The Lawrence Lecture

St Lawrence Jewry Church, City of London

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Selfless gain

*Businesswoman **Margaret Heffernan**, author of 'Wilful Blindness', outlines why greed undermines the social contract and why collaboration is essential to good business.*

I'm very honored to be asked to deliver this lecture: an important event at an important time. I've taken as my texts two of St Lawrence's Rules: Rule 26 about collaboration and Rule 29: Do not be greedy. I've chosen two rules not because I'm intellectually greedy but because I believe these two are closely connected and I hope that, before I'm finished, you will see why.

Rule 29 exhorts us: Do not be greedy.

Why? Why *not* be greedy? St Lawrence says that greed is a strong temptation which we must guard against. And he quotes St Paul's letter to Timothy saying that the love of money is the root of evil. But still he doesn't tell us why. Greed, writes Lawrence, is wrong – but what is so wrong about it?

I'm interested in greed not least because, throughout the economic crisis, it has been used as a catch-all excuse for financial and institutional failure. Greed, we are told, is what caused banks to design and to sell the wrong products to the wrong people or the wrong countries. Eliminate greed – or greedy people – and everything will go back to 'normal' – whatever that is.

What makes me uncomfortable about this argument is not just that it is very popular – that alone might make one pause – but because it leaves its speakers implicitly innocent. Somehow whenever we talk about greed, it isn't us we are thinking about. Greed is what OTHER people feel. Greed is always THEM, not US. The conclusion, therefore, is that other people caused all the trouble – it isn't our fault – and therefore we need not change ourselves.

But you can't explain economic crisis on the scale we're seeing as just the moral failure of a few bad people. We know it isn't true but we would like it to be true. We would like the problem not to be us.

The problem, of course, is money – and our relationship to it. It's often said that people aren't motivated by money, that we're all really more high minded than that and that, as long as our basic needs are satisfied, we're really far more driven by higher order goals like a sense of purpose. The truth is, of course, more complicated. In a 1953 experiment, volunteers were asked to hang on horizontal bars for as long as they could – most could hang on for about 45 seconds. The power of suggestion or hypnosis could extend that a bit – to maybe 75 seconds. But when offered money, they could hang on for 110 seconds. There are more than a few bosses who wouldn't mind paying for a 150% performance increase.

Nor was this some weird anomaly of 1950s America. More recent studies have shown that money can reduce physical pain. Students who submerged their hands in very hot water – 43 degrees Centigrade – found that the pain they suffered was lower after counting money than after counting paper.

Further experiments show that if you ask students to remember a collection of pictures with price tags, it's the pictures with the higher price tags that are most readily recalled. There's a whole battery of experiments like this but their conclusion is always the same.

The problem with money is that it changes how we think.

In a series of experiments carried out in 2007, participants got to play Monopoly (or were forced to, depending on your view of the game). Some came away with £3,000 of play money, some with £125 and some with none. Then they were taken across the lab, ostensibly to another room for further experiments. But on their way, they encountered a woman who dropped a box of pencils. Of the three groups, who would prove to be the *least* helpful? The students who had made the most money in the game.

In another version of the experiment, instead of helping with pencils students were asked to help a colleague who seemed very confused by a task. The participants who had no money spent **120%** more time with the colleague.

Perhaps, the experimenters thought, we're testing helpfulness in too demanding a form. So they designed an opportunity to do something easy and money related: donate to the student fund. But again the pattern repeated itself: the participants who had made the *least* donated more.

This isn't to say that the volunteers who had money uppermost in their minds were completely useless. Given a difficult or impossible task to perform, they worked 48% longer before asking for help. They persevered. But they persevered – alone. What the researchers concluded was that while money was great at motivating INDIVIDUAL effort, it carried with it significant NEGATIVE SOCIAL SIDE EFFECTS. In the conflict that we all experience – between our interest in ourselves and our concern for others, money appears to motivate ONLY our interest in ourselves, making us selfish and self-centred. It makes us feel self-sufficient. We don't need others. It's each man for himself.

Recently, researchers at UC Berkeley and the Rotman School at the University of Toronto took some of these findings out into the real world. Taking cars as an indicator of rank and wealth, they stood at busy traffic intersections and watched to see which drivers were more likely to cut off other cars or to fail to give way to pedestrians. Even when controlling for time of day, driver's gender and age and the amount of traffic – it was the wealthier who were least likely to make way for others.

From our own immediate experience, so much of this rings true. As long as I have money, I don't need other people. If I can pay a nanny, I don’t have to ask other mothers or even my family to help out with childcare. We don’t need to share lifts to school because we can all afford to drive our own kids in our own separate cars. If I have a very great deal of money I don’t have to interact with people AT ALL – like Richard Fuld, CEO of Lehman Brothers whose daily commute from Greenwich CT to Wall Street saw him successively in a limousine alone, a private plane alone, and another limo which drove him to the offices where a private lift stood waiting with its doors open so that Fuld could reach his desk without ever talking to a soul.

Money changes how we think. And it changes the choices that we make.

In a famous experiment, two communities in Central Switzerland were asked if they would accept having a nuclear waste storage facility located in their neighborhood. More than half – 58% - said that they would. They weren’t wild about nuclear waste – 40% believed there could be a serious accident – but they understood that it had to go somewhere. Their sense of a common, social good overcame individual reservations.

Would they be more committed if they were *paid* to host the waste? The two economists conducting the study offered to pay a sum roughly equivalent to a month’s income each year. But instead of increasing acceptance of the facility, support for it HALVED. You might have thought that, given the chance to do the right thing and make money, support for the site would increase. But it didn’t, it fell. And no, this wasn’t just the quirky Swiss. A similar experiment in Nevada and subsequent studies elsewhere have found the same result.

Money interfered with social engagement.

Finally, in a well known study, A FINE IS A PRICE, my friend Uri Gneezy discovered that when an Israeli childcare centre attempted to cure its parents of tardy pickups, the imposition of a fine didn't help. Rather than making parents more punctual, in fact it made more parents more frequently late. Even more important – and often overlooked, when the childcare centre attempted to <u>reverse</u> the effect, by lifting the fines, they found they could not go back. Even when penalties were abandoned, parents didn't care as much about being on time. What had started as a social contract between parents and teachers had been severed and could not be repaired.

Enough money and you can be late – or park on yellow lines. Buy your way into a prime minister's private dinner. Enough money and you can hunt endangered species and generate vast carbon emissions, buy a new face or buy a baby. Break the rules. Or write the rules.

What all of these studies, taken together, point to is two important conclusions:

First – that greed and money have the potential to sever the social contract; and

Second – that motivation may work in ways similar to cognitive load. Just as there is a hard limit to how much we can focus on at one time, perhaps we can effectively be motivated only by one purpose at a time. When we care about people, we care less about money – and when we are greedy, we care less about people. Our MORAL capacity may be limited in just the same way that our cognitive capacity is.

So we need to think hard before we start FINING parents for their childrens' school truancy. A fine is a price and may be more likely to SEVER any sense of connection with a school than it is likely to create one.

We should think hard before we think that the way to promote the pro-social behavior that is marriage will benefit from the anti-social incentive which is money.

And we need to understand that the heart of the debate around bonuses and compensation isn't about envy – which is how it appears – but about wanting to ensure that everyone – heads of banks as well as heads of schools, MPs as well as doctors, apprentices as well as graduates – feels and perceives that they are related to one another.

It also means that we need to take seriously the vast body of research that shows that performance-related pay doesn't work – that, in fact, it may be counter-productive, focusing so much effort on cash that other considerations vanish altogether. "A constitution for knaves may produce knaves" is how the economist Samuel

Bowles put it: if you treat people as though all they care about is money – then all they *will* care about is money. Everything else will recede into insignificance.

At one time, of course, we imagined that this might not matter. After all, if greed meant that we consumed more, then our wealth would trickle down and enrich all the individuals and businesses that served us. Greed would be good because it would perforce make others the beneficiaries of our consumption.

It was a nice argument and an intuitive argument. It just turned out to be wrong. Data from the past 50 years strongly refutes any argument that cutting taxes for the richest improves wages overall or builds jobs or improves the nation as a whole. The only real beneficiaries are tax lawyers. So while we may in good conscience have hoped that our greed could do good, the facts were squarely against us.

St Lawrence tells us not to be greedy because it turns out that greed is bad for everyone, because it divides us from one another and blinds us to the degree that we need and depend on one another. There is such a thing as society but Greed undermines it, making it impossible not just for us to love our neighbors as ourselves but for us to care about them at all. It destroys the ties that bind us to one another, the connections that build a society, the connections that build trust. And without trust, it is impossible to collaborate.

In Rule #26, St Lawrence encourages us to collaborate because, as he says, many hands make light work. When you can't do something – he writes - ask for help from someone who knows what they are doing.

But we all need help – because we can do so very little alone. <u>This</u> church would not be here but for the collaboration of many: before and after the Great Fire of London, and following the Blitz. None of our institutions would thrive without the rich and diffuse interaction of so many people – across time zones, disciplines and perspectives. Even that most solitary of activities – writing books – would lack meaning without the collaboration and participation of publishers, agents, editors, booksellers, contributors and, of course, readers. We really make nothing alone.

So once we understand the negative social side effects of money, it becomes clear that money interferes with collaboration. If we care less about others, we can't be great collaborators. We're simply not engaged enough. Collaboration is an inherently social activity – not because it's a cocktail party (it's very hard) but because it requires sophisticated human interaction and awareness of others. Too much focus on money and collaboration breaks down.

But the other force that militates against fruitful collaboration is competition. Now we're heading into the Olympics and it's a bold – maybe even foolish – person who'd argue against the values of competition. We know – again from experiments – that cyclists can achieve incredible speeds just asked to pedal as fast as they can.

But they're faster when racing against their own time and faster still facing against each other. Like money, competition can deliver significant performance increases – but only, it turns out, in very simple tasks.

And just like money too, it has all kinds of worrying and unforeseen side effects. One of the simplest forms of competition used inside companies is internal competition. This most often takes the form of forced rankings, used by many large organizations – GE, Pepsi, Intel, Cisco - both as a means of internal appraisal and motivation. The way it is supposed to work is simple: every contributor is ranked by their supervisor and/or colleagues. These rankings are aggregated. The top 10% or 15% may receive rewards of one kind of another; the bottom 10% are fired or put on notice and the large cohort in the middle is left trapped in a vice of fear on the one hand and hope on the other. The practice acquired some notoriety when it was the predominant management approach deployed at Enron Corporation where it was known as rank and yank. But make no mistake: it is still widely used in large and well regarded corporations around the world. Getting employees to compete against one another is supposed to make them more productive.

Yet while experiments show that this kind of head-to-head combat can inspire higher performance in simple tasks, its implicit fear and intimidation make creative work well night impossible. Some of the organizations I've worked with go to incredible and expensive lengths to recruit highly driven, risk-loving individuals. They do this because they want people (especially engineers in software design) with the intellectual courage required to innovate. They find these exceptional individuals, bring them in – and watch as all their promise evaporates. Why? Because they're so aware of being in competition with their colleagues that they don't want to upset or challenge anyone: something that breakthrough ideas well might do. They turn, instead, into pleasers.

Some organizations, recognizing these drawbacks, prefer to make *business units* compete. It's customary in advertising firms, for example, to pit one team against another in an internal pitch, the winner of which gets to make the external pitch for new business. An internal market, so to speak.

So, what's wrong with these kinds of internal contests? In the occasional, one-off usage, maybe nothing. Maybe. But as a permanent means of running an organization, it's nothing short of disastrous. Why? Because there is no value in sharing. If I have information that I can't use but that could help you – why would I share? If I hold resources I don't need, why give them to you? St Lawrence urges us to ask others for help – but why would I turn to a competitor for assistance? Why should I?

From an economist's perspective, internal competition <u>must</u> generate information gaps, tilting the playing field. From a human perspective, the dog-eat-dog form of competition aggressively militates against collaboration – because it destroys trust. Like money, competition interferes with our sense of inter-dependency and connectedness. It's hard, I'd argue impossible, to love your neighbour as yourself when really what you want is for him to lose and you to win.

When I lived in the United States and ran software companies, undoubtedly the hardest part of my job was finding the language and creating the environment in which levels of trust and respect were high enough to survive the often tortuous difficulty of getting different disciplines to work together. Software programmers who love complexity, marketers who seek simplicity, designers who strive for beauty and investors who wanted real returns: all of them smart, motivated, committed – and entirely dependent on one another. It was when they started to compete with one another – for attention, power, prestige – that the whole operation ground to a halt.

More recently, I've studied and written about complex engineering and manufacturing projects, designed to solve hard problems across cultural, language and financial boundaries: curing club foot in South America or designing incubators that will work in parts of India where there's no power. These projects seem designed almost to challenge our capacity for collaboration: to throw so many cultural, linguistic, intellectual and financial spanners in the works that collaboration should fail. But it doesn't because of the high levels of trust that are brought to them and vigorously preserved.

Why do we find collaboration so hard? Because we all carry inside us inner demons of competitiveness that get in the way. We all like being team players but we also want to win, to be the star. And increasingly we operate in an environment that celebrates not great collaborators but heroic soloists. Our TV screens are awash with contests in which there is, there can only ever be, one big winner and lots and lots of instantly forgotten losers.

The same holds true in business. Our magazines and newspapers are replete with stories of dynamic individuals who, apparently singlehanded, rescue their companies from the jaws of defeat. This reached epic proportions after the death of Steve Jobs when even his most obnoxious personal habits were discussed with reverence. What was overlooked was a pattern of behaviour in which Jobs flourished when he found great collaborators like Steve Wozniak, John Lasseter and Jonathan Ive and abjectly failed when left on his own.

I wonder <u>why</u> St Lawrence felt he needed to exhort his readers to collaborate. Don't we do it naturally? Aren't we inherently social animals? I think we are – but I also think that we find collaboration very hard. I know I'm not as good at it as I'd like to be. Sometimes it's because we work in environments that deliberately foster internal competition, hoping to put us on our mettle but actually, in fact, bringing out all of our worst tendencies. Sometimes it's because collaboration is slow, requires patience and terrific skills of cultural translation. And sometimes it's because the playing field is too tilted. Too much power on one side, none on the other; too much money on one side and too little on the other – and the mutual respect required for collaboration disintegrates. Those with power and money can't see that there is still something they could gain from others; those without it feel invisible.

And yet I am a relentless optimist because I've seen organizations where collaboration happens at the highest level. At its finest, it occurs when everyone has skin in the game. One of the most challenging but also exhilarating aspects of running venture-backed software businesses isn't that they're cool and have fooz ball tables and hordes of handsome adolescent men. What makes them so exciting is that everyone who works there is an owner, almost invariably having taken a pay cut in order to have part of the business. Does this make them hard to boss around? It certainly does! But it also brings a level of engagement *between owners* that is inherently determined and creative. It's funny that here, in the UK, when people talk about employee ownership, they almost invariably mention John Lewis and praise the partnership structure because it's old, traditional and somewhat paternalistic. It doesn't seem to enter the debate that the companies that built the Internet in a mere 10 years were also almost employee-owned businesses. Skin in the game means everyone matters. It makes business social.

As some of you know, I've written extensively on the subject of willful blindness: why we manage not to see so much of what matters most to us, in business and in life. In playing to greed and our inner competitiveness, we blind ourselves to our social selves, to the fact that we need one another, that we will always need one another – in good times and in bad.

We are in the middle of an urgent debate right now about the relationship between business and society; should business serve society or is it the other way round? Which is the cart and which is the horse?

I don’t believe you can have any kind of vibrant business community that doesn’t put social values front and centre of what it does and how it works. Because companies don’t have ideas – people do. Without stable societies, built on trust and respect, it’s impossible to get anything done. Our business capacity depends and flows from on our social capacity. Without human creativity, trust and the rule of law – all of which are inherently social – we have nothing. But if we can avoid greed and learn to collaborate, the future is ours for the making.