SECRET ONE
Love Your Employees

SECRET TWO
Connect Peers with Purpose

SECRET THREE
Capacity Building Prevails

SECRET FOUR
Learning Is the Work

SECRET FIVE
Transparency Rules

SECRET SIX
Systems Learn

SECRET › ONE

Love Your Employees

Theories can be very general or more grounded. For our purposes—helping leaders thrive in complex times—theories need to be close to the action. Secret One takes us all the way back to the general theory of Douglas McGregor a half century ago. McGregor (1960) contrasted two theories of human motivation concerning behavior in the workplace, which he called Theory X and Theory Y.

Theory X Assumptions

- The average human being has an inherent dislike of work and will avoid it if he or she can.
- Because of their dislike for work, most people must be controlled and threatened before they will work hard enough.
- The average human prefers to be directed, dislikes responsibility, is unambiguous, and desires security above everything else.

Theory Y Assumptions

- If a job is satisfying, then the result will be commitment to the organization.

- The average person learns under proper conditions not only to accept but to seek responsibility.

- Imagination, creativity, and ingenuity can be used to solve work problems by a large number of employees.

Let's go back even further to Frederick Taylor, a proponent of Theory X almost a century ago in his *Principles of Scientific Management* (1911/2007). According to Taylor's studies in the steel industry, work tasks could be broken down, and workers could be taught to perform them with maximum efficiency and productivity. Taylor (2007) developed four principles of scientific management:

1. Replace rule-of-thumb work methods with methods based on a scientific study of the tasks.
2. Scientifically select, train, and develop each worker rather than passively leaving them to train themselves.
3. Cooperate with the workers to ensure that the scientifically developed methods are followed.
4. Divide work nearly equally between managers and workers, so that the managers apply scientific management principles to planning the work, and workers actually perform the tasks [p. 31].

Taylor demonstrated, for example, how a worker could be taught to nearly quadruple the volume of pig iron he moved simply through optimal timing of lifting and resting. (Incidentally, the six secrets actually integrate Theories X and Y and even Taylor's principles, but we are getting ahead of ourselves.) We leave Taylor for the time being and return to his ideas on the more modern concepts of precision and specificity. We will see that there is no incompatibility between being consistent in using what we know while being open to improvements (Secret Four).

Taylor did discuss the relationship between managers and workers, and this goes to the heart of secret one. We need here to examine more closely the relationship between employees and customers, and how managers conceive of this relationship. To take an education example, consider what looks like a straightforward case: that children should be first. Secret One belies that one-sided conclusion.

The major trumpet call for education in the United States is a piece of legislation called *No Child Left Behind.* England's is *Every Child Matters.* New York City's is *Children First;* these are the first two sentences of its report: "We call our plan Children First and we mean it. Our goal is to focus everything we do on the only outcome that matters: student success" (New York City Department of Education, 2007, p. 1).

I have centered my own work around the moral imperative of raising the bar and closing the gap of achievement for all children, so I am an advocate of the sentiments expressed in these policies. But there is one problem: Secret One tells me that the children-first stances are misleading and incomplete.

A new report from McKinsey and Company focusing on the top-performing school systems in the world provides the central reason why we must value employees (in this case teachers) as much as customers (children and parents): "the quality of the education system cannot exceed the quality of its teachers" (Barber & Mourshed, 2007, p. 8). I'll mention two examples of how even the best school superintendents can miss the nuance of Secret One, knocking its delicate balance out of whack. Gerry

House was superintendent of the Memphis City School District in Tennessee from 1992 to 2000. The Memphis district has 110,000 students and 161 schools. One in three children live in poverty. The superintendent's theory of education was to commit the district's schools to select among seven so-called whole-school reform models that had been sponsored by a national agency.

By 1998, 75 of the 161 schools were involved, with more being added. House was awarded the 1999 National Superintendent of the Year Award. Yet within a year she resigned. What went wrong? The answer is very much Secret One foretold in a 1998 report by an external research team: "teachers and principals express fatigue and feel unappreciated" (cited in Franceschini, 2002). Superintendent House, in the heat of battle in 1999, responded to teacher protest saying that "lagging test scores in city schools leave no room for the faint-hearted." (Any time you hear a manager say that the work is not for the faint-hearted, head for the exit, because this is a sure sign that Secret One is not understood.)

A similar example of another great school superintendent concerns Tony Alvarado, the highly successful leader of District 2 in New York City, who moved in 1997 to become chancellor of instruction (reporting to chief superintendent Alan Bersin) in the San Diego Unified School District. Alvarado and Bersin were in a moral hurry, as well they should have been, considering the low performance scores of students in San Diego schools. The relentless push from the top was met with mounting resistance in the union and on the part of some teachers. Alvarado was asked to leave in 2002, and Bersin was replaced by the school board in early 2005. The story is complicated (see Hubbard, Mehan, & Stein, 2006), but my point is that Bersin and Alvarado never figured out how to love their employees as much as their customers (students and parents). And yes, if you must choose one over the other, choose your customers, but my point is that this approach is doomed to failure.

Carl Cohn, who replaced Bersin as superintendent, publicly distanced himself from the Bersin-Alvarado approach and wrote an article in the national publication *Education Week* titled "Empowering Those at the Bottom Beats Punishing Them from the Top" (2007). Shades of Secret Three, but not the nuances; it is not just that you don't punish them, but also that you invest in their capacity building linked to results.

Secret One, then, is not just about caring for employees. It is also about what works to get results. It is about sound strategies linked to impressive outcomes. One of the ways you love your employees is by creating the conditions for them to succeed. This notion is related to George Bernard Shaw's observation: "the difference between a flower girl and a lady is not how she behaves, but how she's treated." This is pure Theory Y. But there is more to it than that. It is helping all employees find meaning, increased skill development, and personal satisfaction in making contributions that *simultaneously* fulfill their own goals and the goals of the organization (the needs of the customers expressed in achievement terms). If that fulfillment is not simultaneous for employees and customers, Secret One is not in place. In implementing Secret One, you can have your Theory X and eat your Theory Y too.

Secret One in Action

One of my criteria for theories that travel is that they help us make sense of the world while guiding action in a good way. The test of Secret One is whether there is any proof that loving employees and customers equally can be done such that everyone benefits. I have already made the point that one without the other is deficient, but what does combining them look like, and what proof is there that the results are beneficial?

I find solid evidence in a book with the cute title *Firms of Endearment* (Sisodia, Wolfe, & Sheth, 2007). The fact that it is grounded in evidence relative to named companies is especially helpful. Firms of endearment (FoEs), say Sisodia et al., endear themselves to stakeholders (customers, employees, investors, partners, and society). When these authors claim up front that *no stakeholder is more important than any other*, they are getting at the core of Secret One. FoEs create emotional value, experiential value, social value, and financial value. Customers, the authors say, "want to be in love, and if they don't find it, they'll settle for price and convenience" (p. 5). We will get to their full list of companies shortly, but let's look for a moment at Wal-Mart (not an FoE) and Target (an FoE). Wal-Mart treats its employees instrumentally at best and offers low prices and convenience. Customers can be loyal in behavior to a company without being loyal in attitude: they might frequent a store because of low prices, but have no emotional attachment and therefore little long-term commitment to it. Any competitor that values quality and treats the customer well, as we shall see, will outperform other companies in the long run. As Sisodia et al. put it, "the logical 'left brain' says you should shop at Wal-Mart so that your shopping ends up saving a few bucks. However, the emotional right brain may not welcome the experience. Integrating the two sides is one of the secrets to Target's success [whose] customers get low prices, as well as a pleasant experience and more stylish products than they could find at Wal-Mart" (p. 5).

If you want bottom line, consider that Wal-Mart's stock has been stagnant for five years, whereas Target's has risen nearly 150 percent.

Companies that do not understand Secret One do not prosper as much as those that do. I have already predicted that General Electric would be in trouble with its tough approach. GE was renowned for its pragmatic, hard-nosed management and its record of earnings improvements (Sisodia et al., p. 8). GE's stock is down 40 percent over the past five years. It is relevant to compare the two rivals who were in contention to replace Welch. Jeff Immelt, who was appointed CEO, is more of an FoE leader and is trying to reinvent GE along those lines. Immelt is "a cooler, humbler and more reserved chief executive" than Mr. Welch, observes the *New York Times* ("Is GE too big for its own good?" 2007, p. B1), and quotes Immelt: "We have to re-earn the respect of investors."

Sisodia et al. (2007) also quote Immelt:

> The reason people come to work for GE is that they want to be about something that is bigger than themselves. People want to work hard, they want to get promoted, and they want to get stock options. But they also want to work for a company that makes a difference, a company that is doing great things in the world. Good leaders give back. The era we live in belongs to those who believe in themselves but are focused on the needs of others. . . . The world's changed. Businesses today aren't admired. Size is not respected. There's a bigger gulf today between the haves and have-nots than ever before. It's up to us to use our platform to be a good citizen. Because not only is it a nice thing to do, it's a business imperative [pp. 31–32].

The GE senior executive who lost out to Immelt was Robert Nardelli—more in line with GE's tradition under Welch (and in fact was known as "Little Jack"). Nardelli was then immediately appointed as CEO of Home Depot in December 2000. Erring on the too-tight side of the equation, Nardelli streamlined operations and centralized supply orders, which resulted in the doubling of sales. Revenue increased from $45.7 billion in 2000 to $81.5 billion in 2005. (Incidentally, this was a slower rate of growth than Home Depot had previously experienced—the company had doubled in size every four years from 1979 to 2001, admittedly largely through expansion.) The cracks began to show as employees and customers were turned off by Nardelli's hard, results-driven management and as the company's share price eventually stagnated. Nardelli abruptly resigned in January 3, 2007, with a severance package of $210 million, which further alienated stakeholders. On August 5, 2007, as I write this chapter, it was announced that Nardelli has been appointed as chairman and CEO of Chrysler. Watch out, Chrysler, unless Nardelli has learned more about Secret One through his experiences at Home Depot. (Irony of ironies, business guru Ram Charan, 2007, p. 102, lavishes ten pages of praise on Nardelli for his leadership at Home Depot in "reinventing an entire social system." Caveat lector.)

I am aware that this analysis runs the risk of attributing the ups and downs of a company to the CEO as the dominant figure. In fact, as I will conclude eventually, it is the *culture* of the entire organization that counts, shaped by the CEO but manifested by leaders at all levels of the organization.

Sisodia et al. (2007) did not begin their selection process by assessing companies' financial performance. (In other words, they avoided the halo effect by deferring the question of success.) Instead, in their first stage they sought nominations of companies that met their "humanistic performance" criterion—that is, they looked for companies that paid equal attention to all five stakeholders (customers, employees, investors, partners, society). They then proceeded to an initial screening (stage two), to in-depth research of the companies that passed screening (stage three), and to final selection of the FoEs (stage four). The following are the twenty-eight companies that made the final cut (p. 16):

Amazon
BMW
Carmax
Caterpillar
Commerce Bank
Container Store
Costco
eBay
Google
Harley Davidson
Honda
IDEO
IKEA
JetBlue
Johnson & Johnson
Jordan's Furniture
LL Bean
New Balance
Patagonia
REI
Southwest
Starbucks
Timberland
Toyota
Trader Joe's
UPS
Wegmans
Whole Foods

Now we can work backwards. What was the financial performance of the companies in absolute terms and relative to their competitors? What did these companies stand for and do to get such results? First, let's look at the results of the financial analysis. Based on S&P 500 performance over the ten-year period between 1996 and 2006, "*the public FoEs returned 1,026 percent for investors over the 10 years . . . compared to 122 percent for the S&P 500; that's more than an 8-to-1 ratio!* (Sisodia et al., 2007, p. iv; italics in original).

Sisodia and his colleagues then made a direct comparison with Jim Collins's eleven *Good to Great* (2001) companies (Abbott, Circuit City, Fannie Mae, Gillette, Kimberly-Clark, Kroger, Nucor, Philip Morris, Pitney Bowes, Walgreens, and Wells Fargo):

- Over a ten-year horizon, FoEs outperformed the *Good to Great* companies: 1,026 percent return versus 331 percent (a 3-to-1 ratio).
- Over five years, FoEs returned 128 percent, compared to 77 percent by the *Good to Great* companies (a 1.7-to-1 ratio).
- Over three years, FoEs performed on par with the *Good to Great* companies: 73 percent to 75 percent.

None of the eleven *Good to Great* companies made the cut as an FoE (although Gillette came close). Put differently, none of the *Good to Great* companies met the "humanistic performance" criteria.

In a nutshell, Secret One concerns the involvement of everyone in a company in meaningful pursuits that transcend the bottom line. Much of the detailed analysis of the cultures of FoEs feeds into several of our subsequent secrets, and I will make the connections at the appropriate times. But now let's consider one set of comparisons in the food industry: Whole Foods, Albertsons, Kroger (one of the *Good to Great* companies), Safeway, Costco, and Wal-Mart. Whole Foods' declaration of independence states that, among other things, "satisfying all of our stakeholders and achieving our standards is our goal. One of the most important responsibilities of Whole Foods' leadership is to make sure the interests, desires and needs of our various stakeholders is kept in balance. We recognize that this is a dynamic process. It requires participation and communication by all our stakeholders" (Sisodia et al., 2007, p. 128).

Whole Foods generated a 185 percent return to investors in the past three years and 400 percent over the past five years, when the S&P 500 rose by only 13 percent. Kroger (the *Good to Great* company) lost over half its value from 1999 to 2006, when the stock sat at around 45 percent of its 1999 value.

Another puzzle: How can FoEs provide higher wages and better compensation to employees while having lower overall labor costs? Answer: they have less turnover (which is financially beneficial) and greater productivity.

Costco, Wegmans, and Trader Joe's are good cases in point:

> They offer outstanding wages to their employees and competitive prices to their customers—and make healthy profits to boot. The higher wages and benefits paid by these companies do not show up in prices consumers pay. The greater productivity of higher-caliber employees and lower employee turnover in part explains this. Also, employee-generated process improvements continuously show up because employees care enough to continuously strive to make the company more profitable. Finally, the link between satisfied employees and customer loyalty is beyond question. These companies and FoEs in general do better in getting a share of wallet by a far greater focus on share of heart than is customary in their industry. Talk about alchemy. Higher wages and benefits transmuted into lower operating costs [Sisodia et al., 2007, p. 243]!

In-depth case studies by other business researchers of FoEs corroborate Sisodia et al.'s findings. Gittell's study (2003) of Southwest

Airlines is a fine example. With all the ups and downs in the airline industry—fuel cost crises, 9/11 and its aftermath—Southwest has had thirty-three consecutive years of profit and has never engaged in employee layoffs. On all measures—costs per seat-mile, aircraft productivity (hours in use), and labor productivity—Southwest consistently outperforms American Airlines, Continental, Delta, Northwest, United, and US Airways. Gittell identifies Southwest's "secret ingredient" (as she calls it) as "its ability to build and sustain high performance relationships among managers, employees, unions, and suppliers" (p. xi). She delineates ten synergistic Southwest practices for building high-performance relationships, which happen to cut across the six secrets: lead with credibility and caring, invest in frontline leadership, hire and retain for relational competence, use conflicts to build relationships, bridge the work-family divide, create boundary spanners, measure performance broadly, keep jobs flexible at the boundaries, make unions your partners, and build relationships with suppliers (p. 55).

Toyota, another of Sisodia et al.'s FoEs, has been even more carefully documented (Liker, 2004; Liker & Meier, 2007). I will save my discussion of Toyota for other chapters, but the company's investment in employees and its integration of Theory X (precision) and Theory Y (motivating employees) stand out as prime examples of the secrets at work.

A study of Canada's "best-managed companies" contains many of the same themes (Grnak, Hughes, & Hunter, 2006). The companies featured are Magnotta Winery, Spin Master, Boston Pizza (nothing to do with Boston—founded by two Greek immigrants in Edmonton who thought Boston sounded worldly), EllisDon, Harry Rosen, Armour Transportation Systems, Mediagrif Interactive Technologies, PCL Construction Group of Companies, Cirque du Soleil, and National Leasing. The success of all of these companies is predicated on attracting and investing in high-performing employees who provide superior service through innovation and commitment to their peers, to customers, and to the companies themselves.

An early example of a company that knew Secret One but lost it is Xerox. Joe Wilson, the creator of Xerox, was a prototypical example of a leader who instinctively operated from a Secret One basis, thereby changing the world of photocopying in the 1960s (Ellis, 2006). Wilson helped build Xerox from a fledgling nonentity called Haloid in the late 1940s. It was renamed Haloid-Xerox in 1958 and became Xerox shortly after. By 1965, Xerox's revenue was over $500 million; it was the world's leading photocopier company within a decade. (How many of us still refer generically to "Xeroxing" a copy?). Wilson, who died in 1971, carried a little card in his wallet that said, "to be a whole man, to attain serenity through the creation of a family life of uncommon richness, through leadership of a business which brings happiness to its workers, serves well its customers and brings prosperity to its owners; by aiding a society threatened by fratricidal division to gain unity" (quoted in Ellis, p. ix). The original firm of endearment! Wilson's sentiments, unpopular in the business world in the 1960s, aided and abetted him through the years of struggle in establishing Xerox during that time.

Ellis comments, "While casual observers may celebrate Wilson's astounding financial success, his real achievement as a leader and manager were in his rigorous financial discipline, his focus in developing a new technology, and his remarkable capacity to keep his organization committed to his vision for many long, lean years while going through the uncertainties of deliberate transformation change" (2006, p. 80).

Back in 1948, when addressing Haloid employees, Wilson said, "We want you to be proud of Haloid. We want your job to excite you, to make you feel that you're a person of dignity, a part of a valuable creative effort. With it all we want you to enjoy it here and to take pride in your work. . . . [We want] to create the kind of organizational morale that will be the envy of others . . . and Haloid will be a model of the kind of business that our country needs" (quoted in Ellis, 2006, p. 10).

Wilson understood that financial rewards were important but secondary to "value delivered to customers and society combined with career satisfaction and personal fulfillment of many individual people" (Ellis, 2006, p. 237). Wilson stepped down as CEO in 1968, and his secret to success was lost on his successors. Xerox went into decline for the next two decades or more, and has only been back on track since the turn of the century.

The principle of valuing employees as well as customers is equally if not more important in the public sector. When the newly elected Liberal government came to power in October 2003, I had the opportunity to begin work with Premier Dalton McGuinty as his special adviser on education (a post I still hold, as the government has been re-elected for another four years, from 2007 to 2011), allowing us to pursue the six secrets in action by improving Ontario's education system. For the past four years, we have designed and implemented a strategy to significantly improve a public school system that was in a rut. Ontario's student achievement in reading, writing, and mathematics was flatlined in the previous five-year period from 1998 to 2003. During that same period, members of the government and the teaching profession were engaged in exercises of mutual acrimony and disrespect. Our new policy was based on a strong commitment to respect the teaching profession and invest in teachers' development, with an equal focus on results. In other words, we respected our employees as well as our customers. In the years 2004 to 2007, we have had steady growth in literacy and numeracy achievement in grades 3 and 6, as assessed by the independent provincial agency (the Education Quality and Accountability Office), improving some 10 percent or more in reading, writing, and mathematics across the whole system. Much more work remains to be done to make Ontario's education system great, so we will need to deepen our six secrets theory and persist with its implementation.

We have two indirect indicators in Ontario of the impact of Secret One. The number of new teachers to leave the profession in the first three years has declined—in the period 2003–2006, the percentage of teachers leaving in their first three years of teaching (the 2003 graduating cohort of seven thousand) was 7.5 percent, compared to figures ranging between 22 and 33 percent in the 1990s (based on three-year cohort samples; McIntyre, 2006). At the other end of the scale, the number of teachers retiring on full pension at first opportunity (typically age fifty-five) has declined. In 2006, there were some fifteen hundred fewer teachers retiring at this stage compared to the 1990s. We can't directly calculate the impact of the motivation of new and veteran teachers alike to put in the effort to improve the public school system, but there is no doubt that the system is healthier and more productive. Secret One at work.

Secret One in Perspective

First, it turns out that Secret One is more encompassing than its simple wording implies. Yes, it is about employees and customers and their symbiotic connection. But it also includes three other parties, as Sisodia et al. (2007), Joe Wilson, and others point out: investors or shareholders, partners (suppliers, retailers, and even competitors), and society. As we study the six secrets, we will see more clearly that the five stakeholder groups and their prosperity are intimately related. Nevertheless, I won't change the wording of the secret—loving and investing in your employees in relation to a high-quality purpose is the bedrock of success.

Second, I believe that the nuanced meaning of Secret One allows you to distinguish between management books that contain superficial advice about the importance of employees and those that go deeper. Such books as *Brand from the Inside: Eight Essentials to Emotionally Connect Your Employees to Your Business* (Sartain & Schumann, 2006) and *Growing Great Employees: Turning Ordinary People into Extraordinary Performers* (Andersen, 2006) strike me as excessively instrumental compared to what I recognize as deeply connected books that treat employees, customers, and other stakeholders as truly equal, such as Sisodia et al.'s *Firms of Endearment* (2007), Liker's *The Toyota Way* (2004; and Liker & Meier, 2007), and Morrell and Capparell's fine treatment (2001) of the leadership lessons from the great Antarctic explorer Sir Ernest Shackleton (whom we will encounter in the Conclusion). When Morrell and Capparell describe his actions and observe that "Shackleton always put the well-being of his crew first" (p. 37), you believe it deep down—cognitively and emotionally. At least my theory tells me so.

Secret One is strongly corroborated in Sirota, Mischkind, & Meltzer's (2005) comprehensive study of *The Enthusiastic Employee*. Based on years of research with millions of employees, Sirota et al. document the power of three factors in motivating employees—fair treatment, enabling achievement, and camaraderie. They show that when these three components are experienced by employees they become highly engaged in work, service to customers is valued, and profits increase. Only 13.8 percent of all the organizations they surveyed could be classified as having an "enthusiastic workforce" (75 percent of employees rating the company high on all three dimensions). Secret One allows us to appreciate Sirota et al.'s findings, but the six secrets in total point to what is missing. It is true that camaraderie touches on our Secret Two (connect peers with purpose), but we see little in Sirota of transparency, capacity building, and leadership development more generally. We get an incomplete version of what is necessary to be a great organization.

Third, Secret One is perhaps the foundation secret, but in any case the six are deeply interrelated and in some cases overlapping, in the sense that the same action can enhance several secrets simultaneously. The six do operate to reinforce each other, and in this sense the task of implementing the secrets becomes easier as you begin to get multiple payoffs.

One of the most vexing problems in large systems concerns the need for cohesion of otherwise loosely coupled components. What is the right glue? How do you address the too tight–too loose dilemma that plagues most large organizations? Secret Two provides the answers.