IS A VALUES-BASED CULTURE WORTH THE EFFORT?

A high-performing culture doesn't just happen. It can't be forced into being through willpower. But it can become an inevitability if you create the right environment to foster it. We have found that to move to a positive, performance-enhancing culture, leaders simply need to model the values and behaviors they want to see in employees *and* create systems to reinforce those behaviors. Yes, it is simple conceptually. You can change culture by design if you remember that you can influence how your employees think. Your corporate culture can actually elicit cooperation and commitment from employees, almost without their awareness, if your values are clear and your systems are properly designed to reinforce them. And, perhaps surprisingly, a strong corporate culture can have a huge and direct impact on performance.

In the course of my work, I have become convinced that positive, people-centered corporate values lead to higher performance. Perhaps you have noticed that in the thirty-five years of its values-rich existence, Southwest Airlines is the only airline that has been profitable during every one of those years. Research similarly supports these findings. For example, Harvard professor Rosabeth Moss Kanter studied large market leaders worldwide that she calls "vanguard companies." She has found that these companies have been able to nimbly deal with challenges

and transform themselves when necessary because they are "fundamentally driven by a core set of values."[1] A 2008 American Management Association study found that a "positive corporate culture" is associated with higher performance.[2] And as far back as 1999, Ronald Burt suggested that a good culture was a "competitive asset associated with economic performance." Burt, a professor of Sociology and Strategy at the University of Chicago Booth School of Business, found that almost 25 percent of the return in his sample companies was accounted for by the relative strength of their corporate culture.[3] More recently, a study of thirty large corporations over the past five years by consulting firm Senn Delany in Los Angeles showed that culture change "led from the top and encompassing every part of the organization can deliver huge cost savings, improve performance, and boost profitability."[4]

Too many leaders, though, feel that corporate culture is a low priority, especially when compared to running the business day-to-day. My colleagues in culture-rich companies would respectfully disagree. "The best companies—those with clearly articulated values and a sense of direction—have a constant sense of urgency but they're not frantic and under enormous stress," noted Joel Peterson, chairman of the board of JetBlue, founder and chairman of Peterson Partners, and former CEO, Trammell Crow. Is your company like an emergency room, he asks, a survival culture that's just trying to keep the company alive or maximize sales or new product development? That works great for a while, but your best people will burn out eventually. Remember, the best employees—your A Players—have options, no matter what the economy is like. In the war for talent, as in the war for profit, culture does make a difference.[5]

DOES YOUR COMPANY NEED A CULTURE CHANGE?

If your turnover is high, your customers are unhappy, and your A Players can't wait to leave, you need a culture change. In a business that needs culture change, the best employees—the A Players—don't have

any loyalty to your company. They know they can command good pay and good working conditions anywhere. So when rough times hit, many just hunker down, confident that a better opportunity will come along eventually. They'll run when it does. The B and C players may be running, too. High turnover, in fact, is a waving red flag that culture change is necessary.

You may even need a culture adjustment if your company or division is doing pretty well. You may be making your goals. But if your employees don't understand your company's values—and what behaviors exemplify those values—then you are missing an opportunity to achieve greater success. In those circumstances, those results you may be proud of today won't last. You'll plug along; long-term performance will never approach greatness. Worse, without solid, behavior-based values, you are vulnerable to employee poaching by any competitor who discovers how to define and live up to values that employees can be proud of.

When a culture isn't working as well as it should for an organization, it shouldn't come as a shock to its leaders, but it often does. One client I worked with spent two years avoiding speaking one-on-one with his people and ignoring feedback as he struggled to keep the company out of bankruptcy. He thought he still had a great relationship with the rank and file because every time he gave a speech, he emphasized the positives of the situation. Strangely, his people told us that they were telling him all along that the culture was fragmenting under the strain, but he swears that he hadn't heard them say anything was wrong.

One of the values that developed in his company, obviously, was the need to protect the CEO from bad news. His employees felt sorry for him, struggling as he was under the strain, so they decided to keep him in the dark. Clearly he needed a culture change. We helped him figure out, with the input of his people, that two important values this company needed to adopt were transparency and humility. The first step this leader took after that was to immediately go out and tour every one of his facilities. He told his employees about the turnaround that he was

still in the midst of and (very difficult for him) asked for assistance. Even with two years of miscommunication to recover from, most employees decided to pitch in and help.

We all know the names of companies that have run into problems because of negative cultures or cultures not focused on customers—for instance, airlines that started charging for bags during hard economic times. JetBlue has not considered charging for baggage because doing so simply does not fit in with its of value of caring, both for employees and customers. Although the company may make more money on a baggage charge, employees take the brunt of negative customer feedback. Huge financial gains could result in the short term, but there could be real consequences down the road as customers move to other carriers who do not charge those fees. Caring about customers is simply too important a value for JetBlue and Southwest to trample on it with something as trivial as bag charges, even though doing so could afford them large short-term financial gains.

Does your company need a culture change? Or does it just need to tie employee behaviors to its perfectly fine values? Most companies could improve in both areas. Others are in need of a radical values overhaul. Where your company falls on the continuum doesn't matter, really. It has been our experience that every company that decides to embark on the Values Blueprint process will see some improvement in these areas:

- *People problems.* Turnover rates higher than your industry are a red flag, as are concerted efforts to unionize. In addition, employee satisfaction surveys that are screaming with either dissatisfaction or indifference are often ignored or not action-planned against for too long.
- *Customer satisfaction.* If your company has not defined good customer service behaviors, customers will suffer, as will repeat business and profits. Once you begin to understand values-oriented behavior, you will see examples of the *lack* of it all around you. How prevalent is it in your company?

- *Falling quality scores.* Quality lags first become apparent in many companies in a growing problem with cleanliness and order. Are your employee restrooms a mess? Do your people litter your grounds or allow debris to accumulate in their work areas? In this situation, quality control will soon start identifying growing numbers of preventable errors.
- *Lack of trust.* If leaders are not transparent and straightforward, that is a value that will quickly spread throughout the organization. Leaders who repeatedly lie about provable things, like performance results, are showing what the organization values through their actions.

The Bernie Madoffs and Enrons of the world had a skin-deep attitude toward values that worked fine until, suddenly, it was exposed as a fraud. These companies were among those that professed to take values the most seriously. They just didn't live the values that they put on the wall. They had values all right, but they were the unspoken ones: greed and hunger for power.

CULTURE BY DESIGN

Obviously, I think creating a culture on purpose is far superior to just letting your culture grow without guidance (which it will). But I am not proposing that companies adopt some ideal set of values that can somehow magically create a high-performing culture. No such set of ideal values exists, although caring, integrity, customer focus, and the like routinely appear in the Values Blueprints I help companies create. Rather, the values that are right for your company depend on your competitive space, your product offerings, your target customers, and many other factors unique to your company.

As I'll discuss in detail in upcoming chapters, your goal in the design phase of the culture change process is to develop a set of values and

value-based behaviors that everyone in your company can embrace. Written down and summarized in a one-page document, this is what I call a Values Blueprint. The first step in implementing a Blueprint that works for you is to figure out what set of values operates in your company now. It is essential to assess what value systems your employees at all levels believe they are operating under as well as their behaviors when faced with important decisions. It is necessary to delve deeply into exactly how employees and customers feel about the company and its values in order to know where changes in those values are necessary. The more information you collect at this point on the "is state" of the company, the better your ability to construct a new set of values that will capitalize on your strengths and create a high-functioning company for your customers. Themes and trends will emerge from your assessment process that will be essential to an understanding of the values and behaviors that will fit your company and its goals.

The next step in the process is naming a Values Committee (five to thirty people, depending on the size of the company) that will be in charge of the overall process of change. These employees should be drawn from all areas of the company, especially from top-performing, committed employees on the front line. Unless you involve such employees, the process will have little credibility and is very likely to fail. After this step, it won't take long to embark on real change. Your Values Committee will go off-site for a two-day Values Workout retreat and will use the assessment data collected, as well as their own knowledge, to hammer out a preliminary set of values and behaviors. What they bring back—a draft Values Blueprint—is then subject to discussion and vetting throughout the company, not just in the executive suite. Most of my clients find that, if they've listened to the assessment piece and included front-line employees in the process, they get more praise than criticism for the values and behaviors they come home with.

And then the essential piece: the Values Blueprint needs to be tightly integrated into your organization's DNA and used for every subsequent decision in the organization, including hiring, compensation, benefits,

communications, and even executive behavior. If it isn't, you might as well just hang it up on the wall and forget about it.

HIRING BY DESIGN

Not every talented person will thrive in every company culture. You need to create a system of hiring whereby you hire people who share your organization's values. Just hiring the most talented and experienced person does not mean you're hiring the best person for your company. In fact, David Neeleman, the founder of JetBlue, would probably admit that he didn't quite fit with the culture when he worked at Southwest. He was constantly questioning how things were done there, pushing people to upgrade technology, and generally questioning twenty years of success. (I know; I was there.) "What to do about David" became a topic of constant discussion. David eventually went on to found West Jet in Canada and eventually JetBlue and developed cultures that were much more in line with his thinking regarding technology. He is the father of the e-ticket, after all.

Unlike David, other people will simply keep their heads down so they can keep collecting a paycheck. Meanwhile, you are filling your organization with employees who just aren't happy or excited about their work. Some of the best companies recognize this dilemma and deal with it directly. Zappos.com offers new hires $2,000 to quit within ninety days after training if the new employees don't think they are a match for the Zappos corporate culture.[6]

What if your organization is already full of people simply biding their time and collecting a paycheck? Some kind of mismatch of environment and culture is obviously going on, but it is often not clear what it is. Are you hiring the wrong people? Why is that? In many cases, the "wrong" people are hired because line managers are not at all sure how to hire people to fit into the corporate culture. Your company's values may simply be words on a wall or in print that are ignored in practice.

Managers probably don't even know what specific behaviors to look for in employee interviews so that new hires will fit into your existing culture. Maybe your culture itself is the problem: in the struggle for growth and profit, it may have grown up without much conscious thought devoted to the behaviors that will contribute to long-term success. Your culture may now be something that actually makes it harder for your company to be successful.

If no one articulates what the real values of the company are, managers are left to glean them from the CEO's speeches and actions, memos from corporate, and their own performance reviews. And glean they will. As a result, in a lot of companies, managers might as well be reading tea leaves or putting fingers up in the wind to see in which direction they should tack. So is it any surprise that hiring managers fall back on the old reliable standards of hiring people they like, whose resumes look presentable, and hoping for the best? Not surprisingly, that sort of hit-or-miss hiring method results in a lot of misfires. If you have never really thought about (or been told) what your company values, you just cross your fingers and hope that your new hires will "fit in."

Len Trainor, CEO of the thousand-employee Heritage Home Health Care, tells the story of a woman he would definitely have hired before the company went through the Values Blueprint process that I recommend in this book. After her interview, Trainor says, his reaction was "I like her—we hit it off." But he also recalled, "She rambled a lot and couldn't give a complete story of handling a crisis with a patient from start to finish. It was obvious the situation was never resolved to the satisfaction of the patient, and we didn't hire her. But we would have in the past because I liked her so much, personally."[7] I would have loved to have known about this method in the early days of my own career. When I was the HR and marketing officer for a bank, the first person I hired was a head teller. I chose her because I thought she was a nice person and she had prior experience. The next day, she walked out of the bank with the entire coin vault wrapped as Christmas presents. Moral to the story: there is more to hiring than "gut feel." Should

I have been interviewing for the values of integrity and honesty? You bet. But the company's priority was to find someone experienced to fill the position—and do it in a hurry. With some better interviewing methods (which I'll be showing you in detail later), I might have realized that what this woman did not value was honesty.

In a values-based interview, for example, you wouldn't ask people to tell you their strengths and weaknesses; you'd ask them to tell a story. We advise hospital clients, for example, to include a question about how prospective employees saved a life or changed an outcome for the better by telling the truth to superiors, regardless of consequences. If one of your values is integrity and the prospective employee can't think of an example in which she told the truth even when her job was at risk, she's probably not a good match. I wish I had known to ask that when I was hiring the head teller!

A BLUEPRINT FOR VALUES

Loma Linda University Medical Center, based in California, is a century-old institution that, with some effort, got the culture, the hiring, and the entire blueprint for a values driven organization exactly right. Loma Linda has always had a great reputation in the community; however, in 2006 actual patient satisfaction after a stay was only 42 percent in the Gallup Organization survey. "We wanted to move from good to great," notes Dr. Gerald Winslow, vice president of mission and culture at Loma Linda. "You can teach people best practices, but that doesn't mean they will actually do them unless they are reinforced."[8] In that, they are succeeding spectacularly well—by 2009 Gallup patient-satisfaction scores had risen to 86 percent and continue to rise.

Loma Linda began the process as all of our clients do, by naming a permanent Values Committee made up of people from all areas of the hospital, including front-line employees, doctors, nurses, support staff, and a couple of people from top management. They spent two days

clarifying their values and working on the Blueprint: they felt, because of their reputation with prospective patients, that their core values were good. Teamwork, wholeness, integrity, compassion, and excellence were the values that emerged from this process. (Conveniently, they formed the acronym TWICE, now often used to remind employees to think twice about values.)

This is where many culture change efforts end. Slap those values up on the wall and expect everyone to figure out for themselves how to live them.

In order to make sure the values were, instead, percolated through the entire organization, Loma Linda embarked on an effort to tie values to specific behaviors, in every job category. Teams of hiring managers and A Players in each department, selected by the Values Committee, identified the key attributes for each and every job and tied them to one of the values. The work of these teams allowed the hospital group to create an interview guide for each position that not only verified the attributes but also identified a cultural match.

Then the hospital group implemented a new copyrighted leadership model called SOAR (Select, Orient, Appraise, Recognize) to make sure that values-based behavior was selected for and reinforced at all levels. The first step, "Select," begins with teaching managers values-based hiring techniques at an all-day seminar. Temporary workers were hired and brought in to serve as interviewees during live practice sessions. "It was a revelation to me and the other leaders," notes Winslow. "We discovered that we didn't do interviewing particularly well when it comes to hiring for our values, but there was still some resistance because they felt they already knew how to interview."

Loma Linda also had A Players from the staff level participate in the training and demonstrate the interview techniques. Winslow called that "truly revolutionary" because the A Players pick up on things leaders don't. "Instead of 'tell me about yourself,' you'll hear the A Players ask things like 'tell me what you did when you had a really unreasonable deadline to cope with,'" says Winslow. "And what you don't hear in the

answers is 'typically' or 'generally' or 'we,' at least from the people you want to hire. You find a lot of enthusiasm in people who relate to the values and a lot of eye contact. We look for that."

Another innovation for Loma Linda is the selection team. Three people, a manager, an A Player peer, and an HR staffer interview each prospective hire. And any one of them can be overruled by the other two. "Did you ever stop to think how much more time people spend choosing a copy machine than a colleague?" asked Winslow. "How much more time does it take to fix a mistaken hire?"

Once the hiring decision is made, the next vital step at Loma Linda is "Orientation and Onboarding." Winslow says that orientation formerly consisted of "laying out rules in a fairly perfunctory and mind-numbing way." (Sound familiar?) The hospital group now calls orientation "Living Our Values Day" and tries to make it fun and participatory. The day is hosted by the CEO or a senior VP, and much of the first day is spent discussing stories about our values and letting employees talk about their values. And rather than presenting a lecture about employee benefits, the leaders take new hires on a tour of things like the fitness center, which Winslow calls their "benefits fair." The more boring elements, required by compliance, are livened up with a team-based quiz show and generous prizes for knowledge. And at the end of the day, new employees are asked to fill out a personal commitment card. This will be opened in ninety days by the employee and a supervisor together. "The purpose is to provide the employee an opportunity to reflect on the values they expect to be living by from now on," says Winslow.

After you've hired the right people, the most important thing you can do is make them want to perform at a top level—the A level. Your people will follow you off a cliff if you have set up systems and "Appraisals"—the third element of SOAR—that provide them with rewards for values-based behavior. And they'll do what's necessary to mirror those behaviors, almost without effort, because they have the comfort level of knowing what's expected and being rewarded for it.

The result? Turnover decreases, sometimes dramatically, satisfaction goes up all around, and financial metrics show positive movement.

At Loma Linda, the interview guide has been incorporated into a computerized multi-rater evaluation system. Each employee is evaluated by three peer raters, their manager, and themselves. About 50 percent of the weight is given to living the values and meeting goals; the rest is given to specific job performance criteria that constitute a "mirror image" of the interview process. "It is laughable now that before we started this process, we were giving 5 percent weight to meeting goals," says Winslow. "I expected a lot of pushback on that, but I got very little. People want to work on a good team and be evaluated on behaviors that are not subjective."

The final piece at Loma Linda, and in similar form for all of my clients, is "Recognize." If you don't reward people (and not just with money) for exhibiting the values, they will assume the program is just more management hot air. You must also remember that not everyone wants to be recognized in the same way.

I've found that you don't even need huge monetary rewards if employees feel the leaders appreciate what they are doing. JetBlue's founding CEO Dave Neeleman and then-president Dave Barger (now CEO) sent personal thank-you notes and also regularly published company-wide "Blue Notes" to recognize great behavior. At Southwest, to my amazement, CEO Herb Kelleher of Southwest kept track of eight thousand employee collections and tried to send a new piece to employees he wanted to recognize: a signed baseball, say, or a Hummel figurine—whatever the employee collected. But even that would not have come close to creating JetBlue's and Southwest's high-functioning customer-oriented culture if those leadership actions had not been based on clear values tied to desired behaviors. You must first clearly delineate the behavior you want before you can elicit those behaviors and extinguish others. And it is essential that those behaviors are directly derived from the values you determine are important for success.

LEADERS DRIVE CULTURE

Think about how your people would react if they were asked to step up and help the company thrive—or even survive. Would they sign on for shared sacrifice? Or would they look at your salary and perks and say, "You first"? Would they remember that you hardly ever visit them and talk to them personally? Or would they recall the many ways you've helped out personally when things got rough?

In 2008, Dave Barger, the CEO of JetBlue, took a 50 percent pay cut. He did that so that no layoffs or pay cuts would have to reach employees when jet fuel prices headed for the stratosphere. That's the kind of thing that employees remember. But it also helped the airline weather the horrible travel year of 2009. According to Standard and Poor's, JetBlue experienced the only positive returns in the airline industry, recording $3.4 billion in revenues, a 19.2 percent increase over the previous year. At Starbucks, which also experienced challenges beginning in 2006, chairman Howard Schultz was famous for visiting shops all over the world to talk to employees about their experiences and mix a frappé or two. Schultz stepped back into the role of Starbucks CEO in 2008 after a hiatus of eight years, and in fiscal year 2009 income grew 23.9 percent, although as of this writing they haven't completely come back to pre-recession levels.[9] Is this recovery the result of Schultz's making an effort to reach out to employees? I think it definitely has to do with his intense focus on people. It says something when a CEO closes nine hundred stores at the same time in order to spend three hours retraining employees.

When you are a leader of a company, division, or department, every one of your actions matters, but particularly those that display your true values. Your people talk about everything you do, and it becomes a part of your company's DNA. The best leaders understand the incredible impact their actions have on how employees behave every day. I've worked closely with more than my share of leaders who were acutely aware of everything they did and used it consciously to shape their corporate cultures. But it was never so plain to me as it was one day shortly

after I joined Doubletree Hotels. When Rick Kelleher, the CEO, and I travelled to one of the major cities within the Doubletree system, the regional manager of Doubletree in that city decided to send a limo to pick us up. Then Rick told him to "cancel the limo" because he felt it would make us look elitist to the employees who would be greeting us. To him, it was all about servant leadership, and he knew that the "optics" of any given situation are what people remember.

Think twice about the Porsche and the private jet, too. Employees who feel that their leadership team is flaunting their status will be significantly less motivated to make any extra effort for your company's success. Changing your culture from "my company" to "our company," on the other hand, will make a big difference.

THE CIRCLE OF EXCELLENCE

Great leaders are driven by competitiveness and performance. They want success for themselves—and for the people they lead. They understand that long-term success is possible only when you inspire the people around you to come to work every day prepared to do their best. Those are the leaders whose employees will do their very best for the company in good times and bad.

This is what you must drive home to your people—they are in charge of moving your company to a new "wow state." In a very real sense, all of your employees must become leaders who are responsible for executing the values your company will live by going forward. But here's the real slap upside the head: if your values are inspiring and connected to behaviors, hiring, and rewards, *your culture will become higher performing by itself.* You'll be creating a self-reinforcing circle of excellence that will operate even when you're not looking, because you are selecting for the behaviors you want, then rewarding those behaviors. People will do what they are incented to do, every time.

Your senior leaders also play a vital role in creating a self-reinforcing culture of excellence. Figure 1.1 shows how.
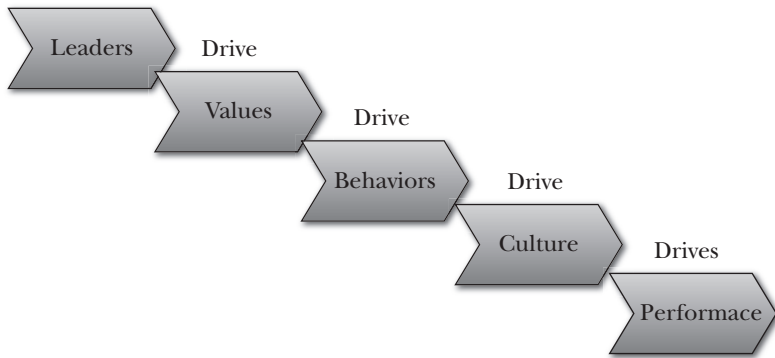
Figure 1.1. Drivers of Performance

- *Leaders drive values* by making the commitment to a values-based culture and leading by example.
- *Values drive behaviors* by acting as a mechanism for illustrating to employees what acceptable behavior in the company looks like. Values must be defined by behaviors that any employee can recognize and emulate.
- *Behaviors drive culture* because the collective behaviors of people in the organization are, by definition, the culture, for good or ill. Leaders must create the environment that encourages a high-performance culture based on values.
- *Culture drives performance* because people who are committed to and understand the values and behaviors will take responsibility for performance.

    To ensure that you are hiring and retaining the right people, who will behave in ways that make your company succeed, you need to make sure that values and behaviors reinforce each other, from the top of the company to the bottom. The challenge is determining what your values are, whether they need changing, and what behaviors you want to reinforce.