The Leadership Challenge:
How to Build Resilient High Commitment, High Performance Organizations

Michael Beer
Professor Emeritus, Harvard Business School
Chairman, TruePoint
"In these economic times this book is more important than ever. A must read for the leaders of today and tomorrow."

DOUGLAS R. CONANT, President and Chief Executive Officer, Campbell Soup Company

MICHAEL BEER
PROFESSOR, HARVARD BUSINESS SCHOOL AND CHAIRMAN, TRUEPOINT

HIGH COMMITMENT
HIGH PERFORMANCE
HOW TO BUILD A RESILIENT ORGANIZATION FOR SUSTAINED ADVANTAGE

Book Website:
www.hchp.truepoint.com
The problem is how you develop an environment in which individuals can be creative? I believe that you have to put out a good deal of thought to your organizational [system] in order to provide this environment.

– David Packard, Chairman Hewlett Packard
Essential Elements in the Journey to High Commitment & High Performance (HCHP)

High-commitment, high-performance systems

What stands in the way

Corporate transformation
Three Paradoxical Pillars of HCHP

Performance alignment

Psychological alignment

Sustained performance and commitment

Learning and change

Capacity to confront reality, learn, and reinvent

Organization design, people and culture that “fit” a winning strategy

Employees love company – put mission, values and the larger good ahead of self interest
Companies Born “Right”: As High Commitment, High Performance Organizations

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
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<tbody>
<tr>
<td>Southwest Airline</td>
<td>Airlines</td>
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<td>SAS Institute</td>
<td>Software</td>
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<td>Hewlett Packard (until late 1990s)</td>
<td>Technology</td>
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<td>Cisco</td>
<td>Telecommunication</td>
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<td>McKinsey</td>
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<td>Nestle</td>
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<td>Nucor</td>
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<td>H&amp;M</td>
<td>Retail</td>
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<td>Johnson &amp; Johnson</td>
<td>Pharmaceuticals</td>
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<td>Marriott</td>
<td>Hotels</td>
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<td>IBM (until 1980s)</td>
<td>Computers</td>
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<td>Costco</td>
<td>Grocery</td>
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<tr>
<td>Harvard Business School</td>
<td>Education</td>
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<td>IKEA</td>
<td>Furniture</td>
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I think many people assume, wrongly, that a company exists to make money. While this is an important result of a company’s existence, we have to go deeper and find the real reason for our being. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we call a company so they can accomplish something collectively that they could not accomplish separately – they make a contribution to society, a phrase which sounds trite but is fundamental… You can look around and still see people who are interested in money and nothing else, but the underlying drives come from a desire to do something else – to make a product – to give a service – generally to do something which is of value. So with that in mind, let us discuss why Hewlett-Packard Company exists… The real reason for existence is that we provide something which is unique [that makes a contribution].

– David Packard, Founder and CEO
The HP Way is a subtle way, and that is why we have such trouble describing it. It is basically a faith in people to use their discretion and to be sure along the way they make mistakes as well as make contributions … consistent with [the company’s] basic underlying set of objectives.

– HP manager
The HP Way is difficult to explain because it is woven into the fabric of our organization. It’s really about the inherent feeling that you just have to do the right thing for the company, the people and the customer. It can take the form of teamwork, respect, or even just a smile.

– HP manager
Southwest Airlines

“You have to treat your employees like customers. When you treat them right, they will treat your outside customer right. That has been a powerful competitive weapon for us.

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 if they are sick, we will take care of them as people, not just cogs in a machine.”

– Herb Kelleher, CEO
Southwest Airlines

“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 Airline
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 …

– Southwest manager
General Electric has set a standard in candor – that is, dealing with reality and rigor in communicating around the company. Everybody has a real chance to know exactly where they are. There is no puffery. Decisions are buttressed by rigorous, fact based, honest assessment of the business situation. There isn’t an ounce of denial in the place.

In addition, there is real pride in being part of GE – a common sense of purpose. It’s well known but still worth noting that the operations and financial promises are not “we’ll give it our best shot” kind of promises. They’re really sacrosanct. Finally GE is aggressive. They think big and they take risks.

– Former senior executive
Companies Not Born “Right” Can be Transformed

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<td>Grocery</td>
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<td>NUMMI</td>
<td>Automobile</td>
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<td>General Electric</td>
<td>Conglomerate</td>
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<td>IBM</td>
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<td>Becton Dickinson</td>
<td>Medical technology</td>
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<td>Campbell Soup</td>
<td>Food</td>
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<td>Volvo Group (Sweden)</td>
<td>Trucks</td>
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<td>Banking</td>
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<td>BUPA (U.K.)</td>
<td>Healthcare</td>
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Essential Elements in the Journey to High Commitment & High Performance (HCHP)

- High-commitment, high-performance systems
- What stands in the way
- Corporate transformation
Undiscussible Barriers to Sustained Commitment and Performance

The Silent Killers

- Unclear strategy, values, and conflicting priorities
- Leadership style – top down or laissez faire
- An ineffective top team
- Poor coordination across businesses, functions or geographic regions
- Inadequate leadership/management skills and development in organization
- Closed vertical communication and resulting low trust
The Dynamics of a Low Commitment and Performance Organization

Top-down or laissez-faire senior management style

Unclear strategy, values and priorities

Ineffective top team

Quality of direction

Closed vertical communication

Quality of learning

Quality of implementation

Poor horizontal coordination

Inadequate down-the-line leadership skills and development
Essential Elements in the Journey to High Commitment & High Performance (HCHP)

High-commitment, high-performance systems

What stands in the way

Corporate transformation
Leaders Must Make Principled Choice About …

• Firm Purpose and guiding values – multiple stakeholder perspective

We have a set of values—deeply held beliefs that guide us in meeting our objectives, in working with one another, and dealing with customers, shareholders, and others. Our corporate objectives are built upon these values.

– David Packard

• Strategic identity

• Risk – financial and cultural

• Management philosophy

• Truth and trust
Five Levers that Change the System

Change Lever 1: Collective Leadership
- Change Level 3
  Disciplined strategic performance management process

Change Lever 4
- Change Lever 4
  Aligned organization architecture

Change Lever 5
- Change Lever 5
  High commitment culture and HR system

HCHP outcomes
- Performance alignment
- Psychological alignment
- Capacity for learning and change

Develop animating beliefs and aligned winning strategy
# What Leaders Must Do, Be, and Know to Build a HCHP System

<table>
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<th>Do</th>
<th>Be/know</th>
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<tbody>
<tr>
<td>Connect authentically</td>
<td>Know who you are – be anchored and self-revealing</td>
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<tr>
<td>Advocate a direction</td>
<td>Higher ambition, deep beliefs and will to lead</td>
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<td>Inquire into the quality of the direction and barriers to implementing that direction</td>
<td>Will to hear the truth and learn</td>
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<tr>
<td>Help the organization confront and resolve tensions</td>
<td>Readiness to engage in conflict and have “the conversations that matter”</td>
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<tr>
<td>Design an aligned organization</td>
<td>Will to build an institution - systems perspective and design skills</td>
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<tr>
<td>Develop a partnership with employees</td>
<td>Go beyond “heroic” model of leadership to collective leadership</td>
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<tr>
<td>Lead learning and learn to improve leadership</td>
<td>Courage to be vulnerable and learn</td>
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Change Lever 1: Collective Leadership

Change Lever 2: Learning and Governance Process
The Strategic Fitness Process: Enables Honest Collective & Public Conversations

- Senior leadership team
- Advocacy
- Fitness task force
- Inquiry
- Broader organization
Disciplined Learning and Governance System at Every Level

Define direction

Take action and assess outcomes

Develop action plan to address gaps

Honest collective and public conversations that matter

Unvarnished feedback on gaps vs. current reality

Levels

- Corporation
- Business unit
- Process
- Function
- Operating unit
The Strategic Fitness Process allowed us to discuss the undiscussible; it got things on the table that would have taken me years. Getting feedback from the employees is indispensable, and putting it in a strategic context is important. We were there to discuss behaviors that were consequential; it wasn’t personal. We discovered things that could help us succeed or that were preventing us from succeeding. They were strategic issues, such as delivering the goods and services to our customers better than our competitors. Once we decided it was strategic we had to fix it or suffer the consequences; no one is willing to suffer the consequences of gradual loss of competitive position.

– Ed Ludwig, CEO Becton Dickinson
Five Levers that Change the System

Change Lever 1: Collective Leadership
- Change Level 3: Disciplined strategic performance management process

Change Lever 2: Learning and Governance Process
- Change Lever 4: Aligned organization architecture
- Change Lever 5: High commitment culture and HR system

HCHP outcomes
- Performance alignment
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Develop animating beliefs and aligned winning strategy
Becoming a Higher Ambition Leader

- Reexamine your ambition
- Find your anchor
- Don’t feel you have to do it alone
- Learn from experience
- Engage in honest conversations
Required Institutional Changes

• Boards of directors
• Business schools
• Capital markets