INTRODUCTION

Daring to Think Inside the Box

For a few years, in the late 1950s, my father owned a box company in West Orange, New Jersey. The company produced folding boxes for toys, model airplanes and games. To me, it was a place of wonder. Any parent who has ever bought a present for a child knows that the box itself can be a bigger hit than the toy. Maybe it's because the box, although empty to the critical eye, holds all the potential in the world.

Sometimes I did jobs on the factory floor, running one of the punch machines. I noticed how hard the employees all worked. They were motivated, disciplined and productive. They kept the work area clean. My father had been a union organizer in the 1940s and 50s, a socially conscious leader. Later, when he became a boss, he treated people fairly and with respect. He wasn't the type to strike fear into those around him, but he did keep everyone focused on the job. Even from a young boy's eyes, I could tell he enjoyed what he was doing. Watching my dad at work was one of my first exposures to leadership in action.

Values were very important to my father and our family. I came to understand that values formed the basis of my father's leadership style in all circumstances, whether as a union organizer, a small business owner or a parent. As I grew older and became an educator and principal, I saw that values were important in schools, too. When schools are organized around a clear set of values, children know the difference between right and wrong and have the freedom to grow. Teachers can rely on those values when providing guidance and discipline and encouraging learning. Later, after I left the field of education and began a new but related career as a business consultant and executive coach, I saw that organizations were energized and inspired by values, too. Indeed, it was apparent that the best organizations succeeded not because of their products, market strategy or people but because all three factors were fueled by the same source — the organization's values. This revelation rekindled a lifelong quest to understand what values mean, what they do for individuals and groups, and how they can be brought into alignment with what we do and what we strive to become.

Over the course of twenty years, I visited many organizations, large and small, in the private and public sectors in North America and around the world and took a good look inside. In a few very successful organizations, values were clearly articulated. Everyone, at all levels, understood the values in the broader context of the organization's vision and culture; they also understood how to apply those values to their jobs. Values provided a direct connection between the CEO, the factory worker and everyone in between. Values formed the basis of the organization's brand as understood by employees, customers, suppliers and even shareholders.

In a larger number of less successful organizations I encountered, values were not so clearly articulated or widely understood. Sometimes the leaders of those organizations needed help expressing their values in concrete ways that could be communicated to everyone. Other times, the organizations needed help aligning values to vision, strategy, work processes and people systems. When the work was done right, values provided an organizing principle, a directional compass, which helped the organizations succeed and became a source of energy for an organization's vision, strategy and day-to-day efforts.

And then there were those many organizations in which values were unclear and inconsistent. Usually, this meant that there were conflicts between the values that the leaders expressed and the values that they actually supported. Just as often, there was a hidden curriculum of values within the organization, which overrode the values that the leaders espoused. Such organizations were usually in distress. Even the ones that were thriving for a time fell apart at the first major crisis. If the senior leadership turned over or the market shifted or a new competitor appeared, those organizations were quick to panic, lose their way and break down. No matter how primed for success they seemed, their tremendous energy and vision was unsustainable in the long run.

Over time, it became obvious to me that vision, strategy, market share, reputation or profits were all very important, but having a clear and consistent set of values was far more critical in predicting whether an organization would continue to succeed and grow as its people, markets, competitive landscape and technology changed. In other words, I learned what every child knows. What's inside the box — an organization's values — is just as important and more exciting and satisfying than what comes out of the box — an organization's vision, brand, business strategy and products.

But why do some organizations harness the power of values so well when so many others fail? Many people have written about the importance of values to leadership. Others have written about the importance of values to organizational culture and performance. But few have explained the mechanics of values —

how they form the foundation of an organization's culture and shape and influence strategy, brand, products and people. Many businesses talk about the importance of culture or leadership but fail to draw the links between what culture and leadership is based on and how to most effectively communicate, reinforce and build from that. In other words, they do not explain how values are expressed in vision and strategy, and how they guide leaders and managers in providing an environment of discipline, reinforcement and effective learning.

This book aims to do just that. You do not need to be the CEO of your organization to read it and implement these ideas. However, CEOs and senior leaders will benefit immeasurably from the clarity of the practices described. Leaders who are passionate about making their work environment more productive and supportive and who want to make a meaningful contribution to the world through the organization to which they have committed themselves will find this book inspiring and useful. In addition to the senior team, this book will be a helpful guide for managers who need an organizationally consistent language, framework and set of tools for getting the best out of their people. This book is also invaluable for the leaders of spin-offs, divisions, groups or teams who want to strike a special tone separate from the larger organization and for the human resources professionals who need detailed action plans to make a business case for why the leaders, not human resources, must be setting the standard and paving the path to success. Finally this book is for anyone who wants to take a leadership role in guarding, celebrating, fostering and living their organization's values as if they were their own.

This last role is absolutely vital. Every organization needs its rebels, fanatics and whistle-blowers to be successful, but they must be rebels, fanatics and whistle-blowers *with* a cause, namely, their organization's own values. Organizations need people who embody values through their actions and are simultaneously guardians and messengers of them, people who will keep the organization in line, regardless of who is failing to live up to those values. No matter how much management might wish that its people would fall expediently into place behind every initiative, strategy or action plan, the truth is human beings are not motivated by decree, reward or demand, but by the stirrings of their own hearts.

People must make their contributions to an organization willingly and independently to bring passion, commitment, creativity and energy to a job. But they will do so only so long as they believe that what they are doing is authentic and meaningful, and is part of a code of commitment shared by the organization as a whole. If an organization does not live up to its values in everything it does and thus fails to keep true to those values in striving towards its vision, it loses the energy, passion and loyalty of its people. Cynicism, increased stress, reduced quality, corner cutting and apathy are the inevitable results.

Without values, everything may be permissible, but few people will stay committed and loyal to such an organization for long. They may collect their paychecks every other Friday; but they won't be thinking about how they can solve a problem or achieve an objective on the drive home or even, in all likelihood, while they are sitting at their desks. As one front-line employee of a telecommunications firm said to his union representative about his company's values, "If our company will begin living this way from the top and throughout, this will stop being a job and become a career again."

Thinking Inside the Box

A few years ago, I visited a client on site. The client was a company that happened to make boxes. I didn't think about that connection to my past until I entered the plant. Suddenly, the smell of the factory brought all those memories of my childhood rushing back.

I thought about my father, and I began to see how his leadership style affected the people around him. As a consultant and coach, I was now in the business of helping people grow their organizations through hiring and leadership development. I realized, from an adult perspective, that my father's disciplined approach to the way things should be done was not restrictive; it provided a structure that the people who worked for him found comforting and liberating. As his adolescent son I had always thought that he boxed us in with his values, but now, as an adult, I saw that box in a very different light. Adults look at boxes as limiting, but children see them as filled with potential. Parents who have bought presents and witnessed their child spending more time playing with the box than the toy understand this profoundly. I began to reflect on the way people in organizations talk about the need to "think outside the box" and why that always annoyed me. "The box is not your problem," I'd always wanted to say. "Figure out what you've got in the box and you'll be all right." I had no idea what I really meant by that until recently. Finally, I understood: organizations are boxes. People, ideas, emotions, dreams and values live inside them. Thinking "outside the box" always seemed like an excuse to ignore what made an organization special by trading all that away for whatever was fashionable or trendy. I knew, however, that what's deep inside the box — organizational values — was the real treasure.

In the end, this book's approach and message can be summed up by this metaphor: instead of thinking outside the box, I am calling on people to think inside the box. This means a shift in thinking which is necessary if your organization is to be value-focused. It is a recognition that what an organization stands for on the *inside* is equally as important as the vision it tries to make real to the world *outside*.

What an organization is thinking inside the box has long been overshadowed and overwhelmed by external concerns: what the shareholder is thinking, for example, or what competitors seem to be doing, or what customers are demanding, or what the market makes financially profitable in the short term. The problem, however, is that without an internal grounding for those concerns many organizations lose focus and lack consistency of principle when it comes to the way they do business. They fail to harness the full extent of the energy at their disposal through their own values. They have no center of gravity or reliable compass to support their direction. They make decisions for bottom-line, expedient or opportunistic reasons. Sometimes they achieve short-term goals, but they always pay a long-term price. In my twenty years as a consultant, executive coach and advocate of a value focus for organizations, I have seen it happen time and time again.

Thinking outside the box has become such a common cliché in organizations in recent years that some firms impose fines for using the term. But the expression continues to hold sway. You hear it, especially, anytime there is a call for ideas that break through the confines of what has always been done. Organizations continue to need the shake-up that such a phrase represents. Twenty years ago, most large organizations had bureaucratic cultures that inhibited fresh ideas and promoted an inwardly focused myopia. IBM, for example, was famous for not being overly concerned about what was going on outside its own high walls. Why should Big Blue care about what its customers wanted or what its competitors were doing or what innovations were being hatched in the garages of teenaged inventors? After all, what made sense for Big Blue was naturally going to be right for the market or the customers; just as a few decades before, what was "good for GM was good for America."

But now that a succession of break-out-of-the-box organizational theories and fads have firmed their grip on a generation of managers' minds, there is a need for a renewed counterbalance to that thinking. Organizations that think predominantly outside the box are prone to quick fixes and inappropriate solutions, or to simply following the latest trend set by a popular business journal or author. Lacking the center of gravity that values provide, they focus on results without consideration for how those results are achieved. They benchmark, mimic and play catch-up with their competitors; they bring in outside charismatic leadership as saviors regardless of value fit; and they merge with or acquire other organizations without considering the ramifications of culture or values alignment. They may be nimble, flexible and profitable in the short term, depending on circumstances, but they do not last or make their mark on the world.

Organizations that know how to think inside the box have a limitless resource of positive energy and single-minded focus at their disposal. Their values are a treasure chest, complete with map and tools. Thinking inside the box is a deliberate check against what the organization's own values dictate the right answer, strategy, standard or direction to be. Should a manager promote or celebrate the actions of an employee? Think inside the box to measure that person's performance against the organization's values. Should the board hire a particular CEO? Think inside the box to determine if that candidate's values are a match for or would be a shift from the organization's values. The latter would create a negative impact as it would be countercultural. Should a customer service representative agree to or reject a customer's demands? Think inside the box to independently and efficiently decide the right answer.

In this book, we will help you do some inside-the-box thinking about your organization, your people, your leadership and your terms of success. In the chapters that follow we look at famous value bellwether organizations like Johnson & Johnson, GE and even the New York Yankees for the way that they achieve greatness consistently over time. We also look at equally well-known organizations that have struggled recently and publicly with issues, challenges and failures linked to value conflicts. Finally, we closely examine a number of lesser-known organizations like Federal Home Loan Bank of Pittsburgh and sanofi-pasteur that are currently striving to integrate their values with their leadership discipline and daily work processes.

Our journey will cover the following terrain. In the first chapter we look closely at the importance of values and value-based systems. I will show you what they mean, why they are real and what they do for an organization. In chapter two, we look at how much the CEO or top leader influences the organization's values, and how an organization can define and roll out those values to be embraced and understood by everyone, at all levels, in all roles. In chapter three, we look at how values create organizational culture, the means by which values are expressed through unofficial rules, guidelines and corporate legends. In chapter four, we link values to work by defining the behaviors that employees need to use in order to be successful. I also detail how employees can be hired, identified, supported, developed or dismissed according to their values performance. Managers and supervisors become the living embodiment of the organization's values, and as such they are responsible for defining them with their direct reports and honoring those who live according to them in tough or unusual circumstances.

In chapter five, we look at how to develop leaders and develop a real succession planning strategy by using values as a standard and guide. We also discuss the impact on your employees when you promote a person who others do not perceive as a standard-bearer of your values. In chapter six, we look at values and change. A frequent criticism of inside-the-box thinking is that organizations need to be responsive to the outside world. I couldn't agree more. Staying true to principles is the way lasting organizations navigate change without losing their bearings and sense of direction. Actually changing values and culture is a phenomenally difficult task that few organizations have managed successfully, despite many attempts. Finally, in chapter seven, we look at the measurable outputs of values. Organizations that operate under consistent and long-standing values systems have been called "enduring companies" and "institutions." This book, in large part, is about how organizations achieve such success.

Although values come from top leadership and are cascaded down through the ranks, the authenticity, impact and worthiness of those values can only be measured through the people doing the work of the organization. Asking your own employees is one way to make that determination. They are the ones who know you best, who are sensitive to whether you are consistently living up to the organization's values and who are unfailingly aware of whether your organization is on the right track. Most leaders who fail to make values real, deny or protect themselves from the insights of their employees as a matter of course. This book will provide the framework and questions to prompt productive self-examination. In education, we say that the best way to know the capability of a teacher is to ask the students. Students always know, very quickly, if their teacher is prepared, committed and effective. So, too, a salesclerk at Home Depot can tell when the new CEO comes from an organization with an entirely different value set. But we'll tell that story in detail in chapter five.

Remember, what's happening inside the box is far more important to your people than what's going on outside the box. Leaders should be prepared to refocus and unashamedly reaffirm their values. Sometimes that requires looking at the world from a different perspective.

CHAPTER ONE

What's Inside the Box? How Values Work

- ❑ When people feel alignment between their personal values, their organization's values and their manager's values, they call it a "good fit."

- ❑ When values are clear, they guide all business and personnel decisions — especially when those decisions are tough and emotional.

- ❑ When an organization's declared values and its real values don't match, people become stressed, confused and cynical.

- ❑ When an organization's values serve as the foundation for its vision, business strategy and talent development, it outperforms its competition and becomes a lasting institution.

What are your organization's values? Can you list them without looking at the back of your business card? Do those values define what's unique about your company and communicate that difference to employees, customers and even shareholders? Do they impact your own work on a daily basis? Do they drive your organization's long-term mental picture or does the vision drive the values? Most importantly, do you feel (deep inside) as though your personal values and your organization's values are a good fit?

Values come from the top. They are set by the founder, and get cascaded and reinforced — or distorted and blocked — by each manager through each direct report. What does it mean when a store clerk, telephone sales rep or lab technician fails to demonstrate an organization's values in the way each does his or her job? Chances are, somewhere along the chain of command, a breakdown occurred in the way those values were communicated, demonstrated or reinforced. Sometimes that breakdown originates at the very top.

Few of us are CEOs, but we all have the potential to feel a powerful, emotional investment in what our organization stands for, what it's striving to accomplish and how it behaves in the world. We long for that connection, whether we admit it or not. Those people who believe that organizations and values are really like oil and water have probably experienced so much disconnect between word and deed over the years that they have earned their deep cynicism. At heart, they do not feel safe and free within the environment of their organization, and their organization probably does not appreciate and draw out the best from them in return.

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Leaders Earn the Cynicism of Their Employees

People don't leave organizations, they leave managers. They leave managers because the manager does not live up to the promise the company made the employee about how the person could expect to be treated once they join the firm.

Signs of potential grounds for cynicism include managers who:

- Break promises
- Circle the wagons but don't live the values and defend themselves against criticism during times of crisis
- Don't apply the values to those who are "getting the results"
- Follow the management fad of the moment
- Talk about respect but don't give people the support, training and/or tools they need
- Promote people who don't live the values

But what do "values" really mean? As a modern business term, the word has become commonplace, a concept that can seem utterly divorced from the blood, guts and heart of how an organization operates. In truth, there's no product, idea or strategy as powerful as an organization's values. A leader's most important job is to clarify, live by and pass on those values to others. In fact, that could serve as a pretty good definition of leadership itself.

Do CEOs realize this? In my experience, 95 percent believe that values matter. They buy into the conventional wisdom that high-performance, built-to-last organizations are based on something called core values. But there is plenty of evidence to suggest that many of those same CEOs and senior leaders are less confident when it comes to the mechanics of values. This means that, like most people, they do not think about how values need to be defined, articulated and reinforced in order to spread. Nor do they understand how critical it is that leaders and managers within the organization rely upon values as the basis for all decisions. This is especially the case when those decisions occur at *defining moments*. As a result, such leaders fail to capitalize on the power of values to foster a winning culture, build a coherent people system and communicate a meaningful brand to employees and customers.

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You can identify a **defining moment** or **corporate legend** by the way it feels — a gut-wrenching emotional choice that seems to physically impact an organization's morale and energy because those involved in the incident stuck to the values at such times. People will understand and support whatever decision you make; if you ignore the values because it's easier, more expedient or more lucrative in the short term to do so, you will be able to look back one day and recognize that decision as the moment when the organization lost its way.

One Set of Values Does Not Fit All

Often I am asked about the notion that one set of values does not fit all. I recently attended a presentation on organization and culture. The presenter made a case that by using a particular approach you can measure a culture. The presenter claimed to have created a tool that measured culture against her own definition of a good culture. She defined the desired organizational culture as a democratic, flat and humanistic organization. She took a perspective that she believed to be appropriate for all companies. I see this imposition of one set of values on other cultures as corporate cultural imperialism.

If you subscribed to the one-culture-fits-all and one-leadership-model-fits-all mentality that she and her partner advocate, you would have to believe that conformity to this model works for all companies in all places. It does not. If you work in a family-run business that has always been paternalistic, what is wrong with continuing with the values that are behind that success? I have worked with large family-owned and -operated firms in Europe and Southeast Asia. Imposing her culture model reminds me of a book written in 1958 called *The Ugly American*, by William J. Lederer and Eugene Burdick. In that book, the authors assert that events similar to those described in the book have happened again and again in the developing world. Indeed, most of the book seems very authentic. The phrase "ugly American" is invoked to embody America's incompetent, heavy-handed foreign policy. The book describes a sequence of very competent, as well as incompetent people, who are trying to win the Cold War for America in Asia. Would not having one culture for all firms be akin to corporate cultural imperialism?

Without too much imagination we can apply the lessons from *The Ugly American* to all the people with good intentions and good ideas for North America who try to impose a set of behaviors and corporate concepts in environments and economic, political and social structures that cannot accept them. But this discussion is for another day, since it is complicated by the ever-increasing globalization of the

Continued

corporate world. As barriers to trade and the exchange of ideas begin to break down, perhaps the world of economics will do what nation states have tried and failed to do for generations — achieve one world economic village.

Many North American corporations such as Google, Yahoo and Cisco are wrestling with the compelling question of cross-cultural values as they expand their business globally.

A Flash Test on Values

I had an opportunity to assess the uncertainty about the meaning of values first-hand at a conference organized for high-ranking executives from several different sectors within the finance industry. I was speaking to a group of senior leaders from sixty different companies, made up mostly of CEOs and CFOs from across North America. I had a great deal of respect for these people. They were seasoned executives running organizations that were experiencing significant change. The rules governing their industry (finance, banking and insurance) had been re-written, the traditional nature of competition transformed. Customers were demanding a different kind of service and even a different relationship. How should their organizations respond? Most of the discussion that day had revolved around strategy related to that changing landscape. Indeed, it had been a long day of talking heads, and a noticeable number of participants had snuck out for a late afternoon round of golf. Those left behind must have felt even more desperate for strategic ideas than the others. But it was my turn at the podium and I was there to talk about something I believed to be more critical than strategy — namely, the values from which strategy arises. I decided to do a little investigation into what was really *inside the box* by conducting a flash survey.

"How many of you lead organizations in which values have been clearly articulated?" I asked.

More than three-quarters of the hands in the room went up, including the hands of the CEOs in the room. It was an encouraging number, but I suspected that not every response would be so rosy.

"How many of you can tell me what those values are?" I continued, pushing them a little out of their comfort zone.

There was a bit of mumbling, some sheepish smiles. I allowed them to think about the question and talk among themselves. In a few cases, two or three people from the same organization were present, so they were able to confer and come up with a complete list. Even then, it took them a while to bring that list of six or seven values forward.

This would be alarming, of course, to anyone who believes that values really do matter. But more alarming still was the fact that all of those values, from all of those different companies, sounded basically the same. I wrote them on the white board as they were called out to me. I stood back to give everyone a clear view and we admired the list for a moment. Then I started crossing off those values that were identical or nearly identical to others on the list. Despite having sixty different organizations represented in the room, we ended up with a baker's dozen of cookie-cutter phrases describing those organizations' values. Do any of these phrases sound familiar? "Is there anyone here," I asked next, "whose organization does not subscribe to at least three or four of these values?"

No one put up his or her hand.

"Then let's try an experiment," I suggested. "What do you think would happen if, at the end of this discussion, you didn't go back to your own companies but switched with the person on the other side of the room instead and went back to his or her company? Would you still be just as effective as a leader?"

There were a few uncomfortable laughs. One woman spoke up:

"We couldn't do that. It wouldn't be successful."

"But if your organizations have the same values, then you should be able to interchange positions without missing a beat. You may need to learn a few new names and get used to a different business card, but the behaviors that led you to be so successful in your current environment should be identical to the behaviors that will lead to success in the new company."

Perhaps because these leaders knew each other's organizations fairly well, my comment touched a raw nerve. Many protested that it wouldn't work.

"Why wouldn't it be successful? Your companies are obviously extremely similar," I said. "In fact, I'd even go further than that and suggest that your companies could merge, and you might never notice the difference."

Their companies were in the same industry, competing for the same customers. If their values were identical, then they should have welcomed a merger. Perhaps a few jobs would be lost, but the fit between those companies would make a merger feel more like a family reunion than a hostile takeover.

That's when the debate really came to life. Everyone in the room was suddenly in agreement on one thing: their organizations' cultures were distinctly different. Some were customer-focused, others were great at marketing. Some had long and venerable traditions; others were new spin-offs of older companies and had a vigorous entrepreneurial spirit. A few people had worked in more than one of the organizations and spoke up about how different their experience of those companies had been. Just walking into the offices of company X, I was told, you could feel the difference from company Y. Each organization made decisions differently, talked differently, rewarded people differently, hired differently and selected leaders differently. You felt at home in one organization or the other, but rarely in both. People were very passionate about the extent of those differences.

"Ah," I said, "so why don't your values reflect that?"

And that's when a light went on. In fact, it burned so brightly that during the evening reception many of those who had chosen the golf links over the lecture approached me to confess that they should have stayed because they had heard that the conversation was meaningful and thought-provoking. Perhaps that was my first understanding that leaders do not forego values because they dismiss them but because they struggle to make sense of them like everyone else.

Values Create Behaviors

Companies have unique cultures because their values are distinct. You can feel the difference when you walk in the door, whether you are a brand-new recruit, a lifelong employee, a customer, a vendor or a security guard. Values are a reflection of that difference. They are the essence of what makes each organization and each person unique.

Why? Because values define what we think is right or correct; they influence how we see the world and how we act. When my group of insurance executives began to get specific about what distinguished their different companies, they didn't use words like "respect," "integrity" or "customer-focus." Instead, they described what a sales representative would do to help a customer, or how a manager would handle an employee who needed disciplining, or why a CEO was or was not a successful leader. When I listened to them describing customer service at their various organizations, I could see and feel the difference.

When I pointed out how concretely those descriptions captured the essence of their organization's unique qualities, they began to understand. Nothing about this idea is revolutionary — in fact, it's so simple that no one consciously thinks about it. Instead, we're so used to thinking outside the box when looking for compelling ideas, strategies and new ways to win that we forget how rich and resourceful our organizations are *inside the box*. What's inside really does matter. In fact, it makes all the difference in the world.

LOOK INSIDE THE BOX

Values List

Take a moment to write down your organization's values here. If, like those senior financial leaders, you don't remember them, check the back of your business card. (After GE's Jack Welch stated them on GE's cards, many companies followed suit — much in the same way they copy each other's values.)

Your organization's values:

1.____________________________________
2.____________________________________
3.____________________________________
4.____________________________________
5.____________________________________
6.____________________________________

My CEOs and senior leaders recovered quickly. They explained to me that their value statements — integrity, respect, honesty, and so on — were not distinct because they were only words. People knew what they really meant. Their organizations are distinct because of their unique cultures, and culture is an intangible that can't be described in a mere handful of words.

Let's try, I thought, and pressed on. I pointed to our list of values on the white board. "Integrity. Teamwork. Respect. What do you mean when you say that 'respect for others' is a value?"

There was a brief hesitation and then a deluge. "Respect for others" was very important. It was critical for the organization to treat people with respect, to acknowledge them when they contributed to the business, to provide them with the tools to succeed. Other executives declared that respect did not just refer to employees but also to customers and the public at large. Respect was a value that described the people-focused nature of the business. If the organization showed customers respect, then the business itself would succeed.

Not everyone agreed. Their viewpoints were rich and varied, textured and nuanced. But what emerged was a robust and powerful debate that got to the core of how those companies differed when it came to the value they all called "respect." They didn't resolve their vagueness about the issue completely, but they did do a lot of serious thinking about what the value meant to them, and they were able to articulate that meaning with greater clarity, little by little. Respect as a value was a passionately held belief that really mattered. It affected how everyone did their jobs. It touched on feelings about the larger meaning of the organization's vision. It reflected what the organization wanted to accomplish in the marketplace. It was the basis for the kind of employees that the organization looked to for leadership and hoped to recruit for future generations.

The difficulty, however, was that none of the senior executives in the room really knew what respect meant until they began to discuss it and think about it. If those leaders needed to struggle to come to that understanding, just think how varied the interpretation must be among the twenty to thirty thousand employees of each of their organizations. Imagine how twenty to thirty thousand different understandings of respect affects customer service, employee relations, coaching, development, compensation, performance management, execution, decision making and ethics. Sure, respect was important. But the real question is how does a company demonstrate that importance on a customer-by-customer, manager-by-manager, employee-by-employee basis?

LOOK INSIDE THE BOX

Most Common Values

Customer satisfaction 77%
Ethics/integrity 76%
Accountability 61%
Respect for others 59%
Open communication 51%
Profitability 49%
Teamwork 47%
Innovation/change 47%
Continuous learning 43%
Positive work environment 42%
Diversity 41%
Community service 38%
Trust 37%
Social responsibility 33%
Security/safety 33%
Empowerment 32%
Employee job satisfaction 31%

Have fun 24%

Survey on "Corporate Values in 2002" by the American Management Association.

The Tower of Babble

If there's no clarity at the top about what values really mean, then there's certainly no consistency at the management level. This means that there's no way to measure, coach, assess, promote or fire people in line with those values. Any organization that does not articulate its values concretely functions like a modern Tower of Babel. No one can be quite sure that they are speaking the same language at different levels or different locations within the organization. Decisions don't always make sense or feel right. Confusion reigns. No matter how compelling and inspirational the organization's vision may be, its aspirations fall far short in reality.

LOOK INSIDE THE BOX

Achieving results in the ***right way*** is about top performance that is consistent with organizational values.

Consider the value of respect again. We can put forward a million-dollar process about what we mean by respect. We can be very articulate and careful in our corporate communications when we use that word, but then blow it all in the way we hire, fire, promote and manage. For example, it's a truism that most managers hire for technical capabilities but fire for personality

— i.e., poor alignment to the organization's behavioral norms. What this means is that we bring people on board because they have the skills and technical abilities to do the work we need them to do, but we end up firing them because they do not use those skills and abilities to do their jobs in a way that fits with the organization's way of doing things. How does this happen? It occurs when our values, as defined by the behaviors that demonstrate those values, are not clearly articulated and included in the job profile. Should we expect that just because someone has the requisite technical talent to do a job that he or she also will demonstrate respect in the workplace? Of course not. No one believes that a soft attribute like respect goes hand-in-hand with a technical ability. Instead, we look for respect in other ways — by evaluating the individual's personality in the interview process and hiring him or her based on our gut feeling. Nevertheless, how do we really know whether that person has the value we call respect and will demonstrate it in the way that people in our company believe is right? The truth is, we have no way of knowing. And the largest root cause of that uncertainty is our own lack of understanding about how respect gets demonstrated by people who truly fit our company's culture.

It's bad enough when an organization hires someone who does not fit the values, but the impact is even more toxic when the organization rewards someone who does not demonstrate its values. This happens all the time in companies for a simple reason: people who don't demonstrate cultural values can still achieve bottom-line results; they just don't achieve those results in the "right" way. And yet, hold the presses for a moment. Aren't results all that really matter? Organizations are struggling just to survive in the marketplace today; does any leader really care *how* a star employee meets strategic objectives? A leader should care. After all, that star employee's colleagues and customers care very much. They are the ones who are most directly affected by the actions employed in achieving those results.

If respect, for example, is the value in question, and a star salesperson gets a key account but does not demonstrate the behaviors associated with respect in doing so, other customers and employees are the first ones affected. Immediately, their value antennae are quivering. What will the leaders in the organization do about something that has rocked the culture, ruffled feathers and negatively swayed morale?

The moment those leaders praise, reward or promote that employee, all credibility in respect as a value is lost. It is now understood that respect is just a word, not a real value. It is a cheap form of currency used by the leadership to puff up a speech, decorate a website or motivate the group in a mission in which no one truly believes. When the chips are down, and success is at stake, the leaders have made it clear that profit comes before principle. To the people of the organization, any sense of common mission or larger meaning has been tarnished and cheapened. They now understand that it is acceptable to get ahead by doing whatever they feel like, as long as it produces results.

Nothing is more corrosive to an organization's culture. And yet it is a challenge to prove to leaders that consistency between stated values and actual behaviors — at every level of the organization and at each critical moment — truly does make a difference in the firm's long-term profitability and success. No doubt, that's because in our society we have a tendency to reward leaders for their short-term wins. But who said leadership was about taking the easy path?

Staying true to values is an uphill battle. There are many temptations to break faith with values and make expedient decisions. Leaders should realize, however, that when it comes to values, employees and customers are always watching. Leaders can destroy their personal credibility and damage their organization's culture by not acting in accordance with their values or preserving them at all costs. As leadership experts have long understood, it's all about what you do, not what you say. For the organization's people, it's about how you get there, not where you arrive. Those companies that stick to their values, in good times and bad, always win out in the long run. But before we look at that evidence, let's examine more fully what values do and why they really matter.

Why Values Hit Home

Values are emotionally charged. They really matter to people. They impact what people choose to do with their lives and where they feel at home. Although values are most often inadequately understood, barely articulated and hardly noticed on a conscious level, they actually explain how people think and what they believe in. If we are united by a common set of values in our companies, countries, volunteer groups, book clubs or religious organizations, we are also divided by our value differences — nation from nation, religion from religion, bowling team from bowling team, voting block from voting block. The power of values to bind and separate us cannot be overstated.

LOOK INSIDE THE BOX

Values are strongly held beliefs that are emotionally charged and highly resistant to change.

So what are values? Consider the following definition as you read this book: values are strongly held beliefs that are emotionally charged and highly resistant to change.

Now, let's take the definition apart. As stated above, values are not facts — they are beliefs. Nevertheless, values are so strongly held that their proponents view them as facts. Those who hold certain values believe they should be self-evident and obvious to all, without any deep analysis or overall explanation. That other people can view those "facts" so differently, and believe in contrary "facts" just as passionately, is part of the wonder and challenge of the human condition.

Values are highly resistant to change. A run-of-the-mill belief can change over time or in the face of sufficient argument. If you believe that the world is flat, for example, I can probably provide you with sufficient proof to change your opinion, as long as you're a reasonable person. A value, however, will almost never change, no matter how persuasive a counter-argument may be. Think about some of the most contentious debates of our times about evolution, abortion, capital punishment or gun control. If you are an ardent believer in science, then you will never be able to join the intelligent design or creationist side of the debate and claim that the facts of evolution are up to religious interpretation. It's simply wrong to you. The opposite, of course, is also the case. If you believe that the universe was formed in seven days as the Bible states, or that it evolved according to the designs of an intelligent creator, then you can't shrug your shoulders and agree with evolution proponents by saying, "Maybe it happened that way; maybe it didn't." Neither side will understand the validity of the other side's argument. No matter how rational, factual or emotional a counter-argument may be, it will never dissuade someone from a deeply held belief when that belief is a value.

Consider some of the more contentious, emotional and passionate arguments you have faced in the work world. Upon reflection, I bet you will discover that those arguments were less about facts than deeply held values. Most of us can remain fairly rational and objective in a formal work setting when an argument concerns something that doesn't affect our sense of right and wrong. But when the argument touches on values, an emotional button is pushed.

For example, if your business desperately needs to increase its profits in the next quarter, then you are probably open to a number of different ways to accomplish that improvement. But if you have a value belief that holds that learning is critical for the long-term success of your organization, then you will not be okay with a proposal to slash the training and development budget in order to bump up profitability. The counter-argument may be very logical and compelling: training is a luxury that we can always reinvest in when times are good again; training is a long-term tool, but we have an immediate crisis; training is something that employees view as a perk, but we all need to batten down the hatches until this storm is over. Nevertheless, you believe that training is not a nice-to-have; it is a strategic necessity. In your view, training is a covenant between employees and leadership that says, "We believe in you; we want you to believe in us. We invest in your growth because we want you to invest your effort, creativity and commitment in us." In fact, you believe that if the training budget gets cut, your employees will see that decision as a huge violation of a larger promise that will hollow out your credibility. Training, in other words, is a line in the sand. If your organization crosses that line, it may as well wave the white flag — the larger battle would be pointless.

Individual versus Organizational Values

Why wouldn't everyone in your organization see the argument the same way as you? There are a number of possible explanations, none of which bode well. The first and most healthy possibility from an organizational standpoint is that you are alone on this issue because it is a value for you but not to the organization as a whole. In other words, you hold investment into the development of people to be a critical value but your organization does not. Nor has it ever said that it does. In your fight with others on the leadership team, you have no recourse to point, Perry Mason–style, at the organizational values listed on the boardroom wall and say, "See, learning and development are not just words to us; they're values! If we cut training now, we're breaking faith with those who believe in us!" Instead, you can only think, deep inside, that cutting training and development is wrong, and wouldn't it be nice to work for a company that actually felt the same way.

If you are working for a company where your values do not match the organization's explicit and clearly stated values, then you may be a bad fit for that organization. At critical moments, and perhaps frequently, you will run into value conflicts with others in your organization, and with your overall sense of where the organization should be going and what it stands for. This can be extremely stressful on a personal level. People who do not fit with their organization's values are not at home in its culture. They are likely to feel alienated from others, and they will probably find themselves increasingly shunted aside from key decisions and decision makers. A strong culture has a way of making those who don't fit feel rejected and out of place.

In fact, an organization that is really clear about its values probably would never have hired you in the first place. But let's say you slipped through the cracks somehow. Chances are you will be found out. Take, for example, performance appraisals that are based on an explicit understanding of the organization's values. You may decide to go your own way when the "right" decision, according to what the organization believes in, is something entirely different. Your direct supervisor should not give you a stellar grade in your performance review; nor should you be promoted or rewarded, no matter how hard you worked, how good your intentions were or even how great your results turned out to be. After all, you did not achieve those results in the right way. To reward you for them would be to send the wrong message to others about what the organization stands for.

This may seem unfair to you, since you are working so hard, but ultimately, aren't you better off finding a home where you really belong? Perhaps you think that a job is just a paycheck, and you shouldn't have to sell your soul to the organization in order to make enough to eat. Maybe so, but an organization that is based on values has the right and the obligation to hire, retain and promote the right people in order to reinforce its culture and achieve its vision. In fact, if the organization keeps you on, it is probably doing a disservice to the others who believe in its values and are striving everyday to make them real. In most cases, it is easier to get rid of one individual than to change the organization's values to accommodate that person. The exception, of course, is when the individual in question is the newly hired CEO — a circumstance we will examine in chapter two.

Not everyone is going to be a perfect fit in every organization. Individuals are complex beings, and organizations are complex matrices of dynamics and priorities. But as much as possible, we should strive to see that individual values and organizational values overlap. Where they don't overlap, we should be so clear about organizational values that people know they have to make a decision contrary to what they actually believe in, because that's the way the organization would do it. The danger to an organization is when they espouse a set of values and then the organization's leadership acts contrary to the stated values thus "inviting" right-minded people who joined the firm, believing in the truth of the values as stated, to become morally appalled and clear their consciousness by blowing the whistle on the leaders. Organizational alignment is when the values are lived consistently day to day, moment to moment by everyone without exception.

One other question often raised and referred to above is the correctness of one set of values over the other. Let's take a moment to further explore that issue. I have been asked, on occasion, what about when institutions take on fake or immoral values. My sense of right and wrong is only right from my perspective. I cannot impose my beliefs and values on others. However, I do have the right and obligation to point out my differences if the other side's values might impose a threat to me. For example, I have said that in Nazi Germany the leadership and even, unfortunately, the people had a heightened sense of integrity. Why? Because, they acted with great consistency on their values at all times. I have to take a strong objection to their values, but from their perspective they acted with consistency. I would also say that within organizations we do not find those extremes. Within organizations the behaviors that define the values define their ethics. When they find like-minded individuals, the organization is healthier and stronger.

Rebels with a Cause

Does this mean there is no room for dissent in an organization? Of course not. Even in healthy organizations, dissent over leadership decisions is not uncommon. Sometimes it is an indication that employees believe organizational values are being violated by those in power. In fact, I have witnessed times where rank-and-file employees care so deeply about an organization's values that they fight decisions that threaten the culture. If customer service is a value, for example, and a new dictate from the executive floor forces salespeople to cut corners, the members of the sales team will not take that order sitting down. They may grumble, complain and fail to follow through. They may take a vocal stand and try to make a change. Or, they may seem to acquiesce but actually undermine the order by continuing to serve customers the old way. Regardless, morale will be lowered. Retention of employees may become an issue. A toxic mood of cynicism may begin to pervade the organization. If the leadership doesn't recognize this dissent and seek to rectify its mistake somehow, it may have a big problem on its hands. Should these dissenters be punished for their resistance? In an ideal world, absolutely not. They may be rebels, but they are rebels with a cause. They believe in their company's values, maybe even more than the leadership does.

There is always going to be tension in organizations over values. In healthy organizations, those tensions indicate the normal process of working through the ramifications of decisions and actions. Does the decision feel right? What will happen as a result? Who will be affected and how? We don't always know right away when a decision or an action is in conflict with a value. Something feels wrong, people begin to argue, lines get drawn. In some organizations, this tension divides the organization into factions or along political lines. But if the values of the organization are clear, consistent and well understood by everyone, eventually people will sort out the issues and get to the heart of the matter. Values are like a compass. They help organizations right themselves and recognize the way forward no matter how chaotic things may temporarily be.

Stated versus Real Values: The Organization's Underground Culture

Quite often, organizations have two sets of values. One set comprises cherished and prominently displayed values that the organization thinks it believes in. The other set comprises the values that the organization actually believes in and, in fact, operates by. Those are the values of the underground culture.

You might hope that such a split personality is rare in the world of organizations, but think about how common it is among people. How many politicians, religious leaders, senior executives, union leaders, social welfare proponents, moral crusaders, role-model athletes and ordinary men and women get caught doing or saying something that feels completely antithetical to what they profess and we think they believe in? There are so many recent examples to choose from, one hardly knows where to begin. Here's a favorite. Michael Sears, a former CFO of Boeing, was considered a likely successor to the CEO. Sears was such a rising star in the executive world that he had a contract for a leadership book called *Soaring through Turbulence*. One critical chapter in the book was about the importance of workplace ethics. Unfortunately, the book never made it to the stores. Mr. Sears' publishing contract was canceled when he was indicted for negotiating a deal with the U.S. government while secretly offering his negotiating partner a job at his company. Ultimately, this scandal touched others in the organization and led to the resignation of Philip Condit, the CEO that Sears had been touted to replace. Although Mr. Sears wrote about the importance of ethics, his conduct during the government negotiation doesn't sound or feel ethical. Certainly, it was illegal. If you read the values that Boeing holds to be true, Mr. Sears' conduct sounds antithetical to his organization's principles, too.

Boeing's list of eight corporate values includes integrity, which is described in the following manner: "We will always take the high road by practicing the highest ethical standards, and by honoring our commitments. We will take personal responsibility for our actions and treat everyone fairly and with trust and respect."

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Boeing's Values

In all our relationships we will demonstrate our steadfast commitment to:

Leadership

We will be a world-class leader in every aspect of our business and in developing our team leadership skills at every level; in our management performance; in the way we design, build and support our products; and in our financial results.

Integrity

We will always take the high road by practicing the highest ethical standards, and by honoring our commitments. We will take personal responsibility for our actions, and treat everyone fairly and with trust and respect.

Quality

We will strive for continuous quality improvement in all that we do, so that we will rank among the world's premier industrial firms in customer, employee and community satisfaction.

Customer Satisfaction

Satisfied customers are essential to our success. We will achieve total customer satisfaction by understanding what the customer wants and delivering it flawlessly.

People Working Together

We recognize our strength and our competitive advantage is — and always will be — people. We will continually learn, and share ideas and knowledge. We will encourage cooperative efforts at every level and across all activities in our company.

A Diverse and Involved Team

We value the skills, strengths, and perspectives of our diverse team. We will foster a participatory workplace that enables people to get involved in making decisions about their work that advance our common business objectives.

Good Corporate Citizenship

We will provide a safe workplace and protect the environment. We will promote the health and well-being of Boeing people and their families. We will work with our communities by volunteering and financially supporting education and other worthy causes.

Enhancing Shareholder Value

Our business must produce a profit, and we must generate superior returns on the assets entrusted to us by our shareholders. We will ensure our success by satisfying our customers and increasing shareholder value.

So how was it that Mr. Sears engaged in conduct that violated the values of the company in which he held a leadership position? We can only speculate. Perhaps Mr. Sears was a bad apple, or maybe he got caught the one time he engaged in unethical behavior. Since he was a prominent leader at Boeing, however, it seems more likely that Mr. Sears was engaging in conduct that the organization, at that time, didn't really believe was unethical. In the culture of the organization, securing a contract might have been more important than the means by which that result was accomplished. Other values, such as enhancing shareholder value, may have taken precedence over integrity.

This discrepancy between stated values and actual values is very common, and indicates a basic tendency to which organizations are highly susceptible. We are inclined, for whatever reason, to treat values like works of art. We view them as nice to hang on the wall and beautiful to look at, but we don't act as though they truly mean much to us in the real world. Business-minded people may be especially prone to this problem. Values are idealistic — they think — but the real world is ruthless. Leaders must be pragmatic and realistic by nature. Sometimes you need to play outside the lines in order to make something happen. At the end of the day, winning is essential, or else your values won't even matter, business people sometimes reason.

In fact, the opposite is true. The best organizations understand their values, articulate them clearly and hold them higher than any short-term concerns or short-cut methods. This does not put such organizations at a competitive disadvantage. It is the source of their competitive advantage — an idea we will be exploring in depth in the chapters to follow.

Sometimes a leader or a rank-and-file employee knows that he or she is violating a value but knows that the organization will sanction his or her actions. This is a clear-cut sign that the organization's stated values and its real values are different and distinct. Real values cannot be violated under any circumstance. It should also be noted that all values are created and applied equally in a healthy organization. No one value trumps the others.

How much more powerful would an organization be if it articulated its real values accurately? In such an organization, there would be no hidden agenda or second-guessing. Employees who joined wouldn't have to go through a six-week or six-month acculturation period during which they must figure out what the real rules are. When leaders made a decision, people would be able to judge immediately whether that decision fit with the organization's beliefs, and embrace or disallow that new direction accordingly. Such an organization would be aligned and committed, steps ahead of the competition.

Why are we so averse to thinking of values in down-to-earth terms? No one should be ashamed if his or her values don't sound lofty, poetic, inspirational or idealistic enough. Concrete values that affect how decisions get made and how actions get evaluated will have far greater meaning and impact for those who live under those beliefs. Every manager and every senior leader should welcome the opportunity to create clarity about values.

To determine whether your organization lives by its stated values or by an implicit set of values that don't get talked about, try listing your values again. Do you really believe in them? Can you think of examples when those values were demonstrated? Can you describe what happened when any of those values were violated?

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Values Test

Stated Value 1:

Real Value 1:

Stated Value 2:

Real Value 2:

Stated Value 3:

Real Value 3:

Stated Value 4:

Real Value 4:

Stated Value 5:

Real Value 5:

Stated Value 6:

Real Value 6:

If you know rich stories that answer those two questions, and if other people in your organization know the same stories or have similar ones, chances are that your values are real. If some or all of the values you list do not really matter to your organization, then you will be able to think of different examples that illustrate that discrepancy.

The distance between an organization's stated values and its real values measures the gap a leader must straddle to achieve organizational credibility. In truth, no leader can continue to straddle that gap for long. It's not a very dignified position in which to find oneself.

Aspirational or Core Values

Sometimes value conflicts arise not because there is an unconscious gap between stated and real (or underground) values but because the organization does not treat its values like a code for daily living. Instead, the organization views its values as an ideal to strive for or a promised land just out of reach but always in sight. While this attitude seems to indicate understandings of how hard idealized values are to stick to, it also provides a built-in excuse or rationale for failing to live up to them. This drives home the point that we don't actually know if something is a value until it is tested in the real world when something significant is on the line.

As a result, it is reasonable to argue that there is no such thing as aspirational values. Values are either important enough to live by, especially in difficult times, or they are unrealistic and meaningless. An organization cannot aspire to become something better or more pure than it is, no matter how noble or worthy those goals may be. Values are about how an organization's people consistently conduct themselves every day. They are not a nice-to-have, but a have-to-have.

While it's tempting to be idealistic and lofty when discussing values, doing so creates difficulties. Consider how much trouble the United States of America gets in when it espouses democratic principles for nations around the world but does not live up to those ideals by enforcing such principles in every situation. Of course, the world is not a perfect place, and real political strategy often takes understandable precedence over idealistic hopes, but this gap between what it espouses and what it strives for leaves the United States open to critics' charges of hypocrisy. If American leaders held firm to the idea that the United States is a beacon or example of democracy that others can choose to emulate, it might be given a bit more leeway in how it conducts its foreign affairs. It is easy for political leaders to be swept away during flights of rhetoric, using values not as an operating principle but as a description of an ideal future. Most human beings have an incurable desire to feel good about themselves. The hypocrisy comes when people speak one way and act another, while maintaining a self-satisfied belief in their ethical superiority. Companies sometimes act this way, certainly nations do, and so do people.

Business leaders are also prone to idealistic messages about values when they rally the troops. It's very easy to speak in lofty, idealistic terms about values. We feel great emotion when we think our organizations are better or purer than we are. But the ability to communicate in such lofty terms is a sign that we are discussing values vaguely and they are thus open to interpretation in any way that each listener sees fit. In other words, the Tower of Babel is back. If values are articulated concretely in ways that people can connect to how they do their jobs, they will have real impact on performance. They will also ultimately be more inspiring as people see the link between living those values and the organization's success in achieving its goals. When an organization can draw on its own history with a powerful corporate legend and explain through that oral history the actions taken to bring those values to life, then the value is not aspirational but a reality. Everyone in the organization knows exactly what to do and how to act, in good times and bad, with or without a rule book.

The use of the term "core values" reflects a similar problem as that of aspirational values. The term "core" implies something that is deeper and more essential than anything else. It's as though an organization can have one set of values that are like regular work clothes and another core set of values which are its Sunday best. I have seen leaders in organizations talk about core values particularly when the chips are down and times are tough. "We need to get back to our core values," they say, in an acknowledgement that they have strayed from what makes their organization special. If they had stayed true to those values all along, they would not view them as core, but as guiding principles. Nevertheless, it's difficult, if not impossible, to be true to values when they are idealistic or (worse) borrowed from a firm that has been held as a benchmark for others to emulate. Most of us are not saints. Organizations operate firmly in the real world. Values are about achieving results in a way that is consistent with what an organization stands for, not about being morally superior to the competition or bettering ourselves as human beings.

Universal Values, Morals and Relativism

Aspirational values are ultimately about doing what's right in an ideal sense, but not all of us can live up to that standard. Many people schooled in religious values go through life conscious of a gap between how we are supposed to live as opposed to how we do live. Few of us are able to live up to the full spectrum of religious commandments, nor do we expect to. If there is a gap, and we feel comfortable living that way, then I suggest that our actual values are different from those that we learn through our religious institutions or schools. We can strive all our lives to follow that better way, but we can only be judged by what we do, not what we say. Just ask any student of any religious belief system. While it is important to have a set of values to guide our lives, living accordingly is a journey along an arduous path, a lifelong activity. In the end, living your values, not talking about them, defines who you are. There are incredible examples of people who stood up for their values in extreme situations, but they are rare. Consider Sandy Koufax, the Jewish baseball pitcher who refused to pitch a World Series game because it was Yom Kippur. Nor was this act a solitary display of values adherence by Koufax. Years later, when team owner Rupert Murdoch stated that there should be no gay men on the squad, Koufax resigned from his position in the organization because Murdoch's values conflicted with his own. Both acts took courage.

Nevertheless, values, for our purposes here, should not be confused with ideals or codes of conduct. Values supercede the latter and are more realistic than ideals. As noted above, an organization, like a society, can be immoral and still have corporate values. Corporate values are:

1. Related to issues of right and wrong and to how individuals within an organization are to act individually and how the company should behave collectively.
2. Based on what the founding leadership of the company states to be right and wrong, rather than on what the law or other professional standards say are right and wrong.
3. Regarded in terms of what is known to be right or just as opposed to what is officially or outwardly declared to be right or just.

4. The touchstones that provide guidance on how to behave decently and honorably *within* the company.
5. Good or right when judged by the common or collective understanding of the average employee.
6. Provided for individuals to have the ability to distinguish right from wrong and to make decisions based on that knowledge.
7. Based on an inner conviction, in the absence of physical proof.

To put these points into perspective, let's look at simple nation states, as they are in fact large corporate entities. Whether a nation state, a religious group or a business, all have a foundation rooted in a set of values. No one can determine if someone else's values are right or wrong you can only say, based on your own values set, that the other nation states, religious groups or companies' values are not yours. For example, let us consider Islamic belief. Many nations guided by Islamic principles believe that women should wear bhurkas in public and be completely hidden from view because it is immoral for them to be seen by men. In western cultures, on the other hand, forcing women to adopt this way of dressing would be considered immoral and oppression of women. Which culture is right? The answer depends on your values; each side is right, depending on your side of the argument.

Some people view values as universal. Some people view them as relative. The universalists think that the same values apply to everyone. The relativists believe that different people embrace different values and we need to respect those differences. Both sides find themselves holding positions with inherent contradictions. How do two groups of universalists, for example, co-exist when they each have absolute values? As we know all too well today, fundamentalist religious beliefs can be a source of great conflict between cultures. We need only think it is a "jihad" or the "war on terror." But those who hold relativist views often get in trouble, too. Respecting unique values can become an excuse mechanism. In the late 1990s, for example, totalitarian leaders in South East Asia were able to tell western critics that democracy wasn't an Asian value, so there was no need for reforms. Western critics replied that democracy was a human value, equally applicable anywhere. According to the relativists, we need to leave the dictator's statements unchallenged. But this is a tough pill to swallow for dissenters living under oppressive totalitarian regimes.

Fortunately, we don't have to deal with political or human rights issues in this book — we just need to talk about organizations. But a word of caution. When an organization has a clearly stated set of values, those values are for everyone in every place the organization operates. This does present a problem when the local culture or laws differ and don't allow for the company to successfully conduct business in that country in a way that is consistent with their values. For example, many manufacturing organizations in China and Asia treat the employees that produce goods for them in a way that is not aligned with their values. Corporations don't exist in a vacuum and unless their values enable them to ignore human rights issues they need to step up and act at all times in all places with consistency. Not doing so opens the box for employee cynicism if not consumer cynicism. It is reasonable to argue that there is no universal definition of the same value between companies because each company comes to its values through a different collective experience that validates its values only for itself. When it comes to values within organizations there are three ideas:

- First, values are universal for the entire company — the values that an organization holds true are absolute inside the walls of the organization. Different divisions or regions of the organization don't have different values, not even if they have very different leaders. The values are universal across the organization, regardless of circumstances.
- Second, when it comes to different organizations, values are relative to that organization's experience. The values of one organization are not the same as the values of another. What is right in one organization is not right in another. Values do not transcend organizations. They can't be benchmarked, borrowed or replicated. We can't take the successful values of one organization and apply them to another and expect anything good to happen as a result. The values have to come from inside the organization. In truth, they are already there; they just need to be discovered.
- Third, corporate values are not about right or wrong, good or evil — they are about consistency to a standard of action that defines the right behavior. Whether someone is good or bad in the context of an organization depends on whether they act consistently with the organization's behaviors that define the values. If an organization's values are in conflict with societal values, a person is still considered "good" within that organization as long as they stay true to those values. In the same way, those who hold different values might consider that person a monster outside of the organization. At Enron, for example, it was okay to create fake offshore accounts in service of higher share value. Outside the organization, most of us were appalled.

In addition to the intersection between values inside the organization and values outside the organization, we need to think about the intersection between individual values and organizational values. This intersection can be a source of tension and alienation or it can be a source of confirmation and belonging. If you believe that people development is a value and you work in an organization where it is a value, then you will feel comforted and confirmed when your organization makes decisions that support that value. If you believe that respect for the customer is a value, but your organization treats customers without respect, then you will feel conflicted and alienated about working there. In other words, it all depends on what you believe in and where the group you belong to stands in relation to that belief.

It's possible for us to fake or adopt an adherence to values we don't really believe in. If an organization is articulate about its values and consistent in upholding them, then it can be relatively easy for a member of the organization to follow those values, as long as they don't conflict with their own. It may not be the most powerful, satisfying or fulfilling way to be in the world, but it's possible. So the question becomes, how do we know when something is really a value to us or not? It's like the ten-thousand-mile test that young people often experience when they first move away from home. Now that you're in college, or half way around the world on some inexpensive beach in a south-east Asian country, what are your moral limits? If you are true to your values, then you will behave the same way regardless of whether anyone you know will ever find out what you are doing. If your values are only standards that apply when you might get caught, then they are not living principles. You will do one thing under one circumstance and another in a different circumstance.

Value-Driven Organizations

Business theorists have long recognized that values are important and organizations with a strong culture are more successful. But, despite all the hoopla, the link between values and organizational performance is still poorly understood. While we give lip service to the idea that successful organizations are value-driven institutions, and talk about successful leaders as value stewards, we do not sufficiently explain the mechanisms by which values are made meaningful in organizations. It helps to get a broad stroke explanation of where we've come from, to understand where we need to go.

In the early 1900s, Chester Barnard was the president of New Jersey Bell Telephone Company. As an executive and a thinker, he was profoundly interested in the web of social and personal relationships within organizations. When he retired, he wrote *The Functions of the Executive*, published in 1938, a classic work about cooperation and communication. To Barnard, an organization has coherence when individuals come together to contribute their efforts in service of a common purpose. This notion of purpose was a key breakthrough. Every organization has a purpose, but a purpose does not create cooperation unless it is accepted willingly by the organization's members. A leader's job is to harness action in pursuit of a purpose.

Philip Selznick furthered this idea of purpose by declaring that organizations have specific competence which gives them unique character. By character he was touching on the idea of culture. "Organizations become institutions as they are infused with values…" he wrote. Leadership, Selznick believed, was about defining a basic vision and building an organization capable of fulfilling that vision.

Many theorists picked up on this wave of insight, but the issues didn't really become urgent for business practitioners. In the 1970s, Henry Mintzberg began describing the different configurations of organizations in terms of structure. One configuration, the "Missionary Organization," seemed important because Japanese companies like Toyota had adopted it so successfully. Japanese organizations managed people not by standards and procedures but by norms and beliefs — that is, values. Their approach was making a difference in terms of healthier, more productive and more innovative work environments.

Mintzberg looked at this phenomenon and wondered why more organizations weren't like Toyota. In Mintzberg's view, every organization has a culture but only value-driven organizations have an ideology. An ideology is a "rich system of values and beliefs about an organization, shared by its members, that distinguishes it from other organizations. ... It ties the individual to the organization, generating an 'esprit de corps,' a 'sense of mission,' in effect, an integration of individual and organizational goals that can produce synergy."

I would go further and suggest that all companies have a value set that is handed down by management to succeeding generations of employees. Organizations that are particularly effective at passing on their values usually have a strong founder who identifies a vision, then gathers others around him to accomplish that desired future state, yet to be achieved. As Mintzberg writes, "The individuals who come together don't do so at random, but coalesce because they share the same values associated with the fledgling organization." Leaders reinforce those values through authentic belief in them, clear articulation of them, and by backing up their words with consistent deeds. Over time, the belief system establishes a pattern of behaviors that result in a codification into values. The stories that best exemplify the values become part of the corporate mythology. Crisis points that highlight how living the values leads to desired results establishes an oral tradition that one generation of employees shares with the next, hence, reinforcing for the next generation that there is a correct way of acting to succeed. The confluence of repeated similar actions, the stories they generate and the pride that results create the habits of behavior that define the shared ideology or values. The collective experience enables and sustains this. The foundation for this is the founder of the organization who leaves the "right way of acting" as his or her legacy. As Selznick had articulated years before, the organization gains a distinct identity and becomes an institution.

In the early 1980s, Terrence Deal and Allan Kennedy spelled out and coalesced what we knew about the importance of values and culture to successful organizations. In their book, *Corporate Cultures: The Rites and Rituals of Corporate Life*, they used anthropology, the study of culture, to come up with terms and language for explaining what organizational theorists had been struggling to articulate. Strong cultures, they said, were the new "old rule" of business success because so many of the great companies like Procter & Gamble, IBM and Johnson & Johnson, had understood that truth from the first day and lived by it all along. Organizations with strong cultures are based on values. They have heroes, individuals within them who "personify those values" by serving as value stalwarts, role models and standard-bearers. Heroes have a strong sense of mission.

To demonstrate, Deal and Kennedy tell a favorite story of Adolph Ochs, founder of the *New York Times.*

> A traveler meets three stonecutters and asks each of them what they are doing. The first says, I am cutting stone. The second says, I am shaping a cornerstone. The third says, I am building a cathedral.

Culture heroes believe that they are not just doing their jobs; they are building cathedrals. One of the jobs of managers within the organization is to celebrate such heroes and reinforce heroic behavior through rites and rituals that support the culture.

Deal and Kennedy nailed it. But it wasn't until 1994, when Jim Collins and Jerry Porras wrote *Built to Last: Successful Habits of Visionary Companies*, that the idea of a value-driven organization really took hold in managers' minds. Collins and Porras built a very convincing case for the link between values and superior performance by analyzing the stock performance of a number of institution-like or visionary companies over many years and comparing that to a set of well-known rival companies that operated during the same time period and in the same industry. They found clear evidence that the valuation of the institutions far exceeded both the market average and the noteworthy comparison companies. For example, Johnson & Johnson markedly outperformed Bristol-Meyers Squibb in stock price, brand recognition and new product development. Same went for Boeing versus McDonnell Douglas, Sony over Kenwood, Wal-Mart over Ames, Walt Disney over Columbia.

The results are impressive, visually and otherwise: Collins and Porras then looked at what those visionary companies had in common. They found that the high-performing companies were all driven by a relatively unchanging set of values. The comparison companies, on the other hand, tended to flit and change with the wind when it came to values, undergoing many transformations over the years. The comparison companies were focused on short-term profits, shifts in the market or business process improvements. The visionary companies also changed with the times, improved themselves and achieved profitability; they simply did so within the rationale and guidance of their values. They were more consistently aligned to their values when it came to goal setting, strategy, tactics and organizational design. In other words, the visionary companies did their thinking inside the box.

Selznick used the word "institutions." Collins and Porras called these companies "visionary" because they are inspirational and seek to change the world; in other words, they know what the cathedral they wish to build will look like when completed, even though they are still in the midst of constructing it. What else do we know about them? Visionary companies are widely admired by their peers and draw a cult-like devotion from their employees. Visionary companies have long illustrious track records that include more ups than downs. They embrace change, innovation and improvement and go through multiple product life cycles. Even when they face setbacks and crises, they do not compromise their ideology, and therefore they survive and ultimately thrive. Even more impressive, visionary companies outlast their original product ideas, and even the powerful personalities, motivations and entrepreneurial spirits of their founders. Indeed, their enduring greatness is not the result of one great person or a single great idea but an underlying process, as Collins and Porras put it, of "stimulating progress while preserving the core."

This analysis cemented what many other theorists and leaders had also discovered about the importance of values. It did little, however, to explain how those great companies established, articulated, preserved and operated under those values, much less how future organizations could strive to do the same. Collins even acknowledged this fact in his follow-up study, *Good to Great: Why Some Companies Make the Leap … and Others Don't.* The visionary companies he and Porras described had always been great. But how could other companies get there? Collins' answers in *Good to Great* were about leadership, selecting the right people, steadfastness, discipline and continual improvement. These are all important points, but they still don't explain how his visionary organizations turn dry principles into a code for living to such great effect.

Values and Visions

Even the term "visionary" created some confusion, inspiring a mania for vision and mission statements instead of values articulation. If you've ever been involved in the development of a vision or mission statement, you know how difficult this process can feel and how unrewarding its impact can seem.

A few years back, I sat next to a woman on a flight from Chicago to San Diego. I was working away on my PowerPoint presentation for a conference workshop, and she was reading a business book. We began to talk. She mentioned that her organization was currently going through a very painful vision statement exercise. Despite all their efforts and the guidance of the consultants at a prominent school of management, they just couldn't get it right. It was rending the senior management team apart, diverting resources and distracting the organization.

I asked her if they had defined their values yet. She said no. I told her that the correctness of the vision could only be determined by checking against the values. You couldn't develop the vision first and fit it to the values later. Value discussions are emotionally charged as it is; if you don't recognize that you are actually arguing over value-based issues when you are debating an organization's future vision, you have very little hope of reaching a productive consensus. In fact, it's likely that your vision will not match up with your values and will therefore be meaningless or even destructive to the organization as a whole. She paused and reflected on her organization's values and its culture; the concept resonated. She told me to hold that thought while she got her boss from the row behind ours. After she introduced me to him, he sat in her chair, and we discussed the relationship between values and vision until the plane landed in San Diego. When he got back to the office, they halted the work they were doing on defining their vision and went back to the drawing board with their consultants, this time focusing on their values first.

I suspect that vision or mission statements have been so popular in recent years because they lend themselves to executives' natural orientation towards action and results. Vision is about accomplishment and setting future goals. CEOs find the idea of developing such a legacy compelling. But values are how you get there and what makes your organization the kind that can do it in the first place. The dream comes true only if you maintain an unwavering belief in the future state. Dreaming it without passion and without being on constant watch creates a vision without energy. "If you will it, it is no legend," Theodor Herzl wrote in "Altneuland" in 1902. It is not the will alone that gets you there; it is the passion and belief in what you are creating that moves you forward. Yet, many CEOs don't wish to articulate their values. As one major bank CEO once said to me "my people should 'just know it' by the way we work around here. I shouldn't have to lay it out for them." If only it were that simple. In that bank misunderstanding about values was a serious problem, creating customer service issues that were costing the organization market share. Managers and supervisors just didn't know how to communicate values articulately, or how to reinforce them consistently.

Visions Can Change; Values Don't

A company or an organization can finally accomplish a great visionary goal, pat itself on the back and develop a new and equally audacious visionary goal, and still retain the same principles. The values guide the direction and growth of the organization, provide an ethical barometer, help identify employees who belong and employees who don't, act as a filter for strategy and people decisions, and offer satisfaction and meaning when objectives are reached. Without values, an organization's vision has no direction or energy source.

Want some examples of visionary organizations that rely on values first and foremost? How about the United States of America? The founding fathers defined the principles of the emerging nation and left the details to the major government bodies, the state and local governments, and the leaders of successive generations. They declared the United States to be a democracy that celebrated equality of opportunity and provided freedom of worship, speech and lifestyle. But this declaration did not make it so. Many in the population (including women and African-American slaves) were, at the time, still disenfranchised. Not everyone was equal.

While freedom and equal rights became the anchor to the American way of life, this did not happen overnight. First there was an amendment to bring equal status to women and later to African-Americans. Then there was a civil war over the issue. In fact, it wasn't until 1963 when Martin Luther King led a march on Washington (at which I was present) that real change began to occur. The social impact of Jackie Robinson's inclusion into Major League Baseball in 1947 resonates as one of the civil rights movement's significant triumphs. This achievement was in part made possible because of Walter O'Malleys vision in 1946 to integrate professional baseball. Through the heroic efforts of Jackie Robinson and many of his teammates, the line between black and white began to fade. By 1963, some twenty years after Robinson was sent to the Montreal Royals in the minor league and opened the gates, Dr. King had the momentum for his famous march. The integration of baseball happened during World War II, when many of the players enlisted into the armed services. As a result the number of quality players dwindled. To fill the stands and ensure cash flow Bill Veeck, Jr., in 1943 in Philadelphia considered integrating baseball by bringing in players from the Negro Leagues. Having the dream without the courage to act on it made Veeck's idea a footnote in history. (Thomas Oliphant, *Praying for Gil Hodges*) The reality of integration waited until O'Malley acted on his beliefs and began the long civil right's journey that culminated in King's speech in 1963. Over the years, many such visions and missions have gripped the country — from Manifest Destiny to winning the space race — but the values of the United States have never changed. Millions of immigrants have been drawn to the country because of those values, which have stood the test of time and become stronger with each crisis.

Or consider the New York Yankees. Somehow they manage to win World Series after World Series. Love 'em or hate 'em (and I'm a holdover Brooklyn Dodgers' fan whose family loved Them Bums for generations and felt abandoned when they moved to Los Angeles), the Yankees are the most successful franchise in the history of any professional sport, despite the recent Red Sox championship! In the last one hundred years, they've won twenty-six World Series — one out of every four World Series, or 40 percent of all pennant championships. Four of those World Series teams played in the 1990s during the height of free agency, in which there was an average annual turnover of 40 percent of their roster. How do they manage to attract, retain, develop and utilize the top performers who lead the team to the pinnacle of success, approximately once every four years? As one sports writer said after another brilliant late-season trade brought yet another underutilized impact player to the team: “The Yankees know how to find Yankees.” What he meant was the team knows how to identify, recruit or obtain players who fit and excel under the particular circumstances of being a Yankee. They maintain the tradition of what it means to be a Yankee through eras, owners, coaches and stars. In 2002 in a piece called “Why the Yankees Are So Great,” Jimmy Cannon wrote that fifty years ago, Hank Greenberg, general manager of the Cleveland Indians, asked “What happens to them when they become Yankees?” Greenberg replied,

> … The ballplayers on other clubs are ballplayers. They are Yankees. … They are serene elite, graceful and humble … because their pride is not disfigured by vanity.
>
> … There have been drunks and malingerers and complainers but they seldom last. … They respect the tradition of Ruth and DiMaggio. … They are not humorless but they reject buffoonery. They are not seized by despair … in times of crisis. … They can’t be bullied. They are a team with little animosity.
>
> … The managers are the same way although their methods and their personalities vary. You are a Yankee, they feel, and you are the best.

The vision, undeniably, has always been the same: to win the World Series. But it’s a vision shared by thirty other teams. Yankee values are the engine of their vision and that is what makes them successful. When you think of the Yankees of the late 1990s and early 2000s it's clear that this tradition, culture and atmosphere remains unbroken. Joe Torre, the current manager, sounds more like a values coach than a tactical master when he describes what it takes to make his team win. The Yankee players in our star-powered era still don't display names on their uniforms, a sign that they put their personal ego below the team. Nor do they have hair on their faces, a sign of respect for Yankee discipline. Whether elite stars or role-players that are outstanding, old or young, Yankees come from all backgrounds and types, but they must all fit in or be traded away. Players who are diverse in personality, background and outlook on life all worship the tradition of Babe Ruth, wear the same uniform and fight for the same goal.

The Yankees, like other value-based organizations, exhibit clear traits. The Yankees:

- Outlast and outperform their competition.
- Execute better because they are able to make faster and more consistent decisions.
- Recognize, celebrate and reinforce the work practices that contribute to achieving their visionary objectives.
- Know who is a star, who fits in, who doesn't and why, and can make rational people decisions.
- Have a clear understanding of the "right" thing to do in any situation, under their terms.
- Project their brand in a compelling way to employees, customers/fans, competitors and shareholders.

If that sounds like the Holy Grail of leadership, it should. Great leaders have always recognized the significance and utility of values as ideas and inspirational tools. They know that if you get the values right, everything else falls into place.

Getting There

That's the end state, the objective, the promised land. No organization is a values paradise. Perfection is not possible because staying true to values on a daily basis is hard work. In fact, the organizations most known for their values work the hardest at acting consistent with those values.

Without an understanding of how values work, leaders fail to take advantage of their organization's most precious resource—the unique culture and vision that employees, customers and partners have bought into and believe in. Those organizations that do understand how values work are easy to spot. They outperform competitors. Their employees and customers are more satisfied. Their success and viability is sustainable over a long period of time and through a great deal of change. The formula that they operate by is a simple one, though difficult to replicate. In the chapters that follow, we will learn exactly how value-driven organizations make this formula real.

LOOK INSIDE THE BOX

The Values Formula

VALUES — **Strongly Held Beliefs** that an organization has about itself and what it thinks it needs to do in order to be successful in the world.

VISION — **Dream or Mission** that grows out of the values, a long-range goal that the organization consistently strives to achieve.

LEADERSHIP **Consistent Demonstration** of those values at all levels, thereby reinforcing the culture and holding everyone accountable without exception.

EXECUTION **Ways People Work** within that cultural discipline to achieve the organization's objectives, despite pressures to act in a way that is inconsistent with the organization's values.

MEASURES OF GREATNESS

- ❑ **Organizational Integrity** — a healthy work environment in which people understand the organization's values, act consistently with them and can independently judge whether something is right or wrong.
- ❑ **Business Results** — a healthy bottom line where the way people behave moves the organization steadily towards its vision.

Employee Brand — a healthy sense of loyalty and commitment in which people function willingly as volunteer cheerleaders of the organization's culture in front of potential employees and customers. Employees are engaged.