DAVID GEBLER

THE 3 POWER VALUES

How Commitment, Integrity, and Transparency Clear the Roadblocks to Performance

Praise for *The 3 Power Values*

"I have seen David Gebler put these powerful ideas into action, and they work."

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"David Gebler's book draws as much on his decades of hands-on experience working with companies on their ethical challenges as it does on his keen insight into the three values—commitment, integrity, and transparency—that drive any company's performance. It's essential reading for all managers striving to understand their corporate culture and create a high-performing organization."

—**Jeffrey Seglin**, author, *The Right Thing: Conscience, Profit, and Personal Responsibility in Today's Business*

"*The 3 Power Values* is a must-read for every manager. Creating a culture of trust and commitment is crucial for any institution to survive long term. Yet sustaining cooperation internally and maintaining a reputation for trustworthiness is complex. *The 3 Power Values* is a clear and unique guide to creating and maintaining such a culture. It is simple without being simplistic, and convincing without being rigid and inflexible."

—**Tamar Frankel**, professor of law, Boston University School of Law; author, *Trust and Honesty: America's Business Culture at a Crossroad*

"A breakthrough, commonsense primer for establishing effective corporate cultures to assist employees in avoiding costly and destructive ethical and legal lapses. A compelling read for corporate leaders in today's heavily regulated and overly litigious environment."

—**Harvey L. Pitt**, CEO of global strategic business consultancy, Kalorama Partners; 26th Chairman of the U.S. Securities and Exchange Commission

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For Claire

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PREFACE

It might seem unusual, but the origins of this book stem from a comic strip. In the early 1990s, I was cofounder of a small consulting firm that was among the first licensees for the new *Dilbert* comic strip. Having secured the rights to use Scott Adams's characters for internal communications and training, we worked with companies that were trying to be open and self-effacing about their challenges. I began to see a fascinating gap: everybody knew there were issues facing their company, but no one seemed to be willing to talk about them. In fact, *Dilbert* strips became the language by which employees could communicate their feelings. People wouldn't say anything to their manager, but they would post a comic strip on their door or cubicle wall.

Several of the early classic strips mocked Dilbert's company's core values. I thought a lot about why that was so funny. The values, such as integrity and trust, were good and important concepts. So what made them such perfect targets for satiric irony? The employees wanted these values. The organization said it wanted these values. What was happening in the middle to make such a joke—and such a mess—of it?

I carried this puzzlement with me as I began to help organizations develop ethics and compliance programs. Companies that wanted to reduce and prevent misconduct kept falling back on check-the-box compliance training that basically told employees: "These are the standards of behavior that are expected of you." It soon became clear that employees rarely needed to be told that they should do the right thing or even to be told what the rules were. They knew all that. What they needed was help in removing the frustrations and pressures that could cause a good person to do a bad thing. As I dug more deeply, it also became clear to me that the root cause of ethics issues was also the root cause that kept an organization's performance weaker than it needed to be or made it hard to motivate employees who really wanted to be engaged and committed to the company. At the heart of performance is the environment in which employees work: the culture.

Culture was clearly having an impact on performance, and yet leaders were not seeing it. I felt like the little boy in the fable who was the only one willing to shout that the emperor was not wearing any clothes. Why is it so hard to say what needs to be said? I saw that most organizations did not have a systematic way to look at their culture so that they could make the changes needed to improve performance.

One of the challenges for leaders who want to influence their culture is that culture cuts across many disciplines. The task of understanding culture requires the best thinking in leadership, ethics, organizational development, behavioral science, and psychology. Extensive new research over the past twenty-five years or so has helped uncover the factors that influence behavior. Classic social psychology has always had insights into how to create an effective and high-performing culture. There is plenty of information on this topic but not many strategies for organizing the data so a leader can develop a coherent plan. If you are like most other leaders, you know that you should look at culture and that improving the work environment will improve performance and reduce the risks that bad things will happen. But you don't know where to start. And one reason is that you do not have a workable model of culture that will help you change how people go about their work.

The 3 Power Values presents a new way of looking at culture that is geared to helping managers and leaders make the link to performance. I present a model of how various elements of culture can either work together to create a high-performing organization or work at cross-purposes, creating dysfunction that can lead to poor performance or even misconduct.

From my twenty years of experience working with large and small organizations across the globe, I have learned that employees already embody the values needed to create a high-performing culture. Leaders do not need to invent a culture. They just need to get out of the way of their people creating one naturally. I found that every organization has key levers that managers can use to influence the behaviors that drive culture. Behaviors associated with three values—commitment, integrity, and transparency—remove the behavior-based roadblocks that keep people from being able to live their values at work. That's when corporate core values stop being a joke.

Culture change needs to be supported from the top of the organization, but it needs to be implemented in the field. This book is for every manager or leader who feels the need to create a more effective team, unit, division, or organization. I offer you practical advice and guidance, gleaned from my work with global organizations, on how to make changes in your organization's culture that will improve its operational and ethical performance.

Throughout the book, I refer to people, employees, managers, and leaders. When I speak about the "people" in an organization or about "employees" generally, I am referring to everyone who works in an organization, from hourly employees through senior leadership. I use "line employees" if I am referring to employees who do not manage others. When I speak of "leaders," I intend to include anyone who manages others, from a frontline supervisor to the CEO. If I am intending to refer to senior executives, the context will make that clear. I shy away from distinguishing "managers" from "leaders," because every manager is a leader and each has his or her own set of responsibilities and role to play in managing the culture.

Removing the roadblocks to performance is a journey. The successful companies are the ones that focus less attention on what the final destination will look like—too many things can change along the way—and more on how they are going to get there with their mission, their skills, their profits, and their principles intact.

Let's get started.

Sharon, Massachusetts David Gebler
February 2012

THE 3 POWER VALUES

PART 1

Alignment Is the Key

1

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."[1]

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.[2]

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."[3] 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.[4] 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.[5] 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.[6] 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.[7] 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.[8] Recall Lothrop, which did have a legally defendable 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,