RESEARCH & IDEAS

Uncompromising Leadership in Tough Times

Q&A with: Michael Beer
Published: February 9, 2009
Author: Martha Lagace

*As companies batten down the hatches, we need leaders who do not compromise on standards and values that are essential in flush times. Fortunately, such leaders do exist. Their insights can help other organizations weather the current crisis, says HBS professor **Michael Beer**. Q&A. Key concepts include:*

- *The CEOs in high commitment, high performance (HCHP) organizations are quite different in personality, background, and leadership style. But they are similar in what they see as the purpose of the firm.*
- *Among employees at large, there is a danger that commitment to an organization can undermine work-life balance. Successful CEOs are good role models.*
- *In addition to open and honest communication and continued investment in HCHP management practices, corporations need to develop an a priori set of policies in advance of the crisis that will minimize damage from restructuring and downsizing and maintain employee dignity and commitment.*

Economic difficulties need not mean that we lower our standards for leadership. If anything, we should raise our sights.

New work by HBS professor Michael Beer and colleagues shows that there is still a place for what they term uncompromising leadership. Due out this summer, the book *High Commitment, High Performance: How to Build a Resilient Organization for Sustained Advantage* describes organizations that, Beer says, "are diametrically opposite to the firms we saw fail on Wall Street. The book's perspective also leads to answers to the question of how to manage in tough times in a way that avoids liquidation of human and cultural assets."

The book looks broadly at what it takes to build a high commitment, high performance (HCHP) system inside companies. It asks and answers questions such as: What outcomes must such an organization achieve in order to sustain commitment and performance? What are principled choices its leaders must make if they are serious about building such a firm? What are the means for changing an average company into a HCHP company? What are the key design features of such a firm?

In our email Q&A, Beer reflected on what he is learning from a long-term study of successful CEOs, some of them outlined in the August 2008 *Harvard Business Review* article, "The Uncompromising Leader," cowritten with Russell A. Eisenstat, Nathaniel Foote, Tobias Fredberg, and Flemming Norrgren. He also offers *HBS Working Knowledge* readers a preview of the ideas in *High Commitment, High Performance: How to Build a Resilient Organization for Sustained Advantage*. Says Beer, "CEOs of HCHP companies think very differently about their employees. They see them as an asset and care about them as people." As a result they manage downturns differently from the norm, too.

Martha Lagace: What observations or experiences have driven you and your colleagues to study uncompromising leadership? How and why did you select the CEOs in your study?

Michael Beer: My colleagues and I have been working with many companies to help their leaders improve the effectiveness, commitment, and performance of their organizations over the years. We have realized that the leader can be a limiting factor in a journey to transform an organization into a high commitment, high performance (HCHP) organization. We therefore wanted to study leaders who had demonstrated their capacity to build a HCHP firm and to study them more formally.

My own interest in HCHP companies began at Corning, Inc. I started my career there, after earning my Ph.D. in organizational Psychology, as an internal management researcher and consultant. Shortly after arriving at Corning I received a call from a small manufacturing plant in Medfield, Massachusetts. They had read Douglas McGregor's now classic book *The Human Side of Enterprise* and wanted to implement, in their relatively new plant, his ideas about how people's energies could be unleashed. Over several years of working with them we were able to create a very different organization—less top down, more participative, one that offered more challenging jobs and informed people about results of the business on a regular basis. That began my intellectual journey.

For this present study we selected CEOs on the basis of two criteria. The company had to have performed in the top half of its industry for a decade before the inception of the study, and we had to have evidence that these leaders had created a high commitment culture. We decided about the latter from articles and informed observers. If our interviews disconfirmed our initial estimate, we dropped the CEO from our sample.

Q: What made these leaders unusual?

A: The CEOs were quite different in personality, background, and leadership style. But they were similar in what they saw as the purpose of the firm. They shared the view that a firm has a larger purpose than simply profit and increasing stock price, though they were all laser-focused on profitability and saw it as essential to achieving their larger purpose for the firm. They had a multi-stakeholder view of the firm as opposed as a shareholder view. The purpose was to add value to employees, customers, community, and society—not just shareholders.

These CEOs operate from deep beliefs and values. Their purpose is to leave a legacy of a great firm. Some were founders but most had arrived in the CEO role much later in the lifecycle of the firm. If they were insiders they had to find a way to carry on the tradition of the firm in changed circumstances. Perhaps the competition was more intense than it had been. In some cases the business was really challenged. In other cases the firm had become global and they had to figure out how to make integrate a much larger company spread over different cultures. In all cases they had to find a way to deal with these circumstances in a way that conformed to their values and high purpose.

By and large the CEOs had a diverse career experience. They had cross-functional and cross-business experience (within their company or at other companies).

Most CEOs rose in their company but a few came from outside. If they came from outside it was generally because the firm was in trouble and needed a turnaround. For example, Allan Leighton took over as chairman of the Royal Mail and materially improved its performance. Doug Conant took over Campbell Soup when it was in trouble and turned it around and sustained improvements over seven or more years.

Q: Firms are economic organizations as well as social institutions, as you write. These days, most every company is hurting as an economic organization. What pressures are subsequently placed on the social institution? How can good leadership strengthen morale as well as the economic side of the organization in times of uncertainty?

A: We interviewed the CEOs before the financial meltdown, so I cannot say how these CEOs have dealt with this crisis. We know from other research, however, that CEOs of HCHP companies think very differently about their employees. They see them as an asset, and care about them as people and work hard to frame the mission of the firm in a way that creates meaning. Consequently they manage downturns very differently. Tom Solso, CEO of Cummings Engine, started the turnaround of the company by first working on values—redefining them and communicating them widely.

First, they do not merely focus on cost cutting and layoffs when a crisis arrives. While they may lay off employees (though with a different process than average companies), they continue to develop the organization and its people. So they do not cut all training and education. Nor do they cut employment without a lot of open communication about why they are doing it, often traveling to all parts of the company to communicate about these matters personally. Some keep people when others are firing and take lower profits, thereby gaining the advantage when the economy turns around.

Below is a short section from my forthcoming book, *High Commitment, High Performance: How to Build a Resilient Organization for Sustained Advantage*, which describes the attitude and means many such companies employ:

Managing the Inevitable Crisis

The journey to HCHP is not a straight line up. At various stages of the journey the company will face a crisis in performance. How that crisis is dealt with will determine the organization's future HCHP trajectory. Will the company liquidate its investment in high commitment culture and the talented people it took years to develop and impregnate with the company's DNA? Or will the HCHP organization be able to negotiate the crisis without liquidating its social and human capital? These moments of truth define the organization's future much more powerfully than speeches, appeals for better teamwork, and mission or value statements.

Consider the case of Dreyer's Grand Ice Cream, a $1 billion company, whose story was researched and reported by Professor Jennifer Chatman at the University of California, Berkeley.1 In June 1988, unexpected events coincided to make it the most difficult period in the company's history. Investments in the company's expansion took longer, cost more than anticipated, and expected profits were delayed. The price of butterfat, the key ingredient in ice cream, rose to a record level. The company could not raise prices because of aggressive discounting by its chief competitor. Revenue in one of Dreyer's new product lines began to drop. And one of its customers threatened to terminate its long-term distribution contract.

"CEOs recognize that they have to be able to stay objective about the key people so that they can evaluate them and take proper action if they are not performing."

Under these pressures from capital markets, most executives would begin restructuring and cutting costs immediately. Dryer's senior management began with honest and open communication. Gary Rogers and Richard Cronk had spent many years building an open team based culture, one in which they had made themselves accessible, so employees believed them. When they were prepared to announce their restructuring to the financial community, executive committee members were on airplanes to talk with every one of their 400 employees. Cronk observed, "We know our limits and understand the law, but we tend to be very open with our employees, we communicate a lot." "They reassured us," said an account executive, "by calling it straight? they informed us of their game plan and that they needed us? you looked and these [senior managers] and thought, you'd run through a wall for this guy."2

The story does not end there. A 1-800 number was set up so employees could call to hear CEO Rogers's pre-recorded speech about the situation and his plans. The speech was honest and owned up to problems, but also was upbeat. Senior management continued to invest in the Dreyer Leadership University [DLU], demonstrating that they cared about employee development. Cronk and others in senior management thought this was an investment in the future that would pay off. "When people heard that we were investing another million dollars into the [culture] and DLU it created a high degree of comfort and confidence that we're focused on what really matters," observed the VP of Sales."3

The company's revenue, profits and stock price rebounded from this dire situation. By 2001 Dreyer's stock had risen from 9.88 in 1988 to 36. In January 2003 the stock price rose to 71.23. Reflecting on how they handled the crisis, Cronk said, "It was a common trust and of sharing the facts—openness … we weren't sugarcoating anything, putting a Hollywood spin on anything … we were honest and clear … people believed the story and they understood … there was an enormous amount of pride and optimism."4

In addition to open and honest communication and continued investment in HCHP management practices, corporations need to develop an a priori set of policies in advance of the crisis that will minimize damage from restructuring and downsizing and maintain employee dignity and commitment. Wayne Cascio, who has studied companies with a record of stable long-term employment contracts, lists the following policies to preserve the dignity and relationship with survivors and departing employees.5

- "Use downsizing as a last resort; at the same time, reinvent your business." There are several ways companies have done this.

  – Rely on attrition to right size.
  – Use redeployment and make layoffs a last resort. Hewlett Packard used this strategy extensively throughout the 1980s as it faced intensified competition. Employees were given three months to find a job in HP and were helped to do so. If they could not find an equivalent level job, they were offered a lower level job. If they preferred not to take that job, they were given generous severance packages.
  – Ask for volunteers who want to take extended vacations, a sabbatical, leaves of absence, or a shorter work week.
  – Ask everyone to share the pain by taking a pay cut. Senior management should take a larger one. Hewlett Packard used this approach several times in its early history.
  – Shorten work weeks and offer stock options in return.
  – Lend employees to not-for-profit firms and pay the difference in their wages.
- "Do everything you can to manage survivors well." Tell survivors exactly how departed employees are being treated.
- "Generate goodwill, even loyalty, among departing employees" by taking great care with how they are separated. Generous severance packages, outplacement services, and retraining are typical strategies.

A profit sharing compensation policy increases the capability of a HCHP company to retain its employees in a time of crisis. Because 25 percent of employee pay in Japanese companies is based on company profits, a crisis in performance automatically reduces their cost structure and allows them to avoid layoffs. The global economic crisis of 2008, the worst since the Great Depression, may make such policies more attractive to employees as job security becomes more salient for a generation of workers, just as it did after the Great Depression.

Q: Maintaining a professional distance from work, a full life outside of work, and a sense of humor all helped the CEOs in your study. Could you discuss the inevitable tension between commitment to work and the necessity of maintaining a little distance as well, as demonstrated by these CEOs?

A: When we describe maintaining distance while staying close, we are saying that the CEOs recognize that they have to be able to stay objective about the key people so that they can evaluate them and take proper action if they are not performing. This prevents cronyism, the enemy of high performance. To do this they recognize they have to maintain some social distance. But they also know they have to build a tight team. So they manage this paradox.

The question of work-life balance is a different one. Personally we learned that most of them do practice work-life balance within the context of a very demanding job. Their life is not all about work. So they protect some time to be with their family.

As for employees at large, there is a danger that commitment to the organization can undermine work-life balance. Some years ago I studied a HCHP manufacturing plant and found that commitment was so high that there was a rise in family tensions and divorce. This was an organization at the very high end of the commitment continuum. So HCHP firms must work to avoid this. SAS Institute, a software company, limits people to 35 hours a week. In others CEOs go out of their way to let employees know that their own personal goals are to manage work-life balance, thus being a role model others now feel free to emulate. We recently interviewed a CEO who told us that he took his wife and kids to company meetings during the summer when the children were off from school. He told us that managers took note of this and realized that it was now okay from them to manage their work-life balance.

Q: What are you working on next?

A: I am now working with my colleagues to write a book that will go into detail about what HCHP leaders say, think, and do. We have just created a not-for-profit organization called the TruePoint Center for High Commitment and High Performance. This will be a research and education institute intended to increase our understanding of these organizations and educating leaders through conferences and other means. We are funding the Center by contributing 2 percent of TruePoint's revenue to fund the Center. Finally, I plan yet another book that will present the theory and method leading an honest, collective (organization-wide) and public conversation (key people in the company are either involved or are informed about it and the results) about the strengths of the company and barriers to commitment and performance. Such a learning and governance process is essential for building a HCHP organization. WK

Footnotes:

1. Chatman, J.A. and Cha, S.E. (2003) "Leading by Leveraging Culture," *California Management Review*, Vol. 45, No. 4, pp. 29-31.
2. Ibid p. 30.
3. Ibid p. 30-31
4. Ibid p. 31
5. Cascio, W. (2002) Chapter 5, pp. 49-70, op cite. The quoted material in this section is taken directly from Cascio's book.

About the author

Martha Lagace is the senior editor of *HBS Working Knowledge*.

