CHAPTER 1

The Soft Stuff Really Is the Hard Stuff

It's a pleasant evening in central London, and we just finished our last meeting—a wide-ranging discussion at Chatham House about some of the changes that could occur in the global political climate. We decide to walk to our dinner appointment.

Walking around St. James's Square takes us past BP's global headquarters, and a bad memory surfaces. BP, founded more than a century ago, has been a revered institution in the United Kingdom and has positioned itself for the future with aggressive moves into renewable energy. But there's that memory of April 20, 2010, when the Macondo oil well erupted below BP's Deepwater Horizon rig, killing 11 workers and injuring 16 others. The explosion caused the massive rig to become engulfed in a fireball and sink into the Gulf of Mexico. A sea-floor oil gusher flowed for 87 days, and more than 200 million gallons of oil and 225,000 tons of methane gas spilled into the ocean and along more than 1,000 miles of coastline of all the Gulf states—the catastrophe is described as the largest accidental marine oil spill in the world and the largest environmental disaster in U.S. history. The toll on local businesses is still being calculated, but it appears that in claims, cleanup efforts, fines, and victim compensation, BP will pay out more than $65 billion.[1]

How could this happen to such a great company? The investigation into what went wrong blamed "a culture of complacency." William Reilly, co-chair of the commission that investigated the disaster, said there was "emphatically not a culture of safety on that rig."[2]

As we continue our walk to dinner, we carry on to Trafalgar Square and then head down Whitehall, sticking to the streets rather than walking through St. James's Park, as we're looking for a cash machine. We pass the Old War Office building on our left and the Household Cavalry Museum on our right. We're reminded that all isn't right with the military, either.

It seems the U.K. Army had become a bloated bureaucracy, especially at the top levels. As reported in *The Times* [of London], the new head of the army, General Sir Nicholas Carter, decided to reduce the number of colonels, brigadiers, and generals to "stop the rise of 'yes men.'" He also wanted to curb the widespread tendency among officers to "put the interests of their 'tribe' before those of the wider force." The article places the blame on "flawed leadership" and "an institutional malaise in which commanders are rarely held to account. . . . [B]ureaucracy takes precedence over common sense and people are not encouraged to take risks."[3]

Hurrying down Whitehall, still not having found a cash machine, we pass a throng of demonstrators—taxi drivers with signs protesting that Uber is unfairly putting them out of business. In reality, their industry is yet another great London institution that didn't keep up with the times. London's black cabs are famous, and its drivers are arguably the best informed in the world. They have to pass "The Knowledge," a test about routes and landmarks first administered in the mid-1800s; it is so exhaustive that drivers need an average of 34 months to succeed. Today The Knowledge has to compete with its lowercase equivalent—the knowledge drawn from satellite navigation systems and embedded in every smartphone—and with the new business model represented by Uber, Lyft, and others. And the taxi industry didn't adequately prepare.

Pushing our way through the protestors, we pass on our left Richmond House, the headquarters of the Department of Health, responsible for one of the treasures of the modern British state, the National Health Service (NHS).

Ahhh, the healers. Arrggh, the healers.

In March 2009, problems were exposed at Stafford Hospital, run by the Mid Staffordshire NHS Foundation Trust. Based on investigations, press reports suggested that between 400 and 1,200 more patients died between 2005 and 2009 than would have if the proper actions had been taken by hospital staff. The public inquiry cast grave doubt on those numbers, saying they were the product of flawed statistical methods and finding against the hospital in only four deaths, two of which occurred in the years at issue. Still, the inquiry uncovered "an insidious negative culture involving a tolerance of poor standards and a disengagement from managerial and leadership responsibilities. . . . There was an atmosphere of fear of adverse repercussions; a high priority was placed on the achievement of targets."[4]

Eventually, we get to Parliament Square, where the BBC is taking advantage of the pleasant weather to interview politicians on the green outside the Houses of Parliament. The BBC is such a symbol of integrity, except that . . .

In January 2014, *The Guardian* reported that "[s]enior BBC figures are facing calls to reform the corporation's 'culture of secrecy,' as an internal inquiry is expected to reveal Jimmy Savile sexually abused up to 1,000 children while working for the corporation."[5] Savile, who died October 29, 2011, at the age of 84, was a media personality best known for hosting a BBC show called *Jim'll Fix It*, which featured letters from children making wishes that the show then granted. The show ran for almost 20 years. In October 2012, 18 years after the show ended (and after Savile's death), allegations of child abuse were made against him, including claims that he devised some episodes to gain access to potential victims. The BBC had previously been warned about problems and spent six weeks investigating but, in December 2011, dropped the probe and, instead, aired programs over the Christmas and New Year's holidays that year that paid tribute to Savile. However, the police opened an investigation ("Operation Yewtree") and, in January 2013, confirmed that there were 450 alleged victims of sex abuse by Savile.[6] An inquiry into the BBC's dropped investigation of Savile found that "crucial information . . . was not shared" inside the BBC and that "no-one seemed to grasp what should be done with the information. . . . Efforts were hampered in part by an apparent adherence to rigid management chains and a reluctance to bypass them."[7]

Turning away from the interviews, our eye falls on the somewhat dilapidated Palace of Westminster, home to Parliament. Still more problems there . . .

In May 2009, *The Daily Telegraph* published the first in a series of articles that exposed a scandal involving the abuse by many British Members of Parliament (MPs) in claiming their business expenses. It was front-page news for more than a year, and the upshot was that more than half of all 646 MPs (at the time) had been claiming outrageous expenses—so much so that this particular group of MPs were dubbed the "rotten Parliament."[8]

Worrying about MPs' expenses reminds us again that we need to find a cash machine, so we hurry into the Tesco Metro Express next to Westminster Station. Tesco, we now recall, was itself the subject of an accountancy scandal, when it was discovered that it had overstated its profits by hundreds of millions of pounds.[9]

Now in search of light relief, we look among the Sunday papers for the *News of the World* to laugh at the celebrity gossip, before remembering that it folded a few years ago.

In the summer of 2005, complaints arose about probable voice mail hacking, implicating the British tabloid publication *News of the World* (NoW). Over the next 10 years, more and more information was released, with the end result involving more than 1,000 victims—ranging from Prince William to 9/11 victims and including a missing teenager, whose phone messages were allegedly deleted to free up space, causing her parents to believe she was still alive (the teen was later found to have been murdered). The investigation also revealed the hacking of phones belonging to J. K. Rowling (author of the Harry Potter books), actor Hugh Grant, Sarah Ferguson (the Duchess of York), an MP, the U.K.'s former deputy prime minister, and many others. Former *News of the World* journalists claimed that phone hacking was "a common practice at NoW."[10] Though Andy Coulson, editor of NoW, claimed to have no knowledge of the hacking, he resigned from his position in 2007. *News of the World* folded in July 2011, ending 168 years of publication. Several high-level executives of its parent company, Rupert Murdoch's News International, resigned, including the CEO, the head of the Dow Jones division of News Corp and publisher of *The Wall Street Journal*, and James Murdoch (son of Rupert), who was chair of U.K. satellite broadcaster BSkyB. Coulson, amid the fallout of the scandal, also resigned from his subsequent position as British Prime Minister David Cameron's spokesman and spent five months in prison. Millions of pounds in fines were paid to the victims, and several people were arrested and convicted, with jail time, of conspiracy to intercept phone messages. A formal inquiry found "a failure of systems of management and compliance. None of the witnesses were able to identify who was responsible for ensuring compliance with an ethical approach to journalism."[11]

We finally find a cash machine at Barclays Bank, in business for 325 years and the very image of security. But Barclays summons its own bad memory. In 2012, Barclays was fined £290 million (almost $500 million) by U.S. and U.K. regulators for attempted manipulation of the Libor and Euribor rates (i.e., the average interest rates at which banks borrow funds from one another).[12] The bank's stock price declined more than 15 percent, which wiped out about £3.5 billion from the bank's market capitalization, and both the chair and CEO of Barclays resigned their positions. The investigation into the scandal found that "the business practices for which Barclays has rightly been criticised were shaped predominantly by its cultures" (plural, because there were multiple subcultures). The report added: "[A]cross the whole bank, there were no clearly articulated and understood shared values—so there could hardly be much consensus among employees as to . . . what should guide everyday behaviours."[13]

A broader study, by New City Agenda and London's Cass Business School, indicted the whole industry for its "near-death experience" and noted: "The banks have paid out £38.5 billion [over $60 billion] in fines and customer redress relating to their retail operations since 2000. Banks have also received 20.8 million complaints between 2008 and the first half of 2014." The volume of complaints about banks lodged to the Financial Ombudsman Service more than quintupled between 2008–2009 and 2013–2014, going from 75,000 to more than 400,000. The report found that one of the most important causes of this extreme situation was the aggressive sales culture of many banks, which rewarded employees for selling financial products that customers didn't necessarily want or need.[14]

All right then. Moving on.

We can't use our card at Barclays because the machine is out of cash, so we head down the street to HSBC, the U.K.'s largest bank. HSBC does business in 80 countries and employs 240,000 people (44,000 of them in Britain). But, oh yes, in 2012 HSBC was fined $1.9 billion for helping drug cartels to launder money;[15] the ensuing investigation revealed—surprise, surprise—that the root of the problem was the organization's culture.

Given how many institutions have been fined throughout the banking industry, it's clear that these settlements actually settle little, and the details of the poor cultures that lead to them are being swept under an already lumpy carpet.

That reminds us that poor organizational health is a problem of not only individual banks but the U.K. banking system overall. The Bank of England (which functions in much the same way as the U.S. Federal Reserve) was revealed as woefully unprepared for the financial crisis that occurred in 2007: "Bank directors did not properly challenge executives, while managers often failed to give members of its court—or board—a full account of the breakdown in the U.K.'s regulatory regime, particularly the dysfunctional relationship between the Bank and the Financial Services Authority, then the City watchdog."[16]

And who knows what will happen after Brexit? Will the Bank of England and other institutions handle the departure from the European Union any better than they have past convulsions in the market?

Oh, enough already. We decide to stop this walk. It's depressing. Let's find a pub so we can stop in before dinner and have a stiff drink or three.

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We aren't intentionally picking on the United Kingdom here. Every country has its list of institutional scandals these days. Germany's Volkswagen has acknowledged a broad cheating campaign designed so that its diesel cars could pass emissions tests. Japanese carmakers have also been caught cheating on mileage tests. In the United States, financial institutions—including blue-chip firms such as Goldman Sachs and JPMorgan Chase—have paid more than $110 billion to settle charges related to their role in selling mortgages to people who couldn't afford them and feeding the Great Recession. Boeing's chief financial officer illegally offered a job to a U.S. Air Force official while the official was negotiating with potential suppliers for a $23 billion contract for aerial refueling tankers; he was sentenced to four months in prison in 2005.[17] The Air Force official pleaded guilty to favoring Boeing on four contracts and was sentenced to nine months in prison.[18]

We're making a broad point, about institutions in every country, and felt it was worth taking that rather long walk to do so. We have deliberately offered an almost obsessive repetition to make our point that, no matter where you look, the same dynamic is revealed. The *culture* of these organizations is driving their behavior. The soft stuff drives the hard stuff—as in, the numbers in the financial results that tend to draw our focus.

Why do so many institutions fall down? We believe it is because the actors become more important than the audience. In other words, the people in the institution place greater value on their own well-being than on the people whom the institution is serving. BP's managers were more concerned with profitability than with the safety of the drill operators. Executives in several banks looked after themselves rather than their customers. Members of Parliament were also looking after themselves, rather than their constituents, when they fiddled their expenses. *News of the World* was more interested in publishing gossipy stories that would appeal to readers than it was with protecting the privacy of the people whose phones it hacked to get those stories. The Mid Staffordshire NHS Foundation Trust was more concerned with keeping costs down than with taking care of its patients. There is a psychological term called the *iron law of oligarchy*, which says that, as soon as you give an institution power, it will begin to obsess about itself rather than the people it is supposed to serve. People see the world as divided between the have-nots and the have-yachts—and decide they'd like to join the latter.

These cultural failings fit in a larger context because they aren't generally seen as being as important as some of the other dynamics driving business these days. The emphasis everywhere is on disruption, not on the fundamentals of managing a business as effectively as possible, taking what could be drag factors and turning them into factors that drive the business forward. Disruption wasn't the issue with these failings. BP didn't have a well blow up because its market was being disrupted by, say, fracking. HSBC didn't launder money and Barclays didn't fix interest rates because of pressure from start-ups such as Lending Tree. People didn't die at Stafford Hospital because of new molecular therapies. These institutions—and so many like them—had problems because they didn't pay attention to the soft stuff that drives the hard stuff.

There is no doubt that any leader has to have one eye on disruption. Look at digital photography, the move to online retailing, the reinvention of the music industry, and all the other changes we read about. But to read the news these days you'd think that the whole game is to find a new business model or at least new markets. In fact, as we'll prove in this book, moving into a new industry or geography generally isn't the best answer. You should be ready for any disruption but will miss an awful lot of opportunities in the meantime if that is your primary focus.

The fear of disruption leads to an indiscriminate emphasis on speed. Every part of the organization has to go faster, faster, faster, all the time. In fact, while we all feel that we're going faster, based on the deluge of information that fills our in-boxes every day and that we have at our fingertips through our smartphones, much of that feeling is an illusion. The rate of consumer product launches has changed little for years. The same is true for the rate of production in factories—in fact, productivity in general has improved so little, despite all the technology being deployed, that economists are puzzled. A U.S. think tank, the Conference Board, actually projected a decline in productivity for 2016, the first drop in three decades.[19] The period over which a company could achieve sustainable competitive advantage, as measured by return on capital in the S&P 500, hasn't changed since 2000.[20]

Some change is even slowing down. The median tenure of a CEO increased to 5 years in 2014, from 3 years in 2007, and the average S&P 500 CEO retiring in 2014 had held the position for 10 years, the highest number since 2002.[21] A survey of 2,000 project managers at more than 60 companies around the world found that, in 2015, it took an average of 63 days to hire an employee, up from 42 in 2010, and the time to complete an IT project rose from 9 months to 10, on average. The process by which one company sells something to another takes 22 percent more time because five or more people now have to approve a deal, up from one or two.[22] Yes, the world is speeding up in many ways, but it's important to separate reality from the feeling of speed.

The right answer—the one that will deliver the most return, most reliably—is to increase the metabolic rate of your organization through a process that lets you increase speed, but only in certain places, in certain ways, at certain times, designed for maximum effect. We call this process META for two reasons. First, META is an acronym for Mobilize, Execute, and Transform with Agility. Second, as economist Paul Romer observes, "Perhaps the most important ideas of all are meta-ideas—ideas about how to support the production and transmission of other ideas."[23]

This metaphoric process isn't about finding a single breakthrough of the sort that would lead to the next Airbnb. It's more about taking a series of threads, each not especially strong, and weaving them into a fabric that is very strong. Let's use one more analogy: In thinking about how to solve problems, people often talk about getting rid of the bad apples. We think that the issue isn't just the apples; it's also the barrel makers. We will help you build better barrels so you have better apples.

We will spend the rest of this book showing how we arrived at META and then explaining in detail how to implement it. We do so based on our personal work with clients over decades and on definitive research done specifically for this book. We seek to be rigorous, empirical, and evidence based. Too many organizations are managed by "anecdata," a sprinkling of data used to justify personal opinions. The recommendations that you will find here are based on thorough analysis.

If you can increase your corporate metabolic rate, you will accelerate your business, and you will win. Even if the world isn't all disruption and unmitigated speed, there are still enormous opportunities to make your business more profitable.

You know the opportunities are there. You can see them and feel them. We'll help you find them, explore them, and exploit them.

In the spirit of that optimism, let's briefly remind ourselves of the progress that the world's organizations have enabled in the past century-plus, rather than risk leaving you with a depressive hangover after the walk that opened this chapter. Observe the following:

- Mortality among children under the age of five in the world has dropped by half just since 1990, to 46 per 1,000 live births, thanks to the collaboration of research institutions, pharmaceutical companies, and health systems. In 2015 the Bill & Melinda Gates Foundation predicted that the rate can be cut by half again by 2030.[24]
- The adult literacy rate has nearly quadrupled, from 21 percent of the world's population in 1900 to 83 percent in 2010, thanks to the spread of education.[25]
- At the time of this writing, we had either just passed or were about to reach the point (methodologies vary) where more than half of the world's population has access to the Internet and, thus, essentially all the world's knowledge and each other. That figure was less than 1 percent in 1995.[26] The change will drive a new era of transparency and accountability.
- The number of people living in extreme poverty (with an income of $1.90 or less a day) fell below 10 percent for the first time, in 2015.[27] The figure was 44 percent in 1981.[28] The decline means that some 1.2 billion people climbed out of extreme poverty in those three and a half decades, and the World Bank pledges to end extreme poverty by 2030. Some 700 million people are still living in extreme poverty, and we as a global community should surely set our sights higher than an income of $1.90 a day, but the progress is enormous.

Organizations made the progress happen, despite their many flaws. Although there is no doubt a dark side to failing organizations, the drive that organizations can provide for our species and our planet holds the promise of more progress in the next 100 years than we can possibly imagine.

Notes

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