

You Must Mix Friendship and Business

The Key to Success

There is an old saying, at least in the West: “You can’t mix friendship and business.” This assumption is not only wrong, in fact, the very opposite is true: friendships at work are essential. All the things that business owners look for from their enterprises – productivity, engagement, flexibility, staff and customer loyalty – depend on the strength of the interpersonal relationships that exist within their organizations.



“I can’t say that everything is right with my area of operations,” John, the risk manager of Mega Financial Services told me during our first interview. “I am not getting the level of risk notifications that would be normal in a company like ours. We know we have a risk problem here, but we don’t know why.” Mega is a Fortune 500 company with operations worldwide and John was particularly concerned about the risk profile of the company’s US businesses. Other executives we talked to at Mega voiced their own concerns. They were united in feeling that if only that particular problem, which they were raising could be fixed then Mega Financial would be fine.

My company, Fortinberry Murray Consulting (FMC), had been called by Mega’s CEO in because the company’s overall profits had been declining and there was a high rate of unwanted attrition of their best people, mainly to rival companies. Their level of engagement was very low (well below the national average of 19%, which is, itself, a striking condemnation of modern management practices).

John had been one of the prime movers in choosing us since he had worked with us in a previous job. Fortinberry Murray has wide experience in driving culture change, frequently around risk and compliance issues. Often these seemingly discrete problems

are just the tip of the iceberg. Mega Financial Services Inc.,¹ is obviously not the company's real name and I have changed some of the facts relating to it to protect confidentiality.

Given the number of individual problems flagged in the initial interviews, the senior management at Mega agreed that an overall assessment of its corporate culture and decision-making processes was a worthwhile exercise. As my team at FMC and I dug further however we discovered one common factor: a systemic failure of relationships.

There is an old saying, at least in the West: "You can't mix friendship and business." I want to show that this assumption is not only wrong but that the very opposite is true: Friendships at work are essential. All the things that business owners look for from their enterprises—productivity, engagement, flexibility, staff and customer loyalty—depend on the strength of the interpersonal relationships that exist within their organizations.

As many recent studies have shown, there is a direct connection between profitability and the quality of the relationships between management and staff, and between staff members at all levels. Yet, in their drive to maximize the bottom line, managers tend to dismiss relationship skills training as 'the soft stuff.' Except in 'enlightened' companies such as the Ford Motor Co., and Caterpillar in the US, Stocklands in Australia and PwC in Hong Kong/China such programs are usually the first to be cut.

What management tends to miss is one simple and irrefutable fact: humans are relationship-forming animals. As Daniel Goleman shows in his most recent book, *Social Intelligence*², almost all of our neurobiology and most of our genetic make-up is focused on our need to surround ourselves with a nexus of mutually

supportive relationships. We fear social exclusion more than we fear death.³

In this article I want to take a close look at the case of Mega Financial Services and show how its problems are symptomatic of a more general malaise that affects the way many, if not most, firms operate. I will also put forward a few solutions based on the latest research findings and the considerable experience of my colleagues at FMC and myself. Although most of these ideas are simple to implement they will, in some cases, require a fairly radical change in corporate culture.

In today's modern industry, almost every bad decision by supervisors, sales people or by workers on the shop floor has its etiology in a bad senior management decision (or series of them). Some of those decisions are unconscious and are made by default. In the case of Mega Financial's leadership, there was almost certainly no formal resolution made to the effect that priorities other than risk governance took precedence. Indeed when we interviewed members of the 'C suite' they were shocked at the suggestion that they lacked interest in one of the most important aspects of their business. Nor was there a conscious choice made to make interpersonal relationships a matter of lesser importance. Yet all of their decisions concerning working practices within the company demonstrated to their staff that this was the case.

In order to better understand and address the underlying issues at Mega Financial Services, my colleagues and I conducted a number of in-depth interviews with the staff of Mega Financial at all levels and had every member of the company fill

¹ Though this article is based on a real situation in some ways Mega Financial Services represents an amalgam of a number of past and present organizations we have worked with.

² Goleman Daniel "Social Intelligence" Bantam, 2007.

³ Baumeister Roy, et al, "The Inner Dimension of Social Exclusion" U of Florida Research Paper, June 2004.

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in a questionnaire that measured the degree of trust between the management and the staff and between colleagues.

MEGA Financial's Cup of Woes

When we analyzed all the material from the interviews and the questionnaires we found that Mega had four basic problems:

- ◆ Bad communication between all levels of management and staff
- ◆ A system of rigid targets and stretched goals, which encouraged cheating and fierce internal competition
- ◆ The company's sole reliance on financial rewards
- ◆ A very low level of trust generally.

Bad Communication Between All Levels of Management and Staff

The most obvious of Mega's problems was one of communication. Surprisingly, few C-suites are aware that a business' productivity is largely dependent on the conversational skill of its managers. Without good dialogue skills, good delegation is impossible. Without these skills, mentoring and coaching don't happen in any meaningful way. Without good dialogue skills, staff engagement and retention of good people is much more problematic. Without a grasp of the conversation skills involved in relationship selling, the sales people are at a disadvantage compared to their competitors.

Over the last 50 years or so the industrialized world has largely lost the art of good conversation. This may be due to the increasing use of electronic means of communication or it may be due to the fact that families don't talk to each other the way they used to do. Personally I think it's a combination of the two. The biggest loss has been the

ability to show a genuine interest in the other person, to be curious about them. Managers tend to talk to their reports as though they were computers that just needed data fed into them. No wonder their people are disengaged and lack commitment.

Of course that is not true of all corporate leaders. Many are extremely good at making their employees feel that they have a real relationship with them. I remember Matthew Quinn, the CEO of Stockland, one of Australia's largest and most profitable development companies, coming into a room full of about 25 middle managers. Not only did he remember all of their names, but he also asked detailed questions about their spouses and their children. Another good example is Ernest Ip, the Head of Assurance for PwC China and one of the rising stars of the Hong Kong and China business communities. His ability to put people at their ease and to show genuine interest in them has undoubtedly been the key to his success. Like Quinn, Ip has the ability to make people want to commit to him. Both will take the time to talk to their subordinates, to listen to them and to ask them thoughtful questions, not just about work but about themselves as individuals.

It is small wonder that such leaders command a high degree of respect from their people.

However, despite the severe shortage of good, productive dialogues within modern organizations, there are six simple rules which, if followed, would help to remedy the situation. These are:

- ◆ Employ good listening skills – e.g., don't check your iPhone while someone is talking
- ◆ Ask more than tell – show a genuine interest in the other person and what

they have to say, don't jump in with solutions before you have asked questions to find out all the facts and certainly don't condemn their suggestions or ideas out of hand.

- ◆ Don't talk for more than 30 seconds without pausing to get input from the other party.
- ◆ Don't use 'we' when you mean 'you' – as in 'what are we going to do about that?'
- ◆ Don't talk over the other person – most people do so without realizing it.
- ◆ Don't assume that everyone thinks as you do, has the same interests, or shares your assumptions about the world – always ask.

Mega was persuaded to institute mandatory half-day communication courses for all off its management and supervisory staff – including the C-suite – and this helped to rectify this particular problem. It was the first, yet vital, step in overhauling the culture of the corporation.

Stretch-Goalitis

In Mega Financial Services, as in many organizations, seemingly arbitrary and often unrealistic targets were decided upon by management with little or no input from the employees concerned. For example, in mid 2008, the CEO decreed that the firm's target was to increase sales volume by 25%. This was announced to the major shareholders and analysts and became accepted as a hard forecast. Mega's share price increased accordingly (and temporarily) and executive bonuses were based on the achievement of this increase. People down the pecking order were told to work out how this goal was to be met. Branch managers, sales people and financial planners were given financial

targets – “stretch-goals” – and told that their remuneration, and in many cases their future career in the corporation, depended on meeting their individual mark.

Setting targets in this way represents a relationship failure. It’s a way of saying “we don’t trust you either to act in the best interests of the company or to be honest about what you can achieve.” It also strips managers and supervisors of their autonomy over the way they manage their divisions and teams, thus making these relationships more difficult.

The result was predictable: the sales force wrote up thousands more insurance contracts, financial planners sold wholly

the sort of problems encountered by Mega Financial Services.

According to Professor Bazerman “The beneficial effects of goal setting have been overestimated and the systematic harm has been largely ignored.” He notes that the ‘bad side effects’ of goal setting include unethical behavior, over focus on one area while ignoring other parts of the business, distorted risk preferences, corrosion of organizational culture and reduced intrinsic motivation. Bazerman and his co-authors say that a better way to set goals is to base them on what they call ‘learning and mastery’ – finding out how to do the job better and how to enjoy it more.

Humans are pack animals. Like wolves we show intense loyalty to other members of our pack. We will strive mightily for the good and the survival of the group of which we are a part, even at a great personal expense to ourselves. We are a competitive species, yes, but except for contending for mates, not within our tribe. We naturally compete against those who we perceive to be the rivals of our group. We do this most effectively when we are united and when we have the feeling that we are supported by a nexus of other people who we feel are concerned about our wellbeing.

Studies of sales teams, for example, have shown that teams perform best

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unsuitable products to their clients and loans were made to people who were probably incapable of repaying them. All this was done without the deal makers bothering too much about assessing the risks involved in the transactions. Their supervisors didn’t look too closely at the bargains struck – they, too, had their targets to meet. And so all the way up the chain no one blew the whistle.

That unrealistic stretch goals can be a really bad and self-defeating idea is a relatively new discovery, though problems with them have been flagged in academic papers since the 1970s. However they remain the favorite tools companies use in seeking to improve the performance of their workforces. A recent research paper by Professor Max Bazerman, and his colleagues, of the Harvard Business School⁴ showed conclusively that the way stretch goals are used in most firms can lead to just

One of the assumptions that the management of Mega made in the way while setting the employees’ targets and the remuneration policy generally, was that competition between sales people is a good thing. In my experience of working with the C-suites of major organizations – corporations, partnerships and even national charities – I have found that they generally hold a kind of ‘Darwinian’ view of what makes humans tick. Stated simply it’s a “survival of the fittest” mentality. Their organizations are in fierce competition with other producers. The market dictates that only the fittest of them will survive.

Surely, they would argue, the same is true of the workforce. This assumption may be true of the market forces that dictate the survival of organizations, but it is not true on a human level and it flies in the face of all the recent research in the fields of psychology and neurobiology.

when members genuinely like each other and are prepared to go out of their way to help each other.⁵ Over the past few years research has shown that the more friends we have within the firm we work for, the more productive we will be. An interesting study published recently showed that if someone works in the same organization as their best friend they will be 25% more productive. An enlightened management will emphasize this human trait and work with it. Overwhelmingly, in my experience, management does not.

Rewards that Work

Mega’s problems had become worse with the deepening of the recession and the company needed a highly motivated staff to cope with the crisis. However, since its reward system was almost exclusively

⁴ Bazerman, Max “When Goal Setting Goes Bad” *HBS Working Knowledge* October 20, 2009.

⁵ Edmonson, A “Psychological Safety & Learning Behavior in Work Teams” *Admin Sci Quarterly* 44:2:1999.

monetary and it could not afford large bonuses or pay hikes it was stuck.

So if you're not imposing goals and targets on your people, and when in tough economic times you can't inspire your staff with the promise of more money, how do you motivate them?

This is a question my colleagues and I are asked on an almost daily basis. Our answer is that financial rewards, even if they are available, are largely ineffective on their own. The prime factors which motivate people are:

- ◆ Recognition and praise from others (especially those whom they admire and respect);
- ◆ Feeling part of a mutually supportive group of people (which is what a good work place should be);
- ◆ Being given extra responsibility or authority;
- ◆ Opportunity to learn; and
- ◆ Feeling that they are contributing to the general good of their community or the society.

I want to concentrate on the first three motivators, since the others, though important, are outside the scope of this article.

In practical terms, relationship rewards fall under three categories: praise, public recognition and being given authority.

In Praise of Praise

Praise is the easiest to employ, and in many ways the least used of these non-financial incentives. When someone either praises or receives praise they get an immediate shot of the reward neurochemical, dopamine. We are addicted to this opiate and our brains need it to function at their best. Dopamine enables us to work smarter, more flexibly and more creatively. Unlike other drugs

such as cocaine or alcohol, getting too much is not a problem. But as with most other addictive substances the effects wear off quickly. We need a lot of it, not only for our brains, but for our immune system to function at its best.

Regular praise of employees – even for just for doing their job – can raise a firm's productivity and profitability by 20% according to a research done by the Gallup Organization.⁶ Good managers know that praise is a highly motivating tool. Praised employees will work harder, be willing to try new ways of working, and be more engaged.

In most organizations that we've been brought into – both in Asia and in the West – we find that less than a third of employees can recall being praised at work within the prior week. "But what about false or insincere praise?" we are often asked. The answer is more thoughtful praise. The best result, which enables people to feel valued, motivated and secure in their relationships, requires three types of praise—

Praise for what a person does, for how he or she does what they do, and simply for who they are.

Humans need all these three types of praise to feel that they are secure within their relationships. Let me unpack this concept a little bit.

Praise for what someone has achieved is the most commonly used where praised is used at all. It's the easiest, is usually for obvious large achievements, and is often automatic and rapid. At its worst it comes in the form of an email from the management to the team along the lines of: "I'm pleased the team met its goals, well done!" This merely invites a well-deserved eye-roll on the part of the recipients. To be effective the praise has to be personal and specific. "Hi, I'm really

pleased that you were able to increase the number of sales made by your team and thus meet your targets. That took good leadership in these times." Even this praise will be all the more trusted, and seen to be genuine, if it is delivered in person rather than by text or email.

Praise for how someone does something or for the innovation or thought that went into it is less often delivered, which is a great pity because it is the best driver of change in an individual or in an organization. If you praise a worker for the way they did something they will do it that way more in order to get the praise. It's how you get children to try new things and embed the lessons. You praise the effort, or the creativity, or even the fact that they did as you suggested – no matter that the outcome on this occasion was not perfect. "It was great the way you paced yourself in that race, keep that up and you're sure to do better next time."

One reason for the overwhelming lack of praise is that most managers are trained to look for what their reports do wrong than with what they do right. They assume that if they point out a person's mistakes and punish them in some way the person will learn from his mistakes and improve. However, research over the last few years has shown that this approach doesn't work well, and certainly doesn't change behavior.⁷ More remarkably a recent study by MIT found that in behavioral terms, people don't learn from their mistakes at all, rather they learn from their successes.⁸ While forward-looking feedback identifying mistakes or areas of

⁶ Robison J "In Praise of Praising Your Employees" *Gallup Management Journal*, November 9, 2006.

⁷ E.g. Novak M, et al "Punishment Doesn't Work" *Nature*, March, 2008.

⁸ Miller EK, "Learning from Success" *Neuron*, July, 2009.

improvement is vital, recognizing what was done right and rewarding it with praise is the key to change and to performance improvement.

Praise for being just who the person is the most powerful and the least used. Even parents rarely use it with their children, which is one reason why there are so many insecure, workaholic adults. Imagine a praise delivered in the form of a relationship statement such as “I’m really pleased to have you on the team!” or “I really enjoy working with you!” Imagine a praise that helps people feel that they belong (thanks to the release of the bonding chemical, oxytocin) to someone and are not going to be judged solely on the last big deal they brought in.

individual temporarily but cause more problems in the long term. Mega Financial had such a competition in its insurance division with a large monetary reward for the person who was the top premium earner. However, as our interviews found, it had many of the similar problems as their stretch goals and the added disadvantage of creating jealousy and hostility among the winner’s peers. In the longer term this is of no benefit to either the company or the lucky winner.

Responsibility as a Reward

Giving an employee an added responsibility – putting them in charge of a project or of a team – works in the same way as public acknowledgement.

we are valued (and thus safe from exclusion) and have autonomy over aspects of our working lives. What is lacking is leadership and management training.

A lot of bad will and backbite that characterized relationships at Mega Financial was caused by people with the desire to manage but being stuck in what they felt were subordinate roles. These people felt betrayed by senior management and took their frustration out on their supervisors and their fellow employees in the form of bloody-minded obstruction, some bullying and malicious gossip. They didn’t necessarily want to be the boss, but they wanted to feel, in some way, in charge. They also wanted to feel that they were trusted with

Trust is the foundation stone of any relationship, yet in most organizations it is the missing element

By the skillful use of all these three types of praise, managers can earn the commitment of their reports and of colleagues and even those they report to. By instilling a culture of praise within an organization, leaders can make sure that this commitment extends to the firm as a whole. The need for stretch goals and targets disappears because people will naturally work hard and flexibly to support and defend the organization and their fellow workers.

Praise in Public

Public recognition is the most potent dopamine producer. The opportunity to publicly recognize effort, success or innovation should never be lost, however doing it in the form of a competition with a prize for the winner – for example best sales person of the year – may boost that

It is a recognition of a trusting relationship. People will work very hard to maintain that confidence. Even the promise of responsibility is a great motivator. Academic research in this field and our own observations have confirmed that, assuming that individual members of staff have the requisite knowledge and experience, even relatively moderate achievers can become high achievers if given responsibility.

This certainly worked at Mega. One of the new ways that the management was encouraged was to view their employees as potential leaders. Studies have shown that leadership ability is much more common than we used to think (in fact, being a good subordinate is a rarer quality) and the desire to be a leader or manager is fairly universal among human beings.⁹ It ties in to our need to feel that

authority by their superiors and, thus, in some way special.

Lack of Trust

Trust is the foundation stone of any relationship, yet in most organizations it is the missing element.

What our questionnaire showed was that there was a pervasive lack of trust throughout Mega Financial. A University of Chicago study completed in 2002 showed that 75% of employees didn’t trust the management of the companies they worked for and more recent studies have confirmed the pervasiveness of this lack of trust upward.¹⁰ Interestingly a London Business School study found that roughly the same percentages of

⁹ Hall J, “Anyone Can be a Boss” *Journal of Personality*, 71:5:2003.

¹⁰ Hurley R, “The Decision to Trust” *HBR* September, 2006.

managers distrusted the promises made to them by their subordinates.

The issue of trust is a very complex one. Professor Robert Hurley of Fordham University says trust is when you can rely on another person to do the right thing when you are vulnerable¹¹. There's a lot of truth in that and at some point every member of an organization feels him or herself to be vulnerable and at the mercy of others. Our own research has led us to believe that there are five essential elements in trust. These are:

1. Benevolent Concern
2. Communication
3. Commonality
4. Competence
5. Consistency.

Our survey found that overwhelmingly the relationships within Mega Financial Services were lacking in one or more of the five Cs. Looking at each in a bit of detail:

1. Benevolent Concern

It means that someone is prepared to go out of their way on another's behalf. The more you feel that a person – a supervisor, a manager, a colleague – is prepared to take a risk to support you, the more comfortable you will feel in giving that person your trust. In a highly competitive atmosphere such as the one created at Mega Financial this would not probably happen that often. The emphasis on rigid goals and the fear of job loss meant that it would take a brave supervisor or manager to stick his or her neck out for a subordinate.

To solve this problem Mega's senior management would have to do three things:

- ◆ Reduce the element of competition by deemphasizing goals and targets

- ◆ Create an atmosphere of safety by allowing for and listening to complaints
- ◆ Encourage supervisors and line managers to be more supportive of their subordinates.

At some companies, such as Ford, the last aspect is not only encouraged, it is built into the assessment system.

2. Communication

In addition to good dialogue, and in some ways more important in terms of trust, communication must be frequent and face-to-face. Many studies have shown that emails, texting and other forms of electronic communication actually reduce trust. This is, of course, because we look for clues for veracity in people's eyes, facial muscles (especially around the mouth) and body language generally. Mega Financial Services relied almost exclusively on emails for communication – even when the communicants were just a couple of meters away. The emails themselves were usually terse and devoid of any relationship content. Other firms that we have worked with – for example PwC in Asia – have stressed the importance of direct face-to-face communication and have worked hard to encourage it. Some have even gone to the length of limiting the number of internal emails that their people can reply to in any day.

Frequency of communication also builds trust. Cisco Systems found that one of the most cost-effective productivity tools it ever came across was the water cooler.¹² The more people were able to get together and chat, the more smoothly the business ran. It was around the cooler that problems were solved, contacts were

established, new ideas discussed. There were no water coolers in Mega. Another example of the same thing is in Stockland. On each floor of their headquarters building in Sydney there is an open area with coffee and tea facilities and places for people to sit and talk. In neither Stockland nor Cisco is it frowned upon to engage in 'idle talk' since both companies see this as productive time.

3. Commonality

It simply means that people tend to trust those with whom they share things in common. Gossip (not malicious gossip) is largely the way in which we explore and share these commonalities; however any conversation can be an opportunity for the exchange of areas of mutual interest. The how-to of this is largely the asking and listening skills that I mentioned above and in Mega Financial's case some of that communication training was devoted to discovering and flagging commonalities.

4. Consistency

Consistency in terms of trust means making sure that your audio matches your video. It means not giving praise and then showing by your actions that you don't mean it, it means keeping your promises and it means keeping your behavioral surprises to a minimum (if you're going to change your behavior, flag the intention). Mega's main culprits in this regard resided in the C-suite. The corporation had a fine set of corporate values which included "walking in

¹¹ Hurley R, "The Decision to Trust" *HBR* September, 2006.

¹² Fayard A L, "Photocopiers and Water-coolers: The Affordances of Informal Interaction" *Organizational Studies* 28:5:2007.

each other's shoes", "collegiality" and so forth, which senior management clearly did not adhere to. This was one of the biggest trust breakers of all.

5. Competence

It means being seen to be competent to keep the promises you make. If you over promise and under deliver you will not be seen as competent in trust terms.

Mega's management at all levels was guilty of this trust breaker. Promises would be made by supervisors and middle managers in order to motivate their reports to meet the targets that had been set, only to break these undertakings. In the end they simply weren't believed. The solution to this would be to be a great deal more open and rely less on the targets which had caused so much of the problem.

Conclusion

If Mega were the only or the worst example of bad relationship management then the global recession might never have happened. But it is by no means the worst. When there is no sense of mutually supportive community, or tribe, within a workplace to motivate people then all that's left is individual ambition and greed. The culture change that Mega Financial had to go through will have to be followed by the majority of large firms if we are to recover and be sure that the same sort of crisis doesn't happen again.

Though we could have solved many of the problems which Mega Financial faced with a series of targeted interventions around, say, risk and compliance or goal setting or assessment dialogue, the management was persuaded, largely by its HR department, to adopt a more systemic approach.

Working with HR we instituted extensive dialogue training, a robust coaching and mentoring program, relationship selling and workshops on trust as well as the more targeted interventions. These programs extended from the C-suite to the supervisor level and even lower, largely through internal training and e-learning. The programs began a year ago and are still running. However already there have been significant improvements: Unwanted attrition has been reduced from nearly 45% to less than 15%. Compliance around risk management initiatives has greatly increased and people feel safe enough to flag lapses that occur. Trust in management is beginning to be reestablished. And they have exceeded their old sales targets even though those targets are no longer in place.

As I said at the start humans are relationship forming animals. We have to remember that an organization is merely a nexus of relationships and when those relationships flourish so will the organization. People's desire to defend their tribe, to work for its benefit, to make it strong is a powerful management tool which is tragically underused. There are very few Fords, Ciscos and Caterpillars and far too many organizations like the unreformed Mega Financial. Yet the tools to change the relationship culture in any business are not complex or difficult to put into practice. It's not difficult to praise rather than criticize, to keep one's promises, to practice good dialogue or to treat employees as human beings rather than 'resources.'

The benefits of doing so are huge – to the firm, to the individuals and to society as a whole. ☺

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