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How

Why How We Do Anything Means Everything...in Business (and in Life)

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it presents a proactive solution to achieving corporate aims. As opposed to the heavy enforcement apparatus of blind obedience cultures or the reactive, make-another-rule solution of informed acquiescence, values-based self-governance provides constitutional principles that can be applied again and again to situations as they arise. It addresses the wide range of possible human conduct more comprehensively and puts the values of the company out in front of behavior.

TAKING CULTURE FOR A TEST-DRIVE

Joe Stallard is the vice president of human resources at Sewell Automotive Companies, which has become one of the largest family-owned car dealerships in the United States in large part because Sewell does culture. The 1,500 people who work at Sewell sell and service new and used vehicles, and their success depends on not only delivering a good product, but also building relationships with their customers. Since 1911, Sewell has thrived by delivering a customer experience that goes far beyond what most people expect from car dealerships. “We certainly have elements of self-governance in our culture,” Joe told me when I asked him about the company culture, “and we have elements of informed acquiescence. I’ve always said it is very effective, if you need something done fast, to just coerce people to do it, but it’s not going to be very long-standing. When you take the time for people to understand the *whys* and *hows* to get things done—and more importantly, to get them to *believe* in them—you are much more effective.”[13]

There are very few rules at Sewell. “I think that a lot of rules implies no trust in many ways,” Joe said. “You have to put rules or a stick in place—‘If you do this, I’ll do this to you’—if you don’t trust people. We have three guiding spirits at Sewell, and I always say that if we get these three things right, we don’t have to have a lot of rules.” Those “guiding spirits” represent the core values that bind everyone at Sewell in common enterprise: Act Professionally in Everything You Do, Be Genuinely Caring, and Maintain the Highest Ethical Standard. “If everyone has some strong, guiding principles,” Joe said, “it allows them to be creative, to be innovative, to be flexible, and to get out there and really do some things differently.”

There are just three values, but for Sewell they cover a lot of ground. When you bring your car into a Sewell repair shop, a team of technicians trained to work bumper to bumper does all the work required on that vehicle. Each team elects a group leader who guides the work flow, but other than that the team is almost entirely self-governing. Frontline technicians make every decision necessary to fulfill those three values, up to and including spending company money to do so. "Let's say you brought in your Lexus. It is out of warranty, the window regulator went out, and you feel we should have caught it," Joe offered by way of example. "Most technicians would have to talk to a service manager, who would review the records and maybe talk to his supervisor before making a decision, or something like that. At our dealership, the person that you first dealt with can make the decision to fix it. Now, you might ask why we would do that; won't they just spend all your money? Actually they won't. In fact, they'll spend less than you hope."

Spend less? Frontline personnel, with no profit-and-loss (P&L) responsibility and no commission structure, when allowed to freely spend company money, spend less?

"Yes. Think about it. If you give most people the power to spend freely, what are their concerns now that it's their responsibility? 'I hope I don't do too much. I hope they don't look at my goodwill account and say it's huge.' So they will worry about it almost more than we would like them to. Sometimes new hires will come back and tell the assistant service manager that they noticed the taillights are out on a car and they are worried this customer could be upset. We ask them, 'If it was your mother, what would you want us to do? What do you think we *should* do?' They want the reassurance at first. Over time, as they gain trust, they make these decisions themselves. If you give them the checkbook, they're a lot more thrifty than if you took it away.

"Are we more vulnerable because we have fewer rules?" Joe continued. "Sure. But let me give an example. We give all of our sales associates a car, gas, and insurance. First day you start, if you work at a Lexus store, you're going to get a new Lexus to drive. Now are we vulnerable? Could we have somebody go out, get drunk, and total our car or kill somebody and leave our dealership open to tremendous amounts of liability? That could happen, but it never has. Most other dealers tell us, 'You're crazy. Why would you do that? How do you keep somebody from not doing that?' And we say, 'Well, we start with great people.' They honor that trust."

Everything about Sewell culture reinforces its three basic "spirits," and they celebrate them every chance they get. "We tell lots of stories here," Joe says, stating what has already become obvious to me in the course of our conversation. One of their favorites involves a technician who had recently been hired from one of their competitors. "The technician charged a customer for work that he hadn't done. One of the other technicians went over to him and said, 'Hey, what are you doing? You can't do that here.' And he said, 'Oh, at the last place I worked, that's the way we made a little extra money.' So the technician told him that we don't do that here, and he apologized and said, 'I just didn't know.' So the group watched him a little bit, and the next day they caught him doing it again. This time a few guys went over to him and said, 'Hey, we told you we don't do this here.' He replied, 'Okay, I'm sorry. I got it. It's a bad habit.' So now the group watched him a lot. The third day they caught him doing it again. This time, they spread-eagled him on the back of a car, told him to get his tools, get his truck, and get out. No supervisor, no manager; they just said, 'We're not going to let a guy like that mess up our business,' and they fired him."

Now that may seem a little rough to you if you work in a cubicle, but if you work in a service garage, the culture can tolerate a different set of behaviors. Joe admits that the fired technician could have raised a fuss, but he just went away. He realized that he just didn't belong.

To "Be Genuinely Caring" can be rough, but it also brings inspiration. When a team member suffering from an illness had to go on disability and discovered that his insurance didn't kick in until he was off the job a month, his fellow group members all donated a paid hour of their own time to support him. When Hurricane Katrina wiped out Sewell's one New Orleans dealership (located between the Superdome and the Civic Center), over 40 of the 114 associates working there lost their homes and possessions. Associates in Dallas/Fort Worth, despite not knowing any of the affected families personally, canceled that year's parties and awards, quickly raised $168,000, donated use of their summer homes and cabins, found apartments and housing, and helped those associates rebuild their lives. Although they didn't know them, they considered them a part of the Sewell family.

Self-governing cultures both inspire alignment and eject elements that don't fit in. That's one of the many reasons that Sewell, in an industry that typically sees 184 percent turnover each year, enjoys just

22 percent turnover. "We reinforce behaviors by celebrating them in stories," Joe said, "but we also reward for them. One of the big measurements in the automotive industry is the customer satisfaction index (CSI). We pay every person in the dealership—whether you mop the floors, answer the phones, or sell cars—on how well the store does in CSI, because we believe everyone has an impact on customer satisfaction. We break it down and post it in all the different work areas. Everyone knows, for instance, if the customer satisfaction index in the pre-owned car department is low, and we have people from accounting saying, 'How can we help you get that up?' "

Values-based self-governance is not an end in itself; it is a way to influence the creation of winning cultures for the twenty-first century. Through culture, companies have the opportunity to grow more varied and diverse while simultaneously remaining tightly aligned in a common purpose. There are no hard walls in cultures; they are progressive and evolutionary, growing and changing at all times. Sewell's culture, for example, is not purely self-governing; by Stallard's own admission it has elements of coercion and instances where rules provide the best way to get things done. But by building on the core of self-governing principles, Sewell is able to keep these external controls peripheral to the central effort of the group, keeping everyone inspired and propelled by the values that lie at the center of all they do. In those instances when senior leadership does have to throw up some guardrails, everyone at the company trusts that those external protections extend from the same set of core values as everything else they do.

CLOSING GAPS

Streamlining authority and putting information and decision making in the hands of those closest to the challenge make a team nimble and responsive, two qualities critical to thriving in a fast-moving market. More than front-loading decision making, however, self-governance holds the key to the next great leap in corporate efficiency: *It closes the gap between the individual and the company.*

Businesses do *gap analysis* of initiatives all the time to discover the difference between expected outcomes, standard outcomes, and the competition. So let's look at the costs of compliance with the rules and regulations of the U.S. government's latest attempt to regulate corporate behavior, the Sarbanes-Oxley rules. "Even before the most expensive Sarbanes-Oxley rules take effect," reports the *Wall Street Journal*, "companies say their audit costs are increasing by as much as 30 percent or more this year due to tougher audit and accounting standards. . . . Companies also are paying steep fees to fund a new accounting-oversight board—as much as $2 million apiece annually for some large businesses."[14] A study by Financial Executives International estimated the labor invested in new compliance procedures by small companies with revenues less than $25 million at almost 2,000 man-hours; at $5 billion in revenue the number was 41,000 man-hours.[15] What has all this new investment achieved? PricewaterhouseCoopers found that of the 85 percent of multinational corporations that have new compliance controls and procedures, only 4 percent report significant changes in behavior.[16] Business has spent madly to close the gap between rules and conduct, instituting new programs and training to raise the level of regulatory compliance. Yet despite these Herculean efforts, there has been little real reduction in regulatory enforcement action and prosecution.[17]

"We have great training, great systems, and great policies and controls," Douglas Lankler, chief compliance officer, senior vice president, and associate general counsel of the pharmaceutical company Pfizer told me when we met at Pfizer's New York headquarters, "and yet we still end up with compliance problems."[18] Lankler is the son of an assistant district attorney. He grew up listening to and idolizing the stories his father told him about putting bad guys in jail. They so impressed him that he went on to become an assistant U.S. attorney so he could do the same. Pfizer, one of the largest health companies in the world, has a best-practice, state-of-the-art commitment to compliance and achieving higher standards of conduct and corporate responsibility, and yet even Lankler recognizes the challenges posed by rules-based compliance. "People are giving a lot more attention in the year 2007 to compliance issues and understanding of their importance and the real exposures that exist than they did in 2001, and yet the hotline is still ringing at about the same pace that it was ringing in 2001. And it is not just that people feel more comfortable talking about it, we're still hearing about things you would think we would be able to move on from. And I think unequivocally that every company does the same; Pfizer is not unique in this."

It has been said that insanity is doing the same thing over and over again and expecting different results. This is the trap in which business finds itself with regard to compliance. How much falls through the gap between the ways people conduct themselves and the rules? How much time and confusion does the need for external regulation by a management-oriented bureaucracy create around every decision or initiative? Organizations spend 98 percent of their time and enforcement resources on the 2 percent of their employees responsible for compliance failures, and still have not substantially reduced those failures. Herein lies the essential flaw in informed acquiescence cultures: the gap between people and what's expected of them, people and the rules, and people and what their boss wants. Gaps are the inevitable end result of external governance. "It's like an arms race," said Lankler. "You can keep tightening the controls, but businesses will get more aggressive and try to figure out a way around them; then you tighten the controls more and hire more people to enforce them, and they get even more aggressive, and it never ends."

Self-governance closes the gap. It puts 100 percent of your resources into 98 percent of your organization, giving them the inspiration, trust, and opportunity to achieve at their highest level. Why will employees do the right thing? They will do the right thing because in self-governing cultures, not to do the right thing no longer betrays just the company; it betrays the individual's own values. Rules control and limit how we do what we do; only values-based self-governance can simultaneously control behavior and inspire us to do more. When companies and workers align on values, workers then act on their own beliefs. Nothing is more powerful than that. Betraying oneself brings distraction, those pesky little voices in your head that cause friction and diminish your productivity and effectiveness. (We'll discuss the non-compliance percent in a few pages.) Values-based self-governance creates a culture of consonance.

Imagine how much can be gained by eliminating dissonance at the very core of corporate governance and creating a culture of consonance. The time, energy, and expense formerly dedicated to closing the gap between the individual and the corporation disappears. "To me," said Lankler, "what I want to be saying to our sales force is, 'I'm not interested in rules and policies and procedures and restrictions anymore. I'm not interested in bounds, what you can do, what you can't do. You people get it, you are big boys and girls, you have integrity, you understand that we expect you to do the right thing. We don't have to have these artificial restrictions; we can trust you.' If we can get the culture right so this is what we reward every day at Pfizer and this is what we look most highly upon, we can operate with even more freedom and be even more aggressive. That, to me, is the holy grail."

When you introduce more self-governance into a culture, you diminish the need for rules and procedures and policies. You also diminish the need for carrots and sticks to motivate compliance (another efficiency; carrots and sticks are expensive). In their place, you get alignment to values, more inspiration, and less time and effort lost down the rabbit hole gap between people and rules. Self-governance is the most efficient way to get everyone on the same page, aligned to organizational values and goals, and doing the right thing to achieve them. Compliance is about surviving; self-governance is about thriving.

Michael Monts is vice president, business practices, at United Technologies Corporation (UTC) and a thoughtful and respected leader within the defense industry. UTC was an early leader in trying to create a values-based governance culture, and Michael helped the company see the limits of compliance-based solutions to corporate behavior. He brought this point home to me forcefully. "Creating a compliance program—the external structure, rules, and what have you—will definitely improve your overall compliance results, but ultimately you reach a plateau. Values-based programs take things to the next level. First, they help people get away from loophole hunting. More importantly, if you look at it from the vantage point of leadership, values-based approaches inspire people to accomplish great things. It's not fear that moves people; it's the aspiration toward accomplishing something wonderful. When you combine your vision, values, mission, and leadership, you can capture the imaginations of your employees and harness their power in a collaborative effort. It's what you want, and it's exactly what they want. At bottom, it's not just a cost-benefit equation. They want to feel like they are a part of something that is big."[19]

VALUES IN ACTION

Values-based self-governance begins, of course, with values, a clearly articulated set of principles that define the nature and purpose of an organization in human terms. At GE/Durham, they use the phrase