profit and loss formula

revenue

– cost of goods sold

= gross profit

– operating expenses

= operating income

+/– other income or expenses

+/– ego

= earnings before taxes

– income taxes

= net earnings

ego is the invisible P&L line item

a whitepaper on eliminating the costs of ego and making it our most valuable asset

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"When ego isn't balanced it doesn't turn our strengths into polar opposites, but into close counterfeits. That subtle modification becomes the ultimate blind spot because our weaknesses feel almost the same as our strengths."

Marcum and Smith, *egonomics*

Research shows that ego's cost to a company's bottom line is more expensive than most people think.

In their new book *egonomics* (Simon and Schuster, 2007), Marcum and Smith argue that ego is the invisible P&L (profit and loss) line item. Invested into every team conversation, boardroom debate, marketing strategy, client interaction, contract negotiation, employment interview or performance review is the intense, pervasive power of ego. How we invest it in the way we work, and the return ego delivers to us and the company, depends entirely on the skill with which it's used.

The question is, how will we know if we're getting a return?

On the loss side, 53 percent of businesspeople estimate ego costs their company six to 15 percent of annual revenue; 21 percent say that cost ranges from 16 to 20 percent. Even if ego were only costing six-percent of revenue, the annual cost of ego—as estimated by the people working to produce that revenue—would be nearly a $1.1 billion revenue hit to the average *Fortune* 500 company. That $1.1 billion nearly equals the average annual profit of those same companies.

But whether it's 6 percent of revenue or 60, when people estimate the costs of ego, what are they thinking of? In short, here's what people say leads to those costs:

- whose idea wins matters more than the best idea
- hearing, but not listening
- people thinking me first, company second
- only the "right" people have good ideas
- pressure to fit in
- failure to challenge status-quo
- candid discussion saved for the water cooler
- failures being buried and never spoken of again
- silos created and tolerated
- meetings going longer than necessary
- people resisting making mistakes or admitting them

None of the examples given above is about companies who were short of people with talent, drive, IQ, imagination, vision, education, experience, desire or hope.

Over the last three years in research for their book, Marcum and Smith's interviews and conversations with leaders and managers that followed failed projects or average results, there was a clear sentiment of, "He's very innovative, but…" or "She has incredible vision, if she could only…" or, "We were on the right track, and then all of a sudden…" The exceptions to the praise are consistently tied to one thing—ego. So if the costs are so deep and persistent, why do people hold onto ego so tightly and in some cases, even fight for it? That's a question, early on, the authors couldn't answer easily.

liability or asset

Marcum and Smith started their research with the premise that ego was negative, and needed cold-blooded elimination—at least from a business perspective—because it was a hidden cost with zero return. In fact, the working title for their project for a very long time was "egoless." For nearly two years into the project, that view seemed justified by both "micro" and "macro" egonomics.

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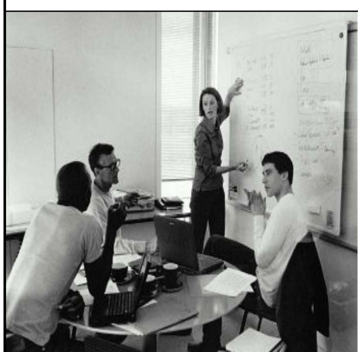
Because of ego, "People tend to become entrapped…and throw away good money after bad decisions," said Roy Baumeister and Liqing Zhang in a study on ego and making good financial decisions. "They get locked into uncompromising career choices, supervisors become overcommitted to those employees who they had expressed a favorable opinion in hiring decisions, senior executives in banks escalate their institution's commitment to problem loans [because they approved the loan to begin with] and entrepreneurs and venture capitalists become entrapped in unprofitable projects." The conclusion of their extensive research was that when people feel their ego is threatened, people make "less optimal decisions as judged from the standpoint of financial outcomes." **But money isn't all ego costs us.**

Our individual capacity to produce suffers as well when ego takes control. At a macro level, businesses take the same hits when ego negatively impacts the *way* we produce. For example, Dr. Paul Nutt of Ohio State University conducted over two decades of research with hundreds of organizations on why business decisions fail. In explaining why 50 percent of decisions fail, he discovered three key reasons:

one minute away

Over the last five years, the authors surveyed thousands of people who attended their leadership sessions and asked them to write down the first words that came to mind as they were shown random words. If the word "ego" flashed in front of you, what would *you* write? Ninety-two percent of the first responses were negative. "Arrogant" is the first word mentioned by almost 5:1, followed by "self-centered," "insecure," "closed-minded," "defensive," "conceited," and "condescending," if you keep the list clean. Just listen to how people talk about ego—especially someone else's—and it's easy to get the message ego is the enemy.

For example, if we're in a one-hour meeting and at minute 43 of that meeting someone's ego spins out of control, which minute will be remembered? What effect does that minute have on the previous 42 minutes? At worst, they're erased. What happens to the next 17 minutes? At best, they're tainted. And how much time will be wasted after the meeting talking about what happened in the meeting? We may not remember that exact minute, but we will live with the impact. If ego doesn't crash the meeting, it certainly leaves a dent.



"In over two-thirds of comparison cases (average/good companies), we noted the presence of a gargantuan personal ego that contributed to the demise or continued mediocrity of the company."

Jim Collins, *Good to Great*

every day

- Over one-third of all failed business decisions are driven by ego.
- Nearly two-thirds of executives never explore alternatives once they make up their mind.
- Eighty-one percent of managers push their decisions through by persuasion or edict, and not by the relevance of their idea.

Over the last two-and-a-half years Marcum and Smith searched 2,190 news articles (mainly business related) that used the word ego in any way. Eighty-eight percent of the time ego was used negatively, usually followed by suggestions on how and why the person should get rid of it, and what would happen if they didn't. News articles berate ego-trippers with headlines like, "Don't Let Ego Kill the Startup" from *BusinessWeek* or "Ego Slams T.O." (Terrell Owens, NFL wide receiver) from *USA Today*.

As they continued their search for answers, the authors interviewed, surveyed and observed people across industries and disciplines to find out why they do what they do. While they scoured hundreds of business articles, periodicals and a wide range of psychology journals, they re-engaged in a study of leadership and management literature from as early as 1944, when Peter Drucker first began to raise awareness about the modern-day need for a different kind of management. Even though many books had interesting ideas, by their criteria only a handful qualified as landmark books—books whose ideas were so powerful they changed the way people thought about business. They labeled the most profound theme among those books as "the difference between…" These well-researched books—such as *The Effective Executive; In Search of Excellence; The Change Masters; Built to Last; First, Break All The Rules*—marked what separates one category of leader or company from the typical.

As they examined those themes piece by piece, most were techniques, strategies, and tactics for change, but didn't account for the difference between what they read in theory, and what they saw in action when ego was in play. By almost all accounts, ego seemed to stake its claim on the business world's most wanted list.

But there's another side to the story.

ego 2.0

The word ego comes from the Latin, where the translation is essentially, "I, myself." What people usually mean by "ego" is that someone *else* is so me-myself-and-I absorbed, they can't see anything else. While that's true, "I, myself" isn't always self absorbed. Open a dictionary or psychology textbook to the entry "ego" and "an inflated sense of self-importance" is quickly followed by the definition "self-confidence."

With those same surveyed audiences mentioned earlier, ego also has a positive meaning; eight percent of the time words surface like "self-confidence," "self-esteem," "open-minded," and "ambitious," with confidence cited nearly 10:1. **The further the investigation went, the more it appeared there was an irony about ego—it is both a valuable asset, and a deep liability.** With that dual nature in mind, the search then turned to what moves ego one way or the other.

Avoiding a definitive "yes," Jim simply pointed to the evidence validating the findings. The group sat quietly for a moment, and she followed with her next question, "Can you learn to become a Level 5?"

He answered there are two categories of people; those who have it, and those who don't. "The first category consists of people who could never in a million years bring themselves to subjugate their egoistic needs to the great ambition of building something larger and more lasting than themselves." said Collins, "The second category of people—and I suspect the larger group—consists of those who have the potential to evolve to Level 5; the capability resides within them, perhaps buried or ignored, but there nonetheless. And under the right circumstances—self-reflection, conscious personal development, a mentor, a great teacher…they begin to develop." That's where Collins' answer to her question stopped.

To answer that CEO's question with any degree of hope, a series of questions had to be asked and answered—questions Marcum and Smith have been asking for years: for those of us who "have the potential:"

- does our ego drive help, or get in our way?
- Are there habits we can develop that manage the drive of ego?

> "Egotism is nature's compensation for mediocrity."
>
> Louis A. Safian

As fate would have it, one of the most prolific business authors of the last 50 years, Jim Collins, appeared to be on a parallel track to Marcum and Smith's early work. Collins noted in his *Good to Great* research that two-thirds of the companies who didn't make the leap from good to great were weighed down by the "presence of gargantuan personal ego that contributed to the demise or continued mediocrity of the company." For the 11 companies that made the cut, Collins discovered two unique traits of their leaders: 1) intense professional will, and 2) extreme personal *humility*. He called the rare combination "Level 5" leadership.

As Collins described his findings to a group of executives before his book released, a newly appointed CEO spoke. "I believe what you say about the good-to-great leaders," she said, "but I'm disturbed because when I look in the mirror, I know that I'm not Level 5, not yet anyway. Part of the reason I got my job is because of my ego drives. Are you telling me I can't make this a great company if I'm not Level 5?"

- Should it be managed in the first place?
- If humility is powerful, why don't more of us have it?
- Are ego and humility at odds with each other?
- If they're not, what does the right amount of ego look like, sound like, and think like?
- Can we learn to be humble?
- If ego and humility can't co-exist, what has to give, and what change is required?

Egonomics is the result of the answers to those questions. **The authors believe these findings can turn ego from a consistent, costly liability to a fixed, appreciating asset. If people know how to use it effectively, the upside of ego is just as powerful as the downside.** When we don't manage the intense power of ego effectively, it damages our strengths and turns them into weaknesses. Through ego's overconfidence, overambition, insecurity or me-centered agenda, our talents take on a slightly different appearance, but have a noticeably different impact.

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The point here is not simply that we all have strengths and weaknesses: "I can see the big picture, but I'm not very good with details," or "I'm good with numbers, but I'm uncomfortable with people." That's typical. **The crucial point is that when ego isn't balanced, it doesn't turn our strengths into polar opposites—but into close counterfeits. That subtle modification becomes the ultimate blind spot, because our weaknesses feel almost the same to us as our strengths. While the difference isn't discernible to us, it is clear to others.** When we spot those weaknesses in ourselves or the culture we're in, we can be confident negative ego is the culprit.

Most of us don't lose our lives when we lose control of ego—but we lose a lot: trust, respect, relationships, influence, talent, careers, clients, and market share. Each of us has occasionally, perhaps unknowingly, let ego weaken our talents despite our qualifications, expertise, charisma, track record, or remarkable ability. Because of the effect ego has on talents, and the impact on the bottom line, our first—but not the only—priority is managing the power of ego.

the business priority of ego

"The great organization must not only accommodate the fact that each employee is different, it must capitalize on those differences," wrote Buckingham and Clifton in *Now, Discover your Strengths.* "It must watch for clues to each employee's natural talents and then position and develop each employee's natural talents so that his or her talents are transformed into bona fide strengths." Equally important to that development is to watch for early warning signs of ego that signal when natural talents have become natural enemies. When an organization invests in us for our talents, it also inherits the potential counterfeits of those talents. No one's perfect, and ego's persistent power works for us at times and against us at other times, depending on how we manage it.

4 early warning signs

When ego's working against us, these early warning signs indicate we're losing value: excessive comparison, being defensive, showcasing brilliance or seeking acceptance. When those signs appear, rest assured we're losing talent. **The greater the intensity or frequency of the early warning signs, the steeper the decline in value. How effectively we manage ego determines the "risk, reward" ratio for each of us—whether we're the most valuable asset to the business, or the "reddest" cost.**

To gauge that ratio, the next logical question Marcum and Smith wanted answered was how often people observe individual strengths and organizational value evaporate in the name of ego. If the evaporation rate was low, they were ready to check ego off as an interesting, but mildly impactful topic and move on.

Currently, 63 percent of businesspeople say ego negatively impacts work performance on an hourly or daily basis, while an additional 31 percent say it happens weekly.

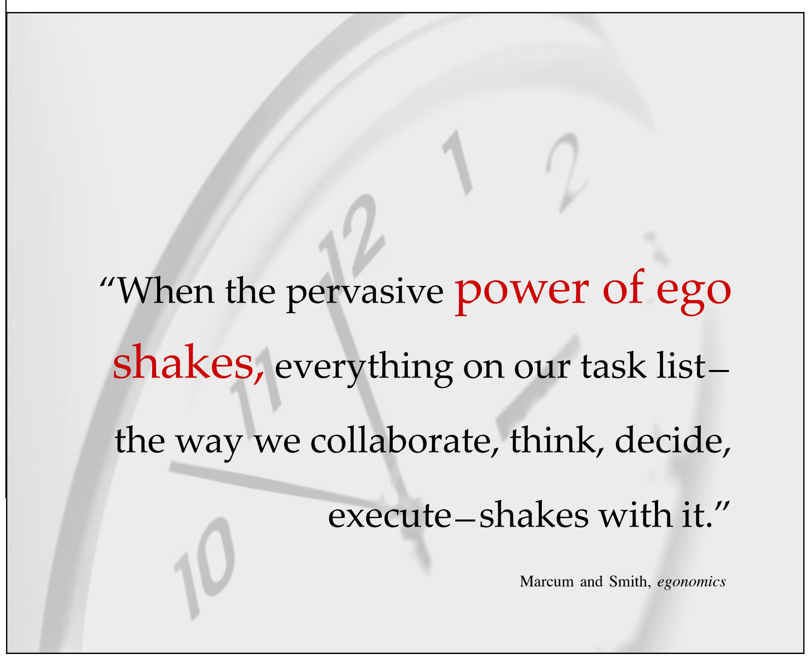
Even if we recruit the best and brightest people on the market, once we have that talent on the payroll, we don't *really* have it when ego interferes with the way we work. In getting full access to that talent, measuring ego's cost by the clock may be more accurate than by the calendar. Any way it's measured, performance takes a hit—35 percent of managers who take new jobs fail, and either quit or are asked to leave within 18 months.

3 principles for the bottom line

When the pervasive power of ego shakes, everything on that task list—the way we collaborate, think, decide, execute—shakes with it. **There are three principles of egonomics when fused together, provide a solid foundation to the way we work:**

1. **humility**
2. **curiosity**
3. **veracity.**

Those three principles not only require us to do differently, they require us to *be* different.



To the degree we apply humility, curiosity and veracity, our talents are liberated to the financial benefit of our companies and careers, and the way we work is not only more effective, it's easier. It's up to each of us to shift the momentum of the one thing that could help shift the energy of everything else we do.

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"Without a clear understanding of what humility is, it can be seen as a trait best left to special causes and religious leaders, but not business people. If humility seems to be an outdated concept in a fiercely competitive world, it's because humility is misunderstood, understudied, and underestimated."

Marcum and Smith, *egonomics*

1. humility

Humility is the first principle of egonomics because of its unique ability to open minds. But as crucial as an open mind is, that may not even be the most essential characteristic of humility. **Humility is a means to an end, and that end is the progress of the business. Discussions and debates that facilitate true progress require we temporarily suspend what we think is best for *us* to consider what's in the best interests of the *business*.** From a business perspective, humility doesn't lose sight of "me," but also doesn't let our own needs interfere with open dialogue and intense debate. With that intention of progress, Marcum and Smith discovered a characteristic of humility they call "constructive discontent." Without losing confidence in who we are or lessening the importance of what we've achieved, humility has the unique ability to create in us and our organizations, a craving to reach the next level of performance—uneasy to rest on our laurels.

In one survey on humility, *Fast Company* asked 1,665 respondents to rate leaders in various types of organizations on their ability to lead. Of the abilities they saw in their leaders, characteristics like being passionate about work or ruthless for success rated high. Unselfishness rated dead last. In one of the author's surveys, nearly eight out of ten people wish their organizations were more humble. Humility has a reputation of being the polar opposite of excessive ego. In fact, the exact opposite of excessive ego is no confidence at all. Humility provides the crucial balance between the two extremes.

2. curiosity

Once humility creates an open mind and a deep commitment to progress, curiosity is the active ingredient that drives the exploration of ideas. Curiosity gives people permission and courage to test what they think, feel and believe to be true, reminding us we don't know everything about anything. If we lead with questions rather than answers, curiosity can strip us of an agenda, and stop us from holding so tightly to our own ideas and beliefs that we aren't able to consider others'. The good news is most everyone is curious, so we have a head start. **But the type of curiosity we have and the degree to which we're curious is another question, and a vital answer in determining the value we create.** Highly curious people are different than you might imagine; they have a unique ability to bring both openness and order to conversations, not excluding either in the way they think.

3. veracity

Fused with humility and curiosity, veracity is the third principle of egonomics. Veracity is the English word for the Latin term *veritas*, which means *truth*. But why not just say the word truth if that's what they meant by choosing it to describe what they found? Truth essentially refers to facts or reality; it implies accuracy and honesty. Veracity, however, differs slightly; veracity is the habitual pursuit of, and adherence to, truth. Veracity differs from truth in action, not in value. So why is veracity so important—who doesn't want the truth? **It's not that people don't want the truth, but what portion we want is occasionally a different story. What part wouldn't we want? The part that's hard to hear. What fraction of the truth wouldn't we want to address? The portion that's hard to say.** There is a point and time in almost every important business discussion where we might be curiously exploring or intensely debating, and stumble upon brutal facts. If openness and progress are the outcome of humility, and innovation is the aim of curiosity, then veracity is the light that exposes the truth hidden in the shadows of habits and comfort zones.

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“In the economics of change, organizations and people most interested in change generally fall into one of two categories: already great and dying. It’s the ones who are ‘good enough’ who rarely make a move and opt for mediocrity. But wherever we are, if we want to change, now is the time. The point of departure is irrelevant. It’s the departure that matters.”

Marcum and Smith, *egonomics*

top talent

Marcum and Smith suggest recruiting, hiring and managing performance to these competencies to retain and reward top performers who have humility, curiosity and veracity:

curious. Asks questions to understand context and details. Asks even deeper questions to understand business impact and motives. Creates curiosity in others.

candid. Shoots straight. Is honest and authentic. Elicits and gives difficult feedback. Creates a safe environment for genuine collaboration.

risk-taker. Initiates discussions of sensitive issues. Asks the obvious or unpopular questions. Challenges status quo. Willing to fail early and often in order to succeed sooner.

accountable. Contributes to and owns commitments made and is responsible for results. Avoids blaming others when bringing up problems.

we-centered. Works for the success of the group. Balances own needs with the needs of others and the business. Works cross-functionally. Supports decisions best for the enterprise.

aware. Recognizes when ego is balanced and when it’s not, personally and culturally (seeking acceptance, showcasing brilliance, being too comparative or competitive, being defensive). Can shift the momentum of a conversation or meeting when they recognize it.

learning agile. Keeps mind and dialogue open. Invites different or opposing views. Treats differences as opportunities to learn and innovate. Constantly seeks to learn, unlearn, and relearn.

confident. Recognizes others’ contributions rather than clamoring for personal credit. Isn’t intimidated, and doesn’t intimidate others.

manages intensity. Engages in rigorous dialogue and debate, without taking or giving offense. Defends ideas without being defensive. Escalates the right level of emotion and intensity when innovating, or reduces it when looking for understanding.

If you want people who can move a culture from good to great, the principles of egonomics are the individual traits and competencies organizations will need from people to get there.

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