

A response to the demand of President Sarkozy

Increasing concerns have been raised for a long time about the adequacy of current measures of economic performance, in particular those based on GDP figures. There are concerns about the relevance of such figures as measures of societal well-being, as well as measures of economic, environmental, and social sustainability. Mr Sarkozy called into question these conventional methods of measuring wealth and standards of living and calls for a “Policy Of Civilisation,” based on new measures of wealth and economic and human progress, in short, a “moralized” capitalism.

Paul F. Whiteley, research fellow in Political Studies, *Vol. 48 Issue 3 Page 443 June 2000*, Economic Growth and Social Capital observation is that recent interdisciplinary theoretical work has suggested that social capital, or the interpersonal trust of citizens, plays an important role in explaining both the efficiency of political institutions, and in the economic performance of contemporary societies. This work confirms global observation that mutual trust plays a role on the performance of societies, whether they are a family, a company or a nation.

Francis Fukuyama sees trust as the source of spontaneous sociability that allows enterprises and nations to grow.

NASA and the 200 experts on the CAIB see culture and mental attitudes as a key source of risk in operations.

We could name many more.

How our work relates to that of the Commission

Our work consists in defining and analysing mindset, of which trust and quality of life are examples. The conclusions of Paul F. Whiteley, Francis Fukuyama and NASA nicely merge into one single concept that can be articulated into a logical construct validated by experimentation.

The questions the Commission addresses benefit all three from analysing in depth the concept of trust.

- are economic indicators enabling proper decision making (Classical GDP Issues)?
- can the degradation of natural resources by human activity be put into a format leading to appropriate decision making? (Sustainable Development and Environment)?
- is it possible to give the concept of quality of life a universally acceptable definition?

At the moment, all three questions get a negative answer. This work is timely, however. The current financial crisis displays the power of trust. The Stock Exchange, for instance, reflects how much investors trust companies to generate revenues. The economic crisis reflects how much bankers trust their clients to generate revenues for themselves in order to pay back their loans, and how much consumers trust the products they buy to fulfil their expectations, and so on.

Because of the human factor that includes trust [annex 1] economics are ruled by cybernetics more than mathematics. Our current theory for economics ignores trust, hence dealing with a crisis is addressed from various points of view that all have seemingly good logic and historical background.... but in fact what comes to play is the mechanism of cybernetics. We

end up spiralling into the crisis that we all are afraid of but that our behaviour causes. Needless to say that psychology plays a key role in economic systems: trust (motivation comes close to it) forms from perceptions, emotions that are within the territory of psychology. Its effect appears in financial indicators in economic systems. Hence, trust plays a key role in our society, and in the three areas that are to be examined by the Commission.

We have shown that

- trust can be mapped
- its absence and its excess are causing energy dissipation, hence bear a cost / loss of opportunity
- the magnitude of such a gap correlates with the magnitude of dissipation, hence dissipation can be quantified and monetized
- any communication, any government action impacts trust

We have compiled many management activities and their impact on trust. Hence we can recommend relevant actions having optimal impact on trust [annex 2].

The Commission will benefit from looking into this work on trust for the following reasons at least:

GDP is a blunt outcome. It does not tell whether results have been obtained by sacrificing intangibles that were not reported, precisely immaterial wealth that will be missed nowhere because it has simply never been reported. This immaterial wealth is often trust.... unreported, hence non existent until it makes itself badly visible.

Adopting a sustainable development and environment friendly approach is a matter of technical expertise and trust. To become proactive players must trust the community on two points: they must have the evidence of

1. a payback to their efforts and

2. no risk of being penalized by competitors using an unauthorized process.

Quality of life, happiness and the likes are a purely emotional concept. Adding together what is important to us in the materialistic society of the Western World is only representative for us. Hence, when rated on such scales, our countries obviously come first in all ratings. Such an indicator may help comparing nations which see themselves competing together. It is meaningful when the same population is monitored over the years. Quality of life as observed by Claude Lévi-Strauss is a mindset. Hence, trying to rate it by symptoms that are specific to some populations – that of the authors of the test - is meaningless. Ideally, each population should agree on its specific frame of reference and gaps should be rated from comparing perceptions with aspirations within it. The indicator can be computed from the gaps observed and populations can then be ranked according to the magnitude of the unbalance. Such an indicator would enable identifying change over time in a given country (same frame of reference) and compare countries among themselves at a given time and across different frames of reference.

A similar approach in which perceptions and aspirations are compared and interpreted for corrective action is currently applied to employees in industry and services. Each company has its frame of reference and still benchmarking is possible. The purpose is to determine how much energy can be recovered. The approach consisting in analysing interactions in a way similar to transaction analysis produces robust, clear, and easy to understand data and enables management to take action. This approach is transferable to nations and citizens. This work has been widely described in several publications.

Conclusion: trust is a powerful indicator enabling governments to manage a key dimension for future performance,

sustainability and quality of life, the three major issues selected by the Commission. The work done so far will be useful.

Annex 1: behavior or the “human factor” includes trust

Behavior impacts performance and governments want to act on it in the course of improving performance and rising welfare. “Human factor” mean behavior when people are considered as risk.

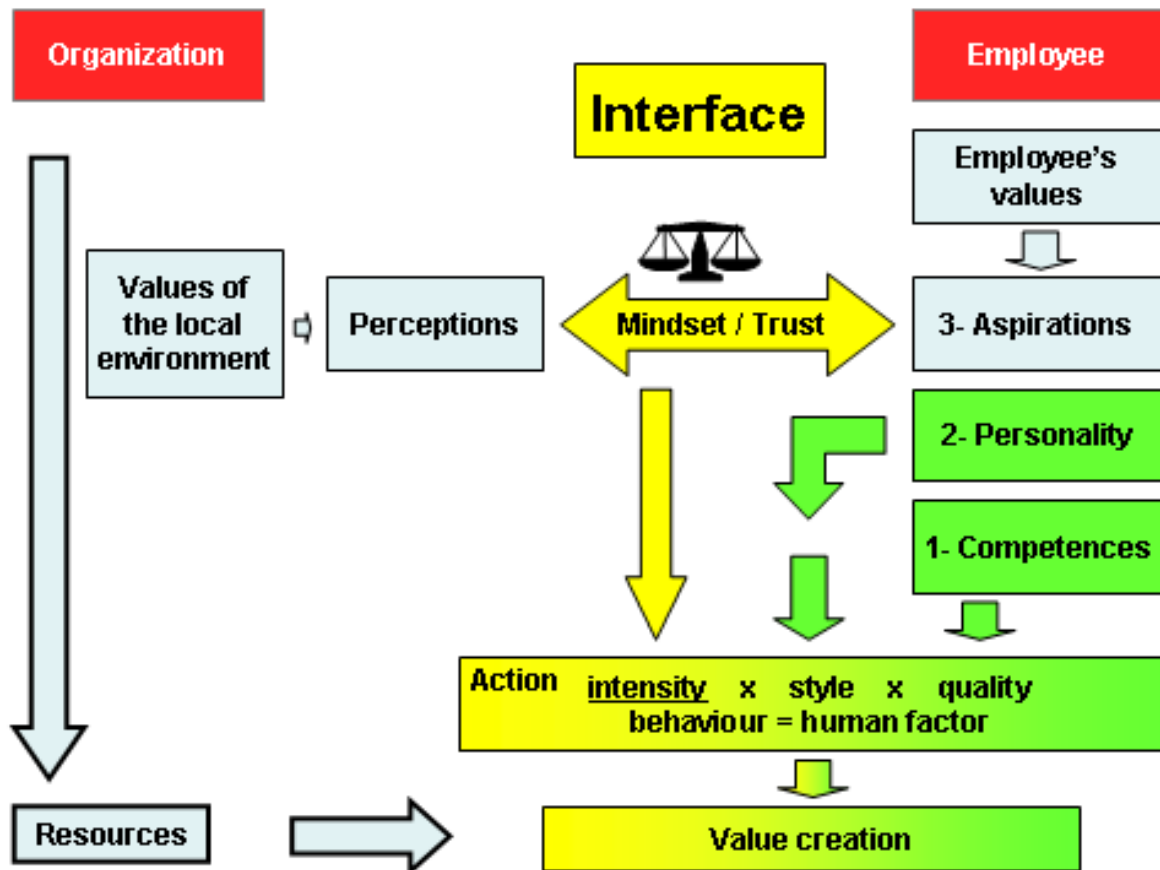
Three independent factors determine behavior:

1. Competences
2. Personality
3. Trust

- Absence of competence: wrong decisions, wrong action
- Inappropriate personality: wrong style in communicating about the action
- No trust: no energy for action

Hence

- Competences relate to the quality of the action
- Personality profile relates to its style and
- Trust relates to its intensity (including sustainability)



Annex 2: “we have compiled many management activities”

Many = tool kits of du Pont de Nemours, KPMG, PwC, UBS, Ernst & Young, ...]

Indicators are to serve as a base for decision making. Hence asking like in the Australians survey, whether individuals are happy or not, identifies a gap but does not help on taking action. Along the same line, satisfaction surveys provide data that is not actionable and they all are filed. Instead of on single scale 0 till 10, or from good to bad, comparing perceptions and aspirations tells a lot more to managers and is actionable. Hence we can make recommendations for improvements.

Annex 3:

Linking Work Attitude To Corporate Disasters And Latent Underperformance

Abstract

1. Symptom: professionals losing control over their core process.
2. Cause: it is neither competences nor skills but mindset.
3. Response: map mindset more precisely. We have defined 25 mindsets but there is not yet a vocabulary for them. We use coordinates on the map.

4. Benefits:

- Ease to build the action plan to recover
- Ease to see risk
- Ease to discuss mindset issues
- Ease to justify action because risk is quantified.
- Ease to follow the critical success factor “motivation” and citizens’ engagement.

The world’s banks, previously thought to have well balanced risk portfolios, access to excellent information, and the world’s leading financial professionals to manage those risks, have been caught by the subprime crisis to the tune hundreds of billions of dollars.

How can the smart professionals leading and advising these banks be caught out so spectacularly?

Finding 1: Mindset is a critical success factor (CSF)

The first piece of evidence we examined was the report published by NASA after the Columbia disaster in 2003. In this case, smart professionals had failed too, and the report of the Columbia Accident Investigation Board* explains why: organisational culture and consequent mental attitudes prevented players from sharing knowledge properly.

Finding 2: There is no effective language for expressing mindset

We have observed that, as with the fragrance of a perfume, there is no proper language for accurately articulating mindsets. As a result, it is very difficult to discuss mindset, or to learn from other’s experience. NASA’s findings following Columbia could not be transferred to investment banking. The absence of an effective language for expressing mental attitudes (mindsets)

means that their subsequent integrating into decision making is highly problematic. Nevertheless, mindset builds from psychological dimensions and impacts financial performance. It is a CSF. In order to stay in control of performance, one must monitor mindset, hence give it the practical form of a key performance indicator (KPI).
*(<http://caib.nasa.gov/>)

Finding 3: There is an illusion: culture is a long way removed from value creation. Mindset is close

Culture and behaviour patterns can be mapped but cannot be clearly linked to value creation. Bestselling writer-researchers Jim Collins and Jerry Porras have written that visionary companies create a strong “cult-like” culture. In contrast, Harvard Business School professors John Kotter and Jim Heskett conclude that there is no relationship between the strength of a culture and performance. Caught in that maze of conflicting opinions, managers trust various gurus and estimate that it is not in their capacity to look further. Many

managers don't see that monitoring culture is too far upstream from the key spot where mindset leads to action, and thus where value is created. Current practices are deluding management. Game theory, statistical indicators give decision making the flavour of mathematical perfection and managers the illusion of being in control. There is a need for measurements that are more meaningful, closer to the critical point.

Finding 4: Solutions must address fundamental causes, and focus on the CSF mindset

Behaviour is the symptom, whereas mindset is the cause. Symptom driven management is highly misleading as Columbia Investigation's experts found: the corrective action taken after the Challenger disaster had been symptom driven, but turned out to be wrong. In order to impact value creation, one must address the very source of value - its fundamental causes. We must develop mindset driven management.

Finding 5: Ignoring mindset brings an end to our development

It is remarkable to notice the similarity between the credit crunch and Shuttle disasters: the knowledge to prevent these was available but its sharing failed. The process of losing control is well understood and described, but being unformulated, it is not transferable and repeats itself. This is how most corporate disasters including U.K.'s mad cow outbreak, Canadian Red Cross blood contamination, Merck's Vioxx, the wreckage of the Erika, Bhopal and many more could develop. How many more of these can we afford?

Finding 6: Mindset may be at the source of disasters and latent underperformance

Mindset impacts the quality of human interactions: inappropriate mindset causes unproductive knowledge sharing,

and thus value dissipation. Disasters are a visible part of this undermining process. Actual symptoms include high project failure rate, reduced innovation, overlaps, and unnecessary repeats. Mindset explains Harvey Leibenstein's X-efficiency factor that reflects latent underperformance; he had observed vastly different yields in two identical plants, Ford UK and Ford Germany in the 60s.

Making a KPI out of mindset, to read risk and the future

At Rupert Consulting, we work at increasing wealth in nations and shareholder value in organisations by managing trust and well being, because we know that this sustains performance. In the knowledge economy, once competences and personal profile are adequate, mindset plays the major role.

In order to fulfil our mission, we use a precise diagnosis instrument for trust – the Leadership Compass[®]. It maps the psychological dimensions of trust and shows how financial performance is then impacted. It indicates both the energy dissipated and the action plan for recovery with its cost. For activities where economic value is not explicit, it is a kpi. It includes education, research and administration, and projects in sustainable development, ethics in business, or environment care. On GDP and where economic value added (EVA) can be defined, it points at the magnitude of economic value dissipated (EVD) due to distrust. EVD is a percentage of EVA. Thus ROI and ROA are made explicit to managers, enabling them to perform mindset driven management.

Beyond KPI mindset

We have classified all management activities according to their impact on the critical dimensions of mindset. It enables building action plans to recover EVD.

Annex 4:**In 2008, no organization can pretend not to be exposed to the risk of underperformance**

As the previous paper tells us, catastrophes are the visible part of latent underperformance which is estimated to amount close to 10 % of the global activity by universities and consultants.

Sources of latent underperformance:

Accenture: “Once top executives become aware of **the connections between mindsets, practices and outcomes**, they can begin to leverage culture for better business performance”. Before, they can’t. In a later paper, “executives instinctively know that fundamental employee attitudes and behaviour matter. To date, however, most efforts to measure **this key organizational trait** have come up short.” Robert J. Thomas, Fred Harburg and Ana Dutra, *Outlook Journal*, May 2007.

Paul F. Whiteley, research fellow in Political Studies, *Vol. 48 Issue 3 Page 443 June 2000*, *Economic Growth and Social Capital*: “Recent interdisciplinary theoretical work has suggested that social capital*, or the interpersonal trust of citizens, plays an important role in explaining both the efficiency of political institutions, and in the economic performance of contemporary societies. This paper examines the relationship between social capital* and economic growth in a sample of thirty-four countries over the period 1970 to 1992, within the framework of a modified neo-classical model of economic growth.

The findings suggest that social capital has an impact on growth which is at least as strong as that of human capital* or education, which has been the focus of much of the recent work on endogenous growth theory.

<http://www.blackwell-synergy.com/doi/abs/10.1111/1467-9248.00269?cookieSet=1>

*human capital: what is in the heads

*social capital: what is in between the heads, knowledge sharing practices

In a recent paper, RUPERT (R.)- “*Mindset*”, *the indicator for risk and performance*. *Revue Économique et Sociale*. July 2007, University of Lausanne, I point at one of the major problem I see: symptom based decision making as usual today is the wrong approach. Today’s investigative tools provide statistical information as regards organisations’ symptoms. Such numerical data allow for the effective identification of weaknesses; while this should be and remain their only role, they are also used to define objectives, assess performance and set compensation, reinforcing the “objectives-bottom-line-focussed-decision-making-mania”. As in medicine’s dark ages, dealing with symptoms rather than causes is now sadly the rule in management and government circles. Thus, **even clear-headed decision-makers are, in many ways, prevented from taking into account and dealing with causes, mindset.**

Because of these perversely mutually-reinforcing factors – that are analysed in the paper -, decision-makers feel justified in going for the quick-fix, reaching for seemingly logical, yet spurious, responses, targeting behaviour, rather than mindset. Of course, the results of such a simplistic approach are usually telling.

A director of an Oil & Gas refinery told me recently that they have their own measurement for mindset: the number of suggestions submitted by employees for improved productivity, safety and quality. When this indicator drops, mindset drops, he said. Fine, this is a linear scale from good to bad. It tells nothing about what to do. They see the “red flag”, that’s all, and rather than addressing mindset, they start working at correcting the symptom. This is like sweeping the matter under the rug, getting the symptom OK, but keeping the real cause unaddressed.

[PDF] - Microsoft PowerPoint - resel.ppt
File Format: PDF/Adobe Acrobat - View as HTML

Karl Resel: Sustainability Reporting. 5th International Summer Academy on Technology ... Lack of trust – the reasons I.
• Discomfort with big organisations ...
www.ifz.tugraz.at/index_en.php/filemanager/download/62/Resel2.pdf -

At Stanford, a leading expert in motivation and personality psychology, Carol Dweck has discovered in more than twenty years of research that our mindset is not a minor personality quirk: it creates our whole mental world. It explains how we become optimistic or pessimistic. It shapes our goals, our attitude toward work and relationships, and how we raise our kids, ultimately predicting whether or not we will fulfil our potential.



Findings of the Gallup-Study

Okt. 2004 - Germany



- Only 13% of german employees are really committed (15% women and 10% men)
 - 69% work to rule
 - 18 % don't have a special commitment to their company
- ⇒ this is causing an over-all economic disprofit of
app. 250 Mrd € - (wich is about 6,500 € per employee !)

Annexe 5:

Financial reporting practices

There are no reporting practices for mindset. Worse, it is all the way around.

The correlation observed between social capital and organisational performance, as suggested by Whiteley and made tangible by mindset maps enables explaining the gap between book value and market value in a standard way. The concept and instruments for mapping mindset open the door to progress along a current wish as expressed to the AICPA¹ by the Chief Accountant of the U.S. Securities and Exchange Commission: “a characteristic of high quality financial reporting is that information provided to investors is comparable, verifiable and provided on a consistent basis from period to period. For example, investors and other users of financial information may be confused if a disclosure item shown by one company is calculated on a different basis than a similarly termed disclosure made by another entity.” Current reporting procedures cover tangible assets. The gap to market value, ten to fifteen times the book value at that time, and including internally generated intangible assets as defined by IAS 38, can be explained in depth by the mindset approach and its correlation to social capital.

Doing so has two purposes: first, it reduces risk of shareholders, since “goodwill” gets better understood. Second, new emerging management practices are defined, basing on mindset driven decision making, because the benefits associated to doing so are made visible. Managing practices will change but nothing will have to change for managers: they will stick with the logic of shooting for financial incentives.

The art that built over centuries in Western countries, to work increasingly trustfully, still is a barrier facing powerful competitors in emerging countries. Ill based pure financial thinking to run mergers and manage the daily business is currently weakening this last barrier. Making the value of trust visible in financial reports will help protecting its sustainability and enhancing its development.

Hence, setting up a financial reporting system as desired by Baruch Lev and many more, and made possible by mapping mindset associated to its correlation to social capital will benefit the entire society and will mitigate the global problem I can see we have. The logic of symptom based decision making will remain, but data on symptoms are replaced by data on causes.

As stated earlier, there are many other fields where mindset plays a key role. Despite our refining of selecting and hiring people and designing work, we have observed practically no progress in the field of grasping individuals’ motivation during the last decades. Witness our considerable helplessness in facing the damaging behaviour of individuals obviously motivated to act in an apparently odd way – from simple absenteeism to terrorism. This tells us at least one thing: current instruments are only marginally useful.

Because trust is at the interface and is neither owned by the organisation, nor under the control of the state, it is not an asset according to IAS-38. Still, it exists and impacts economical outcome: here, our systems needs to adapt.

1 American Institute of Certified Public Accountants

Annexe 6:**Mission, Strategy and Resources**

With networked colleagues (consulting companies and academics in Switzerland, Germany and France), we work at increasing wealth in enterprises and nations.

We work at increasing shareholder value by managing trust among stakeholders.

Hence, we work at bettering employees' well-being and morale at work because we know that people feeling well at work perform better. There are better attitudes, better listening, better alignment, better tolerance, and less dissipation of energy and value.

To fulfil our mission, we adopt a specific strategy

We act to generate the emergence of energy from employees. We listen at the faint signals and work on mutual trust by managing it among stakeholders. Among other instruments, we use a finance-based diagnosis instrument for trust – The Leadership Compass[®], a bridge between psychological dimensions at the source of trust and economics that are impacted by trust.

The Leadership Compass[®] enables us to apply mindset driven management to improve motivation, knowledge sharing, innovation, safety and productivity, a clear

change from the current symptom driven management, the weakness of the current neoclassical economic theory.

The Leadership Compass[®] expresses the cost of distrust, the action plan to recover dissipated value and its cost. ROI and ROA are made explicit to managers.

The Leadership Compass[®] has been taught in local business schools in Lausanne, Zurich and Nice since 2003. It is in use in a few multinational companies.

René Rupert

Rene has studied high level mathematics, physics & chemistry in Paris (MS at ENSCP in 1970). He has obtained the MBA at INSEAD in 1977 and several certificates in applied psychology in Palo Alto in 1996 and 1997.

After 25 years in business and management working with the DOW Chemical Company and du Pont de Nemours, René specialized in human and cultural issues and joined the KPMG change management practice; he is a result-oriented professional focusing on people for corporate performance enhancement & owner's risk reduction. Rene knows how to reestablish trust in organizations and has extensive experience in change project management.

Main publications

RUPERT (R.).- *"Mindset", the indicator for risk and performance*. Revue Économique et Sociale. Vol. 65, June 2007- ISSN 0035 – 2772 - Rédacteur en chef : Professeur Fabien de Geuser, HEC, University of Lausanne, Switzerland

RUPERT (R.).- *DRH et stratégie d'entreprise*, éd., « Personnel »: N° 460, Juin 2005. Rédacteur en chef de la revue de l'ANDCP : Izy Béhar

RUPERT (R.).- *La réponse à la complexité avec la Boussole du management*. AG1580, éditions Techniques de l'Ingénieur, traité *L'Entreprise industrielle*. janvier.2005. Rédacteur en chef : Jean-François Vautier, Commissariat à l'Énergie Atomique.