Readings on Alliances, Teamwork & Trust by Robert Porter Lynch

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1. **Synergy & Synchronicity for Teams**
2. **Synergy of Teamwork**
3. **Leadership & the Structure of Trust**
4. **Trust – the Economic Game Changer**
5. **Human Behavior – Culture as a Force Field**
6. **Value Maximization**

– Creating Synergy & Synchronicity –

Building Strong Relationships
by Robert Porter Lynch

STRATEGIC OR TACTICAL? THE NUANCES OF COLLABORATION

There are two broad categories of collaborative arrangements: strategic alliances and tactical cooperation.

The word "strategic" is not just a fancy word to make something sound important. Strategic means that you will be operating a way that will powerfully affect your "long term destiny."

Strategic alliances are long-term, multi-project/program alignments that produce a powerful competitive advantage, impact each organization's long-term destiny, and have significant consequences when they are not successful. The idea of "strategic" implies that:

- the trusting relationships formed between the key stakeholders (Private, Public, Government, Community, etc) are intended to last *beyond* a single project;
- the learnings and innovations derived from one project/program will become the foundation for the next projects/programs.
- the bonds of cooperation will extend well into the future, enabling a synergy to evolve that produces higher productivity/profitability for the organizations involved, higher customer satisfaction, and greater well-being for the employees

Tactical cooperation is a *project*-oriented relationship, shorter term, likely engaged at the *teamwork* level, often focused on a single objective, and formed with a specific end point in mind. Teams can be single-functional (among people with the same/similar duties and skill-sets) or cross-functional(different functions within the same organization, such as marketing linking with research & development).

When examining either strategic or tactical relationships, it's useful to view the relationship in terms of what's termed "3-Dimensional Alignment (see Figure 1: Details of 3-Dimensional Alignment), which analyzes organizational interaction.

Strategic Alliances:

Strategic Alignment -- Because strategic alliances are, by their nature, "strategic," the issues of mission, purpose, direction, destiny, and value creation are paramount. Thus the strategic alignment dimension receives great attention, especially in the early development of the alliance.
Cultural Alignment -- Regardless of how good the strategic alignment, if the cultural alignment is inadequate, people will be mistrusted and dysfunctional. Thus leadership, core values, trust-building, and how people are measured and rewarded are essential issues that must be addressed if success is to be attained.
Operational Alignment – This is the dimension in which real work is accomplished. It's where key issues of task, responsibility, methodology, and performance are essential.

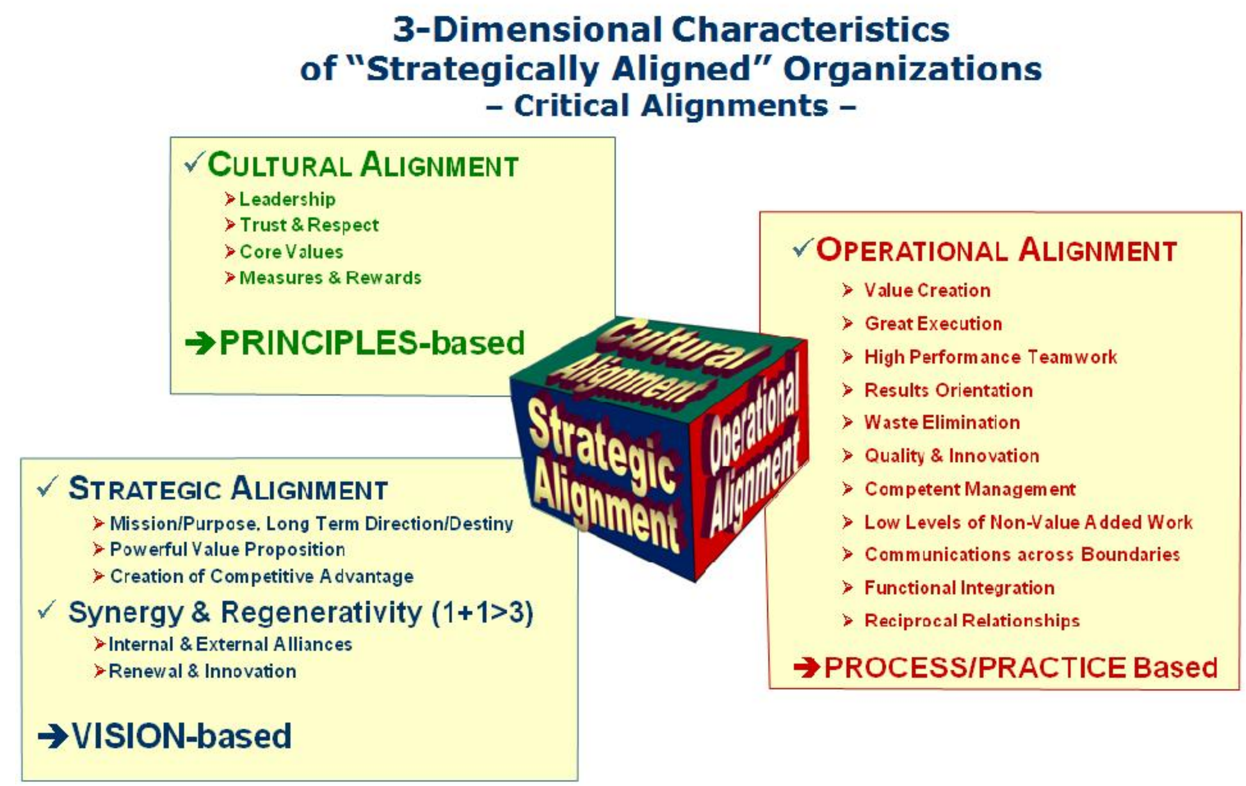

Figure 1: Details of 3-Dimensional Alignment

High Performance Teams:

Strategic Alignment -- Teams, being tactical in focus, do need internal emphasis on their inherent purpose, and value they will create. Teammates need a strong sense of direction and purpose to keep them aligned. While high performance teams may not necessarily be involved in *designing* strategy, they are part of the big picture of the organization, and thus need to have clarity about how their work benefits the organization's mission and how they contribute to creating competitive advantage.

Cultural Alignment -- Teams, more than alliances, rely strongly on close personal relationships, which makes trust paramount if the team is to function effectively. Virtually every authority on high performance teams cites trust as a core value to success. In addition, leadership is an essential ingredient to success, because leadership will establish the principles of cooperation, trust, standards, and norms of the group.

Operational Alignment – It's at the operational level where value is ultimately created and work gets done. Teams need to pay close attention to the processes used to accomplish tasks and ensure the standards for performance are high and there is a minimum of non-value added work. Close attention must be paid to the methods and processes for getting the job done. When cross functional teams are created, the greater the difference between the functions, the more likely processes, communications, measures of success, rewards, and methods of decision-making will be significantly different and need close attention.

The 3-Dimensional Fit framework can be extremely useful as a diagnostic tool in understanding where and why alliances and teams are dysfunctional. While most problems in alliances and teams will *manifest* in the area of Operational Alignment, the real *cause* often lies in one of the other dimensions being misaligned.

Synergy and Synchronicity – The Quest of Great Teams

One of the deepest desires of any normal human being is to be harmonized, synchronized and unified with others, as brother, sister, husband, wife, father, mother, neighbor, or friend. It is this common unity that underpins marriage, family, teamwork, community, alliances, nations, and the world of humankind. Yet it remains our most thwarted and elusive goal.

The "Quest for Synergy" is, at the same time, mankind's highest aspiration, loftiest ideal, and most soulful yearning. "Synergy" is the elusive but alluring song of all teams and alliances. Its archetypal attraction is bound in its possibility of creating something more the sum of its parts. Synergy captivates all, escapes most, briefly visits some, and for the blessed few, bestows enormous wealth and success.

What then is the magic of synergy? Or is magic at all? The quest of every team or leader is to find this holy grail -- the formula or architecture that will manifest this gallant goddess with singular regularity; to unveil synergy's secrets like Edison's applications of the power of electricity or the Wright brothers manifesting man's ability to fly.

The Illusion -- What's Missing?

Not understanding the essential nature of synergy results in comments like these:

> "We know how to create alliances, but don't know how to manage them!" reflected one American top executive, who lamented the lack of success in achieving his alliance's primary goals.
>
> "Government needs cooperation and coordination if we are to be efficient. However, we never seem to get alignment between the Federal, Provincial, and Municipal governments. Sometimes we get in bitter entanglements. It doesn't look very good when the press gets hold of it," was the complaint of a deputy minister in a Canadian province.
>
> "Our internal teamwork is terrible. We can't get any cross-functional group to work. People seem to build internal walls between our departments," groused a senior executive who watched his company polarize in the face of increasing competition and customer demands.
>
> "It looked great on paper, but it was a terrible fit in reality. Our cultures clashed on every issue from decision making processes to rewarding our sales force;" stated a dejected alliance manager in the pharmaceutical industry.
>
> "During negotiations, the deal makers poisoned the well, and we haven't yet recovered. We had to undo all the damage caused by the adversary legal jargon;" was the battle-weary response of the president of a multi-billion dollar international joint venture.
>
> "Alliances are an unnatural act for us. They are extremely difficult to manage; we'd prefer to do acquisitions; that way we can control them, " complained a senior vice president of a large German chemical manufacturer. Later, he noted that 30% of his revenues and nearly 50% of his division's profits came from alliances, but " we spend only 5% of our management time on them." For some inexplicable reason he failed to allocate management resources to the highest profit generator in his business.

> "Our acquisitions are largely a failure. We've bought very successful companies, but soon afterward the best of all the newly acquired people drift off into other jobs. Then the real problems begin…customers are lost, profits decline, innovation wanes…." was the sad comment of a chief financial officer.

> "We seem to reorganize over and over again, hoping we can attain better teamwork, coordination, and launch new initiatives better. Unfortunately no amount of reorganization seems to make a difference," a dejected government leader lamented.

In today's interrelated world, organizational relationships have become complex and often confusing. Fundamentally, executives, managers, and civil servants who've been managing in traditional hierarchical command and control companies are befuddled when given an assignment that requires them to develop relationships outside their span of control.

> The synergy they seek from the relationship remains elusive; cultural differences become insurmountable obstacles; project management turns into problem management; and the bureaucracies of the two parent organizations can become a quagmire of politics.

Secrets of Synergy

Not every complex organizational relationship experiences these impasses.

> "I am amazed how well our two companies are working together. We are actually ahead of schedule, and have had relatively few difficulties;" was the delighted comment from the alliance manager of a strategic sourcing venture consisting of a European food service company and a Canadian partner.

> "After only 6 weeks of working together, it's hard to tell the difference between the employees of their company and ours;" explained the director of an international mining company, commenting on his joint venture with an electronics firm.

> "I've forged alliances internally with our different departments and locations, with our work force, with our suppliers, and with our best customers. It's enabled us to put new programs into place rapidly. Our sales and profits have increased over 150%," was the proud statement of a Canadian manufacturer.

These collaborative managers achieved success because they insisted that their joint teams spend ample time understanding the unique aspects of strategic relationships, building cross-cultural teamwork, and establishing processes and skills to access and embrace the unique value of their joint vision and their partner's unique strength.

Experience has proven that there are invaluable beliefs and skills which are often overlooked that enable collaborative managers to produce high performance results: skills at managing differences, breakthroughs, speed, and transformation.

The Value of Differences

The fundamental reason why teams or alliances are formed is to access a capability within other people, groups, or organizations, thus finding the magical synergy, the 1+1=3. However, this means capturing the value of differences.

Lying within these inherent differences is the promise of the new team to create bold new futures, or conversely, to implode upon itself as differences turn destructive. Unfortunately, for all-too-many organizations, differences become corrosive, actions become angry, self-protection arises from distrust, and polarization rigidifies points of view. Some people turn to lawyers to generate reams of legal documents to create surrogate contractual trust. Others stand their ground more firmly, often with dire consequences – liberals versus conservatives, Protestants versus Catholics, Muslims versus Jews, capitalism versus communism, blacks versus whites – and the list goes on. Seemingly, the difficulty in managing differences is a relationship problem has gone on since the beginning of recorded time. The Bible is filled with these conflicts, Chinese history records similar conflicts, and even the wisdom of Socrates and Plato did not diminish the carnage.

Traditional approaches to managing cultural differences have focused on becoming sensitive to differences, cross-cultural training, understanding linguistic nuances, and acculturation. While these methods have their worth, a number of very essential approaches are often overlooked that distinguish successful organizational relationships (each element will be explored in detail in the following pages):

- Power of Shared Vision
- Synergy of Compatible Differences
- Trust Building
- Commitment to Mutual Benefit & Camaraderie
- Sharing Expands Possibilities
- Conflict Transcendence
- Turning Breakdowns into Breakthroughs
- Transformational Flexibility

The Power of Shared Vision

The universal vitality of focusing on a powerful common vision, backed up by a dynamic and inspiring value proposition that speaks to the customer shows no cultural boundaries. For example, take this typical vision for a government:

> "We will be the leaders in (energy management, or education, or transportation, or public service, etc.)."

It presents a "vision vacuum" by saying nothing, containing no commitments, and inspiring neither the organization's stakeholders nor its customers nor its suppliers. Devoid of a powerful vision, everything defaults to politics, manifesting as cultural differences, which then divide the stakeholders against themselves.

> As the old adage from Alice in Wonderland states: *"If you don't know where you are going, any road will get you there."* And that road will be fraught with in-fighting, subversion, despair, and confusion, all of which will ultimately lead to the ruin of the alliance.

Contrast the weakness of a faulty vision with the motivational force of a more commanding perspective:

> "Our team will create 10 new innovations each year that will reduce the costs to our customers by 25%, while accelerating their throughput by 50%."

By having a powerful central vision and value proposition such as this, partners focus differences on how to achieve the joint goal, rather than arguing amongst themselves as to whose way is the "right way." A shared vision helps ensure synchronicity. Powerful visions are all founded on belief in the ability to discover the unknown, accomplish the seemingly impossible, and overcome the apparently unattainable.

Therefore, strong leadership must be present to build such a vision and to unify and align the team's differences for a common purpose.

Synergy of Compatible Differences

Synergy does not just occur as a natural byproduct of a relationship nor from a tough legal agreement, nor by dint of a dream.

Rather, it must be designed with architectural aplomb. But more, synergy must be activated by a powerful set of actions founded upon the understanding of how differentials produce the 1+1=3 effect.

> "If two people in the same room think alike, one is unnecessary;"
> commented the philosopher Ernest Holmes.

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

Invariably, however, ethnocentric or business culture attempts to enforce its mighty and frequently destructive hand. Some team members may begin by making judgments regarding the other side's culture, branding it as strange, wrong, inefficient, bad, or unproductive. As soon as this begins, fear, uncertainty, doubt, and distrust begin to fester, and then the alliance begins to unravel. This calls for strong action.

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

Because complex organizational relationships cannot be commanded, the mechanisms for leadership and control are dramatically different compared with most conventional hierarchies. Great relationship managers tend to be "integrators," possessing outstanding skills in bridging differences through their ability to translate across cultural boundaries. The greater the differential between cultures, the greater the need for highly skilled integrators.

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

Trust Building

Ask any alliance manager about the value of trust in a relationship, and they will wax eloquently about its impact on success. Without trust, strategic relationships fail, period. Trust is the foundation of all cooperative enterprise.

Trust is the hallmark of the personal relationships between the people who constitute the team. Without this trust, no legal agreement, no strategy, no structure, and no process can achieve its objectives. These personal trusting relationships distinguish great team leaders from their transactional cousins who forsakenly bring the *Fool's Golden Rule* into relationships:

"He who has the Gold: Rules."

The best strategic relationships tend to use three "metallic" rules:

> **Golden Rule:** *"Do unto others as you would have them do unto you."*
>
> **Silver Rule:** *"At least do for yourself what you would do for others."*
>
> **Iron Rule**: "*Don't do for others what they can do for themselves*."

Trust is the glue that binds personal relationships and the grease that prevents frictional differences from becoming fractious.

Trust and Integrity are the threads of the complex relational fabric. Integrity is more than just being honest or trustworthy. Integrity means being true to oneself, to one's deepest values; and the benefits are ultimately both a divine blessing and a liberating freedom.

> "Integrity resides in the ability to constitute yourself as your word. As such it is a home, an anchor, a self-generated and continuing commitment to honor your word -- despite contrary thoughts and feelings if need be. It is a consistency of being, speaking and acting that shapes who you are -- to yourself and to others." -- Anonymous

Integrity becomes a divine gift by enabling us to touch the deepest yearnings of others around us, thus creating a new set of possibilities filled with hope and inspiration. Integrity is thus expansive, allowing us to become more than ourselves, to create with others, to empower others. Integrity includes setting expectations and consistently meeting them. Integrity marvellously liberates us to live our relationships forward into the future, enabling us to experience the present moment cleanly and without fear that our past will undermine us, corrode our vision, and erode our energy.

The lack of integrity inevitably forces one to look back over one's shoulder, haunted by a past filled with historic baggage which will harbor tomorrow's illness, or threaten to destroy one's false illusions that were invented to disguise the sordid realities of a disingenuous life.

In a fast moving world, trust and integrity thus spawn a massive competitive advantage, because together they enable the teams to make rapid decisions without the need for a legal contract every time someone tries to make a decision. What's more, trust and integrity enhance creativity, build teamwork, reduce unnecessary transactional costs (such as memos to protect oneself), and make the relationship more fun, thereby building human energy.

Trust has been elusive; ultimately, no amount of pages in a legal contract can substitute for or replace weak trust. It's the single most important thing that separates alliances that thrive from those that fizzle. Trust enables everything to move faster, more effortlessly, and with less conflict. Mistrust causes everything to be more complicated, slower, and far more fragmented. In spite of its importance, trust is too often taken for granted.

The alliance professional that can build a strong relationship of trust creates enormous economic value. Our economic studies have shown consistently that trust can double the rate of innovation, accelerate speed of implementation by two or three times, and cut non-value-added work in half, or more. The economics of trust are compelling, especially considering that it costs little or nothing to create trust, while it is excruciatingly expensive to co-exist without it.

Why is trust so seductively elusive? Because there has been no clear "architecture" or "system" for trust, it has fallen into a vague and ambiguous area where the mind-set for trust is fuzzy; the skill-set is deficient; and the tool-set inadequate. Alliance professionals need not be trapped this way.

> Because trust has been an interdisciplinary target caught between academia's cracks, zig-zagging the boundaries of leadership, political science, sociology, anthropology, psychology, organizational behavior, and neuroscience, no concrete "trust architecture" has emerged. We aim to change that.
>
> This has left us lost in a multitude of platitudes, slogans, and aphorisms, such as "trust but be sure to bring your lawyer," "trust but verify," "trust must be earned," "be skeptical before you trust," "be sure to have an exit strategy," and so on. Unfortunately none of these approaches really produce any trust. [the UBC course will provide this "architecture of trust" in a compelling way.]

Because fear is the principle cause of distrust, leaders should be very hesitant to use fear as a means of motivation – its short term gains may be very limiting in the long run. While fear causes people to withdraw, withhold, undermine, and generate suspicion, trust does just the opposite, being both the grease making things work fluidly, and glue that binds.

Embedding a system of trust into your alliance yields enormous rewards for all stakeholders. Trust unleashes latent human energy and enables it to be aligned on a common purpose. Many leadership situations require influencing without authority, which can only happen when those we wish to influence trust and value us. Trust produces highly effective people, high performance teams, useful ideas and innovations, and people who want to come to work because it is an energizing, co-creative experience. Leaders who want to support collaboration, be considered trustworthy, and trigger innovation should keep the "FARTHEST" principles in mind:

- Fairness *in all your dealings to be sure everyone gets a fair shake. Successful innovation leaders are perceived as being even handed, good listeners, and balanced in their approach.*
- Accountable *for your actions. When you make a mistake, admit it and move on. Accountability is the external manifestation of internal Integrity. Leaders without integrity are quickly dismissed as hypocrites.*
- Respect *for others, especially those with differences in skillsets and points of view is critical. Without respect for others, trust cannot be built. Giving respect is the first step in gaining trust – then moving forward to synergize differences in thinking.*
- Truth *is an absolutely essential component of building the type of trust that triggers innovation. Remember, your emotions or perceptions are seldom real truths. Stick to the facts – things that are measurable or concrete. And remember, a critical comment has about five times the impact as a positive comment. So balance your truths carefully.*
- Honorable purpose *must be the foundation of all your actions. If people perceive your purpose for innovating as strictly for selfish purposes, without a component impacting the 'greater good,' you will not be perceived as trustworthy.*
- Ethics & excellence *in standards. Innovation is propelled by the idea of always getting better, improving continually, reaching for the highest level of performance. If anyone sloughs off, they must realign to the highest measures, otherwise others will be resentful or fall off in their performance.*
- Safety & security *are essential to all human beings. This includes ensuring that there is "No such thing as Failure, Only Learning." Be careful not to punish what might look like a failed attempt at creative solutions; encourage learning from failure. And always avoid the Blame Game. Fear does not produce innovation. You will know when people feel safe – they will be laughing. Creativity is not all grinding labor; it's having fun and laughing a lot, spontaneously creating in the moment – that's magical. Research shows that laughter releases endorphins that trigger creativity.*
- Transparency & openness *enable everyone to see intentions, share data, and exchange ideas in a culture that supports challenging of ideas and develops new insights.*

As a leader, you will be in situations where you must influence others over whom you have absolutely no authority. At this critical juncture, the NUMBER ONE thing that will come to play is the issue of TRUST. No successful influence will happen without TRUST playing the pivotal role. And that means how they decide to support you, to align with you, to provide financial resources to you, and to help you be successful. Remember how important it will be that people trust not just your dream, and not just word, and not just your actions, but also the honorable purpose for which you stand and your ability to build a team you and they can trust. This team will grow and multiply into a world you can trust, while excluding those who don't meet the standards of trustworthiness.

Synchronicity

Anyone who has traveled to Switzerland will notice immediately that Swiss churches are different from other churches in other lands. What's different? A clock is imbedded in every steeple. Why? To keep the culture synchronized. The importance of synchronicity is that it enables coordination, encourages cooperation, and stimulates co-creation.

According to historical lesson, Switzerland should never exist; a country made up of German, French, and Italian cultures would ordinarily tear itself up. While not the sole reason, synchronicity contributes enormously to synergy.

> ~ SYNCHRONICITY EXAMPLE ~
>
> **Baseball's Famed Double Play**
>
> Infielders executing a "double play" is a perfect example of synergy and synchronicity. All players have the same shared vision and guiding principles, innate trust in their teammates, commitment to precision of execution, and very clear roles and responsibilities.
>
> Timing is essential. A split second spent to "think about the play" is enough to ensure failure.
>
> Without deep trust in the other player's competence, understanding of the big picture, and cherishing of the different skills, the double play cannot be executed.
>
> Every sport – hockey, basketball, football, soccer – has its parallel example.

Commitment , Mutual Benefit, & Camaraderie

Building trust in a relationship comes not from golf games and dining together. It's built in the heart, and on the field of deeds; it's held in the commitment to transform values and beliefs into concrete actions, it's founded on the commitments to the integrity of one's word.

Trust and Integrity are but hollow concepts until vigorous commitments are put into place. For it is with commitment we transform promise into reality by words that reflect intentions, and actions which speak louder than words. Commitment is making the time when there is none; the daily triumph of vision over skepticism, of conviction over fear, of cohesiveness in the face of adversity.

Commitment is the willingness to take risks, even when past experience calls for caution. Commitment is crossing the chasm of fear and danger to meet the needs and hopes of your partner. Commitment is the willingness to look from the past into future possibilities; the willingness to move enough to release anger and hurt to enable our rising to a higher level, seeking to turn breakdowns into breakthroughs Commitment is the power to transform the reality of relationships. Commitment is the willingness to take the leap of faith when there is little justifying evidence, because one believes in the other's values and integrity.

Relationship leaders always remark that they are accused of being traitors to own organizations when they stand tall and strong for their alliance partners. Brian Ferrar, alliance champion at HP-Compaq recognizes how this bonding impacts the relationship between champions:

> "An alliance manager and his counterpart at the partner company are often closer than each may be to many of their co-workers because of the trust it takes to form the alliance."

However, this bonding across organizational boundaries can be quite disconcerting to many insiders who see this as a serious breach of loyalty. It is from this loyalty, commitment, and integrity that relationship managers build a camaraderie that lasts for years.

Win-Win is the oft-trumpeted rallying call for teams and alliances. But win-win can mean very different things to different people. Consider the striking difference between these statements, all of which represent win-win:

WEAK
Win-Win

I will fight to win, and you must fight to win, and somewhere in the middle we will strike a balance

I must protect my interests, and, inasmuch as they are protected, you can take what is left or what is in your interests

We must both be willing to strike compromises and make concessions if we are to achieve win-win

I will let you win because I know win-win is good for alliances

I am committed to you winning as long as you are committed to me winning

We both have a common goal, so we should work together to achieve the goal together

I will defend your interests from an attack or an infringement from people on my own team because you are my partner and my ally and because we have established firm Rules of Engagement which I will not let my own side violate – I am committed to retaining our trust.

We augment each other's strengths and weaknesses, therefore together we are greater than we are apart

Our Vision is the same, Our Values are Compatible, We Know and Value the Metrics of your "win," Let's Create a Breakthrough Together

We will create a whole new world together with an inspired vision of the future that expands our potential, and enables the Customer win too.

STRONG
Win-Win

For synergy to manifest itself, the strategic relationship must be championed by people willing to make strong commitments to a powerful win-win.

Sharing Expands Possibilities

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

Sadly, in a world where certain resources may have been scarce, hording is a common practice, based on the belief that hording will control resources, thereby maximizing returns.

One must distinguish between *expendable* resources that disappear upon sale or consumption (such as oil, food, minerals, etc) and *expandable* resources that multiply the more they are used (such as creativity, cooperation, and teamwork). Expendable resources are depleted and decrease upon usage. Expandable resources regenerate and increase when used.

> For example, software is an *expandable* resource. Using it daily does not diminish its size or impact. To the contrary, using software creates more value every time it is used -- therefore it *expands*. It is best used when shared, transferred and transmitted. Using this resource brings it to life. Capturing the learning and sharing the knowledge generated by software only makes it more valuable, reaching more people, and generating more future possibilities.

Unlike *expendables*, which adhere to the universal price laws of supply and demand, *expandables* are not limited by supply, and demand does not increase their price, but does increase their value.

We must be able to distinguish between *expendables* and *expandables* when negotiating any strategic relationship. To treat each with the same principles limits possibilities of expanding the realm of the partnership. This type of thinking is often reflected in contracts for intellectual property, where negotiators tussle for months and even years over ownership rights. Their hording mentality blocks them from realizing that, if sharing of intellectual property rights occurred, both sides would create more new ideas and command a better mutual competitive advantage.

> The economic Laws of *Expendables* run counter to the Laws of *Expandables*, but both are true and both mutually exist in our world. The problem is that miserly minds can't acknowledge the latter.

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

Sharing Expands, Hording Contracts

> Roy Rogers, commenting on his long marriage to Dale Evans, remarked that a great marriage is not a 50-50 arrangement. Both partners have to give at least 100%. Rogers said both Dale and he were always willing to go beyond: giving 120%. The Law of *Expandables* creates its own "regenerative energy," this is what we call "synergy."

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

Conflict Transcendence

Whenever disagreement arises (and it will, for wherever there is change, their will be disagreement and conflict), great alliance practitioners are careful to focus on ideas and issues, steering clear of ego entrapment games, such as "who's right or wrong," or "what's good or bad" that will rapidly descend into the pits of defensive self-righteousness and intractable conflict.

Conflict is the inevitable by-product of all change, and any proposition of new ideas will generate some amount of conflict. The objective is to prevent the conflict from degenerating into blind fear and inflexible rigidity. Without conflict there will probably be no buy-in. Just be careful not to take conflict personally as an attack -- conflict is just a tool to get people talking and debating an issue from one side or another. It promotes the kind of understanding necessary to be successful in the creativity business.

Most organizational relationships exist in a world of constant flux, and therefore need frequent and continual adjustment. If those responsible for the alliance use win-lose negotiating techniques, always angling for self-interested advantage, then each side will lose synergy potential. But worse, this approach will then generate conflict, which will soon become unmanageable as trust and commitment rapidly evaporate in an enflamed atmosphere of fear and protection.

Turning Breakdowns into Breakthroughs

The Co-Creative Spirit has an internal compass that points to synergy in lieu of conflict. This does not mean disagreements and breakdowns do not occur. But rather that these circumstances are opportunities for improvement, situations for turning breakdowns into breakthrough, conditions for shifting to higher orders of thinking.

> Disagreement does not naturally gravitate to conflict, but becomes a transcendent experience to turn the passion of argument into the passion of creation.

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

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

> Overly legalistic, win-lose, or adversarial negotiating styles will be highly detrimental to the overall health of the alliance in an environment of frequent repositioning.

Transformational Flexibility

In a fast moving, rapidly changing world, many strategic driving forces will be in flux -- technology is changing; customer tastes are changing; power positions are changing; priorities are changing. The underlying forces that may have been the fundamental reason the strategic relationship was formed may be in a constant state of flux, serving as a major destabilizing factor, like a rogue wave trying to capsize a boat. Thus, strategic relationships are in constant need of transformation. Bull-headed managers are quickly trapped in untenable positions by dramatic shifts in strategic driving forces. In an effort to maintain trust by establishing predictability, efforts to justify their position by self-effacing comments like: "at least you know where I stand, therefore you can trust me," are met with increasingly incredulous stares. As the Bible says, when the blind lead the blind, both end up in a ditch.

Here it's important to make a critical distinction about trust, ethics, and values in any strategic relationship. These are among the only things that must remain stable over the course of a strategic relationship – like an anchor to windward, providing a firm grounding for the relationship.

> On the other hand, direction may change strategic winds change, more adversarial conditions emerge, or more information is known.

> For example, in the very important relationship between a doctor and their patient, the doctor's ethics have been proscribed two thousand years ago with the Hippocratic Oath, but the doctors treatment program must change as new lab reports provide different insights, tissue generation or degeneration occurs, etc.

Relationship managers must be monitoring the shifts in the strategic environment regularly, and repositioning the alliance membership to align with these shifts.

Because complex organizational relationships must transform themselves frequently or lose their mission and purpose, leaders must establish a culture of visioning, breakthroughs, and co-creation as a foundation for their renegotiations. As one telecommunications executive said of his alliance in Poland,

> "No one knows what the future will look like.
> But if we don't talk about it, we will end up someplace else."

Flexibility is essential to making relationships work over the long haul, because benefits to each party are seldom equal at any one point in time. Each partner can expect to see benefits unequal for short periods of time, but without flexibility to re-write an agreement, failure is lurking.

What is missing from most teams, alliances, and partnerships is a clear definition of the spirit that bonds people and organizations together, and gives them the flexibility to make adjustments as the world around them changes. This flexibility and agility can never be codified in a legal contract.

> In fact, successful alliance managers proclaim that if they have to look at the legal contract, the alliance has failed. Strategic relationships exist not the contract but in the soul and spirit of those who create and manage it. Successful synergistic relationships are best codified by a co-created set of mutually beneficial operating principles or rules engagement than by a legalistic, trust destroying contract.

Mastery as Relationship Architects

Very seldom does synergy happen by accident. It manifests because people believe it is possible; and then design a methodology to make it a self-fulfilling prophesy. To those who build strategic relationships, our work is not just a business profession, but a mission with its roots solidly set in the "architecture of cooperation."

Our mission is to transcend divergent points of view, thus co-generating bold new futures where differences become the ever-renewable source of creative energy, the essence of innovation, the dynamism of new possibilities. Ours is a noble endeavor -- designing the synergy of compatible differences. Daily we must use honor and integrity to build the trust that is essential to all our relationships.

> Held within the seed of the architecture of collaboration is the power to let us bring a new insight, a new pathway, a new hope, a new spirit, and a new power to our world.

Each day, when we create a strategic relationship and use collaborative innovation, we are contributing to the creation of that higher order of experience and action that makes our workplace a better place to live. Daily we are honing the skills and transmitting the abilities and multiplying the possibilities to spawn a better world around us.

> As we expand our capabilities in teams and alliances, we can use these proficiencies in a multitude of applications -- better government, better teams, better families, and better communities.

In the large span of things, step by step, relationship by relationship,
we will have created a better world for all of us.

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By Robert Porter Lynch

What Consistently Creates Success?

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

For decades the United States had dominated Olympic basketball, always winning the gold medals. In 2004 the stage was set in Athens. Everyone assumed the overwhelming U.S. supremacy would continue after fielding a squad stacked with high-scoring superstars.

They were crushed in the first game, losing to Puerto Rico by nearly twenty points, the most lopsided defeat in the history of U.S. Olympic basketball. This Dream Team of Superstars then lost to Lithuania and Argentina, soon becoming known as the Nightmare Team. Sports Illustrated said “covering Team Bad Vibe in Athens was about as pleasurable as getting a root canal.”

In all of decades of Olympic history, the American teams had lost only two games; the Nightmare Team lost three, and didn’t even make the final playoffs. The humiliation was due to individual competence being defeated by competitors who stressed teamwork passion, coordination, and commitment to what was best for the team. Self interest defeated teamwork and trust.

This Olympic example superbly demonstrates the lack of *synergy and synchronicity* that’s necessary to generate great team-work. Synergy enables a team to produce more than the sum of the individuals. Synchronicity is precision timing and anticipatory coordination that enables great teams to work in unison, both physically and mentally.

In the following 2008 Olympics, a new coach was appointed, Duke University's Mike Krzyzewski, who is a brilliant strategist, but more importantly a coach who looks for players with character and who play for the good of the team. Players that could trust each other to work as a unit, not as individual superstars, each looking for the spotlight. The team sparkled and went on to win the Gold Medal, undefeated, outscoring their opponents by an average of 28 points. Coach Kryzewski said after winning the Gold Medal: “We played with great character.”

> Teamwork at Disney
>
> Togetherness for me means teamwork. In my business …many minds and hands must collaborate… The work seeks to comprehend the spiritual and material needs and yearnings of gregarious humanity.
>
> It makes us reflect on how completely dependent we are upon one another in our social and commercial life. The more diversified our labors and interest have become in the modern world, the more surely we need to integrate our efforts to justify our individual selves and our civilization. -- Walt Disney (P 90)

Krzyzewski is the winningest coach in college basketball history. A former army officer who was trained at West Point, he integrated the classical principles of honor, integrity, trust, loyalty, and duty into his coaching. Trust is a centerpiece of a winning strategy:

“In leadership, there are no words more important than trust. In any organization, trust must be developed among every member of the team if success is going to be achieved.”

“There are five fundamental qualities that make every team great: communication, trust, collective responsibility, caring and pride…. Any one individually is important. But all of them together are unbeatable.”[1]

[1] Official Website of Coach Krzyzewski: CoachK.com

I'm looking for the kids who are good who want to play collectively. That's the beauty of our sport, our game. The pass is still the best play, because our game is a game of connecting. If you lose the connection, you lose the spirit and then you lose your game." [2]

"Throughout the season, I look into my players' eyes to gauge feelings, confidence levels, and to establish instant trust…Teams that trust one another and communicate are luckier...

"We're able to be successful only because we trust each one another. We work hard to focus on the truth, look one another in the eye, and then take action for the good of the team. And once the confrontation is done, it's done. The bond is not jeopardized, because ours is a relationship based on trust." [3]

'The quality that we need to teach the most is trust, to be honest with one another. I have a rule on my team: when we talk to one another, we look each other right in the eye, because I think it's tough to lie to somebody. You give respect to somebody.

"The main thing that you do with crisis management is trust one another….You have to have that trust develop before the crisis. If you haven't had it up to that time, and you have a crisis, then maybe you can use that crisis to develop it, but you're probably going to lose during that time. Maybe you can use that to mold your group together, as long as -- when those things happen -- you have a thing called collective responsibility. Everybody wants to take responsibility when you win, but when you fail, all these fingers are pointing. "[4]

The Nature of Humans

The debate as to whether humans are competitive or collaborative is completely misframed as a question. The reality is that humans are *dualistic*. We are competitive and we are collaborative. It is designed into the structure of the human brain. This is why team sports are so popular among sports fans all over the world. People love to watch a team demonstrate it's collaborative nature internally, and its competitive nature externally against its rivals. (see Lynch, *Darwin Hoax*)

Symptoms of Team Distrust

Surprisingly, many organizations suffer from poor trust and teamwork but have tolerated it so long it feels normal because it's become an old habit, an accepted practice that goes with their organizational territory. Here are the symptoms typically indicating poor trust and poor teamwork:

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

If many of these symptoms are showing up in your organization, then probably other more severe teamwork problems are evident that can be traced back to poor trust. The first line of defense on preventing distrust from destroying teams is to use the earlier-cited Classical Trust Principles.

[2] Coach K practices what he preaches By Mike Prisuta, Pittsburgh TRIBUNE-REVIEW July 17, 2004

[3] Krzyzewski, Michael, Leadership with a Heart From chapter 5 on Trust, Business Plus, 2000

[4] Interview by Academy of Achievement, May 22, 1997 Baltimore, Maryland

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Leadership and the Structure of Trust
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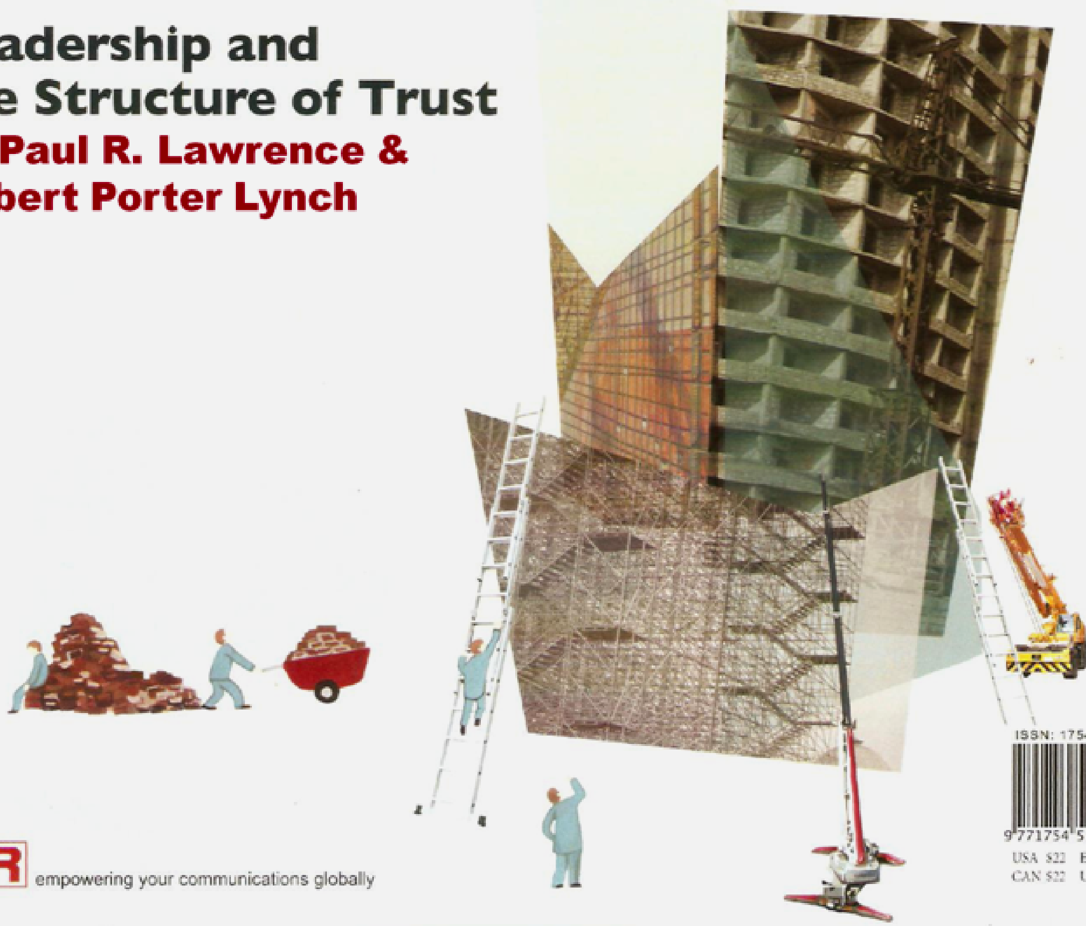

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Leadership and the Structure of Trust

By Paul R. Lawrence and Robert Porter Lynch

Trust enables everything to move faster, more effortlessly, and with less conflict.

In the business world, executives soon learn how expensive distrust is. Every transaction, every conversation, every move we make seems to be distrusted until we prove we can be trusted. Mistrust causes everything to be more complicated, slower, and far more fragmented. Distrust hurts our businesses, adding extra costs to everything. Just take health insurance – distrust adds at least 20-30¢ to every dollar of health cost, for which we receive no health value in return. What's more, distrust puts a major limitation on collaborative innovation, internal teamwork, and external relationships with suppliers, customers, stockholders, and our community. Distrust is an incredible competitive *dis*advantage.

Profusion of distrust

Trust in America is declining; the evidence is everywhere. Recent polls show that by a margin of nearly 3 to 1 we distrust the media and unions, and by 4 to 1 distrust politics and big corporations. Only 36% of Americans trust banks. The majority of Americans trust neither Congress nor the Food and Drug Administration. President Obama has announced a "Trust Deficit." If distrust were a disease, we'd declare it an epidemic.

Similarly trust in Europe is not healthy.[1] Recent 2010 polls show that banks are trusted by only 40% of Europeans, and large corporations by only 30%. Nearly three quarters of Europeans distrust national government. In one European survey of 33,000 people, car salesmen were twice as likely to be trusted as politicians (16% versus 8%).

In the UK, Britons believe businesses will be 10 times more likely to lie than doctors. And the French are more cynical; only one in five trust government and the banking system, and less than a third trust the press. In Switzerland, considered one the top 10 most trusted countries in the world,[2] nearly half the country trusts neither its banks, nor international companies, nor its government, nor the press.

Executives generally agree that the pace of change is increasing, especially since 1980, with more speed and more complexity, creating more stress and uncertainty. Many attribute this to such factors as the cell phones, internet, deregulation and globalization. What too few executives seem to understand is that *in a faster moving, more rapidly changing world, we need more trust, certainly not more distrust, to keep a sense of order and balance.* Trust is the one thing that's essential in a stormy sea. Yet just the opposite has happened. Trust has gone into a precipitous decline at the very time we need more of it. [see Figure 1]

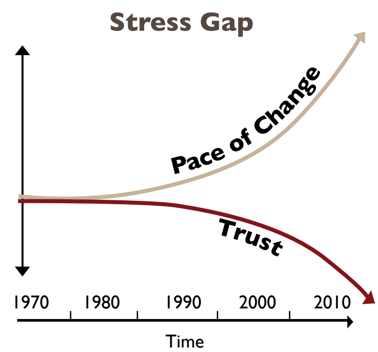


Figure 1 - Stress Gap

Ultimately, no amount of pages in a legal contract can substitute for or replace weak trust. It's the single most important thing that separates relationships that thrive from those that fizzle. Trust enables everything to move faster, more effortlessly, and with less conflict. In spite of its importance, trust is too often taken for granted.

Why is trust so low? We think there are several reasons:

1. We've distrusted for so long that, like cynicism, it becomes a habit. To start trusting again is risky, making us vulnerable. It's easier to be skeptical; reserved; protective; if we expect little, then we're never disappointed.

2. Many of our institutions are based on an adversarial process. Our legal system is founded on the premise that the truth will be best revealed by pitting lawyers against each other in a courtroom battle. Journalism favors stirring up a controversy to sell newspapers; radio talk shows foment dissention by telling their one-sided truths. Our political party system promotes doubt and distrust of their opponents.

3. As a civilization, our ways of thinking about trust itself are inadequate. Go to the bookstore and look for books on trust. Reading over the scanty literature, one is somewhat shocked to see how little we seem to know about such an important subject that impacts our daily lives, at home and at work. We don't have courses focused on the subject of trust. But the converse reality is equally distressing. We have entire professions in law, accounting, and negotiations promoting or reacting to distrust. Thus we are relegated to trust by platitudes, such as: "Trust must be earned," "Build an escape clause," "'Start small, then expand," "Speak softly but carry a big stick," "Be ever vigilant," or "Focus on interests." These are all but useless in creating sustainable, organization-wide, trust. Often the platitudes are contradictory, irrelevant, inapplicable, or downright inappropriate, irritating, or counter-productive.

Causes of distrust

What causes distrust? In a word: *fear*, in particular, *fear of being taken advantage of, humiliated like a stupid sucker,* or *fear of being hurt financially, emotionally or physically.* Fear, focused outward on a common threat, may help overcome the threat, but, focused inside the organization, it will certainly destroy trust and teamwork.

This sheds light on what can be done to improve trust. By examining *how* distrust occurs, specific behavioral actions become evident. Changing the actual behaviors of people does more to shift trust positively than to talk abstractly or symbolically about it.

Probably the most challenging and elusive objective of any leader is to create a *system* of strong trust within their organization – whether it is between business units, within teams, or across corporate alliances.

Achieving trust by design

Why have so many attempts at achieving trust failed? Most leaders know intuitively that the magic moments of strong trust, however fleeting, are truly possible. Sports coaches call those magic moments "being in the *zone*." This seemingly elusive condition is the result of right alignment of powerful forces; *innate drives within the human unconscious* that can be *unleashed* and *aligned* to achieve trust *systematically by the right kind of leadership.* Traditionally trust has been considered a "soft" backwater of leadership and management studies. Because there has been no clear "structure' or "architecture" for trust, it has fallen into a vague and ambiguous area where the mind-set for trust is fuzzy; the skill-set is deficient; and the tool-set inadequate.

However, a growing body of a growing body of evidence shows that a strong structure of trust has an underlying design behind it. Trust's great value can be achieved only in an organization where basic values are reinforced with concrete, measurable behavioral actions. Only then can organizations reach new heights in relationships. What's needed is a structure for guiding everyday interactions, along with specific management tools to create productive relationships, while safeguarding against the untrustworthy, and disengaging from poisonous, distrustful ones.

By becoming skillful in designing trust, a leader can take trust from the vagaries of intuition to a new level where highly insightful interaction becomes commonplace.

> The term "Survival of the Fittest" is often erroneously ascribed to Darwin as his main theme for human evolution. It was Herbert Spencer who promoted this idea in 1864 to justify his earlier preconceptions of evolution. Others seized on the "survival of the fittest" theme to validate British Imperialism.
>
> While Darwin did see natural selection as the foundation of most plant and animal development, he perceived human development in a very different light; his premise for humans could best be described as "Survival by Collaborative Adaptation."

Trust Element #1.
Drivers of behavior

To understand the nature of trust, it's first necessary to grasp the fundamental roots of human nature and how our brains have been hardwired for survival by the evolutionary process. Based on neglected insights of Darwin's drawn from his second epic book, *The Descent of Man*, and on extensive research over the last hundred years into the neurological process of the human brain, along with the best evidence from psychology, sociology, and anthropology, we can begin to understand what drives human behavior: *our ultimate innate motives.*

Nearly every individual on the planet is imbued with four innate "drives"[3] **[see Figure 2]:**

• Drive to **Acquire** – to compete for, secure, and own at least a minimum of essential resources (food, shelter, mate, etc.), to exert sufficient control over one's environment for this purpose, and, when pushed by desperation into greed and domination.

• Drive to **Bond** – to form long-term mutually caring relationships, to cooperate with others, engage in teams, build organizations and alliances, and, at its fullest, to put moral meaning in all relationships.

• Drive to **Create** – first to learn, to comprehend one's self and environment, then to inquire beyond, and most fully, to imagine and invent.

• Drive to **Defend** – to protect from threats to one's physical self and loved ones, to have security and safety of one's valued possessions and basic beliefs, and, pushed to the extreme: to attack.[4]

Each individual has all four drives, with some variance in their weights depending upon their own 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. All four drives evolved in humans because they all proved to be essential for survival.

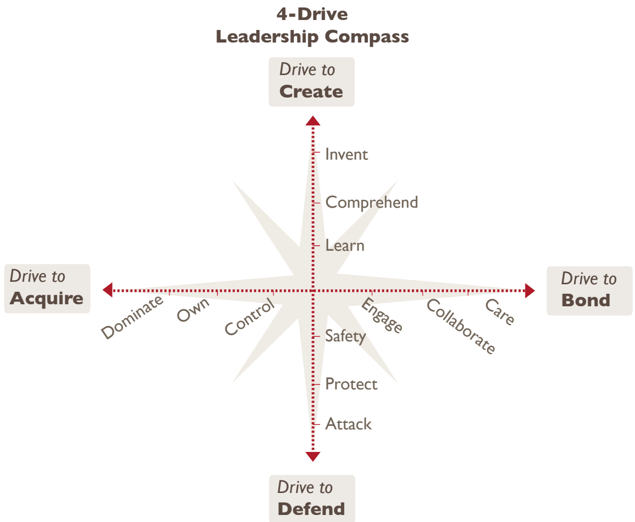


Figure 2 - Four Drives of Human Nature

The drives are often in conflict within our minds. Our drive to *Acquire* can obviously often be in conflict with our drive to *Bond* with others. However, with conscious awareness of the need to reasonably satisfy all these inherent drives (in themselves, as well as in other stakeholders) effective leaders, can resolve these conflicts by selecting a course of action that best satisfies all four drives. This can best be done by skillfully crafting[5] action plans that resolve such conflicts; often by emphasizing the higher-order drives to *Bond* and *Create* that make us uniquely human.

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

An organizational culture based on control and fear will trigger and emphasize the *Acquire* and *Defend* drivers, resulting in an organization that has fiefdoms and power-struggles, territorial battles as rivalries emerge between business units, functions, or buyers and suppliers.

Southwest Airlines has sustained a record of profitability by continually activating the Bond and Create drives in their corporate culture.

On the other hand, trust-building emphasizes the *Bonding* and *Creative* drives that are so essential to a modern corporation. Trust unleashes human energy by aligning the *Bonding* and *Creative* drives of individuals, enabling multiple individuals to coordinate actions and innovate synergistically. In a fast moving, rapidly changing world, where flexibility and adaptability are strategically essential to success, setting a course that stimulates both the drives to *Bond* and *Create* is vastly superior to one that activates only the less flexible *Acquire* and *Defend* drives.

The Leadership Compass acts as a navigational instrument for leaders to determine action plans to achieve a creative balance among all four drives. Every organization creates a unique footprint based its own distinct administrative processes for measuring and rewarding the different drives. A leader must be especially cognizant of his or her relative emphasis on these measures and rewards because of their significant impact on outcomes.

The "dominate" and "control" (Acquire & Defend) posture of General Motors toward its suppliers during the last two decades created a severe competitive disadvantage compared to Honda and Toyota's use of a far more advantageous collaborative innovation (Bond & Create). By 2004 the trust level with GM was so low that supplier innovation flow was being directed to Honda and Toyota, and away from GM.

Trust Element #2.
Four-drive code of honorable behavior

The idea of a moral conscience is currently moving from being basically a religious or philosophic belief to being a scientific construct with important business and leadership implications. In business it is being translated into a code of conduct that honors and respects the interests of others, enabling commerce to be conducted fluidly and fairly. According to Darwin, and now verified by recent research studies, all humans have an innate conscience from which specific rules of engagement can be deduced logically from the four drives and the Golden Rule.

Darwin observed,

Any animal whatsoever, endowed with well-marked social instincts (Bond) … would inevitably acquire a moral sense of conscience, as soon as its intellectual powers (Create) had become as well, or nearly as well developed, as in man.

He then cited the Golden Rule, practical guidance understood by all major civilizations for over three thousand years:

To do onto others as they would do unto you is the foundation stone of morality.

Finally he went on,

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

What kinds of behavior would establish a relationship of mutual trust by fulfilling these four drives in others without ignoring one's own drives?[6]

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

- Enhance the other's capacity to acquire necessary resources ; Distribute material rewards based on contribution and merit.

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

- Keep promises rather than breaking them.
- Seek fair exchanges rather than cheating.

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

- Tell truths rather than falsehoods.
- Share useful information and insights rather than withholding.
- Respect other's beliefs, even in disagreement, rather than ridiculing them.

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

• Help protect the other, their loved ones and their property.
• Detect and punish cheaters.[7]

As we will see, building a strong trust relationship begins by embedding "honorable purpose" into everyday decision-making between the enterprise and its customers.

Trust Element #3.
Honorable purpose

With a going enterprise, the building of stronger trustful bonds can start anywhere, but for a start-up entrepreneur the starting place is always with the key stakeholder, the customer. If the entrepreneur does not start by building trust with one's customers around an honorable purpose, trustful relationships elsewhere in the organization will probably never take off. And the key to doing this is by following the Four-Drive Honor Code.

The purpose of an enterprise is to deliver honorable products and services to its customers competitively at a profit. The honor involved will be implicit in whether the design and delivery of the product/service truly reflects accurately the needs and best interests of the customer and environment.

The entrepreneur should then examine their proposed relationships with their stakeholder base: employees, suppliers, stock owners, and their community in light of the Honor Code, point by point, rigorously challenging whether their proposed actions live up to code's standards. Only with affirmative answers to these questions can the nascent enterprise successfully undertake the recruitment and alignment of other essential stakeholders.

Taking this first step in this careful way will underpin all one's subsequent efforts to build the relationships in a trustful manner.[8]

If one starts by tricking one's customers with illusory values, only temporary satisfactions, unsafe elements, misleading information, etc. how can such enterprise leaders expect to have strong trusting relationships with others? (which can happen even before the product/service weakness is reflected in falling sales).

A shared honorable purpose helps aligns other stakeholders around one central target. This enables trust by ensuring that everyone is going in the same direction for the same reasons. People's energy, commitment, and enthusiasm can rise to amazing heights when they are aligned on an honorable purpose that will truly make a positive difference that gives meaning to their work. Even struggling businesses have been turned into successful companies when a new leader gives people honorable goals and a pathway to achieving them.

Trust Element #4.
Balancing self interest versus greater good

No economic system or organization can thrive over the long run if it places overwhelming emphasis on self-interest (Acquire). This has been epitomized by the "greed is good" mantra on Wall Street that brought down the entire world's economic order in 2008.

But neither have any systems flourished that over-emphasized the sacrifice of reasonable personal gain in favor of the greater good of others (Bond). When people focus heavily on the greater good, they grow increasingly anxious about sacrificing their own needs.

There is nothing inherently wrong about self-interest. Prosperity is a very legitimate value. The drive to Acquire one's basic resources is obviously essential to survival. But if everyone works exclusively in their narrow self interest, severe problems will erupt: unions and management lock horns, customers and suppliers become rivals, stockholders grab for short-term profits while economic systems break down as each entity attempts to maximize for itself.

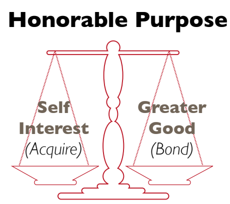


Figure 3 - Balancing the Drives

In this kind of a dog-eat-dog world, trust diminishes as everyone withdraws into their turtle-shells to protect their individual interests. We trust people who we can count on to balance self interest with the mutual interests. The same is true of corporations. [See Figure 3]

Effective leaders openly balance these two, and most individuals are fully cognizant and capable of accepting and supporting this balance. Those who don't are not to be trusted.

Trust structure in daily action

Trust Element #5.
The ladder of trust

Think of trust and distrust as a ladder, starting from the bottom of hideous destruction to resurrective possibilities at the top, as illustrated in Figure 4. We've overlaid the Trust Ladder on the Four-Drive Leadership Compass, and plotted the *behaviors* that people engage in when "trust building" or "trust busting." "Neutral" trust we refer to as "transactions."

The Ladder of Trust has become the centerpiece of the trust structure; it's a tool to illustrate the journey from the darkness of deep distrust to the light and wealth of strong bonds of trust.

Most everyone has experienced interactions at every level on this ladder. Early in life, parents serve in a guardianship role, while we create a broad range of family relationships. The closest relationships can become friendships. As we grow older, other highly cooperative relationships emerge, such as sports teams or friendships with loved ones. These occur when the *Creative* and *Bonding* drives are manifested and supported.

At the lower end of the Ladder are highly distrustful interactions, where people attack one another either verbally or physically, manipulate or deceive one another. In this zone people often retaliate "tit-for-tat" with equally or more intense forms of distrustful behavior, thus escalating distrust. These tend to occur when the drives to *Acquire* and *Defend* predominate.

When leaders have a clear picture in their mind of the descriptions and names of trust and distrust behaviors, they are brought out into the open, and then pro-active action can be taken to wipe them from the repertoire of organizational culture. With a *language* --both words and pictures-- and a systematic *architecture* (framework) a leader can discuss in vivid detail what type of trust is desired, as well as the actions required to eliminate distrust.

We are going to build out the Ladder of Trust first with a description and symbols of the behaviors associated with the types of distrust. (Later we'll explore the upper zones).

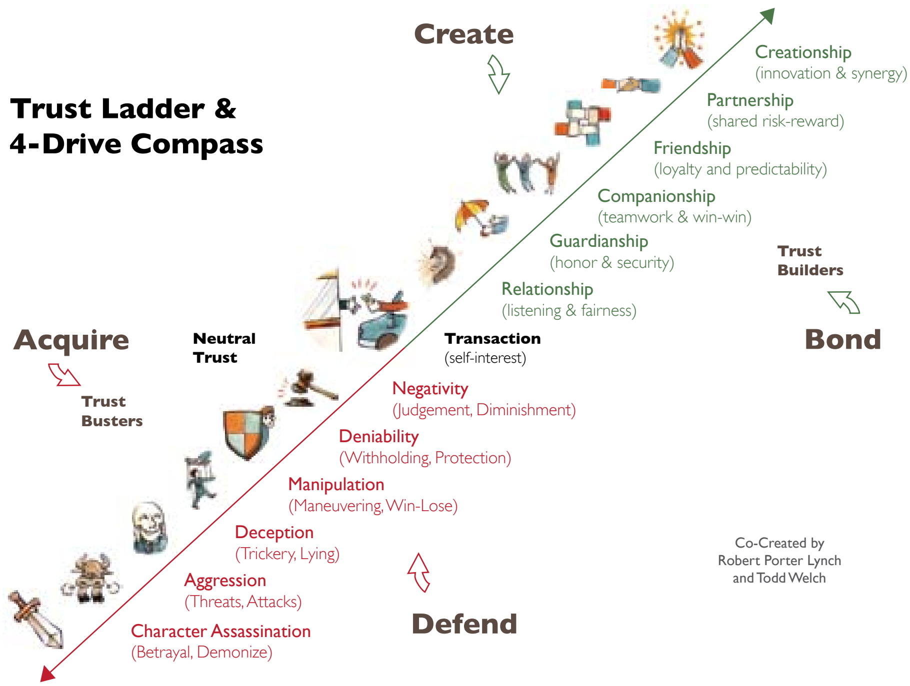


Figure 4 - Trust Ladder with Four Drives of Human Nature

Negative Zone of Distrust -- Trust Busters

The multiple ways we've learned to "bust trust" are so well defined in our society they should be considered art forms. These are all terribly expensive habits to support, and a massive drain on human energy. Here's a brief description of each of these types of Trust Busters (there are more than these six, but these are the most prevalent):

Character Assassination and Betrayal

While murder may be the ultimate assassination, the more common version in organizations is *character assassination*. This takes the form of persistent efforts to destroy the other's reputation, to scapegoat or demonize the other. *Betrayal* is an even more extreme form of character assassination.

Talk to anyone around you, and ask them "Have you ever been betrayed?" Then watch their response. Usually it's one of intense emotional pain. Their hurt is carried around like a private wound, often with guarded silence as they suffer in the quietude of self-imposed exile. Many respond to betrayal with revenge or demonization.

Aggression

Aggression is the use of someone's power in a way that seeks to threaten or harm. It represents the extremes of the drive to *Defend* (attack) and the drive to *Acquire* (dominate). The intimidator believes the best defense is a good offense: take the initiative to demonstrate superiority, strength, and power.

For the overt aggressor, it's "either my way or the highway;" and "he who has the gold, rules." They may bellow and bluster. They may vividly demonstrate their power symbolically by sitting higher than others in their office, or telling stories about their aggressiveness, or speaking crassly in public, or insisting their answer is the only right one.

Because outright aggression is pretty obvious, often highly intelligent people quickly learn it's frowned upon. So they develop a trickier game: they become obstructionists by offering resistance that shows up as helplessness, procrastination, upsets, hurt feelings, resentment or inaction even after multiple requests to stop. It's called "passive-aggressive."

The victim of the passive-aggressor may become angry, but because there's no overt attack, they don't fight back. Instead they clam up; shut down; just obey. Commitment and creativity dies; caring and learning halts; despondency and cynicism prevails.

Deception

The purpose of deception is to twist the truth. Lies are nearly always the base of deception. It takes a variety of forms from the innocuous to the sinister. Sometimes it's so subtle it's hardly noticeable. Subtle forms of deception create illusions that something is totally true when it's not. Not giving all the information one should have is deception. Making others believe something with a half-truth is another example. Twisting the truth makes others insecure, uncertain, and unconfident.

Fraud is another form of deception with the clear intent to swindle someone.

While lies are always dishonorable and destructive, in their worst form they can be downright evil, intending to harm, hurt, or damage another person. Lies often place the victim in the unenviable position of having to defend themselves against some allegation that was never true in the first place. The victim then has to go to inordinate lengths to prove that something never happened.

Manipulation

The mind of the manipulator has determined they cannot trust their world to respond in predictable and reasonable ways, so they have to trick their world into responding opportunistically to their advantage, which usually sets up a circular, self-fulfilling prophesy. Lo-balling one's estimates is a form of manipulation.

The most typical manipulation game is whining or complaining. This method attacks others by focusing attention on how everyone else is wrong, bad, guilty, or incompetent. The whiner is seeking to get their own way by maneuvering others into the "bad guy" role, with themselves as the 'rescuer'. They often get away with it because it is easier to placate them than to confront their dysfunctional games.

Deniability

Deniability *(Defend)* typically comes in two forms: active and passive. Active deniers will often hide behind mountains of legal agreements, non-disclosures, red-tape, and anything that will cover them in the event of a collapse or blame from above. By being overly protective they actually create the very distrust that they attempt to protect themselves from.

Passive deniers withdraw, flee, hide, or remain silent – making no commitments, avoiding interaction, and taking no risks. Passing the buck is a good way to keep out of the line of fire. Ducking issues is a form of protection. Bureaucrats are professional protectors, deflecting responsibility with obscure rules, convoluted processes, and abstract reasoning.

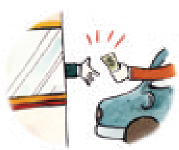
Negativity

Negativity comes in many forms: the chronic evaluator, the overly judgmental and critical, and the cynical. They are quick to judge something wrong, play holier-than-thou, or subtly find a way to make others look reckless, inexperienced, or unworthy and thus make themselves seem stronger.

Unfortunately, people have a tendency to weigh negativity far more heavily than praise. Negativity triggers people's defensive drive, *(Defend)*, becoming a corrosive force, eating into the emotional fabric of people who crave to have their drives for collaboration *(Bond)* and learning *(Create)* reinforced. Idea killers will knock the energy out of an organization as it quickly quashes the creativity drive.

(We don't mean to imply that one should never carefully evaluate people nor make judgments. There is a distinct difference between judging people and situations objectively and making it a personality trait.)

Transaction – Neutral: Neither Trust Nor Distrust



To understand a transaction, think of a tollbooth on the turnpike or bridge or paying the attendant at a parking garage. That's a transaction, an exchange of value: money for use of their road, bridge, or parking lot. But what was the name of the tollbooth attendant? Easily forgettable because it was a transactionary experience, one based simply on exchange.

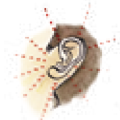
This is why we put transactions right on the neutral trust line – neither trust nor distrust. Transactions happen every day: at the grocery store, at the mall, at the gas station. When shopping, we put enough trust in the "brand" or the store's reputation to complete the exchange of goods or services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

It's at this level we have placed a "belt" on the Ladder of Trust to indicate that any action below the level of a transaction is off limits: 'below the belt'.

Positive Zone of Trust—Trust Builders

People yearn for trust because of their innate drive to bond; it's the natural state of human interaction. We were born with trust in our primary care-givers, our parents, and thankfully, this trust was confirmed for most of us by our early experiences. People who had normal childhoods remember the time when the world felt safe.

Relationship



The trust journey begins simply with building a relationship with other people by *listening* -- not judgmental listening -- but connected listening that simply validates the other person's point of view. When we listen with compassion, learning, and constructive inquiry, we begin to build trust. People feel like they are receiving *support* because they are heard.

Listening and inquiring with interest and compassion means you start with an open mind *(Create)* and a caring heart *(Bond*) -- no assumptions and no expectations which impair our ability to see things as they really are.

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

However, leaders that only engage their teams at this first relationship level, while being appreciated for their compassion, are not going far enough.

Guardianship

The next level of trust provides *safety* and *security (Defend)* to the other person. A guardianship can be one-way, much like a parent provides to a child, or a mutual guardianship like soldiers on a battlefield. Every employer has a duty and responsibility, both morally and legally, to protect their employees' safety on the job, provide a fair, living wage, pay their unemployment taxes, protect their civil rights, and provide a work environment free of harassment. In return, employees are expected to maintain a guardianship over the work-place by not stealing, reporting hazards, contributing ideas to improve competitive advantage, and ensuring the well-being of their teammates.

Those who don't feel safe in a leader's presence will be protective or fearful. As human beings, we aren't wired to trust what we fear. A Guardianship means more than knowing that you won't intentionally hurt me. Safe means they must be emotionally safe and physically safe. But at a deeper higher level, it's *reliance* -- knowing that you will be there to protect me from harm; be there when I need you; won't sacrifice me for your self interest; be counted on to protect my best interests as well as your own; won't be negligent: we can count on each other to protect each other's safety.

Companionship

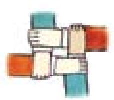
Being a companion means trusting enough to work productively in teams – "teamship." Each individual must know breakdowns will not be destructive; thoughts, workspace, and concerns can be shared without fear of retribution, disrespect, or dishonor.

Confidence stems from placing self interest at least on a par with mutual interest as win-win emerges as essential. Every decision embraces what's in the interests not just of the individual, but in the greater good of the organization, the team, and the future of the business.

At this level the world is seen through a common vision and aligned interests. We expect reciprocity: shared ideas, giving at least as much, if not more, than we expect to take back; everyone begins to give more than they expect in return. Individuals come to the realization, sometimes painfully, that they win or lose together, as a team -- in the same boat, facing the same storm together.

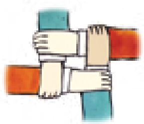
Because of the weakening bonds of the modern family structure, for many, their workplace becomes a surrogate family, thus the workplace carries with it an additional desire for fellowship.

Great leaders capitalize on building companionship and fellowship not just because it produces great results, but because it tends to endure the ups and downs of business, like a gyroscope keeps steady when the world rocks around it.



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

Friendship



For a friend, we are always present and always committed to their best interests. When they're in difficulty, we help; when hurting, succor; when in doubt, counsel; when confused, clarity, when self-deceived, honesty.

The power of friendship lies not just in the bond of familiarity, but in the mutual commitment to each other's well being.

When our friend is attacked or harm comes their way, we respond with aid. If they have done something wrong, we stand by them to help them right the wrong. When unfairly accused, we defend them. This is what loyalty is all about. Friendships grow up in organizations alongside trust, but leaders should be watchful that they do not grow into favoritism.

Lou Gerstner, reflecting on his transformation of IBM in the 1990s, observed that the powerful culture, sense of community, values of fair play and hard work, and ethical standards of IBM were the foundation which kept the company from shattering when it's business strategies needed a massive shift.

Partnership

A partnership is designed to respect and cherish the differences in thinking and capabilities between two or more people or organizations. It is the combination of *differing* strengths with the *alignment* of common purpose that makes a partnership effective. For example, one person does outside sales, another keeps the finances on track, while another runs operations. Great partnering relationships require a number of things to make them work effectively:

Shared Vision: Trust is built by the power of the commitment to a shared view of the unfolding future. While making today's dollar is essential in any business, great partnerships are always looking one step ahead to find the new opportunity, to design the future, to turn adversity to advantage.

Shared Planning: People support what they help create. This builds trust because those thus engaged are consulted and their ideas are valued, which, in turn builds even stronger commitment to the future.

Shared Resources, Risks and Rewards: By sharing risk and reward, people have "skin in the game." The more everyone shares risks and rewards, the more powerful the level of commitment.

Creationship

For this level of trust we had to create a new word. A "creationship" implies that we can do something extraordinary – we can co-create together. A creationship embraces prior elements of trust-building, and then, secure in the absence of fear, unleashes a connection between the hearts and minds of the co-creators – new ideas generate like spontaneous combustion.

How does the leader foster creationships? Here are some ways:

Purpose and Destiny: Some of the most co-creative people on the planet are those with a deep central sense of personal purpose or destiny. This kind of purpose gives meaning and value to whatever we do – there is a reason for *being* and *doing* in our daily lives.

No such thing as Failure, Only Learning: Be careful not to punish what might look like a failed attempt at creative solutions. Be sure to encourage learning from failures. Remember, high performance teams fail more often than low performance teams; the difference is how they learn -- then innovate from what they learned.

Use Conflict to Advantage: Whenever there's change, conflict is inevitable as systems, strategies, roles, and perspectives shift, even in a trusting environment. Don't shove conflict under the rug, but use it as a learning mechanism. Focus on shifting perspectives; prevent people from becoming entrenched in one point of view.

Laugh! Creationship teams are not all grinding labor; it's having fun with what they do and laughing a lot, spontaneously creating in the moment – that's magical. Research shows that laughter releases endorphins that trigger creativity. Laughter expresses the absence of fear.

Building a creationship can be one of the most rewarding experiences in life. It can happen between two people, or within a team or even a company. When people engage in a creationship, they seem to abound with an endless source of regenerative energy. Some people describe this as *entering a fourth dimension* – it's invisible but quite real.

If you ever enjoyed the wonderful music of Broadway productions such as My Fair Lady or Camelot you've heard and felt the powerful synergy of the team of Lerner and Loewe. The co-creative force can be seen in science in the NASA teams rocketing a man to the moon. Virtually all the great discoveries and innovations in today's world are happening in-between industries and technologies in creationships, such as the Genomics Project: the confluence between medicine, mathematics, informatics, and computers.

Using the Trust Ladder

We've found that one of the most effective uses of the trust ladder is simply to make it visible and accessible so that people can make an honest assessment of where their relationship now exists on the scale (it can exist on multiple points), and where they want it to be. Later, address what actions must stop, and which actions need to prevail to meet the goal.

Groups (teams, alliances, task forces, departments, supply chains, and top executive committees) need to identify what types of behavior are prevalent in their experience, specifically what actions are either "above or below the belt line." The discussion often reveals people trapping each other in the nether regions of distrust, with no means of escape.

It's often been disheartening to learn how many groups report that the preponderance of business is stuck in the levels of distrust. In fact, this has been the norm for so long that it's considered acceptable behavior and has become an acceptable art-form in the business world -- symbols of modern era capitalism.

Avoid being Sucked into the Downward Spiral

When even one person engages in the first level of distrust, it is tempting to respond "tit-for-tat," or worse, going one level deeper. This, of course, can trigger a never-ending downward spiral of deepening distrust. This must be avoided at all costs.

By opening a discussion of how one distrustful act triggers another, we can then address what must change to head in the right direction. Those who courageously resist tit-for-tat and make the commitment to engage in higher level discourse will unearth disarmingly productive discussions. But such action is not easy – we are so programmed to retaliate, not reinvent.

Leaders must play a pro-active role in reframing engagements, and ferret out those interactions, including their own, that reinforce distrust. Shifting out of the distrust mode for deeply distressed organizations is by no means an easy task; it's like trying to cure advanced cancer, because distrust has become deeply embedded in the organization's culture. But all is not bleak. The human spirit yearns for a better way, optimism can reign over cynicism, trust can be rebuilt -- provided leadership is truly committed.

Leadership Actions

Our advice to leaders who want to move up the ladder of trust is quite specific: Start every interaction assuming that the other parties have all four drives intact as the ultimate motivators of their psyche -- motivated by opportunities to not only *acquire* more resources and *defend* themselves, but also by opportunities to be *creative*, and to develop *bonds* of trust with others. With this in mind, leaders can, in fact, address all four drives in their followers simply by mutually practicing the Four-Drive Honor Code. We find this amazingly simple -- but it works. Read over the rules again. Of course they may be hard to follow, but if a leader can stick closely to these rules, it will move the group up the ladder of trust, releasing energy for collaborative innovation that's off the chart.

Nonetheless, a leader must be alert to identifying distrustful behavior, calling it out, making it unquestionably clear what won't be tolerated.

Taken together, these are the acts of leadership that will build a strong structure of trust. We are optimistic that the *Bond* and *Create* forces are, at worst, just dormant in our corporate culture's collective psyche.

Trust Element #6.
Thwarting the beast-Gaining insight on whom one should not trust

In a newly released landmark study of over 200 U.S. Corporate Leaders, Babiak, Hare, and Newmann, experts in psychopathic behavior, found that 4-6% of the study group, consisting of executives and management trainees, exhibited strong psychopathic traits -- five times the rate expected in the normal population. This strongly suggests our corporations are becoming a magnet for psychopathic behavior.

So far we have been discussing people who, under good leadership, will heartily join in building a strong structure of trust. But science is now revealing what history and everyday common sense has long suspected—that some people actually do not have an innate conscience in their brain.[9] Psychiatrists call these people 'psychopaths'. We prefer the less pejorative and more descriptive term 'people-without-conscience'. Because of these people we certainly cannot advocate blind trust in all others. There are a few truly dangerous psychopaths in our midst.

The question of who to trust is as old as the human race. It's been on our minds since ancient times: the subject of the writings of the Greeks and Romans, and addressed in the Old and New Testaments. What can we add to that might shed light on this age-old issue?

The Ultimate Caution—Watch Out for **3-Drive Humans**

While building a system of trust is a noble endeavour, it cannot be conducted with naivite. Efforts can backfire without a healthy dose of reality. While we are convinced the vast majority of people are capable of being trustworthy, a very small percentage of people (perhaps 1-2 percent of the population[10]) are actually genetically deficient, lacking the "bonding gene." For some of this small segment, their remaining three drives *(Acquire, Create, Defend)* shift into overdrive. They are skilled at worming their way into positions of power, are highly intelligent, extremely manipulative, often charming, and will torpedo anyone that gets in their way. They lack empathy, shame, or remorse. Other people are just tools for them to accumulate more power and wealth. Their lack of moral conscience can be masked with potent ideologies such as "the purpose of business is solely to make money."

These are the corporate leaders who, like Al "Chainsaw" Dunlap, manage companies like Genghis Khan. (See sidebar story[11]) With their intelligence, sometimes they can even mimic bonding with superficial charm but with no real consideration for honesty, integrity, or human compassion. They seek powerful roles in society.[12] Lacking the checks and balances of a *Bonding* drive, their *Acquire & Defend* drives are pushed to the limit, manifesting as domination and combative attack. Thus their modus operandi sees anyone opposed to them as the "enemy," requiring constant secret operations below the belt. Their unchallenged belief in competition obliterates thoughts of anything but a win, always narrowly focusing on the best way to move in for the "kill."

Ruthless, willing to do anything that they think they can get away with, but too often extolled by Wall Street as heroes, they cannot be trusted.

Although we believe the large preponderance of the population have the potential for engaging in strong trustful relationships, there are still some who, because they were born without a conscience or with a betrayed, abused childhood, are sufficiently resistant to the guidelines we outline here as to be incorrigably rooted in distrust. Trust is too precious to be sacrificed at the alter of the unscrupulous.

We can, hopefully, look forward to the day when science provides a simple, definitive means to identify such hazardous people. Even though the problem of finding a humane way to restrain psychopaths from harming others still needs to be found, tolerating the status quo is unthinkable when we have good reason to suspect the most notable of the 20th century were Hitler, Stalin, and Mao.

If one finds themselves in an organization with a person fitting this description, it cannot be ignored or wished away. Action is called for.

We suggest a collaborative strategy. Quietly observe the suspect's behavior and take detailed notes. Start discussions with collegues who might well have noted the problem and compare observations. When well prepared, approach the most senior officer available with evidence and allies. The goal is, of course, to get the offender out of the organization. If illegalities are strongly suspected, of course, approach the appropriate officials of the law. If such efforts fail, our advice is to leave the organization. Do not allow yourself to be victimized.

If the Al Dunlap of "CHAINSAW" were a fictional character, he would be dismissed as a figment of bad writing, a one-dimensional caricature: He capitalizes on his notoriety for mass layoffs by writing a book called Mean Business. He seems to revel in firing people. He is fond of telling visitors, "I just love predators. They must go out and hunt and kill to survive." An egomaniac, he screams at and purposefully humiliates his employees, including top management. He has a personal life to match: He cut himself off from his family, abused his first wife, and was stunningly stingy in child support payments to a son from his first marriage…..

When Sunbeam tapped Dunlap to run the company, Wall Street responded with hosannas. Share price rose a record 60 percent the day after the announcement of his hiring and continued to skyrocket during the first months of his tenure.

Dunlap quickly began ….his slash-and-burn [strategy]…. He soon announced plans to sell or close 18 of Sunbeam's 26 factories. Wall Street celebrated, and the company's share value continued to climb.

Profitable facilities were shut down and the costs incurred from production shifts could not be recouped in the foreseeable future. But Dunlap was determined to impress Wall Street with record jobs cuts, and he refused to listen to cautionary warnings.

Sunbeam sellers had inflated sales by offering deep discounts. Product quality slipped.

As profitability plummeted and the company fell into the red, the board of directors turned on Dunlap and fired him. Soon it became clear that earlier evidence of increasing profitability had been the result of accounting tricks that auditors retrospectively disallowed.

What is most disturbing about the tale, perhaps, is how many accomplices Dunlap had as he wreaked havoc on a venerable company and the lives of thousands of employees. Executive after executive echoes the one who told Byrne, "I was a greedy son of a bitch along with everyone else" and willing to do whatever Dunlap demanded in exchange for the promise of a big payoff in stock options. The auditors were bullied into going along with questionable accounting measures. And Wall Street analysts, the board of directors and the principal shareholders allowed themselves to be deluded by Dunlap's sham turnaround of the company.--

Washington Monthly, Nov, 1999 by Robert Weissman

Conclusions

How important is trust? Simply put: without trust, the creative intellect of employees is severely diminished. In a fast moving world, trust spawns a massive competitive advantage, enabling intensely collaborative teams to generate innovations and make rapid decisions.

Too often trust gets caught in the background noise of life. The art of building trust should not be something that "just happens" reactively, thoughtlessly, or invisibly. If we don't bring trust to the forefront, the normal chaos of business becomes even more tumultuous as we spin erratically and unpredictably in a world of distrust.

We neglect the issue of trust at our own peril. Trust is the most vital thread in the fabric of relationships. Embedding a system of trust into your organization yields enormous rewards for all stakeholders. The economic advantages of trust suggest that 20% improvements in efficiency are perhaps conservative estimates. And it's not unusual for people to find, for the first time, a sense of real meaning and purpose to their work.

Payoffs of Solid Trust

When Procter & Gamble decided to outsource its Information Technology System to Hewlett Packard, their lawyers drafted a legal contract 1600 pages long that specified how this complicated relationship was supposed to work. Both of these firms had well-earned reputations for being strong trust firms, but no one was too sure how well they would work together.

When the operational managers saw the enormous legal document none of them even wanted to read it. It was not only cumbersome; it was also adversarial in tone. Some predicted it would create nothing but friction and costs in the $3 billion arrangement. Fortunately intelligent minds began to foresee the enormous difficulties that would emerge from a legalistic transaction-based relationship on a service contract that called so much flexibility and give and take problem solving of unanticipated issues. And so much was on the line for both firms. They organized a joint workshop between all the key operational managers who would be working together to see what they could work out.

These managers decided they could not collaborate and create in a legalistic relationship. They designed a set of Operating Principles that reflected the strong trust system they valued in their own separate firms. In the course of that one workshop they transformed their relationship from an arms-length vendor approach to a partnership approach.

- Operate as One
- Serve P&G's Global Business Units & Corporate Functions
- Plan Jointly
- Provide Visibility to make effective business decisions
- Deliver on our Commitments
- Anticipate, Confront, and Resolve Breakdowns Quickly
- Default to Innovation First, before trade-offs
- Make Principle-Based Decisions
- Treat All Employees as Valued Partners
- Communicate Openly, Often, and Clearly
- Share Accountability, Risk, and Reward

This modest document has served as the code of behavior for all their daily interactions. For all intents and purposes, the legal agreement is ignored. Now, aged and obsolete, it sits in some filing cabinet, supplanted by this more nimble and flexible, trust-based agreement.

Examine these principles and how they resemble the Four-Drive Honor Code. Think about the kind of trust they were able to create with one another in order to launch this high risk relationship with just these few declarations of intent. What amazing trust, and what obvious savings in red tape and delay, in time and money, that this agreement could and did generate.

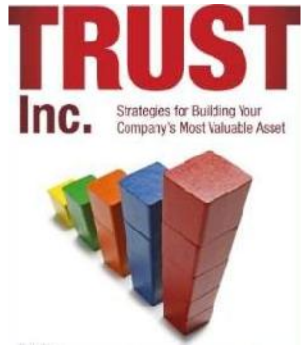
About the authors

Paul R. Lawrence is the Wallace Brett Donham Professor of Organizational Behavior Emeritus at Harvard Business School. His research, published in 25 books and numerous articles, has dealt with the human aspects of management and leadership. In 2002 he published, with his co-author Nitin Nohria, *Driven: How Human Nature Shapes Our Choices*. This book proposes a four-drive theory of human motivation that is based on the biology of the brain and draws extensively on neglected insights of Darwin's. His current work, *Driven to Lead: Good, Bad and Misguided Leadership* (Jossey-Bass, 2010) applies this theory to leadership.

Robert Porter Lynch has spent the last twenty-five years formulating the best-practice design architecture of organizational synergy – how exceptional leaders energize collaboration to produce sustainable innovation in teams, alliances, and acquisitions. He has written several ground-breaking books on strategic alliances, serves as Adjunct Professor at the Universities of Alberta and British Columbia, and is founding Chairman Emeritus of the Association of Strategic Alliance Professionals. Lynch's book: *Trusted to Lead* is scheduled for publication at the end of this year.

Notes

1. Sources: Gallap Poll Happiness Index (2005-2009), 2011 Readers Digest Trusted Brands Poll, ~33,000 Europeans (including Eastern Europe, excluding UK, Spain, Italy), Eurobarometer Publication 74, pp 25-27, 27 European Union Member States, ~ 27,700 interviews, 2009 Ipsos-MORI Survey , ~2000 people in UK
2. Transparency International, Corruption Perceptions Index, October 2010, page 3
3. This approach to leadership is explained in detail in Paul R. Lawrence's book Driven to Lead: Good, Bad and Misguided Leadership, Jossey-Bass (2010)
4. Acquire and Defend are common to all mammals and reptiles, although more developed in humans, while Bond and Create are far more elevated and refined in homo sapiens than any other primate or mammal, making them almost uniquely human traits. All four drives are discussed in Darwin's work.
5. The human brain has evolved over more than two million years to enable the prefrontal cortex to assess these conflicts and appropriately select the right balance among the drives. Rita Carter, a neuropsychologist, summarizes in Mapping the Mind, "The prefrontal cortex is given over to man's most impressive achievements—juggling with concepts, planning and predicting the future, selecting thoughts and perceptions for attention and ignoring others, binding perceptions into a unified whole." The drives to Create and Bond – the more recently evolved capacities of the human brain are most effective in enabling this balancing of drives.
6. From P.R. Lawrence, Article, 2004, and research by Marc Hauser, 2006
7. These rules are not always observed. The other drives are always competing for preference, and sometimes they win. Therefore, the true confirmation of the hypothesis is not perfect observance of the rules but feelings of guilt—of a "bad conscience"—when they are knowingly broken.
8. As organizations shift from stand-alone enterprises to truly networked structures, this process of applying the standards of the Four Drive Honor Code will become fundamental to achieve Network Alignment.
9. The key book on this is entitled Without Conscience: The Disturbing World of the Psychopaths Among Us, written by Robert Hare after 25 years of studying psychopaths.
10. Babiak & Hare, Snakes in Suits, Harper Collins (2007). Note: These 3-Drive humans are often referred to as psychopaths or sociopaths, after they have broken the law. Those that skirt the edges of the law will work in the narrow area that is legal but unethical or insensitive. While their percentage in the population is extremely low, their impact on society is massively disproportionate to their numbers.
11. CHAINSAW: The Notorious Career of Al Dunlap in the Era of Profit at Any Price By John Byrne New York: Harper Business, Review by Robert Weissman, Washington Monthly, Nov 1999.
12. Often referred to as "snakes" – See Hare & Babiak, Snakes in Suits – When Psychopaths go to Work, Harper Collins, 2007.



Excerpted Chapter by
Robert Porter Lynch

Trust: The Economic Game Changer

How Trust can mean the difference between life and death in business

by Robert Porter Lynch,

This chapter is included in
Trust Inc: Strategies for Building Your Company's Most Valuable Asset
now available via Amazon

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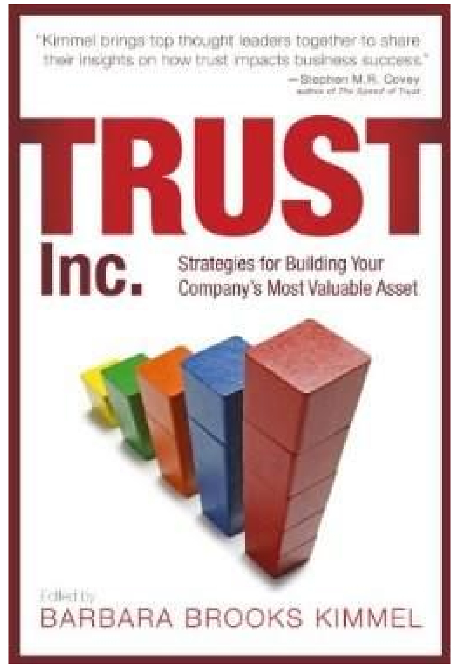

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This chapter is a short piece growing out of years of research that will be embraced in a chapter by the same title in my forthcoming book: ***Trusted to Lead***, by Robert Porter Lynch

Contents

SURVIVAL IS NOT A GIVEN

Success in any business venture, large or small, is not assured. Even the combination of a great strategy and a great product will not guarantee success. Nor will a company's size insure against failure. Startups and venerable giants alike can be struck down by a seemingly invisible disease: distrust.

Banks, airlines, and auto companies are just a few of the industries torn asunder by the distrust disease. Dishonest business practices ripped apart the banking and investment industry worldwide, causing trillions of dollars of economic damage. Every year large airlines file for bankruptcy and the common denominator is nearly always labor strife – a long history of labor-management distrust which causes highly inefficient delivery of services. Sports leagues like the National Hockey League and the National Basketball Association have been stricken by strikes that nearly threatened their very existence.

What's more, the disease of distrust tends to spread like an uncontrolled virus, soon becoming a plague that feeds on fear and greed.

U.S. Auto Industry Succumbs to the Distrust Disease

One industry that's dear to everyone is the auto industry – the world's most visible and best-studied business sector. In 2009, General Motors and Chrysler both filed for bankruptcy and Ford came darned close. Being "too big to fail," every taxpayer in the United States, through the action of the President, became an investor in GM and Chrysler via a bailout program (as taxpayers also did with the banks that failed).

What is less well known is that in the five year period leading up to the auto crisis, the "Big Three" U.S. automakers collectively had lost over $100 billion in the prior five years running up to the 2008 financial meltdown. The financial cataclysm did not cause their failure; it just put them over the precipice.

How could such large companies, staffed by highly educated management professionals, make such horrific mistakes? What really happened? What can we learn from this debacle?

How Distrust Became Deadly in Detroit

Today, most cars are assembled from components provided by outside suppliers. Typically 70-80% of an auto (such as seats, wheels, radios, and tires) is produced by suppliers, and the remaining (such as engines and transmissions) are made by the manufacturer, who then completes all the assembly.

Twenty five years ago, when the Japanese auto manufacturers -- Toyota, Honda, and then Nissan –– began building cars in the U.S., they tapped into the same supplier base used by the Big Three. The Japanese manufacturers on North American soil took a strategy with their supply chain to build 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. For example, if a supplier could redesign a group of parts to make them into only one part, thereby shortening assembly time, reducing complexity of inventory, and lowering potential warranty costs, the supplier would be rewarded by a 50/50 share in the savings.

Toyota used its vaunted "Lean" production model ("Kaizen" meaning continuous improvement) evolved to threaten Detroit's Big Three – Ford, GM, and Chrysler. At Honda, Senior VP of Procurement, Dave Nelson spoke of the insights Honda had about human behavior. He said the Golden Rule prevailed – treat people with dignity and respect, don't beat up on suppliers like lowly vendors, and never play the blame game when something goes wrong. I asked Nelson about innovation with his suppliers, and his remarks were quite insightful:

> *"When we receive a suggestion from our suppliers, we split the savings 50/50. However, if a supplier is not making their profit numbers, we give them a larger percentage of the savings (in the short term), sometimes up to 100%. It helps them out."* [1]

Having earlier spoken with GM suppliers who indicated that their relationships with GM were unprofitable, I asked Nelson about costs over the course of model run. He mapped the cost structure on a pad of paper using a target costing approach. (see Figure 1) He smiled and said that a product that cost $1.00 to manufacture had been reduced to $.58 by the end of the model run, which put over a billion dollars a year on the Honda's bottom line.

Figure 1: Cost Reductions by Honda Suppliers

Not totally convinced that this was in the best interests of suppliers, I asked Nelson about supplier profitability over the product life cycle. He assured me everyone gained by this approach. Pressing farther, I challenged him. Honda, he affirmed, was committed to ensuring the sustainability of its supply base.

> "We regularly monitor the financial condition of our suppliers. I can assure you they are *more* profitable at the end of the product life cycle than at the beginning."[2]

Toyota, for example, was not easy on their partners; they expected top quality and continuous improvement. But if a problem arose with a supplier, Toyota's presumption was: "we" have a problem, "we" must determine the cause, and "we" must mutually solve.[3] The Japanese manufacturers saw their suppliers as critical partners in the whole chain of value creation. Similarly they saw their employees in the same way; along with their newly emerging dealer-distributor-service network that interacted with the customer. Each member in the value-creation process was treated honorably as a cherished partner.

During the 1990s, Toyota and Honda gained ground fast, eating away at the Big Three's once monumental market-share. By building trust with their suppliers and treating them fairly, each grabbed a larger chunk of market share with higher quality, all the while keeping themselves and their suppliers profitable.

In stark contrast, Detroit's Big Three bludgeoned their key suppliers, using adversarial, short sighted tactics, to the detriment of all. Constant margin squeezing decimated the supply base. GM and Ford 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 - a flawed strategy.

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

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

Lack of Cooperation was Extremely Costly

GM's Procurement Czar, Ignatio Lopez' notorious negotiations techniques ran roughshod over every supplier in GM's supply base; he used ignominious and illegal tactics to pressure suppliers into price cutting that left them with the choice to either abandon GM or sell to GM below their costs of production. Lopez tore up legitimate contracts in the face of the supplier or illegally took supplier's proprietary drawings and give them to Chinese vendors for bids. One ploy that sorely irritated every supplier was to demand an immediate price cut of 20% or lose their contract. Suppliers were faced with producing at a loss, or shutting down large production lines, resulting in even bigger losses. Quality slipped, production lines often didn't have the parts ready for assembly, and GM's warranty costs consistently outpaced their profits.

Vendors weren't the only group to receive GM's wrath; its labor relations fared no better. At one GM plant in California there was a backlog of over 5,000 grievances, the result of a long-standing war between labor and management. Workers were boozed up or drugged up on the job. The absenteeism was often so high (frequently exceeding 30%) that the production line couldn't be started, which meant production halted. Workers regularly sabotaged cars on the assembly line, putting ball bearings or Coke bottles in the doors and frames so they would rattle around and annoy unsuspecting buyers.

Rancor and distrust was so thick you see, smell, and taste it. Self-esteem was destroyed, and adolescent revolt became everyday adult action.

Ford, not to be outdone, unilaterally changed contracts, reprogramming their computers to reduce the amount of any invoice by 5%. Adding insult to injury, Ford then obtained totally unrealistic bids from unqualified suppliers, which were used to pressure suppliers to succumb to unfavorable price reductions in order to keep their contracts.

Every part was examined to squeeze out more costs.

Here's a tragic example of price squeezing: The Explorer was one of Ford's most profitable vehicles, yielding $3-5,000 to the bottom line every time one was sold.

However, customers complained of the Explorer's harsh ride. Rather than spend money to reengineer the suspension's spring-tension levels to make the ride a little softer, Ford let pressure out of the tires. Firestone, the tire manufacturer, shot back that the lower tire pressures were below design specifications and would result in blowouts. Firestone recommended the addition of another nylon belt around the tire to enable it to run effectively at the lower pressures, reducing the failure rate by a factor of five.

Ford vetoed the idea – it was too costly. The addition of a nylon belt would add another 90 cents to each tire's cost, eating away at Ford's hefty profit margins.

The tires failed horribly. Ford was forced to replace all 13 million tires on its vehicles, at a total cost of about $3 billion. The recall and associated suits cost Firestone more than $570 million. But worse, more than 100 people died in crashes caused by failures of tires on Ford Explorers; law suits were filed around the world.

> "The whole thing just screamed greed," said La Rita Morales, part of a jury in California that earlier this year awarded an Explorer driver $23.4 million in damages. "I didn't believe in my heart that a company like Ford would put out a product with question marks over it."[4]

The debacle cost Ford billions of dollars in lost sales and law suits. All for a 90 cent belt. The tire manufacturer blamed Ford;, and Ford blamed the tires. The lawyers blamed everyone. Law suits dragged on for years.

The Warning: Distrust Costing US Automakers

Warning signals were everywhere during the years leading up to the 2008 meltdown and the impending "too big to fail" bankruptcies. An annual automotive benchmark study in 2004[5] sent emergency signals unequivocally:

- "U.S automakers' relations with their suppliers suggest more trouble if they don't change the way they deal with their U.S. suppliers …[who] 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.
- "Supplier trust of Ford and GM has never been lower; conversely, trust for their Japanese counterparts has never been higher. Suppliers are increasing product quality at a greater rate for the Japanese.
- "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.
- "US automakers continue hammering their suppliers for price reductions and multi-million dollar cash givebacks and suppliers are responding by giving them less support.
- "This shift in loyalty is not driven by cost reduction pressures on suppliers, but rather on how the US automakers work with their suppliers across a wide range of business practices.
- "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."

The disease of distrust in Detroit was virile. The author of this study, John Henke, presented this observation:

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

By 2008, things had gone from bad to worse for the Detroit Big Three, who had combined losses of over $100 billion for the prior five year period, while at the same time driving 500 suppliers a year out of business. Their flawed strategy of distrustful relationships took its toll not only on their businesses, but on the surrounding community.

Today, the effects on the City of Detroit's economy are horrible. The municipality is losing population at the highest rate in the U.S.; housing values are at the bottom. Detroit Mayor Kilpatrick, taking his cues from his Big Three counterparts, extorted money from city contractors, was convicted, and sentenced to jail. In 2009 the median home sale in Detroit was a sickly $6,000. Abandoned buildings litter the cityscape. The dreams and investments of thousands of city residents were crushed. By 2013 the City of Detroit was $14 billion in debt – bankrupt -- a "ward of the state."

Distrust Destroyed Detroit
by enabling innovation and productivity to flow away to other regions
where partners focused human energy to create value, not warfare.

This is the real message of trust and hope for our commercial future. Trust is not just good ethics; trust is about building the relationships that charge the human spirit with the collaborative energy to tackle new problems together; to build bold new futures synergistically; to join forces across the boundaries of supply chains to innovate; to safely know that the one will not be trapped by foolish win-lose gamesmanship; and to challenge the status quo with the assurance new ideas are welcome.

TRUST'S HIDDEN ADVANTAGE: INNOVATION

Lest one be lured into a false sense of hope brought about by the good feelings of trust, believing trust alone will assure business success, there is really much more. Trust, while highly desireable, is not the end or the goal; it's just the beginning of a larger process.

Toyota, Honda, and Nissan, unlike their U.S. rivals, understood that trust was the foundation of *collaborative innovation* – the hidden source of competitive advantage. By removing fear, doubt, suspicion, and manipulation from their business relationships, a much more powerful program of joint problem solving, removal of non-valued work (such a redundancy), reduction of waste, and acceleration of work flow could flourish. High trust is not the goal; it opens the pathways to real value creation, which then manifests in competitive advantage and profitability.

Trust enables everything to move faster, more effortlessly, and with less conflict. Mistrust causes everything to be more complicated, slower, and far more fragmented. Because virtually all innovation is a *collaborative* effort; and there can be no collaboration without trust.

Fortunately for the U.S. auto industry, the 2008 debacles shook the foundations of ill-conceived beliefs. New leadership has made some improvements to their supplier relationships, but so far nothing earth shattering that would make a compelling case for taking advantage of trust as an economic game changer.

How to Channel Trust into Collaborative Innovation

How important is trust? Our studies show, time and again, high trust organizations have at least a 25% competitive advantage over their low trust counterparts. Embedding a system of trust into your organization or alliance yields enormous rewards for all stakeholders. Trust unleashes latent human energy and enables it to be aligned on a common purpose. Leaders who want to support collaboration, be considered trustworthy, and trigger innovation should keep the "FARTHEST" principles in mind:

- ***Fairness*** *in all your dealings to be sure that everyone gets a fair shake. Successful innovation leaders are perceived as being even handed, good listeners, and balanced in their approach.*
- ***Accountabl****e for your actions. When you make a mistake, admit it and move on. Accountability is the external manifestation of internal integrity. Leaders without integrity are quickly dismissed as hypocrites.*
- ***Respec****t for others, especially those with differences in skillsets and points of view. Without respect for others, trust cannot be built. Giving respect often the first step in gaining trust. A sense of empathy, which is an even more powerful trust builder, can then emerge.*
- ***Truth*** *is an absolutely essential component of building the type of trust that triggers innovation. Remember, your emotions or perceptions are seldom real truths. Stick to the facts – things that are measurable or concrete. And be aware that a critical comment has about five times the impact as a positive comment; so balance your truths carefully.*
- ***Honorable purpose*** *must be the foundation of all your actions. If people perceive your purpose for innovating as strictly for selfish purposes, without a component impacting the 'greater good,' you will not be perceived as trustworthy. This frequently means sharing the rewards.*
- ***Ethics and excellence*** *in standards. Innovation is propelled by the idea of always getting better, improving continually, reaching for the highest level of performance. If anyone sloughs off, they must realign to the highest measures, otherwise others will be resentful or fall off in their performance.*
- ***Safety & security*** *are essential to all human beings. This includes ensuring that there is "No such thing as Failure, Only Learning." Be careful not to punish what might look like a failed attempt at creative solutions. And always avoid the Blame Game. Fear does not produce innovation. You will know when people feel safe – they will be laughing. Creativity is not all grinding labor; it's having fun and laughing a lot, spontaneously creating in the moment – that's magical. Research shows that laughter releases endorphins that trigger creativity.*
- ***Transparency & openness*** *enables seeing intentions, sharing data, and ex-changing ideas in a culture that supports challenging the status quo yielding new insights.*

The FARTHEST principles should be embedded into decision making, interpersonal relationships, and the fabric of organizational culture. These principles are essential to help diagnosing precisely broken trust and then rebuilding trust. Further, these principles must be taken holistically – together they generate trust – but independently, no single principle will generate trust alone. .

CONCLUSIONS AND INSIGHTS

Trust and the Creation of Value

Trust enables a company to gain traction because it shifts the game of business from *transactionary exchange* to *value creation*, (and prevents value destruction) as illustrated in Figure 2: Power of Trust on Value Creation.

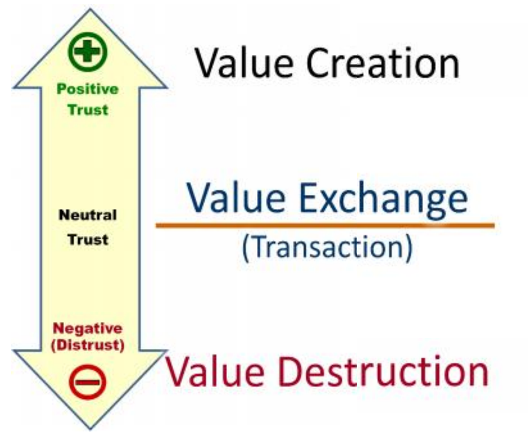


Figure 2: Power of Trust on Value Creation

Toyota and Honda beat the Big Three by shifting their thinking about value derived from supplier relationships from traditional *Value Exchange* interactions to *Value Creation – the Game Changer* -- enabled by trust.

Triumph of Small Numbers

How does trust change the financial game of business? Trust is the not the cause; it's the enabler. Gordon Bethune, the CEO who engineered the remarkable turnaround of perennially bankrupt Continental Airlines in the mid-1990s stated the phenomenon directly,

> "Trusting our employees didn't mean ignoring the business and letting it run itself, and it didn't mean that no matter what anybody did it was okay….
>
> "We want employees to use their judgment…."[6] "Multiply every little solution by more than 2000 flights a day, by millions of telephone calls to our reservation centers, by thousands of bags that might have missed a plane if someone didn't hustle, by thousands of gate agents taking thousands of decisions to keep passengers happy and planes moving. You can see the impact our new policy has…. "We want employees to make smart decisions, not blindly follow rules. Suddenly our employees are running a good airline."[7]

In a trust-enlivened atmosphere, employees are given greater power to use their innate ability to solve problems. All the little solutions begin to add up into a major profit:. The power and success of trust seldom occurs in the meteoric manifestation of one grandiose act or event, but in the subtle, almost invisible multiplication of thousands of small decisions, actions, and better results – the Triumph of Small Numbers[8] – adding a slight percentage here, a small advantage there, a minute shift in weight in another place -- accumulating, pulsing like a shock wave triggering an avalanche of competitive advantage.

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

Bottom Line: Trust makes eminent financial sense, accelerating and amplifying the creation and sustainability of value. Trust enables a company to gain traction because it shifts the game of business from *transactionary exchange* to *value creation through innovation and rapid recovery from mistakes.*

The real advantage of trust? It is the deepest yearning of all humans; we were born with it, and it's our birthright to retain or regain it.

Many leadership situations require influencing without authority, which can only happen when those we wish to influence trust us. Trust produces highly effective people, high performance teams, useful ideas and innovations, and people who want to come to work because it is an energizing, co-creative experience.

Great Leaders do Three Things Well:

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

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

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

****

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

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

End-note References

REFERENCES

[1] Interview, October 21, 1997 Pinehurst, NC.

[2] Another test of the power of Honda's quality control is represented by used car prices. A Cadillac, at the ten year point in its life will have lost a far greater % of its original value than a Honda. Typically the Honda depreciates at about half the rate of a Cadillac.

[3] GM, on the other hand was loathe to accept any responsibility for supplier difficulties, and would first place blame on suppliers, who may have been victims of poor planning or communications.

[4] Internal Ford Documents about Explorer Rollovers *By Peter Whoriskey,* Washington Post Staff Writer, May 8, 2010

[5] 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.

[6] Bethune, Gordon; *From Worst to First, Behind the Scenes of Continental's Remarkable Comeback*, Wiley, 1998, p 134

[7] Bethune,Ibid, p 112

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

CULTURE AS A FORCE FIELD

UNDERSTANDING HUMAN BEHAVIOR

By Robert Porter Lynch   VERSION 2.0

Aligning the Organizational Force Fields

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.[1]"

> 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).

[1] 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.

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 force field impacts behavior more powerfully than one's personality

The Most Important Thing for Leaders to Know

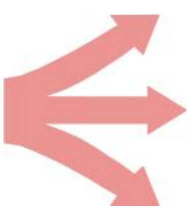
Virtually all definitions of leadership speak about *influencing behavior.* What every leader must know is that leaders, more than anything else, *create the strategic force field* that draws forth or suppresses either good or bad, wanted or unwanted behavior. (see NUMMI Case Study on next page to see how different force fields dramatically impact the very same people yielding totally different performance results). Leaders can influence behavior if they understand what drives it.

That's why it's so important.

Leadership counts; and trusted leadership counts highest.

Three Types of Strategic "Force Fields"

For the sake of simplicity[2] 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 1: Spectrum of Three Force Fields)



Collaborative Systems
Working together, sharing ideas, fast innovation
Transactional Systems[3]
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.

[2] Too many "experts" take pride in making culture too complex, which then makes it totally unmanageable.
[3] *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.

Table 1: Spectrum of Three 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

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.

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

Compete Externally, Collaborate Internally

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.

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.[4]

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.

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

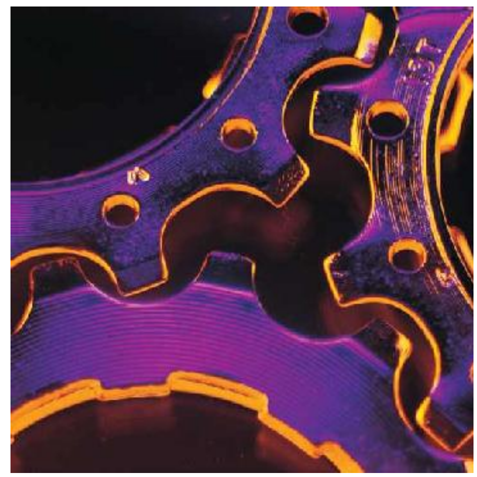
[4] When GM declared bankruptcy in 2009, it forced the end of the joint venture. The plant was temporarily closed, and Toyota, in conjunction with Tesla Motors, a manufacturer of new generation electric cars, now occupies the facility.

Each of the three force fields – *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 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.

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:



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 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.

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.

At this point you must be asking "How does this dysfunctional company 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 team-work 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, transactional*, 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 **Error! Reference source not found.**), then replacing any senior leaders[5] 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.

[5] 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.

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.

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.

Figure 1: Four Principle Drives of Human Behavior

Nearly every individual on the planet is imbued with four innate "drives" [see Figure 1] (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.

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.[6] 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.*

[6] 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.

> 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.[7] This gives leaders a "win-win" way to stimulate innovation: it benefits both the individual and the group.

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.
>
> 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.[8]

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[7] 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)

[8] 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.

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. 2: Factors for High Performance)

   - **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, & customers – external teamwork is called *strategic alliances.*

Fig. 2: Factors for High Performance

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.

WHITE PAPER

The System Design Architecture of
Value Maximization

DRAFT – SHORT Abridged Condensed Version for General Audience Version 1.0   10 January 2016

by Robert Porter Lynch[1]

Introduction

There is something missing in the world of business; it's very big, very important, vital to success, at the core of great achievement, acknowledged by virtually all authorities, but avoided, sidestepped, glossed over, assumed, and thus orphaned, avoided, and replaced by things that are less conceptual, more concrete, and tangible. There is no Rosetta Stone to translate it; it exists as shards and fragments and reflections; it's about as elusive as the Holy Grail; it's the "elephant in the room" that everyone extols but virtually no one understands.

Business is an adventure-filled world of dynamic evolution – rapidly changing and fast moving. Creative destruction – the replacing the old with the new – is one of the most compelling qualities of capitalism. Given the many changes in modern capitalism, we should consider the evolution of several key factors, including the:

1. Purpose of Business,
2. Nature of Competitive Advantage,
3. Impact of Value
4. Power of Trust
5. Strategic Cost➔Value Management

Each of these has enormous implications on how business is conducted and who ultimately become the winners and losers of the future.

Contents

[1] Author's Note: This is a condensed and abridged version of a larger piece. For purposes of brevity and simplicity, sections on Strategic Asset Assessment, Competitive Dynamics, Value Stratagems, Risk Management, Project Management, Strategic Portfolio Management, and Strategic Value Metrics have been omitted.

1. Purpose of Business

Ask any group of business people a simple question: “What is the purpose of business?”

Invariably a large proportion will answer:

“To make money.”

My response to that answer is: “What if you tell a customer that? What will they do?”

Usually the group will start to reconsider the answer, because a customer wants to know:

“What’s in it for me?” In other words: “Is money your highest priority? If I am to trust you, you’d better care about my needs.”

Most business schools have defined the purpose of business as something more akin to:

“Sell Goods & Services Sustainably[2] at Profit”

This definition, while still valid, it fails to take into consideration the dramatic changes in the structure of business in the last two decades. It’s high time to reconsider the business equation in a new light. Today’s business is not an island standing isolated in a competitive sea, it is part of a value chain in which each member contributes to the strength of the whole. The competitive battle is really a *battle of value chains,* and the company with alliances that contribute the most value most efficiently, and adaptively in changing times, will rise to top in terms of growth and profitability.

For the purposes of this White Paper and for understanding Value Maximization, and its full scale of implications, we are going to propose the purpose of business is to:

“**Maximize Sustainable Value**” [3] (or “Maximize Value” for short).

This definition will embrace and enable greater C*reation, Capture, Addition, Expansion, Multiplication, Sharing* and *Reaping* of value among stakeholders both long & short term.

For more information, queries, or thought contributions please contact: RobertLynch@warrenco.com

[2] Sustainably implies: Long Term Revenue Generation, Profitability, and Success -- Ethically/Legally & Competitively

[3] Quite often we will hear the admonition from the world of Lean Management that value is defined by what the customer will pay for. While this is a good place to begin understanding and aligning the value chain, it is not sufficient in the long term. Value, as defined by the customer, is the basis for creating an effective competitive strategy. Value is created for customers not by just one firm, but by an entire value chain. And value, can be created, shared, divided, protected, or depleted. Competitive advantage must accrue to the key contributors of value in the chain. Value may not be evident to the customer when it is generated, as much of value is invisible to the final product, service, or delivery system. Cost that is not linked to value can be myopic. Any members of a value chain that fail to understand the relationship between customer value, and value maximization strategy will be likely to be disadvantaged in a competitive marketplace.

1. Nature of Competitive Advantage

Businesses and governments flourish when they create competitive advantage.

For business, competitive advantage can take many forms, but invariably it translates into greater value and stronger financial impact. Competition does not imply fighting. In fact, more competitive advantage is created through collaboration.

Battle of Value Chains pits one company's value chain against another. The company whose value chain creates more value, more often than not, wins the competitive battle.

Partners collaborate within the chain, competing against rival's chains

The Battle of Value Chains

The Battle of Value Chains pits one company's value chain against another. The company whose value chain creates more value, more often than not, wins the competitive battle.

> Ultimately, leaders must deal with the fundamental issue of how to maximize the delivery of value while creating competitive advantage.

Too many of our current business and economic models are founded on the view that commercial enterprise is based on independent stand-alone organizations. This can be misleading. No one company is an isolated element; each is part of *a Value Chain,* which consists of a series of primary and support suppliers that create and build value, culminating in the total value delivered to customers.

> In the larger scope, winning the competitive game is a question of how to create an *entire value chain that is more competitive than that of other rivals*.

This cannot occur if the relationship with both our suppliers at the sourcing end of the value chain and the customers at the sales end of the chain is *adversarial*. A *collaborative* relationship with primary suppliers and customers is essential if innovation is to flow and flourish.

Value Maximization in Value Chains

This competitive paradigm calls for a business purpose to aim at *Value Maximization* that improves the value created for its *stakeholders*: its *customers*, for the *business itself*, for the *work force*, for the *investors*, and for the *suppliers* – the idea being that creating a bigger pie means there is more to go around for all the players in the game of business. This is not a far-fetched idea; Toyota and Honda have used it very successfully for over fifty years against GM, Ford, and Chrysler; their strength in the marketplace and competitive advantage is strong testament to creating a win-win value chain strategy. But value maximization is not soft; it demands continuous attention, relentless innovation, and trustworthy relationships among all the members of the value chain, because every member of the chain must be playing at world class standards, and must integrate the flow of their products, services, and delivery system into the next stage in the chain (see Figure 1).

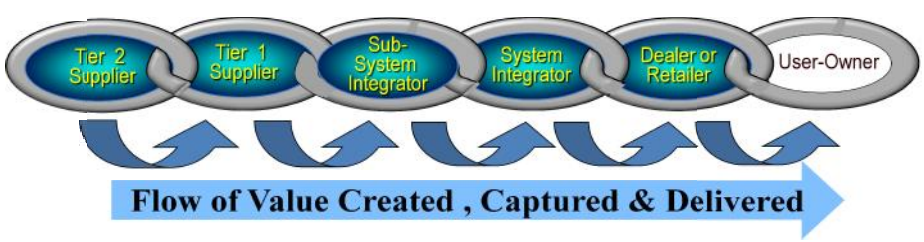

Figure 1: Typical Value Chain

The biggest problem with executing a successful value chain strategy is there has been no powerful, coherent way of designing a system for its implementation. Heretofore the process has fallen into the abyss of intuition, or propulsion via an inadequate tool-set (instead of a design architecture and master skill-set).

This paper's purpose is to highlight a system of thinking and a method for designing a value maximization system around which one can mold strategy, financial expectations, and operational excellence.

Creating Competitive Advantage in the Value Chain

To be successful Value Maximization strategy must give major consideration to enduring competitive advantage. Business is a chess match; there is never a single "best move." Strategy is relative to the customer, the responses of the competitor, and the forces of the environment.

By designing a value chain to be the best at every step in the chain, a substantial hurdle is created that becomes a series of barriers to potential competitors. Advantages can be created in a wide spectrum, including cost, speed, delivery, customization, integration, friendliness, etc. Benchmarking key success metrics against other companies and value chains is valuable (see Figure 2). Additionally, Value Stream Mapping is an effective tool for identifying value bottlenecks and accelerating value flow.

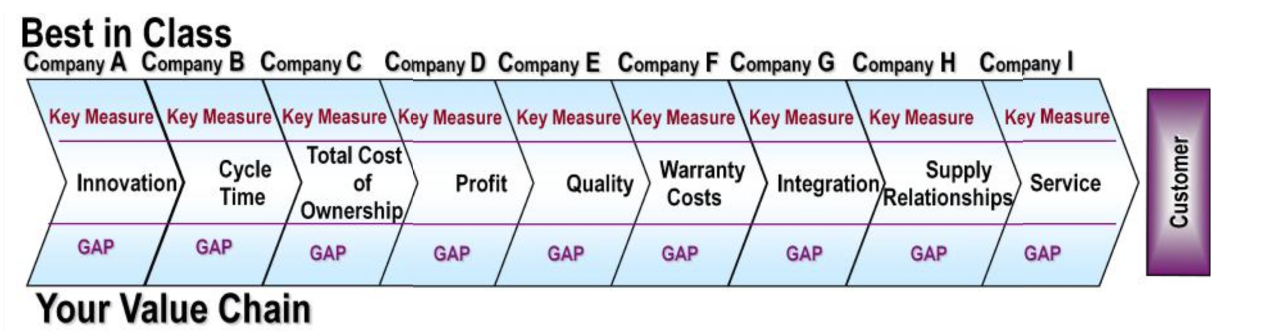

Figure 2: Benchmarking Key Measures of Success

There are several basic options for creating competitive advantage including: low cost advantage, product differentiation, business model differentiation, systems solutions, product/service mix, and delivery systems, to name a few. (see Figure 5: Value Iceberg for more detail). World class companies have learned how to *cut costs and increase value, simultaneously*.[4]

Aim of "Strategy"

To Transform Vision & Strategic Assets into Value that Creates the Greatest Competitive Advantage with the Most Efficient Use of Limited Resources

Ultimately, Value Maximization must be directly linked to Competitive Advantage

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[4] Lynch, Robert Porter, Cooperation Brings Profitability, Inside Supply Management, ISM Journal, Vol. 18, No. 12, December 2007

2. Impact of Value

"Value" is one of the most vaunted and exalted, and yet perhaps, the most elusive of all business concepts. It is far too ill-defined, vague, sought everywhere, but almost ethereal. Executives are urged to "create value" but given far too few guidelines, methods, or tools for its emergence.

For two externally-focused professions that must range far outside the firm's castle walls – Supply Chain and Strategic Alliances – the lack of an *architecture* (system of design) and common language around "value" has created an empty hole. Corporate executives in the C-Suite intuitively sense there is largely something of value brought by these two professions, but when challenged by senior financial officers to "prove the value" by translating directly and immediately into financial terms (revenue, profit, return, etc.), the supply chain and alliance professionals are all-too-often at a loss. This leaves them "orphaned" inside their own firm, and left at the doorstep of the C-Suite, vainly begging admittance, and vexed as to how to gain acceptance from their senior peers.

What Happens without a "Value Design Architecture"

A search of books and articles about" value" reveals an almost eerie pastiche of fragmented thinking about methods, tools, cost analyses, customer demands, and economic theory, but nothing coherent, systematic, or disciplined. Learning about "value" is like the blind men analyzing the elephant, each examining a small part and proclaiming its magnitude and centricity.

Other fundamental problems are also generated by the lack of systems design architecture for value:

- Strategy, and the all-important creation of competitive advantage, are not linked inextricably to Value
- Mission, Purpose, and Operational Values/Culture are disjointed because they are not linked to Value
- Development of powerful, coherent, efficient, and highly profitable Value Chain Strategy is extremely difficult
- Cost Cutting, without "value architecture" is haphazard at best, and horribly destructive at worst.

What's more, without a systematic design framework, value is fuzzy, ill-defined, and ambiguous, thus it's implied or hedged, but not directly addressed, which causes many to lunge in desperation for "tools of salvation," such as value stream mapping, value engineering, or the latest software gimmick.

The problem of the missing "value design architecture" causes businesses to act haphazardly, to behave as independent entities rather than coherent value chains, and to divorce strategy from daily operations.

Everything in business eventually defaults to money, costs and profits

In times of stress, all-too-quickly executives to default to that which is simple and straightforward: money, costs, and profits, without careful consideration of how value is actually created, expanded, captured, transformed, exchanged, and eventually converted into money. (While translating value into money is the ultimate common denominator of business, if the leap into monetary conversion happens prematurely with knee-jerk rapidity, real value *creation* and value *capture* will be thwarted.)

To use an analogy, it's much like an ignorant farmer who knows enough to plant a seed, but understands neither how to cultivate a garden, nor how much water is too much or too little, nor how much fertilizer is optimum, nor how to rotate crops, nor how to manage the workforce ensure the maximum harvest at the best market price.

The lack of such "value architecture" relegates those key value chain functions that work outside the corporate castle walls -- like Supply Chain and Strategic Alliances -- to be caught flat-footed when trying to validate their efforts, because the C-Suite typically wants to convert their initiatives into instantaneous financial figures, such as direct costs, revenues generated, or profits. Even indirect costs, like *costs/risks avoided* or *total cost of ownership* or *productivity* or *value chain competitiveness* are not counted toward success.[5]

Value Maximization "Design Architecture" gives management a system and language thorough which to think and communicate, producing unified and integrated results across the Value Chain.

Aligning Value: Dynamic Goal Shifting with Expectations

The whole idea of "value" presents some unique problems from the outset, thus defining it is problematic, but conquerable.

Value is Situational, Conditional, Relative and Multi-Dimensional.

What is valuable to one person may be irrelevant to the next. A glass of water is far more valuable to a parched person than to who's bloated -- it's worth its weight in gold to the thirsty man. What creates value in one industry may be irrelevant in another.

While *cost is single-dimensional*, *value is kaleidoscopic – moving and multidimensional*.

Furthermore, like beauty, value is often in the eye of the beholder.

All value, within the boundaries of being conditional, situational, and relative, are driven by performance metrics, operating principles, market realities, competitive dynamics, cost-benefit analyses, technical realities, customer expectations, compatibility, functional integration, and aspirational potential, among others. Understanding the foundations of value is not simple, and sometimes it's highly intuitive.

That's where talking to users, observing how people interact with product, and understanding how things fit together is so important. Value is not an abstract issue – it's functional, aesthetic, reliable, accurate, tangible, efficient, speedy, friendly, trustworthy, and other things that can be observed and usually quantified. In other words, value typically is holistic, not superficial.[6]

Where so many supply and alliance professionals go awry is not clearly understanding the complexity value paradigm and the manner in which it must be addressed and aligned in the value chain.

Value is determined more by results delivered, at which point the purchaser, user, or consumer speaks loudest. To understand value, one must first be deeply cognizant of the core value principles that apply to the user or purchaser. This requires a distinction between what the buyer "wants" and what they "need." People first buy what they *want*; then consider what they *need*. The purchaser needs to experience value

[5] Supply Chain and Strategic Alliances are natural "partners" inside a company. But historically there has been far too little interaction between them. I believe the fundamental reason is because of the lack of a unifying *Value Architecture* that enables them to see the synergistic potential between each other.

[6] Note: This discussion is not intended to address "fads and fashions" that come and go, whipped by marketing frenzy and peer pressure.

when they make the buying decision, during their period of ownership, and after the product or service evolves or cycles to the next stage (either by resale, disposal, or transformation, etc.).

Internal & External Stakeholders

The value paradigm is further complicated because value must be addressed from the perspectives of both *internal* and *external* stakeholders. *Internally* the value to marketing, finance, operations, engineering, R&D, etc. must be very clearly defined so that there is a team of *internal* winners who find supply and alliances a valuable partner. Each of these *internal* stakeholders has their own unique foundational value parameters and metrics for success. The most accurate way to ascertain an *internal* stakeholder's value paradigm is to determine what *metrics* drive their performance success. (Only when the *internal* stakeholders see that value is being generated will they consider elevate the supply and alliance positions to C-Suite status.)

Once the *internal stakeholder* foundation/teamwork has begun, the *external* stakeholder analysis (customer, delivery system, channel partners, suppliers etc.) can begin.

The predominant *external* focus must first be on customers – What will they pay for? What will they value? What problems do they have that need our solutions? What pressures are they under? What keeps/makes them competitive? Making the customer preeminent recognizes that the only way to stay in business is to have *revenues* – the *top line* on the Profit and Loss Statement (it's the only line that makes a positive contribution to profits).

The central focus of the Battle of Value Chains is that all the players *align* on the delivery of value to each successive customer in the chain, while, at the same time, having clarity of how value is created several links forward to ensure *each link is creating value that increases the succeeding customer's competitiveness.*

Innovation & Creative Destruction

One of the enduring qualities of capitalism is its ability to obsolete the past and create a bold new future by innovation – the continuous replacement of something old with something new. Value plays a massive part in understanding the creative destruction of the old by the new. If something has value, generally it is only replaced by something that has more value. Technological evolution is based on this premise. For example, in the transportation industry, horses were replaced by trains that were replaced by trucks. In the utility industry, candles were replaced by gas lights that were replaced by electric lights.

In other words:
Value is not static – it's dynamic, ever-changing, and interactive within the context of its environment.

Every business professional must have a decent grounding in the understanding of value to be effective.

Value Propositions – Transforming Value into Measurable Benefit

V A Value Proposition is an essential element in how value is perceived in the eyes of the customer (where value translates into monetary flow) or internal user/team member.

Think of a Value Proposition as a "Value Made Measurable" – it always includes a *quantification* of how value can be experienced in a measurable way – in many ways it is a Value Commitment/Promise.

Value Propositions gives "aim" to strategy – direction, alignment, purpose, clarity, focus, and linkage – connecting vision to operational impact.

Value Propositions are often time dependent because, quite often value must be realized relatively quickly – short or medium term. Without a Value Proposition:

- Vision lacks grounding in reality, operations lacks focus, and customers
- Customers cannot distinguish or appreciate the competitive offering.
- Maximization of value is doomed to wander, like an explorer without a compass.

Example Breakthrough Value Proposition that United a Country

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

Impact:

- Aligns the Value Chain
- Inspires People
- Links Strategy to Operations
- Measurable & Time Bounded

Some Examples of Value Parameters that are addressed in Value Propositions

- Better
- Cheaper
- Faster
- Safer
- Easier
- More Accurate
- More Reliable
- More Compatible
- More Integrated
- Harder/Softer/Flexible

- More Integrated
- Better Service
- Easily Diagnosed
- Reduced Expenses
- Increased Productivity
- Improved Efficiency
- Improved Quality
- Greater Innovation Flow
- Longer Lasting
- Easier to Repair

- Responsive to Needs
- Flexible Terms
- Collaborative Contracts
- Timely Delivery
- Quick Payment
- Shared Rewards
- Improved Customer Satisfaction

To gauge how little the average business student knows about value, just ask any MBA graduate student: "How do you create a Value Proposition." The vast majority will look at you like you came from outer space.

Value Stairway & Value Pathways

Value Maximization requires value chain professionals and strategists to think precisely about where and how every business relationship in the value chain creates the greatest competitive advantage, the best value delivery, with the minimum cost and the highest use of strategic assets. There are five fundamental hierarchical levels, each with value delivery pathways (each has a variety of engagement options):

1. Value Creation
2. Value Addition
3. Value Transaction
4. Value Protection
5. Value Depreciation

Value Pathways are the options that every alliance and supply chain leader has available for every strategic relationship. The Value Staircase (see Figure 3: Value Stairway & Value Pathways) illustrates the pathway options available.

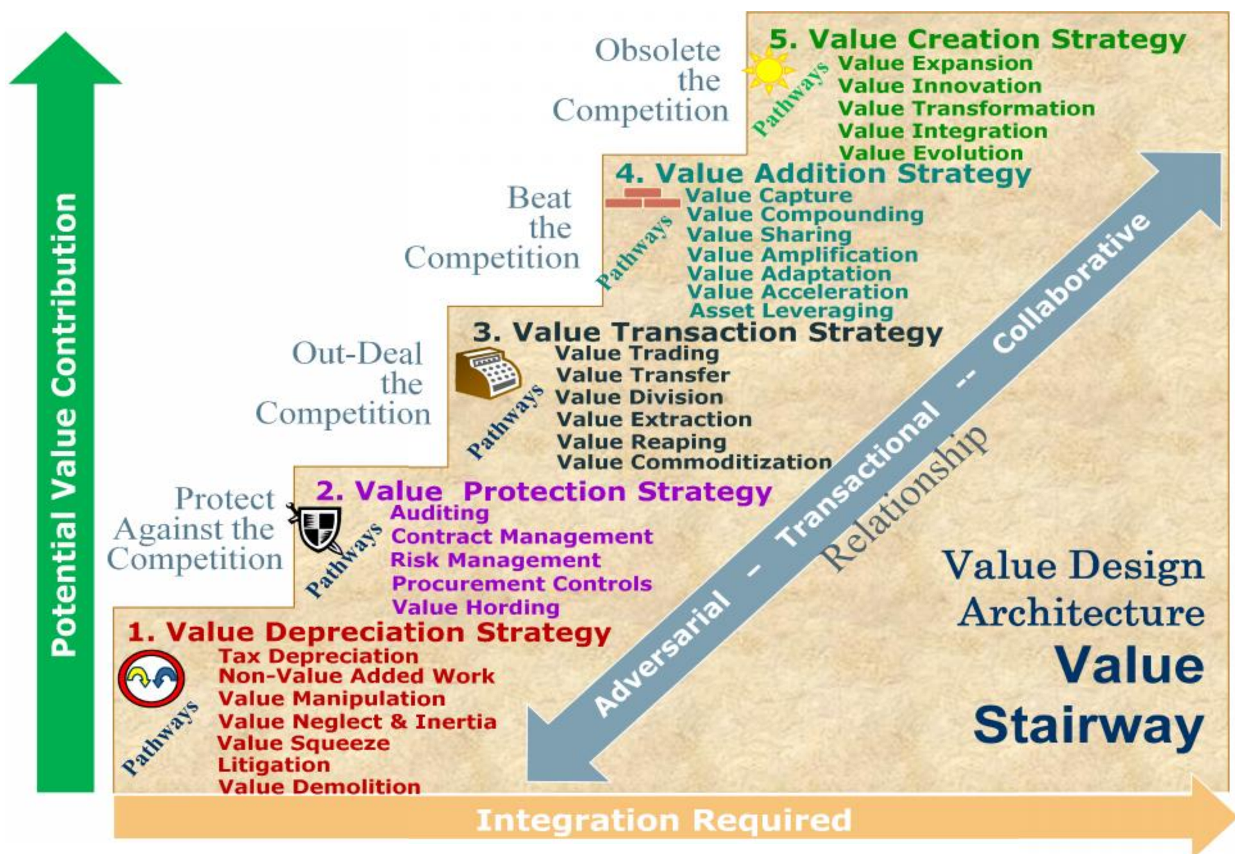


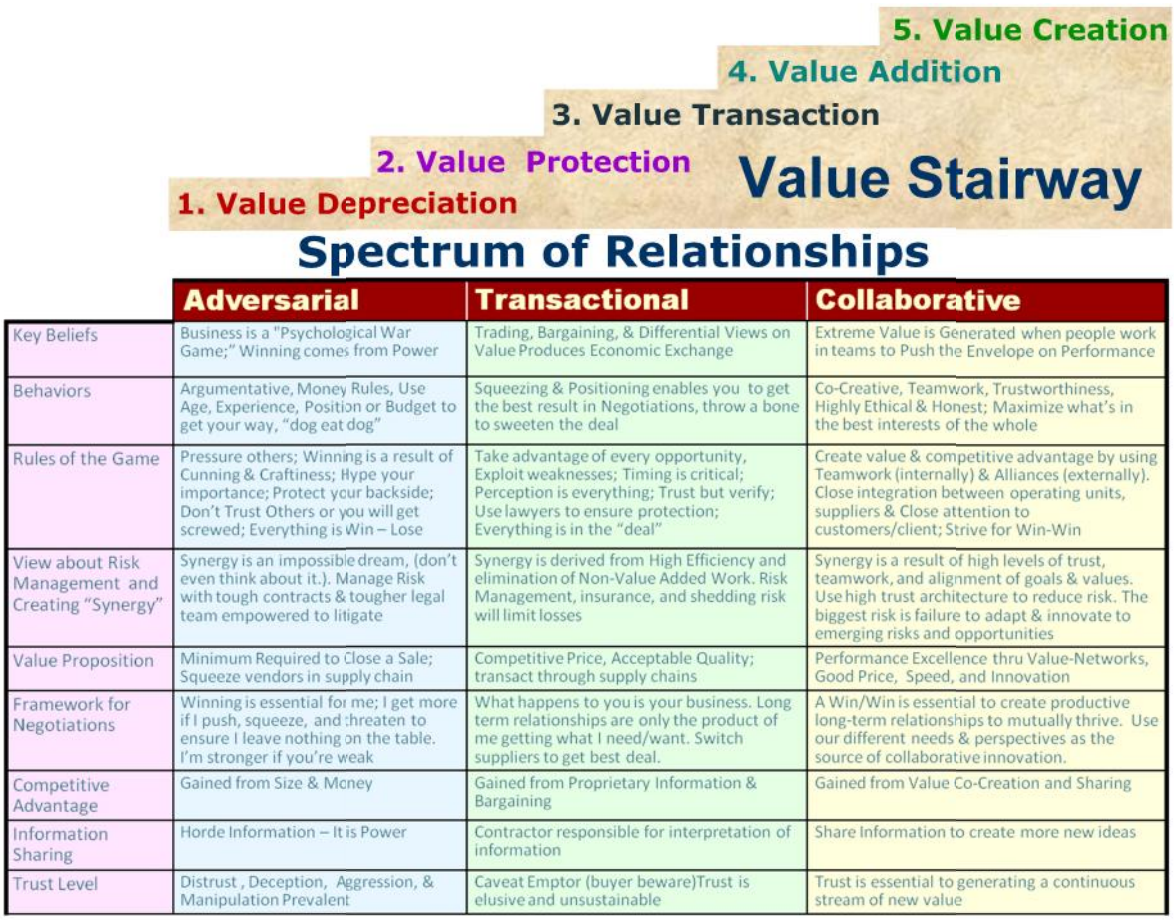
Figure 3: Value Stairway & Value Pathways

In Value Maximization, each strategic and major supply relationship should be evaluated to ensure that value is maximized in the relationship – this begins to make it more difficult for the completion to create advantage, particularly if they have a propensity/capability that keeps them playing lower on the Value Stairway.

3. Power of Trust

Managing the human interaction within a Value Maximization framework is essential for optimum performance. *People create value*, it is not a mechanistic process; relationships are fundamental.

There are three basic relationship possibilities, ranging from *collaborative* to *transactional* to *adversarial* (see Figure 4). Any professional committed to Value Maximization must have an intimate knowledge and operational facility at managing collaborative relationships with agility. This is particularly important where speed, innovation, or complexity comes into play.



	Adversarial	Transactional	Collaborative
Key Beliefs	Business is 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/client; 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 to emerging risks and opportunities
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, and Innovation
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 Proprietary Information & Bargaining	Gained from Value Co-Creation and Sharing
Information Sharing	Horde Information – It is Power	Contractor responsible for interpretation of information	Share Information to create more new ideas
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

Figure 4: Spectrum of Relationships

In our analysis of highly successful organizations over the long haul, there's a powerful and direct connection between the level of trust and teamwork a company exhibits in its culture, and the competitive advantage and profitability it creates over the long haul. The reason: collaboration produces the highest levels of productivity, innovation, and adaptability to adversity. Thus Value Maximization embraces the nature of *culture* on results, which can have a 30% impact on risk in highly complex situations and projects

Why Strategic Alliances are Essential

Gaining *alignment* (fit) is absolutely essential for the entire Value Chain Strategy to work. There are three fundamental alignments that must be formulated (known as 3-dimensional alignment):

1. Strategic Alignment (Fit)
2. Cultural Alignment (Fit)
3. Operational Alignment (Fit)

Strategic Relationships are opportunities to create Bold New Futures

The best practices for these three alignments have been carefully tested and executed by the Alliance Profession[7], but not well integrated into a holistic Value Maximization strategy embraced by Finance, Supply Chain, R&D, Marketing, Strategic Planning, or Legal. Successful execution of the best practices to attain three dimensional alignment is essential for Value Chain implementation.

Teamwork, Trust, and Collaborative Innovation as Central Organizing Principles

Value Maximizations is a not just a change in business strategy; it's also a "cultural change," which traditionally is not an easy adjustment, particularly for older, "seasoned" managers who may have had to adopt the mindsets of the ingrained *adversarial* and *transactional* models of business. [8]

High performance organizations that sustain their advantage over the long term place great value on their people and project teams. In particular, they are always pushing the envelope with new ways to work together to produce more value for their customers, their company, and their alliance partners, which requires:

- *Trust:* the essential behavioral foundation of all collaborative enterprise. Without trust, collaborative strategies, collaborative innovation, and collaborative execution (teamwork) is difficult, if not impossible. [9]
- *Collaborative Innovation:* the source code and cornerstone for all companies that exist in highly competitive environments where the onslaught of continuous improvement must prevail. Collaborative Innovation enables companies to be regenerative – to transcend their past and reinvent their futures. Collaboration unleashes the collective creative potential of people on the project.
- *Teamwork*: the coordinated effort through which high performance organizations deliver value. Without teamwork, value delivery can only be *transactional* at best. [10]

Trust Reduces Risk

Collaboration is both a risk mitigator and reward enhancer, as one senior executive[11] explains:

> *Sharing risk and creating value together helps build trust. When solutions are created collaboratively, it lowers our risk. We cannot be caught in a blame game, that just increases the risks. We need to work as a team in the supply chain; a team in the development phase, and a team in the project rollout – we work like a network. That helps them recruit and retain a highly skilled labour force, which helps reduce our exposure to risks. If we can find partners for the long-term journey, we can create something special. We can manage risk together, share learnings, knowledge and observations of what's going on in the marketplace. That can yield a truly rewarding relationship.*

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[7] See Lynch, *Alliance Best Practices Workbook* and Alliance Best Practices at www.Strategic-Alliance.org

[8] Cultural change is not necessarily as difficult as it is often made out to be. If senior leadership makes trust, teamwork, and innovation the three "central organizing principles" of the new culture, and then aligns performance measures and rewards systems to support these principles, then the cultural shift can often be successfully attained in as little as several months.

[9] We've developed highly effective trust architectures that embrace the interpersonal roots of human behavior, and the operational and economic issues that support, sustain, and rebuild trust.

[10] Teamwork isn't just an internal function; it's just as important externally with suppliers, delivery partners, and customers; External collaborative teams are called "strategic alliances," providing coordination, cross-boundary problem-solving, & fresh ideas.

[11] Interview with Devon Energy's Steve Bass, November 2014, cited in Jergeas & Lynch, Ibid

4. Strategic Cost ➔ Value Management

All businesses must carefully manage costs, else they spiral out of control. Traditional external cost management is done with brutal simplicity: send an edict telling all vendors they must lower the costs X% - either comply or lose our business. These edicts ripple up and down the tiers of the value chain, wreaking havoc along the way. Usually quality and fulfillment suffer; often suppliers simply exit the industry.[12] The cause of the problem is the lack of a clear Value Maximization system and strategy that enables precision cost cutting while aiming at creating more value simultaneously.

The objective of Strategic Cost➔Value Management[13] (SC-VM) is to focus on getting costs down while creating more value and improve strategic competitiveness; it's a disciple that considers three factors:

- Long Term Competitive Advantage for entire Value Chain (Strategic Battle of Value Chains)
- Value Driver Analysis to determine how to Increase Value
- Cost Driver Analysis to understand Root Causes of Costs while Reducing Non-Value Added Work

These three phases are characterized in the Value Iceberg (see Figure 5), diving progressively deeper into the *Cost ➔ Value Shift*. Below we outline the short term Best Practices to commence this *shift*, with the understanding it is actually a long term evolutionary effort that never ends.

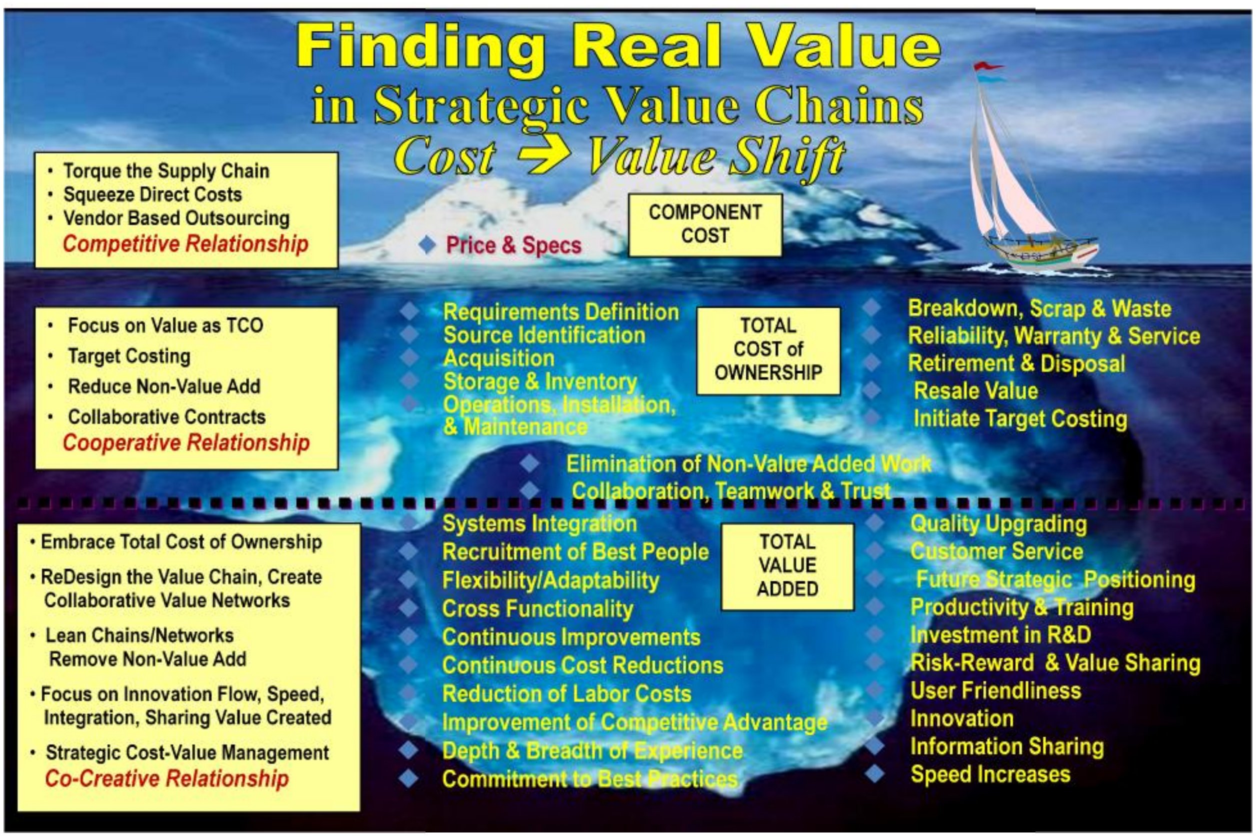

Figure 5: Value Iceberg

[12] Prior to the recession of 2008, years of the cost-cutting edicts from Detroit's Big Three was taking a heavy toll; 500 suppliers a year were either exiting the industry or going belly-up. When the recovery happens, the value chain is so bruised and battered that it takes years to rebuild what has been destroyed. Profits that could have been gained on the upswing can never materialize.

[13] Shank, John K & Govindarajan, Vijay;Strategic Cost Management, the New Tool for Competitive Advantage, Free Press, 1993. . (We've added the word "value" to the process to reflect the shift from cost to value-based objectives of strategic value chains).

Analyzing the Cost ➔ Value Drivers

What separates traditional cost management from Strategic Cost➔Value Management are four factors which must be carefully integrated into the cost analysis:

1. Value Drivers – Cut the Fat, not the Muscle
2. Value Chain Advantage – Strategic Battle of Value Chains Drives Total Cost of Ownership
3. Strategic Value Metrics – Cost Cutting should have Positive Impact on Critical Metrics of Success
4. Cost-Value Sharing – Working together across the Value Chain to share cost advantage

1. Value Drivers – Cut the Fat, Not the Meat

It's essential to understand what is "driving" the value paradigm before cutting cost. Value drivers can range from customer needs (which should be identified clearly), costs, delivery, service, reliability, continuous improvement, training, etc. (see side bar) If value drivers are not clearly identified, then it becomes all too easy to "cut the muscle, not the fat." Once value drivers are identified, only then should cost drivers be evaluated to determine what the impact will be on value. Cost drivers can include NVA (Non-Value Added work), VD (Value Destroyers such as adversary relations), cost-volume relationships, labour (poor training, labour contracts, etc), structural costs (scale, location, etc.), engineering (design, materials, etc.), production (quality, flow, constraints, etc.), technology (availability, capacity, integration, etc.), experience (embedded know-how, wisdom, competence, etc.), and complexity (compounding complexity, sequencing, inter-dependence, breakdowns at interfaces, etc.)

Examples of Value Drivers

- Imagination & Innovation
- Collaboration, Communications, Trust, Teamwork
- Eliminated Non Value Added Work
- Safety & Security
- Reliability, Accuracy, Ease of Use
- Low Cost (Component or TCO?)
- 100 % Quality, 100% on Time Delivery
- Integration with other functions
- Advanced Technology
- Convenient, Friendly Business Model & Warranty

2. Value Chain Advantage – End to End Impact

Because Value Maximization embraces an end-to-end (E2E) value chain strategy for value creation, capture, and delivery, cost cutting efforts must encompass other value partners both upstream and downstream to ensure that cost cutting increases (or is neutral to) competitive advantage. Ultimately, the Battle of Value Chains prevails because the end-use customers pay for all the profit margins along the value chain.[14] Effective use of the value chain can significantly improve both cost leadership and product differentiation, building brand loyalty (trust), improved product design, more effective use/integration of advanced technology, better delivery, and improved service. Significant profit gains can be made had by improvement in the nature of the linkages and process flows *between* suppliers and customers, as well as internal chains in companies (i.e. cross functional integration).

[14] Shrank, John K. & Govindarajan, Vijay; Strategic Cost Management, Free Press, 1992 p 51

Efforts that act independently of value chain partners may have adverse impact on other parts of the value chain. For example, when General Motors unilaterally sliced and diced supplier costs with a Draconian sword, quality plummeted, warranty costs skyrocketed, order fulfillment became sporadic with backorders slowing down production, and innovation flowed to GM's competitors. When examining value chain costs, Lean Management, Total Cost of Ownership, Target Costing, and Value Engineering frameworks are highly effective.

> ***Key Questions to ensure sustainable competitive advantage in Cost Cutting***
>
> 1. Can we reduce costs in this activity, while holding value (revenues) constant?
> 2. Can we increase value (revenues) in this activity, while holding costs constant?
> 3. Can we reduce assets in this activity, while holding costs and revenues constant?
> 4. Can we reconfigure the value chain to reduce costs and increase flow of value?
>
> Source: Shrank & Govbindarajan, Ibid, p 60-61

3. *Strategic Value Metrics – Measuring Cost and Value*
   Metrics will drive behavior because they represent how a business and its value chain measure success. Before cost-cutting, the Strategic Value Metrics (Strategic Return on Investment) should be revisited by key members of the value chain to reassess the value metrics and interdependencies in light of new competitive requirements. Key metrics attached to Market Impact, Competitive Advantage, Organizational Efficiency/Productivity, and Innovative Capacity should be closely examined, along with their cost implications. Then a comparison of value metrics, cost drivers, and profit variance analysis will enable a value chain team to determine what costs are necessary to create/retain value, what costs are superfluous, and what targets should receive priority attention. This will cause cost cutting to be done with a surgical knife while keeping the patient alive, rather than with the radical blunt instrument impact by sending an edict for a 20% cost decrease.

4. *Cost-Value Sharing – Working Together to Create Mutual Value*
   One of the deep principles in Value Maximization is the sharing of benefit for stakeholders in the value chain, including customers, suppliers, investors, employees, management, and the communities that provide the human resources and infrastructure to support the business. Value sharing also means risk and reward sharing in which each member of the chain bears not only risk, and responsibility, but is also rewarded for their efforts to produce value and competitive advantage. For example, auto giants like Toyota and Honda are extremely meticulous in how they manage their relationships with suppliers who provide 80% of the parts used in new car manufacture. Both Japanese auto makers have their own version of a Value Maximization strategy, ensuring lean value chains, collaborative relationships, high levels of trust and teamwork, and continuous improvement and innovation. Each takes extra steps to ensure their suppliers are reasonably profitable; no supplier can gouge, for it is essential for every member of the chain to prosper in order to have sufficient money to invest in future capabilities. But in tight economic times, each member of the chain is expected to tighten their belts to remain competitive.

Leadership: How to Implement the Shift

Here are 6 steps to put a Value Maximization System into place[15]:

Step 1: Compelling Rationale

- Sense of Urgency or Need --Awareness of the Problem & Opportunity
- Identify crises, potential crises, or major opportunities
- Examine market and competitive realities
- Develop Powerful Messaging

Step 2: Build a United Leadership Team

- Strong Voices Aligned in their Call to Action
- Use the Influence of Authority
- Willingness to change voiced by those "in the know"

Step 3: Design a Clear Vision, Value & Strategic Pathway

- Outline the Vision, Value Proposition, and Strategic Pathway
- Assign Operational Goals, Actions, & Responsibilities
- Examine Financial Modeling
- Build Internal and Value Chain Capabilities & Train
- Over-communicate the message

Step 4: Create Rapid Results

- Empower Teams to Act -- Create Evidence & Belief
- Gain Traction with Quick Wins – Launch Pilot Projects
- Manage Risk by focusing on Value Added, Collaboration, Teamwork, Trust, and Alliances
- Capture the Learning, Distinguish the Old Way from the New Way
- Communicate the Results
- Redouble the Effort

Step 5: Reduce the Risk & Resistance to Change

- Encourage Risk Taking
- Remove Obstacles to Change
- Sideline the Stubbornly Resistant
- Celebrate and Promote Victories
- Recognize and reward employees involved in the improvements

Step 6: ReAlign the Organization

- Hiring, promoting, and developing employees who can implement the vision
- Reinvigorating the process with new projects, themes, and change agents
- Improve Career Paths for High Performers
- Realign Metrics & Rewards to support the new system

For more information, queries, or thought contributions please contact: RobertLynch@warrenco.com

[15] Portions attributed to Kotter, John, *Leading Change, Why Transformations Fail*, HBR, 1996