THREE FACES OF CAPITALISM

AND THE

HIGH PERFORMANCE COMPANY OF THE FUTURE

DRAFT VERSION 2.3 for comments & critique

WHITE PAPER

By Robert Porter Lynch

Executive Summary

With the demise of Communism in 1989, Capitalism has reigned supreme. It's now time to challenge the future of capitalism by scrutinizing its effectiveness in creating competitive advantage.

Key Points

1. **Competitive Advantage**:
   Capitalism's underlying strength comes from its ability (when operating in free and honorable markets) to base the future performance of any company on its ability to create competitive advantage from the perspective of its customers. Competition is the grindstone that hones the razor sharp edge of advantage. Without strong competition, the weak and unworthy survive, which provides no value to customers.
2. **Lack of Moral Imperative**:
   The *Future of Capitalism* will not be determined by government intervention nor by moral judgments about what is "right" for society. In fact, if the last two decades are any indication, a relaxation of laws regulating business seems to be a stronger trend, despite any criticism of deregulation during the last three decades. While every idealist wishes the *moral* path of ethics, fair play and righteous action to prevail, a long history of human endeavor favors *competitiveness.*
3. **Three Faces of Capitalism**:
   Capitalism is not a monolithic form of economics. There are actually three different competing capitalistic business models, each quite different, each founded on different beliefs and strategies:

   Adversarial Capitalism, ***Transactional*** Capitalism, and ***Collaborative*** Capitalism

   Each produces very different results. These three forms are ill-defined and not clearly differentiated in the minds of most business leaders, resulting in a fourth version: ***Muddled*** Capitalism.
4. **Creative Destruction**:
   Capitalism derives its fundamental power from the impact of "Creative Destruction" – the relentless replacement of the old with the new. This requires a constant upgrading of thinking, new innovation, improvement in performance, and better business models. The only sustainable capitalism of the future continually produces better results than preceding generations.
5. **Competitiveness in a Fast Moving, Complex Business Environment Requires Collaboration**:
   Our analysis shows definitively that ***Collaborative Capitalism*** is the ***only model that consistently produces superior competitive advantage***. While, fortunately, this type of capitalism is far more beneficial to the whole of society, it will not prevail because of its macro-benefits, but because it's the most competitive (most effective, efficient, sustainable, adaptable, profitable).

Please visit the Go Productivity website to download the full version of this White Paper http://GoProductivity.ca

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The Trusted to Lead Series is a set of books scheduled to begin publication in 2015

The books in the Trusted to Lead Series will include:

1. "**Three Faces of Capitalism**" addresses the larger view of the future of capitalism, the nature of creating collaborative advantage as a competitive strategy, and the economic power of trust, teamwork, and collaborative innovation.
2. "**Executive Guide to Collaborative Capitalism and the Economic and Innovative Potential of Trust**" is for CEOs and senior executives. It addresses the major issues of Collaborative Capitalism and 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.
3. "**Building a Team You Can Trust**" is for middle managers. It addresses the major issues trust, teamwork, and collaborative innovation in 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.
4. "**Economics of Trust and Value Creation**" is designed for financial analysts, risk managers, legal counsel, supply chain managers, and those seeking deeper understanding of the unique economic dynamics that manifest in the conditions of trust.
5. "**Collaborative Capitalism, Leadership and the Architecture of Trust**" 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.
6. "**Trust to Negotiate**" outlines the strategies to go "beyond win-win" for long term strategic relationships. It addresses the deficiencies in "win-win" negotiations, showing how to build trust and create lasting relationships that capitalize on the innovative power of "differential thinking."

Each book contains common "core" concepts which are fundamental in understanding and using the trust material -- including Collaborative Capitalism, 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.

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Author's Note:

My professional career has spanned many evolutions – after four years in the U.S. Navy, then to community revitalization and economic development, then as an entrepreneur and real estate developer, then to a thought leader in strategic alliances, collaborative innovation, and trust building. I'm also an amateur historian and futurist. And, as an avid sports fan, I search for the exceptional performances, the worst-to-first team transformations, and how coaches turn rookies, rejects, and renegades into a high performance team.

At each step, I was searching for something that has been so elusive for many: the design architecture for "synergy" – how to make the whole far greater than the sum of the parts. I had observed synergy in nature (the human body is just one example), and had been able to create synergistic alliances, synergistic teams, and synergistic supply chains, among many other examples.

The problem was, seldom were these synergistic systems sustainable over time. Something or someone always intervened and unwound years of careful development, sometimes in as short as thirty days.

What happened? Why did greatness turn into disaster? What were we missing, despite using the best practices I could find in my search across the globe for examples of synergy?

I have wrestled with this issue for the last decade, reading, testing ideas, writing down possible solutions, and casting away dozens of ideas and possible strategies. The more research I did, the more disappointed I became. Organizational transformation efforts faced 90% failure rates. Lean manufacturing implementations fared worse. Supply chains wallowed, mired in adversarial gamesmanship that destroyed value. Distrust destroyed our faith in business and government institutions. Every authority I consulted (and there were loads of them) reiterated the same stuff -- no new thinking, and certainly no new results.

I came to realize why *bad leadership* was constantly emerging as the culprit -- and the reason for the leadership difficulties resided *not strictly in poor individuals,* but rather very deep in the cultural fabric of our business structure -- right down to the roots of capitalism itself; it's like saying the problem lies in our "culture's DNA." Then the problem became two-fold: First, could we unraveling the complex DNA of our beliefs, strategies, systems, methods, processes, rewards and metrics about capitalism? Second: could we isolate different strains of the conflicting DNA and determine if there were distinct markers and differentiators that indicated what produced synergistic effects, what was neutral, and what was destructive.
When isolated and distilled to their purest forms, it soon became apparent there were three conflicting strains of belief systems in our capitalistic DNA that created the difficulties – these were identified as: *adversarial, transactional*, and *collaborative* -- and the fourth: *muddled beliefs* that intermingle all three into a real mish-mash of conflicting strategies, tactics, methods, and metrics. Triaging the belief systems bore instant fruit. Alas! Now we could isolate the problem, but still had to develop a workable solution.

I tried these ideas on a number of colleagues, with positive reinforcement. My colleague, George Jergeas, a preeminent Professor of Engineering at the University of Calgary immediately saw the value, quickly grasping how the three systems of thinking produced dramatically different results in the construction industry. Go Productivity (formerly Productivity Alberta) quickly supported the effort, leading to a White Paper and a strategy to transform supply chains. The response was overwhelmingly positive -- leading me to be confident that our insights and strategies would now enable industry-wide transformations to have a fighting chance in the trenches. The White Paper on the Three Faces of Capitalism progressed to a whole new level, (this document) and is now emerging as a revolutionary book about the bold bright future ahead – our mission should we choose to accept it!

Part One: Three Faces of Capitalism

How Capitalism has Evolved and
What produces the maximum Competitive Advantage

For Senior Executives, and Corporate Leaders

By Robert Porter Lynch

The Future of Capitalism at the Crossroads

For most of the 20th Century, the world was locked in an economic and intellectual battle between the power of money (capitalism) and labor (communism.) Wars and revolutions were fought over which system was better for humanity.

In 1989, communism crashed and capitalism declared victory with the fall of the Soviet Union and the evolution of the Chinese economy. Capitalism was clearly seemed to be the winner.

> Yet what was really missed in analyzing this pivot point in world history was that capitalism didn't win because of the profit motive (as Wall Street promoted); rather, capitalism won the game because of *two fundamental and inherent powers imbedded in capitalism* caused it to outperform other economic systems:
>
> 1. Creative Destruction – the old constantly replaced by new innovation
> 2. Productivity – competitiveness forcing continuous improvement to satisfy customer needs.

Capitalism, for all its faults, is better at innovation and productivity than any other system; which translates into wealth; which creates more demand; which drives more jobs.

Buried under the mantle of monolithic capitalism are several powerful and vital phenomen-on that are easily overlooked, despite their massive economic and social implications:

1. <u>Small and Medium Sized Businesses Create Most Jobs</u>: While large corporate capitalism creates the headlines, it's small business that creates the real wealth in North America, as a recent McKinsey Report states:

   Small businesses, defined as companies with fewer than 500 employees, account for almost two-thirds of all net new job creation. They also contribute disproportionately to innovation, generating 13 times as many patents, per employee, as large companies do.[1]

   These qualities have enabled the rise of a healthy middle class, a vibrant entrepreneurial system, and employees who then become consumers who drive over 70% of the economy.

2. <u>Three Distinctly Different Forms of Capitalism Exist</u> – Which Is Truly Sustainable? Inside the "Gordian Knot" of Capitalism is an entangled web of economic theories tied to a set of three distinctly different forms of capitalism which have arisen: (see Table 1)
   - *Adversarial* Capitalism
   - *Transactional* Capitalism
   - *Collaborative* Capitalism

Table 1: Spectrum of Three Competing Forms of Capitalism & Their Force Fields

	Adversarial	Transactional	Collaborative
Key Beliefs	Business a "Psychological War Game;" Winning comes from Power	Trading, Bargaining, & Differential Views on Value Produces Economic Exchange	Extreme Value is Generated when people work in teams to Push the Envelope on Performance
Behaviors	Argumentative, Money Rules, Use Age, Experience, Position or Budget to get your way, "dog eat dog"	Squeezing & Positioning enables you to get the best result in Negotiations, throw a bone to sweeten the deal.	Co-Creative, Teamwork, Trustworthiness, Highly Ethical & Honest; Maximize what's in the best interests of the whole
Rules of the Game	Pressure others; Winning is a result of Cunning & Craftiness; Hype your importance; Protect your backside; Don't Trust Others or you will get screwed; Everything is Win – Lose.	Take advantage of every opportunity, Exploit weaknesses; Timing is critical; Perception is everything; Trust but verify; Use lawyers to ensure protection; Everything is in the "deal;"	Create value & competitive advantage by using Teamwork (internally) & Alliances (externally) .Close integration between operating units, suppliers & Close attention to customers; Strive for Win-Win.
View about Risk Management and Creating "Synergy"	Synergy is an impossible dream, (don't even think about it.). Manage Risk with tough contracts & tougher legal team empowered to litigate	Synergy is derived from High Efficiency and elimination of Non-Value Added Work. Risk Management, insurance, and shedding risk will limit losses.	Synergy is a result of high levels of trust, teamwork, and alignment of goals & values. Use high trust architecture to reduce risk. The biggest risk is failure to adapt & innovate.
Time Horizon	Short Term & Quarterly Earnings	Medium Term & Quarterly Earnings	Long Term Sustainable Competitive Advantage
Value Proposition	Minimum Required to Close a Sale; Squeeze vendors in supply chain	Competitive Price, Acceptable Quality; transact through supply chains	Performance Excellence thru Value-Networks, Good Price, Speed, Innovation, & more
Framework for Negotiations	Winning is essential for me; I get more if I push, squeeze, and threaten to ensure I leave nothing on the table. I'm stronger if you're weak.	What happens to you is your business. Long term relationships are only the product of me getting what I need/want. Switch suppliers to get best deal.	A Win/Win is essential to create productive long-term relationships to mutually thrive. Use our different needs & perspectives as the source of collaborative innovation.
Competitive Advantage	Gained from Size & Money	Gained from Information & Bargaining	Gained from Value Co-Creation
Information Sharing	Horde Information – It is Power	Sell Information – It is a Source of Cash	Share Information to create more new ideas
Make, Buy, or Ally Decision	Buy the Competition to control of industry pricing; Stay Away from Alliances (can't trust anyone else)	Acquire when it's advantageous; Out-source anything that gives a cost advantage; Ally only if you control the deal.	Retain core competency, Form Alliances with Strategic Suppliers & Value Deliverers, Acquire only companies with collaborative cultures.
Trust Level	Distrust , Deception, Aggression, & Manipulation Prevalent	Caveat Emptor (buyer beware)Trust is elusive and unsustainable	Trust is essential to generating a continuous stream of new value
Employees	Employees are a liability on the Balance Sheet; Rule 1: Be tough	Employees are a commodity; Rule 1: Out-source anything but Core Competence	Employees are valuable Intellectual Capital; Rule 1: Turn employees into Innovation Engine
Ethics & the Law	Walk the Edge of Laws, forget ethics	Deregulate; Change Laws to fit our beliefs	High Ethics, Business that Customers can Trust

Each has very different beliefs, underpinnings, motives, outcomes, and advocates.

The central question is: "Which of the three forms creates *the most sustainable competitive advantage*?"

The secondary questions are: "Which of the three models is most likely to:

- be adaptable to changing competitive forces ?
- enable continuous improvement and innovation?
- fully engage its workforce?
- be most productive and reduce non-value added work?
- provide better employment security?
- be friendlier to the environment and the community in which it exists?"

The answers to these questions are fundamental to determining the future pathway of capitalism.

Conflicting Beliefs Systems & Muddled Leadership

These three themes create major the internal conflict in most organizations -- it occurs at every level -- the Executive Committee, the Senior Leadership, and the Middle Managers. To better understand and diagnosis their impact it's vital to see that while we have separated and distinguished the three key themes – *adversarial, transactional*, and *collaborative* -- in reality these three themes act as interwoven threads in the fabric of each company and its particular industry.

For example, in the construction industry, the result is often that a project, rather than running straight according to one of the competing themes, instead traps the participants in a cross-fire: the "muddle" of different philosophies, objectives, and ways of management. The end result is misalignment and fragmentation resulting in missed deadlines, budgets, and objectives. And the more complex the construction project, the worse the impact. On a large Mega-project, the concoction of *adversarial* and *transactional* strategies can cause massive over-runs costing millions of dollars a day.

One seasoned middle manager at the University of San Diego course I taught put it quite clearly:

> *At my peer level, there are a half dozen of us. The three themes are always in conflict and it makes working with all but one of my peers very difficult. Then at the level above me, the same turmoil occurs -- the senior executives are constantly mouthing mixed messages. It makes my job [as a collaborative manager] very difficult and frustrating. When I worked as a supplier in Michigan to the automotive industry, you could see these three forces in the industry. GM was definitely adversarial, Ford moved back and forth between adversarial and transactional, and Toyota/Honda were both collaborative -- but tough.*

This illustrates how so many organizations grapple in the "Muddy Muddle" where these conflicting belief systems remain undistinguished and ambiguous as leaders themselves are conflicted, mixing and matching a pastiche of models and flavors of the month. Combine this muddy muddle problem with the personalities of senior executives and the market/competitive drivers, and the result is a very interesting variety of cultures that never realize their value-creation potential.

Heroic Materialism has Cloaked the true nature of "Greedy" Capitalism

The term "heroic materialism" has become the benign moniker for what is really much more sinister evolution of the *adversarial* and *transactional* forms of capitalism.

The Greed is Good Scam

When the communist system collapsed, the record shows that Wall Street rushed in to assume the title role in the ensuing drama of "heroic materialism" – with the leading stars being people like economists Alan Greenspan and Milton Friedman, predators like Carl Icahn, and promoters such as Donald Trump.[2]

> Greenspan advocated "greed is good."[3] Friedman proposed that the purpose of a corporation was to maximize profits for its investors,[4] Icahn stripped companies of their assets, leaving shells like Trans World Airlines (TWA) in the graveyard, and Trump has become the master magician of transactional deal making. This disparity between the objectives of investors and those of business are often a major source of conflict.

The harsh realities of heroic materialism are that it deceived the public into believing it that greed and power were the stalwart defenders of the American way. It was just a more sophisticated version of Robber Baron capitalism from a century before.

The tragic outcome is that a company that tries to maximize its quarterly profit stops investing in R&D, fails to invest in its employees who deliver the value, squeezes its suppliers into oblivion[5](usually getting poor quality in return), and curtails its services to customers – all in the name of worshiping the investor. And worse, in too many cases like the collapse of Enron and Worldcomm or the scams of fraud-broker Bernie Madoff, the investors took it on the chin for a knockout.

In the endless pursuit of maximizing profits, companies shifted production to China, changing the balance of power in the world. The strategy of outsourcing everything hollowed out companies and cheapened everything, ultimately degenerating competitive advantage.

> It's this kind of thinking that caused GM to install a faulty 67¢switch that caused scores of deaths and billions of dollars in recall costs, or Ford's decision to let air out of the Firestone tires to soften the ride on its profitable Explorers instead of redesigning its suspension, resulting in hundreds of deaths and billions in legal fees.

Government in North America is cast in the role of "anti-business" because people don't trust business – so they seek the protection of government.

The solution is not to castigate government, but to shift capitalism to a more ethical collaborative model, which is good for business and good for Americans.

Only then can business possibly be a real partner with the people.

This is further aggravated by the fact that investors in publicly held companies are virtually foot-loose -- having little loyalty to any particular business.

> Because the objective of their investment is strictly to make money, investors are akin to bees gathering pollen to make honey. Just as a bee has the opportunity to flit from one flower to another, with full flexibility to enter or exit any flower at any time, so an investor has the opportunity to take as much return on investment as possible, then dump their stock in face of the slightest ambiguity, uncertainty, or stock aberration. But the management, the employees, the community, and often the customer, lacks this flexibility, having to ride out any storm and potential risk their future in trying times.

Shackling a business to the endless profit expectations of its investors ultimately enslaves the company that puts its investors ahead of its competitiveness and its customers. The needs of investors are important, but must be balanced with other corporate needs to sustain its long-term vibrancy.

Transactional Capitalism

"Transactional" Capitalism is based on an economic belief that everything is a "deal" and lowest price paid with highest return governs decision choices, such as outsourcing to China, choosing to pay legal defense costs rather than making a quality product, or closing a plant rather than incur the costs of retraining a workforce. Quick money is more valuable than long-term sustainable money. And, underlying this thinking is the belief, fomented by Ayn Rand[6] that any service of government -- other than enforcing contracts, proving police department and the military -- was worthless or perverse.[7]

Milton Friedman, the Nobel Prize winning economist from the University of Chicago supported Rand's iconoclasm with statements[8] like:

> "If you put the federal government in charge of the Sahara Desert,
> in five years there'd be a shortage of sand."
>
> "Is there some society you know that doesn't run on greed?"
>
> "I am favor of cutting taxes under any circumstances and for any excuse, for any reason, whenever it's possible."
>
> "Government has three primary functions. It should provide for military defense of the nation. It should enforce contracts between individuals. It should protect citizens from crimes against themselves or their property."

These may make great "one-liner" quotes, but they make poor civilizations and societies filled with "haves and have nots" ready for civil war and revolution. Friedman and Greenspan took a dim and highly inaccurate view of what drives and motivates human behavior. Any society that runs primarily on greed is eventually doomed to self-destruction, as the Roman Empire learned. While some humans are driven by greed, studies across the world have show, time and again, the vast majority of humans are not primarily greedy (see section on culture and behavior for more detail on the four drivers of human behavior).

Fundamentally, however, the *transactional* school has had a very narrow view of the role of business as Friedman postulated:

> "There is one and only one social responsibility of business–to use it resources and engage in activities designed to increase its profits….."

It's not that something is "wrong" with this statement[9]; it's what's *missing* from the statement that is so disturbing:

- There is no reference to "serving the customer" which produces revenues which are essential to generating the cash from which profit is derived,
- There is no support for the importance of innovation (or creative destruction) which creates the competitive advantage that enables sustained business success,
- There is no acknowledgement of vital importance of creating a sustainable business that lives in harmony with its environment.
- There is no indication that the employees of a company (who invest their time, commitment, and loyalty) are treated fairly or given any security in exchange for the full engagement of their bodies and minds.

The concept of "Agency Theory" has been another superficially benign force behind *transactional* capitalism. Agency Theory, which gained tremendous momentum in the 1990s, maintained that managers were simply "agents" acting on behalf of shareholders to run companies and take risks that would maximize shareholder returns. In concept, shareholders delegated the responsibility of to an agent who performs work on behalf of the shareholder.[10] This strategy pitted management against investors, never focusing on the inherent need of business to be competitive.

Adversarial Capitalism

While the *transactional* school of capitalism may have extolled the virtues of free markets and ethical behavior, their "greed is good" philosophy opened Pandora's Box and unleashed a horde of heroic beasts that pumped up their wealth as a virtue while they raped and pillaged like Genghis Khan marauding across Europe and Asian. Their names are indelibly imprinted on our collective conscience: Al "Chainsaw" Dunlap (Sunbeam & Scott Paper), Bernie Ebbers (Worldcomm), Ken Lay (Enron), Ivan Boesky (Insider Trading Scandal), Bernie Madoff (Broker Fraud), Carl Icahn (Takeover Artist), and a host of others who have made money and power synonymous, while leaving a wake of destroyed or hollowed out companies, often followed by encounters with public prosecutors.

The *adversarial* capitalists consider winning at all costs, ethics be damned. They skirt the edge of the law, relying on an army of lawyers to keep them out of jail. Sometimes they push the edge of the law too tightly and are actually sent to jail – but a better strategy is simply to change the law.[11]

The *adversarial* capitalist's biggest obstacle is that humans are an integral part of their functioning. *Adversarial* economic negotiations are typically driven by win-lose bargaining. While logical in theory, win-lose is irrational in human interaction, driving those people on the losing end of the deal to get even, to form unions, to file grievances (or worse: sabotage), withhold information, fail to cooperate, and hunker down in silos, all the while adding layers of non-value added work, (or even value destruction) to the equation. *Adversarial* economics generate significant after-shocks which manifest as law suits, high employee turnover, customer churn, stock-outs, and projects that consistently run over-time and over-budget. In the banking industry, many assert it caused innumerable collapses as the fear-greed cycle created unsustainable levels of uncertainty and distrust.

In many parts of the world, particularly under-developed nations where bribery is the norm and free markets are a delusion, adversarial economics, corruption, and robber-baron capitalism operate hand-in-hand, stealing from fair allocation of rewards to the workforce and undermining faith in the economy.

What's the alternative?

For capitalism to prosper and thrive into 21st century, a new form of capitalism must take center stage – something clearly superior to the *transactional* and *adversarial* models which are laden with inner conflicts of interest and fraught with extraneous, unproductive baggage.

Criteria for the New Capitalism

In the search for the new capitalism, we must evolve a system that meets six essential criteria:

- <u>Competitiveness</u>:

  Competitive advantage is the most critical aspect of any business. Competitiveness means the company produces superior value in the eyes of the customer compared to its rivals. Competitiveness today cannot be measured strictly by the resourcefulness of one company alone; competitiveness requires the production of a full value chain, starting several layers back in the supply system, and extending to joint delivery partners and close customer working relationships. For example, Toyota is more competitive because it's entire value chain, starting many layers back in its supply chain, and extending to its dealer/service network is collectively more competitive. This requires the ability to build trustworthy organizations internally and strategic alliances externally throughout the value chain.

- <u>Innovation/Adaptability</u>:

  The business world is rapidly changing and fast moving. The idea "innovate or die" is the core of long term corporate sustainability. Innovation is not the responsibility of just one company; each company at every level of the value creation chain must produce improvements, from the supply chain, through the company, and into the delivery system. Today, because of the nature of complexity, integration and collaboration is essential in the development and delivery of innovation. This the *flow* of innovation through the value chain is an essential factor in thriving in a world of creative destruction.

- Productivity:

  In a global market, continuous productivity improvement is the foundation of both competitiveness and profitability. Most organizations are filled with large amounts of Non-Value Added (NVA)[12] work that result from years of distrust, silo mentality, poor communications, and transactional handoffs. The productive organization focuses not working harder, but working smarter, using the intellectual capital of its employees and alliance partners to streamline output.

- Profitability:

  Earning a profit is one of the hallmarks of a successful business. Profitable performance provides maximum flexibility for allocation of the profits – to investors, to management, to employees, or reinvestment back into the business. For long-term sustainability, profitability must come not from quick-fix cost cutting, but from elimination of NVA, productivity improvements, and innovation.

- Employee Engagement:

  Today most employees are not fully engaged in their work and expect to migrate from one job to the next on a regular basis. Not only does this produce poor productivity, but also high levels of employee turnover. Fully engaged employees work in a high-trust, high-teamwork environment where they find meaning and purpose in their work.

- Environmentally/Socially Responsible:

  The new future of capitalism cannot be exploitive of labor, pollute the environment, or undermine the community in which it lives. Rather, the future of capitalism must have a "soul," a conscience, both a heartfelt and ethical connection to people and the world in which we live.

In the next section we will explore how to create the new capitalism of the future.

Government Regulation and Policing is the price good business pays for allowing unethical business practices to be perpetrated by scoundrels.

Part Two: Collaborative Capitalism

How Collaborative Capitalism Produces such Extraordinary Results

How to Gain Massive Competitive Advantage

By Robert Porter Lynch

Collaborative Capitalism – The Solution & Antidote

While there have been serious problems in the evolution of capitalism with predominance of the *adversarial* and *transactional* models, there has always been the existence of a counter-balance – Collaborative Capitalism (see Table 1: Spectrum of Three Competing Forms of Capitalism & Their Force Fields)

Collaborative capitalism sees that the *purpose of a business is to produce goods and services competitively, ethically, and sustainably at a profit.* Business is made up of key stakeholders, which include investors, customers, suppliers, employees, and the community in which it resides. It is the responsibility of management to balance and align these stakeholder interests to ensure that each receives a fair return on their stakeholder interest.

The companies that adhere to *collaborative* economic principles see that the foundation of a business is built on sound ethical principles, an adherence to trustworthy behavior, and a deep understanding of the needs and requirements of its stakeholders.

There are numerous advocates and champions of the *collaborative* model of capitalism. Many of these have successfully transformed their companies and created extreme wealth in the process. For example:

Lou Gerstner resurrected IBM based on the principles of teamwork and collaboration:

- A lot of people saved IBM. Yes, I was the leader of that team, but I could never have done it without a group of IBMers helping me.
- Reorganization to me is shuffling boxes, moving boxes around. Transformation means that you're really fundamentally changing the way the organization thinks, the way it responds, the way it leads.
- No computer can replace the human spark of spirit, compassion, love, and understanding.
- The thing I have learned at IBM is that Culture is Everything.

Collaborative Innovation: Power of Intellectual Capital

Capital can be thought as money, but the 21st century will redefine/refine the meaning of capital to include both *financial* and *intellectual* capital.

> It is the latter – intellectual capital – that actually has more power than financial capital in the long run. Moreover financial capital has limited availability.
>
> If we define intellectual capital as more than knowledge, but larger: the CREATIVE potential of the human mind, and the COLLABORATIVE capability of humans to work and innovate together, then we have what is both a powerful and limitless source of capital. (Ideas are the free fuel of the innovation engine.)

Gordon Bethune took a bankruptcy ridden Continental Airlines that had floundered in *adversarial* capitalism, turning it around in just a year and a half. He believed:

- The airline business is the biggest team sport in the world. When you're all consumed with fighting among yourselves, your opponents can run over you every day.
- You don't lie to your own doctor. You don't lie to your own attorney, and you don't lie to your employees.

- No one is going to stick their head out of the trenches for someone they don't respect or trust. We believe that employees should always be treated with dignity and respect.
- It's the old adage: You can make a pizza so cheap, nobody will eat it. You can make an airline so cheap, nobody will fly it.

Jack Stack, the renowned rescuer of the defunct International Harvester diesel remanufacturing plant in Springfield Missouri and the inventor of the Great Game of Business is also a collaborative capitalist:

- "It's about engaging hearts and minds."
- "With every pair of hands you get a free brain."
- "It's all about motivation -- giving people purpose"
- "Teach People what it takes to run a successful business -- the more people know about a company, the better it will perform."
- "There is no more powerful tool a manager can have than a good bonus program."

Southwest Airlines, the most successful business in its industry sector (which has been fraught with a succession of bankruptcies) has run profitably for forty years. The founder, Herb Kelleher is a firm advocate of *collaborative* capitalism:

- "If the employees come first, then they're happy…. A motivated employee treats the customer well. The customer is happy so they keep coming back, which pleases the shareholders."
- "A company is stronger if it is bound by love rather than by fear."
- "We will hire someone with less experience, less education, and less expertise, than someone who has more of those things and has a rotten attitude."
- "Humility breeds open-mindedness"

Which Model of Capitalism is the Winner?

The fundamental question we asked earlier was:

"Which form of capitalism consistently can produce sustainable competitive advantage?"

The evidence is in: the winner is *collaborative* capitalism.

The bonus: it is also customer friendly, highly adaptable to change, engages it employees more successfully, and produces greater wealth for all the stake holders.

Why can we declare a clear winner? *See Part Three for the overwhelming factual evidence that demonstrates how Collaborative Capitalism produces Competitive Advantage.*

Collaborative Capitalism is the Future of Capitalism.

Best in Class Examples of Collaborative Capitalism

If collaborative capitalism is the future of capitalism, what models exist that could create the foundation of a new breed of business?

Does such a "super hybrid" collaborative business system exist?

In my forty years studying and building high performance organizations, there are two over-riding conclusions:

1. High Performance organizations start with highly *collaborative* strategies for engaging all parts of their value chain – internal and external. Their competitiveness against external rivals is derived from the cooperativeness within the value chain.

2. High Performance organizations that sustain their advantage over the long term place great value on their people. In particular, they emphasize *trust, collaborative innovation, and teamwork,* always pushing the envelope with new ways to work together to produce more value for their customers, their company, and their alliance partners. Let's examine these three factors: (see Figure 1)

    - **Trust** is the essential *behavioral foundation* of all collaborative enterprise. Without trust, collaborative strategies, collaborative innovation, and collaborative execution (teamwork) is difficult, if not impossible.

    - **Collaborative Innovation** is the source code for all companies that must exist in highly competitive environments where the onslaught of capitalism's creative destruction prevails. Collaborative Innovation enables companies to be regenerative – to transcend their past and reinvent their futures. Collaboration is necessary to unleash the collective creative potential of people. Collaboration occurs on a foundation of trust.

    - **Teamwork** is the coordinated effort through which high performance organizations deliver their value. Without teamwork, value can only be transactional at best. Most think of teamwork as primarily an *internal* function; this is an over-simplification. Teamwork is just as important *externally* with suppliers, delivery partners, and customers – external teamwork is called *strategic alliances.*

There is nothing like this taught in business school MBA programs. However, the good news is that there are significant "parts" of such a business system that have been developed, tested, and are highly successful that produce very powerful results.

Figure 1: Factors for High Performance

The energizing powers of trust, collaborative innovation, and teamwork are the source for this poignant admonition:

It's far better to invest in a company with a Grade A Management Team and a Grade B Strategy, than the reverse. – Pete Wickersham, Venture Capitalist Advisor

The Grade A Management Team will execute better, rise in the face of adversity, and create trust under pressure.

Poor Management Teams will engage in the blame game, make excuses, avoid the problem, and find fault when the heat is on.

Great Game of Business – Making Every Employee an Entrepreneur:

In my world-wide search for a "system" for *collaborative* capitalism that can be an effective foundation for new collaborative businesses and reliably transform existing mixed-model businesses (those that run on a somewhat dysfunctional combination of *adversarial*, *transactional*, and *collaborative* thinking), we are granted a wonderful gift from Jack Stack.

> As an off-shoot of his own business transformation of the defunct International Harvester plant in 1984 he created, then spun off the *Great Game of Business* as a method of transforming existing companies into a systematic, fully integrated, high performance *collaborative* business model.
>
> The Great Game of Business system has had a full generation of testing, refinement, implementation and evaluation, and has continued to produce excellent results in all the dimensions of successful and sustainable business in virtually every industry.
>
> It can be used as a foundational core system of organizational transformation for the future of capitalism.

What makes the Great Game of Business a "Foundational System"

First it's important to differentiate a "system' from a "methodology."

- A "methodology" is usually a set of processes or practices that is used to create some operational improvement. If the methodology fits well within the system's culture, the methodology will be accepted; if it doesn't get the support of the culture, it will be rejected as a foreign body. This is why so many initiatives become "flavors of the month;" someone tries to insert a methodology into an unsupportive culture that triggers an "immunal rejection response."[13]
- A "system" is a complete, integrated, and aligned set of *beliefs, strategies, methods, practices, tools, metrics, interpersonal trust and teambuilding, key performance indicators* (KPIs), *assessment analytics,* and *culture* that touch all elements of an organization (the system).

> One major point is worth noting: virtually every leader in charge of a company with a *collaborative* approach to their business identifies *culture* as a leading determinate of operational success. Not coincidently, this emphasis on *culture* is just as notably lacking in the pronouncements of leaders from the *adversarial* and *transactional* schools of thinking. (see later section on *Culture as a Force Field* to better understand the importance of this factor.)

Transforming organizations is a highly complex task. Most transformational efforts fail, as the statistics in Figure 5 illustrate. However, the Great Game of Business' transformational success rates are into the 90% range. Why? Because GGOB is a "systematic" approach, which affects every dimension of the organization's DNA, making the transformation more thorough and complete.

TRUSTED TO LEAD© SERIES

Part Three: Economics of Trust

Insights into how Collaboration in Value Chains Reduces Value Destruction and Eliminates Non-Value Added Work

How Collaboration provides the Innnovation necessary to maintain the competitive edge required to respond to the relentless drive of Creative Destruction

By Robert Porter Lynch

A Breakthrough in Understanding Business Success

Why should you read this White Paper?

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?

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

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 section of the White Paper, 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, 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.[*]

Section 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.[14] The cause: like the inevitability of the four seasons, the relentless and merciless force of *creative destruction of capitalism.*[15] 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 White PaperCEO 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.[16]
- 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,[17] 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."[18] (see Figure 2)

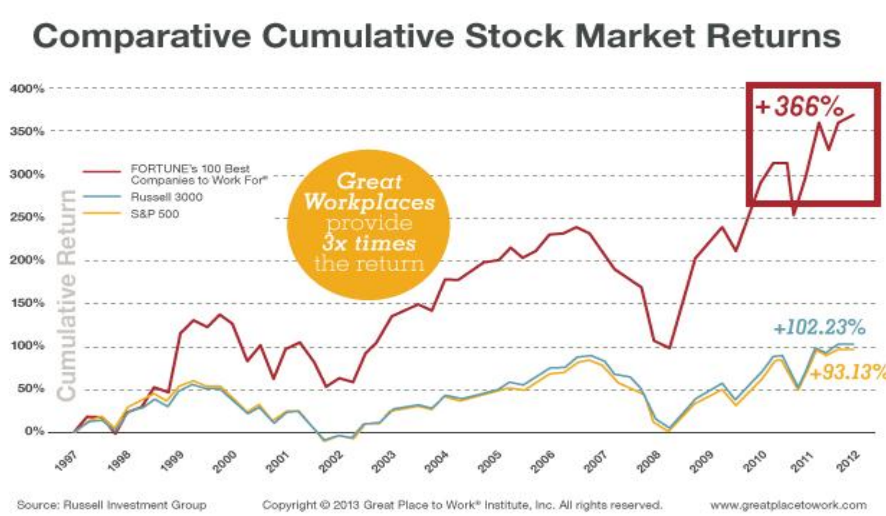


Figure 2: High Trust Companies Outperform the Market

- *Forbes* and GMI Ratings have produced the "Most Trustworthy Companies" list for the past six years.[19] They concluded Trustworthy Companies:

- have a lower cost of capital
- outperform their peers over the long run
- have minimized their risk of negative events[20]

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[21]: 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.[22] 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[23,] 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

Construction Industry: Several analyses of the construction industry, including those conducted by the Construction Institute of America, the Schulich School of Engineering at the University of Alberta, and Productivity Alberta concluded emphatically that collaborative modes of construction produced enormous competitive advantage over transactional and adversarial forms of construction. And the larger and more complex the project, the greater the disparity in competitive advantage.

The study of ninety construction projects by Professor of Engineering, George Jergeas at the University of Calgary demonstrated the value of collaboration, as evidenced by the table below:

These estimates are supported by other research at the Construction Industry Institute at the University of Texas at Austin. Their research team examined those companies that were truly committed to a "partnering" relationship in construction projects. These "best in class" companies had a profound competitive advantage, as evidenced in Table 3: Collaborative Construction – Best-In-Class Results.

Cost	
Area	Results
Total Project Cost (TPC)	10% reduction
Construction Administration	24% reduction
Marketing	50% reduction
Engineering	$10/hr reduction
Value Engineering	337% increase
Claims (%TPC)	87% reduction
Profitability	25% increase

Table 3: Collaborative Construction – Best-In-Class Results

Table 2: Typical Success Rates	**ADVERSARIAL Construction**	**TRANSACTIONAL Construction**	**COLLABORATIVE Construction**
% chance of being delivered On-Time, On-Budget	**Under 10%**	**20-30%**	**80-100%**

Table 3: Collaborative Construction Results (continued)

Safety	
Area	Results
Hours without lost time accident	4 million vs. 48,000 industry standard
Lost Work Days	0 vs 6.8 industry standard
Number of Doctor Cases	74% Reduction
Safety Rating	Top 5% of National Average
Schedule	
Area	Results
Overall Project	20% reduction
Schedule Changes	48% reduction
Schedule Compliance	Increased from 85% to 100%
Employee Morale	
Area	Results
Employee Job Satisfaction	30% Increase
Claims	
Area	Results
Number of Claims	83% Reduction
Projects with Claims	68% Reduction
Quality	
Area	Results
Rework	50% Reduction
Change Orders	80% Reduction

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,[24] Deutsche Bank,[25] Colonial First State Global Asset Management,[26] Global Alliance for Banking on Values,[27] and Towers Watson Wyatt.[28] These studies are bolstered by numerous other analyses from respected sources such as the American Association of Individual Investors,[29] the Dutch University of Maastricht and Erasmus University,[30] INSEAD in France, and Harvard Business Review.[31]

Creating Value Starts with Commitment to the Values of Integrity & Fair Play

Gaining competitive advantage through collaborative relationship must start with senior leadership making a powerful commitment to building trust. Devon Energy 's Director of Supply Chain, Steve Bass, comments on their highly successful Oil Sands Construction initiative:

Our philosophy is a "value delivery model" – it looks at total value with suppliers working together as a team, not just low cost. Productive supplier relationships are essential for value delivery to work.

Our Corporate Values are central to our supply chain; this means having integrity, being open, forthright and honest with our suppliers, and being committed to our mission and purpose – to have passion in improving our business and building trust with our suppliers.

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).[32] 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 3)

Figure 3: 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.

Section 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.[33] 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.[34]

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%.[35] 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."[36]

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 time people interact, the level of trust will impact the way people produce work.

Economic Impact of Trust on Organizational Functioning

To assess the impact of trust (and distrust) on how trust impacted the way companies operate, the Warren Company asked over 2800 participants attending its trust workshops[37] to gauge trust against seventeen different organizational functions:

Speed	Innovation	Productivity	Joint Planning	Problem Solving	Risk Management
Time Wasters	Redundancy	Integration	Labor Relations	Coordination	Human Energy
Forecasting	Procurement	Shared Resources	Strategic Alignment	Early Warning Systems	

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.[38]

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."[39]
>
> “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 ” [40]

Bottom Line: Within six months, Bethune’s strategy was showing positive performance;[41] 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 [42]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.”[43] 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.[44]

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."[45]
>
> Was this a fluke? Meyers uses teamwork and trust to produce rapid results regularly.[46]

Bottom Line: A large body of evidence[47] 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.[48] 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,[49] 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,[50] 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,[51] 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[52] 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)[53]
- the greater the levels of cultural tolerance and sensitivity,[54]
- 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,[55] 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,[56] 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 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.

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

> ***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[57]

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[58] 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.[59] 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[60] designed a realistic simulation[61] 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'[62] 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,[63] 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[64] finds 71% of U.S. workers as either not engaged or actively disengaged.
- The price tag of disengagement is $350 billion a year[65]. 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.[66]

Kimmel and Green go on to ask: *What does disengagement have to do with trust?* Everything. In a Deloitte ethics and workplace survey[67], 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[68] 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[69] 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[70] 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*,[71] 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[72] 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[73]…… 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.[74]"

Southwest Airlines, Proctor and Gamble, and Publix Grocery are sterling examples with sustained, excellent financial performance that employ ESOP's and profit-sharing practices.[75] 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. [76]They thrive on trust, which enables them be more adaptable, flexible, and innovative.

Bottom Line: Sharing rewards (equity or profit) with employees increases trust.[77]

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.* [78]

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

Part Four: Human Behavior and Culture

The Human Behavioral Underpinnings of Collaborative Advantage and the Role of Leadership in Performance

Insights into how Collaboration in Value Chains eliminates Non-Value Added Work and Contributes to the Innnovation necessary to maintain the competitive edge required to respond to the relentless drive of Creative Destruction

By Robert Porter Lynch

Aligning the Organizational Force Fields

Most Organizational Transformation efforts fail or fall far short of their objectives; most Lean Management Initiatives fail; and most Innovation programs flounder. Why?

The Hidden Forces in Organizations

Over again leaders of *collaborative* organizations emphasize the critical importance of "culture." Yet these advocates are far less articulate when it comes to being lucid about how and why culture is so important. In this section we will expand this understanding, moving from an intuitive sense to substantive clarity.

Culture is somewhat a mystery because a cluster of *hidden forces* are almost always at play -- invisible and thus seldom ever acknowledged – but they are the *first cause of failure or success* when any leader tries to improve an organization's performance or change its direction.

> These forces are potent and ever-present. As an analogy: the earth is powerfully influenced by *gravitational*, *electro-magnetic*, and *atomic-nuclear forces*; all three are invisible; they cause systems on earth to act in very specific ways; their impact, though invisible, is indelible.

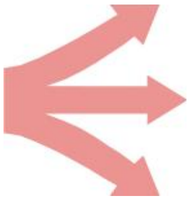
Similarly, underlying and imbedded within all organizations are hidden forces driven by a set of *belief systems* supported by *inherent values, symbols,* and *behaviors.* These reflect leadership's ideas about survival, human interaction, and how to operate effectively without losing your job, your position/status, and your perceived importance in the organization. These organic, interconnected beliefs, behaviors, rewards, passed on knowledge, and norms form the basis of what's known as an organization's "culture.[79]"

> The *beliefs, values, symbols* and *behaviors* are so powerful in *driving direction* and *critical decisions* that they influence every aspect of the *destiny* of the organization. Thus, because they determine *destiny* and *direction*, they are *strategic* in nature.
>
> Many cultural forces are *invisible*, thus they tend to be *implicit* and somewhat *covert*. But like magnetic or gravitational forces, they are a *powerful force field.*
>
> Organizational systems (all the working components of an organization) are held together by a *coherent* force field (or broken apart by *conflicting* force fields).
>
> If there are *multiple* strategic force fields conflicting or colliding within the system (i.e. organization), turmoil results. (Again using the physical analogy: gravitational force pulls objects downward; but this can be counteracted by an electro-magnetic force (such as an electric motor) which can pull that object upward, which in turn could then be blown apart by a nuclear explosion.)

The cultural force field impacts behavior more powerfully than one's personality

Three Types of Strategic "Force Fields"

For the sake of simplicity[80] this article will distinguish and categorize three basic types of strategic force fields that are typically found in the game of business (or government or sports). (Simplicity at this point makes it a lot easier to lay out key steps that enable a leader to alter and align beliefs and behaviors to substantially improve productivity, performance, teamwork, and innovation, while also weeding out counter-productive influences in the force field.) Three basic strategic force field options emerge; each has its place, pitfalls, strengths, advantages, and liabilities. (see Table 4: Spectrum of Three Force Fields)



Collaborative Systems
Working together, sharing ideas, fast innovation
Transactional Systems[81]
Bargaining, trading, price-driven exchange
Adversarial Systems
Positioning to fight, Win-lose gaming, protection and conflict

Not all strategic force fields are created equal; different force fields produce totally different results.

Because virtually no one makes the distinction between these three *strategic force fields*, thousands of journalists, academics, and leaders grab a chunk of *adversarial* systems thinking, mix it with a smattering of *transactional* processes, and then counter-balance things with an eloquent dose of *collaborative* philosophy and admonitions. This creates a guidance system concocted of incompatible strategies, processes, and misaligned priorities resulting in a "muddy" organization that darts left, right, up, down, and all around searching for a "magic" solution to its problems.

For example, General Motors was peppered with this muddy amalgam for years, treating its suppliers and unions with *adversarial*, power-based threats, making buying and selling decisions *transactionally* to get the lowest price (paying a few cents less for an ignition switch that cost billions of dollars in recalls), and admonishing its workforce to work together *cooperatively* to produce innovation and lean work processes. The three different strategic systems negated each other, like a set of grinding gears driven in contradictory directions. The NUMMI Case study illustrates a "muddy" versus "clean" approach.

Great Leaders are "architects" who design, mold, shape, and align their organization's strategic force field (culture) into a high performance collaborative engine.

NUMMI Case Study: GM & the Union from Hell

Why Do People Behave Badly?

All of us can recall situations where we've been in the presence of someone who just drove us crazy, bringing out all of our worst qualities. And we've all experienced the converse. Why can some people draw forth our ugliest most vile character and others bring forth the divine? Are our identities so ill-defined that different people can manifest radically different responses?

After twenty frustrating years, in 1982, General Motors threw in the towel on its plant in Fremont, California. A new sense of reality hit senior executives after GM, Ford, Chrysler lost $5.5 billion to overseas competitors in 1980-81. The Japanese, led by Toyota and Honda, were making better cars at lower prices. GM was convinced that the plant, looming like a "big battleship" of three million square feet, had become simply a battleground for labor and management to tussle and squabble daily. Each focused on dominating and attacking the other. (Their drives to *Acquire* and *Defend* were in overdrive.)

GM blamed the union for all the problems, after all it was the union that was instigating all the turmoil, and protecting the jobs of "hippies, drug-addicts, and scoundrels." The absenteeism was so high (often over 30%) that frequently the production line couldn't even be started. 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. Even worse, many cars were sabotaged as workers put ball bearings in frames and coke bottles in doors, knowing it would drive customers and dealers crazy. Distrust ran so high that the labor contract was wielded as a weapon crammed with over 400 pages of legal doublespeak as each side tried futilely to protect their interests. There was a backlog of over 5000 grievances. Thousands of Fremont workers received pink slips as GM tried to cut its losses.

Toyota approached GM in 1984 with an offer to establish a Joint Venture in the United States to reopen and manage the Freemont plant. Toyota offered to up-grade the manufacturing line, and take back most of Fremont former employees along with their labor union, but only a handful of the GM management. GM saw the alliance as an opportunity to learn the Toyota Lean Management System and accepted the offer.

A Remarkable Transformation

Toyota rehired 85% of the Fremont hourly union workforce, empowering workers to use their creative talents to improve daily plant operations. Security was assured with a no layoff policy along with a fifteen page labor contract. Instead of hundreds of job classifications designed to protect jobs, the new contract called for only four. Toyota spent $3 million train 450 new group and team leaders in Toyota's production system, which was based on continuous improvements and trust in the workforce. Team members were trained in joint problem solving and quality practices to become experts in their respective operations.

Collaborative innovation was the focal point, as employees' roles expanded to enable their participation in work-related decisions. Ideas for improvement were quickly implemented by team members, with successful solutions becoming standardized. Cooperation and creativity replaced coercion and conflict.

Compete Externally, Collaborate Internally

By the time the facility was fully operational, quality defects and dropped to only one per vehicle, which were assembled in just half the time, and absenteeism plummeted to only 3%. Workforce satisfaction soared.

By engaging teams in problem solving, Toyota unleashed the energy of collaborative innovation. New ideas and problem solving took off like a rocket with over 90% of employees engaged in the improvement program. Nearly 10,000 ideas were implemented at the outset, and the flow of ideas continued on.

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.

Why could the same people, the same union, and the same equipment produce such a radically different result in under two years?

By focusing on aligning the entire organization within a *collaborative force field,* bringing people together and letting them innovate in teams, both Toyota and the labor union became more secure and each profited enormously, both financially and personal well-being.

However, even though the handful of GM managers trained at NUMMI learned Toyota's production system, GM was still unable to implement it successfully in the rest of their U.S. operations. Why? Because the "invisible" part of the Toyota system was about trust and collaboration, which GM management was unable to replicate because its management culture was unsupportive, filled with conflicting force fields.[82]

The NUMMI example shows how great teamwork is based on all human energy flowing in a single, unified, aligned, and integrated collaborative direction. This is the leader's most important task --- aligning the force field: building trust, creating teams, building bridges across functional boundaries, generating innovation, and achieving high performance.

NUMMI shows how two different cultures can draw forth completely contradictory behavior from the same work force.

Each of the three force fields(see Table 4 below) – *adversarial, transactional*, and *collaborative* – has a set of advantages and disadvantages, and a right time and place for using them. An adroit leader knows how to mix them together appropriately – but only if they are overt, appropriately positioned, and skillfully implemented.

For example, in dealing with highly *unethical* people, an *adversarial* approach may be appropriate. A business model like eBay or Amazon or the Stock Exchange benefits from an efficient *transactional* system. But dealing in a prolonged adversarial manner with a critical union relationship will ultimately end in a *lose-lose* for both parties; a *collaborative* engagement will ultimately turn far better results.

The Four Drives of Human Behavior

The NUMMI Case presents a dramatic example of how different force fields (cultures) can draw out totally different behaviors from the same human beings. How can this be? How does this happen?

Let's go back to the analogy in the physical world where there are gravitational, electro-magnetic, and atomic forces. Each of these forces has a set of pivotal elements and laws that determine how something responds to the force field. For example, in the gravitational force field, force is a factor of mass and velocity, governed by Newtonian laws. Similarly, the electro-magnetic force field is determined (in simple terms) of the power of the charge (voltage), distance, rotation/changing fields, and current flow.

Shifting the perspective back to human beings, based on extensive research into the neurological process of the human brain, along with the best evidence from psychology, sociology, and anthropology, we can conclude that while our brains are the most complex mechanisms on the planet, there are some basic circuits that control/drive our behavior, and different parts of the brain are assigned responsibilities for performing these functions.

Table 4: Spectrum of Three Force Fields (reproduced for convenience)

	Adversarial	Transactional	Collaborative
Key Beliefs	Business a "Psychological War Game;" Winning comes from Power	Trading, Bargaining, & Differential Views on Value Produces Economic Exchange	Extreme Value is Generated when people work in teams to Push the Envelope on Performance
Behaviors	Argumentative, Money Rules, Use Age, Experience, Position or Budget to get your way, "dog eat dog"	Squeezing & Positioning enables you to get the best result in Negotiations, throw a bone to sweeten the deal.	Co-Creative, Teamwork, Trustworthiness, Highly Ethical & Honest; Maximize what's in the best interests of the whole
Rules of the Game	Pressure others; Winning is a result of Cunning & Craftiness; Hype your importance; Protect your backside; Don't Trust Others or you will get screwed; Everything is Win – Lose.	Take advantage of every opportunity, Exploit weaknesses; Timing is critical; Perception is everything; Trust but verify; Use lawyers to ensure protection; Everything is in the "deal;"	Create value & competitive advantage by using Teamwork (internally) & Alliances (externally) .Close integration between operating units, suppliers & Close attention to customers; Strive for Win-Win.
View about Risk Management and Creating "Synergy"	Synergy is an impossible dream, (don't even think about it.). Manage Risk with tough contracts & tougher legal team empowered to litigate	Synergy is derived from High Efficiency and elimination of Non-Value Added Work. Risk Management, insurance, and shedding risk will limit losses.	Synergy is a result of high levels of trust, teamwork, and alignment of goals & values. Use high trust architecture to reduce risk. The biggest risk is failure to adapt & innovate.
Time Horizon	Short Term & Quarterly Earnings	Medium Term & Quarterly Earnings	Long Term Sustainable Competitive Advantage
Value Proposition	Minimum Required to Close a Sale; Squeeze vendors in supply chain	Competitive Price, Acceptable Quality; transact through supply chains	Performance Excellence thru Value-Networks, Good Price, Speed, Innovation, & more
Framework for Negotiations	Winning is essential for me; I get more if I push, squeeze, and threaten to ensure I leave nothing on the table. I'm stronger if you're weak.	What happens to you is your business. Long term relationships are only the product of me getting what I need/want. Switch suppliers to get best deal.	A Win/Win is essential to create productive long-term relationships to mutually thrive. Use our different needs & perspectives as the source of collaborative innovation.
Competitive Advantage	Gained from Size & Money	Gained from Information & Bargaining	Gained from Value Co-Creation
Information Sharing	Horde Information – It is Power	Sell Information – It is a Source of Cash	Share Information to create more new ideas
Make, Buy, or Ally Decision	Buy the Competition to control of industry pricing; Stay Away from Alliances (can't trust anyone else)	Acquire when it's advantageous; Out-source anything that gives a cost advantage; Ally only if you control the deal.	Retain core competency, Form Alliances with Strategic Suppliers & Value Deliverers, Acquire only companies with collaborative cultures.
Trust Level	Distrust , Deception, Aggression, & Manipulation Prevalent	Caveat Emptor (buyer beware)Trust is elusive and unsustainable	Trust is essential to generating a continuous stream of new value
Employees	Employees are a liability on the Balance Sheet; Rule 1: Be tough	Employees are a commodity; Rule 1: Out-source anything but Core Competence	Employees are valuable Intellectual Capital; Rule 1: Turn employees into Innovation Engine
Ethics & the Law	Walk the Edge of Laws, forget ethics	Deregulate; Change Laws to fit our beliefs	High Ethics, Business that Customers can Trust

Nearly every individual on the planet is imbued with four innate "drives" [see Figure 4] (these are the most important drives). These for the sake of simplicity have been arrayed in the form of a set of "vectors." The four drives are easy to remember: A, B, C, & D.

Figure 4: Four Principle Drives of Human Behavior

Each individual has their own distinctive blend of these four drives and typically manifests them in a manner that reflects their unique culture and personal experiences in life. These drives must be reasonably satisfied and are independent of one another in the sense that fulfilling one does not contribute to the fulfillment of the others.

1) Drive to ***Acquire*** – this is the goal-seeking instinct, which includes seeking food, shelter, reproduction, pleasure, status, and control over one's environment. Attached to this drive are certain very *basic emotions* such as *desire, greed*, and *lust*.
2) Drive to ***Defend*** – the safety and protection instinct, defending ourselves from threats and aggressors, and assessing risks. Attached to this basic drive is the basic emotion of *fear*, and its derivatives such as *anger* and *vindictiveness*.

These two basic brain functions together are often termed "self-interest" or "self-preservation," and mostly use evolutionarily-old brain regions that humans share with fish and reptiles. When a leader triggers these two drives excessively, they become the primary drives of behavior – survival, anger, retribution, and revenge become paramount, while the trust circuitry in the brain is severely inhibited.

In the NUMMI Case, when GM ran the plant, management created a *force field* (culture) that consistently triggered the drives to ***Acquire*** and ***Defend*** in the workforce, resulting in the aggression, vindictiveness, reprisals, walkouts, and strikes.

Teams and alliances formed between groups whose culture is primarily based on the Acquire and Defend drives will inevitably be more distrusting – they lack the collaborative spirit.

However, there are two more drives that come into play. 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 yearning to live and work in groups, such as teams or herds.[83] This "communal instinct" 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." Scientific studies have clearly demonstrated that this drive must be reinforced if trust is to be present. Associated with this drive are some of emotions exhibited by humans and a few higher mammals –*love, empathy, caring, happiness, playfulness, loyalty, honor* and *gratitude*, to name a few

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).

By focusing on the *collaborative values, operating principles, trust systems, teamwork rewards*, and *measures* that influence the drive to *Bond*, a leader can begin to turn the tide and build a collaborative system

Humans also have high-order cognitive capacities:

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. We see the drive to *Create* manifesting in children at a very early age; people are just naturally innovative. Attached to this drive are emotions we often call *spiritual* such as *inspiration*, *wonder*, and *awe*. It embraces the power of learning and the quest for knowledge.

   This cognitive capacity to *Create* enables us to weigh, balance, and align the drives to *Acquire*, *Bond*, and *Defend.*

   It is this very human drive to *Create* that every leader seeking *innovation* needs to support and catalyze along with the *collaborative* drive to *Bond*. In tandem, these two drives give people a deeper sense of meaning and purpose.[84] This gives leaders a "win-win" way to stimulate innovation: it benefits both the individual and the group.

Leaders can influence behavior if they understand what drives it.

While the four drives operate interactively, each must still be satisfied in some reasonable proportion, otherwise people feel unfulfilled and empty. And if people feel unfulfilled, they will seek fulfillment of the drive that's lacking in some other way, even if it's a perverse application.

Designing Force Field Interaction with the Four Drives of Human Behavior

Recall that virtually all definitions of leadership call for the *influence of behavior*.

That influence can be exerted
- *adversarially* with fear and threats,
- *transactionally* with bargaining and efficiency, or
- *collaboratively* with teamwork, trust, and innovation.

The leader's task is to *design* the most effective cultural force field to bring out the best performance in the organization. A leader's every action either reinforces, suppresses, balances, or aligns the four drives with rewards and punishments. That's why the same individual may behave quite differently in different organizations, or why changing top leaders (or sports coaches) can produce radically different results within the same group of people.

In the NUMMI Case, under GM's leadership, the *force field* caused the ***Acquire*** and ***Defend*** drives to to become predominant, while the drives to ***Bond*** and ***Create*** became subordinate (but not dormant), showing up in the formation of a tight-knit group called a "union" and imaginative techniques sabotage.

Too often the idea of "competition" confused with "adversarial." Collaboration is a highly effective competitive strategy – just observe winning sports teams.

Toyota dynamically altered the force field, instilling a high *Bond* and *Create* culture in the plant based on

> trust, teamwork and innovation. In turn, the work force's drives to *Acquire* and *Defend* became *supportive* drives, manifesting as goal setting, quality control, and safety on the job. Toyota was careful to change the rewards, measures of success, and training programs to reinforce the new force field.

While personality and environment certainly do have an influence on behavior, probably fully two-thirds of all human behavior is more powerfully influenced by the *interaction* of the four drives of human behavior with the cultural force-field.[85]

> ***Understanding the behavioral foundation of collaboration is essential to enable a leader to capitalize on latent human potential which will trigger extraordinary human performance, innovation, productivity, and ultimately the wealth and profitability that results.***

Part Five: Leadership & Transformation

How Leadership is Essential to Creating the Aligned Collaborative Enterprise

How to Transform Organizations

By Robert Porter Lynch

The Most Important Thing for Leaders to Know

Virtually all definitions of leadership speak about *influencing behavior.* What every leader must know is that leaders, more than anything else, *create the strategic force field* that draws forth or suppresses either good or bad, wanted or unwanted behavior. (see NUMMI Case Study in prior section to affirm how different cultural force fields dramatically impact the very same people yielding totally different performance results). Leaders have a massive impact on organizational culture, and thus have a powerful impact on behavior.

That's why it's so important.

Leadership counts; and trusted leadership counts highest.

View on Transformation & Culture

68%

Leaders who believe their culture is a source of competitive advantage

76%

Believe it is changeable and 65% believe they need to change it

81%

Believe that an organization that lacks a high-performance culture is doomed to mediocrity

10%

But fewer than 10%succeed in building one

Source: Bain Survey

n = 365 companies in Europe, Asia and North America

Figure 5: Transformation & Culture

Before Beginning Organizational Transformation

Consider the statistic that only 10% of executives are successful in (see Figure 5) building a high performance culture. In transformations that work, such as NUMMI and Continental Airlines, leadership was aware of the impact of the cultural force field on behavior and understood how the drivers of human behavior dramatically influenced the outcomes.

Armed with this information before beginning, an adroit leader can have a solid chance of success.

Power of Collaborative Systems

In my nearly fifty years studying and building high performance organizations, there are three over-riding conclusions:

1. High Performance organizations start with highly collaborative strategies to engage all parts of their value chain – internal and external in a collaborative way – which transforms the value chain in to a value network. Their competitiveness against external rivals is derived from the cooperativeness within the value network.

2. High Performance organizations that sustain their advantage over the long term place great value on their *people*, *culture*, & the *drivers of human behavior*. In particular, they emphasize *trust, collaborative innovation, and teamwork,* always pushing the envelope with new ways to work together to produce more value for their customers, their company, and their alliance partners. Let's examine these three factors: (see Fig. 6: Factors for High Performance)

    - **Trust** is the essential *behavioral foundation* of all collaborative enterprise. Without trust, collaborative

Fig. 6: Factors for High Performance

strategies, collaborative innovation, and collaborative execution (teamwork) is difficult, if not impossible.

- **Collaborative Innovation** is the source code for all companies that must exist in highly competitive environments where the onslaught of capitalism's creative destruction prevails. Collaborative Innovation enables companies to be regenerative – to transcend their past and reinvent their futures. Collaboration is necessary to unleash the collective creative potential of people. Collaboration occurs on a foundation of trust.

- **Teamwork** is the coordinated effort through which high performance organizations deliver their value. Without teamwork, value can only be transactional at best. Most think of teamwork as primarily an *internal* function; this is an over-simplification. Teamwork is just as important *externally* with suppliers, delivery partners, & customers – external teamwork is called *strategic alliances.*

3. Leadership is the primary means of affecting the cultural force field in any organization. This is why leadership is more important than management, and maybe more important than anything else.

The energizing powers of trust, collaborative innovation, and teamwork are the source for this poignant admonition:

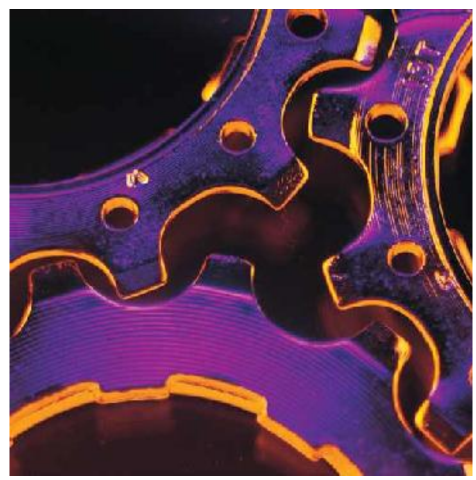
It's far better to invest in a company with a Grade A Leadership Team and a Grade B Strategy, than the reverse. – Pete Wickersham, Venture Capitalist Advisor

The Grade A Leadership Team will execute better, rise in the face of adversity, and create trust under pressure.

How Senior Executives Unintentionally Create "Gear Lock"

The grinding of the three systems of thought about force fields is often seen in the following real example from a multi-national client company:

the Chief Financial Officer comes from a *transactional* world seeking to *maximize profits and shareholder value*,
the Chief Legal Counsel believes in *hard-nosed litigation, risk-shedding contracts*, and *rough and tumble bargaining* with the unions, promoting an *adversarial* frame of mind.
the Operations Officer is fixated on *efficiency* and *lean production*, teaming up with the Procurement Officer, who squeezes vendors, to lobby the CEO for *lowest cost of production* (*transactional*).The holders of these views then lobby and find supporters within the senior ranks.
the Chief Human Resources Officer is promoting a *collaborative* strategy embracing *teamwork* and *profit sharing* with employees.



When *Adversarial*, *Transactional*, and *Collaborative* Systems thinking is mixed, willy-nilly into an organization, the human energy is conflicted like grinding gears, causing stalemate, lots of effort with little leverage, resulting in non-value added work

the Chief Innovation Officer is launching programs with customers to engage in *collaborative innovation* for better product/service creation and delivery to give the customer base more competitive advantage in the marketplace. In turn, the heads of Strategic Planning and Research/Development advocate forming alliances with disparate organizations to flow innovative ideas and solutions to the customer base

the Chief Marketing Officer strongly holds an *adversarial* view of creating competitive advantage, believing in *wiping out the competition* and playing her direct reports off *against each* other to determine who will rise to be the "alpha male/female."However, the Head of Sales believes that the best way to increase revenue is *build trust* with the customers and imbed *customer relationship* representatives inside key customer accounts to *understand customer needs* and *improve communications and coordination*.

the Chief Executive Officer (who is never neutral in this kind of scenario) was most concerned about increasing profits to drive up stock value (he was the largest shareholder), causing him to look at every action *transactionally.*

the Founder & Chairman of the Board wanted high creativity, commitment, and teamwork from his organization (*collaborative),* and years before had set up an Employee Stock Ownership Program (ESOP) to engage employees and share the rewards.

Of course, the Executive Committee interacts with an equally muddled senior management, which gets caught in the cross-fire, and then passes muddled, cross-fired thinking down to their middle managers. At this point you must be asking "How does this dysfunctional company with such muddled leadership stay in business?"

Simple: Their competition is worse!

This is not an isolated example – in my experience it is the norm, not the exception.

Align the Senior Executive Team, then the Organization

At the outset of any transformation process, leadership must make a distinct decision as to the type of force field interaction to be deployed. This is often overlooked, with dire consequences; all-too-often the choice of the "game" is a crude admixture of all three approaches, which "grinds the gears" and divides an organization against itself. For example, if the transformation intends to create more teamwork internally (*collaborative*), but beats up suppliers (*adversarial*), while showing little care and service for customers (*transactional*), managers and employees will be thoroughly confused as core values become disjointed.

Many businesses evolved willy-nilly, patterning an unholy, even perverse, admixture of *adversarial, trans-actional*, and *collaborative* strategic force fields. This perverse concoction can be seen in the construction industry, in the airline industry, and the auto industry. For example, compare the performance of Toyota, which aligned on *collaborative* systems, with General Motors, that has been a confounding witch's brew of systems for years. The 2009 bankruptcy had been fomenting for decades; it just took a recession to push it over the brink.

Let's be blunt: *adversarial* systems are highly dysfunctional, too filled with non-value added work, silos, useless control mechanisms, unproductive layers of management, and lack of customer-focused innovation, making them unsustainable and not competitive in the long run.

The primary way strategic force fields (culture) are developed and sustained in any organization is through *leadership.* Thus one of the first tasks of a senior executive is to *align* the senior leadership team and middle management into a coherent *collaborative* unit that promotes working together by:

1. Determining the **Core Beliefs** of senior leaders (see Table 1: Spectrum of Three Competing Forms of Capitalism & Their Force Fields), then replacing any senior leaders[86] that are committed to *adversarial or transactional thinking.* This builds unity in the organization, teamwork across the board, and trust in the workforce. It takes a tough leader to decide who makes the cut.
2. Developing a set of **High Performance Values, Metrics, & Rewards** that support a *collaborative* strategic force field. Then live by these, don't just give them lip service.
3. Establishing **Core Operating Principles** that guide trustworthy interaction between people, teams, cross-boundary/functional units, and external alliances.
4. Making **Collaborative Innovation** the source of co-creative energy, adaptation to changing environments, and competitive advantage in meeting emerging customer needs.
5. Linking the company into/through a **Value Network** that flows value, innovation, and competitive advantage from strategic supplier alliances, through the company into strategic delivery/customer alliances, resulting in the creation of unique value that increases customer competitiveness.
6. Ultimately making *trust, innovation*, and *teamwork* the "central organizing principles" of high performance, high profitability, and high sustainability.

Systems Design in Collaborative Organizations

Three Dimensional Alignment

The evidence of a "good systems design" can be ascertained by applying the 3-Dimensional alignment framework. (see Figure 7: 3 Dimensional Alignment)

What also makes the Great Game of Business such a powerful system and methodology to serve as an underpinning of the *collaborative* capitalism is that it very importantly moves away from self-interest motivated capitalism to a new form that:

- properly balances the *self interest* of owners with the *mutual interest* of employees and other stakeholders (customers suppliers, and communities)
- engages in a highly collaborative (versus adversarial) and ethical style of doing business
- increases the level of competitive advantage (which results from the synergistic effects of cooperative architectures)

This *collaborative* style of doing business had been proving its high efficacy for hundreds of years, but the world has not, up until now, distinguished the "system" as distinctly different from the *adversarial* and *transactional* models.

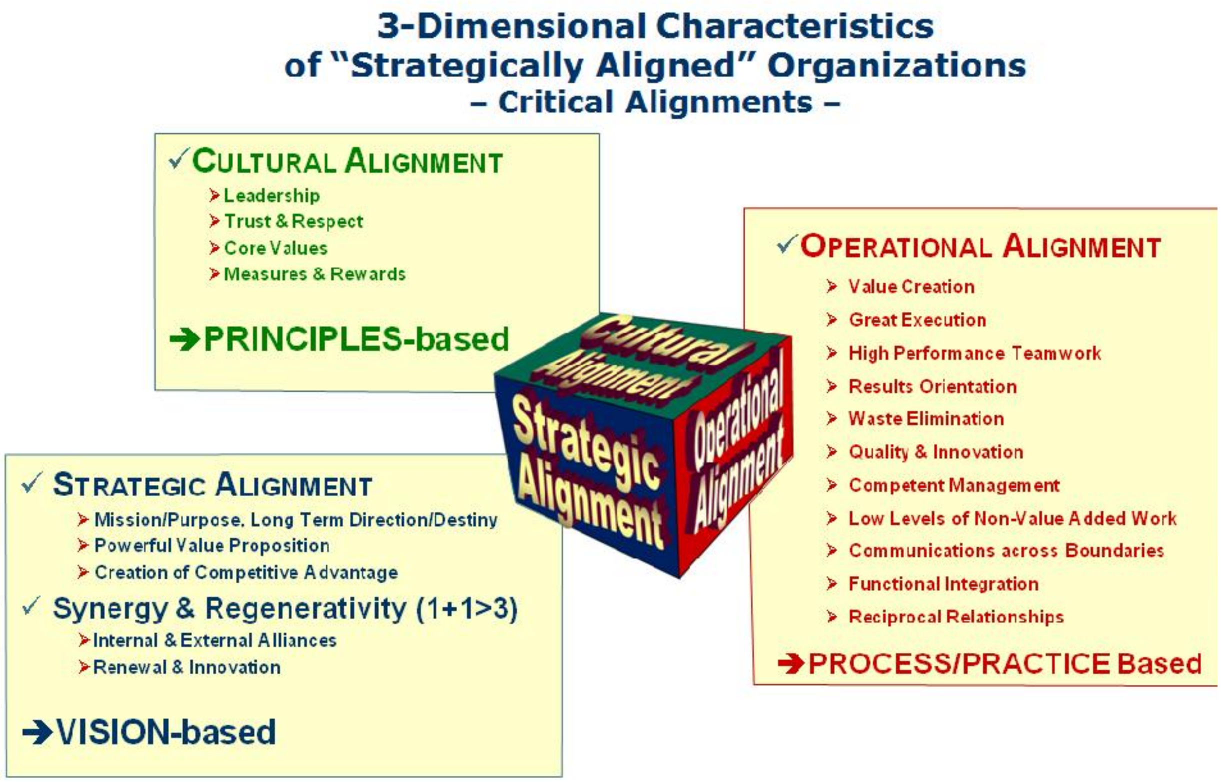


Figure 7: 3 Dimensional Alignment

Changing people's perceptions about *collaborative* strategies for doing business will require a shift in thinking and perceptions around the world.

Successful organization transformation requires the complete integration and alignment of strategic advantage, human behavior, and high performance operations into its 'systems design.' In organizational transformation systems design, first think in terms of a '3-dimensional alignment' (see Figure 7):

1. *Strategic Drivers* that are pushing on the partners to think and act in a manner that collectively creates Competitive Advantage. The alignment of *Strategic Drivers* ensures the cast of characters are working in the same direction and understand the fundamental meaning and purpose the owner has in mind. If and when the Strategic Drivers change, the entire alliance must now shift to stay in tune.

2. *Culture* of human interactions that create great chemistry among people. The alignment of the *Culture* ensures that critical issues like trust, decision making, communications, leadership styles, values, protocols, and reward systems are compatible so that people can work together in teams, and create together to innovate and solve problems rapidly without blame and discord.

3. *Operational Functions* that must produce results. The alignment of *Operations* means that the human delivery systems and the mechanical functions can be implemented in the field

in a highly effective manner.

It is important to understand from the outset that the three dimensions alignment creates long-term success because it is holistic approach to doing business.

Support Systems

Supporting these three dimensions, must be a compatible cast of legal/contractual/financial methods and procedures instruments, as well as a fair and effective means of governance. Some of the most effective means of financial rewards include::

- Employee Stock Ownership Plans:
  The effectiveness of ESOPs is split into two clusters:
  - The most effective ESOPs are those where the financial aspects of ownership are totally integrated with a high performance, high innovation teams
  - The least effective ESOPs are driven strictly for financial/tax reasons.
- Profit Sharing:
  More often than not, the profit sharing approach to bonuses is used as a simple means of recognizing the investment of employees in continuous improvement. Companies like Nucor Steel have used this approach with great alacrity.
- Open Book Management:
  The GGOB has been a strong advocate of OBM, which facilitates the objective of making every employee and entrepreneur and is supported in a high-trust culture. Its promise *of 2x Revenue Growth, 3x Profit Growth, 3x Business Literacy, 3x Employee Engagement* is compelling and should attract the attention of any entrepreneur. Open Book Management does scare a lot of people[87] who do not have a solid trust foundation in their organization. Further, the GGOB takes Lean Management to a more powerful and exciting level. (Think of GGOB as "Lean[88] on Steroids.")[89]
- Strategic Alliances, Supply Chain Management, & Collaborative Innovation:
  These are essential to the larger engagement of a company in the long term. The GGOB doesn't have a strong architectures in these fields as yet as a means of creating massively competitive advantage.[90]

  There is a close affinity between the Great Game of Business and Employee Ownership/ Employee Stock Ownership Plans (ESOPs) (for valid reasons.) But just like the GGOB, ESOPs seem to have hit a growth plateau.

  In summary, the GGOB is the leading candidate for the future of capitalism. With several augmentations, it beats anything provided by business schools. Employees become entrepreneurs, business becomes the *lingua franca* of the workforce, *mutual benefit* is corporate culture, and collaborative innovation is the process that triggers high performance teamwork.

Because GGOB is a full *system*, it has had a 90% implementation success rate, which appears to be the highest success rate of any organizational transformation strategy.

Creating the Super-Hybrid Business of the Future

Next Generation Improvements

There are also things that could be improved in the next generation of the Great Game of Business, particularly by strengthening its *trust* architecture, its *collaborative innovation* architecture, its *supply chain/network* architecture, and its *strategic alliance* architecture. (these are not "weaknesses" in the model, but areas where more powerful and compatible design systems architectures will produce even better results.)

The task ahead is to integrate/marry/link the best of these existing architectures, creating a "super-hybrid" business of the future. [91] (Because all the new "parts" are based on collaboration, they are quite easy to meld together.)

Strategic Alliances – Linking Businesses in Powerful Value Delivery

Because ESOPs, GGOB and Great Places to Work focus on *internal* dimensions of organizations, their impact tends to be primarily operational and tactical. Conversely, Strategic Alliances, as their name implies, tend to be aimed at external strategic impacts. While alliances have been around a long time, in the last 20 years the alliance profession has deeply codified the organizational architecture of best practices that create repeated success. This best practice emphasis has blossomed into a bona-fide professional field with dynamic architectures for creating collaborations between companies. Many of these collaborations have produced billions of dollars of value for companies like IBM and P&G, among numerous other smaller companies.

While many businesses have successfully embraced alliances, the issues of control and trust still worries many executives. What's more, business schools, boards of directors, and Wall Street have not seriously endorsed alliances, despite the competitive value created, mostly because few academicians have been either students or practitioners of alliances.

However, despite the slowness to take hold, as companies in every sector face competitors who are successful with their alliances, more alliances are formed to ensure better flow of goods and services from suppliers to customers. Collaboration and integration continually beats distrust and fragmentation in the creation of competitive advantage for those making buying decisions.

What's most interesting about alliances is two- fold:

First , they embrace a *holistic design architecture* that sees the production of value from a multi-layered input-output perspective. This holistic approach starts with strategic impact, examines inter-relationships between cultures and the development of trust, then tackles the issues of operational performance. Fair dealing, equitable sharing of risks and rewards, and adaptability to change are fundamental alliance issues.

Alliances drive collaboration and partnering at the inter-organizational level by addressing partnering in the entire value creation chain with tight linkages to:

a) suppliers to create better products and services,
b) other providers to produce integrated delivery, and
c) partnering with customers to ensure real competitive advantage.

Second, the more mature alliances also tend to become *engines of innovation* as the dynamic differential energy of unique cultures link together in a manner that produces *collaborative innovation.* The longer companies work together successfully, the more likely they are to innovate together in new ways.

Collaborative Innovation – Unleashing Creative Intellectual Capital

Collaborative innovation is sourced from the basic principle that the best new ideas come from differences in thinking – people who challenge the status quo, ask difficult questions, and iteratively postulate new possibilities. The interplay of differences fostered in a trusting, honoring environment, yields co-creativity and synergy.

There are seven fundamentally different types of innovation. (see Figure 8) Most collaborative innovation in alliances utilizes more than one of the seven types of innovation, thus the alliance-based "innovation engine" usually multiplies its impact with several different forms of innovation.

Figure 8: Seven Different Types of Innovation

While alliances tend to take a more strategic view of business (which lets them see the long-term picture) given the short term focus of many Wall Street driven businesses, this is often a hard sell to quarterly focused CFOs.

And although the best practice methodology of alliances is quite effective, producing 70-80% success rates, it has not migrated into the operational cultures of most companies who have alliances.

In summary, Strategic Alliances provide a strong strategic framework, excellent and systematic practices, and a collaborative and ethical methodology for conducting business in general. These are highly synergistic with the GGOB philosophies, strategies, and methods.

In its modern form, capitalism is a strategy to produce value by "creative destruction," the old constantly being replaced by the new. Thus innovation is a major component of the future of capitalism. However, innovation is easier to advocate than it is to execute. The principle reason is that all great innovation needs three foundational principles upon which to lever its advantage:

- **Trust**: Highly innovative organizations must focus their energy on transforming new ideas into commercially viable products and services. This means energy cannot be siphoned off or channeled into work that is non-valued added (or worse, destructive). Trust fosters a climate of sharing, creativity, value-added work, and a willingness to challenge the status quo without repercussions. If no trust exists, innovation becomes confined to every person protecting themselves, organizational silos, and self-interest prevailing.
- **Differential Energy**: If two people in the same room think alike, one is unnecessary for innovation. All great innovation comes from the frictional energy of people who do not see alike. In environments of distrust, this frictional energy manifests as conflict; but with high trust the differential energy is enlightening.
- **Perpetual Dissatisfaction**: Nothing fails like success, because success brings complacency and risk management, which then eventually become the roots of decline. Great innovators engage in championing the cause of continuous evolution, living in a perpetual state of enlightened dissatisfaction – a leadership mode that can be very frustrating to those seeking the quietude of complacency..

Ultimately, in today's complex world, all innovation is *collaborative innovation,* which engages multiple stages of transformation from idea to design to development to commercialization. Collaborative innovation is the cornerstone of success for the future of business. Over the last decade, I have extrapolated a large amount of the Collaborative Innovation "architecture,"[92] which can be transposed into innovation teams and alliances which can have a massive impact on competitiveness. However, bringing these different approaches together requires a facile ability in conducting organizational transformation.

Why Collaborative Capitalism Initiatives have not taken root

Roots of Economic Collaboration

Many of the ideas of collaborative capitalism go deep into the roots of our business heritage. Collaboration is not an alien or new born idea.

For centuries, Lloyd's of London has used collaboration in sharing risk and reward as the foundation of their insurance underwriting. Actually, the term "underwriting' meant a group of a eight or more investors would sign an insurance policy, each assuming their fair portion of the risks if a claim was made, while sharing the gains from the premiums if there were no claims.

In early America, soon after attaining independence, the United States gained preeminence in the whaling industry using a profit sharing system with each sailor. Called the 'lay system,' it required each ship to sell its load of whale oil within ten days of returning to port, then sharing a predetermined percentage with owners, officers, and sailors. A similar method was used to fuel the nascent cod-fish industry. Most ships were built in partnerships with different crafts contributing specific elements, like the sails, rigging, barrels, and masts.[93]

Andrew Carnegie, one of the richest capitalists in the world in 1886, stunned his rivals, J.P. Morgan and John D. Rockefeller, with a series of highly publicized interviews, advocated profit-sharing and employee stock ownership as the cooperative hope for workforce incentives.[94]

Another early advocate of workforce engagement was Charles Pillsbury, founder of Pillsbury Flour, who emphatically endorsed profit-sharing as a means of making workers more responsible for results. It worked; by 1886, three years into the program, Pillsbury's workers received a 33% bonus in addition to their fair wage structure. [95]

At Princeton University, Professor Lyman Hotchkiss that employees become capitalists and share in the profits of their labour and own shares in the company that employed them. Sitting in the class in the 1880's was William Cooper Procter, who implemented Hotchkiss' plan point by point in his company, Procter & Gamble.[96] Today, P&G is one of the largest retail products companies in the world, with over 129,000 employees.

Joint ventures have been used extensively for over a hundred years in the oil and gas, pharmaceutical, retailing, automotive, and construction industries.

In the post-WWII machine tool industry, Joe Scanlon (steelworker, cost accountant, local union president, and lecturer at MIT) initiated a number of collaborative efforts between management and labour, significantly improving productivity, eliminating waste, improving efficiency, improving efficiency, reducing costs, and improving quality.[97] A number of machine tool companies, mostly located in Michigan, still use Scanlon's gain-sharing plan.

In the mid-1950s Louis Kelso and Mortimer Adler published the Capitalist Manifesto[98] which laid out the pathway for later Congressional approval of beneficial tax treatment for Employee Stock Ownership Plans (ESOP). Kelso believed "no employee should have to live on labour income alone." Today over 15,000 companies use ESOPs to their advantage. Those companies that combine the ESOP with a high-trust, high-performance culture perform at significantly higher levels than those that use the mechanism strictly as a financial vehicle. This bi-modal performance by ESOP-based companies has led some to mistakenly believe that collaboration does not create outstanding results.[99]

Strategic alliances are another powerful form of collaborative capitalism that provide major competitive advantages. Since their emergence in the late 1980s, the number of alliances have grown and spread across the world. While no global data is available, it is believed well over 100,000 alliances are currently functioning. The success rate of alliances is also bi-modal. Those who use *transactional* or *adversarial* methods typically suffer high failure rates. On the other hand, those companies that use *collaborative* best practices with reasonable discipline[100] have success rates in the 75-80% range.[101]

Causes of Failure to Gain Traction

Several causes might be cited for the failure of the *collaborative* capitalism movements to take root strongly in the hearts and minds of the population:

- There is no over-arching concept that embraces all these ideals/ideas in a comprehensive, systematic, unified way. Each corporate initiative has been differentiated not as a type of capitalism, but its own unique variant. There has been no singular moniker for the variants of the *collaborative* initiative, so alliances seem separate from the Great Game Of Business, which is a separate system from Employee Stock Ownership Plans, etc. No prior effort has ever been made to "triage" capitalism.
- The data validating the efficacy of this approach is held in scattered repositories promoted in silos by entrepreneurial advocates that have focused primarily on their key areas of interest.
- For over a hundred and fifty years, the battle of the economies faced capitalism off against communism and socialism. No one bothered to focus on the internal competitiveness of different business models within capitalism.
- There is no compelling thought leadership or book that stakes out the future of the "new movement" and why the world would be wiser, happier, and more prosperous if it embarked upon this journey.
  and, most importantly:
- Many of the pilot projects to bring these new ideas into existing organizations fail to produce the results the visionaries thought leaders promised or that were produced in the pioneering organizations. A typical example of the failed promise is how the Lean Manufacturing System that produced massive advantage for Toyota has been tried in thousands of other organizations, largely without success. Let's examine why.

Why Innovation Efforts So Often Fail

There are organizations that advocate innovation, such as the *Business Innovation Factory*, *Invent Like Edison, IDEO,* and the *Lean Management Institute,* as examples. However, if the statistical evidence of success is any indicator, implementation success is small. In the case of Lean Management, less than 10% of the projects initiated meet with success.[102]

What went wrong? Why such deep difficulties?

Innovation as Transformation

What few people recognize is that all *innovation means change,* and *all change is disruptive,* which, in turn, triggers *resistance to change.* Most often, people would rather dance with the devil they know than the devil they don't know. The solution lies in understanding the distinction between what these organizations have: *powerful methodologies and tools* for collaborative innovation – and what they lack: *strong organizational transformation systems architectures* to integrate their methods into the host companies.

> This problem is akin to a grain of sand (the new idea) entering an oyster (the corporate culture). The first thing the oyster wants to do is spit out the sand as a irritant, a foreign body.
>
> Unless there is an accompanying *organizational design architecture/system* to convince the oyster that the sand is a potential pearl, the corporate immunal rejection response will continue to try to spit out the irritant. Thus, without an *organizational transformation architecture,* the ability to replicate these *methodologies and tools* inside existing organizations is severely diminished, fraught with difficulties and often failure.

The majority of innovation efforts in business are unsuccessful, primarily because they do not see collaborative innovation strategies from the perspective of *organizational transformation architecture,* a process[103] which consists of ten critical "steps," each building on the prior:

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 Foundational Culture of Trust & Teamwork
Step 6: Build High Performance & Innovation Infrastructure
Step 7: Reduce the Risk & Resistance to Change
Step 8: Celebrate and Promote Victories
Step 9: ReAlign the Organization
Step 10. Refine, Measure, Learn & Innovate Again

The lack of understanding of the critical elements of organizational transformation and design creates a very high chance of failure. Marrying together some of the best in class collaborative strategies and grafting them onto existing organizational DNA is possible, but only with a strong transformational architecture.

Because both the GGOB & Strategic Alliances are built on collaborative platforms, it would be relatively easy to "marry" these two business systems, producing extremely high performance value chain, creating massive competitive advantage, and setting the stage for the future of capitalism.

Power of Organizational Design Architecture

Of all the architectures (e.g. buildings, etc.), organizational design architecture is the one that most significantly influences the behavior of people, and thus their prosperity, happiness, and health, their fate and fulfillment of human potential, and, in the great aggregate, the course of communities, even nations.

For example, the demise of cities, the decline of neighborhoods, and the desperation of civilizations is not a perchance happening or stroke of bad luck, but the culmination of many organizational leaders making small, but additive, and thus fateful decisions, usually worshipping at the altar of ration self-interest rather that opting for that which would strengthen the greater good and achieve a transcendent vision. Compare two cities over the course of the last fifty years: Detroit and Warsaw. The former was a thriving metropolis and the latter a blown out ruin from WWII. Today, a mere 2½ generations later, their status is completely reversed. Detroit's decline and destruction is not a stroke of bad luck or natural disaster; it results from selfish, distorted leadership based on faulty values, criminal behavior, and barbarian treatment of the human spirit. Warsaw, by stark comparison, was 90% destroyed by Nazi and Soviet bombardment; it's been totally rebuilt and is now a vibrant city in the European Union.

What exactly has the greatest influence of the fate of people? 75% of human behavior is guided by the *culture* in which people exist (the other 25% is guided by personality). What determines culture? How leaders and their organizations design themselves, what they value and punish, what they train and how they select their people.

We are all-too-often shocked and numbed when we experience the contradictions in humanity – from goodness to evil, from love to hate, from giving to greed, from divine to destruction. Only when we understand the dynamics of how organizations are designed to bring forth the highest or worst in people, can we systematically bring forth best in the human spirit.

While organizational design architecture may rightfully claim the pinnacle of design systems because of its impact on human behavior, tragically it is also a field that is largely disjointed, fragmented, lacking holistic principles, and fractured by specialists in the fiefdom-like sanctity of universities, unintegrated but safe. These university fiefdoms are called "departments" (more like compartments) of psychology, business management, education, political science, sociology, international relations, and economics.

Part Six: Insights & Conclusions

About the Collaborative Imperative

The Bold New Future of Capitalism

By Robert Porter Lynch

Final Insights

- Organizational Transformation is one of the most complex of all organizational challenges, requiring the precise and synchronized interaction of many interactive elements, like a well designed clock of yesteryear.

  The statistics indicate that only 10% of transformation efforts succeed. No wonder: they suffer from the problem identified by the Law of Compounding Risk – the risk of distrust, the risk of complexity, the risk of conflicting force fields, the risk of poor conception, the risk of changing patterns of behavior, and the risk of poor execution – all combining to create an uphill battle.

  (see my forthcoming piece on Organizational Transformation which will address the Compounding Risk problem)

- Adversarial Capitalism will only survive until Collaborative Capitalism gains sufficient ground to displace it.

  The problem with adversarial economics is that humans are an integral part of their functioning. Negotiations are typically driven by win-lose bargaining. While logical in theory, win-lose is irrational in human interaction, driving those people on the losing end of the deal to get even, to form unions, to file grievances, or worse: sabotage, withholding information, failing to cooperate, and hunkering down in silos, all the while adding layers of non-value added work, (or even value destruction) to the equation.

  Adversarial economic strategies are prolific, showing up as law suits, high employee turnover, customer churn, stock-outs, and projects that consistently run over-time and over-budget. In many parts of the world, and particularly in under-developed nations where corruption is still the norm and free markets are a delusion, adversarial economics and robber-baron capitalism operate hand-in-hand.

Why Now is the Time for Collaborative Capitalism to Take Root

Much has changed over the last two decades that now give Collaborative Capitalism the opportunity to blossom:

1. Triaging Capitalism: Fundamental in marketing is making clear distinctions between customer choices. Until now, capitalism has been muddled in the minds of practitioners. Business schools do not give their MBA graduates a means to differentiate their choices. One of the most important purposes of this analysis is to enable business leaders to make clear choices and reliably predict the consequences of their actions.
2. Clear Evidence of Competitive Advantage: In making a Business Case for using the *collaborative* strategy, the most important thing is to demonstrate that the evidence supports the

conclusions. Unequivocally, the data gives *collaboration* an undeniable advantage in terms of performance results.

3. Architecture of Collaboration & Trust: The evolution of collaboration has accelerated in the last two decades has been enormous. Best practices in alliances have been published extensively, and trust building practices are now well distributed. Having an "architecture" means an integrated and coherent set of beliefs, values, principles, strategies, methods, processes, metrics, and rewards that produce predictable outcomes. In the near future this author will make another major contribution to the architecture of trust.
4. Critical Need for Innovation: There is no time in the history of capitalism that has experienced such rapid change and fast evolution of technology and business models. Innovation is not just a good idea, it's an absolute imperative. The day of the lonesome inventor has passed; *collaborative* innovation is the foundation of competitive advantage. *Adversarial* and *transactional* strategies create too much non-value added work, and simply do not produce the levels of innovation needed to win the competitive battle.
5. Behavioral Foundation: Leaders, to be truly effective, need to understand the critical drivers of human behavior and the role of culture in predicting results. With the introduction of the 4 drive model of human behavior, which is validated by neuro-science. With this breakthrough, gaining competitive advantage through collaboration is not just a philosophy; it is a practical, predictable way to produce performance, productivity , and profitability.

Conclusions

Capitalism has never been static – by its very nature it is dynamic, evolving, and adapting to social changes, new technologies, political realities, and new ideas.

When viewed through the perspectives of consistent performance, long-term sustainability, ability to adapt and innovate, work force productivity, effective use of human intelligence, and, bottom line profitability, there is no question that, when used in its highest form, collaborative capitalism is consistently the most competitive form. The reason why it will prevail? Because it is, by its nature, a *value creation engine.*

This does not mean that the other forms of capitalism will be phased out, to the contrary. Transactional models where *value is exchanged* will always have their place in trade and commerce. Many markets thrive on the power of the stock exchanges, retail stores, or eBay.

At the other end of the spectrum is the bête noir of our economic system: adversarial capitalism. It will also stay with us – adversarial methods of business will attract the power brokers, those who agglomerate wealth, and those who play in the dark recesses of corruption and destruction.

What's more important, in the larger sense, is that the fourth variety of capitalism – muddled business indiscriminately idealizing a confusing pastiche contradictions – goes the way of the buggy whip. More than adversarial capitalism, it is this muddled fourth form of thinking that saps the energy of business, confounds employees, frustrates customers, and befuddles suppliers. Muddled capitalism is inscrutable business that results in misaligned company values, distrustful behavior, and the failure to attain real synergies in the quest to create real value.

For those entering into our business system as entrepreneurs, employees, and professional managers, the ability to distinguish and consciously choose between the three models is a destiny determining decision.

It the final analysis, it may be the ability of our society to make clear choices about their careers, commitments, purchasing choices, and inner understanding of collaboration and trust that has a more profound impact on our society than simply the power economics.

Shifting the Thinking, Awareness, & Results

Ultimately, the future of capitalism is in *collaborative* strategies. I believe it's now time to take several of the new methodologies mentioned above, integrate them holistically, and take advantage of the massive synergies they can and will produce.

There are great potential synergies in integrating the advanced methodologies outlined above. These have been tested successfully in the crucible of action in the real world.

Collaborative Capitalism & Collaborative Entrepreneurship

The world of business, particularly "Main Street" (not "Wall Street"), is seeking a new set of guiding principles to outperform transactional economics. The future of the economic world could be enormously benefited by unifying these approaches. Collaborative Capitalism and Collaborative Entrepreneurship provides:

- a more fair and equitable distribution of wealth based on one's contribution and effort,
- an opportunity to revitalize businesses that have been stripped of their wealth by wanton robber barons in the guise of "investors,"
- an ability to create prosperity in lands stricken by poverty,
- a capacity to lift the dignity of humanity, and
- the promise to create innovations that will solve problems of hunger, energy, and global warming, among others.

Creating a "movement" requires *unified thought leadership*. Here are some ideas and key points:

- <u>Form a Thought Leadership Alliance</u> of those who truly believe in the power of collaborative strategies which outperforms transactional and adversarial strategies. Highly collaborative companies are high trust companies. These companies, in country after country, and within industries, consistently, outperform their competitors. The thought leadership alliance should ban together to write about, promote, and reinforce this strategy.

- <u>Economic & Competitive Advantage Analysis</u> is essential in enabling people to compare results using different strategies. In today's fast changing, rapidly moving world, the greatest form of competitive advantage is Innovation. Innovation is not just technical; it's the cumulative effect of thousands upon thousands of small ideas and solutions proposed by employees at all levels of the organization. In the emergence of this collaborative approach, a new economic model has also revealed itself: "Collaborative Economics," which is based on the power of shared resources, the elimination of non-value-added work, and the economics of trust. More analytic work should be made available to highlight the differences between different strategies.

- Utilizing Intellectual and Innovative Capital for Competitive Advantage is the best way to create sustainable organizations that can continue to adapt to changing conditions. In the Industrial Age, the power of the corporation was based primarily upon its Financial Capital and Market Strength. Labor was simply a tool for production, much like a machine. This created enormous strains between Labor and Management. Today, neither money nor market are the primary sources of strength, it is now *Intellectual Capital* – the power of ideas – that creates the most wealth in business. And the Collective Intellectual Capital of all employees is destined to win the game of business. More case studies and detailed analysis of their organizational design architecture is needed from academia.
- Collaborative Entrepreneurship is about collaborating *internally* within a company by making every employee an entrepreneur, and *externally* by creating alliances and collaborative networks with suppliers, customers, and companies who deliver compatible products, services, innovations, and solutions. It embraces a highly effective, but more engaging leadership style. There are young and old leaders who truly exemplify this approach, like Jack Stack from SRC and Tony Hsieh from Zappos.
- Engineers becoming Collaborative Innovators is essential if America is to compete effectively in the international marketplace, particularly against forces of China and India (where currently ½ of all the engineers in school are currently enrolled worldwide). We must come up with a new means of unleashing the innovative advantage of our creative capital inside our employees, engineers, scientists, and technicians.
- Integrating Best-In-Class methodologies and tools to create the super-hybrid business of the future. There are a variety of means of accomplishing these aforementioned approaches (such as Great Game of Business, Employee Ownership, Collaborative Innovation, Lean Management, Strategic Alliances, Micro-financing, etc.). Each of these is a piece of the emerging solution which we call "Collaborative Entrepreneurship," or "Collaborative Capitalism," which embraces a more humane, fair, and enlightened form of doing business that uses a much higher degree of honor, ethics, and integrity, and, what's more, it is a more effective way to compete.

Launching *Collaborative Capitalism and Collaborative Entrepreneurship* can start by leading edge organizations, thought leaders, business schools, and business owners beginning pilot projects while forming a new era alliance to share, promote, and reinforce lessons learned and best practices.

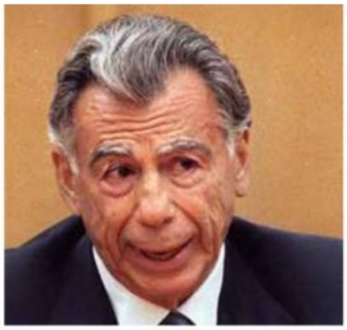
The future is beheld by those who create it. -30-

In 1966, Ayn Rand and Alan Greenspan co-authored a book: Capitalism: *The Unknown Ideal.* It was filled with bad advice (that seemed reasonable at the time, but was based on erroneous philosophies of business, government, and human motivation.) However, it set the foundation for the next forty years, and led to the financial meltdown of 2008.

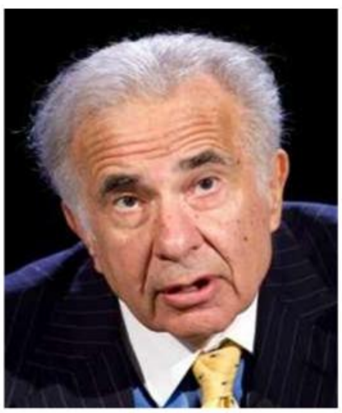
We need to set the world back on a course of action that reflects the school of thought that might be termed "Enlightened Realism." Collaborative Capitalism has had a phenomenal track record of success that proves it is the rightful owner of the title: "THE FUTURE OF CAPITALISM"

Appendix -1 – Icons of Capitalism

Adversarial Capitalists



KIRK KERKORIAN
"WE CAN BE THE HUNGRY ALLIGATOR AND EAT THE BIG FISH."



CARL ICAHN
"IN TAKEOVERS, THE METAPHOR IS WAR."

Advocates of

ADVERSARIAL CAPITALISM

CORPORATE RAIDERS
& DEAL MAKERS

Raid the Wealth

Grab the Wealth

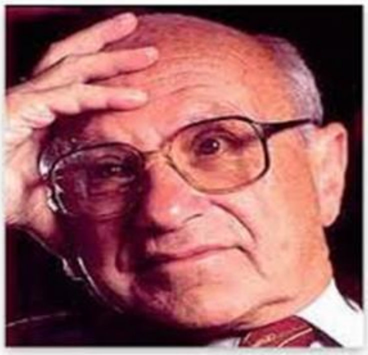
Strip the Wealth

Divide the Wealth

T. BOONE PICKENS
"IF SOMEBODY I DON'T LIKE GETS IN MY CROSS-HAIRS, I PULL THE TRIGGER"

DONALD TRUMP
"YOU'RE FIRED"

Transactional Capitalists



MILTON FRIEDMAN

"THE WORLD RUNS ON INDIVIDUALS PURSUING THEIR SELF INTERESTS…IS THERE SOME SOCIETY YOU KNOW OF THAT DOESN'T RUN ON GREED?"

"THE SOLE PURPOSE OF A COMPANY IS TO MAXIMIZE PROFITS FOR ITS SHAREHOLDERS."

Advocates of

TRANSACTIONAL CAPITALISM

ECONOMISTS

INVESTORS

BROKERS

TRADERS

They talk about Trading and Extracting Value

It's about Amount of Money

ALAN GREENSPAN

"IT IS PRECISELY THE 'GREED' OF THE BUSINESSMAN OR, MORE APPROPRIATELY HIS PROFIT-SEEKING, WHICH IS THE UNEXCELLED PROTECTOR OF THE CONSUMER."

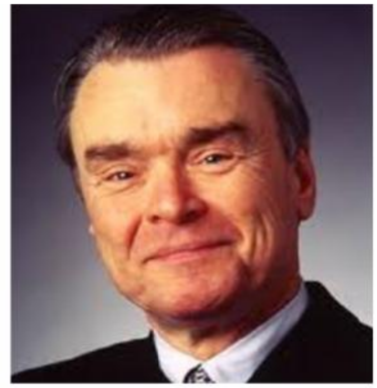
"THOSE OF US WHO HAVE LOOKED TO THE SELF-INTEREST OF LENDING INSTITUTIONS TO PROTECT SHAREHOLDERS' EQUITY, MYSELF ESPECIALLY, ARE IN A STATE OF SHOCKED DISBELIEF." —October 23, 2008

Collaborative Capitalists

Team Builders

Trust

Collaborative Innovators



Lou GERSTNER – IBM

A lot of people saved IBM. Yes, I was the leader of that team, but I could never have done it without a group of IBMers helping me.

Reorganization to me is shuffling boxes, moving boxes around. Transformation means that you're really fundamentally changing the way the organization thinks, the way it responds, the way it leads.

No computer can replace the human spark of spirit, compassion, love, and understanding.

The thing I have learned at IBM is that Culture is Everything.

Gordon Bethune – Continental Airlines

The airline business is the biggest team sport in the world. When you're all consumed with fighting among yourselves, your opponents can run over you every day.

You don't lie to your own doctor. You don't lie to your own attorney, and you don't lie to your employees.

No one is going to stick their head out of the trenches for someone they don't respect or trust. We believe that employees should always be treated with dignity and respect.

It's the old adage: You can make a pizza so cheap, nobody will eat it. You can make an airline so cheap, nobody will fly it.

It's about
Co-Creation of Value

That represents
Competitiveness

Money is One Measure of Success

Advocates of
Collaborative
CAPITALISM

Team Builders

Trust

Collaborative Innovators

Jack Stack – SRC

“It’s about engaging hearts and minds.”

“With every pair of hands you get a free brain.”

“It's all about motivation – giving people purpose”

"Teach People what it takes to run a successful business -- the more people know about a company, the better it will perform.”

"There is no more powerful tool a manager can have than a good bonus program.”

Herb Kelleher – Southwest

“If the employees come first, then they’re happy.... A motivated employee treats the customer well. The customer is happy so they keep coming back, which pleases the shareholders.”

“A company is stronger if it is bound by love rather than by fear.”

“We will hire someone with less experience, less education, and less expertise, than someone who has more of those things and has a rotten attitude.”

“Humility breeds open-mindedness”

Endnotes

[1] John Horn and Darren Pleasance Restarting the US small-business growth engine, November 2012

[2] Because they lacked Wall Street's Public Relations muscle, small businesses and entrepreneurs didn't get the credit they deserved in the triumph of capitalism.

[3] "It is precisely the *greed* of the businessman, or more appropriately, his profit-seeking, which is the unexcelled protector of the consumer." Rand, Ayn & Greenspan, Alan*, Capitalism, the Unknown Ideal, Chapter 9. The Assault on Integrity*; New American Library, 1966, p 112

[4] Both Greenspan and Friedman made a classic error in confusing the purpose of *business* with the purpose of an *investor*. While the *purpose of an investor* is to make money, profitability is only *one key measure of success of a corporation*; it is not the corporation's purpose. Companies that make profit their number one goal are soon in trouble. Paying attention to customers is the best way to be profitable because *the creation of competitive advantage evidenced through revenue* is the only line on the company's P&L Statement that makes a positive contribution to profit (every other line on the P&L is a deduct from profit).
Friedman's admonition that any manager that doesn't try to maximize profits (which should be transferred to investors) makes a disturbing assumption; that:

> *Investor's money has more value than customer's money, more value than manager's leadership skills, more value than employee's commitment and hard work, or more value than collaborative innovation and creativity.*

Thus Friedman's position *devalues* many of the key factors that create enormous competitive advantage --such is view of an economist who only sees the world through the quantitative eyes of counting money – akin to the proverb that if all you have is a hammer, everything looks like a nail. In juxtaposition, Peter Drucker, whose perspective was far more holistic, made the counter-assertion; that:

> *The most important functions in a business are marketing and innovation.*

While a bit simplistic, Drucker better captures where value and competitive advantage is really generated.

[5] For example, in 2007, vendor squeezing in the auto industry led to the demise of 500 suppliers a year exiting the auto industry, without providing any respite to the Big Three auto makers, two of whom declared bankruptcy shortly thereafter.

[6] While idealized by many, Rand was an iconoclast who, underneath, exhibited the qualities of an intellectual psychopath, lacking any sense of empathy, love, or compassion for others. Alan Greenspan became her protégé. (See Greenspan's book *Age of Turmoil* for his idealization of her incomplete belief system and Greenspan's Oct 23rd, 2008 Congressional testimony for his complete astonishment that his/her beliefs in the integrity of business to self-regulate itself were completely unsupportable.)

[7] See *Capitalism, the Unknown Ideal*, co-authored by Alan Greenspan, 1966

[8] Friedman rejected the idea that one should serve their country and their community: "In a much quoted passage in his inaugural address, President Kennedy said, 'Ask not what your country can do for you -- ask what you can do for your country.' It is a striking sign of the temper of our times that the controversy about this passage centered on its origin and not on its content. Neither half of the statement expresses a relation between the citizen and his government that is worthy of the ideals of free men in a free society. The paternalistic 'what your country can do for you' implies that government is the patron, the citizen the ward, a view that is at odds with the free man's belief in his own responsibility for his own destiny. The organismic, 'what you can do for your country' implies that government is the master or the deity, the citizen, the servant or the votary. To the free man, the country is the collection of individuals who compose it, not something over and above them. He is proud of a common heritage and loyal to common traditions. But he regards government as a means, an instrumentality, neither a grantor of favors and gifts, nor a master or god to be blindly worshiped and served. He recognizes no national goal except as it is the consensus of the goals that the citizens severally serve. He recognizes no national purpose except as it is the consensus of the purposes for which the citizens severally strive."

[9] In Friedman's defense, however, he did acknowledge the importance of some level of integrity of business by qualifying the preceding quote with the admonition: "[Business must] stay within the rules of the game, which is to say, engage in open and free competition without deception or fraud" Seldom, however, do greedy businesses stay within the boundaries of ethical behavior. Both Greenspan and Friedman naively believed the greed of a business would result in the greedy person self-regulating their avarice.

[10] The behavioral basis of Agency Theory is that humans operate in their rational self-interest and are risk adverse. Of course, there is a natural conflict of interest arising from what share the agent should retain for themselves (management's salary or portion of equity), what portion should be retained inside the business, and what portion should flow to the shareholder. To increase the shareholder's portion, every devise was used to artificially or temporarily inflate stock prices, ethical issues were skirted, and risks were accepted that might otherwise be mitigated. Short term gains overrode long term investment. If the investor didn't like the way the agent (management) operated, either fire them, take over the company, or jump ship and take the investment elsewhere. Agents and investors were pushed into positions where they consistently made decisions based on their own self-interest rather than the best interests of the company. Risk-averse managers bypassed great growth opportunities to protect the interests of the investors. Greedy senior executives took unreasonable management fees for their services. To resolve the conflicts of interest, often senior executives were rewarded based on the improvement of stock price. This led to the manipulation of stock price by increasing profits through manipulative practices that artificially drove up stock value. Auditors very often made decisions what were no longer objective such as the downfall of Arthur Anderson in the Enron Crisis. Numerous critics advocate that Agency Theory was one of the causative factors in the Global Financial Crisis of 2008 (for example, see Frank Dobbin & Jiwook Jung: *How Agency Theory Brought Down the Economy, and Why it might Bring it Down Again* - 2010). Michael Jensen, one of Agency Theory's major proponents at Harvard Business School has recently withdrawn from advocacy of Agency Theory and reexamined other key values in personal growth and integrity.

[11]The wholesale disassembly of the 1933 laws to protect our economy that were installed by Franklin Roosevelt after the 1929 crash is a good example. The repeal of the Glass-Steagall Act, which separated the ownership of commercial and investment banking is one example. For a disturbing revelation of what really went on behind the scenes see PBS Frontline Program "The Warning" (http://www.pbs.org/wgbh/pages/frontline/warning/) You might not sleep that after seeing the collusion between Robert Rubin, Larry Summers, and Alan Greenspan to repress legislative initiatives to curb the risks of Credit Default Swaps that were one of the serious problems underlying the Collapse of 2008.

[12] Non-value added work is defined as any work that the customer does not consider worth paying for. In some industries, such as health care, this can amount to as much as 90% of the work effort. Highly productive companies have very low levels of NVA.

[13] This is why 90% of Lean Management initiatives that were based off the Toyota Production System fail – Toyota has a high trust collaborative culture that supports the methodology, whereas companies with mixed, transactional, or adversarial cultures will reject it.

[*] (Also see the companion book to this volume: "*Building a Team You Can Trust*" which expands on the material in this book and is designed for middle managers.)

[14] 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

[15] 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..

[16] http://trust.edelman.com

[17]http://www.imanet.org/PDFs/Public/SF/2013_09/09_2013_ethics.pdf

[18] 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.

[19] 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

[20] Jacquelyn Smith, Forbes staff article, March 18, 2013

[21] FACTS link

[22] 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.

[23] 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

[24] 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

[25] 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.”)

[26] 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).

[27] 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%)

[28] Need Watson Wyatt Citation Source: 286% greater Return to Shareholders (comparing how high-trust organizations outperformed low-trust organizations) in total returns

[29] 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"

[30] European Center for Corporate Engagement, Universiteit Maastricht and Erasmus University (2007). "Use of Extra Financial Information by Research Analysts and Investment Managers."

[31] 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."

[32] Lynch, Robert Porter; *Business Alliances, The Hidden Competitive Weapon*, John Wiley & Sons, 1993, p 81

[33] 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%)

[34] http://www.bloomberg.com/video/57781880-dell-s-pc-market-share-slides-amid-industry-changes.html

[35] 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

[36] http://wegmansworshipper.blogspot.com/2013/01/wegmans-competitive-advantage-strong.html

[37] The average workshop size is 15-25 people; the average age is 40-45 years old, normally ranging from 30-65. 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. The sessions were conducted predominately in the U.S. and Canada.

[38] Interviews with Ross Smith by Robert Porter Lynch, 2011

[39] Bethune, p 112

[40] Bethune, p 109-111, p 132

[41] 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.

[42] 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.

[43] Vanourek, Robert & Greg, Triple Crown Leadership, McGraw Hill, 2010, see Chapter 8 for full details on this case.

[44] 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

[45] Clinton, Glenn; Lessons Learned At The Northridge Earthquake Proceedings Post Earthquake Highway Response And Recovery Seminar, St. Louis Missouri, 2000

[46] 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.

[47] 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

[48] Liker, Jeffery and Rother, Mike, *Why Lean Programs Fail*, Lean Enterprise Institute, 2009

[49] 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.

[50] Robinson, and Schroeder, Ideas are Free (RPL: need detailed citation)

[51] 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.

[52] Stahl, Kremersof, Larson; Trust Dynamics in Mergers and Acquisitions: A Case Survey, INSEAD, 2004/2005.

[53] 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.

[54] 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.

[55] 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)

[56] 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

[57] 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

[58] 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.

[59] 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

[60] 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.

[61] Based on extensive historical evidence, each supplier has in their inventory a standard stock of parts and components.

[62] 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.

[63] Kimmel, Barbara; Green, Charles, *The Business Case for Trust*, Trust Inc. Strategies for Building Your Company's Most Valuable Asset , 2013

[64] Gallup.com 2011/10/28 Majority of American Workers Not Engaged in their Jobs

[65] Gallup Business Journal, 2002/4/15 *The High Cost of Disengaged Employees*

[66] The Economist Intelligence Unit Limited, 2010

[67] Deloitte LLP, Ethics and Workplace Survey, 2010

[68] 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)

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

[69] 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

[70] 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

[71] http://money.cnn.com/magazines/fortune/best-companies/2013/

[72] Kling, Jeffrey; High Performance Work Systems and Firm Performance, Monthly Labor Review, May 1995

[73] Kruse, Douglas, Profit Sharing: Does it Make a Difference? Upjohn Institute, 1993

[74] Kaufman, Roger; The Effects of IMPROSHARE on Productivity, Industrial and Labor Relations Review, January 1992, pp 311-312

[75] 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.

[76] 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.

[77] 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

[78] Find Citation

[79] For most people the word "culture" conjures up images of something that's too vague, fuzzy, and amorphous. Talking about "culture" makes many tough-nosed leaders squirm because it feels like a big, entangled Gordian Knot. The idea of "culture" seems to mask over the core phenomenon that are really at play – a strategic set of implicit forces that guide the direction, destiny, and interaction of all parts (systems) of the organization. Moreover, sociologists tell us that changing "culture" is difficult, and extremely time consuming. Our studies and experience show that changing culture, if done effectively, takes no more than 12-18 months. (see NUMMI Case Study). Personally, I like the idea of thinking about "culture" as "force fields" much better, because it more accurately describes what is happening and how to influence its impact.

[80] Too many "experts" take pride in making culture too complex, which then makes it totally unmanageable.

[81] *Transactional* systems can have real value in certain circumstances, such as in internet commerce (e.g. eBay, Amazon, Facebook, etc.) where simple, efficient movement of goods is the core objective.

[82] When GM declared bankruptcy in 2009, it forced the end of the joint venture. The plant was temporarily closed, and Toyota, in conjunction with Tesla Motors, a manufacturer of new generation electric cars, now occupies the facility.

[83] 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.

[84] Psychopaths are defined as people without conscience; they lack empathy because their brains have an impaired capacity to process a specialized neuro-transmitter called "oxytocin." (Note: Darwin maintained that a conscience was the primary feature that distinguished humans from other animals. Darwin never intended the idea of "survival of the fittest" to be applied to human beings. See his book *The Descent of Man* for more details)

[85] This explains behavioral conundrums like: why there was such a flourishing of innovation during the era of the Greeks, why the Dark Ages were so bleak, how the Renaissance came about, and how the German people could commit such heinous acts as genocide under Hitler's influence, to illustrate a few examples.

[86] Often this will require the removal/replacement of up to 50% of the senior leadership who are so engrained in *adversarial* or *transactional* thinking that they cannot support a new *collaborative* system. (see Gordon Bethune's book *From Worst to First -- Behind the Scenes of Continental's Remarkable Comeback* for an excellent example of organizational transformation from a CEO's perspective, shifting from an *adversarial* to a *collaborative* system. He didn't mix messages and confuse his team. And the turnaround was done in less than 18 months. (When a "clean" system is created, it doesn't take long. Long transformations are the result of not clearing understanding the nature of a clean collaborative strategic force field.

[87] I personally believe when the GGOB markets itself from the perspective of *making every employee an entrepreneur* or promotes itself as a *masterful method of collaborative innovation,* it is on much stronger perceptual ground to be embraced as a methodology.

[88] *Lean* suffers from one of the biggest marketing blunders in the history of business – the implication with lean is that everyone is *fat,* and by implementing *lean* all the *fat* will be cut out, including the lazy bums that are employed here. And, like GGOB, Lean requires high levels of *trust* to be effective. Currently Lean has about a 90% failure rate due to poor execution by the engineers who often blindly engage inadvertently in organizational transformation.

[89] What distinguishes Lean from the GGOB is that Lean is a *methodology,* not a complete *system of implementation*, which is the powerful advantage of GGOB.

[90]GGOB doesn't reject these, it just doesn't have a strength in these fields.

[91] Fortunately, all the "parts" belong *not* to *transactional* or *adversarial* business strategies, but to the family of *collaborative strategies* The evidence is actually quite compelling – collaborative business strategies continually outperform transactional and adversarial strategies in terms of performance, profitability, personal satisfaction, and long-term sustainability. Note: Collaborative Strategies require a different type of economic analysis. Transactional Exchange economic analysis fails to measure the underlying causes of value creation. (see *Total Cost of Ownership*, *Micro Economics*, and *Economics of Expandables* for examples) (see Lynch, Robert Porter; *Economic Power of Trust* to be published)

[92] See Lynch, Robert Porter; *Collaborative Innovation: the Essential Foundation of Scientific Discovery (Chapter 2)* in Collaborative Computational Technologies for Biomedical Research, Ekins, Hupcey, and Williams, editors, Wiley, 2011, and Lynch, Robert Porter; *Dynamic Differential Energy, Revolutionary Discoveries of the Greeks*; unpublished book.

[93] Lynch, Robert Porter; The Practical Guide to Joint Ventures and Corporate Alliances, How to Form, Organize, and Operate; John Wiley & Sons, 1989, Chapter Two

[94] Blasi, Joseph; Freeman, Richard; Kruse, Douglas; The Citizen's Share, Reducing Inequality in the 21st Century, Yale University Press, 2013, p 140

[95] Blasi, Freeman, Kruse, Ibid, p 136

[96] Ibid, p 66

[97] Scanlon, Joseph; Lesieur, Frederick; The Scanlon Plan, A Frontier in Labor-Management Cooperation;, MIT Press, 1958

[98] Kelso, Louis; Adler, Mortimer; Capitalist Manifesto; Random House, 1958

[99] Rosen, Corey; Case, John; Staubus, Martin; Equity, Why Employee Ownership is Good for Business; Harvard Business Press; 2005

[100] Lynch, Robert Porter; Business Alliances Guide, The Hidden Competitive Weapon; John Wiley & Sons, 1993

[101] See Best Practices by Association of Strategic Alliance Professionals; www.strategic-alliances.org

[102] Liker, Jeffrey & Rother Mike; *Why Lean Programs Fail*, Lean Management Institute website (www.lean.org) The focus of lean is on the customer and the value stream. You can say it is a pursuit of perfection by constantly eliminating waste through problem solving. Certainly an organization that is truly dedicated to becoming lean is on a path toward excellence. Yet a large survey conducted by *Industry Week* in 2007 found that only 2 percent of companies that have a lean program achieved their anticipated results. More recently, the Shingo Prize committee, which gives awards for excellence in lean manufacturing, went back to past winners and found that

many had not sustained their progress after winning the award……..”…. [they] missed the underlying skill and mindset development focus.

[103] See Lynch, Robert Porter; *What Senior Executives Must Know About Organizational Transformation,* private monograph