policy.

### *Dictators as Modern Mordreds & Machiavellis*

But the ultimate betrayal of the Communist Movement came not at the hands of the dreaded capitalists, but from the Mordreds and Machiavellis within. Lenin, then Stalin and Mao Tse Tung, under the guise of noble idealism, slaughtered or imprisoned tens of millions (perhaps over 100 million all tolled) in the name of justice falsely intended.

During that same era, Hitler, and later Pol Pot became the unapologetic manifestations of Mordred, setting a new standard for hideous and uncompassionate disregard for human life.

In America, the Mordred of the mid-twentieth century was Senator Joe McCarthy, who abusively spread fear, hate, and distrust across the land with the campaign to find a communist in every closet.

From the ashes of ages of continental strife, the nature of the European Economic Union is based on a desire for synergy among compatible differences to predominate.

In Israel, the Kibbutz movement has attempted to keep Marx's values alive in a quasi-communistic-capitalistic economic world.

### *Mordred &Machiavelli Today*

As the latter half the twentieth century unfolded, the Quest for Synergy became more and more manifest. The Civil Rights Movement, led by Martin Luther King, dramatically envisioned unity, community, belonging, and equality. His language was Arthurian in scope:[258]

> *We must learn to live together as brothers*
> *or perish together as fools.*

At the same time King was uttering these words, President John F. Kennedy was in the White House and American was talking about building a Camelot. Both men were assassinated. Mordred and Machiavelli struck again.

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### *A Personal Note*

The Mordred Factor is highly visible in today's sports arena. Several coaches are notable in their ability to eliminate the Mordred's from their teams, thus producing a synergy of performance excellence. Take the following sports examples:

> Basketball: Red Auerbach of the Boston Celtics was a mastermind in building team players who create mutual value in each other. His teams had players like Bill Russell, Bob Cousy, Tommy Heinson, Jim Havlichek, Larry Bird, Robert Parrish, and K.C. Jones, whose selfless commitment

to team synergy created an unparalleled string of championships. Coach Krzyzewski at Duke, John Wooden at UCLA or Pat Riley (Lakers, Knicks, Heat) are adherents of ensuring there are no Mordreds or Machiavellis on their teams.

Football: Bill Belichick of the New England Patriots has carried on the Celtic tradition into football. Joe Paterno at Penn State was a "character coach" By contrast, Terrell Owens is a classic Mordred, has been cast off from many teams for inciting internecine, self-interest warfare on teams. The New Orleans Saints (ironic name) put a bounty on opposing players, seeking to maim their opponents, which is simply psychopathic.

Teamwork: Arguably, the greatest athlete of the twentieth century was hockey's Wayne Gretzsky, because he not only led his sport in points scored, but also in assists – handoffs to other players who then scored. Watching this man play was synergy in motion.

Every leader, whether of a family, a team, or an organization, must be ever-vigilant; cutting out the Mordreds and Machiavellis like one gets rid of a cancer. As one respected leader told me recently:

> *"I'm leaving my organization to join another. My boss hired a person for our team who has been so disruptive that now everyone is being played off against the other. I spend all my time now worrying about who is going to put a knife in my back. I used to be a high flyer. Unless I leave I'll have no future."*

Another executive lamented about her subordinates:

> *"I hired the most qualified people I could afford. But they are always breaking down, working for their own self interest. There is no teamwork, no synergy, and no synchronicity.*

*We don't coordinate well. No amount of team building seems to work."*

Unknowingly, she made the mistake of hiring her team based on competence, not character,[259] resulting in a majority of people being or becoming "Marginal Mordreds."

How an organization creates a culture of innovation and collaboration is critical in either stimulating or repressing the Marginal Mordred and the Machiavelli Maneuver. As I was editing this piece, the phone rang. It was a senior manager from a large corporation who lamented:

> *"There is no real innovation here and little collaboration. We all have a fear of failure because people are fired if they fail. If we do make a mistake, we are criticized in front of others.*
>
> *So no one takes any risks.*
>
> *We talk of innovation, but we don't walk it. No one collaborates unless someone else is willing to take the risk and responsibility if something doesn't work out.*
>
> *When we try to work in alliance with other companies, there's an attitude that our products are always better, and theirs are junk. We see only a very limited set of options.*
>
> *If someone does have something good, our approach is arrogant: 'We'll just buy them.' When we do, we kill all their innovation."*

This was said by a man of courage and vision who had been struggling for years to rally his small team against the overwhelming power of an antithetical culture. Yet we cannot expect those of vision and courage to act forever like fools. Unless new leadership is brought in, or alternatively, those of courage join forces as a "band of brothers," each of the courageous visionaries will be picked off, one-by-one, or be relegated to live a sorry life of disillusionment and despair.

Leaders play an enormous role in determining attitudes and behavior.

Unknowingly, many leaders unintentionally betray their subordinate's expectations for being acknowledged and rewarded for excellent work, innovative thinking, and willingness to take risks for the greater good of the organization.

When these expectations are unfulfilled, their morale takes a long, low road to disappointment and despair. The climate of excitement and innovation yields to an attitude of complaint, blame, and resentment. It is in this swamp of despair the Marginal Mordred breeds like a mosquito.

If the ghosts of Mordred and Machiavelli are rampant in an organization, look to the top where their spirit may reside. And also look within to see if you are trapped in a culture of intrigue, innuendo, and doubt in which you've become one of the principal or supporting actors.

Like the smoker who gets a momentary nicotine high, leaders who feast on a diet cynicism, criticism, blame, negativity, and rule by fear may get an emotional power-high, but in the long run, with each passing day, sustainable energy is drained from the organization on its slow decline to death. Work then becomes nothing more than a bitter-sweet travail with neither victory nor valor, honor nor heroics.

# Appendix Two

## THE REAL TRUTH ABOUT THE INVISIBLE HAND IN ECONOMICS AND ITS IMPACT ON TRUST

*By Robert Porter Lynch*

In the latter half of the twentieth century, economists of the rational self-interest school expounded on the idea that an *invisible hand* controlled economic behavior. This idea, which now underpins much of our economic structure, proposes that if multiple transactions occur in a rational market place which is free of constraints and coercions, the supply, demand, and price structures will reach an equilibrium that realistically defines market value.

The origin of the concept is based on Adam Smith's eighteenth century *Wealth of Nations (1776),* a book considered to be the foundational writing on Capitalistic Theory. It makes some powerful assumptions about human behavior which impact a lot of our thinking today. (We paraphrase and abbreviate his lengthy passage to alleviate the reader's pain of having to wade through Smith's awkward terminology and convoluted sentence structure):

> *Every investor seeks the most advantageous return on their capital, which means:*

> *First, every investor seeks the least risky investment, provided he can receive a reasonable return with people he can trust; and if he is deceived by them, he knows the local laws for initiating a law suit against them.*
>
> *Second, every investor seeks to put capital in industries that create the most value and thus provide the greatest return or profitability.*
>
> *The annual productive revenue of a society is the sum of the productivity of all the individual investments. While the individual investors are not aware they are intending to promote the public interest, their combined labors benefit the good of all, because, by making wise investments, while intending only to serve his self-interest, the investor is led by an* invisible hand *to promote the well being of all.*
>
> *Merchants whose decisions are driven primarily to serve the public good are imprudent. Governments that attempt to steer capital investments, such encouraging or discouraging investment in certain industries, are mistaken because it's useless or harmful to believe the multitude of investors are wiser than the few who guide government policy. What's prudent for people can hardly be folly for government.*[260]

Economists have developed sophisticated theories of free markets, justified deregulation, and produce detailed financial analyses based on Smith's theory. For transactional exchanges, this perpective is viable. However, it does have its limits, because it does not adequately explain highly collaborative enterprise, as we have described in mutual value creation. While trust is helpful in transactional exchange, it is vital to highly collaborative business relationships.

## *Rational Self-Interest*

One of the chief proponents of the Rational Self-Interest school of thought was Alan Greenspan, who built his economic models on the foundation of Milton Friedman and Ayn Rand, who was his mentor. In Rand's book, *Capitalism: the Unknown Ideal*, Greenspan penned these words, launching the "greed is good" era with this mantra:

> *"Protection of the consumer against dishonest and unscrupulous business practices has become a cardinal ingredient of [the] welfare state. Left to their own devices, it is alleged, businessmen would attempt to sell unsafe food and drugs, fraudulent securities, and shoddy buildings. Thus, it is argued, ….numerous regulatory agencies are indispensable if the consumer is to be protected from the "greed" of the businessman.*
>
> *"But it is precisely the 'greed' of the businessman or, more appropriately his profit-seeking, which is the unexcelled protector of the consumer."*
>
> *Greenspan then went on to say that "It is in the self-interest of every businessman to have a reputation for honest dealings and a quality product."*[261]

His rational idealism was based on a false belief that self-interest had its own moral imperative…..

> *"…the crucial importance of moral values which are the motive power of capitalism. Capitalism is based on self-interest, self-esteem; it holds integrity and trustworthiness as cardinal virtues and makes them pay off in the marketplace, thus demanding that men survive by means of virtues, not of vices."*[262] [4]

This unabashed rational idealism, of course, laid the theory barren and was proven incredibly naïve, simplistic, and romantic as the financial community tore down the protective shield of

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[4] Author's note: Greenspan seems to combine Romantic Idealism with Aristotelian Rationalism and Ethics, in a naïve world-view that denies the existence of evil and corruption, while at the same time extolling the virtues of greed and excoriating the vices of fear.

investment laws like Glass-Steagall on its incestuous March to Meltdown. Greenspan got snookered by credit default swaps, mortgage fraud, and deceptive lending practices, which laid the foundation of capitalism open to economic collapse.

After the 2008 Financial Meltdown, Greenspan testified before Congress, incredulous that the financial community he had served was incapable of regulating itself. He simply could not accept the fact that the finance industry was a magnet for attracting crooks, connivers, and con-artists – the very people who extolled his "greed is good" philosophy and helped keep him in power.

On the other hand, Greenspan took a very jaundiced view of all government regulation, including oversight of drugs, medicine, building codes, and financial institutions. In his commentary, his libertarian words were harsh and unequivocal:

> *"Government regulation…does not build quality into goods or accuracy into information…At the bottom of the endless pile of paperwork which characterizes all regulation lies a gun...*
>
> *"Regulation – which is based on force and fear – undermines the moral base of business dealings. It becomes cheaper to bribe a building inspector than to meet his standards of construction….*
>
> *Regulation … is an act of expropriation of wealth…Businessmen are being subjected to governmental coercion* prior *to the commission of any crime."*[263]

Further, while this rational self-interest perspective is a reasonable explanation of how *investors* make decisions, it does not explain how *businesses* make decisions. It's important to note that business is made up of investors, entrepreneurs, employees, managers, customers, and suppliers, among others. Their decisions are not always driven by monetary gain, and when it is, the question of short-term versus long-term gain is always a critical distinction, as well as their appetite for risk. For example, while investors typically like more liquid, short-term gains, employees want longer-term security of their jobs.

While economists based their free market theory on the *Wealth of Nations,* for the most part they selectively overlooked Adam Smith's other definition of the invisible hand, which was elucidated more fully in his earlier work, *Theory of Moral Sentiments (1759)* (again we paraphrase and abbreviate his lengthy passage):

> *Those in power must avoid the temptations of gluttony and greed, by acting unselfishly through honesty and justice, to ensure that those less powerful, whose labor produces goods and services, receive their fair share. Morality and sympathy, which are the gifts of divine Providence, serve as the guiding power behind the* invisible hand, *by which those in power advance the interests of society as a whole. And thus will the people be happy and secure. Regardless of rank or status, all citizens are equal in their need to share in the bounties of the earth and experience a life of happiness.*
>
> *The principle of beauty and order in a social system, which needs no conscious effort, requires that a person balance their desire to satisfy their own self-interest with their compassions for the greater good of their community and country. Those who value the means more than the ends fail to realize the impact of their actions on others and on the larger community.*
>
> *All the constitutions of government are valued only in proportion to the extent they promote the happiness of those who live under it. This is their sole use and end.*[264][5]

[5] Author's Note: The astute reader will see the similarities of Adam Smith's beliefs and the framers of the U.S. Constitution.

Here Smith was very clear that there are two forces at work within the wise person's spirit – both self-interest and concern for the greater good. It is a concept he observed himself and built on earlier work based on readings of the Greeks.

The transactional exchange, rational self-interest, free market paradigm is seductively deceptive, perhaps even tragically flawed, because it fails to embrace the existence of a parallel, trust-based model of economic activity. This parallel economic model exists where buyer and seller do *not* see their interests transactionally, *not* based on *exchange* but rather on the *mutual creation of value.* In this case, the buyer and seller are strategically linked in an alliance, and see their interests as synergistically linked. In which case, individuals or businesses or suppliers and customers work together to do build or develop something jointly that could not be done alone.

Distinguishing between tactical-transactional exchange and strategic mutual value creation implies there are *two invisible hands:* one that controls transactional exchange, the other that guides mutual value creation. For example, in a mutual value creation arrangement, a real estate developer may take a piece of raw land, bring together a team including planners, architects, and building contractors to transform the land into a housing development. They might choose to form a joint venture to share the risks and rewards of their efforts.[265] In this case, transactional trade is not an appropriate means of understanding their economic behavior.

In the *value creation* model of capitalism, *mutual* benefit is essential to success of the *strategic relationship (*this relationship should not be referred to as a *deal,* which is a term meaningful only to transactions*)*. A strategic relationship requires a strong foundation of trust that enables synergies to generate additional value. Collaborative strategies and structures are ideal generating innovation in this situation. As discussed in our book *Trusted to Lead,* trust is a propellant of innovation. Yet, because trust, creativity, and synergy tend to be largely "invisible," economic theorists have shied away from developing an economic model for this type of "creative capitalism."

For example, software is one of the most cheaply reproduced products in the world. Most of it can be moved across continents instantaneously on the internet for virtually nothing. As demand increases, the supply is not used up; the incremental cost of multiplying it is negligible. Then, once it is installed on a computer, the more it is used, the more valuable it becomes as each user creates data and adds value by sharing knowledge. Using the software more does not create less of it; to the contrary it produces more of it. Therefore, the traditional economic laws of supply, demand, and price do not prevail in the system of economic of *abundance*. We call this the *Economics of Expandables.*

Other examples proliferate. When a person, team, or business partners engage creatively to invent a new product, process, technology, or idea, their creative "juices" are not used up when they are put into play. Quite to the contrary, their creativity expands based on their trust of each other and their willingness to *share* resources.

The problem occurs when deal makers and strategists, who do not grasp the nature of trust and collaboration, focus solely on the self-interest based *exchange* model and fail to see or understand the *value creation* model may be a more effective alternative. For the *exchange* model, trust is useful, while absolutely essential for *value creation.*

Thus, the principle of the *invisible "hands"* seems to have a mighty impact on business and economics, but more like Adam Smith thought of it as a balance of self interest and greater good, not as it was twisted to meet the needs of the "greed is good" economic theories.

# Appendix Three

## *THE GREAT DARWIN HOAX*

### The Reality& Mythology of "Survival of the Fittest"

#### *Holistic Darwin and How Darwin Got Hijacked*

As a twenty-first century leader, you are best empowered to make intelligent decisions about people when you are supported by an insightful and accurate belief system. In this respect, most leaders have been seriously led astray by erroneous thinking or confused by highly conflictive theories.

For this reason, a historical review is useful to set the record straight and illuminate the path forward as we attempt to put the ship of fate back on course.

In the middle 1800s the quest to comprehend the nature of human behavior became deeply mired in controversy. For over half a century, as science was becoming a profession, various theories of evolution were emerging.

#### *The Search for Evolutionary Cause*

Writing in 1852, Herbert Spencer, a virulent writer highly respected in Victorian circles, was thoroughly convinced that the theory of evolution *was true*, but no one had, at that time, put forth a plausible position about *how* it came to be true. Spencer thought the debate would rage until someone came up with a plausible answer.

Then, in 1859 a relatively obscure naturalist (now we'd call him an evolutionary biologist) stepped forward, publishing his findings from an earlier trip he made to study plants and animals. The man was Charles Darwin, and the book was called the *Origin of the Species by Means of Natural Selection, or The Preservation of Favoured Races in the Struggle for Life*.[266] (Typically referred to as *Origin of the Species*).[267]

Natural selection referred to the slow process of varying the configurations of a species; either it would adapt to the new environment, or become extinct. It put forth the idea that plants and animals (including humans) evolved over a prolonged period of time as a result of either variations in the genetic structure (a modern term) of the species, which reoriented itself to the very slow changes in geological conditions (such as climate), or because a competing species invaded the territory and choked out less adaptable species (such a trees choking out sunlight for bushes).

What made the book particularly controversial was his claim that humans descended from precursor apes, an idea that revolted the Victorian sensibilities of the time, and clearly contradicted creationist theory in the Old Testament.

For Spencer, Darwin provided the evidence he needed to demonstrate the exact process by which evolution actually occurred, and thus the ammunition to defeat the advocates of the opposing creationist belief system.

*Coining the term "Survival of the Fittest"*

Spencer termed Darwin's concept of natural selection: "survival of the fittest," a term that has stuck now for almost two centuries. Darwin responded favorably to Spencer's use of the term, writing:

> *"We may feel sure that any variation in the least degree injurious would be rigidly destroyed. This preservation of favourable individual differences and variations, and the destruction of those which are injurious, I have called Natural Selection, or the Survival of the Fittest. Variations neither useful nor injurious would not be affected by natural selection."*[268]

Today nearly every student has heard of Darwin's controversial theory. *Origin of the Species* is widely considered the most important biological book ever written because it influenced so many other thinkers who followed in the fields of biology, medicine, sociology, politics, and business, to name a few.

Spencer's championing of *survival of the fittest*[269] then led the development of "Social Darwinism,"[270] an idea never supported by Darwin himself. Social Darwinists viewed life as a struggle for existence in a world of limited resources in which only the strongest, most powerful will push those weaker into extinction or subservience.

This idea was picked up and became the rallying call for fascists[271] and robber baron capitalists.[272] Social evolution, in their opinion, was a matter of letting the lazy, intellectually inferior, and physically weak should be left to wither from society.[6] Turn of the century literary authors, H.G. Wells and Jack London wrote extensively from this perspective. Nazi's justified their gas chambers as a step in evolutionary progress. Colonial expansion into Africa was rationalized as simply an exercise in survival of

[6] Author's Note: There are many economic critics of Social Darwinism who point to the idea of Comparative Advantage (see David Ricardo) that very convincingly argues that weaker members of society are valuable even if the stronger members are better at doing everything; many job specialties are not intellectually demanding, but must be performed in a well functioning economy. Comparative Advantage regards trade and cooperation as far more important than pure competitiveness.

the fittest. Competition between individuals became the foundational thinking for free market capitalism.

Steel industrialist, Andrew Carnegie, became an adoring advocate of Spencer and the *Survival of the Fittest* construct, which gave the compelling rationale to industrialists to grab as much as they could, after all it was *in the nature of things.* Carnegie personally considered Spencer to be the person who most influenced his thinking. Carnegie began his relationship with Spencer in 1882, referring to him with adoration as "My Dear Master." Spencer advocated that science validated that it was perfectly natural -- thus right and good -- to rise to the top of cut-throat world of capitalist competitors.

> *Not only was competition in harmony with nature, Spencer believed, but it was also in the interest of the general welfare and progress of society. Many successful capitalists of the late 19th century embraced Spencer's philosophy. These captains of industry used his words as justification to oppose social reform and government intervention. As Spencer said, these would interfere with the natural -- and beneficial -- law of survival.*
>
> *"The concentration of capital is a necessity for meeting the demands of our day, and as such should not be looked at askance, but be encouraged," Carnegie wrote, paraphrasing Spencer. "There is nothing detrimental to human society in it, but much that is, or is bound soon to become, beneficial."*[273]

Several years later, Carnegie codified this thinking in his 1889 essay "The Gospel of Wealth," stating:

> *"While the law [of competition] may be sometimes hard for the individual, it is best for the race, because it ensures the survival of the fittest in every department. We accept and welcome, therefore … great inequity of environment, the concentration of business, industrial and commercial, in the hands of a few, and the law of*

> *competition between these, as being not only beneficial, but essential for the future progress of the race."*[274]

This kind of thinking fueled the egos of Robber Baron Capitalists, continuing full-force into the twentieth century, as leaders explained their dubious actions in terms of survival of the fittest. For example, Bernie Ebbers (the now disgraced CEO of the now extinct WorldCom), when he acquired a company, would throw the leaders of the respective divisions in a room and let them "duke it out" to reveal which alpha male was dominant; and that determined who would command the division. It worked well in producing short term profits, and then collapsed itself into a black hole, like a dying star. Hitler also used this tactic, letting his senior officers fight amongst themselves, driving the most powerful to prevail devoid of any sense of overriding principle or reason.

When the survival of the fittest league hijacked Darwin's thinking about lower animals (including reptiles and mammals) and applied it to humans, they changed the entire landscape of leadership thinking. Today, if you ask a group of business leaders about Darwin's key theme, nearly everyone will state: *Survival of the Fittest*, meaning a dog-eat-dog strategy requiring dominance and aggression over others. And this belief system has predominated for the last century and a half, causing many leaders to take action based on this extraordinary belief.

But wait; this is where the story gets interesting and where leadership theory got off track. When the survival of the fittest advocates commandeered Darwin, they split myth from reality. (Remember, a myth is a half lie, half truth, disguised as the truth.) Here's how:

### *Flaw in Survival of the Fittest*

Darwin recognized a serious flaw in his theory of natural selection as it applied to humans. In *Origin of the Species*, Darwin was seeking a unified universal theory that explained both plant and animal evolution over the eons of time. Natural selection –

adaptation by variations (what we now know as genetic structure) -- explained it. However Darwin saw that its impact moved slower than a glacier:

"Natural selection [by genetic variation] generally acts with extreme slowness ….depend[ing] on physical changes, which generally take place very slowly.....only at long intervals of time, and only on a few of the inhabitants of the same region. I further believe that these slow, intermittent results accord well with what geology tells us of the rate and manner at which … the world [has] changed. Slow though the process of selection may be … I can see no limit to the amount of change … which may have been effected in the long course of time through nature's power of selection, that is by the survival of the fittest."[275]

Darwin was troubled with this explanation in *Origin of the Species*. While natural selection may cause the evolution of flowers and plants, or insects and mammals, it certainly did not shed light on the much more rapid evolution of the human species.

### *Humans Required a Special Theory of Evolution*

In *Origin of the Species,* Darwin also introduced the idea of *sexual selection*, but did not develop the idea much beyond males of species developing sexually specific weaponry, like antlers, to dominate other males in the battle over females, thus producing more powerful offspring[276].

(Just as one can only understand Adam Smith a century before Darwin by reading both sets of his books, one cannot understand Darwin without considering his full body of work.)

To provide the answer to the question of speed of evolution in the human species, he relied on further developing the concept of sexual selection and its relationship to the uniqueness of the human species, along with the development of social capabilities.

Working tirelessly with a now far deeper understanding of his subject, twelve years after the publication of *Origin of the*

*Species*, Darwin published his massive treatise: *The Descent of Man and Selection in Relation to Sex (1872).* It was twice as long as *Origin of the Species*, and laid out the fundamental differences between humans and other animals. In the *Descent of Man*, Darwin also proposed that natural selection was not the process of human evolution, but conscious choice played a major role – sexual roles and expectations, as well as cultural and family expectations probably had more influence on human evolution that natural selection.

### *Social Darwinism*[7]

The torch bearers of Social Darwinism in the latter half of the twentieth century were Ayn Rand (author of Atlas Shrugged and The Fountainhead) and her protégé Alan Greenspan. Together in 1966 they wrote the book *Capitalism: The Unknown Ideal*, in which they advocated the best government is the least government. In the section on *The Nature of Government* (pp 294-303, partially excerpted from her prior writing entitled *The Virtue of Selfishness*) is stated:

…Men can derive enormous benefits from dealing with one

[7] Author's Note: This statement borders on a sociopathic view of personal relationships. Darwin himself that said that human bonding went far beyond survival needs. Sympathy, compassion, and love were inherent in normal humans. The Rand-Greenspan argument that follows speaks only to self-interest and individual rights, but nothing of the individual's responsibilities to the greater good of the whole. Also note that their view of government has nothing to do with education & schooling, health of people, ensuring good housing, building roads and infrastructures, regulating the financial infrastructure, or any other form of public interest. Greenspan was a close friend and protégé of Ayn Rand advocate and Nixon advisor, Charles Colson, who was instrumental in having Greenspan appointed to Nixon's Council of Economic Advisors.

another. A social environment is most conducive to their successful survival – *but only under certain conditions.*

The two great values to be gained from social existence are: knowledge and trade.* Man is the only species that can transmit and expand his store of knowledge from generation to generation; … the second great benefit is the division of labor: it enables a man to devote his effort to a particular field of work and to trade with others who specialize in other fields. This form of cooperation allows all men who take part in it to achieve greater knowledge, skill and productive return on their effort than they could if each had to produce everything he needs, on a desert island or on a self-sustaining farm….

A society that robs an individual of the product of his effort, or enslaves him, or attempts to limit the freedom of his mind, or compels him to act against his own rational judgment …is not a society, but a mob held together by institutionalized gang-rule….

If men are to live together in a peaceful, productive, rational society and deal with one another to mutual benefit, they must accept the basic social principle without which no moral or civilized society is possible: the principle of individual rights…..

… the task of protecting [individual] rights under an *objective* code of rules …is the task of government -- of a *proper* government – its basic task, its only moral justification and the reason why men do need a government. *A government is the means of placing retaliatory use of physical force under objective control – i.e.* under objective control….

….the proper purpose of a government [is] to make social existence possible to men, by protecting the benefits and combating the evils which men can cause one another. The proper functions of a government fall into three broad categories, all of them involving the issues of physical force and the protection of men's rights: *the police,* to protect men from criminals, *the armed services,* to protect men from foreign invaders, [and] *the law courts* to settle disputes among men according to objective laws….The principle …purpose of law and of government is the protection of individual rights. Today this principle is forgotten, ignored and evaded…..

Instead of being the protector of man's rights, the government is becoming the most dangerous violator; instead of guarding freedom, the government is establishing slavery; instead of protecting men from the initiators of physical force, the government is initiating physical force and coercion in any many and issue it pleases …. creating a deadly, subterranean reign of uncertainty and fear … arrogating to itself the power of unlimited whim – so that we are fast approaching the stage….where the government is *free* to do anything it pleases, while the citizens may only act by *permission;* which is the stage of the darkest periods of human history, the stage of rule by brute force.

Thus the stage was set for Greenspan, in his role as Chairman of the Federal Reserve, to give free-rein to the banks and financial institutions, because the best government was the least government. Laws to protect the rights and freedoms of the middle class were left to the figure itself out. Regulating banks violated the philosophy that the Government that Rules Least Rules Best. A false belief in the "objective" nature of humanity laid an entire economic world bare to the encroachments of those who would tear down many of the regulations placed on financial institutions as a result of the predations that caused the Great Crash of 1929

### *How Darwin Distinguished Human Behavior from Other Animals – His Deepest Insights*

In his second book, Darwin demonstrated that for humans, survival was not primarily dependent upon natural selection by random genetic variation, but by learning, language, moral decisions, innovation, working collaboratively, and selection of mates that would further civilization. In other words, for humans (as distinct from other animals and plant species) survival was not of the fittest (strongest and most dominant) but by collaborative adaptation (innovation, learning, and moral choice). Unlike lower animals where sex was a matter of dominance and power, in the higher order of humans, the role of sexual selection was to further the purposes of civilization.

From a leadership perspective, while the idea of survival of the fittest has always been a defective leadership framework, it has spawned a unique breed of survival of the fittest advocacy authors who extol the virtues of brutal self interest in leaders like Attila the Hun and Genghis Kan.

While Darwin expected there to be some errors in his findings, modern scientific research over the last century and a half has proven how remarkably accurate Darwin was in both his observations and conclusions. We are going to quote Darwin extensively to bust the myth about survival of the fittest and put forth the groundwork for a new framework of human behavior that both explains and guides the trust building process (and many other leadership processes for that matter.)

*Greenspan on Greed*

*"It is precisely the 'greed' of the businessman … which is the unexcelled protector of the consumer."*

*Alan Greenspan.*

Darwin saw that human evolution had caused the species of homo sapiens to be distinctively different from its mammalian apelike ancestors. Here's what he said about those distinguishing characteristics. (The following are direct quotes from *Descent of Man*)

### *The Higher Intellectual Qualities of Humans*

- **Reason & Attention:** Of all the faculties of the human mind, *Reason* stands at the summit.[277] Hardly any faculty is more important for the intellectual progress of man than *Attention*.[278]

- **Imagination**: Without the higher powers of the imagination and reason, no eminent success can be gained.[279]

*The Higher Social Qualities of Humans*

- **Fellowship**: Man is a social being. We see this in his dislike of solitude, and his wish for society beyond that of his own family. Solitary confinement is one of the severest punishments that can be inflicted. [280] Endowed with social instincts take pleasure in one another's company, [humans] warn one another of danger, defend and aid one another in many ways…. these instincts are highly beneficial to the species.[281]
- **Social Instincts** lead [man] to take pleasure in the society of its fellows, to feel a certain amount of sympathy with them, and to perform various services for them. Man appreciation of the approbation and disappointment of his fellows … form[s] the high[er] activity of his mental faculties, with past impressions extremely vivid.
- **Sympathy and Guardianship**: The all-important emotion of *sympathy* is distinct from that of *love*….. The basis of sympathy lies in our strong retentiveness of former states of pain or pleasure. … We are thus impelled to relieve the sufferings of another, in order that our own painful feelings may be at the same time relieved. In like manner we are led to participate in the pleasures of others….. [Sympathy] is of high importance to all those animals which aid and defend one another. … Instinctive sympathy would cause [man] to value highly the approbation of his fellows; for the love of praise and the strong feeling of glory, and the still stronger horror of scorn and infamy are due to the workings of sympathy.[282] Sympathy [is]…. one of the most important elements of the social instincts.[283]
- **Remorse** is an overwhelming sense of repentance ….bearing the same relationship as rage does to anger, or agony to pain. The nature and strength of feelings which we call regret, shame, repentance, or remorse, depend not only on the strength of the violated instinct, but on partly on the strength of the temptation, and often still more on the judgment of our fellows. [284] A man who possesses no

trace of sympathy and social instincts [is] an unnatural monster.[285]

- **Greater Good**: After the power of language had been acquired, the wishes of the community could be expressed, the common opinion how each member ought to act for the public good, would naturally become, in a paramount degree, the guide to action. [286] Social instincts ….give impulse to some of [man's] best actions [which] are, in a higher degree, determined by the expressed wishes and judgments of his fellow men, and, unfortunately very often, by his own strong selfish desires.

- **Praise & Blame:** It is impossible to exaggerate the importance during rude [prehistoric] times of the love of praise and the dread of blame. A man who was not impelled by any deep, instinctive feeling, to sacrifice his life for the good of others, yet was roused to such actions by a sense of glory, would by example excite the same wish for glory in other men. He might thus do far more good to his tribe than by begetting offspring with a tendency to inherit his own high character.[287]

- **Courage** is the most noble of all the attributes of man, leading him without a moment's hesitation to risk his life for that of a fellow creature; or … to sacrifice it for some great cause. " [288] No man can be useful or faithful to his tribe without courage. This quality has been universally placed in the highest rank. Prudence, on the other hand, which does not concern the welfare of others, has never been highly esteemed.[289]

### *Conscience, Morality and the Integration of Intellectual and Social Capabilities*

- **Conscience**: Of all the differences between man and the lower animals, the *Moral Sense of Conscience* is by far the most important. It has rightful supremacy over every other principle of human action…. Any animal whatever, endowed with well-marked social instincts,….would inevitably acquire a moral sense or conscience, as soon as its intellectual powers had become as well, or as nearly well developed, as in man. Conscience looks backwards, and serves as a guide for the future.[290] The moral faculties are generally and justly esteemed as of higher value than the intellectual powers.[291]

- **The Golden Rule**: To do good in return for evil, to love your enemy, is a height of morality. [Social] instincts, together with sympathy, would have been highly cultivated and extended by the aid of reason, instruction, and the love or fear of God, before any Golden Rule would ever be thought of and obeyed.[292] The social instincts – [which according to Marcus Aurelius are] the prime principle of man's moral constitution – with the aid of active intellectual powers and the effects of habit, naturally lead to the Golden Rule, "As ye would that men should do to you, do ye to them likewise;" and this lies at the foundation of morality.[293] [The Golden Rule] is the foundation stone of morality.

- **The Standard of Morality** [is] the general good or welfare of the community. When a man risks his life to save that of a fellow creature, it seems more correct to say he acts in the general good, rather than for the general happiness o f mankind. [294]

- **Controlling Thought**: The highest possible stage on moral culture is when we recognize that we ought to control our thoughts…. As Marcus Aurelius long ago said: "such as are my habitual thoughts, so also will be the character of my mind; for the soul is dyed by those thoughts."[295]

- **Law of Honour** [is] the law of the opinion of our equals. Man can generally and readily distinguish between the higher and lower moral rules. The higher are founded on social instincts, and relate to the welfare of others. They are supported by the approbation of our fellow men and by reason. The lower rules … relate chiefly to self.[296]

- **Code of Conduct:** As love, sympathy, and self-command become strengthened by habit, and as the power of reasoning becomes clearer, [man] will feel himself impelled to certain lines of conduct. He might then declare – I am the supreme judge of my own conduct, …I will not in my own person violate the dignity of humanity.[297]
- **Fidelity**: There cannot be fidelity without truth.[298]
- **Standards of Excellence**: The most efficient causes of progress seem to consist of a good education during youth whilst the brain is impressible, and of a high standard of excellence, inculcated by the ablest and best of men, embodied in the laws, customs, and traditions of the nation, and enforced by public opinion.

### *Meaning of Life*

- **Finding Purpose:** As soon as the important faculties of the imagination, wonder, and curiosity, together with some power of reasoning, had become partially developed, man would naturally crave to understand what was passing around him, and would have vaguely speculated on his own existence.
- **Devotion:** The feeling of religious devotion is a highly complex one, consisting of love, complete submission to an exalted and mysterious superior, a strong sense of dependence, fear, reverence, gratitude, hope for the future, and perhaps other elements. No being could experience so complex an emotion until advanced in his intellectual and moral faculties.[299]
- **Belief in God:** The conviction of the existence of an all-seeing Deity has had a potent influence on the advance of morality. His conscience then becomes the supreme judge and monitor. The belief in God has often been advanced as

not only the greatest, but the most complete of all distinctions between man and the lower animals. [8]

### *Competition & Collaboration*

- **One-on-One Competition**: When two men of equal mental quality are put into competition, the one who has higher energy, perseverance, and courage, will generally become more eminent in every pursuit, and will gain ascendency. [300]

- **Teamwork in Competition**: When tribes came into competition, the tribe with the greater number of courageous, sympathetic, and faithful members, who were always ready to warn each of danger, to aid an defend each other would succeed better and conquer the other.

- **Discipline & Courage**: How important fidelity and courage must be. The advantage, which disciplined soldiers have over undisciplined hordes follows chiefly from the confidence (trust) which each man feels in his comrades.

- **Self Interest**: Selfish and contentious people will not cohere, and without coherence nothing can be effected.[301]

- **Advantage of Strong Values:** Although a high standard of morality gives but a slight or no advantage to each individual man and his children over other men of the same tribe, yet that an increase in the number of well-endowed men and an advancement in the standard of morality will certainly give an immense advantage to one tribe over

[8] Author's Note: God's relationship to Man could only be acknowledged once language and learning had progressed in humans to an advanced level where man was capable of embracing the idea of God. Thus, man, who has the advanced intellectual and social power as we now know them, did not embrace God until about the last 4-5 000 years. This is when man shifted a stage and was "created by God, as much as man created an awareness of God's presence".

another. A tribe ….possessing a high degree the spirit of patriotism, fidelity, obedience, courage, and sympathy, were always ready to aid one another, and to sacrifice themselves for the common good, would be victorious over other tribes; and this would be natural selection. Morality is one important element in their success.[302]

- **Progress as a Civilization**: The wonderful progress of the United States, as well as the character of its people, are the results of ….. the more energetic, restless, and courageous men from all parts of Europe having emigrated during the last ten or twelve generations to that great country, and have succeeded best. A nation which produced … the greatest number of highly intellectual, energetic, brave, patriotic, and benevolent men, would generally prevail over less favoured nations.[303]
- On **Men & Women**: Man is the rival of other men; he delights in competition, and this leads to ambition which passes too easily into selfishness. The latter qualities seem to be his natural and unfortunate birthright. [304] Woman differs from man chiefly in her greater tenderness and less selfishness. Owing to her maternal instincts, [she] displays these qualities towards her infants to an eminent degree; therefore it is likely she would often extend them towards her fellow creatures. [305]

### *Reptiles and Mammals*

- **Lower animals** are excited by the same emotions as ourselves … *Terror* acts in the same manner on them as on us, causing the muscles to tremble, the heart to palpitate, the sphincters to relax, and the hair to stand on end. Suspicion is the offspring of fear.[306]

### *Implications*

Why is Darwin perhaps the most revered, defiled, influential, misunderstood scientist this planet has ever produced? Most who have castigated him, have never been exposed to Darwin's commentary on the human species, particularly his most revealing observations of the nature of humans.

The implications of the Darwin Hoax and the hijacking of his theory of natural selection has had a massive impact on the behavior of political and business leaders for a hundred and fifty years. The thinking is clearly flawed, and the results have been tragic – wars, inequities, and financial collapses. It is time not just to set the record straight, but to follow a path that will chart a course that will positively change the course of human events.

**"The Buffalo Theory" of Survival of the Fittest**

–attributed to Cliff Clavin from the TV series: *Cheers*

"Well you see, Norm, it's like this... A herd of buffalo can only move as fast as the slowest buffalo and when the herd is hunted, it is the slowest and weakest ones at the back that are killed first.

This natural selection is good for the herd as a whole, because the general speed and health of the whole group keeps improving by the regular killing of the weakest members.

In much the same way, the human brain can only operate as fast as the slowest brain cells.

Now, as we know, excessive drinking of alcohol kills brain cells. But naturally, it attacks the slowest and weakest brain cells first.

In this way, regular consumption of beer eliminates the weaker brain cells, making the brain a faster and more efficient machine. And that, Norm, is why you always feel smarter after a few beers."

# Appendix Four
# How to Keep Your Supplier Honest

High levels of trust is something that one must work at continually. Trust can easily deteriorate, especially when new people enter the business relationship; they may not have the same values and standards of their predecessors.

Neither do we recommend having a naïve, childlike innocence toward whether to trust or not. One of the fundamental points of the Trusted to Lead series is to enable one to both “design” a world they can trust, and to be extremely discerning about who can/should be trusted, and to what extent.

Regarding supplier relationships, here are some tips from our experience in supply chains:

- Mutual Responsibility to Gain Continuous Cost Improvements
    - Total Cost of Ownership & Total Value
    - Process Improvement
    - Technology Improvements
    - Fast Cycle Times

- ➢ Elimination of Non-Value Add
- ➢ Emphasis on Competitive Advantage
- ◆ Insist on Top Rank Commitment and Continuity of Champions
- ◆ Strong Operating Principles that are continuously reinforced
- ◆ Regular translation of Trust & Trustworthiness into Economic Value
- ◆ Begin with a Pilot Project to demonstrate ability to get results
- ◆ Share Personnel to build trust relationships
- ◆ Use Alliance Best Practices for Formation & Management
- ◆ Manage Expectations
  - ➢ Unclear, vague, and unstated expectations are time bombs ready to explode.
  - ➢ Clear expectations yield clear results and trusting relationships

***Example of Supplier Relations Policy*** (from real supplier)

Achieve World Class Performance (Low Cost, High Quality, Quick Response, & Innovation)

Cooperative & Productive Relationship

Fair and Mutually Beneficial:

- Building partnerships based on trust & open communication
- Providing clear, concise quality specifications to supplier
- Establishing long-term business relationships
- Providing valid, stable schedules
- Assisting suppliers to improve quality, reduce lead times and lot sizes, and provide more frequent deliveries

- Early involvement in new programs or projects
- Establishing meaningful performance criteria
- Performance GOALS for SUPPLIERS
    - Quality: Zero Defects with Statistical Process Control (SPC)
    - Delivery: Window of 0 days late, 3 days early, no partial deliveries
    - Lead Time: Less than 4 Weeks, with Just-In-Time Inventory Goal
    - Cost: Competitive, no premium paid for quality improvements, use of Total Cost of Ownership (not component cost. Emphasis on Value Creation, not cost cutting.
    - Technical Leadership: Advanced R&D and better than the competition
    - Management Style: Total Quality Commitment, Employee Involvement/Engagement
    - Culture: High Trust, High Performance, High Innovation
    - Innovation: Value of Supplier Innovations will be split 50/50 with supplier

# Appendix Five

## NOTES

### *On Complexity*

1. <u>The Nature of Complexity</u>: Most people have very little understanding of the nature of complexity, how it functions, and what to do about it. Here are some thoughts:
   - Bio-Economics tells us that Complexity (in any field) has two fundamental options: [which can be done simultaneously]

     1. Simplify – Remove, Reduce, or Eliminate, Shorten, Accelerate (this is the objective of Lean)
     2. Synergy – integrate, collaborate, innovate (this is the objective of Alliances)

One's first response is usually to choose the obvious route: Simplify by removing, reducing, cutting, eliminating, shortening, and accelerating. This *works well in mechanical systems, but often backfires in human systems*. Here's why;

Generally in human systems, making *Synergy* (collaborate, innovate, and integrate) the foundation stone of change *will enable and catalyze the process of simplification* (remove, reduce, eliminate, shorten, accelerate).

However, the converse is not usually true – making *Simplification* the foundation stone for an attempt to create Synergy usually *will threaten people, generate fear and distrust, and invoke high levels of resistance to change.* From a 'systems' perspective, the 'Simplification First' approach will often set one part of the system in contradiction from another part of the system.

For example, if a Customer sees too high a cost from a Supplier, the Customer's first reaction is to cut costs, reduce expenses, or eliminate that supplier. This typically creates distrust, which spawns an adversarial interaction with large contracts, bargaining and deception in negotiations, and the potential for litigation. This becomes self-degenerative, as the Supplier reacts with higher thresholds of Risk Management as fear drives every possible eventuality into a dreaded reality.

***Collaborative Systems[9] outperform Adversarial Systems because they enable far more efficient and effective use of resources.***

[9] Note: An Adversarial System should not be confused with a Competitive System. A competitive system usually pits collaborative

## *On the Nature of Innovation*

2. The Nature of Innovation: Innovation very often involves the most efficient use of precious resources.

   For example, one reason Neanderthal man died off is because they used 5,000 calories per day compared to HomoSapien man, who used only 2,500 calories, thus using precious food resources more efficiently, something particularly important in times of scarcity brought about by drought, etc.

   Similarly, as Darwin observed, human civilizations that prospered were highly collaborative, making better use of human and natural resources, innovating ways of farming, tool creation, and building. Productivity in the human species jumped dramatically. Similarly, when humans stopped seeing wolves, cows and horses in adversarial ways (as enemies or a meat source), and instead saw opportunities for collaboration, wolves became dogs, cows became milk producers, and horses became vehicles. Then, 5000 years ago, man invented the

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teams against each other. An Adversarial System is one that should be working collaboratively to create collective value or joint competitive advantage. For example, GM's supply chain management strategy was to make an enemy out of their suppliers. Similarly, GM's labor-management strategy was to make an enemy out of the union. This was an Adversarial Strategy.
Toyota, on the other hand saw suppliers and labor as teammates who would help them create competitive advantage against GM. In the end, GM squandered its precious resources and its dominant market share, while Toyota and Honda gained ground. It's not 'survival of the fittest,' it's 'thrival of the most collaborative.'

wheel, which enabled a 10 times increase in the productivity of a horse once they could pull a cart.

Massive collaboration was necessary as inventors perfected water-power, and then the steam engine to replace the horse. Like most great inventions, no one person was responsible for inventing the steam engine. It was a case of many small inventions being put together until a specific need was met. Three collaborators, Newcomen, Calley, and Savery, invented the basis of the steam engine in the early 1700s for use pumping water out of mines. Then James Watt and his team of inventors made numerous improvements that triple its fuel efficiency and operational effectiveness. The inventors found that their creation had far more uses than they ever imagined. Soon the steam engine's improvement's enabled it to be smaller, lighter, and more powerful, making it mobile, which enabled the development first of the steam boat, and then the steam locomotive.

The first American railroads were powered by horses. The Baltimore & Ohio railroad rented its horses from stagecoach companies, and no horse was required to pull cars (named wagons) more than six or seven miles. Work done by horsepower cost the extreme sum of $33 a day, an amount that caused management to envision complete replacement of horses by steam power. The dream was soon realized. In 1830 the *Tom Thumb* steam locomotive journeyed 13 miles near Baltimore, averaging five and one-half miles per hour. The following year, a watchmaker built the *York*, an engine which was vastly superior to the *Tom Thumb*, and won the first prize of $4,000 in a B & O contest for the best steam engine. The

*York* negotiated the sharpest curves at the maximum fifteen mph required and obtained speed bursts of thirty-five mph on the straightaways. Further, the *York* could be operated on $16 a day, less than half the cost of equivalent horse-based propulsion.

Lesson: Push for Innovation because Productivity is the result. Push for Collaboration because it is the foundation of Innovation.

## *On the Nature of Incentives*

3. The Nature of Incentives: Incentives can play an important role in getting the competitive and collaborative spirit of teams versus teams working in the right direction. Historically, incentives have played an important role in innovation. For example:

   - In 1714, the British Government offered, by Act of Parliament, £20,000 for a precision time-piece which would enable navigators to plot their position within a half-a-degree accuracy (2 minutes of time). The incentive produced a breakthrough in chronography. A body known as the Board of Longitude was set up to administer and judge the longitude prize.
   - A prize of $4000 in 1830 incentivized a more than 3 fold improvement in engine speeds on the Baltimore &Ohio railroad.
   - The same year in England, the *Rocket*, in competition with other locomotives for a prize of £500 offered by the Liverpool and Manchester Railway. Stephenson's locomotive best fulfilled all the conditions set by the railroad for practical operation. The *Rocket*, weighing more than seven tons, pulled a load three times its

own weight at the rate of 12.5 mph and hauled a passenger coach filled with passengers at 24 mph.

- In 1909 Louis Blériot of France, encouraged by a £1,000 prize offered by London's Daily Mail, made the first successful flight across the Channel in just over ½ hour, only six years after the Wright Brothers first flew a heavier-than-air craft.
- In 1919 a New York hotel magnate offered a prize of $25,000 for the first nonstop aircraft flight between New York and Paris. The first aviators to go for the prize paid with their lives. In 1927Charles Lindbergh, in a small single-engine aircraft took off from Long Island. 33 ½ hours later he landed in Paris.
- Every weekend, race car drivers test their latest innovations for prizes.

Lesson: Incentives, whether monetary or simply recognition, focus people on pushing the edges of paradigms. Let's set up a friendly competition to focus energies on the Productivity Improvements we want.

## *The Role of Culture in Driving Behavior*


Culture enables us to "tune" and "align" the Four Drives (Energies). Here's an example to illustrate:

Remember back to the 1990's when you got your first cell phone – it was an analog device to transmit , and considered a breakthrough at the time. Then over the next two decades, more functionality was built-in a wide variety: Voice➔Data➔Camera➔Video➔GPS. Think of these functions as "core drivers" in you "smart" phone. The better integrated and aligned they are, the better the smart phone creates value.

Similarly, your organization's culture is the context that can either emphasize, fragment, repress, integrate, or align the brain's four drivers. For example, in the airline industry, Robert Crandall, CEO of American Airlines was predominantly an drive to *Acquire* and *Defend* leader, who constantly created battles with his unions, with whom he could have seen as teammates (drive to *Bond*); he saw his people as liabilities on the balance sheet. Company morale was consistently been a problem, burdened with strikes and grievances, and low productivity. Upon this d*Acquire* and &d*Defend* foundation, he attempted to be the most innovative company in the industry (d*Create*), pioneering the Sabre booking system, for example. But his people constantly resisted change, fought improvements because they were perceived to a means to downsize (layoff) people, and a means of feeding greedy investors, without improving job security.

This was the culture of American Airlines: highly distrustful, antagonistic, manipulative, and deceitful.

On the other side of town, Southwest Airlines under Larry Kelleher, took a totally different approach. He was, by training, a lawyer (high drive to *Defend*) and a real fighter (high drive to *Acquire*), very innovative (dCreate), but also a very compassionate, team builder who cared deeply for his people (dBond). Despite being a start-up, severely undercapitalized, a higher percentage of unionized employees, and faced with hostile legal actions from his competitors, Southwest went on to create string of profitable years unparalleled in the airline industry. Southwest's culture reinforced, balanced, and aligned the organization to bring out the best in people.

Miscellaneous Graphics



| TRUST TYPE | FOCUS | SLOGAN |
|---|---|---|
| SYNERGISTIC TRUST | I Trust we can Co-Create | *Trust is a Cherished Treasure* |
| HARMONIOUS TRUST | I Trust Your Integrity to work with you in a team | *Trust is a Natural Birthright; it feels great & even fun!* |
| RELIABLE TRUST | I Trust your Judgment (Accountable) | *Only trust an honest man* |
| SECURITY TRUST | I Trust I'll be Protected; you won't hurt me | *Trust must be earned* |
| TRANSACTIONAL TRUST | I Trust your Competence to do the job properly | *Trust but Verify* |

TRUSTED TO LEAD SERIES

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***

*Also see the companion books to this volume:*
*"Chief Executive's Guide to the Economic and Innovative Power of Trust," and*
*"Building a Team You Can Trust" which expands on the material in this book and is designed for middle managers.*

## References

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[1] Foster, Richard; Kaplan, Sarah; Creative Destruction; Why Companies that are Built to Last Underperform the Market and How to Successfully Transform Them, Doubleday, 2001 and Innosight, Executive Briefing, 2012

[2] Schumpeter, Joseph; economist proposed that the nature of capitalism caused the old to be replaced by the new, enabling new technologies, processes, strategies, systems, and methodologies to evolve, but creating turmoil on the path to economic progress..

[3] http://trust.edelman.com

[4]http://www.imanet.org/PDFs/Public/SF/2013_09/09_2013_ethics.pdf

[5] Camaraderie comprises 20%, Pride: 20%). Because trust is the "primary defining characteristic," we believe this stock price evaluation holds the most credibility. Trust Inc., page 17.

[6] Need citation to Forbes GMI Most Trustworthy Companies list. Over 8,000 firms traded on U.S. stock exchanges using over 60 governance and forensic accounting measures are examined

[7] Jacquelyn Smith, Forbes staff article, March 18, 2013

[8] FACTS link

[9] Paul R. Lawrence, (late Professor Emeritus of Harvard Business School) and Robert Porter Lynch (Warren Company & co-author of this report) teamed up in 2010-11 to do a *qualitative* analysis of the impact of trust on a variety of industries. The criteria for analysis were:

Collaborative Innovation – did the company engage its people, its suppliers, its customers, and other outside entities (such as universities) in the process of innovation? Had a large number of outside observers (primarily authors and academicians) had cited the company as a collaborative / trustworthy / honorable compared to its more hostile / predatory competitors?

Strong Tendency to Form Collaborations (which, by their nature, must use trust as a foundation) with outside entities, as evidenced by joint ventures, strategic alliances, R&D collaborations, etc.

Higher than normal Success Rate in Acquisitions, leading to the probability that their acquisition process was more culturally attuned to accepting differential thinking and integrating better across differential boundaries.

Excellent Track Record of Positive Labor-Management Relations, evidenced by lack of strikes (if unionized), cooperation between labor unions (if multiple unions were involved, such as the airline industry, etc.), mention by outside objective observers about cooperation between management and their workforce, strong tendency to avoid layoffs and plant closings, commitment to finding meaning and purpose in the work experience, such as High Performance Teamwork, Collaborative Innovation (LEAN plus Trust), 360° performance evaluation etc.

High Emphasis on Employee Engagement, Employee Training, Employee Effectiveness (teamwork, productivity, trust-building, and workforce enjoyment of the work experience).

CEO Values and Succession Planning that emphasized retaining or creating high levels of trust, respect, collaboration, with a balanced score card approach to profitability.

Emphasis on Leading Indicators of success (a long term view) to the generation of "real value," for which "profitability" was just one key "measure of success.” Supplier and Customer Relationships that were collaborative and interactive, not transactional, enabling trust to facilitate the flow of ideas, innovation, and integration across the input & output side of the organization to function as a highly collaborative "Value Creation Network" rather than an adversarial chain (the Michael Porter Model).

High Correlation on Corporate Rankings -- examination of a number of key rankings -- such as innovation, high performance, profitability, trustworthiness, etc. -- to see if the company's performance had been verified ("triangulated" to use navigation-at-sea terminology) by outside analysts. The company's existence and position on such indices as Ethisphere, Most Innovative Companies, Most Trustworthy, Best Places to Work, etc.

[10] Gettell, Jody Hoffer, Comparative Study of Four Major Airlines, The Southwest Airlines Way, Using the power of relationships to Achieve High Performance, McGraw Hill, 2003

[11] The Fool.com. Maranjian, Selena (2011). “The Best Citizens in Corporate Governance.” Goldman Sachs found: “… comparing companies with robust social, environmental, and governance policies had 25% higher performance level

[12] DB Climate Change Advisors, Deutsche Bank Group (2012). “Sustainable Investing, Establishing Long-Term Value and Performance.” Found: 100% concurrence on Lower Cost of Capital (“… academic studies agree that companies with high ratings for CSR (corporate social responsibility) and ESG (environment, social responsibility, governance) factors have a lower cost of capital in terms of debt (loans and bonds) and equity.”); 89% concurrence on Superior Market Performance (“,,,studies indicate companies with

high ratings for ESG factors outperform market-based indices"); 85% concurrence on Greater Performance on Accounting –Based Standards ("… studies reveal these types of company's consistently outperform their rivals on accounting-based criteria.")

[13] Journal of Investing: Abramson, L. & Chung, D. (2000) Socially responsible investing: Viable for value investors? Demystifying Responsible Investment Performance, A review of key academic and broker research on ESG factors. 9(3), pp.73-80 ; 20% higher performance (comparing the top-rated ESG stocks in its global portfolio of the bottom-rated stocks over a three-year period).

[14] www.triplepundit.com: Hollender, Jeffrey (2012) Sustainable Banks Outperform World's Largest Banks by 51%. The study compared the performance of 17 values-based banks with 29 of the world's largest and most influential banks between 2007 and 2010."which compared *values-based* and *sustainable* banks to their *big-bank* rivals and found: 7% higher Return on Equity for values-based banks (7.1% ROE compared to 6.6% for *big banks)*. 51% higher Return On Assets for *sustainable* banks (.50% average ROA for *sustainable* banks compared to *big bank* earning 0.33%)

[15] Need Watson Wyatt Citation Source: 286% greater Return to Shareholders (comparing how high-trust organizations outperformed low-trust organizations) in total returns

[16] American Association of Individual Investors Journal. Statman, Meir & Glushkov, Denys (2010). "Does Social Investing Generate Higher Returns?" stated, "We find, in general, that stocks of companies with high social responsibility scores yielded higher returns than stocks of companies with low scores"

[17] European Center for Corporate Engagement, Universiteit Maastricht and Erasmus University (2007). "Use of Extra Financial Information by Research Analysts and Investment Managers."

[18] Harvard Business Review: Nidumolu, Ram Prahalad, CK and Rangaswami, MR (2009) Why sustainability is now the key driver of innovation. stated, "Companies that score high on ESG (environmental, social, and governance) criteria seem to be rewarded with premium valuation, while companies that score low are likely to be penalized with valuation discount." article studying the sustainability initiatives of 30 large corporations stated, "… sustainability is a mother lode of organizational and technological innovations that yield both bottom-line and top-line returns." They

highlight, "IBM's decision to allow a quarter of its 320,000 employees to work from home was conceived for environmental reasons, but has managed to save the company $700 million in real estate costs. Job satisfaction has also increased leading to a doubling of productivity."

[19] Lynch, Robert Porter; *Business Alliances, The Hidden Competitive Weapon*, John Wiley & Sons, 1993, p 81

[20] Reader's Digest Trusted Brands Survey, Influence on Purchase, 2013; Evaluation criteria for being considered a "trusted brand:" The brand must be reliable (82%), The company offers high quality products/services (81%), The company takes care of me/provides good service (77%), Company understands their customer needs (76%), I must have personal experience of using/buying the brand (76%)

[21] http://www.bloomberg.com/video/57781880-dell-s-pc-market-share-slides-amid-industry-changes.html

[22] Downes, Nathaniel; Wal-Mart Losing To Quirky Florida Based Publix – Employee Owned Company Touted By Forbes As 'Wal-Mart Slayer, www.addictinginformation.org, July 26. 2013

[23] http://wegmansworshipper.blogspot.com/2013/01/wegmans-competitive-advantage-strong.html

24 The average workshop size is 20-25 people; the average age is 40-45. We typically ask the teams (usually 4-5 people in a team) to choose only 3 of the 17 dimensions, then take the averages from all the teams.

25 For the 2650 people, the differential between average high and average low consistently is 135% for business, 147% for non profits, and 165% for government (+/- 5%)

26 Collectively, the Airline Industry has, as a whole, collectively lost more money than it has made in its seventy five year history.

[27] Employee ownership does not mean a company is 100% owned by employees, but that a large number of employees are vested in the company, holding a large portion of the shares. For Southwest, outside shareholders own the large majority of the stock.

[28] Simply converting a company into employee ownership without creating a culture of trust will not do the trick. United Airlines and the Chicago Tribune are good examples of companies using employee ownership as a financial incentive, with poor results because they did not change the culture to one of trust, respect, and collaboration

[29] Stack's books are: A Stake in the Game & The Great Game of Business..

[30] Interviews with Ross Smith by Robert Porter Lynch, 2011
[31] Bethune, p 112
[32] Bethune, p 109-111, p 132
[33] The Continental Strategy was a four-pronged game-plan, which included:
1) Improving the Product,
2) Fixing the Financial Situation,
3) Attracting and Retaining Customers, and
4) Building a Team to Perform. The last point of the game plan was considered the most important.
[34] It's not a coincidence that CH2M Hill is the third largest employee owned company in the U.S., with 30,000 employees owning more than 50% of the stock.
[35] Vanourek, Robert & Greg, Triple Crown Leadership, McGraw Hill, 2010, see Chapter 8 for full details on this case.
[36] Cottle, Michelle; Eisenberg, Sherri; Government can work: the Santa Monica story - federal government sponsored post-Northridge quake Santa Monica Freeway Project, Washington Monthly, May, 1997
[37] Clinton, Glenn; Lessons Learned At The Northridge Earthquake Proceedings Post Earthquake Highway Response And Recovery Seminar, St. Louis Missouri, 2000
[38] MacArthur Maze repairs; 2007: a tank trunk caught fire on a San Francisco area freeway overpass known as the MacArthur Maze. The damage done to the heavily-traveled freeway was extensive. Officials feared it would be closed for repairs for months. Caltrans estimated the cost would be $5.2 million. Meyers bid low—$867,075—but earned $5 million in bonuses for finishing in 25 days.
Bay Bridge repairs; 2007: A football field length section of the San Francisco-Oakland bridge needed to be replaced. Caltrans wanted it done during the three day Labor Day weekend. Meyers constructed the replacement section adjacent to the section to be demolished in advance. On Labor Day weekend, the bridge was closed to traffic, the old section removed, and the new section slid into place. The bridge that was scheduled to reopen at 5 AM on the day *after* Labor Day opened eleven hours *early*, around 6 PM on last day of the Labor Day weekend.

[39] Warren Company Report to Productivity Alberta, September 2013 of Construction Industry found that effective use of Integrated Project Delivery and collaborative forms of strategic alliances (such as the Australian 'Alliancing' process, when used effectively would reduce completion risks (over time and over budget) to nearly zero, or produce results where the project was under-budget and ahead of time (a 'negative risk' = positive outcome). For further verification, see:

-Rolstadås, Asbjørn;• Hetland, Per Willy; Jergeas, George Farage; Westney, Richard E.;Risk Navigation Strategies for Major Capital Projects, Beyond the Myth of Predictability; Springer Series in Reliability Engineering; Springer-Verlag, 2011, p 173

-Morwood, Richard; Scott, Deborah; Pitcher, Ian; Alliancing, a Participant's Guide, real life experiences for contractors, designers, facilitators, and clients. AECOM; 2008

-Morwood, Richard; Elliott, Chris; Creating No Fault, No Blame Cultures in Alliances; presentation to the Association of Strategic Alliance Professionals Summit, March, 2011, and personal discussions with Chris Elliott

[40] Liker, Jeffery and Rother, Mike, *Why Lean Programs Fail*, Lean Enterprise Institute, 2009

[41] In a series of Lean programs to test the value of trust (2010-2013), Productivity Alberta and the Winslow Group engaged with a dozen small to medium sized manufacturing companies. Nearly all were successful, producing significant results. In one company the front-line workforce is producing nearly one idea per employee every 10 days, with close to 80% implementation rate.

[42] Robinson, and Schroeder, Ideas are Free (RPL: need detailed citation)

[43] Target companies lose 21 percent of their executives each year for at least 10 years following an acquisition – more than double the turnover experienced in non-merged firms." Source: Jeffrey Krug, *Mergers and Acquisitions Lead to Long-Term Management Turmoil*, Journal of Business Strategy, July, 2008. (Krug & Hegarty in 2001. They studied retention of key executives and found that the executive's perceptions of the merger announcement integration with the acquiring firm's top managers following the merger, and the long term effects of the merger significantly influence their decision to stay or leave.)

The high failure rate of Mergers and Acquisitions can also be correlated to the Trust Risk. The preponderance of acquisitions fail for what is called "cultural reasons." Underneath the cultural veil are two key factors causing this failure:

The company being acquired has a poor trust level before the acquisition, and the distrust just escalates during the acquisition process as fear runs rampant throughout the organization. The best A-level people, who have more opportunities for mobility, jump ship for safer ground, leaving the company a hollow shell of B & C-level employees too scared to run.

The very process of the acquisition is inherently predatory, and thus triggers fear in the target, whose personnel are afraid of being victimized. The target company then becomes highly protective. Some people leave, the remainder hunkers down in their bunkers and silos, which can take years to break down, making integration of the new unit almost impossible.

[44] Stahl, Kremersof, Larson; Trust Dynamics in Mergers and Acquisitions: A Case Survey, INSEAD, 2004/2005.

[45] Speed alone was not the determinant of success – acquiring companies must be perceived as knowing where they were going, what they were doing, and providing a solid future for the employees of the target company for speed to be a significant factor in success.

[46] Stahl & Kuhlmann in 2002 – measured the impact of cultural cross training on multinational M&As and found that enhancing cross cultural skills had a significant positive impact on key employee retention.

[47] In the mid-1990s, the consensus of studies assessed alliances producing 25% success rates. By the mid-2010s, the consensus is, overall, a 50% success rate, which averages low rates from those who use cruder methods with higher rates from more sophisticated practices. (see Association of Strategic Alliance Professionals, www.Strategic-Alliances.org)

[48] Source: surveys of executives from over 200 companies attending Executive Development courses at the University of San Diego Supply Chain Management program from 1992-2013, conducted by R.P. Lynch

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[49] Lynch, Robert Porter, excerpted and condensed from *Trust: the Economic Game Changer*, published in Trust Inc. Strategies for Building Your Company's Most Valuable Asset, 2013

[50] Henke, John; *Planning Perspectives, Inc Report*, Aug 2, 2004. Responses from 223 Tier 1 suppliers including 36 of the Top 50 and was based on 852 buying situations. Participating suppliers' combined sales represent 48% of the OEM's annual purchase of components.

[51] Dyer, Jeffrey H.; Chu, Wujin; *The Role of Trustworthiness in Reducing Transaction Costs and Improving Performance: Empirical Evidence from the United States, Japan, and Korea*, 2002

[52] Productivity Alberta is a Private Public Partnership (PPP) created to help solve the problem of having too few people in a Province with a very heated economy.

[53] Based on extensive historical evidence, each supplier has in their inventory a standard stock of parts and components.

[54] The idea is not entirely new. But what is new/Important is the shift from supply chains which are transactional, linear, and slow, to value networks which are value creating, neural/interactive, non-hierarchical, and fast. The problem of hierarchical systems in supply is the principle reason Boeing has lost billions on the introduction of the Dreamliner.

[55] Kimmel, Barbara; Green, Charles, *The Business Case for Trust*, Trust Inc. Strategies for Building Your Company's Most Valuable Asset , 2013

[56] Gallup.com 2011/10/28 Majority of American Workers Not Engaged in their Jobs

[57] Gallup Business Journal, 2002/4/15 *The High Cost of Disengaged Employees*

[58] The Economist Intelligence Unit Limited, 2010

[59] Deloitte LLP, Ethics and Workplace Survey, 2010

[60] Gallup Consulting Harter, Schmidt, Killham, Asplund,, Q12 MetaAnalysis, 2006. The authors Management would learn a great deal more about success if it studied what was going on within top-half business units rather than bottom-half units.

**Within Companies, Business Units** in the top half on employee engagement had, on average, success rates that were:

56% higher on Customer Loyalty metrics

44% higher on Turnover (lower probability of turnover)

38% higher on Productivity outcomes
27% higher on Profitability.
44% higher on Safety (lower probability of injuries or lost workdays)
56% higher on Absenteeism (lower probability of high absenteeism)
70% higher on Shrinkage (lower probability of high merchandise shrinkage).

**Across All Companies, Business Units** in the top half on employee engagement had, on average, success rates that were:
103% higher on customer metrics
78% higher on turnover (lower probability of turnover)
63% higher on productivity outcomes
50% higher on profitability outcomes
78% higher on safety (lower probability of injuries or lost workdays)
94% higher on absenteeism (lower probability of high absenteeism)
123% higher on merchandise shrinkage (lower probability of high shrinkage)
**Composite Business-Unit Performance**, business units in top half on employee engagement have success rates that were:
113% higher within their own company
170% higher across business units in all companies
In other words, business units high in employee engagement more than double their odds of above-average composite performance within their own companies, and nearly triple their chances for above-average success across business units in all companies.
Business units at the highest levels of employee engagement across all business units have an:
83% chance of having high (above average) composite performance. This compares to a 15% chance for those with the lowest levels of employee engagement.
So it is possible to achieve high performance without high employee engagement, but the odds are more than five times lower.
Comparing top-to bottom-quartile engagement business units resulted in median percentage differences of:
31% in turnover for high-turnover companies (those with 60% or higher annualized turnover)
51% in turnover for low-turnover companies (those with 40% or lower annualized turnover)

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12% in customer loyalty/engagement
62% in safety incidents
51% in shrinkage
18% in productivity
12% in profitability

**Gallup studies conducted at the individual level** (rather than the business-unit level) indicate engaged employees in comparison to disengaged employees have

27% less absenteeism

[61] Helliwell, John F. and Wang, Shun, Huang, Haifang Shun, et al; *Well-Being And Trust In The Workplace*, National Bureau Of Economic Research, 2008, *Trust And Well-Being*, National Bureau Of Economic Research, 2010; See: http://faculty.arts.ubc.ca/jhelliwell/chronological.php for more publications

[62] www.americanprogress.org/issues/labor/report/2012/, For jobs under $30,000 the direct costs are about 16%. For jobs in the range, 30-70,000, it's between 25-20%, and significantly higher above $70,000

[63] http://money.cnn.com/magazines/fortune/best-companies/2013/

[64] Kling, Jeffrey; High Performance Work Systems and Firm Performance, Monthly Labor Review, May 1995

[65] Kruse, Douglas, Profit Sharing: Does it Make a Difference? Upjohn Institute, 1993

[66] Kaufman, Roger; The Effects of IMPROSHARE on Productivity, Industrial and Labor Relations Review, January 1992, pp 311-312

[67] The ESOP examples represented by Publix, P&G, Southwest, C.C. Meyers, CH2M Hill, as well as USAA as a Mutual (policy holder owned) Insurance Company, makes a strong case that trust, employee engagement, and sharing capitalism's rewards with employees should not be overlooked. It is reasonable to conclusion that employees are a strategic asset and essential as "innovation capital." However, not all ESOPs produce such results. The National Center for Employee Ownership's studies demonstrate that where low-trust cultures prevail, the economic returns from employee ownership are greatly reduced.

[68] Data from Employee Ownership Foundation. April 2009. In the tumultuous year of 2008, 88% of the 431 companies survey

reported stronger performance than the Dow, NASDAQ, or S&P indices.

[69] The connection between either equity ownership and profit sharing and trust building is further illustrated by this story, excerpted and condensed from Bob and Greg Vanourek's book, Triple Crown Leadership, McGraw Hill, 2012 from Chapter 8: Turnarounds

[70] Find Citation

[71] Note: 80% of Lean Management programs fail. This is due principally because they are launched in an environment of distrust. By combining Lean with high trust, our team's success level has been 100%, hence the term "Collaborative Lean" versus Lean Management that connotes "working harder, with the risk of layoffs once we cut out the fat."

[72] The term "NVA" makes it seem that these are just benign parasites in the value creation process, and expurgating them will produce high production efficiencies. In reality, NVA serves as a "protective shield" when trust is just "transactional" or mildly distrustful (see Fuzzy Distrust in Chapter 3).

[73] Continental magazine, to our co-workers, customers, & stockholders@ May 1998, page 31

[74] Brown, Warren & Swoboda, Frank; Washington Post, October 23, 1993, page c1

[75] Ibid

[76] As of the beginning of 2013, more than 500 procurement managers have participated in this simulation.

[77] This data may also help explain why the institution of laws for open meetings and freedom of information has not increased our level of trust in government.

[78] Interview, October 21, 1997 Pinehurst, NC.

[79] Another test of the power of Honda's quality control is represented by used car prices. A Cadillac, at the ten year point in its life will have lost a far greater % of its original value than a Honda. Typically the Honda depreciates at about half the rate of a Cadillac.

[80] Gettell, Jody Hoffer, Comparative Study of Four Major Airlines, The Southwest Airlines Way, Using the power of relationships to Achieve High Performance, McGraw Hill, 2003

[81] Interview August 1 & 3, 2010, Chalice, Robert; Improving Healthcare Using Toyota Lean Production Methods, 46 Steps for Improvement, American Society for Quality, Press, 2006
[82] Ibid, page 21
[83] Chalice, ibid, see the reference in the chapter 1 section "Waste in Healthcare". P 21.
[84] Ibid, page 25
[85]From Transparency International
[86] From Gallup Poll World Happiness Index
[87] Stallkamp, Thomas T. Score, A Better Way to Do Business, Moving from Conflict to Collaboration, Wharton Business School Publishing, 2005 p20
[88] Stallkamp, p50
[89] Stallkamp, p 66
[90] Stallkamp, p 50-51
[91] Stallkamp, p20-21
[92] Stallkamp, p 51
[93] Stallkamp, p 68
[94] Stallkamp, p48
[95] Stallkamp, p 195
[96] Stallkamp, p19-21 (Machiavelli – ends & means).
[97] Stallkamp, p44
[98] Stallkamp, p 143
[99] Stallkamp, p 144-145
[100] Stallkamp, p 145
[101] Stallkamp, p 145
[102] Stallkamp, p 145
[103]RP Lynch Note: It should be noted that the "tough but fair" approach is one of the distinguishing features that differentiates "harmonized" trust from "synergized" trust; the former is cozy, smooth, soft, friendly, and unchallenged; whereas synergized trust is dynamic, filled with challenges, constantly aimed at higher and higher targets, and sometimes even confrontational, but In a positive way
[104] Stallkamp, p145
[105]Stallkamp, p 146-147
[106] Stallkamp, p 114
[107] Stallkamp, p5-6
[108] Stallkamp, p6

[109] Stallkamp, p2
[110] Stallkamp p19
[111] Stallkamp p7-9
[112] Stallkamp, p119
[113] Stallkamp, p 121
[114] Stallkamp p 122
[115] Stallkamp, p 15
[116] Stallkamp p 124
[117] Stallkamp, p129
[118] Stallkamp, p 136
[119] Stallkamp, 130
[120] Stallkamp, p 130
[121] Stallkamp, p 130
[122] Stallkamp, p10-11
[123] Stallkamp, p27-28, p 36
[124] Stallkamp pp42-43
125 Stallkamp, p 47

[126] Stallkamp, p 61
[127] Stallkamp, p 104
[128] **About PPI** Since 1990, PPI has specialized in developing and implementing in-depth surveys of suppliers for the automotive OEMs and Tier 1 suppliers. In 2001, PPI initiated its syndicated Annual North American Automotive Tier 1 Supplier Study. These studies have become benchmarks for the industry and provide critical sales and financial planning information for suppliers and their sales, marketing, and financial staffs, as well as a means by which OEMs and their purchasing staffs can get a reality check on their working relationships with suppliers. PPI is based on Birmingham, Michigan and can be reached at +01.248.644.7690
[129] Wall Street Journal, Aug 2007
[130] Stallkamp, p 67-68
[131] Stallkamp, p 68-69
[132] Stallkamp, p 69
[133] Stallkamp, p 69-70
[134] Stallkamp, p 72
[135] Note: There is an in-between zone which includes ex***te***ndables (or durables) such as telephones, radios, houses, washing machines, cars, antiques, fine art, tools, and so forth, that have very long life spans, not being "used up" for a long number of years, and having

very low cost per usage. *Replenishables* also fall into this zone because nature puts them back as we use them. For both extendables and replenishables, their incremental cost of production does not exhibit the same dramatic cost advantages of one of our latest digital technologies such as software or the internet, but yet provide massive economic advantages over exp***e***nables.

[136] Expandables should not necessarily be considered good or valuable in all circumstances. Computer viruses, gossip, and false information spread over the internet are good examples of "evil" expandables.

[137] This is now the tag line at the end of Flextronics' emails from executives.

[138] Flextronics website home page. (edited for brevity)

[139] 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.

[140] 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.

[141] There are many neurotransmitters in the brain that operate in a complex array acting to "fine tune" the brain activity. We have focused on the "primary" neurotransmitters and refrained from delving into the "secondary" ones for two reasons: First, by keeping the focus on primary chemicals, we emphasize the key principles a leader needs to know. Second, if a leader tries to make decisions based upon trying to manage a large array of secondary chemicals, s/he runs the risk of sinking rapidly into analysis paralysis, or unnecessary micromanagement (the brain has the capacity to self-manage the micro fine-tuning process without intercession).

[142] In laboratory experiments, distrust produces a spike in another stress-reactive chemical testosterone, which is a potent anti-oxytocin (Zak, P.J. et al,. 2005. The Neuroeconomics of Distrust: Sex

Differences in Behavior and Physiology, American Economic Review Papers and Proceedings, 95(2): 360-3).

[143] Opioids are natural occurring “opiates” which give us natural pleasure and dull pain. Endorphin is a contraction of the term “endo-morphine” meaning internally generated morphines, a type of opioid.

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

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

[146] Ibid

[147] 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.

[148] Bethune, Gordon; *From Worst to First*, Wiley 1998, p 267

[149] We don’t mean to imply that you should never carefully evaluate people nor make judgments. We only want you to be careful not to be so judgmental that you shut yourself off from a positive relationship

[150] From the Greek: Sym – *with or joined*, and Biosis – *to live*

[151] Liker, Jeffrey and Rother, Mike; Why Lean Programs Fail, Lean Enterprise Institute, Lean.org, 2010

[152] From Wikipedia

[153] 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

[154] 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.

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

[156] Gerstner, p 240-41

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

[158] 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
[159] Mackey (2010)
[160] Gerstner, p 240-41
[161] Gerstner, p 240-41
[162] Bethune, p 6
[163] Bethune, p 135-136
[164] Bethune, p 159
[165] Bethune, p 200-201
[166]Bethune, p, 204, 208-209
[167] Rittenhouse, Laura; Choosing Candor: the Language of Trust, article in Trust, Inc. New Decade Publishing, 2013, p 44
[168] Ibid, p 46
[169] Bethune, p 127
[170] 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
[171] Vanourek, Bob and Greg; Triple Crown Leadership, Building Excellent Ethical, and Enduring Organizations, McGraw Hill, 2012
[172] Ibid, p 25
[173] Bethune, p 151-53, 155-56
[174] Bethune, From Worst to First, p 108
[175] Bethune, p 189
[176] Rittenhouse, Ibid, p 46
[177] GM, because it had such poor integration and alignment with its suppliers, often began production with design "bugs" that increased breakdowns and warranty costs. Suppliers were very aware, from historical experience, that GM would come to them in the middle of a production run with a critical change order which required re-pricing; at which point it was supplier pay-back time for all the beating they took in the original round of price negotiations.
[178] 500 suppliers were dropping out of the supply chain every year according to a 2007 Wall Street Journal report.
[179] Supply Chain Management Forum, University of San Diego, May, 2005
[180] This is actually a very old model dating back to pre-industrial era capitalism. Most shipping ventures were transacted this way between the 17th and 19th century. See Lynch, Robert Porter, *The*

*Practical Guide to Joint Ventures and Strategic Alliances*, John Wiley, 1988, Chapter 1

181 Principally led by Alan Greenspan and Milton Friedman, building on the earlier theories of Friedrich Hayek.

182 Coauthored by Ayn Rand & Alan Greenspan. As a historical note, when Charles Colson, who headed Richard Nixon's Council of Financial Advisors, read Rand & Greenspan, he asked Greenspan to join Nixon's team. From that position, Greenspan was propelled onto the Federal Reserve Board, where he eventually became Chairman.

183 Greenspan, Alan; The Assault on Integrity, Chapter 9 in Rand, Ayn; *Capitalism: The Unknown Ideal*, New American Library, 1966, p 112

184 Greenspan, Ibid, p 116 [Author's note: Greenspan seems to combine Romantic Idealism with Aristotlean Rationalism and Ethics, in a naïve world-view that denies the existence of evil and corruption, while at the same time extolling the virtues of greed and excoriating the vices of fear.]

185 Greenspan told the House Committee on Oversight and Government Reform. Congressional Testimony Oct 23, 2008 regarding the Bank System Collapse

186 Phone Interview with Bloomberg/Business Week Dec 2012 regarding the LIBOR scandal Alan Greenspan, chairman of the U.S. Federal Reserve from 1987 to 2006

187 Author's Note: One has only to look north of America to Canada to see the difference. Canada, despite strong lobbying to the contrary, refused to soften its banking regulatory structure. When the meltdown occurred in 2008, Canadian Banks were, and still are, considered the most sound in the world. Bank regulation has come only after bank cataclysms.

188 Greenspan, Ibid, p 113-115

189 P 261

190 P 262

191 P 262

192 P 262

193 P 265

194 P 268

195 P 268

196 Interview, October 2008, Pittsburgh, PA

197 Interview, Dec 3, 2012, Edmonton, Alberta

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[198] Okono, Samuel, Paper: *Why Over 90 Percent of Projects Finish Late,* Project Smart

[199] Interview with Thomas Watson, Jr. former President of IBM, by Robert Porter Lynch, Spring 1978, Brown University Campus

[200] Based on data originally compiled by U.S. Department of Education

[201] Center for American Progress (CAP), November 5, 2012

[202] It's important to consider legal processes as a part of Risk Management. Consider the impact of trust on the cost of intercorporate relationships, contractual complexity, the need for contract management in procurement, the impact of distrust on litigation potential and real costs, and the time and energy and taking away focus when a corporation has to engage in litigation, etc.. The corollary is that legal risks increase with the untrustworthy. For example, untrustworthy customers don't pay, untrustworthy suppliers don't deliver quality, untrustworthy employees steal or file unjustified law suits, etc. Knowing how to limit the impact of the untrustworthy is important.

[203] Interview with Larry Staples, Executive Director, Construction Owners Association of Alberta discussing the development of Oil Sands projects in Northern Alberta, with Robert Porter Lynch, Spring, 2013

[204] Interview, October 2008, Pittsburgh, PA, by Robert Porter Lynch

[205] See American Institute of Architects: Integrated Project Delivery & "Partnering;" or
Morwood, Richard; Scott, Deborah; Pitcher, Ian; Alliancing, a Participant's Guide, real life experiences for contractors, designers, facilitators, and clients. AECOM; 2008

[206] From Wikipedia, Boston Big Dig

[207] Rolstadås, Asbjørn; Hetland, Per Willy; Jergeas, George Farage; Westney, Richard E.;Risk Navigation Strategies for Major Capital Projects, Beyond the Myth of Predictability; Springer Series in Reliability Engineering; Springer-Verlag, 2011,

[208] Rolstadås, Asbjørn;• Hetland, Per Willy; Jergeas, George Farage; Westney, Richard E.;Risk Navigation Strategies for Major Capital Projects, Beyond the Myth of Predictability; Springer Series in Reliability Engineering; Springer-Verlag, 2011, p 173

[209] Personal discussions with George Jergeas during spring and summer 2013 as part of the Productivity Alberta project to improve long-term capital projects in the oil fields.

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[210] Morwood, Richard; Scott, Deborah; Pitcher, Ian; Alliancing, a Participant's Guide, real life experiences for contractors, designers, facilitators, and clients. AECOM; 2008

[211] Morwood, Richard; Elliott, Chris; Creating No Fault, No Blame Cultures in Alliances; presentation to the Association of Strategic Alliance Professionals Summit, March, 2011, and personal discussions with Chris Elliott

[212] Interview, Dec 3, 2012, Edmonton, Alberta

[213] Okono, Samuel, Paper: Why Over 90 Percent of Projects Finish Late, Project Smart

[214] Center for American Progress (CAP), November 5, 2012

[215] *The Prince*, written in 1513, is the book most people attribute to Machiavelli. It paints a very sinister view of leadership in a world filled with manipulation, deceit, and lies. However, Machiavelli obviously had second thoughts about the book, and, several years later finished his more expansive treatise *The Discourses*, which takes a far more lucid look at the realities of leadership, and corrects many of the mistakes in *The Prince*.  Unfortunately, amateurs with little regard for historic accuracy, "cherry pick" the poisonous advice out of *The Prince* and peddle it as having some masterful insight into the nature of all humans. In reality, *The Prince's* great value is providing somewhat valuable advice in dealing with evil characters. See Appendix for more on the Great Machiavelli Hoax.

[216] Lest you think that the Dark Triad is just a nightmare concocted by science fiction writers, it's important to know that it is a bona fide field of academic study in many universities, and renowned scholars engage in the study of their abnormal behavior.

[217] Sociopaths and Psychopaths are fundamentally the same. We are using the term interchangeably here. Some psychologist have tried to make a distinction between the two, but the differences are purely academic.

[218] Research has shown that the capacity to have a conscience originates in the amygdala, that part of the brain that is part of our mammalian origin. The amygdala produces the neuro-transmitter oxytocin (see Chapter  Two: How the Brain's Chemistry Produces Trust)

[219] See the Appendix for more details on what Darwin really said, and the great hoax that has twisted his insightful and spiritual messages

[220] Ibid, p 471 & p 913
[221] Ibid, p 484
[222] Ibid, p 913
[223] Ibid, p 874
[224] Ibid p 485
[225] Ibid p 486
[226] Ibid p 483
[227] Ibid, p 498
[228] Ibid, p 500
[229] Ibid, p 508
[230] Konrath conducted the meta-analysis, combining the results of 72 different studies of American college students conducted between 1979 and 2009, with U-M graduate student Edward O'Brien and undergraduate student Courtney Hsing.
[231] For a good read on a real, present day Machiavellian, read *The Prince of Providence*, *America's Most Notorious Mayor* by Mike Stanton. It's about the shameful behavior of the Mayor of Providence, R.I. who wrote new chapters in Machiavelli's book "The Prince." I worked in his office at one time early in my career and discovered he defrauded the Federal government of a large amount of money. Then I almost got framed when I threatened to report it. I could never out think him; he was brilliant, foxy, and filled with moves I would never even think of. A normally intelligent person, no matter how bright, can begin to fathom the mind of a manipulator.
[232] Evil comes naturally to the Dark Triad, like flight to a bird or pollen-seeking to a bee. Seldom is repentance natural to an evil person – their actions were not evil to them from their perspective. The truly repentant, like Charles Colson, are not evil; just misguided. Neither does the Machiavellian think he is evil --in his own mind! He would simply say that Goodness is too risky. Even breaking the law is not evil, it's just the inability to get away with it. Neither would the Psychopath think of himself as evil; they simply cannot experience love, trust, sympathy, caring, or real joy, just as a fish cannot experience a walk in a rose garden. The whole idea of evil is countenanced only by those who aren't. One danger is when the evil or the misguided ask for forgiveness, which a construct of the conscience of a balanced and higher minded person. While forgiveness may be psychologically healthy, it should never be

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confused with exoneration, which is what the evil person wants in order to reinstate themselves.

[233] See "The Great Hoaxes" in the Appendix to understand how predators use intellectual justification of the truth to suit their own self-interest.

[234] The key book on this is entitled *Without Conscience: The Disturbing World of the Psychopaths Among Us,* written by Robert Hare after 25 years of studying psychopaths. His book *Snakes in Suits* reveals how psychopaths behave in the executive suite.

[235] Babiak & Hare, *Snakes in Suits,* Harper Collins (2007). Note: These 3-Drive humans are often referred to as psychopaths or sociopaths, *after* they have broken the law. Those that skirt the edges of the law will work in the narrow area that is legal but unethical or insensitive. While their percentage in the population is extremely low, their impact on society is massively disproportionate to their numbers.

[236] About the PCL-R (Psychopathology Check List – Revised

The PCL-R is 20-item clinical construct rating scale that using

– semi-structured interview,
– case-history information
– specific scoring criteria to rate each item on a three-point scale (0, 1, 2) according to the extent to which it applies to a given person

Total scores can range from 0 to 40 and reflect the degree to which the person matches the prototypical psychopathic person,

Analyses of very large data sets support a model in which psychopathy is underpinned by four correlated factors or dimensions:

1. **Interpersonal:**
- Glibness/superficial charm, Grandiose sense of self-worth, Pathological lying, Conning/ manipulative)
2. **Affective** (Emotional)
- Lack of remorse or guilt, Shallow affect, Callous/lack of empathy, Failure to accept responsibility for actions
3. **Lifestyle**
- Need for stimulation/ proneness to boredom, Parasitic lifestyle, Lack of realistic long-term goals, Impulsivity, Irresponsibility
4. **Antisocial**

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- Poor behavioral controls, Early behavior problems, Juvenile delinquency, Revocation of conditional release, Criminal versatility

[237] Often referred to as "snakes" – See Hare & Babiak, *Snakes in Suits – When Psychopaths go to Work*, Harper Collins, 2007

[238] CHAINSAW: *The Notorious Career of Al Dunlap in the Era of Profit at Any Price* By John Byrne New York: Harper Business, Review by Robert Weissman, Washington Monthly, Nov 1999

[239] See www.PBS.org: *The Warning* which documents the players & strategy

[240] Lynch, Dudley & Kordis, Paul, *Strategy of the Dolphin*, Morrow, 1988. "Strategy of the Dolphin" is the Registered Trademark of Brain Technologies. Used with permission

[241] Lynch & Kordis, Ibid, p 15-16

[242] Lynch & Kordis, Strategy of the Dolphin, p 19-22, 46

[243] Official Website of Coach Krzyzewski: CoachK.com

[244] Coach K practices what he preaches By Mike Prisuta, Pittsburgh TRIBUNE-REVIEW July 17, 2004

[245] Krzyzewski, Michael, Leadership with a Heart From chapter 5 on Trust, Business Plus, 2000

[246] Interview by Academy of Achievement, May 22, 1997 Baltimore, Maryland

[247] Wall Street Journal, August 11, 2007 The Forbidden City of Terry Gou, His complex in China turns out iPhones, iPads, iPods and Macs and PCs, powering the biggest exporter you've never heard of

[248] Crum, Dan*; Is He Lying to You?* Career Press; 2010; p 13

[249] We are not talking about lies or evasions that are designed to spare one's feelings or to avoid embarrassing them. For example I wouldn't tell my wife she looked awful, even if it were true. Instead, I might ask her if she felt alright. Also, in situations of low trust, it's quite common for people to withhold information for fear it will be used against them.

[250] Written in the 1400s in England titled "Le Morte D'Arthur," Mallory's book tells the tale of King Arthur, the Kingdom of Camelot, and the Knights of the Round Table. It is the basis of the popular musical and movie Camelot. One of the central figures in the downfall of Camelot is Mordred, the conniving traitor that plays the King against the Knights, the Knights against themselves, and exposes the liaison between Lancelot and Guinevere, all to

diminish everyone else to gain power for himself. Mordred is the master manipulator. His name is a conjunction between the old French word: *Mordre* meaning *death,* and the old English word *Dred* meaning *fear.*

[251] It's worthwhile to note the important distinction between Mordred and Machiavelli. The former was insidious, self-centered, and evil; the latter amoral and practical.

[252] See Machiavelli, *The Discourses of Livy*. He based his understanding of how republics could or should operate from Livy's History of Rome, written over one hundred years after the era of the Roman Republic. Livy was related to Octavian's (Caesar Augustus) wife, Livia. Livy began writing his history of Rome in 27 BC, the same year Octavian solely becomes Emperor, and the same year Virgil is commissioned by Octavian to write the Aeneid. Historians have said that Livy and Virgil coordinated their writings to ensure that what Livy was saying in prose was consistent with what Virgil was saying in poetry. It is highly likely that Octavian commissioned Livy to write these histories. Most of Livy focuses on war, war, and more war. The organization if his history reads more as a military history than a social or political or philosophic history. Unlike the most highly regarded Roman scholars of the time, Livy was not trained in Athens, and his command of the Greek language was mediocre. He never served in the military nor in the government, which some historians say made his history of these subjects rather superficial and subject to errors. However, Livy's accounts are all that remain of some of the earliest of the Roman era.

From Wikipedia: He wrote his history with embellished accounts of Roman heroism in order to promote the new type of government implemented by Augustus when he became emperor. In Livy's preface to his history, he said that he did not care whether his personal fame remained in darkness, as long as his work helped to "preserve the memory of the deeds of the world's preeminent nation." Because Livy was writing about events that had occurred hundreds of years beforehand, the value of his history was questionable, although many Romans came to believe what he wrote to be the true history of Rome's foundation. Livy's enthusiasm for the republic is evident from the first pentade of his work, and yet the Julio-Claudian family (the imperial family) were as much fans of Livy as anyone. He could not have been an advocate of any sort of sedition in favor of restoring the republic; he would have been put on trial for treason and executed, as many had been and would be. He must have been viewed as a harmless and relevant advocate of the ancient morality, which was a known public stance of the citizens of Patavium. His relationship to Augustus is defined primarily by a passage from Tacitus in which Cremutius Cordus is put on trial for his life for offenses no worse than Livy's and defends himself face-to-face with the frowning Tiberius. To avoid conviction, while waiting for a verdict Cordus committed suicide by self-starvation. His worst fears were realized in absentia: his books were sentenced to be burned by the aediles, but they performed the task without zeal and many escaped.

[253] It is not coincidental that the Reformation came on the heels of the Renaissance. Just as Machiavelli had foreseen, the tyranny of despotism evokes hatred and reform, with which comes inherent dangers.

[254] It is thought that he did not learn Greek, even though Florence was at the time one of the centres of Greek scholarship in Europe

[255] From Savonarola and Machiavelli, excerpted, condensed, and edited from Wikipedia & Rousseau, *The Social Contract*, Book III.

[256] In Henry V, Shakespeare stakes out another one of his visions of synergy:

*From this day to the ending of the world,*
*But we in it shall be remembered:*
*We few, we happy few, we band of brothers;*
*For he today that sheds his blood with me*
*Shall be my brother...*

[257] The amateur historian may look to the actions of James Wilkinson or Jesse Duncan Elliott as epitomes of more modern Mordreds in the early 1800s.

[258] The entire *I have a dream* speech is the embodiment of the Quest for Synergy.

[259] Japanese corporations are more skilled at getting teamwork to prevail. They hire on the basis of character weighing in at 80% of the person's value, and competence at 20%. American companies typically base their decision on just the opposite proportion.

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[260] Smith, Adam; *The Wealth of Nations*, Chapter II – Restraints on Importation from Foreign Countries on such goods as can be produced at home, 1776

[261] Greenspan, Alan; The Assault on Integrity, Chapter 9 in Rand, Ayn; *Capitalism: The Unknown Ideal*, New American Library, 1966, p 112

[262] Greenspan, Ibid, p 116

[263] Greenspan, Ibid, p 113-115

[264] Smith, Adam; *Theory of Moral Sentiments*, Section IV, Chapter 1, Paragraphs 10-11; 1759.

[265] This is actually a very old model dating back to pre-industrial era capitalism. Most shipping ventures were transacted this way between the 17th and 19th century. See Lynch, Robert Porter, *The Practical Guide to Joint Ventures and Strategic Alliances*, John Wiley, 1988, Chapter 1

[266] In Darwin's 1st Edition of 1859, the term "Survival of the Fittest" did not appear, nor did the word "Evolution." Darwin was quite familiar with the works of Herbert Spencer, a philosopher, psychologist, mathematician, and scientist, who was an ardent advocate of the idea and term "Theory of Evolution." Darwin had read Spencer's 1852 Essay (referred to in Darwin's Historical Sketch in the beginning of *Origin of the Species*) which strongly argued for the Theory of Evolution, but did not have a scientific premise for "how" it occurred. In the *Origin of the Species*, Darwin provided the answer Spencer was seeking. After the publication of *Origin of the Species*, Spencer coined the term "survival of the fittest" in his *Principles of Biology* (1864) to describe Darwin's hypothesis of Natural Selection stating: "This survival of the fittest,….is that which Mr. Darwin has called 'natural selection', or the preservation of favoured races in the struggle for life." Spencer was seeking to bolster his own economic theories and find the causative factor for his evolutionary theory. Darwin quickly latched on to Spencer's conjunction and by the 1869 (5th) Edition of *Origin of the Species,* the text was substantially changed to link the idea of natural selection and survival of the fittest inextricably ("survival of the fittest" appears 13 times in the 1876 edition, and the word "evolution," which was not used in the original edition, was inserted beginning with the 1872 edition and appears 10 times in the 1876 edition)

[267] While it did raise some controversy at the time, it was not an instant best seller. Robert Chamber's 1844 book *Vestiges of the Natural History of Creation*, a precursor to Darwin's theory, was a far better seller in Victorian England for quite some time.

[268]Darwin, *Origin of the Species*, p 64 1876 Edition

[269]Spencer believed that the state should not interfere with the natural evolution of society, thus he was opposed to any form of help for the poor because they were simply unfit, and should be eliminated; those people with mental defects were best off dead, and government should not intercede in supporting, regulation of sanitation, housing and the medical profession, etc. (Hofstadter, p 390-393)

[270] See Hofstadter, Richard; *Social Darwinism in American Thought,* Beacon Press,1955

[271] Based on *Origin of the Species*, Darwin's cousin, Francis Galton in 1865-1869 developed the idea of Eugenics – changing our social values to promote selective racial breeding based on strength of body and mind. Eugenics was then picked up by Adolph Hitler as his basis for genocide. Darwin himself did not support this idea. Darwin agreed that eugenics was beneficial in the breeding of domestic animals, but humans were born with moral values (sympathy and compassion): "The aid which we feel impelled to give to the helpless is mainly an incidental result of the instinct of sympathy, which was originally acquired as part of the social instincts, but subsequently rendered, in the manner previously indicated, more tender and more widely diffused. Nor could we check our sympathy, even at the urging of hard reason, without deterioration in the noblest part of our nature. The surgeon may harden himself whilst performing an operation, for he knows that he is acting for the good of his patient; but if we were intentionally to neglect the weak and helpless, it could only be for a contingent benefit, with an overwhelming present evil. ... We must therefore bear the undoubtedly bad effects of the weak surviving and propagating their kind; but there appears to be at least one check in steady action, namely that the weaker and inferior members of society do not marry so freely as the sound; and this check might be indefinitely increased by the weak in body or mind refraining from

marriage, though this is more to be hoped for than expected." (*Descent of Man*, p 134).

[272] Richard Hofstadter outlines how Andrew Carnegie and others used Social Darwinist thinking to promote their monopolies.

[273] From PBS Program: www.pbs.org/wgbh/amex/carnegie/peopleevents/pande03.html

[274]Carnegie, Andrew;"Wealth," reprinted in *The Andrew Carnegie Reader*, ed. J.F. Wall, University of Pittsburgh Press. Pittsburgh, (originally published 1889), p132

[275] Darwin, Charles; *Origin of the Species*, Modern Library One Volume "Giant" Edition, c1955 p 85-86

[276] Ibid, p 70

[277] Darwin, Charles; *Descent of Man*, Modern Library One Volume "Giant" Edition, c 1955,, p 453

[278] Ibid, p 452

[279] Ibid, p 874

[280] Ibid p 480

[281] Ibid, p 913

[282] Ibid, 478 –81

[283] Ibid, p 509

[284] Ibid p 485

[285] Ibid p 483

[286] Ibid, p 478

[287] Ibid, p 500

[288] Ibid, p 471 & p 913

[289] Ibid, p 488

[290] Ibid, p 484

[291] Ibid, p 913

[292] Ibid p 484

[293] Ibid p 495

[294] Ibid, p 490

[295] Ibid, p 492

[296] Ibid, p 491

[297] Ibid, p 481

[298] Ibid p 488

[299] Ibid pp 468-470

[300] Darwin, *Descent of Man*, Ibid, p 874

[301] Ibid, p 498

[302] Ibid, p 500

[303] Ibid, p 508
[304] Ibid, p 873
[305] Ibid p 873
[306] Ibid, p448

 