

PART 1

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# Culture Drives Performance

The quality engineer couldn't believe what he was hearing. In 2005, when a sample from a batch of more than a million bottles of St. Joseph aspirin wouldn't dissolve properly, the engineer did what Johnson & Johnson quality professionals had been doing for generations: he blocked that batch from shipping. Now he was being chewed out by his boss. "Do you like working here?" the manager asked. "Then make sure this shipment passes. There's no reason it should fail."<sup>1</sup>

The engineer thought, *How could this be happening?* Back in the 1980s, quality professionals were the white knights of the company. Entrusted with its reputation and expected to enforce its highest production standards, they were empowered to stop any shipment. But now the company was facing tremendous pressure to cut costs, and harried operations managers were reluctant to throw away millions of bottles of product, so they came down hard on the quality engineers. And sure enough, many of the quality engineers bowed to the pressure. Once honored for their integrity, they now found themselves saying one thing and doing another.

Johnson & Johnson (J&J) had been one of America's most admired companies for over one hundred years. Products such as Band-Aid,

Johnson's Baby Shampoo, and Tylenol were trusted brands. J&J had been praised countless times as one of the best examples of a values-driven organization, relying on the core principles and beliefs embodied in its fabled Credo to guide leaders through tough decisions.<sup>2</sup>

Yet quality standards have been declining since 2000. From 2009 through 2011, J&J's famed consumer products division, McNeil Consumer Healthcare, announced more than a dozen recalls. One was brought on by the presence of metal shavings in children's medicine; another involved 136 million bottles of children's Tylenol, the biggest children's drug recall of all time. In 2009, J&J was even caught attempting what some have termed a "phantom recall." According to the U.S. Food and Drug Administration, J&J hired contractors to buy up defective bottles of Motrin from store shelves rather than publicly announce a recall. This kind of deceptive behavior went beyond mere product quality issues. It signaled that a vast gulf had opened between the company's values and the day-to-day decisions that its employees and managers make. That gulf has proven to be an enormous detriment to the company's reputation, with executives even being publicly scolded in Congress for being "deceptive, dishonest, and [risking] the health of many of our children."<sup>3</sup> As of January 2011, its share in the \$4.2 billion cough-and-cold market had fallen from 17 percent to 5 percent.

How could one of the most admired companies of all time squander so many years of accumulated goodwill? Some blame a clash of cultures after global pharmaceutical giant Pfizer's consumer products division was merged into McNeil in 2006; the new organization no longer permitted local leaders to oversee manufacturing and quality. Others point to cost cutting in response to market changes.

Could it be that obvious? Many companies face similar challenges. Leaders are always trying to lower costs and execute strategies more effectively. They are always asking more from their people, who often find themselves working under tremendous pressure. Why do some companies create a toxic internal structure while other companies, under the same circumstances, manage the pressures with a dynamic workforce that stays fully committed to the organization's mission and values?

We may never know exactly what happened at J&J, but we can be fairly certain that it was not an evil cabal of managers lurking in the New Jersey headquarters. There is no evidence of managers who were hell-bent on turning out defective products for personal financial gain. Instead, these were hundreds of managers simply trying to cope with the pressures of doing more with less. And that's what should be so frightening about this story: if you cannot pinpoint the reasons that a company like J&J fails, you cannot set up an adequate strategy to manage performance and ethical risks at your own company.

As you will see, J&J seemed to lose its ability to have a positive influence on how employees went about doing their work and making difficult decisions; that is, it had lost its grip on its own culture. In particular, J&J was not mindful of how three critical values—integrity, commitment, and transparency—need to work together to influence employee behavior in the right direction. J&J managers might not have even known they needed to track these values, but as you will learn in this book, allowing even one of them to fail undermines the other two, allowing the temporizing and self-deceptive aspects of human nature to lead a company down the wrong path. J&J certainly went down that path, losing sight of the kinds of decisions it needed to make to maintain its competitive position in the market.

I will show you that these three values help take culture out of the realm of the soft and nonstrategic and into your familiar world of action plans.

## PLACING BLAME VERSUS REMOVING ROADBLOCKS

Leaders are often baffled when a company or a key division underperforms or screws up. I believe the reason is that they often look at the problem from the wrong direction. They typically decide that some particular person, policy, or process was faulty and needs to be reengineered, revised, retrained, or replaced. J&J's solutions to McNeil's

string of problems were fairly typical. J&J claims to have addressed its quality problems by replacing McNeil leaders, installing new equipment, and reorganizing the quality department. As I will show in this book, such steps, although they appear to be decisive leadership, are probably addressing the symptoms rather than getting to the heart of the problem. The road to high performance begins with understanding how your company's culture affects your people's behavior and performance.

A company I'll call Lothrop Financial, a major player in the heavily regulated insurance industry, took this approach.<sup>4</sup> A high-potential young manager had been giving her clients the answers to the exam for a federal compliance training program. This was blatantly illegal and would have gotten the company into very serious trouble. The manager was fired, but Lothrop's leadership knew they hadn't solved the problem yet. Many others had known what this manager was doing and had failed to speak up. And yet it is unlikely that those who had kept quiet were notably incompetent or dishonest. What puzzled Lothrop's top executives was that such a violation could occur in the midst of so many people who knew perfectly well what was right and wrong. Lothrop understood that it had a cultural problem on its hands. They didn't know what to do about it, but they knew retraining wasn't enough.

In my work helping organizations identify where their values are either encouraging or hampering performance, I have found that most employees have a strong sense of the values and behaviors that will make for organizational success, for example, fairness and open communication. Employees from top to bottom want to feel committed and connected to the organization and to help it succeed, and most of them are willing to go way beyond their job descriptions to help their company.

What employees and managers often do not know, however, is how to act on those positive values and feelings. Many times they hold back. They think that no one really cares how hard they try. They don't feel empowered to raise issues, ask questions, or bring matters up to higher levels of leadership. They may feel that the collective benefits of raising

an issue or asking a question do not outweigh the individual risks of retribution or humiliation. These fears and frustrations are the roadblocks that prevent good people from doing the things that keep companies honest and high performing for the long haul. Such roadblocks can keep a production manager at J&J from taking a safety risk seriously enough or keep a J&J quality engineer from bringing it up in the first place. Such roadblocks kept Lothrop employees quiet while one of their fellows was putting the company at serious risk.

As I will show you, employees who can live their values at work feel engaged and committed. They care how their company does and feel safe raising issues and questioning decisions that run counter to the organization's core principles and beliefs. Their companies are more likely to weather the kind of storms that did so much harm to J&J. There will always be new problems and temptations, so organizations need to foster the qualities that enable employees to resolve whatever comes up, always keeping the organization's values intact.

Your challenge as a leader is not to cajole your employees to do more or to instruct them on how they ought to behave. It is to remove the roadblocks for employees who already want to give the organization their best. In *The 3 Power Values*, I show you how.

## CULTURE MATTERS

Every company with employees has a corporate culture. It may be actively cultivated or not even thought about, but it's there, creating and sustaining the social norms that influence behavior. Academics strive for an accurate definition, but most business leaders feel no need to define, measure, or manage culture.<sup>5</sup> I define *culture* as "how we do things around here" in order to focus on the relationship between behavior and the work environment. Company culture can influence behavior positively—as it does for Southwest Airlines, Nordstrom, and Starbucks, which state clear expectations of employee behavior and are generally regarded as achieving

exceptional employee performance—or it can set the bar so low that dysfunction or outright misconduct can be the social norm, as you will see happened at WorldCom in Chapter Two.

Many leaders see company culture as no more strategic than an employee picnic, never examining its role in meeting their business objectives. Is something in your company's culture causing—or at least nudging—otherwise good employees to withhold their best efforts or ignore stated rules and policies? Were there changes in J&J's culture—not merely in its business circumstances—that permitted or even encouraged some quality managers and engineers to dance around the Credo? Was there something in Lothrop's culture that allowed or even encouraged an otherwise promising manager who knew the rules to ignore them and cheat on compliance training—and that allowed or even encouraged others to keep quiet about it?

To ignore the influence your organization's culture has on your people's behavior is to ignore the powerful link between how well a company performs and how well its culture aligns with employees' values and its own stated goals. When a company's cultural values do not line up with the values of its employees, the company suffers poor performance, which can take many forms, ranging from the apathy of the staff to the degradation of the company's products and services. When employees feel valued and supported—because the company's cultural values are in line with their own—they enjoy their work and willingly give their best, all to the company's benefit.

Investing in the top twenty publicly traded companies in *Fortune's* annual “100 Best Companies to Work For” list over the past ten years would have realized an average annualized return of 16.74 percent, compared to 2.83 percent for the S&P 500.<sup>6</sup> A study of 163 organizations, carried out by Hewitt Associates and the Barrett Values Centre as part of the 2008 Best Employer study in Australia/New Zealand, showed that cultural alignment significantly influences employee engagement, which in turn significantly influences organizational and financial performance.<sup>7</sup> Company culture matters. A healthy company culture delivers.

Business leaders do not take a Hippocratic oath to do no harm, but their boards, investors, employees, and customers—not to mention regulators—expect them to keep the company out of legal trouble and its employees and customers out of danger. An aligned company culture has a significant impact on reducing those risks. The Ethics Resource Center (ERC), a nonprofit, nonpartisan organization that studies ethical standards and practices in public and private institutions, found in its 2007 report that only 24 percent of employees in companies with strong ethical cultures observe misconduct, well below the national average and far below the 98 percent who observe misconduct in companies with weak ethical cultures. Only 3 percent of the employees working in companies with strong ethical cultures who reported misconduct experienced retaliation as a result, compared to the 39 percent who experienced retaliation in weak ethical cultures. The ERC concluded that culture has a greater impact than a formal ethics and compliance program on outcomes such as observed misconduct, reporting of misconduct, and perceived ability to handle misconduct if faced with such a situation.<sup>8</sup> Recall Lothrop, which did have a legally defensible compliance program, yet had a big problem with reporting of misconduct. This is not only a matter of how employees feel; it is also a matter of how well the company performs and how much trouble it gets into.

Yet many leaders still feel they don't have time for company culture. They need results, they say, and they need them now! Behaviors and habits that influence the culture can develop slowly; the effects of a changing culture can also be very gradual. As with long-term health risks such as smoking or overeating, it can be hard to see the slow progress of dysfunction and cultural danger, yet the effects can be sudden and catastrophic. As the pace of business, innovation, and communication accelerates, companies can get into more trouble in less time than ever before—the corporate equivalent of the seemingly healthy person who suddenly has a heart attack. Ignoring longer-term cultural challenges in the name of short-term profits is an invitation for just that kind of blindsiding. A healthy corporate culture is not a luxury,

not a nice-to-have, precisely because the risks can be very high and can come quickly. We have already seen in this chapter—and we see in the news every day—how, in dysfunctional cultures, smart people can end up making poor decisions, employees can be distracted from doing their jobs well, and risks can be taken that can put a company out of business or create a global crisis.

Organizations that do not understand how their culture affects behavior may not be able to sustain even their short-term goals. Several examples in later chapters show companies that are doing well enough but not nearly as well as they could be if the elements of their cultures weren't partially at odds with each other. Some of these companies are already feeling the pain; others probably will.

Many leaders who decide not to focus their attention on culture or simply never think of focusing on it do not know how much of a culture problem they already have. In Chapter Six, I relate the story of a global company that learns that one of its highest-performing units, a high-tech military contractor, was also one of its highest-risk units—a major misstep just waiting to happen. In my experience over the past twenty years, most leaders:

- Do not realize that their culture significantly hinders or supports performance and the implementation of strategies.
- Do not know whether their culture generates unacceptably high risks of unethical or illegal conduct.
- Do not see why a reorganization or acquisition is doomed to failure because leadership has failed to create a common culture, generating frustration that can lead to undesired behavior.

Why this blindness? Most leaders I've met are smart people. So why would they hesitate to do something beneficial for the company, especially if the steps are simple and logical?

Almost everyone trying to lose weight or stop smoking knows what he or she should do. Eat less and exercise more. Don't light up. If we try to understand why we don't do these simple, obvious things, we

realize that there are behavioral roadblocks in our way—for example: “I’ve never had any self-control.” A roadblock such as this requires awareness of the elements that need to be overcome and then of how those elements fit together. Changing behavior therefore requires a series of steps, each addressing a challenge in a way that opens the door to the next step. In this book, I will help you think about your organization’s cultural risks and opportunities in terms of actionable items that you can gauge and manage.

## BEHAVIOR AND CULTURE

Culture has an impact on performance, but you can’t just calculate which kind of culture can make your organization high performing and then will that culture into place, as if it were a compensation plan or an operational directive. Even if your people agree that a certain culture is desirable—say, greater team work or more openness—they cannot simply stop acting one way and start acting another. As you will see, people act according to their personal values, but they are also powerfully influenced by the environment around them—in this case, the organizational culture—even to the point that the culture can modify their personal values.<sup>9</sup> As a result, you must influence behavior across your organization—and the good news is that you can. Culture is not only much more important than many leaders realize, but also much more actionable once you understand the key components and what keeps them working together for high performance and low ethical risk.

The first step toward removing the roadblocks that prevent your employees from doing their best is to understand what drives their behavior. In the companies I have worked with, the employees are generally good people who believe they are balancing their values, such as honesty and responsibility, with what is needed to get the job done. It turns out that like most other people, they can be pretty good at fooling themselves.

Although we would like to think that we are masters of our own decisions and actions, social norms and expectations significantly influence individual behavior. In the 1930s, Kurt Lewin, one of the pioneers of social psychology, conducted groundbreaking research on why people behave the way they do. Prior to Lewin, the prevailing theory had attributed a person's behavior to either his or her personality and character (nature) or circumstances (nurture); Lewin showed that it was both. We may therefore behave differently in different circumstances. We are neither completely good nor completely bad, and we do not always act in the most rational way. In the workplace, this means that any one of your employees at any time can decide to engage in activities that further the company's interests or their own interests. Of course, at the far ends of the spectrum are sociopaths, who are not influenced by their environment, and virtuous people, who do the right thing no matter what. But most of us are somewhere in the middle: we generally act in accordance with our personal values, but our sense of when and how to apply our values is influenced by the social norms in the workplace and the society around us. Achievement, for example, is a universally accepted personal value, but in some cultures, getting ahead at the expense of others' feelings is expected, while in others, the need to conform to group standards thwarts individual achievement. When making decisions, most employees instinctively search for a balance between two potentially opposing forces: their personal values—such as honesty, personal growth, and empathy toward others—and the social norms of their work environment. Research has shown that when these positions are not easily reconcilable, people are prone to put their personal values aside in deference to group norms or an authoritarian leader.

Recent research suggests that even our own sense of right and wrong is not as fixed as we would like to think. What is so important for leaders to understand is that our self-concept itself can change with the circumstances—in particular, with the organizational culture. Employees who feel honest can also feel pressured, influenced, or lured by the company's culture into doing things they did not set out to do,

they are not proud of, or they would not do in other circumstances. In my experience, it is as if we have a number of mental switches that turn on under certain circumstances, dangerously shifting the emphasis of our decision making from the company's interest to forms of self-interest that can range from personal gain to sheer self-protection. The three most important of these switches are self-deception, rationalization, and disengagement:

- *Self-deception: "I think it's okay to do this."* Sometimes self-deception allows us to think what we are doing is right, even though, in other circumstances (or if done by other people), we would know that it is wrong. Have you ever thought that maybe it isn't honest to accept the twenty-five-dollar bank error in your favor that has been part of Monopoly for three generations? If it never occurred to you, why not? Self-deception can even cloud our view of objective facts because we have such a vested interest in a particular decision. As I explain in Chapter Two, one reason that safety got away from BP in the 2010 Gulf of Mexico disaster was a type of self-deception that caused managers not to see risks right in front of them.

- *Rationalization: "I know it's wrong, but I have a good reason for doing it."* Under pressure to meet short-term goals, the right thing to do can seem wrong and the wrong thing can seem right. For audit employees at the ill-fated telecommunications company WorldCom, for example, rationalizing misdeeds was justified when members of the audit team allowed themselves to be convinced that what they were doing was essential for saving the company. Once this switch is flipped, flipping it back is hard.

- *Disengagement: "I know there's something wrong here, but it's not my problem" or, "Why should I bother trying to help? They won't listen to what I say or appreciate what I do."* Traditional rewards and punishments—raises and promotions or the denial of those things—can distort the more powerful intrinsic motivations of helping customers, helping one's team, or doing a job one can be proud of. (This is a particular problem for knowledge workers who seek satisfaction from their creative work above and beyond their paychecks.) Once employees are

making a sufficient living, giving them a sense of accomplishment and purpose does more than financial rewards or punishments to motivate them to do their best. In fact, traditional methods of reward can sometimes be counterproductive. And for all kinds of employees, management that is (or seems) too busy to listen or even say hello is in fact a serious risk factor, flipping the switch so that employees' natural impulse to contribute to the company's success is cut off; instead, it seems right not to bother.

As the behavioral sciences reveal more about how we think and act, you need to understand how your organization's environment—its culture—influences that behavior.

## ELEMENTS OF CULTURE

If the environment has an impact on your people's behavior, you need to control the environment. You can do this with a model that allows you to manage key levers and influencers to get the results you seek.

Do you know whether your organization's culture is a positive driver of performance or a roadblock? Do you know what kind of culture your organization needs in order to achieve its business objectives? A desired culture will not just reveal itself. You need to know which buttons to push, that is, which actions and directives will generate a high-performance culture. To be able to use your company's culture as a tool, you need to see how the elements of that culture are either working with or against each other. You need to see culture as dynamic and to know how to transform it from a negative influence on behavior to a positive influence on behavior. You need a model of culture that adds measurable parameters to the broad definition of "how we do things around here."

Let's start with the three core elements that define culture: the organization's mission and goals, principles and beliefs, and standards of behavior (Figure 1.1).



**Figure 1.1** The Three Elements of Culture

Every organization has these elements, and its people can sense—even if they cannot articulate—whether each of these has its own internal consistency and whether they work together or get in each other's way. Are the organization's goals consistent with employees' individual goals? Are the official standards of behavior consistent with social norms? Are individual employee's principles and beliefs supported by the organization? These three elements are categories; what exactly is in them—which goals, which principles, which standards of which behavior—is something you will need to catalogue in order to create a more productive culture.

Each of these elements of culture has a relationship with the other two, but these relationships may be boosting performance and keeping a lid on risk or may be undermining performance and creating risk. You therefore need to align your organization's mission and goals, its principles and beliefs, and its standards of behavior to create a high-performing and well-behaving corporate culture. As you will see, when each of these three elements has its own internal coherence and is in alignment with the other two elements, employees at all levels feel engaged, committed, and free to work to their full capabilities. Performance is high, strategies are well executed, blunders are avoided or well handled, and lessons are learned. By contrast, in companies

where these elements are internally inconsistent and are not well aligned—that is, they are working against one another—employees feel frustrated, disengaged, and reluctant (or even afraid) to raise issues. Performance is less than it could have been, strategies founder or are not carried out as well as they could have been, blunders are made and then mishandled so that they get even worse, and the same blunders are repeated.

Let's take a look at each of these elements of culture.

### **Mission and Goals: What Do We Strive For?**

Goals influence behavior. Leaders and employees are compensated and rewarded for meeting targets and objectives. Goals include broad strategic objectives and individual objectives; the latter can include more subtle personal objectives such as getting ahead or just keeping your job. Employees at any level must ask themselves whether the goals they are pursuing conflict with their personal values and whether they have the time, ability, and resources to meet their personal goals as well as their assigned goals. If the answer to either question is no, the company's effectiveness decreases and the ethical risks increase.

Most employees have multiple goals, some of which can seem contradictory, counterproductive, impossible, or thwarted by the same management that demands them. The culture—how we do things around here—dictates which goals come first and what gets in the way. For example, many companies, including J&J, have a tension between getting product to market and ensuring quality. A healthy culture doesn't make that tension go away; it creates the means for that tension to be resolved in accordance with the company's and employees' values. A healthy culture creates a consistent way of addressing the issues so that they don't create crises every time the pressure gets high.

Some goals are visionary, inspiring employees' commitment and serving as a beacon around which the multitude of processes and procedures can come together. For example, the Timberland Company, the boot manufacturer known for its corporate responsibility and its outdoor apparel, has a business goal of becoming the number-one

outdoor brand in the world. Its approach is to get there by keeping its business goals consistent with its values. It states on its Web site: “Our passion for the outdoors and responsibility to our stakeholders demand that we address one of the most pressing environmental issues of our time—climate change. Timberland aims to be part of the solution by reducing our energy demand, as well as procuring and investing in renewable energy and working with our partners to do the same.”<sup>10</sup>

However, even visionary companies also have pragmatic business goals, such as expanding its market presence in Asia by 10 percent or reducing expenses across the board by 5 percent. Such goals may be essential to the organization’s success, but it still needs to connect them to the workforce. Does each employee know how he or she fits into the overall picture? How can the organization frame its goals so that employees feel engaged?

Organizations whose employees can each put his or her whole heart into meeting the broader goals are the most likely to succeed. Each employee’s goals are in alignment with the organization’s goals. The challenges—and therefore the frustrations that create roadblocks—come when there is a disconnect between the organization’s stated goals and either the goals or the principles of individual employees—in other words, when there is inconsistency within one of the basic elements of the company’s culture or when two of those elements are misaligned.

### **Principles and Beliefs: What Do We Stand For?**

A value is any principle, ideal, or belief that someone holds or adheres to when making decisions. As you will see in Chapter Three, each person embodies a myriad of values, and organizations embody the collective values of their people.

People naturally think of such things as honesty, cooperation, or excellence as values. When organizations announce their “values,” they typically name such things as customer service, innovation, saving people’s lives, or offering low prices. But values—as I am defining them—are not always positive or particularly uplifting. In some companies, bureaucracy is a value in the sense that it consistently guides

how people make, or don't make, decisions, for example, going through delaying tactics rather than taking direct action to solve an immediate problem.

Individuals express their values through their personal behaviors; organizations express their values through their cultural behaviors. For example, if the decisions and actions taken by employees, from line workers to executives, are consistently aimed at maintaining or improving quality, then quality is a corporate value, a recognizable part of the culture. I would venture that fewer J&J employees would say they see quality in the culture now than would have said so fifteen years ago.

Some values count more than others. Core values are an individual's as well as the organization's deepest principles and beliefs, those the person or organization will be most reluctant to compromise or violate. Jim Collins calls these "essential and enduring tenets, not to be compromised for financial gain or short-term expediency."<sup>11</sup> Quality, for example, is—or at least was—a core value at J&J.

Ultimately principles and beliefs are answers to the critical question: Other than making money, why is this company in business? What does it stand for? Employees can and will measure whether the organization's goals and actions are consistent with its principles and with their own principles.

### **Standards of Behavior: How Do We Do What We Do?**

Standards are the stated rules and operating procedures found in every organization—how to carry out tasks and procedures and how not to. These standards are found in written codes of conduct and operating manuals and taught formally in training programs and informally on the job.

Then there are the unwritten rules—the social norms—defining how the organization really operates and how people really behave—what's acceptable and what isn't. New employees pick up the social norms from more experienced coworkers. The gaps your people experience between expected behavior and how they and their coworkers really behave are key shapers of their culture. Understanding those

gaps will help you see where there are or could be negative behaviors and how best to prevent them.

For example, no one at J&J's McNeil division would have instructed any employee to violate the Credo or any of the quality procedures or standards. No one wanted inferior or dangerous products to hit the shelves. The stated policies did not change. But as people grappled with tough production deadlines, contrary social norms such as, "Don't ask too many questions" or "We're not stopping any shipment without proof of a defect," crept into the culture. Employees and managers became less certain about which standards should prevail: the official behavior of the Credo or the real-life behavior guided by these new social norms.

Changes intended for a particular purpose can have unintended effects on an organization's social norms. For example, there were no wholesale layoffs in quality staff at McNeil. But other changes made it less likely that production deadlines would be challenged on quality grounds. Higher-paid, more experienced quality staff were laid off and replaced by employees with far less experience. The company thus lost not only some of the technical expertise required to maintain quality, but also much of the organizational memory of the 1982 Tylenol crisis—when seven people died from Tylenol that had been laced with cyanide—and what it had taken to survive it. Losing that collective memory weakened the strong social norm of putting quality before everything else. Furthermore, some of these younger employees were contractors, who felt themselves to be in no position to challenge their managers over quality. As a result, a high-pressure boss was less likely to be challenged.

This three-element model of culture has evolved from over twenty years of working with organizations and synthesizing the research done by business thought leaders such as Jim Collins, Robert Kaplan, and David Norton. Business strategist Jim Collins's extensive research on what makes companies great has focused on the relationships between an organization's core values and the obstacles that keep people from

living those values.<sup>12</sup> These obstacles can be policies and practices—or, in my terms, standards of behavior—that run contrary to the organization’s principles and beliefs. Going further, Collins looked at the linkage between an organization’s principles and beliefs and its business objectives or goals. Successful companies understand the relationships between these elements and use them to ensure that their actions are consistent with their vision.

Robert Kaplan and David Norton looked at how organizations can better manage their intangible assets to achieve competitive advantage.<sup>13</sup> They found that successful companies have a culture in which people understand the relationships between the organization’s core values (principles and beliefs), its strategy (mission and goals), and the implementation of that strategy (standards of behavior).

## ALIGNMENT OF CULTURE

For thirty years, business scholars and consultants have marveled at the way J&J applied its principles in handling the 1982 Tylenol crisis. Under James Burke’s leadership, J&J immediately pulled Tylenol—the brand that had been poisoned—from the shelves worldwide, even before the Food and Drug Administration or the Federal Bureau of Investigation could act. J&J took great pains to show the world that it was doing everything it could to protect the public’s safety, not its own bottom line. The recall cost J&J an estimated \$100 million, but the company’s reputation was preserved and the Tylenol brand recovered.

Although McNeil Consumer Healthcare was only one of over two hundred companies within J&J, it was able to function quite autonomously at the time and had its own special culture with a very closely knit feeling among employees. The quality group was known to have an attitude of moral superiority. Quality was king, and quality managers had the authority to stop the production line if there were any doubts about product integrity. In this environment, the principles and beliefs that employees held dear—the primacy of quality, care for the

people who relied on J&J products for their well-being—were reflected in the actions of the organization. Employees felt good about themselves because they could bring their values to work and would not have to compromise them.

That had all changed by 2005 when a sample from a batch of more than 1 million bottles of aspirin failed to dissolve according to specifications. Quality engineers, following procedures that were still on the books, blocked the product from being shipped. This time, however, the reaction was quite different. The quality manager called the quality engineers into his office and insisted there was no reason for this batch to fail. Afraid of losing their jobs, they devised new quality tests that ensured the defective pills would pass.

That significant values gaps had emerged was clear. The desire to do the right thing and the need to keep one's job had not been in conflict before. The stated principles and beliefs of the Credo were being challenged by the less glamorous goal of making the quarter-end numbers. McNeil managers were also quite upset with Colleen Goggins, who ran McNeil after it absorbed Pfizer's consumer products division. Her micromanagement, aimed at reducing costs to meet merger targets, undermined the sense of local accountability that had been a hallmark of McNeil's quality-driven culture. As you will see, this type of gap between what employees feel is right and what they can actually do affects performance by thwarting commitment and engagement.

Why couldn't J&J come through its business challenges without multiple recalls and a congressional investigation? There doesn't seem to be any real smoking gun in the form of particular policies or actions that would lead to such trouble. There is no reason to suspect Goggins of deliberately shipping faulty products. Instead, there were small actions that cumulatively altered employees' attitudes and actions. In *Good to Great*, Jim Collins talks about the flywheel, the gradual accumulation of small individual actions that eventually effect change. His research showed that in successful organizations, people feel that their day-to-day activities are serving a greater good (such as making people's lives better) consistent with the organization's goals (profit and

growth). When people feel that they are part of a team and take pride in its accomplishments, they tend to do what it takes for that team to succeed.<sup>14</sup> In contrast, some of the actions J&J took as part of its merger with Pfizer—such as the cost cutting in production—generated a culture that led to subsequent quality problems. When enough small pebbles are dropped into a pond, the ripples can have a surprising impact. The trick—something most business leaders just don't know how to think about yet—is to understand which pebbles are having a negative impact and which will have a positive impact.

The sense of alignment that Collins observes between what employees are doing and what they most hope to accomplish comes about when the company's principles, goals, and standards support one another. For example, clear goals make it easier for employees to know which standards apply. This frees them to bring their values to work, which helps the company achieve its goals—a virtuous cycle. Employees share the organization's goals and are motivated by them. Their day-to-day work routines help them reach their goals while helping the company reach its goals. This had clearly been the case at J&J in the days of Jim Burke; when speed or profit conflicted with quality, the Credo made it clear which was to take priority. The result was not corporate weakness or paralysis but great corporate vitality and success.

## THE POWER VALUES

How can an organization align its culture to achieve maximum performance yet avoid inappropriate behavior such as cheating on a compliance exam or rewriting the quality rules to get defective product out the door? The key is in the influential behaviors embodied in certain critical values. By definition, all values guide behavior—for better or worse—but in the context of a business, some values guide behavior in particularly productive ways. Perhaps this is why the work of legendary psychologist Abraham Maslow still has so much to offer. The more we appreciate how great a role psychology plays in decision

making, the more we need a way to look at subconscious influences on behavior—such as values—in language that meets the needs of pragmatic business leaders.

Maslow's famous hierarchy of human needs presents our subconscious motivations in terms of individual and collective levels of awareness that organizations can use as a tool. One key level of awareness in a model I use that is based on Maslow is a communal desire to feel attached to others and connected to something bigger than ourselves. My work with companies over the past twenty years has shown me that three of the values found at this communal level of awareness—integrity, commitment, and transparency—stand out for their roles in fostering identification and community. I call these the *power values* because they can influence specific behaviors that will have a positive influence on an organization's culture (Figure 1.2). These are the behaviors that will push and nudge the organization's goals, principles, and standards into alignment. The power values do not give you power over other people, but they give you the power to bring out the best in people. By focusing on the specific behaviors that make up integrity, commitment, and transparency, you can transform the



**Figure 1.2** The 3 Power Values

negative behaviors that impede effective performance into positive behaviors that support effective performance. Company culture becomes a measurable and manageable tool with which to rev up performance and reduce risk.

To avoid confusion, let me point out that the power values, despite the name I have given them, do not necessarily have to be your personal—or your company’s—core values. How can this be? An example from outside the business world may be helpful. In 2011 the United States witnessed several discouraging clashes of will in the Congress. Representatives with very different sets of core values were unable to reach agreement on serious policy matters affecting the federal debt. For some representatives, their core values embodied principles of self-reliance; for others, their core values reflected principles of collective responsibility. However, the organization—in this case, the U.S. Congress—needed an enabling value in order to achieve alignment: the value of compromise. In politics, then, compromise, though perhaps not a core value of any one member, is a power value of the institution.

The 3 power values are powerful catalysts for another reason: they are already the personal values that your employees commonly hold. When the power values are highly visible in an organization, they clarify its intentions and give employees a unifying sense of purpose and direction. Employees who share their principles, goals, and outlook—the essence of the power values—can let their guard down a bit. They can trust that they will be understood, that there will be fewer booby traps, and that their leaders and coworkers will generally act in a predictable way, consistent with their shared values.

In my work, I have seen that organizations whose employees live these power values are marked by dedication, openness, and personal responsibility. Employees in those companies take the initiative to ensure that their company can achieve its goals in the short term without sacrificing long-run sustainability. The employees of Beth Israel Deaconess Medical Center in Boston are a perfect example. Several years ago, the hospital’s CEO at the time, Paul Levy, was

up-front in telling employees that potential cuts were looming, but he gave them the opportunity to help leadership prioritize and develop less expensive approaches. Engaged employees responded with a wealth of innovations.

As you come to understand the unique challenges of living up to your employees' expectations of integrity, commitment, and transparency and begin to see where unaligned principles, goals, and standards are creating friction and risk, you can identify the linchpin behaviors that will have a cascading impact throughout your organization. But first you must be aware of the specific relationships among goals, principles, and standards. You must find a way to align your company's standards with its goals, its principles with its goals, and its standards with its principles. The power values—commitment, integrity, and transparency—will be your tools.

### **Integrity Links Standards and Goals**

The word *integrity* is more than a synonym for *honesty*. It refers to integration—making the parts of something into a whole. For me, integrity is a matter of combining one's various words and actions into a harmonious whole. People who act with integrity are doing what they said they would do, living their values through their actions. An organization that is acting with integrity is consistent and predictable in its business processes; what happens today will happen tomorrow. When employees see their managers act consistently and predictably and procedures are seen as fair, stress levels are lower because there are fewer surprises and fewer crises. For example, as long as jobs are assigned and success is rewarded fairly, employees can afford to trust their leaders and the organization and do not feel they need to connive just to get a fair shake. If they do not need to connive, they will not subsequently need to rationalize their conniving or deceive themselves that their conniving is honest—the slippery slope is avoided.

Thus, integrity links an organization's goals—what we say we're going to do—with its standards—what we actually do. This determination to walk the talk is one foundation of a healthy company culture.

**Commitment Links Principles and Goals**

Have you ever been at a company where everyone seemed passionate about the work they were doing as well as the work the organization was doing? There is electricity in the air. Engaged and committed employees will go the extra mile for their organization's success because its goals are their goals. The key to fostering that kind of commitment is to ensure that employees feel that bringing their personal values to work is not a risk. Rather, it is part of the culture.

Retail chains typically have a big problem with employee commitment; most have high turnover and spend a fortune hiring and training new personnel. So any successful effort to increase the engagement of hourly staff has a direct impact on the bottom line. Not too long ago, apparel giant The Gap, along with other merchants, partnered with the nonprofit organization Project RED to raise awareness of the need to stamp out AIDS in Africa and to raise money with which to do it. For The Gap, this was a good way to align its corporate principles with its business decision to source merchandise from Africa. At selected stores, one sales associate was designated to be the "RED leader," responsible for telling customers and other employees about the program. Project RED sent representatives incognito to see how committed certain stores were to the program and how well their sales associates had been trained. One such representative was later in tears as she told a Gap senior executive about a RED leader who had not only memorized the information in her briefing packet but had also gone online to gather much more information about AIDS in Africa and what was being done about it. This young employee's principles were fully aligned with The Gap's business goals, and she was clearly passionate about the project, proud of the responsibility she had been given, and committed to her company for giving her such an opportunity.

An organization's goals are not always consistent with its employees' principles, to put it mildly. I once had a boss who did not care what his sales team sold or how we sold it as long as we met our numbers. My goal, however, was to build relationships and develop creative tools

to meet my customers' needs. I did my job, but I was not committed to it and left as soon as I could for a position in which I could put more of my heart into my work.

Long-time J&J employees remember their passion for the company's mission. The Credo bonded employees around a common purpose. The subsequent disconnect between the short-term profit goals and the legacy values—and the resulting string of recalls and scandals—has undermined that commitment. *Fortune* magazine reporter Mina Kimes, in an investigation of the challenges facing J&J, noted that the team that tested the production lines had come to be called “EZ Pass,” named after the electronic toll collection system used to speed drivers through tollbooths. In one instance, an engineering flaw on a production line made it difficult to clean liquid-medicine bottles. Rather than find a way to fix the problem, the team tried to eliminate that check from the test.<sup>15</sup> They could hardly have felt personally committed to such a goal. They couldn't even have felt it was an unpleasant but necessary step toward a goal they could feel committed to. The fact that they did it anyway shows how misaligned the elements of J&J's culture had become.

### **Transparency Links Standards and Principles**

Transparency is your organization's insistence that the truth be heard, even when it is hard, and that it be clear what behaviors are expected and whether those behaviors are consistent with the organization's principles. Can your people be open and honest with each other? Do they have full access to the information they want or only to the information someone else is willing to provide? Transparency can go a long way toward preventing disappointing performance and unethical behavior, especially when it saves people from their own self-deception, rationalization, or disengagement.

But transparency is an issue only when the information one seeks is hard for the other person to deliver or when the information one wants to convey will be hard for the other person to hear. Transparency therefore embodies the value of honesty. Employees at all levels must

be determined to act according to their principles. The company's culture can help by establishing a norm of speaking up, particularly if leaders make a habit of speaking up even when it is embarrassing or difficult for them to do so. To the extent that people's discomfort is fear, establishing a norm of respect and open communication lowers the hurdle, particularly if leaders make a point of tolerating speaking up even when the news is hard for them to take.

How does an organization go about creating a culture in which difficult issues can be discussed? The first step is to understand that these challenges exist because of a gap between what employees believe (their principles) and how they act (the standards, or social norms). Just as integrity is doing what you say you will do, consistently linking your actions to your goals (or the company's goals), transparency is being true to yourself, consistently linking your actions to your principles. Transparency thus encourages honesty, which, according to surveys, is the prevailing personal value of employees all over the world. More than any other value, employees expect honesty of themselves and of those with whom they work. I am struck by how often managers tell me that the thing they most wish from their people is to be told when something is wrong.

When standards—how we do things—and principles—why we do them—are aligned, employees and managers don't fear raising difficult issues or admitting mistakes. For example, an engineer who raises a concern about product quality is given a chance to be heard and to help resolve the issue. Even if it turns out she was wrong, she is respected for having the company's welfare at heart. The incident becomes an opportunity to learn, itself a form of respect: "We're convinced it's worth sticking with you through some mistakes because we see your potential."

The manner in which J&J handled the 1982 Tylenol crisis has always been the model of transparency—an organization acting in a manner consistent with its principles. J&J immediately pulled the product from the shelves without regard to cost or public embarrassment. It did not obfuscate or disclaim responsibility on the grounds

that no employee had done the tampering. Although the FBI felt that pulling Tylenol nationwide would be a capitulation to the terrorist who had poisoned the product—something like paying ransom—J&J did it anyway because the Credo demanded it. J&J phone banks answered questions from consumers and from the media; they would even get back to reporters if answers to their questions weren't immediately available.

In repeated interviews, Jim Burke said that J&J's Credo made it easy for him and his team to know exactly what to do. The Credo states that J&J's "first responsibility is to the doctors, nurses, and patients, to the mothers and all the others who use our products and services." One observer has noted that J&J's capacity for such transparency in 1982 may have been due in part to an extraordinary exercise in transparency that Burke conducted in 1976. Sensing that the Credo was losing some its power, he met with his top managers for the express purpose of hearing out any criticism of it. The result seems to have been a rededication to the Credo, which helped save the day in 1982.

In stark contrast, McNeil leadership under Colleen Goggins has been described as evasive. Instead of taking responsibility for the unethical phantom recall, Goggins stated in her testimony before Congress, "Unfortunately, there has been some confusion in the media with respect to this recall," stressing that the recalled drugs had not been shown to cause illness. Donald Riker, a consultant to over-the-counter drug companies, said, "At every step in this process J&J has not been transparent. Every bit of information is cagey, secretive, and micromanaged."<sup>16</sup>

### **Putting the Pieces Together**

Integrity, commitment, and transparency do not operate independently; each depends on the others. But an organization should probably not try to address all three power values at once. Rather, it needs to know which value is the weakest link requiring the most immediate intervention. By understanding how the elements of the company's culture affect each other, you can avoid unintended consequences and

will be much more likely to create a virtuous cycle, with positive actions within one element of the culture promoting positive changes in the other two elements to create a positive feedback loop.

For example, the critical need for Johnson & Johnson is to restore transparency. Employees are not raising issues about quality in part because leaders have not demanded transparency of themselves and others. Burke succeeded in the 1982 Tylenol crisis because he was open to the world about what he knew and what he did not know. Restoring transparency—making it possible again for J&J employees to safely raise issues and to challenge whether decisions are consistent with the organization's core values—would begin to restore integrity and therefore a strong sense of commitment. A sense of commitment would make employees more likely to speak up about potential problems; they wouldn't want to see their company get into any trouble.

For other organizations, restoring or improving integrity is the proper starting point in removing a performance roadblock. Bureaucracy, inconsistency, and confusion are often among the top ten values reported in cultural assessments of major organizations. These negative values can create a vicious cycle. For example, when confusion about processes and procedures generates inefficiencies, frustrated employees develop a culture of blame in which they cannot communicate effectively. This lack of transparency leaves people feeling left out of the information loop, which erodes commitment and engagement. Frustrated employees may also conclude that there is no point in trying to do their best; this lack of commitment feeds on the lack of integrity, making it harder to improve the ineffective systems. And frustrated employees may be driven to cut corners and bend the rules just to get something done, putting their companies, and perhaps their coworkers and customers, at risk.

For yet other organizations, commitment is the starting point. After a merger, for example, employees often lose their sense of identification with and attachment to the company. This erodes their willingness to

walk the new talk, undermining integrity, while at the same time inhibiting their desire to be open and honest with the new leadership, undermining transparency.

*The 3 Power Values* will show you how to identify those linchpin behaviors that help generate the positive feedback loops that drive high performance.

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