THE VESTED WAY

HOW A
"WHAT'S IN IT FOR WE"
MINDSET
REVOLUTIONIZES
BUSINESS
RELATIONSHIPS

KATE VITASEK and KARL MANRODT

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PREFACE

What's in it for YOU to read this book?

We Were Curious. You Should Be Too.

Seven years ago, we began a journey to explore the world's most successful business relationships. We wanted to study companies that had worked with business partners and were achieving not just good results but transformational, game changing, and award-winning results.

Some of the relationships were new. Others were over 50 years old.

We set out to see what these relationships had in common. And if we could replicate their proverbial secret sauce.

You might be asking yourself "What's in it for me?" What can we teach you in a quick and easy-to-read e-book that can help you improve your own business relationships?

The answer is simple.

This e-book is about where theory in collaboration and partnerships meets practice. We share how very successful relationships have taken Nobel Prize winning academic concepts and applied them in real-life situations to achieve extraordinary results. And, most important, we provide insights into how you can take the information and apply it to your own relationships to help you achieve results you are hoping for. Results you might even think are impossible to achieve.

But in order to begin to understand the lessons we provide, you must be willing to look at the world from a different perspective.

WIIFMe versus WIIFWe

What's in It for We—A Game Changing Enabler

Many organizations boast that they have solid partnerships in place, but all too often they don't achieve the potential everyone had hoped for. Why? Typically it is because companies approach their business relationships with a self-interested What's-In-It-For-Me (WIIFMe) philosophy.

This is understandable because winning is ingrained in us from early childhood; in fact, many organizations formally train their procurement and sales professional teams in the art of negotiations to help them "win.

The hyper successful relationships we studied changed their perspective. They shifted from an us versus them to a we business philosophy.

We call this a What's-In-It-For-We (WIIFWe) philosophy. This philosophy helps create mutual symbiotic relationships whereby, working together, the parties achieve game changing results unattainable by working as "me." Adopting a WIIFWe philosophy was the foundation.

Along the way, our research led us to theories about blondes, ponies, and playing games—theories that, when applied, created the foundational framework for the businesses we studied to achieve transformational results.

Perhaps there is no better place to start than with the blonde who changed economic thinking.

1 | WHAT GAME DO YOU PLAY?

"It's the only way we all win."

A Blonde Walks into a Bar

We've all heard jokes about blondes, but in this case one serves as John Nash's partial inspiration. Nash, a 1994 Nobel Prize winner in economics, was then a senior research mathematician at Princeton University.

Drinking a beer at a local bar, Nash and his friends saw a beautiful blonde and four of her friends walk in. The men were all individually focused on seducing the blonde, but Nash realized a problem with that strategy.

The scene from the 2001 film A Beautiful Mind, and paraphrased below, depicts Nash's insight:

Friend: Adam Smith said, "The best results come from everyone in the group doing what is best for themselves."

Nash: That is incomplete. The best result wll come from everyone in the group doing what is good for himself and the group. It is the only way we all win.

He called his theory governing dynamics. The theory? Set a clear strategy and work together to win—together.

John Nash, John C. Harsanyi, and Reinhard Selten won a Nobel Prize in 1994 for their work showing that win-win thinking isn't just a nice thing to say but that it makes good business sense.

WIIFWe Makes the Silver Screen

In the movie, Nash tells his friends that rather than each trying to seduce the blonde, they should each go for one of her friends because that would improve their odds of each one of them going home a winner (getting a girl). Nash put academic rigor into mathematically proving the age-old business saying that win-win philosophies are better. He went on to win a Nobel Prize for his work in 1994 with John C. Harsanyi and Reinhard Selten. Nash's lifelong work into the economics behind win-win thinking shows it's not just nice thing to say—it really is beautiful.

But working for what is best for oneself and the group doesn't come easy.

We have all been lulled into the trap that "winning" means that someone else has to lose. The prevailing belief is that if individuals and companies pursue their self-interests, supply and demand will magically lead to innovation, economic growth, and overall economic well-being for humanity. We drive for short-term costs saving at the expense of long-term implications. Although it may be comforting to think that each of us can simply do what is best for our short-term economic interests and all will be well in the world, there is a dark side to the pursuit of self-interest as the engine for economic growth.

Is it possible to have multiple winners in the game of business?

That all depends on how you view the game.

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Two Games

What game you play depends a great deal on how you see the world. Much like the optimist and the pessimist who view a glass differently, economists have shown that people view the world by the type of games they play. Some economists and mathematicians study the games people play and put them into two categories: zero-sum games and non-zero-sum games.

Think about a pie. Do you remember those childhood feuds over the last piece of pie or the scoop of ice cream that was far too little to share? If you are like us, our parents intervened and made us play nice.

Yet, in a way, didn't you and your sibling both feel as if you had lost? After all, you had to share the pie or ice cream; you didn't get it all. Sharing has come to mean you get less than what is optimal; you lost something you could have, or should have, had.

In a zero-sum game, there is always a winner and a loser. In order for winners to gain, they have to take something from the losers.

Many people view the world through this lens of scarcity. There is only so much _______ (fill in the blank: money, opportunity, innovations, etc.). If someone has a lot, it must be because they took it from someone else. There's only so much pie in the world.

How Much Pie Is There?

When faced with that last piece of pie, why not simply look at the world through a lens of abundance. Instead of walking away thinking you have to sneak the last piece or face Mom cutting it in half, why not respond with "Let's bake another pie."

Seeing the world through a lens where opportunities are not limited and everyone can win opens up an entirely new world to explore.

Economists call this approach a non-zero-sum game. In this case, parties work together to expand the pie, and the pie keeps expanding. Losers can be winners, as there is enough for everyone.

In this game, you might say that 1 plus 1 equals 5. No, this this isn't fuzzy math; rather, it's a different way of viewing the world. Yet, is it possible? Absolutely. And it's the smart approach.

Parties working together bring their unique skills and resources to the relationship. Together, they can achieve more than by going alone—or against each other in a conventional transaction-based approach. They can figure out how to dominate market share, radically reduce cost structures, dazzle customers, or achieve astonishingly consistent quality levels that are more than 10 times what others are providing.

Working for what is best for oneself and for the group doesn't come easy.

What Games Do You Play?

In business, some people you meet see the pie as small and restrictive, meaning that there really are winners and losers. They hunker down to fight over a share of the never-expanding pie. They want to win at all costs, or at least win more than their fair share.

Yet others believe in an ever-expanding pie and recruit others to help them bake more.

Unfortunately, far too many businesses and individuals are lulled into something in the middle. We think of this situation as a virtual table tennis match. These organizations say they want to create a win-win situation but think only of themselves. They say you are their strategic partner but keep asking for a lower price. And the minute there is a crisis, people revert back to their old ways.

A classic example is "gainsharing." Gainsharing is when a supplier agrees to work to reduce costs—often involving investments or significant process or product improvements—for customers. In return, the supplier can "share" in the gains or savings—often as much as half the savings. Unfortunately, things fall apart when it comes time actually to write the check. "It was our idea. You didn't invest much, so you should not get such a large payout. That's way too much money."

You get the picture. These companies don't "get" WIIFWe.

Using a WIIFWe mind-set will create a culture where your business partners can help you find your Pony.

2 | WIIFWE CAN TAKE YOU TO PLACES MOST THINK ARE IMPOSSIBLE

Work together, win together.

A Sherpa Looks for a Job

Today's business environment demands real collaboration. Working together means you must understanding winning...together.

Business gurus such as Michael Porter and Mark Kramer are challenging the status quo in their popular Harvard Business Review article about shared value, everyone working in a mutually benefiting way.1 Best-selling business books such Coopetition espouse the benefits of expanding the size of the pie in search of mutual gain.

Namgyal Wangdi would have understood this concept, even though he never attended school, let alone college. Born poor around 1914, his background is sketchy. Some historians suggest that when his father's herds died due to disease, Wangdi was sold as a bonded servant. He ran away from home twice and was sent to a nearby monastery to be a monk. It didn't work. Perhaps he had a higher calling.

By 1953, he was on his seventh expedition, this one led by Colonel John Hunt, as a Sherpa to conquer Mount Everest. When two members of the expedition, Tom Bourdillon and Charles Evans, failed to make it to the top, Hunt directed the next pair of climbers to conquer the summit. Edmund Hillary and the Sherpa Tenzing Norgay, who had changed his name from Namgyal Wangdi years before, started the climb. On May 29, 1953, both men stood atop Mount Everest.

What Mount Everest can you conquer by working with others?

But Who Won?

Journalists clamored to know whose spiked boot was the first to reach a height never before obtained by any man. Both men maintained that they had ascended together. Colonel Hunt, the expedition leader, declared, “They reached it together, as a team.”

But was there really a winner? Did one man spike that first boot before another?

Only as the years passed did Norgay write that Hillary had stepped on top first and that he stepped up after him. Norgay later wrote, “If it is a shame to be the second man on Mount Everest, then I will have to live with this shame.”(i)

The focus of Norgay, Hillary, and Colonel Hunt was on the team and the team’s accomplishments. In fact, Hillary never publicly admitted that they did not reach the summit in unison.

The simple fact is it did not matter who got there first. They both achieved something that had never been done. And both men knew they could not have done it without the other. Mutual success. Mutual reward.

Winning together.

P&G seeks sherpas to collaborate and drive innovation.

From Mountains to Mops and Mouthwash

Winning together may work when it comes to climbing a mountain, but does it apply to the real world of business? A.G. Lafley thought so.

In 2000, Lafley took the helm as Procter & Gamble's CEO, ready to take the organization into the twenty-first century. Lafley and his team identified five core strengths: consumer understanding, brand building, innovation, go-to-market capability, and scale. One of the core enablers—innovation—was absolutely critical. So much so that Lafley wrote a book, The Game-Changer, about how P&G used innovation to drive results for the company.

Innovation has always been important to P&G. The company openly attributes much of its success to research and innovation, stating that the ability to come up with new ideas has been a cornerstone of its success. Lafley bet that looking beyond P&G walls could produce highly profitable innovations. "Half of our new products," Lafley said, "would come from our own labs, and half would come through them."(ii)

The paradigm shift required rejection of "not invented here" to enthusiasm for those ideas "proudly found elsewhere." Lafley challenged P&G to embrace the idea that the P&G's R&D organization could be enriched from 7,500 people inside to add 1.5 million outside, with a permeable boundary between them. Lafley set out to institutionalize an "Outside In" approach where P&G would team with others for ideas, bringing their manufacturing, marketing, and supply chain capabilities to create better and cheaper products, faster.

Collaboration leaves competition in the dust.

What Can You Do with a Curly Fiber?

P&G had a problem.

Having launched its successful Swiffer brand of cleaning supplies three years earlier, it was looking for opportunities to expand the product offerings. The team began working on a handheld dusting tool. On a trip to Japan, the R&D leader for Home Care found the answer in the cubicle of a P&G employee: a handheld duster that was sleek, user friendly, and better than the products P&G was testing.

The problem: It was owned by Japan's UniCharm, a fierce competitor in Asia's diapers and feminine products market. The curly fiber UniCharm had developed captured dust, dirt, and hair far better than anything P&G had come up with. UniCharm didn't compete with P&G in the home products market; would it be willing to collaborate?

P&G thought it was worth a try. UniCharm was receptive, and ultimately P&G bought the rights to the duster outside of Japan. To speed up time to market, UniCharm made the dusters and helped start up production at a P&G plant in Canada. Both companies even used the same advertising.(iii)

The Swiffer Duster was an instant success. In the first four months, the duster cleaned up $100 million in sales.iv Consumers loved seeing the dust and debris trapped in those curly fibers. And the shared winning continues.

Playing nice opens doors, markets and opportunities.

Who Won?

Everyone.

UniCharm didn't have the supply chain capabilities or marketing strength to take the product to other markets. If it had tried, who knows how long it would have taken. Certainly longer than the 18 months that it took P&G to launch the product under its Swiffer brand. P&G recognized UniCharm in 2009 with its Distinguished Service Award, given to external partners with sustained track records of business results.(v)

P&G won by having an innovative product to add to its quick-clean market. Not just one market, but 15 global markets. Add to that continual improvements and innovations, and the results are eye opening. By 2005, Swiffer sales had exceeded $2 billion. Swiffer is now one of P&G top 50 brands, with sales over $1 billion.

Consumers won too. They now have a product that cleans efficiently, is reasonably priced, and makes them more effective with their home cleaning tasks.

A non-zero-sum game.

Two competitors. Both winning. Together.

They found their Pony.

3 | WHERE'S YOUR PONY

"Whenever something would go wrong, somebody on the staff would be sure to say, 'There must be a pony in here somewhere.'"

My Little Pony

Ronald Reagan had a favorite joke.

It was about twin boys five or six years old. The boys had developed extreme personalities—one was an absolute pessimist, the other a cheery optimist. Their parents' concern was so great that they arranged a visit with a renowned psychiatrist.

The psychiatrist treated the pessimist first. He took the child to a room piled to the ceiling with all types of new toys. The little boy burst into tears. "What's the matter?" the psychiatrist asked. "Don't you want to play with any of the toys?" "Yes," the little boy cried, "but if I did I'd only break them."

Stunned, the psychiatrist next met with the optimist child. Here the room was completely different. In an attempt to dampen the child's outlook, the room was filled to the ceiling with horse manure. The boy yelped in delight, climbed to the top of the pile, and began digging through the manure with his bare hands. "What on earth do you think you're doing?" the psychiatrist asked. "With all this manure," the boy replied, beaming, "there must be a pony in here somewhere!"

"Reagan told the joke so often," Ed Meese, Reagan's former chief of staff, said, chuckling, "that it got to be kind of a joke with the rest of us. Whenever something would go wrong, somebody on the staff would be sure to say, "There must be a pony in here somewhere."

Problem or Opportunity?

How many times do we see the manure but fail to see the Pony? It all boils down to perspective: A perspective to see problems as opportunities. A perspective to see the art of the possible when others cannot.

Of course, some problems are relatively small and can be dealt with without too much inconvenience. They are tolerable issues with easy fixes.

And then there are those big problems.

Most of us have names for our big problems: Impossible. Impractical. P&G refers to them as “wicked problems.” If you solve a wicked problem, you’ll make a lot of people very happy.

Microsoft and Accenture call the concept of the Pony “transformation initiatives.” McDonald’s recruits suppliers to help it achieve its “Plan to Win.” No matter what you call it, the Pony represents the potential to unlock value-creating opportunities when others cannot.

The most successful companies have learned to look at their customers and suppliers with a new perspective, a perspective that actively seeks business partners to turn tough problems into opportunities to create a powerful competitive advantage.

Find the Pony, create value; create value when other cannot, and you have a real competitive advantage. Solve a wicked problem, and you may even be able to create a competitive advantage that has the power to change the world.

The Little Engine That Could

James Watt had a problem. He was broke. He had spent all of his money on his invention. His partner and financial backer had gone bankrupt. His patent had expired, leaving him without any funds to continue his research.

Deep down he knew he should continue. But how?

After two years of visiting the Patent Office in London from his home in Glasgow, Watt received an extension on this patent. With it, he was able to secure funding from Matthew Boulton.

James Watt developed the concept of horsepower. The unit of measurement called the watt is named after him. Together Watt and Boulton brought a more efficient and powerful steam engine to market in England. Watt's steam engine is credited for start of the Industrial Revolution. But Watt could not have done it without Boulton.

Watt and Boulton even revolutionized the way customers paid for the use of their efficient steam engine to make it more affordable. They charged an annual payment, equal to one third of the value of the coal saved by switching from older, less efficient coal burning engines performing the same work.

James Watt had great ideas on improving the steam engine but lacked necessary resources. Matthew Boulton knew the value of improving the engine and had the financial resources to do so. Together, by sharing their respective skills and resources, they changed the world.

They both could see the potential Pony. Together, they really did create the little engine that could.

The Man of 1,000 Inventions

With over 1,000 patents in his name, Thomas Edison is the fourth most prolific inventor in the world.

How did he amass over 1,000 patents? Simple. He found a lot of Ponies.

Edison founded his Menlo Park, New Jersey, research and development facility in 1876. One of the first major inventions coming out of the park was the phonograph, in 1877. It was a huge success.

Two years later, just before Christmas, Edison's team developed a longer-lasting filament to be used in the light bulb.

What good is a light bulb without electricity? Edison founded the Edison Electric Light Company, which was later bought and is now part of Con Edison. Light bulbs were manufactured by the Edison Lamp Company, which later on merged with Edison's General Electric Company.
Yes, that GE.

Yet much of this would not have been possible without Charles Batchelor, John Kruesi, Samuel Insull, Francis Upton, and Edward Johnson. These men—and many others—worked long hours on Edison's inventions. All for a simple reason: There was a Pony in it for them.

It was Edison's practice to give is key assistants shares in his company and to allow them to invest in the companies that grew out of their work. Solving a problem—together. Shared vision. Shared risk, Shared reward.

"We're letting you see absolutely everything for free. So there! But we want something in return. None of your driveling, mindless comments. Instead, we want you to click on the links, buy our movies and TV shows and soften our pain and disgust at being ripped off all these years."

— The Mony Python Channel, http://www.youtube.com/user/MontyPython

Not Just Another Monty Python Skit

The creators of Monty Python had a problem. They were being ripped off. But not by robbers pillaging them in the night. Worse. Their most loyal fans were the culprits. Their fans loved their witty clips so much they were copying them and posting them on YouTube. For free.

The Monty Python creators were losers in a world where YouTube made sharing a win for viewers and a loss for the artist. Sure, they could make money selling a dead parrot, but for how long?

The Monty Python team decided to see the world through a different lens. One could say they took their own advice and began looking on the bright side of life. They chose to view the problem is an opportunity.

In 2008, they launched the Monty Python Channel on YouTube, choosing to post high-quality videos straight from their vault. The result? Their sales of their DVDs increased by 23,000 percent. In 2009, their DVD sales climbed to the number-two slot on Amazon's Movie and TV best-sellers' list. Free helped Monty Python, with the help of YouTube, to find the Pony. But that may not have happened if the team didn't embrace YouTube in a credible manner and understand the value YouTube brought.

The key? A credible style to genuinely value what your business partner brings to the table.

4 | STYLE MATTERS

It Will Be Okay

The road to hell is paved with good intentions: Intentions to cooperate; to give-and-take in the relationship. Intentions to play nice.

Usually that works until business happens. Then temptation becomes too great, and one party takes advantage of the other. This temptation "eventually gives way to conflict and mutual gains are sacrificed unless countervailing measures have been put into place."[i] These temptations are referred to as transaction costs and are present in every decision, whether it is finding a photographer for your daughter's wedding or a supplier for your company.

Do it wrong, and your costs go up. Do it wrong for a long time, and no one will want to work for you. One company we studied burned through so many suppliers that it had to work with some of the lowest-quality suppliers in the business. We are not buying stock in the firm, as we are sure it won't be around in a few years.

Given these transaction costs, we have a bigger question: How do you approach and work with business partners and suppliers? Does your approach impact their response and perhaps increase risk? Some may think it doesn't matter. As Dr. Williamson has found, it matters a great deal.

Transaction costs account for all of the costs in an economic exchange. How you play impacts these costs.

Dr. Who?

Dr. Oliver Williamson is not necessarily a household name. In fact, rarely do we meet anyone outside of the academic community who has heard of him.

A key part of Dr. Williamson's work is helping companies understand that the true cost of a product or service goes well beyond its purchase price. Considering just the sales price can result in a poor decision. Instead, all of the costs, called transaction costs, need to be considered to get a complete picture of the true cost of ownership.

Transaction costs should be the basic unit of analysis to determine the real costs associated with each decision. Transaction costs include actual dollar costs, risks, expertise, flexibility, time, and the like. Each decision is a balancing act to determine how to best minimize total transaction costs. In short—value.

Dr. Williamson suggests that there are three basic ways to work with customers or suppliers—muscular, benign, and credible. You can think of them as personality types, like those developed by Carl Jung and expanded by Isabel Briggs Myers. These typologies help to describe people and how they respond to and react in various social and work situations.

What type are you? Let's find out, together.

Can bullying a supplier work? Certainly, especially in the short run. But what happens when the market changes? What happens when you need a favor from that supplier?

Let’s Get Physical

One philosophy of working with people is to show them who is in charge. Dr. Williamson refers to this as the muscular approach. People and companies typically know they have power, and most do not hesitate to exercise it.

According to Dr. Williamson, the muscular approach is “myopic and inefficient.” Companies using this philosophy typically have a dwindling number of suppliers willing to work with them—or worse—bankrupt suppliers that disrupt supply or services. Dr. Williamson adds, “Muscular buyers not only use their suppliers, but they often ‘use up’ their suppliers and discard them.”

Simply put, muscular buyers don’t play nice.

Muscular actors can increase risk for the whole supply chain or ecosystem. Suppliers fight back. They merge to gain their own source of power or they leave the market entirely. But most often they adapt, charging higher prices or asking for safeguards in contracts. Either way, the risks are higher than they need to be.

And where there is risk, there is cost.

Being muscular might leave you muscle bound. And that’s a cost far too high to pay.

A client, musing about a former partner said, "Working with Bill was great. I knew exactly what was what. What was Bill's was Bill's and what was mine was Bill's."

Que Sera, Sera (Whatever Will Be, Will Be)

In the benign approach, all or some of the parties are too trusting. These parties assume that cooperation to deal with unforeseen contingencies to achieve mutual gains will always be there. This approach doesn't work well for long-term agreements, as the risks (transaction costs) are too high. Being too nice can lead to being taken advantage of should one party fall into temptation.

Unfortunately, organizations that are too trusting in the initial stages of the relationship are often taken advantage. Let's go back to our example about gainsharing. In most gain-share cases, suppliers receive a share of the saving, sometimes a 50/50 split.

But more often than not, our research revealed that suppliers were benign (even gullible) when they agreed to gain-share provisions. In several cases, suppliers identified and implemented ideas that drove savings for a client and then client would come up with excuses as to why it did not have to pay. Needless to say, many suppliers don't want to play the gain-share game anymore.

Clearly, being gullible or benign has some unintended consequences. To avoid such consequences, a more nuanced approach is needed: Strong but not domineering.Firm but not stubborn, Wise but not arrogant.

In a word, credible.

It is possible to be hardheaded and wise and still be nice.

Credible

Dr. Williamson describes credible contracting as "hardheaded and wise." It is hardheaded because it strives for clear results and accountability, but it is not mean-spirited, as in the muscular type. It is also "wise" because it arises out of an awareness that complex contracts are "incomplete and thus pose cooperative adaptation needs" and require the exercise of "feasible foresight," meaning that "they look ahead, uncover potential hazards, work out the mechanism and factor these back into contractual design."(ii) Dr. Williamson argues that credible commitments should be introduced "to effect hazard mitigation."

Credible contracting is not new. Contract safeguards can take unconventional forms, as in ancient Mesopotamia, where self-inflicted curses were used to deter breaches of treaties.

The key point is that a good contract will be, above all, fair and equitable to all parties in the agreement. It will challenge the organizations to focus energy on unlocking inefficiencies rather than negotiating for a win at another party's expense.

Credible means playing nice. Credible means Win-Win. Credible means Vested.

How Do You Play?

It's easy to write that everyone should play nice. But playing a game requires some basic knowledge of the rules. Not knowing the rules results in chaos. Ignoring the rules leads to frustration. Flouting the rules makes everyone want to quit the game and go home.

Vested is a great game to play. It shifts the focus from WIIFMe to WIIFWe. It has winners and some more winners. It looks for a Pony that everyone can share.

It even has rules.

Following some of the rules will lead to some success. But it isn't total success.

Playing by all the rules is necessary to minimize the transaction costs associated with any agreement.

Want to play?

Just learn the rules.

5 | RULES TO LIVE BY

Rules to Live By

Every game has a set of rules. Vested is no different.

Take, for instance, an old game, one universally played. Some historians suggest variants were played by the Egyptians and the Romans as early as 1 B.C. The first printed mention of the game came in 1864, when the game was referred to as nought and crosses. A game for two players working on a 3X3 grid, the goals is to get three Xs or Os in a row.

Tic-tac-toe.

The rules are easy. Players do not reinterpret the rules as the game progresses. And players have to follow all of the rules to play successfully. Partially following the rules won't work.

Some people like to modify game rules. That may be socially acceptable if everyone playing knows the variations. However, many people don't appreciate bending the rules, especially if the variations aren't explained in advance. Does the word cheating come to mind?

Simply put, rules matter.

Vested follows five simple rules. They are simple to write and simple to understand but at times hard to follow. Vested requires trust and transparency.

Desired Outcome:

A desire is: a strong feeling of wanting to have or do something.

An outcome is: (1) The final result of a process, meeting, activity, and so on; (2) the possible or likely result of something.

— Macmillan Dictionary

Rule #1: Focus on Outcomes, Not Activities

"I studied for the test. I've never worked so hard for any class. Is there a curve?" As academics, this is a question we have heard hundreds of times. Effort matters in kindergarten, especially when it comes to coloring within the lines, but after time, business boils down to getting results.

Unfortunately, we have come to link value to effort, not necessarily results. We brag about the time we spent on a project, regardless of the results.

When Bob Pozen was a practicing attorney in DC, he realized that his productivity was impacting his billing: He got done in an hour more than most attorneys accomplished in two hours. After a few years, he sent all of his clients a letter telling them that he would bill them for double the amount of time it actually took to complete the task. None objected.(i)

Focusing on outcomes (we refer to them as Desired Outcomes) shifts or changes the conversation. It moves to measuring results, not effort. In fact, our everyday conversations are all about outcomes. How did you do on the test? How did the project turn out? Did the customer buy? Did you conquer Mount Everest?

Allow experts to do their job. Don't constrain them by telling them how to do the job. After all, how many of us would tell a surgeon how to use her scalpel?

Rule #2: Focus on the What, Not the How

It was easy to tell there was a problem. An unexpected fall resulted in an arm bending where it normally doesn't bend. It was painful. Although it is easy enough to know that you have a problem, most of us don't have the expertise actually to fix it. For that you need a specialist—a doctor who will fix you up.

What most of us don't do is tell the specialist how to do the job.

One of the greatest paradoxes in business is that we hire experts (suppliers and employees) to help us and then fall into the trap of telling them exactly how to do their job. Did you hire an expert, or a clone to do the job the same way it's been done for years?

A good example is Jones Lange LaSalle (JLL), a leader in real estate and facilities management. A customer hired JLL and proceeded to give the company an 800-page statement of work, including dictating specifications for cutting the grass.

If JLL is the expert, shouldn't it know how to cut the grass? If JLL isn't the expert, why is the company being hired?

The Vested way is a paradigm shift. Hire the experts and challenge the status quo, expecting the experts to significantly improve processes and get better results.

How do you define success? How will you measure it?

Rule #3: Clearly Defined and Measurable Desired Outcomes

A Rolls-Royce in the driveway. A paid-off mortgage. A college degree. A comfortable retirement. Never working on weekends.

What does success mean? How is it defined? For each person, it might be slightly different.

We speak all over the world, and one question we ask our sponsors is this: How do you define success? When we get off the stage after our presentation, how will we know we did a good job?

Knowing how success is defined is a critical rule in Vested. It removes ambiguity; everyone knows what we are trying to accomplish (the desired outcomes) and how success will be measured. Everyone should spend time establishing explicit definitions for how the success of the relationship will be measured. Investing time up front in the process is critical to ensure that everyone focuses on achieving the right things.

Just like success, you don't have to measure everything. Our rule of thumb is that there should be no more than five success factors.

The Vested way means having clearly defined and measurable desired outcomes, pointing the parties to the success.

Above all else, pricing in a Vested relationship should always be fair.

Rule #4: Pricing Model and Incentives

A Case for Enlightened Self-Interest

What do a cup of coffee, a computer, and college tuition all have in common? They have a price that is relatively easy to find. Unfortunately, not all business is as simple as buying a cup of coffee; it's not a transaction. Instead, business happens. Situations change over time. Needs change. Customer expectations change.

For these and other reasons, companies should shift from a price to a pricing model — especially for more complex, strategic relationships.

A Vested philosophy encourages business partners to work together to innovate. Vested is all about winning. But the focus should be on winning together — not winning at the expense of your business partner.

The Vested way relies on two principles. First, the economics should reward the provider (teacher, physician, supplier, even employee) for delivering solutions, not just activities. When properly constructed, a Vested mind-set will incentivize everyone to work together to solve problems proactively. The more successful the relationship and the outcomes it produces, the more incentives (or profits) the companies (and employees!) can make.

Second, a Vested pricing model should balance risk and reward for all parties. After all, if your partner invests in solving your problem successfully — expanding the proverbial pie for you — shouldn't they be entitled to a piece of that pie?

The bottom line is: the bottom line matters. And that means watching out for your partner's bottom line as well as yours. Call it enlightened self-interest.

Insight: Power of acute observation and deduction; penetration, discernment, perception.

Oversight: Watchful care; superintendence; general supervision. Escape from an overlooked peril.

Rule #5: Insight versus Oversight Governance

Remember the day the baby came home? Numb with excitement and fatigue, you carefully placed the child in the bassinet. You provide nourishment and clean diapers. Then clothes, cars, and prom dresses. Add in concerts, plays, summer camps and allowances, and that baby grows into a beautiful young adult, ready to tackle life's problems.

Babies takes nurturing, provided over time.

Relationships, like children, need tending. In many cases, contracts aren't just signed, sealed, and delivered; they are signed, sealed, and then delivered, delivered, delivered, delivered, delivered. Because they are delivered over time, they have to be managed, or governed by the participants. Because of the time component, what you do today has a good chance of being different over time. Business is dynamic. Business happens. Relationships need mechanisms to deal with these changes.

Vested governance allows for open and honest feedback from all parties in the relationship. It provides the forum to make sure that everyone is winning. It is where we look to make sure that everyone is playing by the rules. It changes as the business (or life) change.

Above all else, Vested is about being fair, not just at the start of the game but during the game as well.

> "He who does not trust enough, will not be trusted."
>
> — Lao Tzu, ancient Chinese philospher

Trust, Transparency, and Transformation

In Vested relationships, people work together on a foundation of trust and transparency where there is mutual accountability for achieving the sought after desired outcomes. Through the careful alignment of desired outcomes and incentives, business partners give their best to each other. Together they bring the needed skills and resources to not just perform activities but to achieve transformational success.

To say that Vested represents a departure from traditional business practice seriously understates the case. Vested changes the fundamental business constructs we all learned years ago.

Does the Vested Way work? Yes. Microsoft and Accenture transformed back-office finance operations. The U.S. Department of Energy and Kaiser-Hill transformed one of the world's most polluted weapon sites to a wildlife preserve—65 years early and over $30 billion under budget. The State of Minnesota and Flatiron-Manson invented new ways to pour concrete in the winter—a Minnesota winter. The I35 bridge was rebuilt in record time and under budget.

These stories and more are all featured in our third book, Vested: How P&G, McDonald's, and Microsoft Are Redefining Winning in Business Relationships.

But why wait? Turn the page and read a preview of how McDonald's has been applying these rules since 1955.

6 | McDONALD'S: A SYSTEM TO BE RECKONED WITH

It was the first McDonald's restaurant in Moscow. I looked out the window and saw the line of eager new customers, about 40 people wide and 4 miles long. It was amazing to me to be part of that. I had been there to get the buns right.

— Mike Ward, legendary baker, Fresh Start Bakeries

Buns Are Beautiful

"Do you see beauty in this bun?" was the question Ray Kroc posed to Mike Ward. Mike did. And as a result, Mike the Baker lived the American dream. And his love for hamburger buns helped him travel the world.

Perhaps one of the more notable McDonald's store openings was in Moscow, Russia, on January 31, 1990. The line to get into the store was four miles long. People waited nearly 10 hours in subzero weather to get their first Big Mac. And Mike played a part in it. It was an experience that brought Mike to tears as he remembers the long line of customers.

Mike was called in because there was a problem with the buns. They weren't meeting McDonald's high standard. Arriving at the store at three in the morning, he realized that the bitter cold was impacting the yeast, and the dough was not rising. The solution: warm up the pans used to hold the dough. The buns rose, and the store opened on time.

They say a rising tide lifts all boats. The same could be said of rising hamburger buns. Mike and his company—Fresh Start Bakeries—have a vested interest in the success of McDonald's. The more McDonald's succeeds, the more Fresh Start Bakeries succeeds. And Mike has had fun along the way, helping McDonald's perfect buns across the globe, including Brazil, Germany, Hong Kong, Sweden, Spain and New Zealand, just to name a few. Mike's 11-year-old math whiz grandson knows it even better, at least at the time of our interview.

"Grandpa—you have been to 14 percent of countries in the world making buns!"

> "None of us is as good as all of us."
>
> — Ray Kroc

The Secret Sauce

McDonald's has a secret sauce.

And it is not the one you are thinking of. It is all about how McDonald's treats its suppliers—suppliers who sometimes invest years and millions of their own dollars to improve McDonald's products and processes, giving McDonald's a huge competitive advantage in terms of a supply chain unparalleled in quality, safety, assured supply—and costs.

In the beginning, there were suppliers like J. R. Simplot, who perfected the frozen french fry and enabled McDonald's to begin to serve fries made from the highest-quality russet potatoes year round. Or Golden State Foods, which developed the famous "special sauce" for the Big Mac. Or Jack Catt at Keystone Foods, who sunk millions of dollars in cryogenic freezing technologies to do what former McDonald's CEO Fred Turner thought was impossible—create a frozen beef patty that "was quicker and easier to prepare and was as juicy and more tender than a fresh patty."i Cryogenically frozen beef made it possible for McDonald's to simplify its beef supply chain radically from hundreds of local suppliers to five core strategic beef suppliers—enabling McDonald's to reduce costs and increase its already unequivocal demand for quality and safety.

Today, the legendary stories continue.

A System Like No Other

Together, McDonald's, the franchise owner/operators, and their suppliers have created a System to be reckoned with.

It all starts with a three-legged stool. One leg represents the McDonald's Corporation, another the owner/operators running the restaurants, and the third the suppliers. No leg is greater than the other, as that would make the stool unstable. Each leg in the stool needs to do well for everyone to prosper. The three-legged stool has come to be known as the System, and "System First" thinking is the common behavior demonstrated by those within the System.

This System leads to some behaviors that are hard to imagine in the "real world," such as competing suppliers meeting and sharing ideas on how to improve the products they sell to McDonald's. Or a company creating a new product and then teaching competitors how to make it—because it's good for the System. Or suppliers meeting with McDonald's to hear about its "Plan to Win" and then being asked for suggestions on how, together, the supplier and McDonald's could accomplish these goals. Or doing business on a handshake, not a contract.

Simply put, we're lovin' it.

Kroc once joked, "If I had a brick for every time I've repeated the phrase Quality, Service, Cleanliness and Value (QSC&V), I think I'd probably be able to bridge the Atlantic Ocean with them."

QSC&V

Focused. Obsessed. Maniacal. Fanatical. Possessed.

No matter what adjective you use, it probably doesn't come close to the laser focus McDonald's puts on quality. And one area this became evident was in delivering a safe—a very safe—hamburger.

McDonald's knows that its suppliers are just as maniacal on quality and safety as it is. Suppliers such as Keystone Foods and Lopez Foods are proud—even boastful—of their ability to enable McDonald's to have the world's safest food supply chain. Ed Sanchez, CEO of Lopez Foods, openly shares a video highlighting the company's hourly 100-point quality inspection process on McDonald's website. Keystone opened its doors in 2009 for a USA Today tour to show how its beef is "safer than a school kid's lunch." The USA Today article found that McDonald's tests its beef up to 10 times more than companies selling beef to school programs.(ii)

And beef sold to schools exceeds normal USDA requirements for meat sold commercially through retail stores and restaurants.

The results? Over 60 million visitors eat under the Golden Arches every day—uneventfully.

"No one has had more impact than McDonald's in modernizing food processing and distritubion in the past three decades."

— John Love, author of McDonald's: Behind the Arches

What's New?

Although the Big Mac is not likely to change, much as changed behind the Golden Arches since Ray Kroc founded McDonald's in 1955.

John Love, an authority on McDonald's, wrote: "McDonald's greatest impact on American business is in areas that consumers do not see. In their search for improvements, McDonald's operations specialists moved back down the food and equipment supply chain. They invented the most efficient cooking equipment in the food service industry had seen. They pioneered new methods of food packaging and distribution. Indeed, no one has had more impact than McDonald's in modernizing food processing and distribution in the past three decades."(iii)

But ask McDonald's, and the company will tell you it didn't do it alone. Success came with the entrepreneurship and leadership of McDonald's suppliers and restaurant owner/operators. Suppliers and owner/operators are key legs in the three-legged stool.

This is a radical approach for working with business partners—especially suppliers. Suppliers know they don't just have a seat at the table; they are critical part of making the System work.

And this is a System to be reckoned with.

McDonald's supply chain is ranked #2.

— The Gartner Supply Chain Top 25 for 2014

A System Yielding Results

McDonald's proudly shares results in its annual reports. Global comparable sales achieved their ninth consecutive year of same store sales growth.

When you look at McDonald's success, the results are simply staggering. But probably one of the best testaments to McDonald's values and long-term thinking is the fact that in the midst of great short-term pressures of a global recession, the company has experienced exceptional performance.(iv)

Excellence goes well beyond financial success. In 2014, Fortune magazine named McDonald's one of the Most Admired Companies in the World. Fortune also ranked McDonald's high among all companies for "Management Quality" (#3), "Financial Soundness" (#4) and "Global Competitiveness" (#7) and ranked it #2 among all companies in the Food Services catalog.

It is McDonald's unequivocal commitment to its suppliers and restaurant owner/operators that elevates the company to #1 every day.

And it is that level of commitment you find in other Vested relationships.

Success is not limited to the giants. Nimble responsive firms can still find niches to serve their customers.

Success Comes in Different Sizes

For the millions of small businesses in the world, it's nice to know that success is not limited to the giants. Indeed, applying the Vested mind-set may be easier for smaller, more nimble firms than for their larger competitors.

Integrated Management Systems is a small staffing agency based in Seattle that uses a unique workforce—senior citizens—to do light industrial jobs. IMS developed innovative productivity tools and techniques to help its seniors work smarter than their younger counterparts. IMS was so confident in its seniors that it guaranteed a 5 percent cost reduction to IMS's clients.

Sometimes IMS's seniors were as much as 300 percent more efficient.

The problem: IMS made a lot of money and shared its profits with its employees, but clients only got 5 percent savings. There was no mechanism to share the Pony. Simply put, IMS clients felt cheated. IMS learned that it needed to be Vested not just with employees but with clients as well.

Simply put, IMS shifted its mind-set from "Me" to "We."

But not everyone can think, let alone act, in this way.

To find out if you or those around you can think about "we," you'll need to ask yourself a few questions.

7 | VESTED IS NOT FOR EVERYONE... ONLY THOSE YOU CAN TRUST

Be nice. Play nice. And be careful who you play with.

Give Me a Ride?

One day, a scorpion decided that he wanted a change. He climbed over rocks and under vines and kept going until he reached a swiftly flowing river. Unable to pass, he began thinking that he might have to turn back. Suddenly, a frog came into view.

“Hellooo, Mr. Frog!” called the scorpion across the water. “Would you be so kind as to give me a ride on your back across the river?”

“Well now, Mr. Scorpion! How do I know that if I try to help you, you won’t try to kill me?” the frog asked.

“Because,” the scorpion replied, “If I try to kill you, then I would die too, for you see I cannot swim!”

This seemed to make sense to the frog, so he agreed to take the scorpion across the river. The scorpion crawled onto the frog’s back, and the frog slid into the river.

Halfway across the river, the frog suddenly felt a sharp sting in his back.

From the corner of his eye, the saw the scorpion removing his stinger. A deadening numbness began to creep into the frog’s limbs.

“You fool!” croaked the frog. “Now we shall both die! Why on earth did you do that?” The scorpion shrugged and did a little jig on the drowning frog’s back. “I could not help myself. It is my nature.”(i)

Playing Nice is Hard

Scorpions give the arachnid (spider) species a bad name. Of the 40,000 known species of spiders, only about 200 are venomous enough to kill an adult. Of the 2,000 scorpion species that roam the world, only 40 are poisonous. In the United States, the Arizona bark scorpion is the only one whose bite is lethal. Odds are, like dogs, most spiders are all bark and no bite.

And even more good news: Most spiders are lethal only when provoked. They're not aggressive, just protective.

Understanding the nature of potential business partners, whether customers or suppliers, is a critical step in getting to a Vested relationship. They need to be like-minded and willing to share. Mutual prosperity, not mutual destruction.

Identifying like-minded individuals and companies is no easy task. Some individuals may be like-minded but work in a less sharing environment. Helping our clients find like-minded suppliers or customers is one reason we teamed with a group of researchers to develop a compatibility and trust survey to help assess an individual's ability to play nice.

One supplier told us that whenever one of his large suppliers used the phrase "strategic partnership," he knew it meant he was going to be asked to reduce his price.

"Every Year, Every Dollar"

One procurement professional proclaimed that his Chief Procurement Officer demanded he "leave suppliers on the ground, bloody, bruised, and begging for mercy." Another Fortune 50 executive told a supplier, "They should be glad they have my business."

All too often, business discussions are more about "Me" than about "We." No matter how hard you try, "Me" reigns supreme.

If you can't win with "We," at least you know its all about "Me."

Some people, and some organizational cultures, can't change. Although this is not an optimal situation, it is a reality. Scorpions sting. Gorillas tend to act like gorillas. The advantage that you have now by reading this book is that you can better understand how you should behave around them. So what do you do?

Nothing. Forewarned, forearmed.

You can't play "We" with someone who only knows "Me." It is difficult (if not impossible) to change the nature of scorpions and gorillas.

Manage your time, energy, and resources. And your customers.

You Have Our Permission to Fire "Me"

Go ahead. Fire those around you who suffer from the supersize "Me" syndrome. You have our permission.

Sooner or later, those customers or suppliers who have lived their lives for "Me" have to realize the consequences of their behavior. Firing them—no longer working with them will free up energy that can be used in creative ways.

Will it be hard? Yes.

Will it be costly? Potentially.

Will it hurt? Probably.

Will it be done overnight? No.

Will you be happier in the long run? Absolutely.

But what if you can't fire "Me"? If you can't ignore those 800-pound gorillas, you can at least put them back in the cage.

Start by giving them only the time and energy they deserve. And use your newfound time, energy, resources, and investments to work with like-minded individuals and companies that are willing to look for a Pony and create value—value they are willing to share.

Playing nice is hard. Finding partners willing to play nice isn't as hard as it used to be. They just have to pass the test.

Diagnose your existing relationships using this free online diagnostic. http://www.vestedway.com/self-assessment

What's the Diagnosis?

A WIIFWe philosophy requires like-minded individuals and organizations that are both willing and able to play by the rules.

We've been flattered, and a bit embarrassed, when we hear of companies holding internal meetings about our first book. Many have given copies to customers and suppliers. For the first time, they are having open and candid discussions about their strategic business relationship. They've exploring opportunities to see if a Vested journey is worth pursuing.

If you find yourself with a willing business partner, a good next step is diagnosing your existing relationship using a free online diagnostic. Are there areas that keep you from developing a Vested mind-set? We refer to these as ailments.

But don't just take the diagnostic by yourself. Ask your business partner to also take it. Then compare notes. And then start a dialog with your business partner, exploring how to best start your journey.

Remember, the Vested Way is a journey. It starts by finding like-minded businesses and people who are both willing and capable to think in a fairer way. Businesses and people who want to follow the rules and play nice.

CONCLUSION: JOIN THE MOVEMENT

The Movement is Underway!

Are you ready to join others who have challenged the status quo and are starting to reject short-term thinking and muscular approaches to business relationships? To join others who are learning that playing nice can be very profitable?

In the past, being the gorilla paid off. Now the world is changing.

Going Alone is Risky.

You have our permission to follow what you may have always thought was a better way of winning. Not by fighting. Not by heavy-handed negotiations. Not by sheer power. But by building winning relationships. By working together to make a bigger pie.

Not everyone will be ready to move to What's-In-It-For-We thinking. Not everyone will join the movement. But if you are ready, you can revolutionize the work you do and conquer your own Mount Everest.

Or build an alliance to help transition to a new creative economy where the driving force is innovation.

Or create 1,000 new patents that shed light on solving the 21st century's toughest business problems.

You can create a WIIFWe mindset that has the power to transform your business and employee relationships and find your Pony.

Joining is Simple

It starts with We.

It starts with being humble enough to recognize that "We" is more powerful than "Me." It is a recognition that together you can achieve more than by going it alone. Sometimes you need a Sherpa to reach your highest potential.

It continues by seeking out like-minded individuals and organizations that can help you. Those individuals with the skills and insights to help you find a Pony, where others simply see a problem or pile of manure.

But most important, it requires a true commitment to play by the rules—to play in a credible and fair manner. Playing nice is hard.

Cheat once and you lose trust; cheat more than one and you are likely to lose altogether. In the 21st century business world, no one will want to play with you if you play like that.

Solving today's wicked problems requires a different approach. Doing it alone leaves you alone. Today's best suppliers are firing their bad customers and aligning with their best customers. The best customers are valuing their best suppliers, rewarding them with the opportunity for more business and greater profits.

We started this e-book by saying we are still curious. We still are. Curious as to what you will do next. Curious if you want to learn how to play nice. Curious how it will change your relationships.

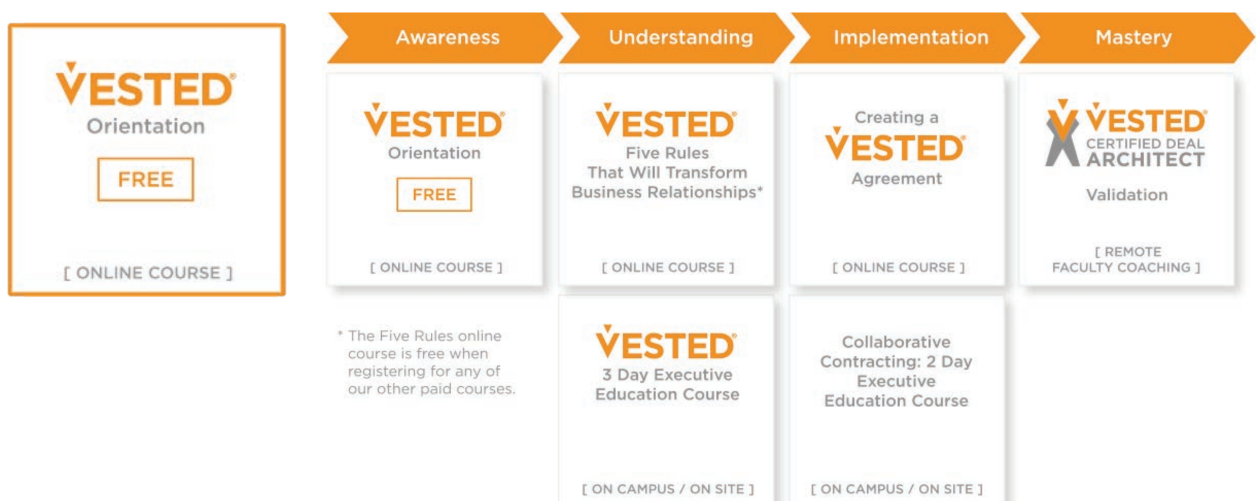
We invite you to learn more about our powerful research and about how to play by the rules by visiting www.vestedway.com.

READY TO CONTINUE YOUR VESTED JOURNEY?

Ready to continue (or start) your Vested journey? It doesn't matter where you are in your adoption of Vested. The Vested team has created six courses to help you learn the art and science of developing Vested agreements that drive innovation and create value that didn't exist before.

Start with our free Vested Orientation course. This course consists of six interactive, self-paced modules designed to help anyone, anywhere in the world build a basic understanding and awareness of Vested.

http://www.vestedway.com/vested-orientation-sign-up/



MORE VESTED BOOKS

The Vested Way

Why a "What's In It for We" approach is THE framework 21st-century business relationships are built on.

Vested Outsourcing

What is Vested? Where do you start?

The Vested Outsourcing Manual

How to implement Vested partnerships and agreements.

Getting to We

Negotiating the foundation.

The mindset for highly collaborative relationships.

Vested

Real stories of companies embracing Vested.

How P&G, McDonald's, and Microsoft are redefining winning in business relationships.

http://www.vestedway.com/books/

ABOUT THE AUTHORS: KATE VITASEK

Lauded by World Trade Magazine as one of the “Fabulous 50+1” most influential people impacting global commerce, author, educator and business consultant Kate Vitasek is an international authority for her award-winning research and Vested® business model for highly-collaborative relationships. Her practical and research based advice for driving transformation and innovation through highly collaborative and strategic partnerships launched a book series that includes Vested Outsourcing: Five Rules That Will Transform Outsourcing; Vested: How P&G, McDonald’s and Microsoft Are Redefining Winning in Business Relationships; and Getting to We: Negotiating Agreements for Highly Collaborative Relationships.

Vitasek has been featured on Bloomberg radio multiple times, on NPR and on Fox Business News. She also has been featured in over 300 articles in publications like Forbes, Chief Executive Magazine, CIO Magazine, The Wall Street Journal, Journal of Commerce, World Trade Magazine and Outsource Magazine.

Passionate in her quest to help companies transform their business relationships, Vitasek inspires and motivates business leaders with five proven “rules” for achieving transformational results.

ABOUT THE AUTHORS:
KARL MANRODT

Dr. Karl Manrodt serves as a Professor in the Department of Marketing and Logistics at Georgia Southern University located in Statesboro, Georgia. He is also the Director of the Southern Center for Logistics and Intermodal Transportation. His degrees include a B.A. in Philosophy and Psychology from Wartburg College, an M.S. in Logistics from Wright State University and his Ph.D. from the University of Tennessee.

Dr. Manrodt was recognized as a “2004 Rainmaker” by DC Velocity Magazine and in 2005 was awarded the Eugene Bishop Award for Sustained Academic Excellence by the College of Business at Georgia Southern University. In 2010, he was award the Terry See Trophy by SAPICS, South Africa. He has also served the logistics and transportation profession in several forums, including on the Board of Directors for the Council of Supply Chain Management Professionals as well as in leadership roles with WERC.

In addition to serving as an editor, reviewer and on the editorial board for numerous academic and practitioner journals, Dr. Manrodt has given over 150 presentations across the globe and has written five books on sourcing, metrics and logistics. His research has appeared in such leading academic and practitioner journals as the Transportation Journal, the International Journal of Physical Distribution and Materials Management, Interfaces and the Journal of Business Logistics.

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