FINDING THE INVISIBLE HAND: FROM INVISIBLE HAND TO HAND-IN-HAND

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SUMMARY

The quality movement is changing the very nature of the economic paradigm on which modern successful companies operate. Companies which operate on an "invisible hand" paradigm focus on providing goods or services to enhance their own self-interest. Enlightened companies have moved to the "delight the customer" paradigm, which balances their own self-interest with a heightened responsiveness to the current and emerging needs of customers. This moves them beyond the "invisible hand" to a "hand in hand" relationship with their customers. A company's hallmark of business excellence is its ability to build and sustain these ongoing relationships with internal and external customers. This relational dynamic not only increases responsiveness to customer needs; it also increases economic efficiency and enhances organizational effectiveness, often accompanied by enhanced profitability. This paper provides an economic context for understanding the value of relationships and how economic principles which have emerged from the quality movement itself can be integrated into the company culture to enhance excellence.

INTRODUCTION

Quality has been defined as the on-going process of building and sustaining relationships by assessing, anticipating, and fulfilling stated and implied needs. (Winder 1994.) A firm's long-term existence is dependent on the relationships it builds and sustains with customers, employees, shareholders, and other constituents. In the competitive markets of today it is no longer sufficient to assume that a customer will purchase a company's product simply because it fills a need the customer seeks to address. It is no longer sufficient to assume that an employee will work for a company just because it is willing to pay more. Companies and individuals have goals other than just profits and income. Some of these involve intangible goods – such as reputation, validation, and approval – which depend on relationships. Thus, many important business decisions depend on the relationship the firm's members establish and maintain among themselves and with customers.

What is the structure within which these relationships are established and maintained? A firm's continued existence is dependent on establishment and fulfillment of its distinct "reason for being," around which it develops the competencies and resources needed to fulfill its purpose. Implicit in its reason for being is its relationship with customers whose needs are being fulfilled and its staff who can provide and marshal the resources to fulfill those needs. In fact, vision has been described as the linking of needs with the resources needed to fulfill them. So for ongoing success, the firm must be responsive to the current and emerging needs of internal and external customers.

This responsiveness permits the company to keep its finger on the pulse of those needs. It also increases a firm's agility by leading to innovation which enhances the firm's ability to sustain long-term relationships with customers.

ADAM SMITH AND THE INVISIBLE HAND

There are three important elements in Adam Smith's economic theory: specialization (division of labor); trade, to obtain what one no longer produces as a result of specialization; and freedom to choose what, how, when, and with whom to conduct business, subject to the discipline of the market. Adam Smith identified a dichotomy between the public interest and private self-interest. He identified private self-interest as the dominant economic force, but allowed that the pursuit of private self-interest would accomplish a public good. This, in fact, was the meaning of the metaphor of the invisible hand – the pursuit of private gain unintentionally promotes the public good, without the need of directly promoting the public good. The invisible hand theory has its origins in Adam Smith's *Wealth of Nations*: ". . . every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. *By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.* Nor is it always the worse for the society that it was not part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it." (Emphasis added.) (Smith.) Under Adam Smith theory, it is a merchant's pursuit of his or her own self-interest that causes him or her to create and market something of value, and the combined action of all merchants creates a public good, including an economic efficiency, that would not be created through the pursuit of the public good per se. Smith notes, "It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own self interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages." So Smith's theory has been interpreted to emphasize self or selfish interest as the driving motivation at the micro (individual or firm) level as well – customer needs are supplanted by self-interest, but the pursuit of self-interest brings about the fulfillment of those needs.

ECONOMIC THEORY SURROUNDING THE INVISIBLE HAND: IT BOILS DOWN TO TRADE

As a foundation for understanding the dichotomy of self-interest versus public good at the macro level and self-interest versus customer needs at the micro level, let us examine the nature of specialization and trade, the first two components of economic theory, which create the mechanism for pursuing self-interest. Adam Smith demonstrated the key nature of the trade by illustrating that a pin maker, working by himself, could scarcely make one pin a day, but with ten persons specializing on ten different tasks, together they could make 48,000 pins a day. But specialization, by its nature, implies the need to trade, because if the pin maker focuses his time on one part of the process of producing a pin, he of necessity must rely on others to supply the raw materials and complete the other parts of the processing, marketing and distribution of the pin – and to supply him with the necessities he no longer produces for himself.

The very nature of the trade implies that there be some relationship between the traders. Under the assumptions implicit in the self-interest economic theory there are two one-sided trades: each trader is trading for his/her own benefit and not for the benefit of the other party to the trade; i.e., Adam Smith suggests that a trader will not normally focus on trading for the "public good" nor on meeting the needs ("necessities") of customers. So self-interest economic theory is based on the assumption that there must be an economic benefit to both parties in the trade for an exchange to occur. In this respect, the relationship flows or comes into existence because of the trade – because of a *quid pro quo* or barter transaction ("I'll give you this if you give me that"). (We will proffer later that under the relational economic paradigm, the *trade flows from the relationship*, rather than the relationship merely existing as a result of the trade.)

Because the trade is at the center of the economic relationship, our focus in this paper will be on the implications that flow from the nature of the trade. The "trade" is not just an exchange of goods (to which Adam Smith refers), but can refer to many things, from an interaction with a co-worker to an exchange of intangible goods (such as information) to an international transaction for the sale of goods or services. Since all trade necessarily involves interaction (whether in person or through a trading mechanism, such as the Internet), we will use *interaction* as the basic instance of the trade. With this perspective, we can see that there are many “trades” or “interactions” in the course of each day, rather than a single “transaction” only at the culmination of a purchase or the negotiation of a major deal. In fact, the nature of the ongoing interactions may have an impact on a major deal. Andrew Liveris, Chairman and CEO of Dow described an attempt some years ago to negotiate a new business deal in Korea with stone-faced representatives of a Korean Company. When he could see that they were not getting anywhere in the negotiations, he suggested to his manager that they go get a beer and forget about it, not realizing that the Koreans would understand what he said in English. The Koreans’ faces lit up at the thought, and they asked to go with the Dow representatives for a drink. By the next morning they had struck a deal. (Bolsta.)

So what is the nature of the interaction? Winder, Robison and Judd (1995) identify two basic measurements that are an elemental part of each interaction: 1) “What can I use? (the *utilization* dynamic); and 2) “What can I contribute?” (the *contribution* dynamic). It is the *balance* of these two measures that identifies the nature of the interaction. For example, a total focus on “what can I use” can result in an Adam Smith butcher, baker and brewer self-interest-based interaction in which the focus is only on the needs of the trader, without regard to the needs of the other party. On the other hand, a total focus on “what can I contribute” can result in depletion of resources as they are used to satisfy the needs of the other party to the interaction without regard to the needs of the trading party. In Adam Smith’s parlance, the focus on “what can I use” drives the self-interest economic paradigm; “what can I contribute” is a measure of the “public good” focus, which he refers to as an affectation.

The “what can I use” and “what can I contribute” measures are tied to two basic motivations for interaction: needs and resources. See Figure 1. The needs of a customer are linked with the resources the firm has developed to meet those needs. Winder (1993) identifies this linkage of needs and resources as the “common good” in the relationship, or in other words, the *vision* which is shared among constituents and which is actualized through the sharing of resources and value. It is this interrelationship between needs and resources that defines the firm’s reason for being. The firm determines the needs it intends to fulfill and develops the resources which are necessary to fulfill those needs. This then becomes the specialization component of Adam Smith theory: the firm is limited (by its human, information, and capital resources) in the number and mix of needs it can fulfill, so it must focus its mission on the needs it wishes to fulfill as defined by the resources it chooses to assemble to fulfill those needs. The more direct the match between the needs the firm desires to fulfill and the resources it has assembled to fulfill those needs, the greater the core competency of the firm, and the more viable its continued existence, at least as long as either 1) the needs remain static; or 2) the firm is agile and able to identify changing needs and flexibly develop the resources needed to fulfill those changing needs. (See Winder & Draeger.)

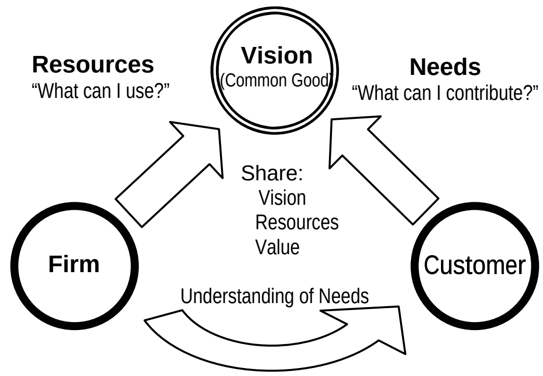

Figure 1. Vision is the common good in the relationship – the linking of needs with resources.

Whether Adam Smith intended self-interest as an essential element of the economic model or simply as a dominant motive is not clear. In fact, the first chapter in his *Theory of Moral Sentiments* is titled “Sympathy.” What we do know is that under modern Western economic theory it has become the driving force of today’s economic paradigm. Such a stance creates a dichotomy: our focus on the pursuit of greed-based self-interest can keep us from intentionally focusing on the public good. See Figure 2. The establishment of this dichotomy at the macroeconomic level where the trade-off is between self-interest and the public good has had similar implications at the microeconomic level, where the trade-off is between self-interest and customer

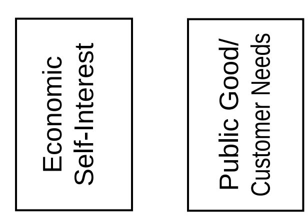

Figure 2. Economic Self-Interest Paradigm Assumes Economic Self-Interest and the Public Good Are a Mutually Exclusive Dichotomy

needs. Under Adam Smith's reasoning, a focus on economic self-interest at the micro level can result in fulfilling customer needs even if the focus of the firm is not on the customer needs but instead is on the firm's economic self-interest, since the firm will produce goods or services which will in fact benefit customers and will thus be purchased by customers. So, under the self-interest economic paradigm, the dichotomy exists at the micro level as well: our pursuit of self-interest may prevent us from intentionally pursuing customer needs.

This dichotomy is an oversimplification of the trading relationship. The quality movement has demonstrated that a different assumption – one based on a balance of needs with resources – will produce a more efficient and equitable economic system. If we take Adam Smith's specialization and trade components and apply relational economic theory rather than economic self-interest theory, we obtain improved results. Under relational economic theory, the self-interest/public good and the self-interest/customer needs dichotomies become erased because sympathy for others leads one to consider them as part of the same goal – the common good in the relationship. In relational economic theory these factors are not dichotomies, but rather are balancing motives, and the most efficient and equitable economic system seeks a balance among self-interest/public good at the macro level and a balance among self-interest/customer needs at the micro level. See Figure 3. In this framework, self-interest does not dominate, but it nevertheless remains important because it provides one of the criteria for ordering choices. In other words, the two primary measures in an interaction, "what can I use?" and "what can I contribute?" are not mutually exclusive motives, but rather are balanced in each interaction according to a weighing of the needs of the interacting parties. This balance becomes the *common good* in the relationship or, in other words, "the linking of needs with resources" noted above. It is a responsiveness to the needs which are to be addressed by applying the resources needed to address those needs that provides the foundation for the interaction of the firm with its constituents. And that interaction is a balance among the *utilization* and *contribution* measures.

THE POWER OF RELATIONSHIPS: SO OBVIOUS WE CAN'T SEE IT

Could it be that a focus on greed-based economic self-interest puts us in a myopic mode of thinking? Is it possible that the invisible hand only becomes visible when we balance our own needs with the needs of the party with whom we are trading? In other words, in the self-interest economic paradigm, is it the focus on self which hides the hand and keeps us from seeing the contribution we can make and the common good we can become a part of creating? Is it selfish-focus which keeps us from seeing and understanding the needs of others and balancing their needs with our own? Could it be that our focus on what we can *utilize* keeps us from seeing what we can *contribute*?

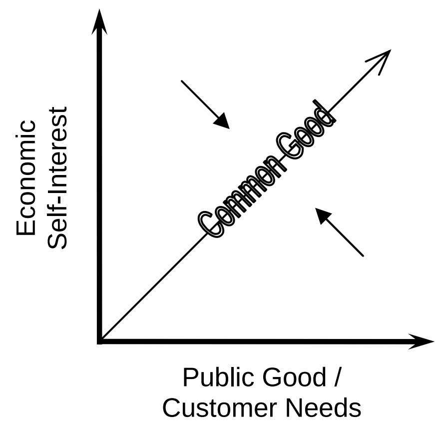

Figure 3. Relational Economic Theory Balances Self Interest with Public Good/ Customer Needs

To test the effect of relationships on the trade interaction, Robison developed a survey asking the least amount the participant would accept for his or her $3,000 car from a wealthy nasty neighbor, from a complete stranger, from a less-well-off childhood friend, and from an impoverished sibling. The results of this survey among several groups are included in Chart 1. (Winder and Judd.) As you will note, sellers charge their nasty neighbor a bimodal amount of $3,500 or $3,000, a complete stranger a median of $3,000, a childhood friend $2,500, and some will even give the car to their sibling. Similar results in a buyer questionnaire indicate that where there is a relationship, a buyer will pay more. As these combined results demonstrate, where there is a relationship, a seller will accept less and a buyer will pay more. (Robison and Schmid.) This increases the trading range, and increases the likelihood that a trade will take place. But more important than that, the trade takes on a different dimension—the *trade begins to flow from the relationship*, providing resilience in the relationship and a foundation for on-going trading. Baker and Dutton identify this tensility effect ("the capacity to bend and withstand stress in the face of setback or challenges") as an important element of High Quality Connections. (See Dutton and Heaphy.) (This is in contrast with the self-interest trade, in which the relationship exists *because of* the trade, and for which there is no tensility because the trader will always trade in his/her own self-interest.) When the relational dynamics begin to take effect, a participation dynamic develops (referred to as "value sharing") in which participants begin to contribute resources to a common endeavor. Participants give more than required; they become "sustaining members" of the organization through repeat purchases or long-term employment; and they begin to share the vision of the organization with others through "word-of-mouth" advertising of customers, and by employees creating "moments of truth" that live on in the minds of customers. At this point, the participants are no longer strangers or outsiders to the organization, but they are an integral part of what the organization is all about. They become a part of its informal infrastructure and, in a very real way, shape the character of the organization. In other words, the organization would not be the same without their integral participation.

Let us review some inferences which are evident from the car survey. First, it is clear that the seller is not acting purely out of selfishness. If so, he or she would charge the same amount for the car from the wealthy nasty neighbor as the less-well-off sibling: the full value for the car (or more). Second, it is clear that the seller is not acting purely out of interest in the public good or customer needs. While he or she may *give* the car to the sibling, he or she will not give it to the other buyers. Third, there are two variables in the car survey: the strength of the relationship (ranging from nasty neighbor to sibling) and the relative financial position of the buyer and the seller in relation to each other (ranging from better off to less well off). From the survey results we deduce that in each case the seller is balancing his/her own needs against the needs of the buyer, as tempered by the relationship. *The stronger the relationship, the greater the attention which the seller gives to the needs of the buyer.* (See Robison and Schmid.) In other words, the seller is balancing "what can I use?" with "what can I contribute?" in each case. Because the needs and the relationship are different in each case, the balance produces a different result. In sum, the car survey demonstrates that the self-interest/public good and self-interest/customer needs dynamics are NOT dichotomies, but factors which are *balanced* in each interaction, depending on the relationship of the interacting parties and their relative needs.

What, then, are the implications of seeing the utilization/contribution measures as a balance rather than as a dichotomy? It permits focusing on the common good in the relationship rather than "what's in it for me?" (WIIFM). It facilitates a greater responsiveness to needs of constituents rather than a focus on "how can we profit from this?" It engenders a customer-driven culture, rather than "they can have any color of car they want as long as it's green." It opens the door for use of empowerment rather than control to govern interactions in our organizations, providing an increase in efficiency. It nurtures the contribution dynamic, creating a sense of emotional ownership, rather than chilling participants' ability and desire to contribute, because of rules, structure, and control. It brings leader-based organizations into reality, with leadership throughout the firm, rather than continuing to rely on structured management systems. (Winder and Draeger.)

While the economic impact of relationships is significant, the influence of relationships on organizational infrastructure is just as profound. Relationships allow us to produce different kinds of goods. A company which engenders sympathy for others no longer views the product they produce as just a physical object but as a representation of who they are and what values they represent. Quality is enhanced when the objects that the company produces become embedded with socio-emotional goods. Imagine an organizational environment in which participants give more than required, become sustaining members, and share the vision of the organization or undertaking. Imagine an environment in which the work of the organization is described as "what can we do together?" rather than "what can I get them to do?" Imagine an organization whose staff members simply do what needs to be done, not

Selling Price Patterns for $3,000 Car				
	Nasty Neighbor	Complete Stranger	Childhood Friend	Sibling
>$3,500	65	0	0	0
$3,500	263	39	2	0
$3,250	21	33	5	1
$3,000	236	476	122	29
$2,750	11	30	135	24
$2,500	4	22	298	199
<$2,500	0	0	38	348
Total	600	600	600	600

Chart 1. Selling Price Patterns for $3,000 Car.

because of the incentives they receive for doing so, but simply because it needs to be done. All of these scenarios demonstrate that in the real economic world, trade is not a single transaction, but a series of multiple interactions built around the *common good* in the relationship.

RELATIONAL ECONOMICS: FINDING THE INVISIBLE HAND

As noted above, where there is a sympathetic relationship a buyer is willing to pay more and a seller is willing to accept less, expanding the trading range and increasing the likelihood that a trade will take place. As the trading range is expanded, the trade begins to flow from the relationship and becomes a mutual trade which balances the needs of both parties rather than being two concurrent one-sided, self-interested trades in which each party is only concerned about his or her own interest. It is precisely at the point at which the trade becomes a mutual trade, flowing from the relationship – where the needs of the customer are balanced with the needs of the seller – that we transition from a paradigm based on economic self-interest to an economic paradigm supported by the common good in the relationship. Importantly, each of us who charged a price of less than $3,000 for at least one of the potential purchasers of the car has identified – and identified with – the dynamic that our trade will be based on the needs of the buyer, as *balanced* with our own self-interest.

Many who have taken the survey and have recognized this relational dynamic have commented that the dynamic is obvious, that we are not telling them anything new. They are correct. The relational dynamic is so much a part of us that it is innate to us. It is an essential part of our character. Deming (1993) notes that "people are born with a need for relationships with other people, and the need for love and esteem by others." Under Deming's psychology component of his Theory of Profound Knowledge, intrinsic motivation is borne out of this need for relationships, which is borne out of the need to make a contribution (e.g., "what drives me is not what I can *get*, but what I can *give*), in contrast with the more independent extrinsic motivation, which has self-interest at its core. Senge identifies the primacy of the whole, which "suggests that relationships are, in a genuine sense, more fundamental than things, and that wholes are primordial to parts. We do not have to create interrelatedness. The world is already interrelated." (Senge, Kleiner, Roberts, Ross, and Smith.) The individual does not exist independent of the community of which he or she is a part. Block (2002) points out the clustering nature of our society and indicates that relationship is an end in itself. Similarly, relationships are at the heart of Covey's principle-centered leadership. It is the process of building relationships of trust that provides a foundation for empowerment and alignment in the organization. It is the relationships which are established at the interpersonal level which permit empowerment at the management level and alignment at the organizational level. Covey notes that duplicity and backstabbing, which destroy relationships, sow the seeds of destruction in an organization.

Relationships permit us to "see the invisible hand" – to see and understand the needs of those with whom we have a relationship in order to develop the resources needed to assist in fulfilling those needs. Indeed, it is these needs (i.e., Adam Smith's "public good" and "our own necessities") which are addressed *unintentionally* (through self-interested action) by Adam Smith's invisible hand. But if we focus on these needs and assume a direct hand in addressing them, then the hand is no longer invisible. We are discovering these needs and addressing them *intentionally* in order to improve the well-being of those with these needs.

THE WAVE-PARTICLE THEORY OF RELATIONAL ECONOMICS

The wave-particle theory of light provides a metaphor for the application of relational economics. The particle theory of relational economics, expressed in several definitions of social capital, suggests the relationship is a capital good (an asset) or even a medium of exchange. We are also proffering a wave theory of relational economics, which suggests that the relationship is a *dynamic* or motivating energy with intrinsic value.

<u>The Particle Theory.</u> The social capital movement has moved the relational economic paradigm forward in a major way. Social capital theory addresses Block's (2002) concern that relationships are not a currency in economics, by recognizing the value of relationships in interactions and trade. Putnam points out that there is economic value in social networks: "Just as a screwdriver (physical capital) or a college education (human capital) can increase productivity (both individual and collective), so too social contacts affect the productivity of individuals and groups." He further

notes that “Whereas physical capital refers to physical objects and human capital refers to properties of individuals, social capital refers to connections among individuals—social networks and the norms of reciprocity and trustworthiness that arise from them." Lin distills the description of social capital to: “investment in social relations with expected returns in the marketplace.” Lin further notes that “Individuals engage in interactions and networking in order to produce profits.” Further, “capital is seen as a social asset by virtue of actors’ connections and access to resources in the network or group of which they are members.”

So while developments in social capital are recent and are still emerging, some definitions of social capital retain elements of greed-based self-interest economic theory: they retain a profit motive, assuming that there must be a selfish benefit to the trading party (e.g., the relationship exists to produce a profit). Some social capital theories treat social relationships as “capital” and attempt to quantify social factors and place them in the economic equation. So, much like the accountant who must have as many debits as credits, these theories quantify the social relationship in economic terms so that the ledger is always in balance. For example, they may say that the trade with a less-well-off childhood friend is quantified by the $2,500 cash the friend actually pays for the car plus the $500 value of the relationship. In this respect, social capital theory does not present a new economic paradigm, but interjects the relationship into the self-interest economic paradigm with different (social) variables to explain what the economic theory itself does not explain.

While still treating social capital as capital which facilitates an exchange, Robison, Schmid and Siles move beyond economic self-interest definitions of social capital to the relational economic paradigm, based on *enlightened* self-interest. They define social capital as sympathy, an internalization of another’s well-being – the ability to care about another: “Social capital is a person’s or group’s sympathy toward another person or group that may produce a potential benefit, advantage, and preferential treatment to that other person or group of persons beyond that which might be expected in a selfish exchange relationship.” Under this paradigm, a social network is a place where social capital lives but it is not social capital. Social capital can be used to increase profits, but that is not what social capital is. To them, a definition of social capital must satisfy the requirements of capital and be of the form A=B (i.e., capital = sympathy). In social capital, doing good for others is motivated by self interest that derives from sympathy. Since their definition results in the internalization of another’s well being, the self-interest out of which a person acts is based on that internalization and includes sympathy for the other person as well as incorporating their own needs. So to act inconsistent with the needs of the other person would be acting against their own enlightened self-interest, eroding their internal integrity. In a sense, this definition incorporates the common good (the balancing of “what can I use” with “what can I contribute”) right within the person’s own enlightened self-interest, and interaction takes place in the context of this enlightened self.

Under this paradigm, in the relational interaction the trading range expands and socio-emotional goods are exchanged as well as objects and money. Socio-emotional needs, which are not satisfied in arms-length relationships, are satisfied from sympathetic relationships. In other words, if the only good I receive in the exchange is the physical good, the terms and levels of exchange will be different than if we are exchanging both physical and socio-emotional goods. So out of self interest we develop relationships of sympathy because we find in these that our needs are met and incidentally, they are more productive economically. I have compassion because of my sympathy for you and I have made your well-being the same as mine. When this occurs, my decisions account for how they will benefit you as well as me – I wouldn’t complete a transaction unless we were both benefited. In other words, we only exchange if we are both made better off and are receiving something of value greater than what was sacrificed. If what I have is of more value to you than to me, you must offer to me something that is of more value than what I give up – otherwise I refuse to exchange. Social capital doesn’t change this requirement, it only provides another way that I can be benefited by the exchange. For example, if I care about you, then I receive some positive reward from seeing your well-being improved. The alternative is to assume we make choices that leave us worse off.

<u>The Wave Theory.</u> In the wave theory of relational economics we see relationships not as a capital good, but as a *dynamic* which has intrinsic value of its own. As Block (2002) notes, we can see relationships as an end in themselves. In other words, since I am concerned about your well-being, I will act in a manner to delight you. The value of this relational dynamic is illustrated by Jim Graley’s experience: his typical auto body repair shop was unfriendly to

women (e.g., pinups on the walls of scantily clad women; unfriendly waiting room). He read in a GM Newsletter that women are the key decision makers in 70% of new car purchases, and wondered whether that would apply to car repairs. But he realized that his shop did not match the new-found dynamic, so he modified his systems and processes to enhance his business's relationship with women – to show them that he cared about them – because he sympathized with their unpleasant experience when they visited his shop. He cleaned up the shop, purchased uniforms, hired a woman facilitator, and provided a car wash after the car repair. In other words, he was *balancing* their needs with his own self-interest – he sympathized with them, making their well-being part of his own. His new-found relationship with women resulted in a tripling of his sales in one year (from $525,000 to $1.6 million). (Conlin.) So the organization which understands both the dynamics of the relationship as well as the dynamics of need can integrate the needs and resources in a manner to marshal the organization's resources to develop those relationships, resulting in the expansion of existing markets or even the development new markets.

So in relational economics and under Robison, Schmid and Siles' definition of social capital as sympathy, rather than a public or common good resulting unintentionally from a focus on economic self-interest, instead value is created from the balance of economic self-interest with the public good or customer needs. In fact, under relational economics, profit does not remain invisible, but rather feeds back into the system as a resource to sustain relationships with constituents, including customers, employees, and shareholders. Deming (1986) taught this principle in his description of the "Chain Reaction" which begins with improving quality. This decreases cost and improves productivity. This permits firms, with better quality and lower price, to capture the market (i.e., strengthen relationships with customers), permitting the business to stay in business and provide jobs and more jobs. As Scholtes has noted, this "Chain Reaction" ultimately provides a "return on investment" to the shareholder, who is also a constituent. Or, conversely, as Block (2002) noted, if an organization is not able to serve its customers, it has failed to serve its internal constituents.

VALUE SHARING: FROM INVISIBLE HAND TO HAND IN HAND

The ultimate level of mutual contribution, at the core of relational economics, is *value sharing*. It is described as follows: "If I give something to you that has more value to you than it does to me, then together we are better off as a result of the trade." Value sharing incorporates the assumption that value to the recipient is value to the contributor – that the giver has internalized his or her caring for the recipient. The measures of value sharing include: participants give more than required, they become "sustaining members," and they share the vision by inviting others to participate. (Winder 1993.)

Value sharing is not a bartered exchange; in fact it is even more than a mutual trade. It is a "hand-in-hand" relationship. It becomes a *sharing* process, where human, information, and capital resources are mutually shared in order to address needs of both parties. It is as if each party is *giving to* or *sharing with* the other party a resource which the other party needs in order to address one or more needs and improve well-being. So not only is the firm helping to meet the needs of the customer, but the customer is helping to meet the needs of the firm. At the value sharing level, the focus turns from "getting what I want" to "supporting each other." Because each is sharing with a focus on improving the well-being of the other party, there is a balancing of the relative needs. This is illustrated by an exchange which one of the authors experienced in a Chilean market. Robison discovered that one of the vendors was a member of the same organization as Robison, so they spoke briefly of their common connection. Then Robison perused the vendor's wares, found a piece he wanted, and asked the vendor the purchase price. The vendor responded that normally it was $4,000 pesos, but for Robison it would be $2,000 pesos. Robison replied that no, he could not pay that low a price, and insisted that he pay $3,000 pesos. Then began a discussion (attentively observed by the other vendors, who had not previously observed interactions of this nature) as to the higher price Robison was going to pay and the lower price the vendor insisted on accepting.

"Delight the customer" is a value sharing dynamic, motivated by sympathy. Giving more than required takes us beyond the economic self-interest paradigm. More is given to the customer than required, with no requirement of reciprocation. Often there *is* reciprocation, as occurred in Robison's "reverse barter" – normally it is expressed in the form of customer loyalty (becoming a "sustaining member") or word of mouth advertising ("sharing the vision"). Baker and Dutton describe the willingness to contribute without a *requirement* of reciprocation as "generalized reciprocity" (sometimes called "third-party reciprocity"), in which the exchange of help and assistance is not directly between two people, but rather "takes place between three or more people in a chain of reciprocity" (e.g., "A helps B, B helps C, C helps D, and D helps A"). They note that generalized reciprocity is prevalent in communities of practice, where members contribute not to a specific colleague, but to the community in general, and benefit from similar contributions by other members. Value sharing takes us even beyond generalized reciprocity. In value sharing, we share because we care, not from any *expectation* of reciprocation. Frank refers to a similar dynamic as *identification with the collective as a quasi-tie*, demonstrating that when we identify with a group, we have a connection with the group and are willing to contribute to assist an individual within the group. Similarly, if we identify with a cause or purpose (e.g., a common good), we are willing to contribute to that purpose. Reciprocation is a by-product, not an end, of the sharing process. This puts recipients in control (it is up to them to choose whether and how to reciprocate) and their *choice* to reciprocate enhances the value sharing environment. It is this lack of expectation of reciprocation that gives value sharing its immense power. It makes the recipient's reciprocation a pure contribution, a mutual sharing, which serves to strengthen the relationship because the recipient is giving because he or she wants to give rather than because he or she has to give. So value sharing creates an environment in which the contribution dynamic is fostered.

Because of the voluntary nature of value sharing, there are several dynamics that are important in order to cultivate the environment in which it can take place. Value sharing takes place in an environment in which 1) there is a relationship among participants; 2) there is mutual trust among the participants; 3) there is mutual contribution of resources, resulting in sharing of value; and 4) there is no hoarding of value by participants. If a recipient hoards the value he or she receives, then the gift becomes a "hand out" and the giver is less likely to give in the future. Similarly, giving more than is required when not directed at fulfilling a need can be indulgence and can destroy relationships. Ironically, if the giver's gift is not appreciated by the recipient, often the giver feels punished or rebuked. There are two implications from this: First, from the giver's side, the contribution has to be seen in the context of the needs it is intended to fulfill. A contribution which does not address a need is not a contribution. So merely sharing a resource is not enough: value sharing arises when the resource is shared to address a need. In other words, value sharing arises when the "hand" (the linkage to the need) is "visible."

Second, from the recipient's side, if the giver really is addressing a need, it is important for the recipient to accept the shared resource and be appreciative of it – the recipient needs to show that he or she cares about the giver and what the giver has done. This serves a *validation* function for the giver, and helps him or her become engaged. This has significant implications for empowerment. For example, if a participant is attempting to make a contribution, but the leader refuses to accept the contribution (e.g., because of a command and control leadership style in which the leader controls the input and the decision making), then the participant is not validated, feels punished, and eventually will cease trying to make a contribution because it is not accepted anyway. Winder and Draeger emphasize that the leader must not only provide guidance, but also be responsive to needs of the participants. One of those needs is to have their contribution validated.

Validation assists in establishing and strengthening relationships and is thus a key element of value sharing. In wave theory it is a dynamic; in particle theory it is a socio-emotional exchange. Senge, Kleiner, Roberts, Ross, and Smith note that a common greeting among the tribes of northern Natal in South Africa is *Sawu bona*, which literally means "I see you." A typical response is "*Sikhona*," which means "I am here." These authors emphasize that "The order of the exchange is important: until you see me, I do not exist. It's as if, when you see me, you bring me into existence." Validation is the signal that a contributor gives to the recipient that the contributor knows that the recipient exists and sees and understands and cares about the recipient. In the economic context, it is the signal that the "hand" (the linkage to the recipient's need) is "visible." For example, Jim Graley's modification of his shop validated women customers – it showed that he saw and understood them and cared about them (he provided them a socio-emotional good) and they, in turn, responded with increased business, coming to his shop not for a good deal, but because they and their needs were validated. Another form of validation is the signal which the contributor receives verifying that his or contribution has been meaningful to the recipient – that a connection has been made. Validation, then, assists recipients in knowing that someone cares about their needs and assists contributors in building the confidence that they are on the “right course.” As such, it serves as a foundation for building the trust which is essential for value sharing and empowers a contributor with the confidence to act to meet the needs of a recipient.

One of the strongest forms of validation is reciprocation. For example as a firm provides validation to a customer by understanding the customer’s needs so well that the firm can delight the customer, the customer’s validation of the firm’s actions by reciprocating through repeat purchases tells the firm the customer cares about what the firm is doing and keeps the firm engaged in continuing to ensure that it will delight the customer. Consequently, validation and reciprocation build on each other in a virtuous cycle: validation of the customer (by the firm) stimulates reciprocation (by the customer) which prompts validation by the customer (to the firm) which promotes reciprocation (by the firm), etc. Validation is a key component for developing the “emotional ownership” needed for effective stewardship. If an organization’s leadership is making it clear to its staff that they are valued and their contribution is seen and appreciated, then to the staff, the work of the organization becomes their own and they are free to be engaged in the work rather than simply employed as a “hired hand.”

STEWARDSHIP AND CONSECRATION

The ultimate expression of the “what can I use?” and “what can I contribute” *utilization* and *contribution* dynamics is in the balance of the stewardship and consecration dynamics. We use these words to accentuate the full extent of relational economics. These dynamics imply the highest level of contribution and the highest level of utilization, and it is important to extend to this level so as to be able to account for leaders who have a *passion* for making a difference and a *compassion* through which they reach out to understand the needs they desire to address. *Consecration* relates to the degree to which the individual or firm is willing to dedicate resources to a common good or a public purpose. We can easily see the consecration dynamic in non-profit charity – the charity’s resources are fully dedicated to the charity’s mission, and in fact if not used for charitable purposes can result in adverse tax consequences to the charity. In the firm, consecration is expressed in the firm’s dedication of resources to its customers – the firm’s reason for being. *Stewardship* reflects the degree to which the individual or firm chooses to use resources in a responsible manner. These two dynamics are, in one sense, two ends of the same stick. Consecration provides the substance (the “why”) of stewardship. It *provides the purpose* for which resources are utilized. Stewardship supplies the “how” of consecration – it is used to develop and manage the resources in a manner to *fulfill that purpose*. Using resources inconsistent with that purpose constitutes waste, in contravention of stewardship.

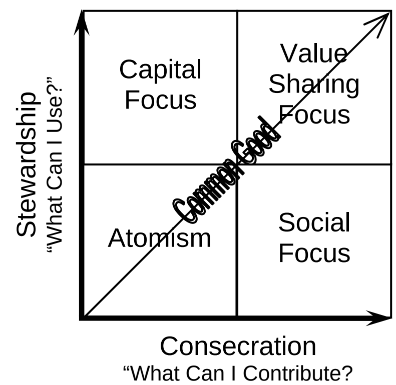

Figure 4. The Four Quadrants of the Stewardship – Consecration Dynamics

It is the *balance* of stewardship and consecration – the common good – that provides the environment for value sharing. See Figure 4. The value sharing focus exhibits both a high level of stewardship (evidenced by the empowerment paradigm) as well as a high level of consecration (evidenced by the "delight the customer" or "give the customer more than he or she is paying for" paradigm). What if stewardship and consecration are not balanced? What is stewardship without consecration, or consecration without stewardship? Stewardship without consecration can lead to self-interested absorption toward a “capital” focus in acquiring assets for the sake of acquiring assets versus acquiring them to better serve customers and other constituents. This may lead to “cutting corners” in order to cut costs, improving short-term profits but eroding the customer or employee base, to the long-term detriment of the firm. Firms with a capital focus often exhibit a high degree of stewardship, but their focus on asset acquisition is often driven by a self-interest greed motive, which is inconsistent with dedication of resources to a common good, resulting in a lower level of consecration. They develop efficiency through resource accumulation and use, but then lose efficiency as resources are hoarded by owners or within departmental “silos” when they could be put to better use if shared across the organization.

Consecration without stewardship can lead to either central control of resources or dedication of assets for specific purposes, preventing their use where needed as needed and thus reducing efficiency. Also, indulgence to customer demands (giving more than is fair, such as a sales representative slashing prices to get the sale) may leave the organization without the necessary profitability to support the organization in the long-term. Firms with a high degree of consecration often have a social focus on the needs of others. However, this may be done at the expense of efficiency and stewardship, as "equal" resource allocation may prevent development of economies of scale which would preserve resources and increase efficiency.

Atomism can result from a breakdown of socioeconomic systems through low consecration combined with low stewardship. Relationship among individuals, firms, and factions has broken down to the point that resources are hoarded, trading is limited, and there is an underinvestment in public goods or firm infrastructure, resulting in wasted resources.

The tools for applying the balance of stewardship and consecration within the firm – trust, alignment, and empowerment – are well-embedded in organizational development literature (see, e.g., Covey). Winder, Robison and Judd (1995) note that there is a hierarchy of interactions required to nurture the value sharing framework in an organization. This structure begins with action at the personal level (which requires confidence as a foundation for trust), interaction (with its balance of the utilization and contribution dynamics), connection at the team level (with alignment providing team synergy and also providing a foundation for empowerment), interconnection at the department and organization level (with empowerment providing the most efficient means of distributing resources), and community (where, through value sharing, organizational boundaries become fuzzy as the organization interacts with customers, suppliers, and other constituents).

<u>Confidence, Contribution, Validation, and Trust.</u> Trust is an essential element of effective and efficient interaction. What is it about a person that makes him or her trustworthy? It is our ability to rely on that person to be completely consistent with what he or she says or implies he or she will be, and for his or her actions to be for the common good. The basic, most powerful, building block of trust at the personal level is *confidence*, because it engenders internal and external consistency and makes it possible for others to continue to expect the actions they have always expected. Confidence ("fidelity or trust within") denotes a feeling of emotional security resulting from faith in oneself. Being true to oneself engenders trust and builds a trusting relationship. Confidence springs from having the ability to act (competence), the desire to act (paradigm), and a purpose for acting (vision). Embedded in confidence is a humility which assists in recognizing the common good in the relationship. Without this humility, "confidence" becomes self-directed pride which keeps us from seeing the common good. As noted above, the virtuous contribution-validation cycle builds trust by first letting the recipient know that he or she is "seen" by the contributor, who has the ability to meet the recipients needs; the connection is then made complete with the reciprocation and validation by the recipient. This connection becomes the core of the trusting relationship.

<u>Consecration and Alignment</u>. The consecration dynamic fosters alignment, as it engenders focus on the common good for which resources are directed. It is alignment that provides the integrating power to raise interaction to the level of connection. It is alignment at the team level that creates synergy and provides the team's reason for being. The contribution of team members must be in the context of the purpose of the team in order to fully support the synergy of the team. It is also important that alignment extend beyond team boundaries to the organization level, to ensure that sub-optimization does not take place to the detriment of the organization. Alignment is so important that it becomes an essential element of any contractual relationship. The contract, whether written or oral, becomes an expression of the intention of the parties with respect to one or more interactions. It reflects a "meeting of the minds." The alignment flows from the expression of intention, which verbalizes how each party is expected to act. If the contract is more than a memorialization of the intent of the parties, but also has a focus of providing a means of legally enforcing action, the contract becomes a surrogate, or substitute, for trust, to ensure that alignment is maintained.

<u>Stewardship and Empowerment.</u> The stewardship dynamic fosters empowerment, providing the freedom and authority to use resources where needed as needed, yet maintaining an accountability for the use of the resources consistent with vision. We agree with Block (1993) that stewardship is needed throughout the organization. Empowerment increases efficiency by placing resources closer to where they are used. This may give employees an emotional sense of ownership through their ability to use assets

as needed (rather than having to obtain approval from team members or superiors), helping them become engaged in the work of the organization. This makes the empowered team member much more responsive to the needs of internal and external customers, enhancing his or her ability to build and sustain relationships. Alignment and accountability are essential for effective empowerment: a "loose cannon" is a person who is given authority and resources to act, but whose actions are not in alignment with the team or organization's vision. With alignment in place as part of the consecration dynamic, team members can be trusted to use the resources appropriately, so imposition of strict controls is not necessary; and such controls can be a surrogate for alignment and can foster an autocratic environment as well as a culture of dependency in which front line workers must always consult superiors before taking action outside of strict guidelines.

EFFICIENCY AND EQUITY

Economists describe the optimal economy as being both efficient and equitable. (Okun; Will.) Yet under existing economic models, these two concepts seem to be at odds with each other. For all appearances, the more efficient the economic system, the greater the inequity. However, relational data reveals just the opposite: where there is widespread sympathy average household income increases and disparity of income decreases. Indeed, the poorest countries also have the most unequal distribution of income. (Robison and Siles.) Does the motivation of sympathy embedded in the value sharing dynamic of relational economics solve the efficiency/equity dichotomy? Does the sympathy of value sharing lead to an environment which is both efficient and equitable? In relational economics, the efficiency/equity dichotomy is erased. In the relational economic structure, efficiency and equity are *both* products of the value sharing dynamic – of the balance of stewardship and consecration with a focus on the common good in the relationship. See Figure 5. Firms with a value sharing focus (where there is a high level of stewardship, or responsible use of resources, yet also a high level of consecration, or allocation of resources to the common good) find that there does not have to be a trade-off between equity and efficiency. They become more efficient, and thus reduce waste, because resources are allocated where they are needed when they are needed, with the interests of the firm and its customers as a whole rather than the interests of an individual or department. The car survey illustrates that since the interaction focuses on the common good in the relationship and balances the needs of both the buyer and the seller, the equity factor is an inherent part of the transaction as the caring level increases. While the sale price to a stranger, whose economic well-being is not known, is for the market value of the car, the sale to the less-well-off childhood friend is for less. It is the "giving more than required" dynamic of value sharing that provides value sharing with the intrinsic capability of equitably balancing the needs of the participants in an interaction. In the marketplace, because of regulations regarding pricing, sometimes the "giving more than required" comes from service or other intangible "delight the customer" factors that accompany the trade.

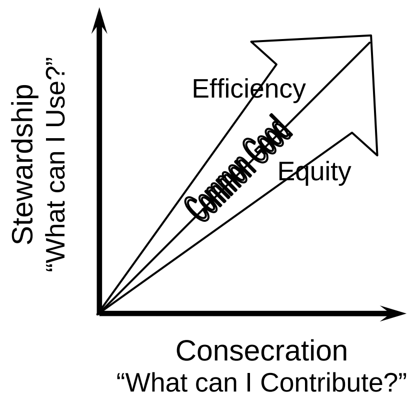

Figure 5. Balance of the Stewardship and Consecration Dynamics Engenders both Efficiency and Equity

The "become a sustaining member" and "share the vision" dynamics of value sharing address the efficiency function. It takes fewer resources to support a repeat customer and a long-term employee than it does to continually have to attract new customers and hire new employees. And word-of-mouth advertising can be more efficient in identifying and reaching customers who have needs that can be addressed by the firm's resources than other methods because the delighted customers who are sharing the vision of the firm live and work among the other potential customers and can provide live demonstrations of the product or passionately share the impact of the service in their life. Value sharing's focus on discovering and addressing needs also addresses the efficiency function. In a value sharing environment, where sharing takes place through the informal social network, the resources are closer to each participant. For example, in communities of practice where knowledge is shared among the community rather than just with a specific colleague, the resource is closer to each participant, thus increasing the efficiency in the sharing of these knowledge resources, an effect Baker and Dutton have noted. The empowerment dynamic also brings the resources closer to where they are actually delivered, improving efficiency, as with the employee who does not have to check with a supervisor to resolve a customer complaint.

At the peak of the stewardship/consecration balance, firms are most efficient because the stewardship dynamic permits the allocation of resources to where they are needed when they are needed and the consecration dynamic ensures that needs are anticipated and fulfilled as they arise. Firms are also most equitable at the peak of this array because resources are shared as needed. In addition, where there is a high level of value sharing, resources are preserved (increasing efficiency) through the elimination of transaction costs, such as legal fees. Without value sharing, there is an efficiency-equity trade-off which results from lower levels of stewardship or consecration. Reduction in consecration can reduce relational trading, increase transaction costs (requiring contracts and legal action), and introduce hoarding of resources (so they cannot be used where needed, as needed). Reduction in stewardship can substitute control for empowerment, reducing efficiency.

<u>Consecration and the Public Good.</u> One significant form of equitable distribution is the availability of a resource for use by all. Dedicating a resource to a public good increases equity, but can also significantly enhance efficiency. For example, a public road available for use by all constitutes an equitable consecration of resources to a public good. It also can significantly increase efficiency (e.g., it may take half as long to deliver goods, with less wear and tear on trucks). At the firm level, firm-wide resources are an example of dedication of resources to a common good. For example, a firm's purchase of technology resources for an information system places the knowledge resource closer to all who can benefit from it, improving efficiency. See, e.g., Posner and Burlingham. But why would I dedicate resources for use by my neighbor if I didn't care about my neighbor? Without a sympathetic relationship, I might prefer to purchase a land rover for my own benefit rather than contribute to building a road that would benefit both of us. In fact, if I am in competition with my neighbor, I might prefer that there *not* be a public road which would make it easier for him or her to market competitive products or services.

THE QUALITY MOVEMENT'S PIVOTAL ROLE

Hammer notes: "It is told that Albert Einstein once handed his secretary an exam to be distributed to his graduate students. The secretary scanned the paper and objected, 'But Professor Einstein, these are the same questions you used last year. Won't the students already know the answers?' 'It's all right, you see,' replied Einstein, 'the questions are the same, but the answers are different.'" Joel Barker points out that one who changes a paradigm "will probably be someone who is an outsider. Someone who doesn't understand the prevailing paradigm in all its subtleties (sometimes they don't understand it at all!)." He notes that "we need to stop and examine a dilemma they create by merely being outsiders. *These people are bringing you your future.* And yet, as outsiders, what is their credibility? Zero, right? They can't begin to understand what you are doing and yet here they are telling you to change the fundamentals of what you are so good at!" (Emphasis added.)

It is the quality movement which is *bringing us our future*, by way of a more efficient, more equitable economic framework. The authors began collaboration on relational economic theory in the late 1980's. Robison, challenging the prevalent economic paradigm, had difficulty gaining acceptance in the economic world, although as the social capital movement took hold, his ideas gained better acceptance. Winder's forum was a series of state, province, and national quality conferences, where the relational economic concepts were well received. In fact, in 1992 Winder provided some of the materials to Dr. W. Edwards Deming, who replied, "The work of Dr. Robison teaches me much." Deming Letter. So over the past twenty years it has been the quality movement, utilizing *value sharing dynamics*, which has moved relational economic theory forward in a major way – not just through academic explanation of the theory, but through real-world application of the theory, producing excellent results. How has value sharing been employed by the quality movement? We have intensified the focus on customer needs. We have moved the world beyond "customer satisfaction" to "delight the customer." We have integrated the voice of the customer into ongoing design and implementation strategies. We have employed quality function deployment to ensure that customer needs are fully integrated into corporate strategy. The Malcolm Baldridge Award itself requires an intense focus on customer needs, with one full section of the Criteria for Performance Excellence focusing on "Customer and Market Focus," highlighting focus on the "voice of the customer" and on building relationships with customers. In fact, the Criteria specifically highlights the common good balance in Part 1.1 b 2 of the leadership section: "How do senior leaders include a focus on creating and balancing value for customers and other stakeholders in their organizational performance expectations?" In other words, relational economics is not simply a theory waiting to be applied. Rather, the quality movement has already taken us there: many firms are already operating under the new economic paradigm.

Some have suggested that we have moved beyond the quality movement – that it is a fad which has come and gone. Sometimes their criticism of the quality movement is simply a mechanism to attempt to get us to move to the next new fad. What they do not realize is that the modern quality movement is not a fad – it is a solid implementation of an underlying theory of economics. Their problem is their narrow definition of quality. If we define quality in its relational sense, "quality is the on-going process of building and sustaining relationships through assessing, anticipating and fulfilling stated and implied needs," then we see that quality is at the core of the new relational economic paradigm. In addition, upon reflection we realize that the ultimate aim of every other definition of quality is to build and sustain relationships. For example, why do we seek six sigma performance? Why to we seek conformance to requirements? Why do we seek to do the right thing right, on time, every time? Why do we build into our products or services features that bear on their ability to satisfy stated or implied needs? Why do we continuously improve products or services? We do all of these to build and sustain relationships.

USING VALUE SHARING AND THE FIVE DIMENSION FRAMEWORK TO FIND THE INVISIBLE HAND

Now that we know quality's place in relational economic theory, we can make value sharing part of our planning and deployment to significantly enhance our ability to connect with our customers, employees, and other constituents. Deming (1986) spoke of the importance of things that are unmeasureable, such as the cost of a mistake affecting customer retention. Over the past two decades a number of tools have emerged to help us see and understand the invisible so we can be more effective in measuring the "unmeasurable" and moving beyond the invisible hand. The Five Dimension framework was developed in 1992 (Winder 1992) in an effort to account for the teachings of Dr. W. Edwards Deming "on the fingers of one hand." See Chart 2 for an outline of the characteristics of each of these dimensions. While space limitations prevent detailing what has been developed elsewhere, please note that the top two or three dimensions provide the tools for relational economics and value sharing. For example, coupling *passion* with *compassion* can link our reason for being with customers' needs to help us see the common good in our relationship with customers (and other constituents). Engendering an environment of *conscious choice* promotes the value sharing dynamic and permits customers and employees to become emotionally engaged. Focusing on *value sharing and partnership paradigms* permits customers and employees to feel like they are "part of the enterprise" rather than just being traders with the firm. Interestingly, we have found in seminar presentations that participants have been able to clearly identify the value sharing dynamics in firms featured in *Inc.* articles. (See Brown; Posner and Burlingham.) Seeing the firm as part of the broader *community* can help move the firm to the *growth* and *maturity* stages of business growth. (See Churchill and Lewis.) Social network analysis tools give us the ability to measure the strength, quality, and types of relationships, under the hierarchical structure of the five dimensions. (Winder 2007.) The leadership model, which has always been used as the symbol for value sharing (see Figure 1 for an adaptation of this model for this article), includes guidance and responsive functions which build in the common good in the relationship as an essential part of the leadership model. This model easily adapts to a "chain of vision" (as opposed to a linear chain of customers) in which the needs of customers, employees, suppliers and other constituents can be integrated in a single leadership model. Winder and Draeger.

We are now seeing empirical studies verifying the economic impact of value sharing and its three measures – giving more than required, becoming sustaining members, and sharing the vision. For example, Reichheld (2006) supports the validity of the hierarchy of these measures in his analysis of the economic impact of customer loyalty, including price premiums ("give more than required") customer retention ("sustaining members"), and referrals ("share the vision"). Reichheld gets at two of these measures through the single question he asks customers in order to determine the "net promoter score," which is a measure of the level of customer support for the organization: "How likely is it you would recommend us to a friend or colleague?" "Promoters," who answer with a 9 or 10 (on a scale of 0 to 10), account for the highest repurchase rate (the "sustaining member" measure) and account for 80% of the referrals the company receives (the "share the vision" measure). They almost seem like part of the company's sales force, and their "identification with the collective" of the company leads to value sharing on behalf of the company, making the company more efficient in reaching new customers. On the other hand, detractors (who answer 0-6) account for 80% of the negative word of mouth. Reichheld (2001) notes, "Loyalty obviously demands superior profits, but it demands more. It requires that those profits be earned through the success of partners, not at their expense. Loyalty can be earned only when leaders put the welfare of their customers and their partners ahead of their own self-serving interests."

Moreover, Berman summarized recent studies indicating that the value sharing measures are evident in the "delight the customer" dynamic. He cited a Mercedes Benz USA study which indicated that there is only a 10% likelihood that a dissatisfied customer would buy or lease again from the dealership; there is a 29% likelihood of a satisfied customer buying or leasing again; but 86% of "delighted customers" would remain "sustaining members" and lease or buy again. Another study he cites estimated that a 5% increase in customer loyalty can result in a 25% to 85% increase in profits. As to the "sharing the vision" measure of value sharing, another study to which he refers estimated that an "apostle" (a "delighted customer" who "shares vision" by providing word of mouth advertising) has a value of as many as eleven loyal customers.

In addition, Fleming, Coffman and Harter demonstrate the value of the relationship with both customers and employees. In their study of variation among local sales and service work groups they found that where both customers and employees were engaged (based on measures of confidence, integrity, pride, and passion), those work groups were more than 3.4 times more effective than the unengaged poorer performing groups, and twice as effective as the work groups where either the customers or the workers (but not both) were engaged. They also found that emotionally satisfied, fully engaged customers "deliver a 23% premium over the average customer in terms of share of wallet, profitability, revenue, and relationship growth. Interestingly, their confidence and integrity measures relate to the trust and validation dynamics of value sharing, and the pride and passion measures relate to the "identification with the collective" dynamic and the "sharing the vision" measure of value sharing.

Firms such as Malcolm Baldridge Award winner Ritz Carlton illustrate this value sharing culture along with resultant the economic benefit through profitability greater than industry averages. They demonstrate how balancing consecration (dedicating resources to the customer) with stewardship (using resources effectively) provides the most effective balance of control of resources and enhances economic efficiency, as resources are available where they are needed when they are needed. To achieve this type of culture, firms can follow principles of value sharing to inculcate a culture conducive to excellence.

CONCLUSION

A company's business excellence is a mark of its ability to build and sustain relationships with customers. It is no longer sufficient for firms to rely on the self-interest "invisible hand" culture to sustain their existence. They must go beyond the "invisible hand" culture to "hand in hand" relationships with customers and other constituents – relationships which incorporate value sharing principles and exhibit responsiveness to customers' current and emerging needs. In doing this, they will find that they *and* the other constituents will give more than required, become sustaining members, and share the vision of the organization, not as a quid pro quo bartered exchange, but as a mutual contribution of resources which significantly enhances business excellence.

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The Five Dimensions of Quality

by Richard E. Winder, Lindon J. Robison, and Daniel K. Judd

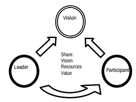
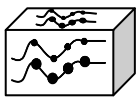
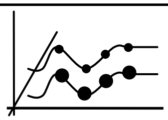
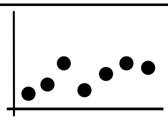
Dimension	Quality Function *Deming Cycle*	Driving Force *Stage of Growth*	Communication *Dynamics*	Philosophy *Interaction*	Psychology *Maslow*	Operational Model	Relationship	Domain *Golden Rule*	Principal Paradigm
 Value Sharing 5th	Value Sharing *("Delight the Customer")* *(1) AIM*	Passion and Compassion; Internal Desire *Fulfillment or Maturity Stage*	Dialogue *("I found myself completing his sentences.")* *Structures*	Charity; Justice and Mercy *(Caring)* *Community*	Integrative Psychology; Agape *(Love)* *Actualization*	Leadership *(Sharing of Vision, Resources [Human, Information, and Capital Resources], and Value)*	Dedication; Mutual <u>Participants</u> for common good *("Lose self: gain all")*	Free Will *"Do unto others as you would have them do unto you."*	Value Sharing *("Delight the Customer")*
 Interconnectivity 4th	Interconnectivity (Paradigm Logic) *(2) PLAN*	Conscious Choice; Inner Drive, Intrinsic Reward, Commitment of the Heart; Ethics; Moral Values *Growth Stage*	Conscience or Intuition; Paradigm Shift *(Empowerment)* *Archetypes*	Wisdom; Distributive Justice *("Do the right thing")* *Interconnection*	Conative Psychology *(Conscience, Instinct, Intuition)* *Esteem*	Encompasses All Five Dimensions; Principle-Centered Leadership *(Mission Development and Resource Utilization)*	Mutual Promises "<u>Partners</u>" by agreement; Associates *("Win-Win")*	Partnership *"At the end of the rainbow we'll find our pot of gold."*	Partnership *("Help each other grow")*
 Relationships 3rd	Relationships (Systems Thinking) *(5) ACT*	Habits & Processes; Duty; Obligation; Association; Goal Orientation; Extrinsic Reward *Success Stage*	Consensus; Understanding; Commitment *(Agreement)* *Trends*	Passion, Feelings, Sensitivity; Commutative Justice *("Care about it")* *Connection*	Affective Psychology *(Spirit, Emotions)* *Social*	Utilizes Four Dimensions; Management *(Structured Management & Management by Objective)*	Quid Pro Quo; "<u>Parties</u>" to legally binding contract *("Fair trade")*	Contractual *"Go for the gold."*	Achievement *("Get ahead")*
 Measurement 2nd	Measurement *(4) STUDY (CHECK)*	Awareness; Incentive or Compensation; Control *Survival Stage*	Communication; Discussion *(Two-way: "Tell and Listen")* *Patterns*	Knowledge; Retributive Justice--Reward *("Do it right")* *Interaction*	Cognitive Psychology *(Mind)* *Safety*	Three Dimensional; Bureaucracy *(Department-alization)* (Two Dimensions)	Challengers; "<u>Objects</u>" which help achieve goals *("Win-Lose")*	Competitive *"He or she who has the gold rules."*	Competition *("Get ahead of them")*
 Experience 1st	Experience *(3) DO*	Stream of Consciousness; Power; Greed; Fear; Apathy *Existence Stage*	Conveyance *("Tell and Sell")* *Dynamics; Random Forces*	Actions; Retributive Justice--Punishment *("Do it!")* *Action*	Behavioral Psychology *(Body)* *Physiological*	Tyranny or Autocracy (One Dimen-sion)	Collusion; Blame; "<u>Victims</u>" of the other party, who blocks achievement of goals; *("Lose-Lose")*	Enforcement *"Bury it!" ("If I can't have it, he or she can't either.")*	Punishment *("Get back" or "Get even")* or Apathy *("Why bother?")*

Chart 2. The Five Dimensions of Quality.