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A Case For The Primacy of People, Values-Driven Leadership, and Increased Profits

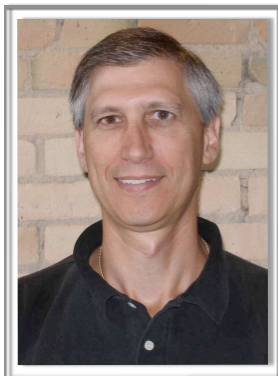
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Much has been written on the connection between corporate culture and business profitability. Companies that treat people right outperform those that don't. Yet in the face of the lowest job satisfaction scores ever recorded by the Conference Board, many executives continue to manage as if people aren't part of the profit equation. Henry Mintzberg says executives need to rediscover community. BB&T's John Allison says they need to become purpose-driven. Leonard Berry says they need to understand and apply values-driven leadership. And Jeffery Pfeffer sums it all up by concluding that when companies treat their people poorly they get exactly what they deserve.

Introduction

Professor Henry Mintzberg of McGill University noted in a recent July 2009 Harvard Business Review article "Rebuilding Companies as Communities" that it is important for corporate executives to ensure that they create and maintain a sense of community within their organizations. A corporate culture that embraces the idea of



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community, he says, can mitigate dysfunctional corporate behaviour.

The essence of what Mintzberg means by community is caring. Caring is a reflection of values, and is an essential part of a humanistic, positive, corporate culture. For executives leading organizations to create such positive cultures, they must define and align to pro-human values so that they can attract the best

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employees and motivate them to profitably create and retain customers.

The values that are espoused by corporate executives and form the basis for guiding individual behaviour must be integrated with the corporate mission and purpose. Achieving an alignment of values is what creates community. It is within the context of the business purpose and values that executives have the task of creating a workplace that both organizes the factors of production to create value for customers and creates and sustains a sense of community for employees – a sense of shared culture to guide cooperation in the achievement of the corporate purpose. To follow Mintzberg’s logic, the extent to which executives pay lip service to the business purpose and neglect their responsibility to create a humanistic and caring community, reflects the degree to which they are negligent in fulfilling their obligation as corporate executives.

Are CEOs Responsible For Corporate Culture?

Mintzberg comes to the problem of corporate dysfunction from the perspective of sociology rather than ethics, and by doing so neglects to address individual responsibility and personal accountability for dysfunctional executive management. He writes, “Decades

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of short-term management, in the United States especially, have inflated the importance of CEOs and reduced others in the corporation to fungible commodities – human resources to be ‘downsized’ at the drop of a share price. The result: mindless, reckless behavior that has brought the global economy to its knees.”

I would argue that cause and effect run in the opposite direction: that mindless, reckless, and intellectually lazy behaviour results in short-term management thereby creating organizational dysfunction and the myriad of economic and social failures pervasive in our culture today. As the late organizational development expert Elliott Jaques argues and demonstrates persuasively in *Social Power and the CEO*, CEOs and business leaders have it within their power to organize and effectively lead for the good of their organizations and the people they serve. “Employment organizations have the potential to become great and satisfying places in which to work, places in which people work together with mutual trust and collaboration, and pervaded withal by a strong sense of fairness and justice” (Quorum Books, 2002, P. 7).

One could, I suppose, argue that if executives that agree to take on the responsibility to manage and lead companies are operating from ignorance of their need to create “companies as communities,” then their



personal context excuses them from moral culpability. But if those same executives accept that creating a healthy corporate culture that promotes the alignment of personal and corporate values creates and sustains motivated and engaged employees, and that motivated and engaged employees are critical to the longer-term health and success of their organization, then their culpability is proportionate to the degree that they evade the issue and fail to take appropriate action.

Mintzberg's Example of Leadership Failure

Mintzberg points to the recent sub-prime mortgage problem as a representative example of the failure of executives to manage and lead within the full context of their responsibilities. "How could [the sub-prime mortgage problem] come about in the first place, and how could it have spread to so many blue-chip financial institutions? The answers seem readily apparent. Those who promoted these mortgages were intent on driving up sales as quickly as possible to maximize their own bonuses, the ultimate consequences be damned. And the financial institutions that bought these mortgages were not being managed. Many of their executives adopted what has become a pervasive style of 'leadership' in America: They sat in their offices and announced the goals they wanted others to attain, instead of getting on the ground and helping improve performance. Executives didn't know what was going on, and employees didn't care what went on.

Mintzberg: Executives should create and sustain a strong social system that encourages and supports community and a compelling culture.

If leaders pursue values that are antithetical to the values of those doing the work, minds will disengage.

What a monumental failure of management. To varying degrees, the same failure has occurred throughout the private and public sectors."

A Culture Of Community And Caring

The problem Mintzberg sees is the failure of executives to create and sustain a strong social system that encourages and supports community, which he describes as "the social glue that binds us together for the greater good."

"Community," he writes, "means caring about our

work, our colleagues, and our place in the world, geographic and otherwise, and in turn being inspired by this caring." The creation of a community of shared interests requires a robust and compelling culture: "A company without a compelling culture is like a person without a personality – flesh and bones but no life force, no soul. Organizations function best when committed people work in cooperative relationships based on respect. Destroy this and the whole institution of business collapses – as is now evident in so many companies."

If and when organizational leaders pursue values that are antithetical to the values of those doing the work, minds will disengage, resulting in "mindless, reckless behavior" where executives don't know what is really going on, and sadly, where employees just don't care.

Consider a recent 2009 Conference Board poll on employee job satisfaction showing that employees are increasingly less satisfied with their jobs and the companies they work



for. Only 45% of workers in the U.S. were satisfied with their jobs, the lowest level in the 23-year history of the poll (http://www.conference-board.org/utilities/pressdetail.cfm?press_id=3820).

Clearly something is terribly wrong with the fundamental philosophy of business management and leadership. Mintzberg would say that the systemic problem is a lack of caring, community, and respect by managers for the people they employ, and by implication, I would add, for the customers they serve.

Allison: Ethical Actions Create Value, Ethical Violations Destroy Value

Not all executives behave mindlessly or recklessly, of course, and certainly not all the time! Mintzberg's sub-prime example reminded me of an interview given by John Allison when he was Chairman and CEO of financial services organization BB&T Corporation. Allison noted that when companies like WorldCom and Enron find themselves in deep trouble, it's almost always due to an ethical violation, not esoteric strategy. These ethical violations are often rooted in corporate culture.

BB&T takes its responsibilities towards its employees seriously, and provides guidance and direction in both their corporate mission and purpose statements.

The mission statement in part says that BB&T will create a place where employees can learn, grow and be fulfilled in their work. It is through the service of outstanding

employees that BB&T expects to develop and maintain excellent client relationships that result in making the world a better place to live by "helping our Clients achieve economic success and financial security."

BB&T also recognizes "communities" in its mission and purpose statements, with a commitment to make them better places to be through the services the bank provides. Allison is convinced that living the vision, mission, purpose and values has been integral to BB&T's long-term

success (<http://bbt.mediaroom.com/index.php?s=18&cat=4>).

In talking about the practical implications of BB&T's corporate philosophy and value system, Allison stresses that BB&T is a purpose-driven company. As such, the board of directors and executives focus on a big picture, longer-term perspective through the creation of win-win relationships with customers. The bank strives to ensure fair dealings without ever taking advantage of clients. Sometimes that means giving up near-term profitability by *refusing* to provide customers with a product or service they want.

"Part of our mission," says Allison, in a 2007 Econtalk interview with George Mason University professor of economics, Russ Roberts (http://www.econtalk.org/archives/2007/05/allison_on_stra.html), "is to help our clients achieve economic success and financial security. We expect to make a profit doing that. We're very explicit about it, but we also expect to earn it.

Allison: When companies like Enron find themselves in deep trouble, it's almost always due to an ethical violation, not esoteric strategy.

Allison: "The conflict about profit is about how to make it without taking advantage of people."



We expect to provide them with better quality advice that helps them have a better quality of life.... We're trying to earn a superior reward through superior service. We talk about being more knowledgeable – being able to provide them with more quality advice. Of being more responsive – giving them an answer quicker. Being more reliable – we help people through tough times to the degree that we can. Being more empathetic – which means treating people as individuals. So we try to provide differentiated value-based service and earn a profit doing it. So the conflict about profit is how to make it without taking advantage of people. That's not how we want to get there.... We're not going to figure out how to outsmart people.”

Allison understands that creating more highly satisfied customers than the competition is how you retain them and earn higher profits, and that doing so successfully must be embedded in the corporate culture. He also believes that doing what is right for customers coupled with living one's corporate philosophy may lead to passing up opportunities that might be profitable in the short-term.

Allison's Example of Leadership Success

By coincidence, Allison provided an apropos counter-example to Mintzberg's sub-prime example: “We did not get into the negative amortization business,” he says. “A negative amortization mortgage is where the interest cost is more than the person pays every month. It sounds good when real-estate values are going up really fast, but we've

The evidence is overwhelming that satisfied and engaged employees are more productive.

Pfeffer: “Companies that treat people right will outperform companies that don't by 30% to 40%.”

been in the business long enough to know that real estate values don't always go up fast, so that when people are paying less than the interest on their loans, at the end of five years, in most real estate markets, you're going to have a lot of very unhappy people because they're going to owe a lot more on their mortgage than their house is worth. That's not a good thing. That got to be the fad last year and the year before. There was a huge

market in that. We could have made a lot of money doing that. We said no, we're just not going to do it because it's not good for our clients. Hopefully we talked some of our clients into getting a fixed rate mortgage and they're much better off today. Some of them just went somewhere else and got that mortgage. They aren't our clients any more and they made that choice. But we don't think profit is earned by doing the wrong stuff. We think profit is earned by doing the right stuff. So those kinds of things are connected together.”

If other bank CEOs acted on the same principles and values, Americans who bought homes they couldn't afford would not be defaulting on their mortgage obligations at record-breaking levels. Perhaps some or most of the negative effects of the Fannie Mae and Freddie Mac bailouts that started in 2008 due to government created moral hazard in favour of sub-prime mortgage lending could have been prevented.

Mr. Allison's example demonstrates that a culture built around clear values linked to moral principles can be a key element in pre-empting the kinds of mindless



and reckless management decisions and behaviours Mintzberg is concerned about, and instead contribute to the creation of a motivated, high-performance workforce.

Managing People Is A Profit Strategy

While it is difficult to conclusively prove a causal relationship between corporate culture and business success in any one instance, the evidence is overwhelming that satisfied and engaged employees are more productive. According to Stanford University professor of Organizational Behavior, Jeffrey Pfeffer, “Companies that manage people right will outperform companies that don’t by 30% to 40%.” Why? Because what separates one company from another are “the skills, knowledge, commitment, and abilities of the people who work for you.” Companies that treat people right have high rates of productivity and lower rates of turnover. Those that treat their people poorly experience the opposite and wind up with “toxic workplaces” that drive people away. Not surprisingly, people feel a disinclination to work for companies that create working conditions that people deplore.

Research by Texas A&M University’s Distinguished Professor of Marketing Leonard Berry presented in his 1999 book *Discovering The Soul Of Service*, supports Pfeffer’s observations. The companies that are most likely to succeed in energizing people at work and to achieve sustained business success are those that have a defined set of core values and conscientiously apply what Berry calls “values-driven leadership.” Such companies sustain and reinforce those values in support of delivering the brand promise to customers. “Humane values sustain human excellence,” says Berry. “It is both that simple and that complex.”

Conclusion

CEOs have to make a commitment to detoxify their workplaces by seriously understanding the need for, and committing to, the primacy of people. Jeffrey Pfeffer says it this way: when it comes to the link between people and profits, companies get exactly what they deserve.

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The Strategic Planning Group with the support of the Rotman Alumni Association at the University of Toronto recent conducted a survey of over 150 executives and managers to assess their perceptions of core elements of business culture on business performance. The results from T.S.P.G.’s *Corporate Organizational Vitality Index* instrument (COVI) show that there are large gaps in almost all areas between current business practices and desired practices as they relate to areas of corporate culture and organizational vitality. The overall score by participants was 68% of a High Performing Organization.

Identifying what the employees perceive to be the gaps begins the process of awareness and consciousness-raising that allows management to address the problems and should lead to a virtuous cycle of improvement. Having a tool to benchmark and measure organizational vitality allows for focus on improving those areas that will provide the greatest impact on the ability of a business to effectively execute its strategy.

An executive summary of our research and finding is available here: <http://www.tspg-consulting.com/surveys/COVIExecSummary2010.pdf>.



About
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Barry has been a partner with The Strategic Planning Group (www.tspg-consulting.com) since 1994. He works with senior executives and their management teams to develop business strategies and strategic solutions for their unique business problems. He is an advocate of the need for a market focus to drive customer, employee, and shareholder value. Barry holds an M.B.A. from the Rotman School of Management, University of Toronto, and a M.A. in Philosophy and B.A. in Sociology from York University in Toronto. He is an Associate Member of the Global Organization Design Society. His article “Think Like An Iconoclast: The Principles of Walt Disney’s Success” was published in Rotman Magazine (Spring ’09) and “The Project Management Paradox” appeared in the Ivey Business Journal (March/April 2008). To read these and other essays on general business topics by Barry, go to <http://www.tspg-consulting.com/essays.htm>.

About
The Strategic Planning Group

The Strategic Planning Group (T.S.P.G.) is a full service consulting firm that can provide organizations with a wide range of advice, business tools and solutions. At T.S.P.G. our focus is on helping our clients solve their complex issues to realize their ultimate business potential, whether we are helping to set the overall strategy for the organization or assisting in a particular functional area. Our practical-results-oriented approach to solving business problems, combined with our personal commitment and dedication to providing great value for our clients, makes us the consultants of choice to blue-chip executives across North America.

We aspire to be more than just consultants. For us to be successful in helping you we need to understand how you operate and what challenges you are currently facing. We want to help you achieve your goals and your ultimate business potential. To accomplish this we must be trusted and objective advisors by contributing our knowledge, experience and thinking in ways that have a positive impact. We want to be *your* consultants of choice – as we are for other senior executives – for all of your strategic business needs.

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