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Michael Beer: High Commitment, High Performance

Michael Beer is a Professor of Business Administration at the Harvard Business School and Chairman of TruePoint, a research based consultancy. I spoke to him about his recent book *High Commitment, High Performance: How to Build a Resilient Organization for Sustained Advantage*.

DC: What do you mean by a high commitment, high performance organization?

MB: High commitment, high performance (HCHP) organizations are characterized by three organizational outcomes. When leaders achieve them and sustain them over time they ensure that their firm will achieve sustained high performance for many decades.

The first outcome is performance alignment. HCHP companies have an evolving winning strategy and they've managed to maintain that alignment with their structure, systems, capabilities and culture. If they are an innovative company then they've created the culture, the processes and the selection of staff that match that need for innovation. If they seek to move from selling products to solutions they have successfully designed the structure, incentives, culture and processes to enable that strategy. All firms face strategic inflections: HCHP companies are able to realign rapidly with commitment by their employees while underperforming companies are unable to do that without a revolution led by an outside CEO.

The second outcome is what I call psychological alignment, which few firms are able to do well. High performance companies are able to connect to people emotionally around a higher purpose, something other than quarterly earnings. It produces the commitment needed for ongoing realignment, change and results in sustained performance. Why? People are willing to put the interests of the customer and organization ahead of their own self-interest. It is what enables companies to mobilize people to change when change is called for.

The third outcome, which even fewer firms are able to develop effectively and even high performance organizations have difficulty sustaining, is the capacity for learning and change. I am talking about organizational learning capability: the ability of the system as a whole to adapt and change itself without resorting to bringing in a new CEO. We know that past success leads companies to overuse their strengths. They solve new problems with assumptions and practices that are no longer relevant. We also know that lower levels understand the sources of ineffectiveness, but are unable to communicate these to the top—the CEO and/or board of directors. Adaptive companies institutionalize mechanisms that enable employee and customer to voice the truth needed to confront reality.

DC: There are the people who believe in commitment (the 'carrot' people), then you have the high performance people (the 'stick' people). You seem to be going after these two competing sides of human psychology in one sentence.

MB: You've hit the nail on the head. High commitment, high performance organizations are able to manage contradictions, paradox and opposing ways of dealing with problems. That is one of their geniuses, if you will.

I first learned this when I went to Hewlett Packard in 1980-81. I interviewed one of their senior executives and the first thing she said to me was, “If you want to understand Hewlett Packard, you have to understand paradox.” This was a company full of contradictions, full of “and also’s”. This is no different from the later findings that Collins and Porras discussed in *Built to Last*.

High commitment, high performance organizations are able to integrate a demanding performance culture that is needed to “win the market place” with an equally strong caring, collaborative and participative culture needed to “win in the work place” as Campbell Soup has demonstrated under CEO Doug Conant’s leadership. It’s not an either/or, their senior executives are able to bring those seemingly opposing values to bear in an integrated way, so one does not dominate the other.

HP, for example, was concerned about profits *and* people; individual performance *and* team performance, the shareholder *and* the community.

DC: Maybe this is one of the weaknesses of many management books: they’ll pick one idea and get managers excited about this one thing without facing the need to embrace contradictions.

MB: Yes. What I’ve tried to do in this book is to bring together lots of ideas; some from my own research, but also lots of other ideas about management that have been treated separately up to now.
Managers get on one bandwagon, work on strategy; then next year it’s all about human resource management; then, a new book comes out that argues organizational design matters. Guess what? It’s ALL of these things that need to be brought together. In this book I’ve tried to take a systems perspective, to show how five key managerial levers can be integrated to create sustained commitment and performance. And I discuss the silent managerial and leadership barriers that stand in the way.

DC: Given this is a superior way of running an organization, how is it not that, in a Darwinian way, the high commitment, high performance organizations have multiplied and dominated the world.

MB: There are firms that have beat the odds and been successful (with some ups and downs) over a long period of time. Why have others not? Because building a HCHP system is difficult. It requires principled and courageous choices about how the firm will be managed that are retained from one generation of leadership to another.

1. HCHP leaders do not see shareholder value as the ultimate purpose of the firm, though they are laser focused on performance. HCHP firms see their goal as providing value for customers, employees, community, society and of course investors.

2. Leadership teams of HCHP companies develop distinctive and focused strategies and adapt them incrementally. They are as clear about what the firm should not do as they are about what it should do.

3. HCHP companies and their leaders have positive views about people and their

potential to contribute and grow. And, they hold strong views about how the firm ought to be led, organized and managed that spring from their belief about people.

4. HCHP companies create business policies that limit financial and cultural risk. They do not take on too much debt (many have no long term debt), manage growth rates in a way that enables careful selection and promotion of leaders who fit the firm's values, and they manage acquisitions – how many they make, how big they are and how they are integrated – to prevent destroying their culture or taking on too much debt. If these policies are not in place, efforts of CEOs and their HR partners to create a high commitment culture will be undermined by periodic liquidation of human and social capital.

In the face of short term pressures for financial results it is easy to stray from the course unless leaders are steeped in these HCHP principles and values. In the book I provide the example of the National Indemnity Company, a property and casualty company that is part of Warren Buffet's Berkshire Hathaway. Its leaders did not take on the risk their competitors did to grow rapidly—loosening underwriting standards—despite many temptations to keep up, but they ultimately outperformed their competitors when risks the competitors took on caught up with them, something that banks and mortgage companies did do and led to the economic meltdown of 2008. National Indemnity preserved their culture and capabilities by avoiding layoffs despite tough times. Like Ulysses in Homer's Odyssey they avoided the sirens of rapid growth by tying themselves to the mast of corporate purpose, principles, values and strategy.

DC: You've written a lot about the need to speak truth to power.

MB: The seeds of destruction of any firm are well known in advance of a crisis. Employees speak to customers, the folks in innovation and technology know how they stand relative to competitors—they understand where the firm's 'dark sides' are, but they may not be able to tell this to anyone at the top so an honest fact based conversation can take place. That undermines an organization's capacity for change.

What I argue is that the capacity for change has to do with surfacing what the firm is really about and making is discussable. How many CEOs say, "I want to find out what the people in my company think is blocking our success"? How many senior teams want to learn how their policies and behaviors may be blocking alignment with new realities? HCHP leaders do.

If I could point to one thing that's really stopping most firms from becoming a high commitment, high performance organization it is the ability to drive a generative learning process: learning the truth, confronting the truth and adapting in advance of a crisis. Of course, that requires a structure and process that enables safe but honest, collective and public conversations that matter. Consider Becton Dickinson where three CEOs in the last twenty years have institutionalized what I call a Learning and Governance process that empowers lower levels to speak truth to power safely and effectively. It enabled them to transform what was an underperforming and low commitment company in the late 1980s.

DC: Imagine I'm the top HR leader, but not the CEO. How can I move the organization in the right direction?

MB: First, have a vision of what 'good' looks like and be prepared to be an advocate for it. Secondly, think strategically about corporate transformation and assist your business partner to craft a road map for the journey to high commitment and high performance; you have to think of yourself as the change agent. If you know what good looks like, then what does management have to do and how do you help them get there? It will require that multiple levers for change be targeted; my book provides these in some detail and a roadmap for the journey to HCHP.

You need to begin to have a dialogue with the CEO and ultimately the senior team about their vision for the long term, what is the nature of the legacy they wish to leave?

Having done that, I would argue that HR needs to craft and recommend a 'learning and governance process' by which the senior team engages the organization in a conversation that matters. This is what enables truth to speak to power and relieves HR professionals from having to be the conduit for employee voice. If the senior team has a vision of the kind of firm it wants to create, lower levels and external constituents can tell them where the firm is in its journey. That means collecting data. There are a variety of ways to do so, but I argue for an honest, collective and public conversation about who we are, where we need to go, and what we want to be. I show in the book how HR professionals and consultants have helped senior teams in several companies begin and sustain the journey to HCHP.

It's also critical that HR professionals help senior management develop a strategy for creating the next generation of leaders. HR can't do it themselves, but they can get the senior management to do it. Ask the question: what does being a leader mean in this company? How does it relate to our strategy, values and vision? How do we develop a screen for identifying and developing leadership capability? What experiences do we need to provide these leaders to build a cadre of HCHP leaders?

A lot of leadership development programs are very unimaginative. They are still too dependent on classroom learning, when we know that learning occurs more powerfully in the context of leading change. That is, after all, what leadership is about. Consider Cardo, a global Swedish company TruePoint has worked with. Classroom learning was only the beginning. They taught a cadre of key business leaders how to lead performance driven learning and change, held them accountable for enacting change, for sharing with others in the program what they learned and then going back and do it again. Leaders learned to lead learning and change, and learned about the effectiveness of their own organization and leadership in the process and achieving business results that more than paid for the program. Leadership development can be free when development is framed as performance driven learning.

DC: Moving from the level of the organization to the level of society, are there any implications for social policy?

MB: I think one of the problems in our society, particularly in the US, is that the power has shifted dramatically to capital markets. With leveraged buy outs, the market for corporate control became much more active than it was twenty or thirty years ago. Unchecked by regulation and principled HCHP leadership, markets led us into to disaster in 2008.

Strong capital markets have created a lot of positive change, but at the same time reduced the stability needed to build strong HCHP cultures. What we need are tax policies that punish short term speculative gains and encourage investment in long term development of the business and its people. Speculation drives a lot of short term activity and churn in the economy; this leads to the sale and destruction of high commitment, high performance companies when they suffer inevitable setbacks. The tax changes I am proposing would discourage buying companies, stripping them of assets, and selling them a few years later. It would encourage developing the business, organization and people.

Governments can't impose HCHP practices with regard to incentives, for example, but it can do more to support research about these practices. And it can help foster a dialogue about the research findings, particularly among those who serve on boards of directors. At the end of the day, corporate leaders are the only ones who can build HCHP organizations, not social policy. Government's role is to reduce the headwinds that unfettered markets create.

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Michael Beer's *High Commitment, High Performance: How to Build a Resilient Organization for Sustained Advantage* is available at online and at bookstores.

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