

THE CHANGE CHALLENGE.....A Newsletter About Leadership

September 1, 2013

Issue: 61



Welcome to the September 2013 issue of *The Change Challenge*. The City of Detroit filed for bankruptcy in July. It took 50 years, but eventually win-lose relationships among leaders in the auto companies, the union, and the city government - each demanding more for themselves - caused everyone to lose. That's the subject of this month's feature article "**Leadership in Balance.**"

The *Leading Change* article titled "**Less Can Be More**" addresses today's challenging government market and suggests that an attitude of abundance would be an effective strategy. Which alternative is best - yours or mine? We could argue about it for years without reaching agreement. The *Personal Change* article titled "**It's Not about Winning**" discusses the third alternative.

As always, your feedback and recommendations to improve this newsletter will be appreciated via return email or through *The Change Blog* at www.dickstieglitz.com. Note: Due to my vacation, there will be no October *Change Challenge*. The next edition will be issued November 1.

Dick Stieglitz

DICK STIEGLITZ, PhD
Business Consultant, Author
and Keynote Speaker

This Month's Articles

[Leadership in Balance](#)

[Less Can Be More](#)

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Feature Article LEADERSHIP IN BALANCE

"You can get everything you want in life if you just help enough other people get what they want." - Zig Ziglar

The City of Detroit filed for bankruptcy in July - the largest municipal bankruptcy in U.S. history. The Motor City's drop from the fourth largest city parallels the decline of the U.S. auto industry. After losing more than a million citizens since the 1950s, the city's tax revenue base has fallen steadily. Win-lose demands and concessions among leaders in the union, the auto companies, and the city government - each demanding more for themselves - caused everyone to lose.

Leadership Out of Balance. At its peak in the 1970s, the United Auto Workers (UAW) had 1.5 million members and was a leader in local and national politics. Without the UAW, Detroit may not have achieved the prosperity it once enjoyed. On the other hand, the union's decline to 400,000 members is a result of its heavy-handed success in extracting high pay and benefits for members. When the U.S. became uncompetitive in auto manufacturing, thousands of former-UAW workers were unable to find equivalent jobs in other fields. One blogger commented: *"If you can't find a new job at the same pay as your old job, you were overpaid."* The same can be said about out-of-balance leadership in trade associations, Chambers of Commerce, and other special-interest groups.

Joint Decline. It once was said *"What's good for General Motors is good for America"* - the inverse also was true. Starting in the 1970s, rising wages and benefits and competition from German and Japanese car makers eroded the profits of U.S. automakers. Even when Volkswagen, Toyota, and other foreign companies opened non-union plants in the U.S. and won market share by offering low prices, the UAW stubbornly demanded wage hikes. At the same time, U.S. automakers built plants in other countries rather than have the UAW build cars in Michigan for export. Some people blame the automakers for trying to increase profits, but that's like blaming the UAW for seeking higher wages. Both company and union leaders pursued a *win-lose* strategy for their constituents.

Detroit Becomes the Victim. After World War II roughly 75% of the world's automobiles was manufactured in the U.S. - today, the figure is under 25%. That cataclysmic decline coupled with decades of misguided leaders and unsustainable financial practices have left Detroit with massive debt. Nearly half the city's liabilities stem from pension and health care promises to retirees. Like most cities and states, Detroit gives employees a defined-benefit pension based on years of service and final salary. Incidentally, Social Security is the world's largest defined-benefit program.

Detroit's Symptoms Spread. Ballooning pension liabilities are partly an adverse side-effect of a fortuitous trend: we live longer! But most of the problem is political. Mayors, governors, Congress and presidents have bought votes by offering fat pensions and deferring the bill to future generations - our children and grandchildren will be paying our Social Security and Medicare benefits until we die. Bankruptcy may save Detroit's budget, but it won't fix the core issues of chronic unemployment, declining educational systems, and under investment in infrastructure. It took 50 years of out-of-balance leadership to erase Detroit's success. How long will it take for Congressional inaction to do the same at the national level?

Denying the Problem. Detroit's bankruptcy is scary. Not because of its immediate impact, but because political leaders are ignoring the flashing-red warning. When Greece first ran into trouble a few years ago, European leaders were surprised that the problem spread to other countries. American leaders seem to be in a similar state of denial. City, state and Congressional leaders should pay attention. They could end up like Detroit because they have made similarly unsustainable retirement and

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Richard G. Stieglitz, PhD
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A popular maxim says

health care promises and are pretending that the problem doesn't exist.

Growing Importance of Cities. The survival of Detroit and other cities is critical to the country. Cities have always been a major source of growth and they are even more important in today's global economy - more than 50% of the world's population lives in them. The 2010 census showed that the population in U.S. cities is growing faster than suburbs due to job availability and mass transportation. Businesses are being lured back to cities after decades in suburban office parks. For example, consider Apple's huge new campus being built in Cupertino, California. Mayors are turning to companies to provide the jobs required for economic prosperity. There may be hope for Detroit after all.

Competition among Cities. Of course, businesses are using jobs to negotiate special deals. There is stiff competition among mayors and governors to attract businesses with tax incentives. Many cities are building bicycle paths and garden apartments to attract the knowledge workers that businesses want. The trend is *Win-Win-Win*. Cities win because businesses rebuild urban areas that were decaying and dangerous. Businesses prosper because of plentiful, low-cost utilities and labor. And citizens win because their quality of life improves.

Supportive Relationships Flourish. Only mutually supportive relationships survive. Is it possible for workers to prosper while their employer goes bankrupt? Is it possible for a business to thrive while its workers and the environment struggle? Is it possible for a government to succeed while its citizens are unemployed and businesses are unprofitable? What alternatives do the UAW and automakers have today? The same *win-win* alternatives they rejected decades ago when the market share of foreign automakers was of little consequence. The same choices are available to state and federal governments and special-interest groups.

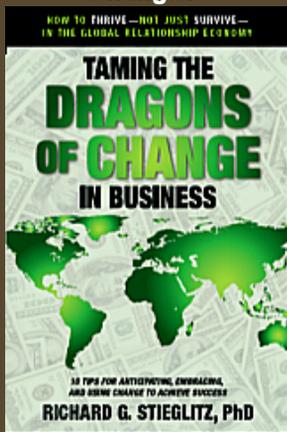
Potential Fix. Relative to the pension challenge, public pension plans must shift to pay-as-you-go defined-contribution plans like those in the private sector. Promises to those who have already or are close to retirement should be honored, but future liabilities must be contained. Retirees in the private-sector face a different problem. Defined-contribution plans have two risks: (1) declining markets and/or inflation erode savings, and (2) people outlive their savings. So everyone should be encouraged to work longer, save more, and opt into pension plans. The movement of jobs into cities and the baby-boomers' move to downsize as they retire provides an opportunity to rebuild cities. Only when the severity of the challenge is clear can everyone work together to implement reforms. The sooner we tackle the problem the easier it will be to fix.

Leading Change LESS CAN BE MORE

An attitude of abundance is a creative and effective strategy. You will receive more success with abundance thinking than with scarcity thinking. Abundance thinking is the belief that there's plenty for everyone, so we help each other achieve our respective goals. On

average people learn from their mistakes, stupid people repeat their mistakes, and brilliant people learn from the mistakes of others. This book is designed to move you toward the brilliant category among business owners who buy and sell privately-held companies.

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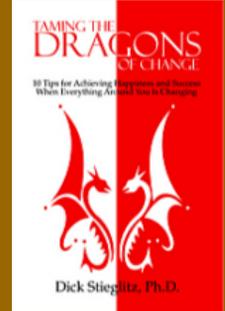
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the contrary, scarcity thinking says that opportunity and resources are scarce, so I'd better get mine before you get yours. Scarcity thinking tricks people into believing they are winning a competition, when in fact they are damaging relationships and limiting their success. There is enough for everyone to prosper through the collaboration and innovation that abundance thinking produces.

For example, to downsize their operations, a Federal agency issued a Request for Proposals to combine work previously done by three companies. The *win-win* strategy seemed obvious: the companies should form a prime-subcontractor relationship and submit a joint proposal to make the client's choice easy. Two of the companies immediately teamed but, despite earnest invitations, the third refused to join the team. They insisted on submitting a separate proposal to get more than one third of the revenue from the \$60 million contract.

With two excellent proposals to consider, the government's choice was difficult. Some members of the selection panel wanted the first team and others wanted the second. The agency took 18 months to decide. The first team won the contract, but everyone lost. The agency lost the expertise of the third company. The third company lost revenue for the work they previously performed. And during the extended evaluation period a fourth company was awarded a \$20 million task that would have been part of the first contract if all three companies had teamed together.

Government contractors face a challenging market - one that is likely to get tighter before it gets better. The cuts so far have been modest and there are bright spots in areas like mobile computing, health IT, big data and cyber-security. The bright spots are as much about the fiscal challenges government agencies face as they are about new technologies. Agencies want contractors to deliver innovation and save money. Companies who position themselves for opportunities by forming partnerships, leveraging commercial technologies, and making acquisitions have the best chances for success. Companies that hoard opportunity like the third company in the story above will be at a strategic disadvantage.

Personal Change IT'S NOT ABOUT WINNING

Which alternative is best - yours or mine? We could argue about it for days or years without reaching agreement. But what if there is a third alternative that's superior to both? Not a compromise - rather a *win-win* decision that everyone embraces. The key to finding a third alternative is to stop defending our positions and start looking for a solution that achieves both your goals and mine.

For example, an upscale community near Washington D.C. has 900 homes worth more than a million dollars on average. During zoning negotiations, the developer was outraged when the county government demanded that he build one low-income house for each luxury house. An expensive legal battle raged for months until the builder suggested a third alternative. He offered to build all-brick, four-bedroom homes for low-income buyers and subsidize construction with a surcharge on luxury homeowners. Delighted with that approach, the county agreed to reduce the number of low-income homes that had to be build.

Interest in the homes among low-income buyers was so great that a lottery was necessary. One in 30 applicants won and purchased a house for about \$75,000. The sales contract included a clause that prohibited low-income homeowners from selling their house for 20 years. When the 20-year moratorium expired, the low-income houses sold for near \$500,000. The county, the developer, and two categories of homeowners achieved their objectives through this third alternative - it was a *win-win-win* transaction.

In the long run, only *win-win* transactions produce sustained success. The other choices make one party, or both parties, into losers. Consider the alternatives to a *win-win* transaction:

- *Win-Lose* Transaction. When capable people join in a *win-lose* transaction (I win, you lose), they both lose because some creativity is diverted from achieving goals to winning the competition. In a *win-lose* transaction, one party wins and the other loses; but collectively they achieve less than if they had worked together.
- *Lose-Win* Transaction. A *lose-win* transaction (I lose, you win) often leaves the person who sacrifices feeling empty. Such transactions are common among people who care intensely about others. Furthermore, the recipient of the special treatment may feel guilty about taking advantage of their partner.
- *Lose-Lose* Transaction. A *lose-lose* transaction occurs when a person limits their possibilities in order to diminish his/her transaction partner's opportunity. In a *lose-lose* transaction, a person feels sorry for him/herself and attempts to pass the misery to others.

You might ask: *Why would anyone pick these transactions?* I agree. They are ludicrous choices when you could have a *win-win* relationship. But an opportunity-is-scarce view often sees competition (*win-lose* transaction) and abandons the possibility of a *win-win* transaction to pursue a less favorable alternative. Abundance thinking transforms organizations and people whom you once viewed as competitors into strategic partners.

Colleagues and Friends,

If you want to improve the teamwork in your organization read *Leadership Conversations* and contact me to discuss strategies. If you found this e-letter to be useful, please forward it to a friend. If not, let me know why at dick@DragonsofChange.com.

Until November 1st,

DICK

