




HIGH COMMITMENT, HIGH PERFORMANCE

How to Build a Resilient
Organization for Sustained
Advantage

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CHAPTER TWO

PILLARS OF HIGH COMMITMENT, HIGH PERFORMANCE ORGANIZATIONS

Working here is truly an unbelievable experience. They treat you with respect, pay you well, and empower you. They use your ideas to solve problems. They encourage you to be yourself. I love working here.

—EMPLOYEE AT SOUTHWEST AIRLINES¹

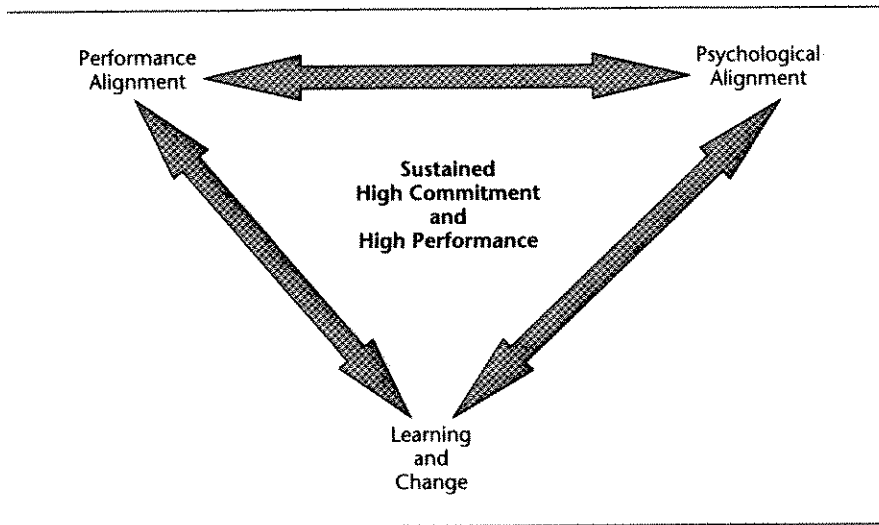
High commitment and high performance companies are able to deliver sustained performance because they have developed the following organizational pillars:

1. Performance alignment
2. Psychological alignment
3. Capacity for learning and change

Performance alignment occurs when the total organization system—structure, systems, people, and culture—fits performance goals and strategy. *Psychological alignment* is the emotional attachment of people at all levers, particularly key unit leaders, to the purpose, mission, and values of the company. And if the firm is to sustain both performance and psychological alignment, it must also have the *capacity for learning and change*. Taken together, these three pillars create the resilience essential for a company to weather inevitable inflections in the business and social environment as the firm grows (see Figure 2.1). Strength in all areas markedly increases the chances that a firm will be able to sustain high commitment and high performance over an extended period of time, sometimes over decades.

It's not enough for a company to have one or two of these pillars in place at a given time. The CEO of an HCHP firm must be able to *simultaneously solve* for all three of these organizational outcomes. That is one reason why competitors of Southwest Airlines, an exemplary HCHP organization for almost four decades,

FIGURE 2.1. PILLARS OF HIGH COMMITMENT, HIGH PERFORMANCE ORGANIZATIONS.

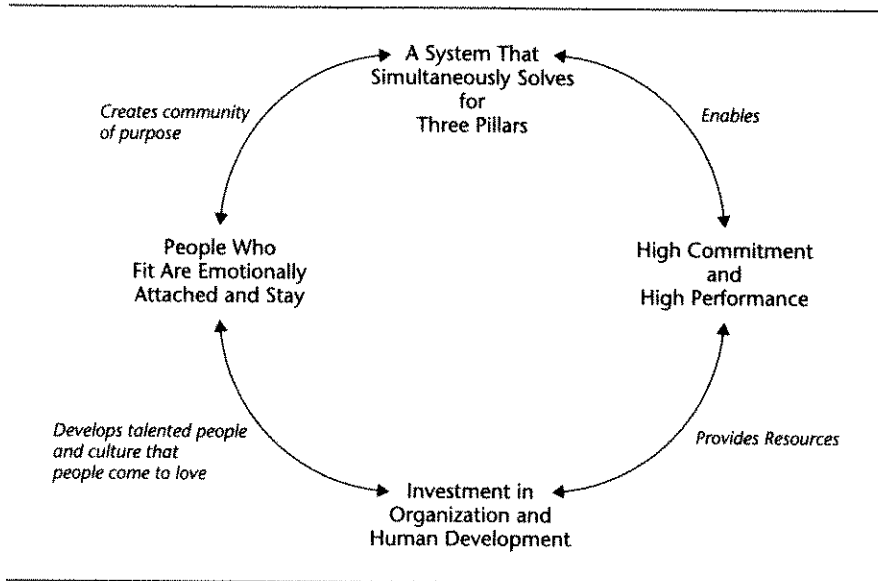


have not been able to emulate its success.² Competitors were able to copy certain operational practices and gain some semblance of performance alignment in a short period of time (however, in all cases this was incomplete), but they could not develop psychological alignment or the capacity to learn and change in a short time frame. To simultaneously solve for all three outcomes, leaders must have the will and skill to consider all three pillars when making decisions about strategy, business policy, and human resource practices.

How has Southwest been able to develop psychological alignment, capacity for learning, and such a remarkable performance? Does Southwest have secret “high tech” tools to select the smartest and brightest? The answer to this is a decided no! Southwest and other HCHP organizations achieve extraordinary results through finding ordinary, competent people with great attitudes who fit their culture. Organizing, managing, and the company’s underlying philosophy come first. Profits and commitment will follow.

The thesis of this book is that sustained commitment and performance emerge when the *organizational system*—hard formal structures and systems as well as the soft leadership, people, and cultural characteristics—is explicitly designed by leaders to solve for all three organizational outcomes. The system and its three strong pillars enable a virtuous cycle as depicted in Figure 2.2.

FIGURE 2.2. THE VIRTUOUS HCHP CYCLE.



Are HCHP Organizations a Realistic Objective?

You may ask whether it is realistic to think that organizations can be created where people are so committed that they subjugate individual career and department interests to the purpose and objectives of the larger organization. Aren't politics inevitable when large numbers of people are brought together to achieve a common purpose? Won't managers' commitment to their own interests and that of the departments they manage always trump their commitment to the mission of the company? Is it really possible for companies to enable people to speak truthfully about the challenges the organization faces, including the behavior and policies of top management?

Though difficult to create and sustain, the success of Southwest Airlines is not an aberration brought about by the particular circumstances of the airline industry. Nor is the company's success *only* due to founder Herb Kelleher's unique skills in relating to people, though, as we shall see, his values and vision have been critical to Southwest's success. Table 2.1 provides an illustrative list of HCHP companies in industries as diverse as retailing, steel, education, sports, and high technology. All have outperformed their peers for many years and,

TABLE 2.1. HIGH COMMITMENT, HIGH PERFORMANCE COMPANIES.

Airlines	Southwest Airlines
Software	SAS Institute
Technology	Hewlett-Packard (until late 90s)
Telecommunication	Cisco
Consulting	McKinsey
Investment Banking	Goldman Sachs
Sports	New England Patriots
Steel	Nucor
Pharmaceuticals	Johnson & Johnson
Hotels	Marriott
Computers	IBM (until 80s)
Electrical Equipment	Lincoln Electric
Grocery	Costco
Education	Harvard Business School
Automobiles	Toyota

in some instances, for decades. None fits perfectly the ideal HCHP model for organizing, leading, and managing discussed in this book, but all bear substantial similarity to it.³

Founded as HCHP companies, these firms have demonstrated that the HCHP model of management delivers superior value to employees, customers, and shareholders. The companies are not identical in their organizational arrangements or HR policies and practices, but they have all developed performance and psychological alignment, as well as the capacity to learn and change.

Competitors have a very challenging time gaining an advantage over these companies, because their organizational system and the high-commitment culture are difficult to imitate in the short run, if at all. To gain a detailed understanding of what an HCHP company looks and feels like, I will provide an overview of Southwest. It makes for an excellent illustrative case because it has been so well researched and its policies and practices so well documented.

Southwest Airlines: An Illustrative Case⁴

By now it's no secret that Southwest Airlines, founded in 1971, has been the most successful airline company in the United States for over thirty years. From its inauspicious beginnings, flying out of Love Field in Dallas with only three airplanes, the company has grown into a major player in the industry. By 2004 it served fifty-nine cities and employed thirty-four thousand people. Its annualized

returns to stockholders from 1972 to 2002 were 25.99 percent, the best among all U.S. stocks and above high-performing companies like Wal-Mart (by a very small amount), as well as Walgreens, Intel, and Comcast.⁵ As of 2004 it outperformed all other airlines on a number of critical operating dimensions. It is the only airline to have made a profit every year for the past thirty years. Southwest's operating costs are 20 percent below the rest of the industry, despite the fact that it is 80 percent unionized.⁶ In 2005, Southwest's market capitalization exceeded that of all the other airline companies combined, many founded well before Southwest. Even more impressive is that Southwest's returns exceed those of many companies in industries advantaged by technology and a favorable competitive environment. In other words, Southwest has achieved sustained high performance in what most regard as a terrible industry, one that since its deregulation in the late 1970s has presented a very tough challenge.

Southwest's success was accomplished with a strategy and a set of management policies and practices that were, and in many instances still are, very counterconventional. Southwest's original strategy, to serve nonbusiness customers with low fares that would compete with bus fares on the same route, was at first thought to be impossible and probably a prescription for disaster. They have been able to maintain competitively low fares by creating a community of people who relentlessly focus on controlling costs. Here's Colleen Barrett, executive vice president of customers:

We're one big family, and the family members expect a lot of each other. Part of that means watching our costs carefully. We can't compete unless our costs are as low as, or lower than our competitors, which mean everyone has to take part. For example when the price of jet fuel skyrocketed during the Persian Gulf crisis, Herb [the company's CEO] sent a letter to every pilot asking if she or he would contribute ideas on how to save fuel. The pilots developed a new procedure for takeoffs and landings that was just as safe and saved a significant percentage of the fuel used in those maneuvers.⁷

But unique practices and management do not end with an emphasis on low cost. Southwest developed an operating system that supported the low-price, low-cost, on-time departure strategy. When the company was founded, the system violated every prescription in the airline industry. That model includes flying only one type of aircraft (the Boeing 737), fast turnaround of airplanes, timely departure, high utilization of airplanes, flexible work roles, and a friendly and fun environment for customers. The company flies out of secondary, noncongested airports and offers point-to-point service only; passengers cannot connect to other cities through the traditional hub-and-spoke system thought to be essential

for success. And contrary to the practice of other airlines at the time, from the outset, Southwest did not provide assigned seats, served only peanuts and drinks, and did not check luggage through to another airline when a passenger wanted to make a connection.

Southwest has reversed the conventional wisdom that low cost means less attention to customers. The company earned the Triple Crown award—best on-time performance, fewest complaints, and fewest bags lost—for five years in a row, something that no other airline has achieved. The company was ranked first in the industry, with the fewest customer complaints, for thirteen consecutive years. They have not done this by offering meals and other high-end services, but rather by offering passengers fun and friendliness. As one flight attendant stated, “We are all dedicated to the delivery of positively outrageous service to customers—with a sense of pride, warmth and friendliness.”⁸ As Herb Kelleher, CEO during the first three decades, likes to point out, “It’s easy to offer great service at high cost. It’s easy to offer lousy service at low cost. What’s tough is offering great service at low cost, and that’s what our goal is.”⁹

The secret to the low-cost, low-price, and friendly service model lies in Southwest’s equally unconventional approach to managing people; one that outsiders often find hard to believe really works. One employee, who had worked at several other large companies, said, “I was pretty dubious at first, having been at places where everyone but the top two or three people were considered commodities, but I have come to appreciate a place where kindness and the human spirit are nurtured.”¹⁰ A keen observer and expert on the airline industry observed, “At other places managers say that people are the most important resource, but no one acts on it. At Southwest they have never lost sight of that fact.”¹¹ This observation is supported by Southwest’s consistent place in Fortune Magazine’s list of the “Fortune 100 Best Companies to Work For.” In 1998 it ranked number one in that list. Southwest’s approach to managing people stems from a unique culture, one created and sustained by the company’s founders. The company enjoys a culture of teamwork and selfless contribution that is not the norm in U.S. society. It took imagination, leadership, and courage to create the culture described by a manager as follows: “At Southwest, the community is most important. People have to let go of their personal egos. Without the success of the community, you can’t have personal success. The U.S. needs a heavy dose of Southwest’s culture. It needs people who are more community-minded and less self centered.”¹²

Southwest’s high performance capabilities and culture are robust enough to repeatedly beat off challenges by competitors. Fearing revenue loss in the California market, United Airlines (45 percent of its revenues came from its California hubs at the time) tried to compete on the San Francisco–Los Angeles

route, only to fail miserably. Continental tried to compete with its “Continental Light” flights, which served only peanuts and drinks, but failed to make any money, and ultimately abandoned this concept. Experiencing continued performance problems in the face of Southwest’s increasing success and growth, competitors are again trying to emulate their model. Only time will tell how many will be successful in the long run. Below I illustrate the HCHP three pillars through the lens of SWA.

Three Pillars of HCHP Organizations

Performance Alignment

High performance cannot be achieved unless all aspects of the organization’s design are aligned or fit together and in turn are aligned with or fit the strategic task of the organization.¹³ Crucial to this multi-alignment is that management maintains internal consistency across design levers and throughout all corporate subunits and levels. Why is this quality of organizations so important?

Strategy Must Be Distinctive, Focused, and Values-Based. A focused and distinctive strategy for delivering value to a targeted customer segment is essential for sustained competitive advantage. Southwest realized before anyone else that if they could make airfare as cheap as ground transportation and provide friendly service as well, they would be able to create a new market that no one else was serving. They have focused on this strategy relentlessly. In choosing this strategy, management made a conscious *choice* not to cater to business travelers. Gary Kelly, now CEO of Southwest, captured the strategic choice that underpins the company’s success as follows:

First of all the company just had a great idea. And it really was—through the lens of 20–20 hindsight—it was brilliant. In the late ’60s, early ’70s, it was a very humble idea to the founders. But nonetheless, it was visionary. The second aspect is that they were remarkably disciplined in their focus on the strategy over decades, and they resisted the temptation to chase other distractions. They knew what they were good at, and they just worked harder and harder to perfect that.¹⁴

A focused strategy freed management to hire only people who were aligned with low-cost and friendly service. Its organizational design, operating system, and human resource policies were intended to compete with the car, bus, and

train travel typically used by leisure travelers. Perhaps unsurprisingly, in recent years, SWA has also become attractive to business travelers who value low-cost, on-time flights. Making a clear choice enabled Southwest to avoid the mistakes that often plague underperforming companies like Continental (up to the late 1990s) and United when they attempt to serve low-end *as well as* high-end customers, what Michael Porter has called straddling.¹⁵

Perhaps less well known is the fact that HCHP firms' strategic choices emerge from their hearts as well as their heads. Strategy typically reflects senior management's desire to create a better world, to make a contribution. The value-based component of the strategy is what enables the company to avoid distractions, as Kelly put it. Hewlett-Packard's concern with gaining customer respect and loyalty by providing quality products had a deeply human quality. Engine manufacturer Cummins Engine's long-standing commitment to the environment was central to their recent turnaround.¹⁶ Gary Kelly sees human values as the underpinnings of Southwest's strategy: "A huge component of the strategy wasn't necessarily a thought. It was more visceral. It was just an appreciation for people. It was a very deep understanding that we're here to serve customers and that to serve customers well, you have to have great people, and you have to take great care of those people."

The Organization Must Fit the Strategy. A clear strategic choice makes it possible to fit the organization and its people to the strategy. By organization I mean the roles, responsibilities, and relationships that enable specialization and coordination. Structure and systems define these formally, but in HCHP companies the culture and norms play an especially important role in shaping organizational behavior. Without alignment the strategy will not be implemented effectively and performance will be severely compromised. Implementation is about more than setting goals and following up. It is about creating a design that enables execution.

Southwest's strategy requires fifteen-minute airplane turnarounds and continuous emphasis on keeping costs low. The operating system (using only one type of plane to ensure low maintenance, no assigned seating, and so on) and organization were purposely designed to achieve low cost. Unlike its competitors, Southwest Airlines created the position of airport station manager, whose job is to develop a tight-knit team that coordinates maintenance, pilots, and ramp and customer-service employees for the fifteen-minute turnaround. Cross-functional teams are empowered to be responsive to local station conditions rather than driven by rules and processes created by distant corporate staff. Cross-functional processes imposed by corporate staff are likely to suppress initiative and prevent teamwork at the local unit level. By balancing the need for top-down control

with local autonomy, Southwest has managed to increase the organization's capacity, as well as increase the number of decisions and the amount of work that can be accomplished in a cost-effective manner. The decentralized structure enables coordination, communication, and creativity, and it develops leadership competence, all capabilities that characterize HCHP organizations.

On the people side, Southwest's low-cost friendly and fun service strategy demands managers who are not elitist or particularly concerned about status, and employees who are relationship oriented and relatively uninhibited. Even pilots must have these qualities, regardless of their proficiency. Without a relationship orientation, pilots would not collaborate with flight attendants in cleaning an airplane or meet the fifteen-minute turnaround objective, nor would they be able to relate to passengers in the friendly manner expected of all Southwest employees. A customer's experience with a company must be consistent for loyalty to truly develop.

High-performance organizations like Southwest are clear about the attitudes, capabilities, and behaviors needed to implement the strategy. They recruit and select people who fit these criteria. They are also clear about qualities they don't want and consciously avoid making hiring mistakes. A highly proficient pilot who was rude to a secretary was not hired. That pilot probably would have been hired by an underperforming company, on the assumption that success comes from hiring the candidate with the best functional skills. Mistakes in hiring are costly and reduce the value proposition for customers and shareholders. Indeed, a study of Southwest Airlines shows that coordination based on relationships, rather than structure or incentives, is at the heart of the company's high performance.¹⁷ Continental's and United's failure to woo away Southwest's customers can be traced to an inability to fit their organization (particularly the company culture) and operating system to the low-cost and friendly service strategy they tried to emulate.

Organizational Design Levers Must Be Internally Consistent. Employees must become convinced that management means what they say. For this, internal consistency between the various organization design levers is important. The firm will most likely not be able to implement its strategy without it. Consistency is essential for developing employee trust and commitment to the goals, values, and strategy of the enterprise. Southwest's low-cost and rapid airplane turnaround would not be possible, as noted above, without relationships of trust and good communication. Consider the following description of how cross-functional communication at SWA enables both an aligned and internally consistent organization: "There is a constant communication between customer service and the ramp. When planes have to be switched and bags must be moved, customer

service will advise the ramp directly or through operations. If there is an aircraft swap operations keeps everyone informed. It happens smoothly.”¹⁸

Inconsistent policy and practice erode the effectiveness of other policies too. Consider the training in interpersonal relationships and teamwork that employees receive at Southwest’s People University. Without a structure that demands accountability for broad performance measures at the station level where functions come together, leaders that embody core principles, good union management relationships, and broad job descriptions, the training investment would be largely wasted. Similarly, a structure that enables station managers to be accountable for broad measures of performance would be ineffective without station managers who know how to lead a team.

Internal Consistency and Competitive Advantage. Internal consistency makes it very difficult for a competitor to copy a firm’s formula for success. Copying one practice may be relatively easy; copying a large set of policies and practices that are internally consistent is far less likely. This is in part a function of statistical probabilities, as Michael Porter has argued.¹⁹ If the probability of copying any one policy is .9, the probability of copying many consistent policies is far lower. But copying a firm’s internally consistent policies is also made difficult by the fact that this consistency emerges from the CEO’s values. If competitors do not have a CEO who possesses the “right” values, they cannot create consistent policies and practices. Surprisingly, few firms actually use the value lens in hiring CEOs.²⁰ Leaders at every level of the company must possess the same management philosophy and values as the CEO. Such leadership consistency takes a long time to develop. Southwest achieved it through many years of careful selection and development of their managers. Conversely, the leadership gap prevented United and Continental Airlines from competing successfully with Southwest.

Inconsistency led to Continental’s failure to compete with Southwest. In 1993, Robert Ferguson announced his plan to split the company into two operations; one would concentrate on short-haul, low-fare flights (named Continental Light or CA Light), and the other would feature first-class service at business-class prices. Ferguson believed a cost structure lower even than Southwest’s would enable Continental to compete successfully. CA Light cut its fares and cut its meal service, but much of the rest of its operating system—multiple airplane types, a reservation system, and hub-and-spoke system—remained the same. More important, the company was unable to replicate Southwest’s HCHP culture. Continental flight attendants, when asked to emulate Southwest practice by helping to clean cabins between flight segments, complained about increased workloads and short break times. Though ground crews tried hard they still

took thirty minutes to turn around an airplane rather than the twenty minutes they hoped for (a goal that was still five minutes more than Southwest's typical performance). And pilots were upset until the company provided meals during their busy schedules.

It takes years to create the Southwest culture and employee attitudes. Perhaps more important, Robert Ferguson at Continental did not possess the values and style required of a CEO who wants to create an HCHP system. He was described as a taskmaster who was "harsh and uncommunicative" and who drove employees away. He admitted to not suffering fools gladly and said "he would tell you in front of 20 people or 100 people if you were not doing a good job."²¹ This is not the inspiring and caring leadership style of high-commitment leaders like Herb Kelleher.

Psychological Alignment

The Southwest employee who says she "loves working here" captures exactly the type of emotional attachment to the firm that defines psychological alignment. Love of company mission and values is a central characteristic of an HCHP system, research has found.²² Organization structure, the performance management system, and incentives—the hard aspects of an organization—can *move* people to work together, if only temporarily. But employees who are psychologically aligned with the mission and values of the organization are *internally motivated*. With psychological alignment, firms become *communities of purpose*. Relationships and teamwork become central drivers of behavior. People become willing to sacrifice their immediate self-interest for the demanding goals required for high performance. The sense of family that pervades HCHP organizations and the attention to people required to achieve that feeling are reflected in what Southwest's Kelly reported to me in a 2008 interview: "There's a real celebration of success and individual achievements. The family-like feel is accomplished through not only what we do here at Southwest Airlines, but also by appreciating people for who they are, their personal accomplishments. And simple things, like recognizing birthdays, weddings, and anniversaries. Many companies do those things, but it comes across disingenuous. Here it really is a celebration."²³

Firms seeking psychological alignment consciously develop a *distinctive "psychological contract"*—a *high-investment, high-return exchange* between the firm and its employees (managers and workers). This is not a written contract. It is what employees and top management, representing the shareholder, believe they are giving and getting in the relationship. In a high-commitment culture, the psychological contract is the set of high mutual expectations and obligations that

create high value for both parties. The unwritten contract is based on positive assumptions about people, what they aspire to, and what they are capable of.²⁴

At a minimum, all organizations expect managers and workers to reliably perform assigned tasks and to achieve performance standards. But in HCHP organizations with high psychological alignment, management expects that employees will take initiative, work collaboratively, supervise and regulate themselves, work unselfishly, and continually change and adapt. HCHP companies consciously draft a psychological contract that will elicit emotional commitment from their employees to the community.

At a minimum, all employees, the highest-level managers as well as the lowest-level workers, expect the organization to provide fair treatment, fair pay, and benefits, and some involvement in decisions affecting their work and work life. But employees in HCHP organizations expect much more than money and fair treatment. They expect management to live by the values that bind them to the community. They expect open and trusting relationships, achievement, involvement, challenge, responsibility, personal growth, and meaning. Although not all employees have these needs, HCHP organizations select employees who do have these needs. When they are managed as responsible citizens of the organization, employees' latent needs can be unleashed. Because making an emotional commitment means they are willing to give their all, employees in HCHP firms expect a voice in the policies and practices that govern their lives and a substantial voice and influence over the firm's affairs.

In effect, the enterprise cedes substantial influence over goals and process to employees in return for dedication and commitment to the community and its purpose. This is what *aligns employees' hearts and minds* with the enterprise's mission and values. With a positively aligned psychological contract, employees have the interests of the company and its customers at heart, are flexible in the work they do (they do not insist on adhering to the letter of their job descriptions), and engage the work with their hearts and heads, as opposed to just their hands. They approach the problems of the firm with the customers' and firm's interests in mind. "We're one big family," Colleen Barrett at SWA explained, "and the family members expect a lot of each other. Part of that means watching our costs carefully. We can't compete unless our costs are as low as, or lower than our competitors, which mean everyone has to take part." A ticket agent at Southwest illustrated this commitment to keeping costs low when she pursued a three-dollar stapler she had lent to a colleague at another airline. In most companies, employees would not think it worth the time and trouble. They might even take the stapler home. The sense of community and commitment to the firm's mission enables employees, managers, and workers to sacrifice their egos for the greater good.

TABLE 2.2. THE HCHP PSYCHOLOGICAL CONTRACT.

Management Expects	Employees Expect
Dedication to mission and strategy	Non-political culture—management does the “right” thing
High performance	Be on winning team working with best of best
Behavior consistent with values	Leader behavior consistent with values
Initiative	Delegation of authority
Collaboration and teamwork	Coworkers who share common values
Self-management	Participation in goal setting
Flexibility	Autonomy
Unselfish contribution	Unselfish and egalitarian behavior at top
Openness to feedback and learning	Opportunity to speak truth to power
Commitment to the firm	Employee development; above average pay and benefits; good faith effort to avoid layoffs

Partnership, created by a process of mutual influence, is at the heart of an HCHP system. It is not about money, though HCHP firms typically pay their employees above-average wages. *Involvement* enables employees to develop commitment and willingness to learn, accept, and even drive change. Table 2.2 summarizes the high-stakes psychological contract that HCHP organizations forge—what management and employees expect from each other.

At its most basic level, Southwest’s success can be attributed to the partnership between senior managers and lower-level managers, and between managers and their thousands of employees. Everyone—the community—is involved in making the business and work life better. In sharp contrast, a United Airlines mechanic reported: “You’ve got to hope that the way we do things will change. [United] is the kind of place where management usually thinks they are way up there and the rest of us are way down here. They want to make sure the shareholders get what they want, but they don’t care much about the employees. All that’s got to change [if we are going to compete with Southwest].”²⁵

Employees want to work for a successful organization, not only for the sake of pride and a sense of efficacy, but also because a winning company is able to offer personal development, career opportunities, job security, and financial rewards such as stock options. HCHP companies are able to provide these tangible benefits because the level of worker commitment produces extraordinary financial results. This is what creates the virtuous cycle found in HCHP firms (see Figure 2.2).

The shareholders at Southwest have achieved remarkable returns on their investment—in 2002 its market value of \$9 billion was larger than all other

airline companies combined. But high profits were also used to invest in employee training and to carefully select and develop leaders to manage the high-commitment way. Because all employees own stock, the consistent rise in price made employees richer and offset the slightly lower-than-average industry wages they receive.

Stock ownership is a double-edged sword, however. As the airline business became more challenging and new competitors emulated Southwest more effectively than United and Continental had, Southwest returns suffered (though still better than the industry standard), and the yearly stock growth its employees have come to expect is no longer a given. What was a positive symbol of community now threatens to be a source of dissatisfaction. Though Southwest's many other positive features still give it a huge advantage in retaining employees, this problem illustrates the challenge of maintaining the virtuous cycle in the face of uncertainties in the business environment.

The work of developing psychological alignment begins during the recruitment and selection process. Applicants are carefully screened for their fit with the company's values and culture. New hires are clearly told what they can expect and what will be expected of them. In 2003 Southwest hired only .04 percent of their 202,357 job applicants. Such a low selection ratio enables a company to reject employees that don't fit. Of course, the company would not have so many people who want to work there unless they had first created a reputation as a great place to work. A socialization process also shapes the psychological alignment. New employees participate in an educational process about the company's values, culture, and operating and service principles, an education that is reinforced throughout their employment.

Psychological alignment is particularly vulnerable to inconsistencies between how higher- and lower-level employees are treated. HCHP organizations typically practice symbolic egalitarianism, which means that they make a concerted effort to create common policies and practices for upper and lower levels. Southwest, like other HCHP companies, is relentless about vertical consistency. The profit-sharing plan, for example, pays all levels the same percentage of profit even though senior managers receive more profit dollars than lower-level employees. HCHP firms typically also make no distinctions between levels with regard to office (most have an open office landscape with similar cubicles for all levels) and other status symbols such as company cars.

United Airlines, conversely, never developed psychological alignment, even after its employees became owners. That is because its leaders, as a flight attendant testifies, did not care about its employees, develop an egalitarian climate, or create a sense of consistent and fair practices across levels.

We've always been treated like angry children who don't deserve what they get. Upper management has been adversarial and confrontational with us for over 10 years now; I don't think Mr. Wolf liked the flight attendants at all. We are managed differently from other groups. We're disciplined if we're sick more than 3 days per month or if we arrive late for a flight. We're the only group that has to hop on a scale every month. Pilots certainly aren't held to those standards. When it comes to the boys in the cockpit, things are different. The pilots stay in downtown hotels, and we are stuck out at the airport. When we have to deadhead, they fly in first class and we're in the back of the plane. That says it all . . . The irony, of course, is that the bosses ought to think a lot harder about how we feel if they want to keep their customers happy. We're the people who spend all the time with passengers. To the public we are United.²⁶

Capacity for Learning and Change

We live in a time of unprecedented change. Global competition as well as rapid changes in technology and markets require organizations to be adaptive and capable of transformation. Robert Bauman, former CEO of SmithKline Beecham and an experienced change leader, captured the importance of the capacity for learning and change as a key to competitive advantage. "Most important in implementing change in the near term is about instilling the capacity for change within the organization in the long term. In my view the capacity for ongoing change is the ultimate source of competitive advantage."²⁷

Unfortunately, the evidence points to the exact opposite. Most firms do not adapt and therefore lose their performance edge and eventually die. Of the original Forbes 100 companies named in 1917, sixty-one ceased to exist by 1987. Of the remaining thirty-nine, only eighteen stayed in the top hundred, and their return was 20 percent less than the overall market for that period. Of the companies named in the original S&P 500 in 1957, only seventy-four remained in 1997 and of these, only twelve outperformed the S&P 500 during that period.²⁸ Jim Collins's study of 1,435 companies on the Fortune 500 list between 1965 and 1995 found that *only* eleven were able to move from simply good performance to great performance, defined as cumulative stock returns 6.9 times the general market for a period of fifteen years or more, and this after a concerted effort to transform them.²⁹ Since the completion of the study the performance of approximately half of these companies has declined below the level that qualified them as great companies.³⁰ The difficulty firms have in adapting to environmental challenges can also be seen in the steady decline in CEO tenure—from 10.5 years in 1990 to less than four years in 2000.

In a groundbreaking study of why successful firms decline, Danny Miller concludes that the very alignment of leadership behavior, policies, and management practices that make companies successful are also the source of their demise.³¹ Alignment, paradoxically, is also the reason for failure. Firms, he finds, tend to accentuate the strategy and management practices that gave them success and suppress divergent views and practices. According to Miller: “[Firms] choose one set of goals, values, and champions, and focus on these more and more tightly as they are enveloped by crisis. The powerful get more powerful and defend against contrarian views about what the firm’s strategy should be or how the organization should be changed to implement this strategy. Those who disagree with those in power become disenfranchised. Consequently, firms move first toward consistency, then toward obsession and excess.”³² Why?

Over time firms tend to attract, select, promote, and terminate people based on their fit with the distinctive qualities and attitudes of the firm.³³ This phenomenon reduces diversity, an essential quality of the workforce if firms are to adapt to new circumstances. Yet we know that diversity promotes different perspectives; if those different perspectives are joined in a dialogue, new and creative solutions can be created. Firms die because there is too little honest dialogue about external and internal realities.

If organizations are purposely “built for high fit,” can they also be built to adapt? My answer to this question is a qualified yes, so long as the firm practices honest and fact-based self-inquiry and has created a safe environment where truth can speak to power. Indeed, designing into the organization the paradoxical qualities of a strong, high-fit culture that creates common habits and the capacity for learning and also change that will challenge those habits before they become entrenched is a real challenge for HCHP leaders. Herb Kelleher solidly met this challenge. Southwest’s capacity for change and learning enabled it to adapt from a small Texas company that attracted customers with flight attendants in “hot pants” to a firm that today has a diverse workforce. It survived the oil shocks of the 70s by engaging employees to solve problems. This capacity to adapt is what allowed the airline to grow from a small regional carrier to a large national carrier. Most recently, Southwest scored highest in a study that compared turnover and return on investment of ten airline companies in the post-9/11 environment, further proof of its capacity to adapt to catastrophic events.³⁴

What enables HCHP systems to adapt despite the tight configuration of people, organization, culture, and strategy? The key is diversity in functional expertise and personal background such as race and ethnicity. The latter is particularly important given the diversity of customers and firms that global companies serve. When people with various backgrounds, from different levels and parts of the organization, interact with different elements of the firm’s

environment—customers, suppliers, investors, community, or competitors—and engage with their disparate perspectives, then real organizational learning and change are possible. The problem is that in most firms people with diverse views are often not encouraged to engage in honest dialogue. Hierarchical structures make it difficult for employees to risk voicing new ideas and engaging in debate with those in entrenched positions of power. As we shall discuss further in chapter 5, most companies have a culture of silence.

HCHP firms have a number of interrelated characteristics and practices that make it more likely that senior management and lower levels will engage in honest, collective, and public conversations that matter, fact-based conversations about business and organizational realities. Below I list some of these core characteristics.

Caring About Customers and Performance. In most companies, senior management carries the burden of identifying problems and launching initiatives to improve performance, usually with the help of corporate staff groups. Not in HCHP companies. Employees at all levels from top to bottom care about the customer, performance, and company success. This enables flexibility, learning, and change. As a customer service supervisor at Southwest put it: “The main thing is that everybody cares. We work so many different areas but it doesn’t matter. It’s true from the top to the last hired Sometimes my friends ask me, why do you like to work at Southwest? I feel like a dork, but it’s because everyone cares.”³⁵ Employees who care about the customer are motivated by the company having first cared about them.

Mutual Respect. People are selected for their human and interpersonal qualities such as respect for others and the capacity to voice their views openly and honestly. A variety of mechanisms encourage and exercise these qualities. At Hewlett-Packard, management expected, even demanded, that individuals speak their minds. Management by walking around (MBWA) was a practice that all managers were expected to follow. This developed relationships of trust and enabled open dialogue. Southwest Airlines has a similar culture. It values the dignity of the individual and encourages mutual respect.³⁶ This respect permeates vertical and horizontal relationships. With mutual respect comes the capacity to have a multilevel and multifunctional dialogue about problems, and this dialogue fosters learning and change.

The importance of mutual respect became clear to me when I consulted with a business unit at Hewlett-Packard in the mid-1990s. Senior management not only embraced my suggestion that they hear the unvarnished truth from lower levels about why the business was underperforming, but they took this type of honest and collective process of organizational learning to a new level and

institutionalized it. They wanted to hear from their people because they respected them. And the process gave them an even greater respect for their people.

Egalitarian Culture. HCHP firms tend to be less hierarchical and bureaucratic.³⁷ All of them have an egalitarian culture created through the elimination of status symbols such as offices, private parking spots, and titles.³⁸ Less differentiation makes senior managers much more approachable. It creates a firm where the hierarchy of ideas matters more than the hierarchy of position. Unsurprisingly, in such a firm, diverse ideas are more likely to be heard and become part of the organizational conversation. This is one of the reasons Southwest has been able to win in a very tough industry. An operations manager at Southwest characterized the company's egalitarian culture by contrasting it with that of American Airlines. "I would never work at American Airlines. The animosity there is tremendous. Here it's cool. Whether you have a college degree or a GED it doesn't matter. There is no status here, just a good work ethic."³⁹

Honest Conversations and Constructive Conflict. Relationships of trust, so carefully fostered in HCHP companies, enable managers and workers to have *open and honest conversations* across levels and functional department divides. Such conversations make it possible for the organization to solve problems based on facts. Problems are approached by thinking about what is best for the firm and its customers, as opposed to what is best for my department or me. This must begin at the top. At Southwest Herb Kelleher exemplifies listening and openness. A pilot observed, "I can call Herb today. You just call and say there's a problem. He'll say, 'Think about it and tell me the solution that you think will work.' He has an open door policy. I can call almost 24 hours a day. If it's an emergency he will be back to me in 15 minutes."⁴⁰

Research shows that in uncertain and turbulent environments, where learning and change are essential for survival, high-performing companies are differentiated from low-performing companies by a culture that encourages employees to confront the inevitable conflict between different perspectives.⁴¹ In HCHP companies these conflicts do not erupt into win-lose arguments, nor are they smoothed over. Conflicts are resolved through problem solving. Confronting differences constructively is seen as the best way to maintain relationships. Consider the following perception of an employee at Southwest Airlines:

What is unique about Southwest is that we are real proactive about conflict. We work very hard at destroying any turf battles once they crop up—and they do. Normally they are not malicious or ill intentioned. Sometimes it's a personality conflict. Sometimes it's bureaucracy.⁴²

—Manager

Because we are moving at a fast pace, miscommunication and misunderstanding happen sometimes. We take great pride in squaring it away as quickly as possible. Pilots and flight attendants—sometimes an interaction didn't go right between them. They are upset, then we get them together and work it out, it's a teamwork approach. If you have a problem, the best thing is to deal with it yourself. If you can't, then we take the next step—we call a meeting of all the parties.⁴³

—Pilot

The capacity of an organization to maintain a culture that is both performance-oriented and fosters trust and constructive conflict is key to sustained high performance. But HCHP companies are not automatically immune to the decline that afflicts most firms. Trust and open dialogue can easily erode, particularly when the conflict is about fundamental strategic issues that promise to alter the company's historic business model. The evidence we cited earlier about how few companies survive or sustain high performance suggests that high fit, as desirable as it is, can also rigidify the organization and prevent it from reinventing itself. To prevent this, HCHP organizations must create a learning culture, one that *institutionalizes* the learning and governance systems I discuss in chapter 7.

Southwest has a culture committee, composed of employees from all levels and parts of the company, that is charged with assessing all Southwest initiatives (business and human resource) for fit with the culture. And, as described earlier, the company fosters an open-door policy that enables employees to skip levels if they want to deliver an unwelcome message or air a grievance. Asda, a U.K. grocery chain now owned by Wal-Mart, institutionalized a number of mechanisms by which senior teams at the corporate and store levels obtained feedback from customers and from employees about organization and leadership effectiveness. At Lincoln Electric, for many years an HCHP company, an advisory committee to the CEO provided employees with influence on work practices and the incentive structure so central to its high productivity.

Why then do I qualify my support for the thesis that HCHP companies can, realistically, be both aligned and adaptive? Though the firms discussed here are clearly more adaptive than the average firm, there is also evidence that the capacity for learning and adaptability is the least developed of the three outcomes. Consider the decline of IBM in the 1980s and Hewlett-Packard's decline between 1995 and 2004. Learning requires multiple levels of the organization—the board, the CEO, the top team, and lower-level leaders—to engage in fact-based inquiry, reflection, diagnosis, and action planning that are responsive to the diagnosis. This process inevitably threatens self-esteem and careers and therefore requires the type of culture that Southwest Airlines clearly has. Just as it took several

decades for strategic planning to become institutionalized, so will it take at least that much time to integrate honest, collective, and public conversations into the strategic management process of HCHP firms and to create real accountability for learning.⁴⁴

Southwest, according to Gary Kelly, improved its system in 2005 in response to the tectonic forces buffeting the industry. In a 2008 interview, Kelly described the changes in strategic management that he initiated within the senior team and with the larger extended group of senior managers:

We changed the way we worked together dramatically. We have much more frequent interaction. We have much more formalized planning sessions where we all participate . . . You know, it's not just sitting down with a whiteboard. It's making sure that we give all of our officers a seat at the table to understand what the challenges are, where we want to be, and what it is we're going to have to do to close the gap. I wanted to hear what they had to say. So it's been a very empowering effort for all of us.⁴⁵

Kelly also noted:

It required some patience and some nurturing. It required being vulnerable. You've got to be honest and say, you know what? You're right, I don't understand. Or, you're right, the way we did this wasn't as good as it could be. Because many people are going to be defensive and reject suggestions to do things a little different, you have to have honest conversations and trust. Without these traits, a company can not challenge tradition, which is necessary to improve performance.⁴⁶

Southwest's capacity for learning and change has enabled the company to adapt to numerous changes in the industry. In very difficult times, with oil at \$140 a barrel, it is still profitable, albeit at lower levels than before. Its employees remain committed despite a profit-sharing plan and stock option plans that are not paying off as much, if at all.

Solving for All Three HCHP Pillars Simultaneously

Could a company be successful in the long run if it had high-performance alignment but low psychological alignment and commitment? Under these circumstances alignment would be obtained through hierarchy and incentives rather than emotional attachment and commitment. People would do things

FIGURE 2.3. ALIGNMENT AND ORGANIZATION TYPE.

Psychological Alignment	High	<p>Value-driven high-commitment organization:</p> <p>Alignment motivated by love of values relationships and norms of reciprocity. People do the right thing, but cannot do them right.</p>	<p>Task- and value-driven high-commitment and performance organization:</p> <p>Alignment motivated by membership in community of purpose—norms about reciprocity and performance. People do the right thing right.</p>
	Low	<p>Weak fragmented culture and poor performance:</p> <p>Alignment motivated by local subunit goals and norms.</p>	<p>Task-driven high-performance organization:</p> <p>Alignment motivated by hierarchy of goals and incentives. People do things right but not the right thing.</p>
		Low	High
		Performance Alignment	

right—follow rules and procedures—but would not extend themselves to do the right thing when unique problems arose (see Figure 2.3).⁴⁷ For example, at Southwest, low psychological alignment would undermine its strategy. Pilots would resist cleaning the airplanes (“It’s not in my job description”). Maintenance and other support groups would not cooperate without top-down control. More airplane cleaners and maintenance supervisors would have to be hired and coordination would be reduced. Southwest’s low-cost rapid turnaround and on-time departure and arrival policy would all be undermined.

The performance of a firm with high psychological alignment but lacking a performance alignment would also be unsuccessful. In such an organization people would focus on mission and relationships. They would do the right thing, but without strategically aligned structure, systems, and processes, they would not be able to do things right to implement strategy (see Figure 2.3). The organization would be inefficient and less than fully effective despite high commitment. Moreover, psychological alignment would itself suffer a sharp decline as frustration with ineffectiveness and poor performance rose. I saw this result in an HCHP business unit at Hewlett-Packard in the mid-1990s. An unclear strategy and organizational design that made needed coordination

difficult undermined morale and commitment. Functional conflict and frustration with poor results increased. Consider what would have happened to psychological alignment at Southwest if the company had not created the role of station manager to align structure. Coordination would be lower than required despite high commitment. Frustration would mount and undermine commitment as well as performance.

Psychological alignment opens up the solution space. People find many more ways to solve problems, and the organization executes effectively and efficiently. Performance alignment creates the formal conditions for efficiency and effectiveness, but without commitment to structure, systems rules and procedures become brittle and are not adapted to ever-changing problems.

Performance alignment and psychological alignment would create high performance for some period of time. But without the capacity for honest dialogue about changing realities, companies would not be able to adapt to inevitable market and technological upheavals, as illustrated by Southwest Airlines' success. Without honest conversations and people's willingness to be vulnerable, as Gary Kelly put it, a company could not challenge tradition and deeply held assumptions needed to improve performance.

The simultaneous solve I am advocating poses a leadership challenge. Performance alignment requires that managers engage their *heads*. Aligning the organization with strategy is a rational design process. Psychological alignment requires that managers engage their *hearts*. It requires them to be in touch with their humanity and their values. Without this they cannot define the type of management philosophy that will inspire and elicit commitment, something that Herb Kelleher's philosophy clearly accomplished. Learning and change require secure *senior managers able to hold their egos in check*. Such individuals are not threatened by truth that contradicts their view of reality. Few leaders possess these qualities in equal measure, but effective leadership teams can when different perspectives are embedded in the kind of honest conversations Gary Kelly saw as an essential part of the Southwest Airline's adaptation to new competitive realities.

Leader Values and Philosophy

When HCHP systems emerge from the philosophies and values held by founders or CEOs, they are not easily copied. If it were that simple, Southwest Airlines' success would have been easy to imitate, and their success would not have been sustainable over nearly four decades. There is a remarkable similarity between

the philosophies that HCHP leaders follow. Consider the philosophy of Herb Kelleher, Southwest's CEO:

We've never had layoffs . . . we could have made more money if we furloughed people. But we don't do that. And we honor them constantly. Our people know that when they are sick, we will take care of them. If there are occasions for grief or joy, we will be there for them. They know we value them as people, not just as cogs in a machine.⁴⁸

And consider the philosophy of Patrick Kelly, CEO of PSS World Medical:

Business people don't like to talk about values. But without these, all business is about is making money To me, achieving business goals is great. But no business goal is worth sacrificing your values. If you have to treat people poorly or cut corners in your dealing with customers, forget it You can build an organization based on mutual loyalty, even in today's economy. But you can't do it if you treat people as disposable.⁴⁹

CEOs of HCHP companies espouse management philosophies that reflect inner beliefs and values about life, the role of business organizations in society, and the nature of people at work. Without a clear set of the "right" values, CEOs aspiring to build an HCHP company will be unable to enact their management philosophy authentically or be able to endure the difficult task of making internally consistent business and human resource decisions. Nor would they be able to persevere in confronting the many external forces that can cause the firm to abandon the path to high commitment and performance; for example, short-term pressures from capital markets or the lure of deceptively quick-and-easy wins such as acquisitions or mergers.

A large-scale Stanford study of high-technology start-ups clearly shows how a founder's underlying values and premises about how to build a successful firm influenced the organizational system that the firm ultimately adopted.⁵⁰ Consider how the values and assumptions of the founder or CEO of one such start-up high-technology company made HCHP impossible. He opted for a less participative Theory X philosophy of management because he thought it would allow him to pay lower wages.⁵¹ Here is what he said to researchers: "This 'settling for less [participation]' is also driven in part by greed. I simply don't want to give up the [stock] options it would take to get a high caliber person."⁵²

Leaders make many choices that in subtle ways shape the organizational system. These choices are connected to their personal assumptions, often untested

and erroneous, about human nature and human systems. The CEO in the Stanford study chose a more hierarchical system than Southwest's because of his own greed and his assumption that generous stock options are the primary attraction for highly capable people. But he also made an assumption, one that the Southwest Airlines story and that of many other HCHP firms belie; namely, that monetary incentives must be a precondition for participation and involvement. That is why an open learning environment is so essential to the development of an HCHP system. The CEO, not just employees, must be in a continuous learning process that examines and tests assumptions that govern how the business organizes and manages people.

Even leaders who start with an HCHP philosophy must be open to feedback about the consistency of their decisions and actions. Consistency prevented employee cynicism at Southwest. Kelleher mandated an open-door policy and truly listened. He also happened to be the lowest-paid CEO among high-performing companies, and on a day-to-day basis showed no interest in differentiating himself from the *community of employees*. He eschewed the typical trappings of hierarchical power typically accumulated by CEOs and general managers and interacted unpretentiously with customers and employees at all levels. For example, he showed up in "drag" at a maintenance hangar at 2:00 AM, and consistently stopped to talk to employees, listened to problems they served up, and engaged fellow employees to come up with solutions. These were an expression of his personality and values—caring for people and the desire to enjoy a fun environment. Perhaps most important, he believed that employees must be treated in the same way as customers if customers are to be treated well by employees.

Can Companies Not Born Right Be Transformed?

Unfortunately, companies like Southwest are in a decided minority, despite the assertions of many annual reports that people are the most important asset. Less than half of today's managers believe that people really matter when it comes to meeting financial objectives.⁵³ Half or less of this subgroup act upon their belief with the conviction and persistence needed to develop their organization's system and move it toward the HCHP model.

For companies that are not HCHP organizations, the challenge is to transform. Though difficult, the prize is well worth it to all stakeholders. The five companies (an illustrative list) described below demonstrated that, with effective leadership and a well-thought-out transformational strategy, change is possible (see Table 2.3).

TABLE 2.3. SUCCESSFUL HCHP TRANSFORMATIONS.

Asda	Grocery
Becton Dickinson	Medical technology
General Electric	Conglomerate
IBM	Information technology
New United Motor Manufacturing Inc. (NUMMI)	Automobile

Asda

Asda's CEO, Archie Norman, and his deputy, Allen Leighton, took the company from the brink of bankruptcy in 1991 to high commitment and performance by 1999. In eight years Norman and Leighton changed an authoritarian and bureaucratic organization into a store-centered, customer-focused, participative, listening organization. They created an HCHP company in which employees and management at every level were partners committed to their low-price value strategy. During seven of the eight years it took to transform the company, Asda consistently beat competitors in like-for-like sales, and profits improved steadily. When the company was sold to Wal-Mart in 1999, Wal-Mart executives said they bought it because they recognized that Norman and Leighton had done much more than cut costs. They had created an HCHP culture that Wal-Mart executives saw as "more like Wal-Mart than Wal-Mart's culture was like Wal-Mart." Recognizing the economic value of the high-commitment culture Asda had developed, Wal-Mart paid eight times what Asda's market capitalization had been when Norman took over the company in 1991.⁵⁴

Becton Dickinson

In the late 1980s Becton Dickinson (BD) was an average company. It had established a strong product position in the medical field with its blood syringe and blood collection products and had entered the diagnostics business. But despite the fact that its ten business units were number one or two in their markets, the firm was far from an HCHP company. Analysts rated it a hold, not a buy, and its CEO in 1990 described the company as having "good strategy but unable to implement it." The company was failing to implement its global strategy because of poor coordination and collaboration between U.S. product divisions and country organizations. Business unit managers complained that corporate R&D was disconnected from their businesses. Divisions were not collaborating to implement a new supply chain and corporate marketing strategy. Employees felt the company lacked caring and human values. Managers saw little management development

or internal promotion. In short, performance was average and commitment to the larger mission was low. Beginning in the early 1990s, three successive CEOs worked to transform the company into an HCHP company. In 1990 Ray Gilmartin, a former strategy consultant, clarified the corporate and business unit strategies and began the process of strategic and psychological alignment by introducing a learning and governance system in multiple parts of the company that enabled truth to speak to power. Under Clateo Castellini's leadership, the company went further in developing HCHP values and better communication, and continued its march toward greater openness, alignment, and commitment. BD's current CEO, Ed Ludwig, continued these initiatives, further strengthened BD's value-driven management as well its leadership development, and introduced Six Sigma. By 2005 the company was a long way down the road to becoming an HCHP company.

General Electric

Jack Welch took over a bureaucratic General Electric company in the early 1980s. Frustrated by the bureaucracy he had experienced rising in the company, Welch began the company's journey to HCHP in the early 1980s when he made massive cost-cutting reductions by laying off 125,000 employees. Had Welch stopped there, I would not be listing GE as an example of a largely successful transformation. In the late 1980s Welch introduced values that added a necessary human dimension. By demanding not only performance but also adherence to new values, by stimulating honest conversations about bureaucratic barriers, and placing emphasis on identifying and developing managers, Welch was able to make large strides in moving the company from a bureaucracy toward an HCHP organization. The outstanding performance of GE during Welch's tenure has been frequently and widely chronicled in the business press. GE's market capitalization increased 2,637 percent during this period, and its senior executives have ended up running many companies.⁵⁵

IBM

IBM was an HCHP company from its founding (see earlier list of companies "born right"). Thomas Watson Jr., the founder's son, strengthened and expanded high-commitment values and practices introduced by his father: full employment, an egalitarian culture, open communication, and gains sharing.⁵⁶ The company was for many years the fastest-growing and most profitable company in the United States. It adapted to several technological revolutions, including the emergence of the personal computer, before it ran into serious difficulties in the 1980s and early

1990s. When Louis Gerstner became CEO in 1992, financial losses threatened its survival and its top management considered breaking up the company. The company's reemergence as an HCHP company is attributable to Gerstner and his CEO successor, Sam Palmisano. Gerstner broke the psychological contract when he laid off thousands of employees, a necessary step in restoring IBM's financial fortunes. He then restored performance alignment by introducing a worldwide "matrix" structure that moved power from hardware divisions and country organizations to industry segment leaders, and he introduced a culture that encouraged people to confront facts and improve performance. In an effort, still under way, to restore psychological alignment, Palmisano reintroduced values that supported the collaborative structure Gerstner introduced earlier. By 2005 IBM had transformed itself from a hardware company with multiple computer and computer-related products into a highly profitable information systems solutions provider and an undisputed leader in the field.

NUMMI

A joint venture of General Motors and Toyota set up in 1984, NUMMI made astounding productivity and employee satisfaction gains with largely the same unionized and "hostile" workforce that had led General Motors to shut down its Fremont, California, plant in 1982. Managers who worked at the plant before the transformation characterized the old relationship with the union as a "war." Under new leadership the company transformed its union-management relationship and made significant changes in human and performance outcomes. For example, under the old Fremont plant system of management, absenteeism averaged almost 20 percent, and over five thousand grievances were recorded during the three-year labor contract. With the same union and employees, working in the same plant with largely the same equipment, absenteeism dropped to 3 percent after the transformation. What accounts for these changes at NUMMI? New leaders with new values changed the organizational system, its management practices, and ultimately, the culture.⁵⁷

Does National Culture Pose a Constraint?

National cultures differ on important dimensions that affect the likelihood and difficulty of building an HCHP organization. Research has shown, for example, that countries differ in the extent to which their cultures accept or reinforce unequal power, value the reduction of uncertainty and ambiguity, and value individualism or group identity.⁵⁸

National differences reflect an average, however. Individuals in any one country are likely to differ widely, enabling companies to select for fit with HCHP practices. Nevertheless, national differences on these dimensions affect the extent to which leaders are likely to employ HCHP practices and the difficulty of doing so should they or expatriate leaders make an attempt. Imagine how much more difficult it would be to create *psychological and strategic alignment* in organizations operating in highly individualistic national cultures than in cultures where group membership is emphasized. How much more difficult it would be to develop the *capacity for learning* and change in national cultures high in deference to authority and low in individualism, cultures where managers and workers are unlikely to speak up to those in authority, or to be inclined to break with group norms, or take the initiative to innovate.

In sum, each national culture poses different challenges. Individualism in the United States may help leaders create a meritocracy, a practice that may spur individual performance, but it is also a barrier to U.S. executives who want to build a culture of participation and partnership. On the other hand, Japan's collectivism has clearly been an aid to Toyota's leaders in shaping its team-based culture, a culture that has enabled process improvements that vaulted the company to its now dominant position in the automobile industry. But the desire not to stand out could discourage honest conversations in the workplace. (In Japan, honest conversations are encouraged but occur in bars at night.) A recent study found that a productivity program that required employee participation was more successful in northern European countries high in collectivism and low in power distance, and less successful in the United States, a country high in individualism.⁵⁹

Nevertheless, HCHP organizations have been and can be built in a variety of national cultures, despite differences in assumptions about appropriate behavior. In each country some compromises may have to be made to accommodate accepted local practice and laws. Consider Hewlett-Packard, whose leaders succeeded in establishing the "HP Way" in some sixty different countries across the globe. HP systematically selected and developed country managers and workers inclined to adopt the HP Way. When Samsung, their business partner in Korea, objected to some of the values and practices in the late 1980s, HP withdrew from the Samsung partnership so that it could go it alone and build a country organization with an HP Way culture. Just how true HP was to its philosophy in countries with different cultures is illustrated by a Mexican executive in my class who exclaimed in a case discussion about HP, "Now I understand what those crazy managers [in HP's Mexican subsidiary] on the fifth floor of my building are doing." He was referring to the countercultural egalitarian practices that were visible to him—no private offices for anyone

including the managing director, and picnics at which managers cooked for employees, egalitarian practices uncommon in Mexican corporations.

If culture does not have to pose a constraint, then the will of the senior executive could. The collaboration that my TruePoint colleagues and I had with managers in India, Japan, and several Latin American countries demonstrates that leaders with the will to lead an HCHP transformation can employ countercultural practices. Despite the emphasis on deference to authority in Latin America, for example, committed leaders were able to employ a high-involvement learning and governance process that enabled truth to speak to power and brought about change. Moreover, there are examples of organizations founded on HCHP principles in a variety of countries with different national cultures; Toyota is one such example.

Research by Robert House and his colleagues may explain why determined leaders succeed despite potential cultural barriers. In a large cross-cultural study they found that people valued quite similar things—fairness, trusting relationships, community, and making a difference, all values that underlie HCHP organizations. And this despite national cultures that may have institutionalized laws, regulations, and practices not supportive of these values.⁶⁰ This suggests that the introduction of HCHP practices will stimulate commitment, teamwork, and community, just as HP found. A recent study found positive performance effects after HCHP human resource practices were introduced in several different cultures.⁶¹ The key in all cultures, including the United States, is finding leaders who have the values and will to lead an HCHP transformation.

The Challenge

Although the transformation to HCHP presents leaders with a challenge, as the stories in this chapter illustrate, it's well worth taking on such a challenge given the value that can be created for all stakeholders. This book advocates that CEOs consider adopting an organizational change strategy that will put their companies on the path to HCHP. Such a journey, as has been pointed out, will take years and requires that the CEO be dedicated to this purpose, often in the face of resistance from managers who do not believe in this vision or its potential to achieve high performance. Demands from the environment—capital market, competition, boards of directors who may not understand or be committed to HCHP, and social and political forces—could easily push the company off the path to HCHP.

The antidote to straying from the path is commitment to the HCHP destination. This will only occur if building an HCHP organization is an informed

choice. The CEO and his or her top team must explore their values and the legacy they want to leave. In my experience, when leaders explore who they are and what they want to leave behind, an HCHP vision comes into focus. When they understand the evidence that HCHP firms are more resilient and have sustained advantage when compared with other firms, they are more likely to choose that direction. Just as high-commitment organizations enable employees to make informed choices to gain their commitment, so top management must understand the conditions and constraints they must accept should they embark on the journey to HCHP, the subject of the next chapter.

Summary

High commitment and high performance organizations are characterized by three pillars:

- *Performance Alignment*—structure, systems, and people’s capabilities fit the strategy.
- *Psychological Alignment*—people are attached to the mission, values, and culture of the company emotionally. They love the company.
- *Capacity for Learning and Change*—the organization and its leaders promote fact-based inquiry about external market and internal organizational realities by enabling truth to speak to power.

Developing and maintaining all three outcomes is only possible if leaders solve problems with all three in mind and find solutions that deliver all three. An organization that is aligned with strategy and performance goals will not reach its performance potential unless its employees are psychologically aligned. Committed people will be able to execute strategic intent in smart and flexible ways. Alignment is known to cause rigidity, however. Habits and ideologies make it difficult to learn, particularly at the top. Only by enabling truth to speak to power can those at the top learn about barriers that threaten to undermine alignment. Substantial evidence exists that business failures occur when top managers do not learn and adapt.

An HCHP system is hard to emulate. Establishing the system requires leaders with an HCHP management philosophy. It is their commitment to these values that enables development of the system and enables them to resist pressures and enticements that could easily take the firm off the path to HCHP.

HCHP organizations can and have been built in many different regions of the world despite differences in culture. Though cultural practices may differ,

people's values are similar and aligned with HCHP practices, which appeal to fundamental human needs. Moreover, there is considerable variability among people, making selection of people who fit HCHP practices an important strategy. What is essential is a leadership team committed to HCHP values that can lead the building process. And these leadership teams must go through a process of informed choice. They must grapple with the question of who they are, what legacy they want to leave, and what constraints and responsibilities they are willing to incur in order to succeed.

Senior teams who wish to assess their purpose and organization will want to discuss the following questions:

1. Do we have the desire to build an HCHP system?
2. Do our beliefs and motives match those of lead HCHP organizations?
 - a. The purpose of a firm is to serve multiple stakeholders.
 - b. People have potential that is underutilized.
 - c. Teamwork and collaboration are critical to success.
 - d. Building an institution is a worthwhile goal that will leave a legacy.
 - e. Stretch goals and meritocratic culture can stimulate high performance.
 - f. Are we willing to lead change with all the conflict and potential resistance associated with it?
 - g. Are we willing to learn about how effectively we are leading the organization?
3. Is our organization now characterized by the three pillars of HCHP organizations?
4. What aspects of our national culture are potential barriers to developing an HCHP organization? What are the implications?