

# **Freedom-Based Management**<sup>©</sup>

*Building a culture that enables and encourages fully empowered employees to produce awesome business success.*

**By Bill Nobles and Paul Staley**

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**Contents**

<b>Introduction</b>	<b>3</b>
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**Section One: The Fundamentals**

<b>Chapter 1. First Principle: <i>Align long term individual and business interests</i></b>	<b>9</b>
<b>Chapter 2. Second Principle: <i>Strive to harmonize individual and business needs</i></b>	<b>16</b>
<b>Chapter 3. Third Principle: <i>Articulate compelling vision for success</i></b>	<b>27</b>
<b>Chapter 4. Fourth Principle: <i>Emphasize freedom, self-responsibility, authority, and accountability</i></b>	<b>32</b>
<b>Chapter 5. The management paradigm shift from “hierarchical control” to “vision-led freedom”</b>	<b>41</b>

**Section Two: The Business Benefits**

<b>Chapter 6. Vision-led freedom revolutionizes individual effectiveness</b>	<b>53</b>
<b>Chapter 7. Freedom plus self-organized spontaneous order transforms organizational effectiveness</b>	<b>58</b>

**Section Three: Strategy for Introducing Freedom Step by Step**

<b>Chapter 8. Step One, CEO preparations</b>	<b>73</b>
<b>Chapter 9. Step Two, Leadership designs and tests management system</b>	<b>77</b>
<b>Chapter 10. Step Three, Cascade freedom throughout the organization</b>	<b>86</b>
<b>Chapter 11. Suggestions for employees and middle managers</b>	<b>92</b>
<b>Closing Comments</b>	<b>96</b>

**Appendix**

<b>A Role Model for Freedom-Based Management</b>	<b>97</b>
<b>Bill and Paul’s Stories</b>	<b>100</b>
<b>Incentive Pay Pros and Cons<sup>1</sup></b>	<b>115</b>

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<sup>1</sup> Others refer to this as “Individual/Team Incentive Pay” or “Gain Sharing”

## Introduction

This book offers a proposition that the authors believe can produce extraordinary business benefits for a variety of management challenges.

***Management has no fundamental reason to hierarchically control employees—i.e. there is no basic reason why employees cannot function with full freedom.***

Our post-retirement research revealed a set of principles and techniques that leaders can use to build management systems and organizational cultures within which employees are self-motivated to develop and fully utilize their potentials while functioning with full responsibility, full authority, and full accountability—i.e. with full freedom! Further that research indicated and history has confirmed that leaders who emphasize freedom and purge hierarchical control from their thinking:

- \* fully empower employees to behave like creative entrepreneurs as they self-control and self-coordinate work activities;
- \* dramatically improve organizational agility and responsiveness;
- \* revolutionize organizational effectiveness by taking advantage of self-organized spontaneous order; and
- \* produce awesome business success.

For example four of the companies discussed—PQ Corporation, Hewlett Packard, Nucor Steel, and Southwest Airlines capitalized on freedom and these enhanced capabilities to out-perform the S&P 500 for decades by factors of 5, 7½, 9, and 10 respectively in four different industries.<sup>2</sup>

Leaders who desire to “empower” employees now have a role model to fully achieve that objective. Fast growing entrepreneurial companies needing a formal management systems can use this book to sustain the freedom enjoyed while small enough for everybody to know and trust each other. CEO’s of slow-moving, hierarchically controlled companies will find everything needed to improve organizational agility and capitalize on rapidly changing market conditions. Individuals, who have built “freedom-oriented” companies intuitively by trial and error, can use this book to explicitly describe the culture their successor will inherit—and increase the probability of sustaining it. Anyone seeking to stimulate innovation and creativity will find nothing more effective than fully aligned employees functioning freely in a culture that emphasizes risk-taking and learning from mistakes. Mid-level managers can even adapt this material to improve local performance in the absence of an enterprise-wide initiative—as Bill did in Exxon Central Services.

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<sup>2</sup> *Freedom, Inc.* by Brian M. Carney and Isaac Getz (Crown Business 2009) describes a dozen other freedom-oriented companies that have achieved extraordinary results.

**Background** We transformed the cultures of Exxon Central Services Company and PQ Corporation while active, and retired convinced that those efforts stumbled upon something special. By trial and error we produced remarkable benefits for owners, management, and employees, yet could not explain what happened or how to reproduce the experiences.

After meeting by chance and discovering our shared interests in understanding these experiences we set out in search of answers. Early on Bill spent a year at George Mason University studying *Market-Based Management*,<sup>3</sup> a system based on free-market principles which tries to capitalize on the spontaneous order inside organizations. More importantly George Mason economists introduced the writings of Freidrich Hayek and Ludwig von Mises describing how external control and lack of ownership in socialist societies profoundly and negatively impacted human development and behavior. Those writings contained intriguing parallels with the problems we experienced while working and managing in hierarchically controlled Exxon and Proctor and Gamble.

We read widely but made little progress until Paul asked the questions that focused our research and ultimately produced this book —*Is there any fundamental reason for management to control employees? Why can't individuals work with 100% authority, 100% responsibility, and 100% accountability?* A thorough review of the literature revealed nothing addressing these seemingly basic issues for a profession in which theory and practices rely so heavily on hierarchical control. Instead we discovered writers repeatedly assuming that management must control employees, and from time to time mentioning explicit concerns supporting their assumption. Those writings identified five issues to address in answering Paul's questions.

- Employee interests conflict with those of the business.
- Employees will not work hard unless coerced and controlled by managers.
- Controlling employees is necessary to prevent chaos and disorder.
- Control of company assets and business processes requires control of employees.
- Hierarchical control is the only means to produce an orderly organization.

This literature review also revealed decades of managers and experts searching for freedom-oriented solutions and repeated failed attempts to apply their plethora of suggestions in hierarchically controlled organizations.

We had read Douglas McGregor's *The Human Side of Enterprise* early in our careers, and his "Theory X/Theory Y" insights into human nature provided a framework for addressing these issues. Those ideas in combination with writings friends recommended in economics, philosophy, politics, and science produced convincing evidence that none of these concerns causing managers to control employees was valid today—i.e. there was no fundamental reason for management to control employees. Instead those writings suggested that management could shift primary responsibility for organizational control to employees by creating proper conditions—in hindsight precisely what we did by accident in ECS and PQ! By sharing with employees a vision for success and trying to align their interests and harmonize their needs with those of the business, we shifted much responsibility for control to employees and the results were remarkable!

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<sup>3</sup> Described in "*The Science of Success*" by Koch Industries CEO Charles Koch; J. W. Wiley, 2007.

Re-reading the management literature from this new perspective revealed that David Packard and Ken Iverson actually shifted responsibility for control to employees by explicitly emphasizing “freedom” while building Hewlett Packard and Nucor Steel. Three other well-known leaders— Sam Walton, Max De Pree and Herb Kelleher, also shifted much responsibility for control to the employees of Wal-Mart, Herman Miller, and Southwest Airlines without mentioning freedom.<sup>4</sup> All five leaders used trial and error strategies similar to ours and their employees reacted like creative entrepreneurs as they contributed to awesome business successes—the same unusual behavior we experienced in ECS and PQ!

We selected “freedom”<sup>5</sup> as the theme for replacing hierarchical control because it had become the norm for politics, markets, and society around the world since the fall of Soviet Communism and because of Packard and Iverson’s experiences. However, although frequently mentioned in the literature nobody had defined specifically what freedom means inside organizations. Webster offered a dozen definitions for “free” and a Google search for “freedom” produced 200 million Internet hits full of various ideas and topics. The definition we developed drew ideas from centuries of philosophical and political writings and fleshed those out with learnings from our experiences and those of HP, Nucor, Wal-Mart, Herman Miller, and Southwest Airlines.

### **The Critical Elements of Freedom Inside Organizations**

- **Leadership mindset open to possibility employees need not be controlled.**
- **Align long term individual and business interests.**
- **Harmonize individual and business needs**
- **Freedom must be accompanied by “self-responsibility;” otherwise as recognized for centuries individual freedom will degenerate into chaos.**
- **Freedom entails self-responsibility for at least these six issues:**
  - \* **Focus on the enterprise mission and aspirations, which differentiates employees from entrepreneurs who are free to focus where they choose.**
  - \* **Behave consistently with organizational shared values.**
  - \* **Establish and achieve objectives that maximize one’s contributions.**
  - \* **Decide and act with competence and appropriate knowledge—seek help if lacking either.**
  - \* **Respect the rights and property of others.**
  - \* **Self-manage one’s personal development.**
- **Accountability to colleagues and the organization for fulfilling responsibilities.**
- **Authority to fulfill daily responsibilities without seeking management approval.**

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<sup>4</sup> Consultants Kevin and Jackie Freiberg identified “freedom” as a distinguishing characteristic of Southwest Airline’s unusual culture in *“Nuts, Southwest Airlines’ Crazy Recipe for Business and Personal Success.”*

<sup>5</sup> Later modified to “vision-led freedom” because freedom-oriented leaders consistently share with employees a compelling vision for success.

We also discovered that seven dimensions of freedom have special business value:

- **Freedom to develop, to grow, to achieve one’s unique potential—a source of tremendous business value.**
- **Freedom to make mistakes and fail—essential elements of creativity and growth.**
- **Freedom to question and to investigate.**
- **Free access to all business information except that which is private.**
- **Freedom to decide and to act.**
- **Freedom from boundaries.**
- **Freedom from arbitrary limitations such as work hours, location, dress, etc.**

Finally our research identified six factors which have undermined past freedom-oriented efforts and contributed to the continued dominance of hierarchical control.

1. The wide-spread assumption that management must control employees concealed freedom’s opportunities from many.
2. Belief that work is inherently unpleasant and that employees have few ideas to contribute hid these opportunities from others.
3. Organizations have systematically rejected freedom-oriented initiatives as threats to management hierarchical control—much like the human body fights off threatening germs, and reinforced doubts about freedom’s value inside companies.
4. Leaders, who successfully shifted control to employees, operated intuitively and could not explain why hierarchical control is unnecessary or how freedom improves results.
5. Confusion that “freedom” eliminates “control”— rather than shifting responsibility to employees, scared away many.
6. Most improvement efforts focused on symptoms of hierarchical control and ignored the root cause.

This book provides everything needed to capitalize on what we are convinced is a fundamentally superior alternative to management by hierarchical control. **Section One** describes the fundamentals of *Freedom-Based Management*, why hierarchical control is unnecessary, and the management mindset shift which provides the foundation for freedom. Looking back this mindset shift, which we shared intuitively, exposed insights concealed from Peter Drucker and Douglas McGregor by their belief that management must control employees — both of whom came tantalizingly close to discovering the fundamentals of freedom 50 years ago. We are indebted to them and other early explorers and feel fortunate that some combination of genes and life experiences allowed us to build upon their discoveries. **Section Two** explains how the powerful influences of “freedom” and “self-organized spontaneous order” generate business benefits that enabled companies to dramatically outperform the S&P500. **Section Three** provides a minimal-risk strategy leaders can use to introduce freedom step by step into on-going organizations—which can be adapted to fit a variety of management needs. Our **Closing Comments** describe how “freedom” produces win/win benefits for owners, management, employees, customers, and society, and has potential to revitalize the American experiment. The **Appendix** provides a role model for *Freedom-Based Management* and our personal stories about how we came to write this book.

Before closing we want to address two issues about our representative companies related to changes over the 15 years since our research began. While Nucor Steel, Herman Miller,

Southwest Airlines, and PQ Corporation continue to thrive today using freedom-oriented principles, the managements of Wal-Mart and Hewlett Packard (HP) seem to have abandoned freedom—and headlines suggest Wal-Mart has evolved a very different culture.

- Sam Walton’s successors seemed unable to sustain his freedom-oriented culture because like us, Walton operated intuitively, could not describe how or why it worked, and did not understand the critical factors for maintaining it. His successors had only intuition to guide them and drifted far off course—ultimately producing controversies like the class action lawsuit over gender bias and charges of unfair overtime pay. We considered removing Wal-Mart as a representative company because of its current reputation, but decided that Walton’s quotes and employee anecdotes provide powerful examples of freedom-oriented leadership. Additionally the success of freedom-oriented Costco confirms that freedom remains a powerful and effective management strategy within the retail industry.
- History suggests HP encountered conflict between the long term focus required to build and sustain a freedom-oriented culture and stock market demands for short-term results. The successors to Bill Hewlett and Dave Packard continued to emphasize freedom for decades as HP grew to \$30 billion in annual revenue and 105,000 employees during the 1990’s. Freedom-oriented Lew Platt also successfully transformed HP from an instrumentation focus to computers, and spun off Agilent Corporation under freedom-oriented leadership. However, investors grew restless and Carly Fiorina was hired to replace Platt in 1999. Ms. Fiorina quickly torpedoed freedom by centralizing control, and later led a merger with Compaq which muddled along until her forced resignation in 2005. Company results have since improved under CEO Mark Hurd, but “The HP Way” has disappeared from company literature and it is unclear what if any role freedom plays today within HP.

The HP experience did raise a question as to how large freedom-oriented companies can grow while sustaining the agility, creativity, and innovation required for success today. Some critics claimed HP became bureaucratic under Lew Platt, and confused customers with too many business units. (The 85 HP units resulted from a profit center strategy to stay small so employees could identify with business objectives.) These issues deserve future research, especially since Southwest Airlines is the largest freedom-oriented company today with \$10.4 billion in annual revenue and 35,000 employees.

Lastly our extended development period produced many dated examples in this book, which we are convinced presents no problem. However, it was reassuring to have this conviction confirmed by the recently published book, *Freedom, Inc.*, by Brian Carney and Isaac Getz, which describes a dozen fresh case studies of freedom-oriented companies operating today.

## **Section One**

### **The Fundamentals of Freedom-Based Management**



## **Chapter 1 The First Principle: *Align long term individual and business interests***

Probably nothing has helped to perpetuate the dominance of hierarchical control more than the widespread assumption that employee interests conflict with those of the business. Peter Drucker credited this conflict to employees having no interest in increasing company profits and seeking only to increase their share of whatever profit was earned.<sup>i</sup> Experts created a new academic field of study, "Agency Theory," to explore how the interests of all stakeholders can diverge—employees, owners, and managers, which virtually ignores whether such conflicts are avoidable or can be minimized. Even Adam Smith's statement that commodity prices are composed of labor costs, profit, and rent can be interpreted to suggest conflict—i.e. an increase in labor cost will reduce profit when rent remains unchanged.<sup>ii</sup>

There is no doubt that business interests have conflicted with those of employees in many, if not most, companies. One need only scan the history of labor relations or headlines about downsizing and out-sourcing to find evidence of managements placing business interests above those of employees. The question we asked, however, was whether such conflict is unavoidable. Is conflict fundamental to the relationship between an enterprise and employees as so many have assumed traditionally, or created by changeable management attitudes and actions?

Our research revealed no fundamental source of conflict between company and employee interests.<sup>6</sup> This finding was confirmed by the experiences of seven representative, freedom-oriented companies in all of which management mindset was key to avoiding conflict—in particular five shared beliefs which leaders integrated into their management systems and organizational cultures.

### ***Shared Belief: Conflict is avoidable.***

This is critical because leaders assuming that conflict is fundamental to the relationship between employees and their company have no reason to try to prevent it. Their actions and decisions naturally emphasize business interests over those of employees setting in motion a self-fulfilling prophecy that reinforces their faulty assumption. Employees trying to protect their interests react by demanding work rules, restrictions, policies, etc. that are often inconsistent with business interests.

On the other hand belief that conflict is avoidable encourages leaders to seek alternatives that align the interests of employees and the business. Ken Iverson provided an excellent role model: "What we did was push aside the notion that managers and employees have inherently separate interests. We've joined with our employees to pursue a goal we can all believe in: long term survival. We run Nucor first and foremost to ensure that, a decade or two from now, there will still be a place for our children and grandchildren to work without being laid off. That is our higher cause."<sup>iii</sup>

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<sup>6</sup> This statement applies to employees with a long term relationship with their company; where transient or temporary employees are utilized some controls may be necessary.

***Shared Belief: Under proper conditions employees desire and have the ability to help their company succeed.***

Douglas McGregor's "***Theory Y***" beliefs about the nature of people and work provide the foundation for this belief:

- *People do not inherently dislike work which under proper conditions can be as satisfying as recreational activities and hobbies.*
- *The ability to contribute ideas and creativity to solving organizational problems and developing business opportunities is widely distributed among employees.*
- *Individuals will self-control their actions to achieve organizational objectives to which they are committed; helping them to satisfy ego and self-actualization needs through work is a powerful source of commitment.*
- *Under proper conditions, people will not only to accept responsibility, but seek it.* <sup>iv</sup>

***Theory Y*** encourages management to seek conditions that allow employees to "achieve their own goals *best* by directing their efforts toward success of the enterprise."<sup>v</sup>

In contrast the "***Theory X***" mindset underlying hierarchical control suggests that conflict between employee and business interests is inevitable:

- *Most people dislike work and will try to avoid it if possible.*
- *People will avoid responsibility, and value security above all else.*
- *Since work is not enjoyable, employees must be coerced and controlled to make sure they fulfill their responsibilities.* <sup>vi</sup>

We found "***Theory Y***" personally comfortable and throughout our careers tried to earn our employees' commitment to business objectives by creating stimulating, satisfying, and enjoyable work environments. The vast majority—whether engineers, systems experts, financial analysts, plant operators, mechanics, or clerks, lived up to these expectations and willingly assumed responsibility when given the chance to pursue challenging and personally satisfying work. The practical knowledge of high school graduates was often as valuable as that of engineers and MBA's in generating innovative solutions to business problems and opportunities.

In our experiences the number of individuals fitting the Theory X description paled in comparison to those interested in contributing, growing, and doing their best. Even problem individuals often changed their behavior after being exposed to personally satisfying working cultures. We had to terminate only a few unsatisfactory performers and co-workers almost always agreed that was the proper action.

David Packard provided another perspective on the problems managements create by acting as though employees cannot be trusted. During his early working experiences with General Electric the company zealously guarded "tools and parts bins to make sure employees didn't steal anything. Faced with this obvious display of distrust, many employees set out to prove it justified, walking off with tools and parts whenever they could. Eventually GE tools and parts were scattered all around town, including the attic of the house in which a number of us were living." Packard noted with irony that many of the "stolen" tools and parts were used to work on job-related projects at home or on skill-enhancing hobbies that improved employee job performance. With that experience fresh in mind, Packard insisted that HP parts bins and storerooms always be open. Bill Hewlett reinforced that trust in employees when one weekend he found an equipment cage locked, broke the latch, and left a note insisting that the room never be locked again.<sup>vii</sup>

We and the representative companies demonstrated that cultures built upon Theory Y beliefs encourage all employees to live up to high expectations and are therefore far more

effective than controlling everybody because of concern about a few. Sam Walton reinforced this— ". . . folks outside our company may be putting a little too much emphasis on the supposed low quality of workers in the city, and not enough emphasis on the failure of some managers to do their jobs in getting those workers going in the right direction."<sup>viii</sup>

We were able to teach Theory Y to managers and supervisors, even those with long experiences in traditional control-oriented organizations. Only a few could not accept the concepts and had to be removed. Theory Y usually made sense once managers and supervisors experienced it and took the time to think it through, which many had never done. More often than not individuals simply adapt to the dominant culture as a survival strategy or pursue other opportunities as Paul did when he left control-oriented P&G after 11 years.

Leaders who built the representative companies shared many Theory Y-like quotes:

- **Ken Iverson** "Employees aren't perfect, but if you give them half a chance, they'll usually step up and do the right thing. My faith in the ethics and abilities of working people is rooted far back in my career."
  - "The average employee in the United States is also a lot smarter than most managers will give him credit for. If you really want answers you can use to make the business perform better, ask the people who are doing the actual work of the business. It's that simple. Front-line employees continually amaze me with their capacity to make improvements."
  - "People generally love the chance to seize initiative, to shape their own lives and to command their own destinies. So we try to provide those opportunities to the people who work in our office environments, as well."
  - "I've found that people's desires to improve, achieve, and contribute are virtually universal. Very few employees are apathetic by nature. However, they can be conditioned into apathy by their environments."<sup>ix</sup>
- **David Packard** ""Bill Hewlett and I have had a strong belief in people. We believe that people want to do a good job and that it is important for them to enjoy their work at Hewlett Packard."
  - "Bill and I have placed great faith and trust in HP people. We expect them to be open and honest in their dealings with others, and we trust they will readily accept responsibility."
  - "Closely coupled with this is our strong belief that individuals be treated with consideration and respect and that their achievements be recognized. It has always been important. . . to create an environment in which people have a chance to be their best, to realize their potential, and to be recognized for their achievements. . . . (W)e've tried to engender. . . the attitude that it is each individual's business to do the best job he or she can."<sup>x</sup>
- **Max De Pree** "Participative management. . . begins with a belief in the potential of people. Participative management without a belief in that potential and without convictions about the gifts people bring to organizations is a contradiction in terms."
  - "How can we begin to make capitalism an inclusive process. . . ? First of all, by acknowledging. . . a humanistic concept of people. Each of us is needed. Each of us has a gift to bring. . . . Each of us has a deep-seated desire to contribute."<sup>xi</sup>
- **Herb Kelleher** reflected his beliefs in a large sign greeting visitors to Southwest Airlines corporate headquarters which proclaims:
  - “The people of Southwest Airlines are ‘the creators’ of what we have become—and of what we will be.
  - “Our people transformed an idea into a legend. That legend will continue to grow only so

long as it is nourished—by our people’s indomitable spirit, boundless energy, immense goodwill, and burning desire to excel.

“Our thanks—and our love—to the people of Southwest Airlines for creating a marvelous family and a wondrous airline.”<sup>xii</sup>

***Shared Belief: Management is responsible for the management system and culture.***

If the management system and culture reflect Theory X beliefs, it is management’s responsibility to change them. Drucker went so far as to suggest that one does not manage today’s workers, but rather manages the organization, culture, and system within which those employees operate.<sup>xiii</sup> In retrospect that is precisely the approach we took in creating freedom-oriented cultures in PQ and ECS although we got there by accident through trial and error.

***Shared Belief: Individuals should share the rewards of their efforts.***

Freedom-based leaders focus on intrinsic motivation to align employee and business interests consistent with the Theory Y belief that employees require no extrinsic motivation to do their best. Examples include sharing the rewards of success by showing appreciation, acknowledging individual contributions, and celebrating successes. Few events are more satisfying and energizing than colleagues recognizing a meaningful accomplishment.

These companies also share the financial rewards of business success through profit-sharing and encouraging stock ownership. Paul introduced profit sharing for PQ managers during his first decade of changes and later expanded the sharing to all employees. PQ also encouraged employees to own the privately held company’s shadow stock in IRA accounts so they could share in the long term price appreciation resulting from their efforts. Interestingly, Paul had to first correct a low pay problem before implementing profit sharing since his predecessors held down salaries “to minimize” employee costs.

Profit-sharing and employee stock ownership have played key roles in all the representative companies.

**Wal-Mart** "Share your profits with all your associates" is the second of ten rules Wal-Mart has practiced successfully since 1971.<sup>7</sup> However, Walton actually started with a philosophy similar to the one Paul inherited, "In the beginning, I was so chintzy I really didn't pay my employees well. . . . I was so doggoned competitive, and so determined to do well, that I was blinded to the most basic truth, really the principle that later became the foundation of Wal-Mart's success—the more you share profits with your associates, whether it's in salaries or incentives or bonuses or stock discounts—the more profit will accrue to the company."

"The truth is, once we started experimenting with the idea of treating associates as partners, it didn't take long to realize the enormous potential it had for improving our business. And it didn't take the associates long to figure out how much better off they would be as the company did better. . . . Profit sharing has pretty much been the carrot that's kept Wal-Mart headed forward."<sup>xiv</sup>

**HP** profit-sharing started with birth of the company as related by David Packard. "Even before the war Bill and I had begun implementing an incentive compensation plan for all our people, a plan based on something we'd learned from General Radio (whose) plan applied to engineers only. But Bill and I thought everyone at HP should be included. We wanted to recognize the contributions of each individual, not just a special group. . . ."

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<sup>7</sup> Walton's first rule is "Commit to your business. Believe in it more than anybody else."

Eventually, because of the big gains in productivity, the bonus to our entire workforce rose to as much as 85% of base wages.

"At that point, which was sometime after the war, we abandoned this particular bonus plan. But in no way did we discontinue the practice of sharing profits among all our people. To this day, Hewlett Packard has a profit-sharing program that encourages teamwork and maintains that important link between employee effort and corporate success."<sup>xv</sup>

**Herman Miller** implemented profit sharing as part of the Scanlon Plan adopted 27 years after the company's founding. According to De Pree, "We are deeply committed to the Scanlon idea. . . . It enables the expression of the diverse gifts of persons with an emphasis on creativity and on the quality of the process. It fuels the generation of ideas, the solving of problems, and the managing of change and conflict. While we have worked at it for over 35 years, it's still an idea with tremendous impounded energy. It is the constant search for what is and what can be that enables persons and groups to reach their potential."<sup>xvi</sup>

**Nucor** Iverson attributed much of Nucor's success to the culture and compensation system, "So much of what other businesses admire about Nucor— our teamwork, extraordinary productivity, low costs, applied innovation, high morale, low turnover— is rooted in how we pay our people. More than that, our pay and benefit programs tie each employee's fate to the fate of our business. What's good for the company is good— in hard dollar terms— for the employee."

Nucor is the anomaly among the representative companies emphasizing profit sharing and stock ownership among all employees, but also utilizing an incentive pay system for production workers. While Nucor management feels positive about that system, their experiences and those of others have demonstrated that incentive pay is at best a double-edged sword which creates numerous problems.<sup>8</sup> It is therefore not a recommended element of Freedom-based management.

**Southwest Airlines** introduced profit sharing for employees in 1973 decades before any of the other airline companies. As Kelleher noted, "Profit sharing . . . is an expense we'd like to be as big as possible so our people get a greater reward." The company also offers a 10% discount on stock purchased by employees.

***Shared Belief: Everybody should understand the role of profits within a free market.***

Confusion about profit has caused many historical conflicts, so alignment of individual and business interests requires that everybody understand a few key economic issues. First, customers through their purchases reward companies that are most successful in satisfying their requirements and don't buy from those that do not. The prospect of increasing profits motivates companies to improve products and services at competitive prices. So in effect profits reward enterprises for helping customers accomplish their goals within a free market system.

David Packard described it this way to HP employees—"[P]rofit is the best measure of our contribution to society and the ultimate source of our corporate strength."<sup>xvii</sup> Profit is the value HP employees add to the resources used in producing products and services. While profit is not HP's objective, it is essential and makes all other activities possible.<sup>xviii</sup> James Collins and Jerry Poras offered a metaphor to emphasize this point—Profit is analogous to food and water;

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<sup>8</sup> The pros and cons of incentive pay are discussed in the Appendix.

while those are not the purpose of human life, without them there can be no life.<sup>xix</sup> A commercial enterprise without profits can not survive.

Economists have also shown that transferable property rights provide a powerful incentive to focus on the long term since the market value of company stock over time reflects its future profit generation capability. Stock ownership therefore encourages employees to protect and enhance their company's long term capabilities. (As a footnote economists suggest that today's pervasive focus on short term, quarterly profits results from confusion rather than marketplace fundamentals.)

Comparing Wal-Mart with traditionally managed Sears highlights how understanding of profits can affect employee behavior. An article described how Sears management put much effort into making employees "feel better about working for the company," but surveys showed employees were "in the dark about how the company was doing in the marketplace." Employees thought Sears was earning 40 to 60 cents per dollar of revenue when the actual figure was 2 cents on the dollar. That same survey revealed that most sales personnel thought their main responsibility was "To protect the assets of the company."<sup>xx</sup> Wal-Mart associates on the other hand share in their company's profits, understand the role profits play in business success, and have access to profitability reports for the company, their store, and their department. They are personally responsible for serving their customers and for improving the profitability of their segment of the business. Is it any wonder that Wal-Mart has out-performed Sears in satisfying customers and sustaining profitable growth?

When employees understand how profits influence company success and share in those profits, they naturally strive to protect and improve the condition and future productivity of company assets. This is a very different mindset than in traditionally managed organizations where employees view company profits and assets as belonging to somebody else and therefore care little about whether equipment wears out or supplies are wasted so long as production targets are achieved.

### ***Other requirements to create "proper conditions"***

The "shared beliefs" in this chapter are critical, but insufficient for building a foundation for freedom that eliminates the need for hierarchical control. **Chapters 2, 3, and 4** describe three other fundamentals of ***Freedom-Based Management*** along with the shared beliefs and values they entail. **Chapter 5** then closes this section by explaining how these beliefs taken together produce a fundamental change in management mindset—the management paradigm shift from "hierarchical control" to "vision-led freedom," that provides the foundation for ***Freedom-Based Management***.

**Chapter 1 Summary**  
***The First Principle: Align long term individual and business interests***

<u>Traditional Assumptions underlying Hierarchical Control</u>	<u>Research Findings</u>
Employee interests conflict with those of the business.	Management can prevent this conflict by creating proper conditions.
Employees will not work hard unless coerced and controlled by managers.	Work can be as satisfying as play or rest under proper conditions.

**Integrating these “shared beliefs” into the organizational culture helps to create the proper conditions to align individual and business interests:**

- **Conflict between employee and business interests is avoidable.**
- **Under proper conditions employees desire and have the ability to help their company succeed.**
- **Management is responsible for the character of the management system and organizational culture.**
- **Employees should share the rewards of their efforts—both intrinsic and financial.**
- **Everybody should understand the role of profit in a free market system.**

## **Chapter 2 The Second Principle: Strive to harmonize individual and business needs**

Aligning individual interests with those of the business requires that management also harmonize their needs with those of the business. By “individual needs” we refer to the issues psychologist Abraham Maslow addressed in his hierarchy of human needs:

- *Physiological needs for sustenance which are satisfied by food, water, vitamins, etc.*
- *Safety needs such as security, stability, and freedom from fear.*
- *Belongingness needs for relationships with family, friends, and others.*
- *Esteem needs for self-respect, self-esteem, and the respect of others.*
- *The need to self-actualize, to fulfill one's unique potential.*

George Bernard Shaw suggested a sixth tier of human need that resonated with us—idealization, the source of “true joy in life, the being used for a purpose recognized by yourself as a mighty one; the being a force of nature instead of a feverish, selfish little clod of ailments and grievances complaining that the world will not devote itself to making you happy.”

Control-oriented managements have traditionally dealt with only the first two tiers by providing pay and benefits that help to satisfy the physiological needs of employees and their families and by emphasizing safety. Even those needs have been ignored when conflicts arose with the business need for short-term profitability and management laid off employees to reduce expenses. Leaders of the representative companies incorporated into their cultures the “shared beliefs” and “shared values” described in this chapter which harmonized all tiers of individual needs with those of the business including Shaw’s sixth tier.

### ***Shared Belief: A company is people who gather to pursue a worthy cause that cannot be accomplished alone***

Harmonizing individual and business needs starts by leadership recognizing that at the most fundamental level a company is people. The finances, strategies, brands, and facilities that receive so much attention in today’s business schools and media are only resources for people to use as they strive to accomplish their business objectives. David Packard articulated this philosophy effectively, “I want to discuss why a company exists in the first place. In other words, why are we here? I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons 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 are able to 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 largely from a desire to do something else—to make a product—to give a service—generally to do something which is of value.”<sup>xxi</sup>

Sam Walton made a similar point, “It all sounds simple enough. And the theories really are pretty basic. None of this leads to a true partnership unless your managers understand the importance of the associates to the whole process and execute it sincerely. Lip service won't make a real partnership—not even with profit sharing. Plenty of companies offer some kind of profit sharing but share absolutely no sense of partnership with their employees because they don't really believe those employees are important, and they don't work to lead them.”<sup>xxii</sup>

Futurist George Gilder carried this logic a step further arguing that human intelligence is the driving force of capitalism. He discerned “increasing recognition that the means of



production in capitalism are not chiefly land, labor, and machines, present in all systems, but emancipated human intelligence. Capitalism—supremely the mind-centered system—finds the driving force of its growth is innovation and discovery.”

Packard and Walton established the foundation for harmonizing needs in their companies by valuing the contributions, imagination, and creativity of their employees/associates, and interestingly we found evidence that other early business leaders shared their viewpoint. Standard Oil Company founder John D. Rockefeller commented that "You can take my refineries, my ships, my trucks, my pipelines, and all my other equipment, but give me my people and I can build it back again in three years."<sup>xxiii</sup> Andrew Carnegie made much the same point, "Take away my factories, but leave my people—and soon we will have a new and better factory."<sup>xxiv</sup> However, as “management” became a profession supported by business schools researching and teaching increasingly sophisticated techniques, this historical appreciation for the critical role people play drifted into the background. Talking about the value of employees remained popular, but walking that talk became the rare exception as more and more companies delegated "people issues" to the human resource organization rather than treating those as a top personal priority for the CEO.

Drucker made an interesting observation that helps to explain this unfortunate change, suggesting that the combination of computers and the 700-year-old accounting system on which businesses still rely makes available to management volumes of the wrong kind of information.<sup>xxv</sup> While Drucker worried that accounting data drew the attention of managers inward and away from customers and the marketplace, those same “wrong kind” of data have drawn leadership attention away from the value of people toward more easily quantifiable issues such as head count and employee costs. A Forbes writer reinforced this point several years ago suggesting that HP’s culture which encouraged employees to convert change into business opportunities was "**worth more than all the assets listed on the corporate balance sheet.**"<sup>xxvi</sup> Yet none of the accounting data in that company’s voluminous financial statements address the value or health of that culture.

For whatever reasons, too many business leaders now treat employees as something other than their most valuable assets as reflected in a Time magazine article where a CEO commented, "Companies no longer wait to ride out the tough spells. They practice just-in-time firings." A CFO voiced optimism, "We've taken fairly severe action. . . pointing out that the company cut 1400 employees in April—10% of its work force—even before posting a loss for the quarter."<sup>xxvii</sup> Their viewing employees as headcount to be managed like inventory contrasted sharply with an HP anecdote in the same article about an employee who arranged with her manager to care for her ill elderly mother by telecommuting three weeks a month from her remote farm. "Working at home for me has been wonderful. I know my mom is O.K., and this allows me to focus on doing my job better." That HP manager improved the employee’s effectiveness by harmonizing her needs with those of the business.

### ***Shared Belief: Respect human dignity***

PQ and Wal-Mart reinforce this belief by referring to all employees as "associates," a term we use interchangeably with "employees" from this point forward. Nucor listed the name of every associate on its annual report cover to respect their contributions. Herman Miller has a vice-president for people<sup>xxviii</sup> and Southwest Airlines capitalized "Employees" in the company's official mission statement. HP has a long history of respecting associates starting with the profit sharing plan paying the same percentage to everybody from the janitor to the CEO. After the company went public, all individuals with more than six months service became eligible for stock options. Leadership emphasized that people are managers' most important responsibility by discouraging the HP personnel department from getting involved in their problems. Several attempts at unionization have failed dismally because HP associates view themselves as integral parts of management.<sup>xxix</sup>

### ***Shared Belief: Avoid layoffs unless survival of the enterprise is at risk***

No leader can guarantee job security which within a free market economy depends upon competitive success of the enterprise. However, freedom-based leaders commit to considering associate needs for security even during tough business conditions. As Iverson said, "[W]e're people with a long term perspective. The way we see it, making a living in today's economy is like crossing a broad and stormy sea. You could jump straight in and start swimming. Of course, that would be foolish. People with sense will get together and build a boat. And when the seas get a little rough, you could run around pushing your shipmates overboard. People with composure work together to pull through storms. They deal with the perils of the moment together, never forgetting that the people around them represent their best hope of reaching a better future."<sup>xxx</sup>

Nucor's official policy, "Employees should feel confident that if they do their jobs properly, they will have a job tomorrow,"<sup>xxxi</sup> is positioned within a broader philosophy of sharing everything with employees. The impacts of seasonal and cyclical business slowdowns are shared by employees working only two or three days a week and getting paid accordingly. Individuals also exhibit flexibility by working on lower priority activities such as cleanup and plant maintenance during slow periods.<sup>xxxii</sup> When one Nucor plant manager laid off forty workers in violation of the policy, Iverson ordered them to be rehired and fired the manager.<sup>xxxiii</sup>

At the same time Iverson emphasized that there is no guarantee of job security, "Nothing's written in stone. We'll lay people off if it is a matter of survival." The key issue is when does laying employees off become the sensible thing to do? "If, during the bad times, we had failed to look past the short term consideration of this quarter's earnings, would we have gone on to compile such a record of sustained growth and profitability? I'm certain we would not. If management had thought of our employees as nothing but 'headcount'— a term that seems far more appropriate to cattle than to people— would they be as motivated and productive as they are today? Again, the answer is clearly no. Many of our employees remember 1982. . . , the weight we bore together, and what management did when our backs were against the wall. We chose to save our company by working with employees, and they responded in kind."<sup>xxxiv</sup>

Packard described how HP was built upon a similar philosophy—" [W]e made an early and important decision: We did not want to be a 'hire and fire'— a company that would seek large, short-term contracts, employ a great many people for the duration of the contract, and at its completion let those people go. This type of operation is often the quickest and most efficient way to get a big job accomplished. But Bill and I didn't want to operate that way. We wanted to

be in business for the long haul, to have a company built around a stable and dedicated workforce."<sup>xxxv</sup>

This commitment created a special challenge during HP's transition into the computer business when hundreds of individuals were redeployed, some into jobs for which they were ill-suited or locations they did not like. Thousands more accepted enhanced early retirement or voluntary severance packages. It was a wrenching time that raised concerns whether the company's culture was changing, but afterward most accepted that HP leadership had done their best to harmonize individual needs with those of the business while re-positioning the company for long term survival and success.<sup>xxxvi</sup>

Paul faced similar challenges when productivity improvements created surpluses at PQ's widely dispersed plants. Leadership tried to handle those through natural attrition and retirements, and where that was not possible worked to ensure individuals had another job before leaving the PQ payroll. Over the years, these practices sustained a level of trust even with terminated individuals, some of whom later rejoined the company as opportunities became available.

### ***Shared Belief: Information should flow freely and openly***

Ken Iverson emphasized, "Tell employees everything or tell them nothing. Otherwise, each time you choose to withhold information, they have reason to think you're up to something. We prefer to tell employees everything. We hold back nothing."<sup>xxxvii</sup>

Sam Walton commented, "It's the only way they (associates) can possibly do their jobs to the best of their abilities—to know what's going on in their business. . . . We were among the first in our industry—and are still way out front of almost everybody—with the idea of empowering our associates by running the business practically as an open book.

"Sharing information and responsibility is a key to any partnership. It makes people feel responsible and involved. . . . In our individual stores, we show them their store's profits, their store's purchases, their store's sales, and their store's markdowns. We show them all that on a regular basis, and I'm not talking about just the managers and the assistant managers. We share that information with every associate, every hourly, every part-time employee in the stores. Obviously, some of that information flows to the streets. But I just believe the value of sharing it with our associates is much greater than any downside there may be to sharing it with folks on the outside. . . . Nothing ever makes me feel better than when I visit a store and some department manager comes up to me with pride and shows me all her numbers and tells me she's number five in the company but she plans to be number one next year."<sup>xxxviii</sup>

Max De Pree pointed out another value of open communications. "An inclusive system requires us to be insiders. We are interdependent, really unable to be productive by ourselves. Interdependency requires lavish communications. Lavish communications. . . (provide) the opportunity to understand."<sup>xxxix</sup>

Maslow described how open communications stimulated creativity by multiplying the number of ideas in a California high technology company which had no business secrets except plans for the future. CEO Andy Kay was convinced that continual improvement kept his company ahead of any competitor trying to copy his manufacturing processes or products, and that it was impossible to steal the creative culture which produces the on-going innovation.<sup>xl</sup>

Wal-Mart's openness evolved into a ground-breaking vendor relationship by using information technology to manage product flow cooperatively instead of auditing relationships. Suppliers use Wal-Mart's sales and inventory data to schedule production and shipments.<sup>xli</sup>

### ***Shared Belief: Individuals need a safety valve to express concerns***

Open-door policies in freedom-based companies deal with a broad range of issues and concerns because leadership minimizes the fear of "going around the boss." As Sam Walton noted, "executives who hold themselves aloof from their associates, who won't listen to their associates when they have a problem, can never be true partners with them. Often, this is an exhausting and sometimes frustrating part of the management process, but folks who stand on their feet all day stocking shelves or pushing carts of merchandise out of the back room get exhausted and frustrated too, and occasionally they dwell on problems that they just can't let go of until they've shared it with somebody who they feel is in a position to find a solution. So, as big as we are, we have really tried to maintain an open-door policy at Wal-Mart. That's not to suggest that they always like what I have to say. I don't always solve their problems, and I can't always side with them just because they bring their situation to my attention. But if the associate happens to be right, it's important to overrule their manager, or whoever they're having the problem with because otherwise the open-door policy isn't any good to anybody. The associates would know pretty soon that it was just something we paid lip service to, but didn't really believe."

Retired Wal-Mart president David Glass noted "[I]t's not unusual for somebody in Philadelphia, Mississippi, to get in his pickup on the spur of the moment and drive to Bentonville, where you can find him sitting in the lobby waiting patiently to see the chairman. Now really, how many chairman of \$50 billion companies do you know who are totally, 100 percent accessible to hourly associates?"<sup>xlii</sup>

It is essential for the open door policy to provide opportunity for individuals to discuss issues all the way to the CEO without fear of retribution if required to resolve their concerns. Issues will rarely be carried that far, but the right to be heard is crucial to harmonizing individual and business needs in a culture of freedom.

### ***Shared Values***

The following shared values help to harmonize individual and business needs within freedom-based companies:

- 1. Honest and ethical behavior** Herman Miller manager Phil Mercorella emphasized how this helps individuals to focus on what's morally right and to avoid expedient solutions.<sup>xliii</sup> A credo attributed to Dr. Martin Luther King Jr. provides additional guidance in this regard: "Vanity asks the question, is it popular? Expediency asks the question, is it politic? Cowardice asks the question, is it safe? But conscience asks the question, is it right? And sometimes, we are called upon to do things that are neither popular, nor politic, nor safe— but we do them because they are right."<sup>xliiv</sup> The sharp stock price drops when Enron, WorldCom, Tyco, and Parmalat managements were accused of accounting frauds and dishonesty indicate that this shared value also has financial value in the stock market.
- 2. Trust** David Packard's insistence on open parts bins and storerooms reflected trust in HP employees. When asked his opinion about controlling employees, a Nucor controller noted that 99% are basically good and try to do what's right. Implementing controls because of the bad 1% would insult the majority.<sup>xlv</sup> As Max De Pree noted, "We must trust one another to be accountable for our own assignments. When that kind of trust is present, it is a beautifully liberating thing."<sup>xlvi</sup>

Southwest Airlines is one of the most highly unionized in the industry with employees represented by many traditional unions. Yet, leadership has built a highly productive relationship with employees and these unions by emphasizing partnership, trust, and openness.<sup>xlvii</sup>

- 3. Taking risks and learning from mistakes** This shared value contrasts starkly with traditionally managed companies where punishment too often encourages hiding mistakes or blaming others. Sam Walton noted "We wanted everybody to know what was going on and everybody to be aware of the mistakes we made. When somebody made a bad mistake— whether it was myself or anybody else— we talked about it, admitted it, tried to figure out how to correct it, and then moved on to the next day's work."<sup>xlviii</sup>

Ken Iverson commented that "[experience has] convinced me not to fear making mistakes. I have no desire to be perfect. In fact, none of the people I've seen do impressive things in life are perfect. They never settle for latching on to one approach or mastering one way of doing things. They experiment. And they often fail. But they gain something significant from every failure. That's what it takes to achieve . . . in business as well as in life.

"People won't try to accomplish extraordinary things if their managers won't tolerate failure. You should take care to never criticize when things turn out badly. That's a surefire way to stop people from taking prudent risks. As the manager of people who made decisions that turned out badly, remember you were the one who allowed them to fail. So if you must dish out blame, give yourself a good helping first. That often curbs the urge.

"Once the impulse to criticize is expunged from your system, you can study the experience with those who went through it. Help your people avoid making the same mistake again. Figure out together if the idea is worth attempting another time and, if it is, what adjustments should be made in the approach. Don't wallow in failure. Learn from it. Look forward, not back. Urge them to try again.

"You should also try to be genuinely open to the ideas people bring to you. . . . Remember, you'll never know how good an idea is until somebody tries it. And even if the idea fails, the experience of trying it will contribute to the success of the business and its people over the long term.

"We have a saying in Nucor: 'If it's worth doing, it's worth doing poorly.' It means don't study an idea to death with experts and committees. Get on with it and see if it works.

"This approach leads to more than a few failures. Probably half of the new technologies, approaches, and other ideas we try fail. Every Nucor plant has its little storehouse of equipment that was bought, tried, and discarded. We think some mistakes are perfectly acceptable. The knowledge we gather from our so-called 'failures' may lead us to spectacular success."<sup>xlix</sup>

David Aycock expanded on this, "A failure is a particularly dangerous time for a company, and must be handled with great skill. If people at higher levels come down on an employee and say, 'you goofed up,' it can kill all initiative at a company." When asked how Nucor handles someone who goofs, Aycock responded without hesitation, "You give 'em something new to do! Because they're the only damn people in the company who dared to take any risk! I'm talking about personal risks."<sup>l</sup>

Southwest Airlines believes that “The costs of getting burned once in awhile are insignificant compared to the benefits that come from people feeling free to take risks and be creative.”<sup>li</sup>

4. **Teamwork/Community** Although freedom-based organizations are highly decentralized, this shared value provides an on-going reminder that cooperation and coordination are required for success. David Packard observed, "Although we minimize corporate direction at HP, we consider ourselves one single company, with the flexibility of a small company and the strengths of a large one—the ability to draw on corporate resources and services; shared standards, values, and culture; common goals and objectives; and a single worldwide identity."<sup>lii</sup>

Paul’s leadership team emphasized "PQ #1" to remind associates to focus on the community in preference to individual or local interests. As a result, technology, expertise, and market intelligence were freely exchanged among business units. When asked for help or advice from other locations, associates responded promptly and willingly.

Nucor's shared value of "Building teamwork for the future" was reinforced by regular meetings of plant managers. Bonuses were based on company results to encourage plant managers to help each other and to share ideas. Department heads also met regularly with peers from other plants.

In Southwest Airlines teamwork among 12 different functions proved critical to reducing gate turnaround times to half the industry average—a complex activity involving pilots, flight attendants, gate agents, ticketing agents, operations agents, ramp agents, baggage transfer agents, cargo agents, mechanics, fuelers, aircraft cleaners, and caterers.

5. **Humility, especially among leaders** Humility encourages giving credit to others as Ken Iverson did frequently, "I've been credited with such achievements as demonstrating that the mini-mill concept was commercially viable, with the success of our joint venture with the Japanese firm Yamato Kogyo, and with making the breakthrough thin slab casting technology work at our mill in Crawfordsville. All incorrect. It was people like Benny Gainey, who came into Darlington each day to build better molds, and Tim Patterson, who looked past what was already working at Nucor-Yamato to find what might work even better, and Calvin Stephens, who restlessly searches for new ways to shave seconds off a work process. They did it. Not just the three of them, of course. The credit for most Nucor achievements rightfully belongs to hundreds of people you'll find throughout the company.

"At some level, everyone understands that. Yet you don't see *Fortune*, *Business Week*, or *Industry Week* chasing after Benny, Tim, or Calvin for interviews. They come to the boss. And somehow or other the stories end up giving most of the credit for what a company does to the handful of people who set the company's goals, while saying next to nothing about all those people who go out and fulfill them."<sup>liiii</sup>

Sam Walton reflected this value, "Above all. . . I can't tell you how important it is for us to remember—when we puff up our chests and brag about those huge sales and profits—that they were all made one day at a time, one store at a time, mostly by the hard work, good attitude, and teamwork of all those hourly associates and their store managers, as well as by all those folks in the distribution centers."<sup>liiv</sup>

Humility also creates a mindset of serving the needs of associates—a key

responsibility in a culture of freedom. One HP employee commented that founders Packard and Hewlett appeared to work for their employees instead of vice versa.<sup>lv</sup> While president of Nucor, Aycock referred to himself as "the most dispensable person in Nucor . . . and the most indispensable were the production people." Another Nucor manager commented, "We do a pretty good job of implementing the ideas employees come up with, but the credit goes to the people."<sup>lvi</sup>

Finally humility reinforces the need for continual improvement. Home Depot co-founder Bernie Marcus told of Sam Walton's humility when asked how things were going, "Bernie, things are really lousy. Our lines are too long at the cash registers. Our people aren't helpful enough. I don't know what we're going to do to get them motivated." Marcus contrasted that with the arrogant retailer CEO who on the verge of bankruptcy bragged about how great everything was. "Not Sam. He is down to earth and knows he is."<sup>lvii</sup> As Walton noted, "There's always a challenger coming along. There may be one on the street right now formulating a plan to get on top. To stay ahead of those challengers, we have to keep changing and looking back over our shoulder and planning ahead."<sup>lviii</sup>

Kelleher reflected similar humility, "A company is never more vulnerable to complacency than when it's at the height of its success." He began a 1993 letter to Southwest Airlines employees by emphasizing, "The number one threat is us! We must not let success breed complacency; cockiness; greediness; laziness; indifference; preoccupation with nonessentials; bureaucracy; hierarchy; quarrelsomeness; or obliviousness to threats posed by the outside world."<sup>lix</sup>

6. **Fairness/sharing** Sharing both the good and the bad with associates helps to avoid conflicts that have traditionally plagued labor relations. For example, Nucor gave associates \$500 "whoopie checks" to show appreciation for their efforts during unusually profitable periods and asked them to share the financial hardships of low demand by working less than five days a week. Individuals viewed this as fair and better than layoffs since they still had income to support their families.<sup>lx</sup>

Walton observed "I don't think there's any doubt that a lot of American management has bent over too far toward taking care of itself first, and worrying about everybody else later. . . . [Y]ou can't create a team spirit when the situation is so one-sided, when management gets so much and workers get so little of the pie. . . . [T]he formula has to make sure that profits are divided fairly among workers, management, and stockholders, according to their contributions and risks."<sup>lxi</sup>

David Packard indicated "The underlying principle of HP's personnel policies became the concept of sharing—sharing the responsibilities for defining and meeting goals, sharing in company ownership through stock purchase plans, sharing in profits, sharing opportunities for personal and professional development, and even sharing the burdens created by occasional downturns in business." When faced with substantial excess capacity during a 1970 economic downturn, HP worked only nine days out of every two weeks with everybody including management and corporate staff taking a 10% cut in pay. Six months later orders were back up and everybody returned to full schedules.

Packard noted, "Some said they enjoyed the long weekends even though they had to tighten their belts a little. The net result [was that] all shared the burden of the recession, good people were not released into a very tough job market, and we had our

highly qualified workplace in place when business improved." Had HP laid off 10% of the employees, alignment with company objectives would have been very different.<sup>lxii</sup>

7. **Showing appreciation** This shared value seemed trite until we observed how it helped to harmonize business/individual needs in the representative companies. Thinking back, we realized how easy it is for managers to forget to say "thanks" during the hectic activity of daily business. In fact showing appreciation doesn't even occur to many managers who expect good work.

Sam Walton noted that "Keeping so many people motivated to do their best job possible involves a lot of different programs and approaches we've developed at Wal-Mart over the years, but none of them would work at all without one simple thing that puts it all together: appreciation. All of us like praise. So what we try to practice in our company is to look for things to praise. Look for things going right. We want to let our folks know when they are doing something outstanding, and let them know they are important to us.

"You can't praise something that's not done well. You can't be insincere. You have to follow up on things that aren't done well. There is no substitute for being honest with someone and letting them know they didn't do a good job. All of us profit from being corrected—if we're corrected in a positive way. But there's no better way to keep someone doing things the right way than by letting him or her know how much you appreciate their performance. If you do that one simple thing, human nature will take it from there."<sup>lxiii</sup>

Ken Iverson observed, "I've found that, as employees, many people want first and foremost to be appreciated for who they are. They want to be acknowledged as unique individuals—each with immense and unrealized potential. All too often though, their managers cast them as drones. Small wonder so many employees [in other companies] are emotionally detached from their jobs. They move through the workday like zombies—numb, blank-faced, waiting for quitting time, so they can resume living."<sup>lxiv</sup>

PQ leadership expressed special appreciation for extraordinary actions several times a year. One event recognized an individual who responded from home to a frantic Saturday night call from a customer facing a plant shutdown unless he received a truck load of product within hours. Showing appreciation increased the probability of more efforts like that helping to delight PQ customers.<sup>lxv</sup>

Southwest Airlines presents "Winning Spirit Awards" every other month to individuals nominated by colleagues or customers for exemplifying Southwest values and philosophy. Founder's Awards and President's Awards are presented periodically to those who go above and beyond the call of duty on a regular basis. The authors of "*Nuts*" suggested that the following commonsense unwritten guidelines keep the Southwest celebrations fresh and meaningful—ensure the recognition is authentic; raises people's dignity and self-esteem; is done right; appeals to all senses; is seen as an investment; and is cost effective.<sup>lxvi</sup>

W. Edwards Deming emphasized how an act of appreciation often means more than money. His payment to Dr. Dv contained a note of appreciation for the knowledge and care Dv showed in prescribing a vaccine for Deming's infected leg. Several weeks later when they met, Dr. Dv was still carrying Deming's note in his pocket while an extra \$5 would have insulted him.<sup>lxvii</sup>



- 8. Everybody having the opportunity to achieve their unique potential** We were fortunate to have this opportunity during our careers as do many senior executives. Unfortunately though we saw numerous employees especially among the blue collar and non-professional ranks who lacked the same opportunity. Far too many could have contributed much more had they been encouraged to grow and develop through their work.

Human learning and the advancement of knowledge create virtually unlimited opportunities for growth—if the culture encourages individuals to fully develop and utilize their potential. More subtly, this shared value helps to focus associate energy and creativity on business objectives because as Maslow explained humans are never satisfied. Once lower tier needs are satisfied individuals automatically focus on self-actualization through either work or extra-curricular activities. The opportunity to achieve one's potential therefore naturally draws attention and energy toward their job. Said another way, the needs of individuals and the business can be in full harmony only when everybody is striving to self-actualize through their work. Some may forego the opportunity, but the business benefits from those who choose to grow will be extraordinary.

Self-actualizing through work also supports the organization's need for learning. Peter Senge observed that humans are natural learners; nobody has to teach babies who are naturally inquisitive about how to walk, to talk, or to ask about everything around them. Providing opportunities to grow and develop through work nurtures this natural desire and channels learning toward business objectives.<sup>lxviii</sup>

Sam Walton spoke proudly of high school graduates whose experiences with Wal-Mart fired them up "to work their way through college and move on up in the company" and hoped there would be many more.<sup>lxix</sup> David Packard was pleased that more than a dozen HP employees had left to start their own companies which employed more than 40,000 employees. "Are we upset that they left us? On the contrary, Bill and I understand and respect their entrepreneurial spirit, and we are pleased and proud that they once worked with us and have done so well. We're also flattered that in building their companies, they have also adopted many of the principles and practices embodied in The HP Way."<sup>lxx</sup>

Before closing this chapter we want to emphasize that although harmonizing individual and business needs provides obvious humanitarian benefits, freedom-based leaders focus on this principle because of the impact on business results. Harmonizing needs prevents many conflicts that have consumed organizational energy and dollars in traditional control-oriented enterprises such as strikes, layoffs, work slowdowns, poor morale, and lack of commitment. Equally important, this principle opens the way for countless opportunities that will emerge spontaneously from the imagination and creativity of associates who are committed to business objectives. For example a PQ associate questioned one day whether a small plant could be designed for safe operation by a single individual—an "outside the box" idea in a process industry traditionally enamored with economies of scale. A team took the idea and with the help of CAD-CAM tools designed a silicates manufacturing plant that could be operated safely by one person per shift. Over the next 20 years that breakthrough helped PQ grow from 30 to 62 plants, many of which are one person operations located across the fence from customers around the

globe. The resulting relationships and communications generated a totally unexpected ability to understand changing customer needs—a key factor in one competitor's lament, "Staley, your advantage in understanding customers leaves the rest of us with no option to compete other than cutting prices." This particular breakthrough had an ironic backdrop since PQ had earlier rejected an efficiency expert's recommendation to shut down the company's ten manufacturing operations scattered across North America and construct one large manufacturing facility centrally located in the Midwest to capitalize on hardware economies of scale.

## Chapter 2 Summary

### The Second Principle: *Strive to harmonize individual and business needs*

• **Maslow's hierarchy of individual needs includes:**

- \* *The physiological needs for sustenance satisfied by food, water, etc.*
- \* *Safety needs such as security, stability, and freedom from fear.*
- \* *Belongingness needs for relationships with family, friends, and colleagues.*
- \* *Esteem needs for self-respect, self-esteem, and the respect of others.*
- \* *The need to self-actualize, to fulfill one's unique potential.*
- \* *Idealization is a sixth tier added by George Bernard Shaw.*

• **Freedom-based leaders utilize these shared beliefs and shared values to harmonize individual and business needs:**

\* **"Shared Beliefs"**

- *A company is people who gather to pursue a worthy cause that cannot be accomplished alone.*
- *Respect for human dignity.*
- *Avoid layoffs unless survival of the enterprise is at risk.*
- *Information should flow freely and openly.*
- *Individuals need a safety valve to express concerns.*

\* **"Shared Values"**

- <i>Honest and ethical behavior</i>	- <i>Humility, especially among leadership</i>
- <i>Trust</i>	- <i>Fairness and sharing</i>
- <i>Taking risks and learning from mistakes</i>	- <i>Showing appreciation</i>
- <i>Teamwork and community</i>	- <i>Everybody having the opportunity to achieve their unique potential</i>

### Chapter 3 The Third Principle: *Articulate compelling vision for success*

To contribute effectively associates must understand what their leadership is trying to accomplish, a responsibility freedom-based leaders fulfill by articulating a compelling vision for success, including the enterprise's mission, aspirations, and shared values and beliefs. The mission provides the business direction leadership has chosen to pursue—for example the marketplace niche on which the enterprise will focus. Aspirations express what leadership hopes to achieve in pursuit of that mission. Shared values and beliefs guide thinking and behavior as everybody pursues the mission and aspirations.

A vision for success provides what Deming called “constancy of purpose,” a critical element missing from many hierarchically controlled companies. Management's frequent changes in operating signals—increase sales this quarter, reduce maintenance expenses next quarter, cut inventory, etc., therefore create confusion as to what they are trying to accomplish and lead to employee cynicism and playing games with management controls. In contrast a vision for success provides the guidance associates need to self-control and self-coordinate their activities, and focuses their attention outward on customers and the marketplace instead of upward toward management. A vision that is “compelling” intrinsically motivates idealization through work and satisfies the need Shaw identified. When everybody understands the mission and aspirations, individuals can freely work together to discern the ever-changing requirements of customers and how to profitably satisfy those. There will be disagreements, but the resulting arguments and debates will contribute to enterprise progress.

Most issues addressed during development of mission and aspirations statements fall within the field of strategic planning in which the management literature offers sound advice. For example, Michael Porter's “*Competitive Strategy*“ describes five forces underlying competition and offers a generic set of strategies leaders can consider—lowest cost, differentiation, and focus. In “*Competitive Advantage*” Porter introduces the value chain concept which can help to define a company's sources of competitive advantage. A Harvard Business Review article by Gary Hamel and C. K. Prahalad discussing “The Core Competence of the Corporation” helps to identify issues important for long term success of the enterprise. More recently Jim Collins recommended confronting “the brutal facts” and “The Hedgehog Concept” as helpful strategic planning techniques in the best seller, “*Good to Great.*” Strategic planning consultants are also available to assist management, so rather than trying to summarize available expert advice this chapter provides examples of mission and aspiration statements from the representative companies.

**PQ** Paul's leadership team defined the company's mission as providing "**products and services that satisfy customer needs in PQ's chosen markets which focus on silica derived products.**" PQ differentiated itself from competition "**by offering products of highest quality and by providing excellent customer service and technical support that satisfy customer needs and contribute to the success of their businesses.**" The company had six aspirations:

- “**To be the world leader in silica derived products.**”
- “**To create value for customers, employees, and owners and earn the regard of its suppliers and of the communities in which we operate.**”
- “**To be one of the top three suppliers in every business in which we engage.**”

- “To remain a private company led by professional management and an independent, professional board.
- “To have an average annual increase in stockholder value ten percentage points above inflation to sustain growth and keep the corporation private.
- “To be recognized by all who associate with PQ as a worldwide contributor of value to society.”

**Exxon Central Services Company** The mission defined by Bill’s leadership team—“**To contribute to Exxon's success by assuring that affiliated organizations and colleagues have the services they need to meet their business objectives,**” produced a major change in focus for employees transferring into the newly formed company who thought they were responsible for controlling rather than serving customers. ECS aspired “**To earn a reputation for quality service, cost effectiveness, competence, timeliness, and dependability**” and focused on four factors for success: “**In order to achieve our goal, we must be committed to customer service, continual improvement, teamwork and partnerships, and success through people.**”

**HP**<sup>9</sup> David Packard reflected on the company’s mission: “We wanted to direct our efforts toward making important technical contributions to the advancement of science, industry, and human welfare. It was a lofty, ambitious goal. . . . To this day HP continually strives to develop products that represent true advancement.”<sup>lxxi</sup>

For years HP’s annual report contained a “Corporate Profile” which resembled a mission and aspirations statement. The 1996 version stated “*The Hewlett Packard Company designs, manufactures and services products and systems for measurement, computation and communications. Our basic business purpose is to create information products that accelerate the advancement of knowledge and improve the effectiveness of people and organizations.*” The 1999 report reflected spin-off of the measurement business into Agilent. “*Hewlett Packard Company is a leading global provider of computing and imaging solutions and services for business and home, and is focused on capitalizing on the opportunities of the Internet and the proliferation of electronic services.*”

HP had seven long standing corporate aspirations:

1. “*Profit- To achieve sufficient profit to finance our company growth and to provide the resources we need to achieve our other corporate objectives.*”
2. “*Customers- To provide products and services of the highest quality and the greatest possible value to our customers, thereby gaining and holding their respect and loyalty.*”
3. “*Fields of interest- To participate in those fields of interest that build upon our technologies, competencies and customer interests, that offer opportunities for continuing growth, and that enable us to make a needed and profitable contribution.*”
4. “*Growth- To let our growth be limited only by our profits and our ability to develop and produce innovative products that satisfy real customer needs.*”
5. “*Our people- To help HP people share in the company's success which they make possible; to provide them employment security based upon performance; to create with them an injury-free, pleasant and inclusive work environment that values diversity and recognizes individual contributions; and to help them gain a sense of satisfaction and accomplishment from their work.*”

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<sup>9</sup> All HP statements precede the arrival of Ms. Fiorina as CEO who seemed to centralize control and move HP away from freedom.

6. *"Management- To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives.*
7. *"Citizenship- To honor our obligations to society by being an economic, intellectual and social asset to each nation and each community in which we operate."<sup>lxxii</sup>*

**Herman Miller** Max De Pree saw Herman Miller as ". . . a research-driven product company. . . . (W)e intend through honest examination of our environment and our work and our problems to meet the unmet needs of our users with problem-solving design and development. We intend to make a contribution to society . . . through the products and services we offer, and through the manner in which we offer them. In an era of high technology, we wish to be a 'high-touch' company that makes the environmental connection between persons and technology in the markets we choose to serve."<sup>lxxiii</sup>

These views were reflected in the company's statement of *"What we believe in."*

- *"Making a meaningful contribution to our customers*
- *"Cultivating community, participation, and people development*
- *"Creating economic value for shareholders and employee-owners*
- *"Responding to change through design and innovation*
- *"Living with integrity and respecting the environment*
- *"A different kind of company"<sup>lxxiv</sup>*

**Wal-Mart** We found no explicit mission statement, but Sam Walton's sophisticated theory of discount retailing provided clear guidance for associates while he was CEO.

- *"(T)he secret of successful retailing is to give your customers what they want. And really, if you think about it from your point of view as a customer, you want everything: a wide assortment of good quality merchandise; the lowest prices; guaranteed satisfaction with what you buy; friendly, knowledgeable service; convenient hours; free parking; a pleasant shopping experience."*
- *"(The essence of discounting is) by cutting your price, you can boost your sales to the point where you earn far more at the cheaper retail price than you would by selling the item at the higher price. In retailer language, you can lower your markup but earn more because of the increased volume."*
- *"In retail, you are either operations driven—where your main thrust is toward reducing expenses and improving efficiency—or you are merchandise driven. The ones who are truly merchandise driven can always work on improving operations. But the ones that are operations driven tend to level off and begin to deteriorate."*
- *To be merchandise driven, every associate must become a merchant. "(I)f we, as managers, truly dedicate ourselves to instilling that thrill of merchandising—the thrill of buying and selling something at a profit—into every single one of our associate-partners, nothing can ever stop us."*
- *"If you want the people in the stores to take care of the customers, you have to make sure you're taking care of the people in the stores. That's the most important single ingredient of Wal-Mart's success."<sup>lxxv</sup>*

Walton also indicated that Wal-Mart's success is grounded in three fundamental principals:

- *"Respect for the Individual*
- *"Service for our Customers*

- *"Striving for Excellence."*<sup>lxvii</sup>

Amazingly, writers analyzing Wal-Mart's remarkable success have concentrated on the company's sophisticated operational capabilities such as the Wal-Mart purchasing system or its satellite-based information system or its distribution system—and totally ignored Walton's insight that merchandise driven companies can always improve operations, but those which are operations driven tend to level off and deteriorate.

**Nucor** Iverson's conviction about steel products being commodities influenced the mission statement: *"Nucor builds steel manufacturing and steel products facilities economically and operates them productively."* Two competitive advantages supported that mission: (1) *the Nucor management philosophy for dealing with employees, and (2) the company's ability to capitalize upon technological innovation.*<sup>lxviii</sup> The company aspires to earn a 25% return on its assets.<sup>lxviii</sup>

**Southwest Airlines** This company *"is dedicated to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit."* The mission statement also includes a commitment to provide employees *"... a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, Employees will be provided the same concern, respect, and caring attitude within the Organization that they are expected to share externally with every Southwest Customer."*<sup>lxix</sup>

The authors of "Nuts" suggested the company pursues the following aspirations:

• *Employees are number one. The way you treat your employees is the way they will treat your customers.*

• *Think small to grow big.*

• *Manage in the good times for the bad times.*

• *Irreverence is okay.*

• *It's okay to be yourself.*

• *Have fun at work.*

• *Take the competition seriously, but not yourself.*

• *It's difficult to change someone's attitude, so hire attitude and train skills.*

• *Think of the company as a service organization that happens to be in the airline business.*

• *Do whatever it takes.*

• *Always practice the Golden Rule, internally and externally."*

From time to time Kelleher has shared other aspirations such as this example from his "Message to the Field;" *"When you're sitting around with your grandchildren, I want you to be able to tell them that being connected to Southwest Airlines was one of the finest things that ever happened to you in your entire life. I want you to be able to say, 'Southwest Airlines ennobled and enriched my life; it made me better, and bigger, and stronger than I ever could have been alone.'*<sup>lxxx</sup>

Statements like these provide employees a clear vision of what leadership is trying to accomplish and what their company can become, and history shows that associates in each enterprise achieved remarkable progress toward their vision for success.

### Chapter 3 Summary

#### **The Third Principle: *Articulate compelling vision for enterprise success***

- **An enterprise vision for success includes:**
  - \* **a mission statement providing business direction;**
  - \* **aspirations describing what the enterprise hopes to achieve; and**
  - \* **shared values and beliefs to guide individual thinking and behavior.**
  
- **A compelling vision for success provides the constancy of purpose individuals require to operate with freedom and intrinsically motivates idealization through work.**

## Chapter 4 The Fourth Principle: *Emphasize freedom, self-responsibility, accountability, and authority*

### Why freedom?

We chose freedom as the focus for replacing hierarchical control for three reasons. First it is a concept with which everybody can identify; experts may debate the definition but freedom has a positive image for peoples around the globe. Second freedom provides a stark contrast to hierarchical control that reinforces the fundamental mindset shift required to capitalize on the powerful business benefits described in Section Two. Third and most importantly experts in politics, philosophy, and economics have recognized for centuries that freedom powerfully influences human development and behavior. The influences described in this chapter begin to explain why ***Freedom-Based Management*** is fundamentally superior to hierarchical control and Section Two completes that explanation.

Thomas Jefferson observed that freedom unleashes "the capacity of man to improve himself" and evidence from the half-millennium permeation through society, first in Europe and later in this country, convincingly confirms his point.<sup>lxxxix</sup> In the United States freedom has produced a more perfect union for 300+ million diverse individuals representing virtually every ethnic, racial, and religious group. 67 Million are racially or ethnically different from the original American Indians and white European settlers, yet live together in peace and harmony. Individuals routinely take advantage of freedom's opportunities to grow beyond their parents' levels of achievement, evidence of which can be seen in eight of the last eleven U.S. Presidents being born into poor or middle class families. Black citizens, whose parents were subjected to racial segregation and some of whose grandparents were slaves, now hold positions like Supreme Court Justice, university president, and Fortune 500 CEO—and the country recently elected our first African-American President.

The freedoms to develop oneself through education and to choose one's work, in combination with marketplace freedoms for manufacturers, suppliers, and consumers have produced the world's largest middle class and upward economic mobility seen nowhere else on earth. Only one in ten in this country's lowest income tier at any given time remains there throughout their life. Even the poorest Americans live in conditions superior to much of the world's population.

Religious freedom entails the freedom to ignore worship, yet American church attendance remains high—55% attending at least once a month versus 25% and 10% respectively in the UK and France for example.<sup>lxxxix</sup> Experiences with freedom on the frontier taught early Americans that "helping others helps yourself" and produced a wealth of volunteer organizations for that purpose. Tocqueville noted how the "immense assemblage of associations. . . (formed by) Americans of all ages, all conditions, and all dispositions. . ." differed from Europe where organizations were founded by either the government or the privileged.<sup>lxxxiii</sup> Today Americans continue to reflect this benevolence through generous donations of their dollars and time to a multitude of organizations providing help for others.

Freedom-based governmental and educational institutions have shown the capability and inclination to change in positive directions. This country eliminated slavery and the racial segregation that followed it in the South. In 1962, nearly 30,000 Federal troops were sent to handle the race riots associated with James Meredith's arrival as the University of Mississippi's first black student. Yet only 40 years later Meredith's son Joseph won the Outstanding Doctoral Student Achievement Award in that university's business school.<sup>lxxxiv</sup> The right to vote, originally



limited to white male property owners, now includes all non-felon citizens 18 and older. Women, whose role 50 years ago was narrowly limited, compete today on equal terms in business and academia. The presidents of Princeton, Harvard, and Brown—all-male institutions 40 years ago, are all female.

British historian D. W. Brogan observed that building a continental nation without sacrificing liberty or efficiency shaped American “economic and political optimism.”<sup>lxxxv</sup> We could go on, but the point should be clear. The positive influences of freedom and freedom-oriented institutions have energized optimism and drawn out the best in people, providing virtually unlimited opportunities for individual growth while stimulating relationships that encourage diverse peoples to live and work together productively and peacefully. Logic suggests and the experiences of freedom-oriented, representative enterprises confirm that freedom can be equally powerful inside business organizations.

### **What does freedom mean inside organizations?**

The management literature offered a confusing array of ideas of little value in answering this question. Although writers have advocated “increased freedom,” “reduced control,” and “empowerment” for decades, they have consistently assumed that management must control employees. We could find no discussion of specific freedom characteristics inside organizations, so relied on writings in politics, philosophy, and economics recommended by business friends to address this question.<sup>lxxxvi</sup> The answers we found add to the list of “shared beliefs” that leaders should consider while building freedom-based organizational cultures and management systems.

- ***Shared Belief: Freedom is the ability to self-control one’s decisions and actions without external control, coercion, or constraint.*** This definition is widely, but not unanimously accepted within philosophical circles. One contrarian suggested that freedom includes the right to act without internal constraint, a notion we rejected as suited only for infants incapable of responsible self-control and not the mature individuals who make up today’s workforce.

- ***Shared Belief: Freedom is the natural state for humans.*** This point has long been accepted within political and philosophical fields as exemplified by popular rejection of slavery as an acceptable practice and by the acceptance of democracy as the preferred system of government. Since collapse of the Soviet Union, consensus has also coalesced around the freedom of choice offered by markets being preferable to communism’s central control of economies. Viewed from this perspective, traditional management by hierarchical control has been un-natural and created on-going conflict between employee and business interests—a previously unrecognized and inherent negative impact that freedom eliminates.

- ***Shared Belief: Freedom and democracy are different concepts.*** “Democracy” is a political concept which some management writers have confused with freedom—possibly because of the organizational politics rampant within hierarchically controlled enterprises. Internal politics serve no useful purpose within freedom-based organizations, so associates and managers are self-motivated to nip such behavior in the bud. Also, freedom involves no right to vote or to influence all decisions. Associates work with their manager and colleagues to define specific responsibilities, authorities, and property rights which are influenced primarily by their ability to add value to the business.

- ***Shared Belief: External control can restrict only physical latitude and not the freedom to think and dream.*** Psychologist Viktor Frankl, a Nazi concentration camp survivor, observed in *Man's Search for Meaning* that while his captors enjoyed greater liberty, he possessed greater freedom because he could develop his own awareness, think, and envision the future. The Nazi’s

restricted Frankl's mobility, but could not take away his freedom to dream even by torturing him and destroying his family in the gas chambers. Former Nucor CEO Dave Aycock made a similar point about management, "You can't manage people. . . . If you could get into your employees' minds, you could manage 'em, but you can't get into their minds. People are free in their minds, and you can't manage a free mind."<sup>lxxxvii</sup> McGregor pointed out that humans possess an internal control mechanism which can negate management attempts to externally control them.

This is one of the most profound insights our research uncovered saying in essence there is only one option for focusing employee thinking and imagination on work issues. Management control cannot influence what employees think about! Managers can only attract employees to enterprise issues by earning their commitment to company objectives, aligning their interests with those of the business, and creating a stimulating and satisfying working environment as recommended in this book.

• **Shared Belief: Freedom does not eliminate organizational control.** Freedom-based managers capitalize on individual self-control and self-coordination of work activities by shifting primary responsibility for organizational control to employees. Section Two describes how this shift in responsibility actually strengthens and improves control within organizations rather than eliminating it.

• **Shared Belief: Freedom does not eliminate managers.** Managers continue to play a critical but very different role in freedom-based organizations for which Max De Pree's "servant leader" provides an excellent role model. Freedom-based managers are responsible for leading, coaching, and helping employees rather than controlling them. Organizations shifting to freedom will need to reassess the number of manager positions required to fulfill these new responsibilities.

**Seven dimensions of freedom add special business value inside organizations.** Our experiences and those of the five other freedom-oriented, representative companies suggest the following value-added dimensions:

- **Freedom to develop** The potential for growth and development differentiates people from all other enterprise resources, but development cannot be done to a person nor is it simply a better way to use existing capabilities. Growth comes from within, so individuals must have the freedom and encouragement to self-manage their personal development. Managers and supervisors are responsible for coaching and helping them.
- **The freedom to make mistakes and to fail** adds tremendous business value in three ways. First, mistakes and failure are integral to human development which by necessity involves experimentation and learning from mistakes. Tiger Woods did not develop overnight into the world's greatest golfer, but instead worked with his coach to try new techniques, to practice and perfect those that worked, and to learn from those that did not. Employees striving to achieve their potential must not fear experimentation that does not go well, but instead learn from the experience.

Second, freedom to make mistakes reinforces trust between employees and management by reflecting the reality that nobody is perfect. As Iverson told a Rotary Club, "The best manager in the world, a guy with a Harvard MBA, might make bad decisions around forty percent of the time, and a rotten manager might make bad decisions sixty percent of the time. You have to have a strange and monstrous ego to think you never make bad decisions. We tell our employees that we do make bad decisions."<sup>lxxxviii</sup>

Finally, mistakes and failure play a critical but largely unappreciated role in human

creativity. Thomas Edison went through more than a thousand filaments before he "saw the light"<sup>lxxxix</sup> and Henry Ford's first two car ventures failed.<sup>xc</sup> Sam Walton's son noted, "We all snickered at some writers who viewed Dad as a grand strategist who intuitively developed complex plans and implemented them with precision. Dad thrived on change, and no decision was ever sacred." One Wal-Mart executive described the company's strategy as, "Do it. Fix it. Try it."<sup>xc1</sup>

Some colleagues worried that employee mistakes could jeopardize the enterprise. Bill Gore, founder of Gore-tex manufacturer W.L. Gore and Associates, addressed this concern by helping employees understand the organizational water-line below which risks could jeopardize the company. More fundamentally though, employees who value company success and survival as much as management are equally sensitive to such risks and inclined to seek help and advice when considering them.

- **Freedom to question and to investigate** Dave Packard emphasized this value in a story about HP management advising engineer Chuck House to abandon development of a new monitor. Instead House used his vacation travels to show potential customers a prototype and their positive reactions encouraged his manager to rush the monitor into production. Years later after HP sold 17,000 units for \$35 million, Packard presented House a medal for "Extraordinary contempt and defiance beyond the normal call of engineering duty."<sup>xcii</sup>
- **Free access to information** Traditionally managed companies share information on a "need to know" basis, while those emphasizing freedom make available to employees all business information except that which is private. The value of employees having access to the information needed to maximize their contributions far exceeds any risks of outsiders gaining access to some.
- **Freedom to decide and to act** Companies which benchmarked PQ were amazed to find that employees formed teams to address issues without management involvement. They were free to act consistent with their authorities and property rights.
- **Freedom from boundaries** Hierarchical control by its very nature creates organizational boundaries that restrict communications and hinder the fulfilling of responsibilities. Freedom-based organizations have fewer boundaries since structure is used only to define property rights, responsibilities, and accountabilities. Employees are encouraged to operate freely across boundaries so long as they respect the property rights of associates.
- **Freedom from arbitrary limitations such as work hours, location, dress, etc.** Freedom-based organizations strive to limit restrictions to those absolutely necessary to achieve business objectives and re-examine those periodically to ensure they continue to add value.

### **Why self-responsibility?**

David Hume and other 18th Century thinkers observed that maximum freedom for all citizens requires equal restraints on each and that absolute freedom for individuals would deteriorate into chaos. Lord John Acton reinforced this noting "Liberty is not the power of doing what we like, but the right of being able to do what we ought." John D. Rockefeller commented "that every right implies a responsibility; every opportunity an obligation."<sup>xciii</sup> Frankl pointed out that freedom is only half the story and can degenerate into mere arbitrariness unless integrated with responsibility. In fact he recommended building a "Statue of Responsibility" on the West Coast to complement the Statue of Liberty in New York harbor and continually remind U.S. citizens of this critical interdependence.

The specific responsibilities which produce maximum freedom for citizens in this country evolved from European religious and political roots such as the Magna Carta. Some responsibilities have been formalized in the Constitution and laws that criminalize stealing, damaging another's property, harming another except in self-defense, etc. Others exist as customs and codes of conduct which are equally important in helping society to function in orderly fashion. For example, since individuals are expected to tell the truth, we take for granted that a stranger will respond honestly when asked for directions. Nudity is unacceptable in public places and in recent years it has become unacceptable to smoke in the presence of others without asking permission. Economists refer to this collection of laws, customs, and codes of conduct as society's "rules of just conduct." Citizens are responsible for self-controlling their behavior consistent with these rules as a complement to their personal freedom.

Americans take for granted the many "rules of just conduct" that affect our behavior and orderliness. However, one need only examine less developed countries or post-Soviet Russia to see the problems societies experience without such rules or without citizens accepting responsibility to self-control their behavior consistent with those rules. Since individuals voluntarily accept responsibility for abiding by these restraints as part of U.S. citizenship, these "rules of just conduct" do not restrict freedom, but rather maximize freedom for all as Hume argued. Anyone who feels that a law or custom has become outdated is free to try to change it as happened with smoking habits.

We relied on personal experiences and those of the representative companies to identify six responsibilities for which employees are accountable within freedom-based organizations.

- \* **Focus on the enterprise mission and aspirations.** This differentiates employees operating within freedom-based enterprises from entrepreneurs who are free to pursue whatever interests them. Like several responsibilities, fulfillment requires that management clearly articulate the mission and aspirations and ensure those are understood by everybody.
- \* **Behave consistently with shared values and beliefs.** The leadership team is responsible for ensuring that these values and beliefs support the mission and aspirations, are consistent with a freedom-based culture, and are understood by everyone.
- \* **Establish and achieve personal objectives that maximize one's contributions to organizational success.** Management by objectives (MBO) has proved to be an effective planning and coordination tool for individuals, teams, and organizational units in freedom-based organizations, and is recommended for the introduction strategy in Section Three.<sup>10</sup>
- \* **Decide and act with competence and appropriate knowledge.** Accountability for this responsibility encourages informed actions and decisions. Anyone lacking competence or knowledge is expected to seek help before deciding or acting. "I didn't know" is never an acceptable excuse.
- \* **Respect the rights and property of others.** Anybody contemplating an action which could affect a colleague's rights or property is responsible for communicating with that individual beforehand—much like a home owner is expected to inform a neighbor before cutting down a tree that could fall into his yard. Management is responsible for ensuring that associates understand the distribution of property rights within the enterprise.
- \* **Manage one's personal development.** Freedom-based organizations encourage everybody to take full advantage of their unique potential. Since growth comes from

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<sup>10</sup> MBO, which has a miserable track record in hierarchically controlled organizations, was invented by Drucker to support "freedom for managers." The tool loses value when it becomes another means for management control.

within and cannot be done to a person, managers can assist by making available opportunities, coaching, and helping, but the ultimate responsibility for development lies with the individual.

These responsibilities are accepted as part of the decision to work with a freedom-based company and address one of the concerns that have perpetuated hierarchical control. Instead of freedom producing chaos and disorder, the combination of freedom and self-responsibility maximizes freedom for all within the organization.

### **Why accountability?**

Responsibility without accountability is meaningless. Employees are accountable to the organization and to colleagues for fulfilling their self-responsibilities. The accountability to colleagues recognizes the many interdependencies within organizations, encourages self-coordination of activities, and supports teamwork.

### **Why authority?**

Hierarchical control relies on coercive power external to an individual. In contrast sociologist Robert Nisbitt observed that authority capitalizes on self-responsibility and encourages self-control—both of which are intrinsically motivating.<sup>xciv</sup> Within freedom-based organizations associates work with their manager to determine the authorities and property rights needed to fulfill their responsibilities without having to seek management approval. This includes appropriate spending authority which PQ set at \$25,000 annually for employees. If opportunities arise that require larger amounts, associates are free to request temporary additional authorities much as individuals borrow from banks from time to time. Authorities may also increase as individuals grow and take on new responsibilities.

### **Shared Belief: Management can control company property and business processes without controlling employees.**

Since external control by management is fundamentally inconsistent with employee interests, full alignment between individual and business interests requires a means other than hierarchical control for managers to control:

- company property— financial resources; physical assets such as buildings, plants, and equipment; and intellectual property; and
- business processes as required by Quality initiatives.

The experiences of PQ and Nucor indicate that this can be accomplished by distributing “property rights.”

Property rights and the concept of private property have played important roles in the evolution of human society. The ancient Greeks believed that individually owned property was inseparable from individual freedom. Hayek noted that "no advanced civilisation has yet developed without a government which saw its chief aim in the protection of private property." David Hume suggested that adoption of private property marked the beginning of civilization because the rules regulating property have been so central to development of morals.<sup>xcv</sup>

Within society, individuals who hold rights to property are free:

- **to choose how that property is used;**
- **to transfer ownership of the property; and**
- **to benefit from increases in the value of that property or suffer from any loss.**

The powerful impact of property rights on human behavior can be seen by contrasting the actions of home owners and renters. Owners, who will benefit or suffer from changes in the future value of their property, are self-motivated to maintain their house and surroundings. They view improvement expenditures as investments which will pay off when the property is sold. In contrast, renters view maintenance expenditures as costs to be minimized since any long term benefits flow to the owner of the property. In many situations, landlords must require damage deposits to force tenants to respect apartments which they do not own.

The influence of property rights was also reflected in the contrasting behaviors of American farmers and those of the former Soviet Union. In this country farmers are self-motivated to fertilize and rotate crops by knowledge that the future price of their land depends upon its productive condition. Under the communist system farmers did not own land and therefore had no reason to worry about future productivity or to expend effort rotating crops. They were basically employees of the state rewarded for meeting monthly quotas.

**Control of company property** Rights to company property can be distributed to individuals and organizational units in a manner mirroring property rights within society with only one minor difference— these rights are only shared since actual ownership resides by law with enterprise owners. Employees holding property rights are free to decide how their company property is used; to transfer that right to an associate or third party; and to benefit indirectly from increases in the value of the property through profit sharing and stock ownership —basically the same rights property owners enjoy in society.

PQ distributed property rights in the 1980's as part of a Continuous Quality Improvement (CQI) initiative and was pleased with the results. After receiving quality training, each hourly associate was given rights to \$25,000 per year of capital funds to spend as they felt appropriate. Ex-CEO Stan Silverman noted their initial shock: "You mean you actually want us, and not management or the engineering department, to decide where to spend CQI money?" Employees spent their funds "as if they were building a garage on their house. Every dollar is wisely spent!"

Nucor has successfully shared with employees the rights to that company's physical facilities and finances. General managers share rights to the plant for which each is responsible and to \$1million per year in capital resources. They are free to decide how those resources are used to accomplish their objective of earning a 25% return on the assets. Further they share these property rights with employees as Joe Rutkowski, General Manager of Nucor Steel in Darlington, South Carolina, described. "Headquarters doesn't restrict what I spend. I just have to make my contribution to profits at the end of the year. . . . My department heads (and) the people in the control rooms. . . all spend thousands of dollars without anybody's approval. All of us can make that kind of decision, because all of us stand behind our decisions. We're accountable for getting the job done."<sup>xvii</sup>

Nucor also shares rights with project managers responsible for constructing new plants and who expect to operate the facility once it is completed. The cost estimate used to decide whether or not to build a new plant plays no role in the project manager's accountability post project approval. Since that individual will be accountable for earning a 25% return on the assets, management trusts his judgment where for example he might decide to spend extra dollars to accelerate completion and capture an early sales opportunity.

Iverson reinforced how responsibility accompanies freedom and shared rights. "You have to accept that your operations will stand or fall on their own merits. There's no cavalry waiting to ride in to the rescue, and no mega-corporation in which to hide. There's just you and those people working with you. Together, you'll find a way to succeed. Or you'll fail."<sup>xvii</sup>

The property rights system should publicize the holders of rights to all company properties and handle transfers of those rights. It is also important to assign rights to all physical and intellectual company properties to avoid the problem economists call "tragedy of the commons." In society, property that is owned by nobody or by everybody tends to be misused and abused. For example, rivers and streams in this country became polluted before the government stepped in to act as owner. In contrast Scottish streams which are privately owned stayed much cleaner because others were legally required to respect those property rights.

Publicizing the holders of rights enables employees to respect the property of their associates. Any individual contemplating an action which could affect another's property is encouraged to communicate with that associate before acting—an example of employee self-coordination of activities.

**Control of business processes** Many enterprises have found value controlling key business processes as part of "Quality" initiatives—for example product assembly lines or processing of invoices. Since Quality has a spotty track record, our intent is to provide a technique that satisfies process control needs without controlling employees—and not to advocate the concept. This can be accomplished by treating each business processes as an element of company intellectual property— i.e. the organization's accumulated knowledge as to the most effective means for achieving the process business objectives. Rights to this intellectual property can be distributed to employees and/or organizational units who are then responsible for controlling the process.

Distributing rights to employees who work in a process is a good example of shifting responsibility for control from management to employees, and enabling them to take full advantage of their knowledge and information to improve the process. It is also possible to assign rights to steps within a business process that involves several organizational units—for example a process involving several units to resolve customer complaints. The individuals responsible for each step can negotiate standards to satisfy before passing their work along to the next unit. This shifts responsibility for process interface activities from management to employees and encourages them to resolve problems without management involvement.

## Chapter 4 Summary

### Fourth Principle: *Emphasize freedom, self-responsibility, accountability, and authority*

<u>Traditional Assumptions underlying Hierarchical Control</u>	<u>Research Findings</u>
* Freedom for employees would produce disorder and chaos.	* Responsible, self-controlled employee behavior maximizes freedom for all.
* Control of property and business processes requires control of employees.	* Property and business processes can be controlled by assigning property rights.

#### Shared beliefs about freedom inside organizations

- *Freedom powerfully influences human development and behavior and produces management that is fundamentally superior to hierarchical control.*
- *Freedom first and foremost must be accompanied by employee self-responsibility.*
  - Self-responsible behavior involves:
    - \* Focusing on the company's mission and aspirations;
    - \* Behaving consistently with shared values;
    - \* Establishing and achieving personal objectives that maximize one's contributions;
    - \* Deciding and acting with competence and appropriate knowledge;
    - \* Respecting the rights and property of others; and
    - \* Managing one's own personal development.
  - Employees are accountable to enterprise and colleagues for fulfilling their responsibilities.
  - Employees have authority to fulfill responsibilities without management approval.
- *Freedom is the ability to self-control one's decisions and actions without external control, coercion, or constraint.*
- *Freedom is the natural state for humans; Freedom-Based Management eliminates the ongoing conflict between employee and business interests created by hierarchical control.*
- *External control can restrict only physical latitude and not the freedom to think and dream.*
- *Freedom does not eliminate control, but shifts primary responsibility for organizational control from management to employees.*
- *Freedom does not eliminate managers, but shifts their responsibilities to leading, coaching, and helping rather than controlling employees.*
- *Democracy is a political concept that offers no value in freedom-based organizations.*
- *Seven dimensions of freedom add special business value inside organizations:*
  - \* Freedom to develop
  - \* Freedom to make mistakes and to fail
  - \* Freedom to question and to investigate
  - \* Free access to information
  - \* Freedom to decide and to act
  - \* Freedom from boundaries
  - \* Freedom from arbitrary limitations such as work hours, location, dress, etc.



## Chapter 5 The management paradigm shift from “hierarchical control” to “vision-led freedom”

### ***Shared Belief: Management has no fundamental reason to control employees***

This last belief emerged from asking whether there is any fundamental reason for managers to control employees. Why can't they function with full freedom—100% authority, 100% responsibility, and 100% accountability? This chapter summarizes our findings about assumptions that have caused so many to believe that employees must be controlled. We labeled these “assumptions” because none seemed to be grounded in thoughtful analysis.

- ***Business:*** employee interests conflict with those of the business.
- ***People and work:*** employees will not work hard unless management coerces and controls them.
- ***Freedom:*** freedom for employees would produce chaos and disorder.
- ***Control:*** control of company property and business processes requires control of employees.
- ***The nature of order:*** only managers can maintain order within an organization.

Disproving these produced what experts refer to as a “paradigm shift”—a management paradigm shift from “hierarchical control” to “vision-led freedom.” Before discussing specific elements of the shift, this background on the nature of paradigms and their influence on human behavior explains why this shared belief is foundational to Freedom-based management.

### **What is a paradigm?**

In *The Structure of Scientific Revolution*, Thomas Kuhn defined “paradigm” as a set of beliefs, assumptions, or generalizations that an individual uses to make sense of an issue. For example, our gravity paradigm assumes that when released rocks drop, feathers float slowly downward, and helium balloons rise. However, astronauts had to suspend that paradigm and create a new set of beliefs to operate in the weightlessness of outer space.

**Paradigms play an important role in improving society.** Philosopher Alfred Whitehead observed that contrary to conventional wisdom civilization advances by increasing the number of activities individuals can perform without explicitly thinking before acting. Hayek pointed out how this ability to act without thinking allows us to take advantage of knowledge developed by others without actually understanding it.<sup>xcviii</sup> For instance, we take aspirin to relieve headaches without understanding how the drug interacts with our bodies. Word of mouth and advertisements have created the paradigm that aspirin reduces headache symptoms. Imagine the impact on human efficiency if everybody had to understand the chemistry and biological reactions of aspirin before using it. Fortunately we can take advantage of knowledge that experts developed while researching aspirin without understanding it.

Similarly we take for granted that sticks will float when tossed into ponds and that water pours from a tilted glass without thinking about densities or the laws of physics. Drivers assume their car will move forward when shifted into gear without understanding the mechanics of transmissions or the engineering required to build them.

**Most people are oblivious to the influence of paradigms.** Learning experts Peter Senge and Chris Argyris pointed out how people are usually surprised when they learn about the influences of paradigms, appreciating for the first time how a perception is only an interpretation of observations made through the lenses of our beliefs and assumptions. If an American discusses a trip to London with a neighbor, there is a high probability both will envision similar activities such as contacting an airline or travel agent, ensuring their passport is current, packing a suitcase and credit cards, etc. On the other hand, mentioning that same trip to a citizen of China would trigger a very different perception including months of waiting for government approval, difficulties obtaining foreign currency, limited airline selections, etc. A resident of a remote African village would have another totally different reaction. The "truth" about something as simple as a trip to London can vary widely depending upon one's life experiences.

Differences in beliefs and assumptions are often encountered when another's perception conflicts with our own. More often than not, however, the result is a heated argument about the conflict which ignores the differing paradigms and how they influence our interpretations. The turmoil over abortion in this country is a classic example of different paradigms in action. Friends on one side perceive abortion as murder believing that life begins at conception; for them the only acceptable governmental action is to outlaw abortion. Friends on the other side believe strongly in the Constitutional guarantee of personal freedom and are convinced that any attempt to control abortion would encroach upon that freedom for women. While some share the belief that life begins at conception, they see that as a personal issue. The differing paradigms make it impossible for the groups to discuss compromise which would challenge their deeply held beliefs about life and freedom.

Anyone interested in testing the influence of paradigms should compare notes with a person of the opposite sex about key aspects of a recent athletic event or social function both attended. Rarely will the two lists contain many common items although both individuals spent several hours at the same affair.

**Paradigms are rarely questioned, even by experts.** Drucker noted that assumptions which "... determine what we pay attention to and what we ignore are usually held subconsciously by the scholars, the writers, the teachers, the practitioners in the field. Thus, they are rarely analyzed, rarely studied, rarely challenged—indeed rarely even made explicit."<sup>xcix</sup> McGregor observed that when an individual insists that others be "practical," he usually means "Let's accept *my* theoretical assumptions without argument or test." Our work experiences reinforced both points; rarely did colleagues question another's beliefs and assumptions or articulate their own—actions that most busy managers would view as waste of valuable time.

**Paradigms are revealed through actions, not words.** Argyris observed that while people do not always act consistently with the views they espouse, they do behave consistently with their "theories in use"—i.e. the paradigms they truly believe. McGregor reinforced that point telling of a business leader who advocated delegation so employees could learn to take responsibility and because those closer to the issues had better information. Yet he required a constant flow of detailed information to monitor their actions and second-guess decisions. While the leader saw no inconsistency, McGregor suggested that he actually operated on the implicit assumptions that employees could not be trusted and were incapable of making decisions as good as his.<sup>c</sup>

Psychologists have noted that people observe selectively, a point Einstein reinforced noting that "Our theories determine what we measure."<sup>ci</sup> Drucker described how assumptions influence management's focus—"The assumptions also largely determine what is pushed aside

as an annoying exception. Get the assumptions wrong and everything that follows from them is wrong. . . .<sup>cii</sup>

Author Chin-Ning Chu described how differing paradigms can influence the effectiveness of Chinese and Western business persons working together. She pointed out that most Chinese view business as war and believe that success in war relies heavily on deception. So a Chinese businessman may see the ability to mislead a potential business partner as a skill to be admired whereas a person operating within the traditional Western paradigm is likely to perceive that as unethical.<sup>ciii</sup>

**Validity determines a paradigm's impact on effectiveness.** The negative impact of an obsolete paradigm is reflected in the experience of Tycho Brahe, a virtually unknown 16th Century scientist. Yet the history of science records that Brahe was actually the world's first modern astronomer—not the far more famous Johann Kepler or Galileo Galilei. Brahe was the first to observe the stars systematically and to record precisely their nightly movements across the sky. Unfortunately for his place in history, Brahe misinterpreted his volumes of data by clinging to the prevailing belief that the planets, sun, and stars circled the earth, even though his observations repeatedly suggested flaws in that paradigm. It took thirty years of accumulated frustration with data inconsistencies before Brahe's protégé, Kepler, reexamined the data, confirmed Copernicus' radical paradigm that the planets orbited the sun, and thereby earned historic renown for contributing to the world's knowledge of the universe.<sup>civ</sup>

Chin-Ning Chu noted that Americans tend to assume that the individual at the top of an organizational hierarchy is the leader which in Chinese organizations may not be true. In the Chinese *Ho-Tai* structure (meaning "backstage"), individuals can hold their top position due to seniority or personal connections rather than responsibilities. One must probe to identify the real leader of the enterprise.<sup>cv</sup>

Senge suggested there was a time when General Motors management believed the company's business was "making money, not cars," and assumed that the U.S. car market was isolated from other countries. He emphasized how both assumptions, which possibly served the company well in the past, severely damaged organizational effectiveness when the leadership treated them as a formula for success.<sup>cvi</sup>

John Hagel and Arthur Armstrong have argued that building a "virtual community" is a critical success factor for Internet businesses. The notion that a company's customers should communicate with each other in chat rooms or through product evaluations required a fundamental shift in mindset for most senior managers whose success derived from very different experiences.<sup>cvii</sup>

The fast pace of change in science and technology has encouraged scientists and doctors to worry about paradigm obsolescence and to stay abreast of developments. Managers have lacked such motivation since the control paradigm has dominated since the Industrial Revolution.

**Paradigm shifts occur when an alternative set of beliefs resolves anomalies of the dominant paradigm.** Kuhn noted that science progresses steadily within boundaries of the dominant paradigm as experiments incrementally add to the knowledge base. Issues that cannot be resolved by conventional thinking either are solved by pursuing new ideas within the dominant paradigm or collect as anomalies such as Mr. Brahe accumulated. A growing list of anomalies does not necessarily render an old paradigm useless. The ancient Babylonians were able to predict solar eclipses with amazing accuracy using their meticulous observations even while believing that the sun revolved around the Earth.<sup>cviii</sup> However, a growing list does suggest the

potential for a new paradigm, the opportunity for a fundamental re-examination of the dominant thinking.

A paradigm shift occurs when an alternative set of beliefs resolves the accumulated anomalies such as happened when Kepler and Galileo resolved Mr. Brahe's anomalies by accepting the Copernican paradigm of the earth circling the sun. The history of science contains many such shifts with new beliefs displacing old paradigms such as the flat earth theory, Newtonian physics, and the geosynclinal explanation of mountain formation. Kuhn emphasized that scientific paradigm shifts always arouse tensions and emotions as experts react defensively to new ideas that threaten the beliefs and assumptions upon which their careers were built.

Paradigm shifts in society tend to happen more gradually and are often recognized only by looking back. For instance, one can argue that a paradigm shift occurred over the past 50 years in assumptions about female intelligence and competence as women achieved equality with men in the business world, academia, politics, etc. Belief that child labor is wrong gradually became the dominant paradigm within developed countries over the past 100 years. Although such changes are gradual, they are still accompanied by high emotions and turmoil—witness the activities surrounding the shift in women's roles or the Civil War which accompanied the end of the slavery paradigm in this country. Fundamental change never comes easily, especially when it involves powerful and influential persons or institutions. Galileo was tried by an inquisition of the Catholic Church and the Pope burned Giordano Bruno at the stake as “the worst kind of heretic” for supporting Copernicus' belief which contradicted church teachings about the earth being the center of the universe.<sup>cix</sup>

Fundamental change at the individual level is also difficult as reflected by the Alcoholics Anonymous process which involves a multi-dimensional paradigm shift. Alcoholics must first accept responsibility for their actions—i.e. that they are not victims and that nobody else can solve their problems. They must also believe that an alcohol-free life will be better than the one involving drinking and that "alcohol-free" means exactly that, not a single drink.

### **The management paradigm shift.**

We are by no means the first to suggest the need for a management paradigm shift. Drucker argued that "much of what is now taught and believed about the practice of management is either wrong or out of date."<sup>cx</sup> However, so far as we can tell this book is the first to address all five issues involved in the paradigm shift from “hierarchical control” to “vision-led freedom,” to disprove the belief that employees must be controlled, and to provide a logical foundation for Freedom-based management.

**Assumption about business** Freedom-based managers believe that conflict between employee and business interests is avoidable and use the four principles to make that happen. (Chapter 1)  
**Assumption about people and work** McGregor's Theory Y belief that work can be as enjoyable as play or rest is foundational to freedom. As he emphasized, “the limits of human collaboration in the organizational setting are not limits of human nature but of management's ingenuity in discovering how to realize the potential represented by human resources.” The assumption that coercion and control are essential has constrained management alternatives for organizing human efforts while Theory Y opens the full range of possibilities. Leaders are encouraged to seek conditions that will allow employees to function freely so they can maximize their contributions to enterprise success. (Chapter 1)<sup>cx</sup>

***Assumption about freedom*** Rather than freedom producing disorder and chaos, the self-controlled behavior of responsible employees within an environment built upon freedom-based principles actually maximizes freedom for all. (Chapter 4)

***Assumption about control*** Freedom-based managers distribute property rights to control company assets and processes without controlling employees. (Chapter 4)

***Assumption about the nature of order*** Experts in Economics and Complexity Theory have identified two fundamentally different forms of order—the ***controlled order*** on which management by hierarchical control has relied and ***self-organized spontaneous order***, the arranging of activities and resources in a manner that produces desirable results without any direct influence, force, or action by management. Complexity Theory expert Dr. Stuart Kauffman describes spontaneous order as “order for free”—“self-organization that arises naturally.”<sup>cxii</sup> Adam Smith’s invisible hand of the market is the best known example of spontaneous order.

The freedom-based principles produce an environment within which management can take advantage of “self-organized spontaneous order” by earning employee commitment to the vision for success, aligning their interests with those of the business, harmonizing their needs with those of the business, and giving them primary responsibility for organizational control. Individuals who share the intrinsic satisfactions and financial rewards of business success are self-motivated to do their best to help the enterprise succeed, and will self-control and self-coordinate their activities guided by the many indirect influences within their freedom-based culture.

Several elements of this management paradigm shift are not original to our work having been discussed in the literature from time to time over the past 50 years. However, these five ideas have a profoundly different impact when combined to produce the paradigm shift. Together they explain why the widespread belief that employees must be controlled is obsolete and provide a logical foundation for management to emphasize vision-led freedom and to take advantage of self-organized spontaneous order.<sup>11</sup>

Identifying this paradigm shift also explained why so many attempts to “increase freedom” or “empower employees” have failed to produce lasting improvements. Control-oriented organizations have rejected these fundamentally incompatible ideas as threats to management control. “Empowerment” and “increased freedom” can produce meaningful results only when the leadership is open to the possibility that employees need not be controlled as were we and the leaders who built the representative companies.

### **The time is right for the shift to “vision-led freedom”**

Peter Drucker’s first book on management described 50 years ago how “genuine freedom” and “self-control” could improve individual effectiveness. A few years later Douglas McGregor warned that employees were likely to undermine the effectiveness of any management control system by trying to look good. Yet although both management experts were widely read, their freedom-oriented thinking did not change the dominant control paradigm or the control-orientation of mainstream management theory and practices. Exploring how this could happen revealed four factors indicating that the time is right for this management paradigm shift.

● **The nature of work has changed and become fundamentally incompatible with hierarchical control.** When Industrial Revolution managers adopted “command and control”

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<sup>11</sup> We say “obsolete” because some of these concerns were possibly valid in the past.

from the military and Catholic church, their factory employees were uneducated farmers and immigrants. Uneducated manual labor was still management's primary concern in 1911 when Frederick Winslow Taylor's "Scientific Management" envisioned employees as cogs in machines designed and controlled by managers and prescribed sophisticated techniques for analyzing their work. In fact, "command and control" satisfied management needs well into the 20<sup>th</sup> Century when three forces began to transform the nature of work and the requirements for managing it:

- \* dramatic increase in knowledge work;<sup>12</sup>
- \* service work displacing manufacturing; and
- \* growth in marketplace size and complexity.

These changes added to most jobs the responsibility for employees to think economically—a task economists have long recognized is fundamentally incompatible with hierarchical control. Friedrich Hayek and Ludwig von Mises described how the hierarchical control of socialism precluded the use of dispersed knowledge to identify opportunities, paralyzed the discovery process, undermined respect for the truth, and created fertile ground for power abuse. They noted that the combination of external control and lack of ownership softened and bent the human will and extinguished naturally occurring virtues such as independence, self-reliance, risk-taking, and willingness to cooperate voluntarily—filling the resulting void with only demand for obedience. Ironically managers have experienced virtually identical problems as they struggled to deal with the changing nature of work under the constraints of hierarchical control—disenfranchised employees, weak accountability, stifled creativity, lack of initiative, constrained opportunity identification, poor organizational learning, slow responsiveness, and management misbehavior. Prior to this book though nobody identified the common root cause underlying such problems—hierarchical control of economic activities, or how to eliminate it.

● **A long and growing list of anomalies with the "hierarchical control" paradigm suggests the need for a paradigm shift.** Writers have discussed problems caused by hierarchically controlling employees for decades.

- \* **Anomaly: External control demotivates employees.** Drucker identified this problem 50 years ago and described how self-control motivates; he even recommended MBO as a tool for enabling "self-control" for managers.<sup>cxiii</sup>
- \* **Anomaly: Employees will undermine any system of management control.** McGregor described how employees and middle managers waste valuable time, energy, and creativity trying to look good within whatever system of control management uses.<sup>cxiv</sup>
- \* **Anomaly: Control stifles organizational learning.** Senge's classic, *The Fifth Discipline*, focused on four problems created by hierarchical control. While he suggested ways to reduce the impact of these issues, the problems can be resolved only by eliminating their root cause—management control of employees.
- \* **Anomaly: Empowerment is fundamentally incompatible with hierarchical control.** The objective of hierarchical control is to limit the power and latitude of employees, so only freedom can truly empower employees.
- \* **Anomaly: Management control disrupts employee alignment by communicating lack of trust.**
- \* **Anomaly: External control is unnatural and disrupts shared vision.** Only freedom-based leaders can capitalize on this powerful tool.

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<sup>12</sup> Drucker coined "knowledge work" to describe the efforts of college-educated employees such as engineers, accountants, and scientists whose responsibilities differ fundamentally from manual labor.

This list of anomalies has grown in recent years as the popularity of management literature increased:

- \* Kevin Kelly pointed out how *control constrains growth and learning*, "the only organization capable of unprejudiced growth or unguided learning is a (leaderless) network. All other topologies limit what can happen."<sup>cxv</sup>
- \* Michael Rothschild emphasized how *control draws employee focus inward and away from customers and the marketplace*, "Unless held in check by some larger constraint a 'command and control' system grows on itself, becoming ever more rigid and inefficient."<sup>cxvi</sup>
- \* Ricardo Semler discussed the *difficulties created by imposing change on employees*: "Forcing change is the surest way to frustrate change."<sup>cxvii</sup>
- \* Meg Wheatley worried about the *dissonance of control*, "How do we resolve personal needs for freedom and autonomy with organizational needs for prediction and control?"<sup>cxviii</sup>
- \* James Champy suggested that "*the only way to gain control is to give it up*."<sup>cxix</sup>
- \* Jack Stack addressed the problem of *employees failing to relate personally to the business of their enterprise*.<sup>cxx</sup>
- \* John Case pointed out the *problems caused by withholding financial information from employees*.<sup>cxxi</sup>

● **The lack of freedom in the workplace has become a glaring anomaly in a superpower built upon freedom.** Freedom was an emerging concept two centuries ago when managers first adopted command and control. This country's experiment with free-market democracy was in its infancy with a new Constitution having recently replaced the original Articles of Confederation. The only voters were white male property owners (17% of the population) and slavery was widely practiced throughout southern states. Within that context, the lack of freedom in the workplace was an issue only for far-sighted thinkers like Jefferson. Even in 1911 when Taylor's *Scientific Management* formalized control, Marx had created doubts about the merits of free markets versus the central planning and control of Communism. Slavery had been abolished, but racial segregation still limited the freedom of black citizens across the South and the role of women remained largely restricted to the home.

Today in sharp contrast, freedom has become the dominant paradigm for societies worldwide. In this country, all non-felon citizens 18 or older have the right to vote. Freedom from discrimination due to race, gender, age, or sexual preference has been engrained in law. Encouraged by the American role model, democracy is sweeping aside forms of government that restrict the freedom of citizens around the globe. Freedom to purchase the best value and to work where one chooses has become the dominant economic paradigm after the weak Russian economy confirmed the deficiencies of communism and ended the long debate about the superiority of free markets.

● **A practical and proven alternative to hierarchical control is now available.** Earlier freedom-oriented thinking failed to take hold because attempts to implement in the context of the "control" paradigm left managers in a quandary. They could not allow subordinates to increase self-control without weakening the chain of command and history shows that management control consistently won out. This book offers the first practical alternative for hierarchical control and provides everything a leader needs to introduce freedom and to build a Freedom-based management system and organizational culture.

Similar to past societal changes, this management paradigm shift is likely to progress gradually company by company and in doing so provide business leaders a choice. They can begin now to explore the benefits of vision-led freedom and position their organization for competitive advantage, or they can wait until freedom becomes popular and face the challenges of catching competitors who acted earlier. We believe the first strategy offers the superior combination of rewards and risks.

Also like past paradigm shifts, vision-led freedom is destined to stir tensions and emotions in business and academic circles. Many powerful control-oriented CEO's will resist sharing power with employees even if that can produce superior results. Experts and consultants, who have built reputations by offering solutions to control anomalies, will resist this threat to their income and power base. While the shift to freedom will create vast new opportunities for management research and consulting, that work will be available only to individuals who positively view freedom's advantages and internalize the paradigm shift.



## Chapter 5 Summary

### The management paradigm shift from “hierarchical control” to “vision-led freedom”

#### *The Nature of Paradigms*

- Paradigms are sets of beliefs, assumptions, and generalizations used to make sense of issues.
- Paradigms help civilization advance by allowing individuals to act without thinking and to take advantage of knowledge developed by others without understanding it.
- Paradigms can positively or negatively influence effectiveness depending on their validity.
- Paradigm shifts take place when an alternative set of beliefs resolves anomalies created by the dominant paradigm.

#### *The Management Paradigm Shift*

<u>Assumptions about:</u>	<u>Traditional “Hierarchical Control”</u>	<u>“Vision-led Freedom”</u>
<i>Business</i>	* Employee interests conflict with those of the business.	* Management can prevent this conflict by creating proper conditions.
<i>People and Work</i>	* Coercion and control are required to make employees work hard.	* Work can be as natural as play or rest.
<i>Freedom</i>	* Freedom for employees would produce disorder and chaos.	* Responsible, self-controlled employee behavior maximizes freedom for all.
<i>Control</i>	* Control of property and business processes requires control of employees.	* Property and business processes can be controlled by assigning property rights.
<i>The Nature of Order</i>	* Only managers can maintain order in an organization.	* Employees can self-control and self-coordinate activities to produce order spontaneously.

- The “vision-led freedom” paradigm provides a logical foundation for seeking the conditions within which employees need not be controlled.
- The time is right for this shift to “vision-based freedom” because:
  - \* The changed nature of work has become fundamentally incompatible with hierarchical control.
  - \* A long and growing list of anomalies with the “control” paradigm suggests the need for a paradigm shift.
  - \* The absence of freedom in the workplace stands out as a glaring anomaly in a superpower built upon freedom.
  - \* A practical and proven alternative for control is now available for the first time.

**Summary of the recommended “shared beliefs and values”**

- ***The foundation:*** Management has no fundamental reason to control employees.

***Shared beliefs that help to align individual and business interests*** (Chapter 1)

- Conflict between employee and business interests is avoidable.
- Under proper conditions employees desire and have the ability to help their company succeed.
- Managers are responsible for the character of their management system and organizational culture.
- Employees should share the rewards of their efforts—both intrinsic and financial.
- Everybody should understand profit’s roles in a free market system.

***Shared beliefs and values that help to harmonize individual and business needs*** (Chapter 2)

\* **“Shared Beliefs”**

- *A company is people who gather to pursue a worthy cause that cannot be accomplished alone.*
- *Respect for human dignity.*
- *Avoid layoffs unless survival of the enterprise is at risk.*
- *Information should flow freely and openly.*
- *Individuals need a safety valve to express concerns.*

\* **“Shared Values”**

- <i>Honest and ethical behavior</i>	- <i>Humility, especially among leadership</i>
- <i>Trust</i>	- <i>Fairness and sharing</i>
- <i>Taking risks and learning from mistakes</i>	- <i>Showing appreciation</i>
- <i>Teamwork and community</i>	- <i>Everybody having the opportunity to achieve their unique potential</i>

***Beliefs about freedom inside organizations*** (Chapter 4)

- ***Freedom powerfully influences human development and behavior and produces management that is fundamentally superior to hierarchical control.***
- ***Freedom first and foremost must be accompanied by employee self-responsibility.***
  - Self-responsible behavior involves:
    - \* Focusing on the company's mission and aspirations;
    - \* Behaving consistently with shared values;
    - \* Establishing and achieving personal objectives that maximize one’s contributions;
    - \* Deciding and acting with competence and appropriate knowledge;
    - \* Respecting the rights and property of others; and
    - \* Managing one’s own personal development.
  - Employees are accountable to the enterprise and colleagues for fulfilling their responsibilities.
  - Employees have authority to fulfill responsibilities without management approval.
- ***Freedom is the ability to self-control one’s decisions and actions without external control, coercion, or constraint.***
- ***Freedom is the natural state for humans; Freedom-Based Management eliminates the on-going conflict between employee and business interests created by hierarchical control.***

- *External control can restrict only physical latitude and not the freedom to think and dream.*
- *Freedom does not eliminate control, but shifts primary responsibility for organizational control from management to employees.*
- *Freedom does not eliminate managers, but shifts their responsibilities to leading, coaching, and helping rather than controlling employees.*
- *Democracy is a political concept that offers no value in freedom-based organizations.*

*Belief about the nature of order* (Chapter 5)

- *Freedom enables management to take advantage of “self-organized spontaneous order” to replace the “controlled order” of traditional hierarchical control.*

## **Section Two**

### **The Business Benefits**

Shifting management's emphasis from hierarchical control to vision-led freedom transforms organizational effectiveness through two synergistic influences. As described in Chapter 6 individual effectiveness increases dramatically when all employees are encouraged to develop and fully utilize their potential. Chapter 7 then explains how a freedom-based culture capitalizing on self-organized spontaneous order enables more effective individuals to work together far more effectively as teams or organizational units. Fully empowered employees produce remarkable business results as managers and supervisors lead, coach, and help instead of controlling them.

## **Chapter 6 Vision-led freedom revolutionizes individual effectiveness**

### ***Freedom stimulates growth and development***

This United States was founded on the belief that “all men are created equal,” a philosophy fundamentally different from the European hierarchical mindset of royalty, nobility, and commoners. Americans are free to develop and advance regardless of their parents’ station in life. Freedom-based organizations share a similar mindset encouraging everybody to achieve their potential coached and helped by managers and supervisors. This mindset is reinforced by addressing individuals as “associates” and avoiding labels that imply some are less capable such as “professional,” “support staff,” and “clerical.” These organizations also avoid performance ranking which provides feedback that half the employees are average, typical, or below average—messages that can eventually convince even the most motivated to act accordingly.

Individuals are responsible for managing their own development since growth comes from within and cannot be done to a person. Managers and supervisors support their efforts by leading, coaching, and helping with access to resources, training, and opportunities. Transparent and permeable organizational boundaries expose opportunities in other units which may better fit personal interests, skills, or capabilities. Finally, individuals are encouraged to take on “stretch” responsibilities and to learn from mistakes—invaluable elements in human growth.

The resulting culture in which everybody strives to become the best that they can be produces three invaluable business benefits. First the continual learning and growth of employees position the enterprise to take advantage of the virtually unlimited potential which results from the steady advancement of knowledge. Second, opportunity to achieve their potential through work naturally draws employee attention, energy, and creativity to business issues—a sharp contrast with today where lack of opportunity causes many to seek self-actualization through extra-curricular activities. Finally, the culture of continual learning and growth creates organizational comfort with change which is the only certainty companies face in today’s global marketplace.

Michelle, a travel clerk handling airline and hotel reservations before joining ECS, accepted the challenges of building a new meeting planning service and consistently earned high customer ratings even from Exxon Board members with whom she interacted comfortably. Jack Handley became a salesman for PQ because nobody told him he was “only” a plant operator. As described by a former PQ CEO, "In 1995, I was invited by one of our customers to attend the ribbon-cutting ceremony for a new plant. . . for which PQ would be the sole supplier of sodium silicate. One of the most eloquent speakers at this ceremony was a chemical operator who spoke about the degree of involvement in the business by the hourly crew. He described how his team was empowered to be full participants in the operation, and how they would be involved in the effort to continually improve his plant's performance. As I listened to his remarks, I was impressed by the operating philosophy at the plant, and how similar it was to PQ's philosophy. After the ribbon-cutting ceremony, I went over to the operator, introduced myself, and told him how impressed I was. . . . He then told me who had introduced the plant management and operating crew to this philosophy— Jack Handley, one of the PQ operators from our plant here in St. Louis taught them how to do it! It's difficult to describe how proud of PQ I felt at that moment."<sup>cxxii</sup>

### ***Freedom stimulates higher energy workplaces***

A freedom-based culture intrinsically motivates and eliminates the need for extra incentives. As Max De Pree noted, "Motivation is not a significant problem: Herman Miller employees bring that with them by the bushel."<sup>cxxiii</sup> Bernie Marcus, co-founder of Home Depot, noted that Wal-Mart employees are "all smiles." Walton's rule #6 gets some credit for that: "Celebrate your successes. Find humor in your failures. Loosen up." However, those Wal-Mart smiles derive more fundamentally from management operating on the belief that work can be as satisfying as play or rest and encouraging employees to approach their responsibilities as opportunities for enjoyment and self-satisfaction—rather than a burden forced upon them.

A better fit between job responsibilities and individual abilities and interests also energizes employees. Maslow noted that the only happy people he knew were working on things they considered important.<sup>cxxiv</sup> ***Freedom-Based Management*** transforms job design into an associate-guided process of continual improvement within which individuals match their responsibilities with personal interests, skills, and knowledge—coached and helped by managers and supervisors. This enables the ever-growing capabilities of employees to satisfy the ever-changing needs of the business, and differs fundamentally from managers designing jobs and selecting individuals to fill them.

Finally this is all reinforced by a high level of trust among employees and management; self-responsible individuals try hard not to disappoint associates who depend upon them fulfilling their responsibilities. Nucor uses no time clocks—"the most dehumanizing things ever invented" according to ex-CEO John Correnti, yet steel workers regularly arrive early to gather information from colleagues coming off the prior shift.

### ***Freedom nurtures innate human virtues***

Hayek described how the external control and lack of ownership of Socialism extinguish innate human virtues such as "independence, self-reliance, the willingness to bear risks, the readiness to back one's own conviction against a majority, and the willingness to voluntarily cooperate with one's neighbors"—and filled the resulting void with "demand for obedience."<sup>cxxv</sup> Bahrain editor Mansoor al-Jamri observed how the lack of freedom in the Middle East has a similar effect. "(I)f you squash freedom, if you stop freedom of expression, insult this person and just give him money. . . , there is a vacuum. You empty a person, you fill him with material things, but that does not fulfill his aspirations as a human being. . . . (He) doesn't have what he wants—his sense of being a true human able to express himself and having influence on his society and being respected. . . ."<sup>cxxvi</sup>

Energizing four innate virtues repressed by hierarchical control produces employee behavior rarely seen in hierarchically controlled enterprises.

- **Freedom inspires self-responsibility and "can do" attitudes.** Historian John Harmon McElroy described how freedom on the American frontier produced ". . . constructive agents, not people who wait for something to be done for them or to have someone direct their lives. . . . (R)esponsible individuals believe human beings make their world; the world does not make them. The responsible individual is dedicated to

'getting the job done' and doing it right. . . . Persons like this, who accepted responsibility for their own well-being and the institutions of their society, have built America."<sup>cxvii</sup>

Vision-led freedom stimulates similar behavior as reflected in actions of the HP service center technician who repaired a customer's calculator on which the function key stuck after years of hard use and coffee spills. The technician returned the working calculator for a small fee, but his handwritten note about installing at no charge a re-designed keypad to prevent recurrence of the problem won customer loyalty impossible to achieve through advertising— personal initiative that earned \$5000 of additional business with that customer.<sup>cxviii</sup>

● **Freedom encourages independence and voluntary cooperation.** McElroy's research revealed how freedom on the frontier nurtured these seemingly contradictory virtues. Survival and success "depended upon every person being responsible for their own well being as he worked cooperatively with others to improve the economic, political, and religious institutions necessary to both society and to individual lives."<sup>cxix</sup> Toqueville noted how early Americans formed an "immense assemblage of associations" to help others—charitable institutions, hospitals, and schools, which in Europe were founded only by government or the privileged.<sup>cxx</sup> More recent research in "Prospect Theory" economics confirms that humans are pre-wired to prefer cooperation until others fail to respond fairly.<sup>cxxi</sup>

Southwest Airlines capitalized on this virtue when 12 functions including pilots, cabin stewards, baggage handlers, and caterers cooperated to determine how to reduce ground turnaround time. Equally important employees in those diverse functions cooperate hundreds of times each day to turn around Southwest flights in half the industry average time thereby enabling planes to generate more revenue by spending more time in the air. This is one of many freedom-based advantages that have kept the airline profitable in an industry filled with bankrupt competitors.

● **Freedom unleashes imagination, creativity, risk-taking, and human ingenuity.** Wal-Mart's satellite communications system, which grew out of a hunch and the willingness to take risks, is an example of the business value of creative employees. Data processing manager Glenn Habern shared an idea with president Jack Shewmaker before the technology existed to build such a system, and the two later worked with a contractor to build a \$24 million test system launched in 1983. According to Shewmaker, Sam Walton "didn't necessarily discourage me. But he didn't encourage me either."<sup>cxxii</sup> That experimental system became a necessity once scanners were installed in stores and ten years later Wal-Mart had invested \$700 million in computers and satellites. According to Walton, the ability to keep a sixty-five-week rolling history of every item made "it tough for a vendor to know more about how his product is doing in our stores than we do. I guess we've always known that information gives you a certain power, but the degree to which we can retrieve it in our computer really does give us the power of competitive advantage." As the system continued to grow Wal-Mart allowed vendors to use it to track products sales and plan production and shipping schedules.

The specific advantages Wal-Mart ultimately derived from that system were unappreciated when Habern and Shewmaker tested the original project, but their creativity and risk-taking established a competitive lead that Wal-Mart enjoys to this day. It is also worth highlighting how experts studying Wal-Mart and the other freedom-based companies can readily identify specific innovations like this satellite system or the

company's high tech distribution system, but consistently overlook the true source of competitive advantage—the creative, freedom-based organizational cultures that will continue to generate the innovations necessary for future success.<sup>cxxxiii</sup>

● **Freedom fosters honest and ethical behavior.** Duke University President Nannerl O. Keohane observed, “It’s a psychological effect: if people expect you to be honorable, you are more likely to respond with honorable behavior.”<sup>cxxxiv</sup> McElroy noted that self-responsibility encourages individuals “to do what's right.” Responsible individuals do not deceive or disappoint colleagues who rely on their truthfulness and trust them to fulfill commitments. Further explicit accountability to colleagues and management for behaving consistently with shared values of honest and ethical behavior discourages practices like game-playing, telling the boss what he wants to hear, and managing earnings that have stimulated suspicion and resentment in hierarchically controlled organizations and tempted individuals “to act in ways they would otherwise avoid.”

Sam Walton told how this changes people for the better in addition to producing powerful business benefits. Stealing by employees and customers—a \$40 billion a year industry problem by one estimate,<sup>cxxxv</sup> had become rampant in Store #880 in a Hispanic section of Irving, Texas. Instead of closing the store, Wal-Mart assigned a new manager with the goal of teaching employees the real company culture, how they could personally influence the store’s viability and their job security, and why they should care whether people were stealing. He helped employees understand what their store could become by taking them out of their losing environment to rub shoulders with associates in successful stores. Store #880 employees confirmed that they had become better persons when everybody gave a round of applause for the associate who caught an individual trying to steal \$400 worth of tapes. Interestingly, the impact of that change eventually spread to family members, customers, suppliers, and neighbors all of whom learned that honesty can be the norm in successful commercial enterprises.<sup>cxxxvi</sup>

### **Freedom encourages everybody to think and act like a business owner**

Paul recalled that he was the only person in PQ to view his responsibilities from the perspective of company owners when he became CEO. Everybody else was concerned with the narrow issues of their functional unit, profit center, or work group—typical of hierarchically controlled organizations. By the time he retired, five elements of PQ's freedom-oriented environment encouraged everybody to think and act like a business owner. First, everybody understood the vision for success which communicated clearly what the company leadership hoped to achieve. Second, business records were openly available to all; as Herman Miller Controller Jim Schreiber observed employees think and act like business owners when they understand the economics of business.<sup>cxxxvii</sup> Third, sharing the intrinsic and financial rewards of business success with everybody aligned their interests with those of the business. Fourth, conflicts that have disrupted owner and employee interests in hierarchically managed companies were avoided by striving to harmonize individual needs with those of the business. Finally, freedom encouraged employees to focus outward on customers and the marketplace instead of upward on management. Rather than relying on managers for guidance PQ employees utilized their knowledge and information to self-assess what was right for customers and then made that happen.



Freedom-based companies utilize two other techniques to encourage thinking and acting like business owners. Activities are organized into profit centers which are intentionally kept as small as practical to help employees understand the business within which they work. This provides the financial information they need to evaluate economic alternatives and to judge success of their initiatives. For example PQ with 1600 employees had 72 profit centers in 20 countries on five continents, many of which were plants operated by one employee per shift. HP operated with 83 profit centers before former CEO Carly Fiorina centralized control. Each Nucor plant operates as a profit center.

These companies also use “internal markets” to guide centralized activities and the flow of resources between profit centers and to provide the financial data needed to economically evaluate alternatives. For example, Vulcraft plants pay Nucor steel mills for the raw material used to fabricate steel products just as if they were buying from a third party. Wal-Mart central buyers treat stores as their customers and maintain sensitivity to their needs through a practice Walton called "Eat What You Cook," which involves visiting a different store each quarter to act for a couple of days as manager of the department for which they buy. According to Walton, "I guarantee you that after they've eaten what they cooked enough times, these buyers don't load up too many Moon Pies (a Southern treat) to send to Wisconsin, or beach towels for Hiawatha, Kansas."<sup>exxxviii</sup>

The combination of becoming the best they can be, fully utilizing their ever-growing capabilities, and thinking and acting like business owners produces employee effectiveness rarely seen in traditionally managed companies. Individuals behave more like creative entrepreneurs focused on the enterprise vision for success than employees as they seek better ways to satisfy the changing needs of their customers. As ECS service line manager Pat commented: “ECS has been a place. . . where people felt like they built a business. Yes, it was for Exxon, but it was theirs and they gave their all for this very special organization within the Exxon community.”

## **Chapter 6 Summary**

### **Vision-led freedom revolutionizes individual effectiveness**

- **Individual effectiveness is dramatically increased by:**
  - **stimulating growth and development;**
  - **producing higher energy workplaces;**
  - **nurturing human virtues extinguished by hierarchical control; and**
  - **everybody thinking and acting like business owners.**
- **Individuals behave more like creative entrepreneurs focused on the vision for success than employees.**

## Chapter 7 Freedom-Based Management transforms organizational effectiveness

Vision-led freedom positions management to take advantage of *self-organized spontaneous order*, which is fundamentally more effective than the *controlled order* on which management theory and practices have relied. Before explaining those business benefits, however, we need to warn that spontaneous order presents a paradox. On the one hand, it offers the simplest means for achieving order within an organization because that happens automatically as the many indirect influences of *Freedom-based management* guide associates. Looking back we sensed that happening during the transformations of PQ and ECS without having heard of spontaneous order inside organizations. So understanding the concept is not a prerequisite for taking advantage of self-organized spontaneous order.

On the other hand, spontaneous order can be difficult to grasp since it is not detectable by the human senses of sight, touch, hearing, or smell. The concept can be understood only by the human intellect and that can be difficult as Hayek described. According to Hayek Aristotle was the world's first economist and Adam Smith's "invisible hand of the market" is the best known example of spontaneous order. Yet Aristotle failed to comprehend spontaneous order within the advanced market system in which he lived even though his peers discussed "kosmos" and "taxis," the Greek terms for spontaneous and controlled orders. Aristotle died convinced that all ordering of human activities resulted from deliberate human control.

Understanding the advantages of spontaneous order first requires defining characteristics of an "orderly" organization, since that term is rarely mentioned in the literature.

- **Focus** The enterprise vision for success is appropriate for achieving the mission and aspirations. Everybody is guided by that vision as they continually seek new and better ways to satisfy the ever-changing needs of customers and the marketplace.
- **Personnel** The enterprise has the personnel and talents required for success. Everybody strives to achieve their unique potential by continually learning and growing.
- **Behavior** Everybody functions honestly, ethically, and consistent with shared values.
- **Structure** All associates, teams, and organizational units have responsibilities and authorities that maximize their contributions to enterprise success.
- **Accountability** All associates, teams, and organizational units have objectives supporting the vision for success and are accountable to colleagues and the organization for achieving those.
- **Knowledge** Individuals and the organization continually learn and innovate how to better serve customers and to create new business opportunities. New learnings and knowledge spread spontaneously across organizational units.
- **Business processes** All processes utilize the most effective means for achieving their business objectives and are continually improved.
- **Resource allocation** Financial resources are allocated consistent with best achieving the vision for success.
- **Competition** Any internal competition is motivated by desire to improve the enterprise and not selfish local interests.
- **Effectiveness** All elements—associates, teams, and organizational units, function at full capability and interact synergistically. Effectiveness of the whole exceeds the sum of the parts because everybody shares the common vision for success and is self-motivated to

cooperate when appropriate.

- **Physical environment** Workplaces are often hectic as high energy associates creatively brainstorm new and better ways to satisfy customer needs. There can be lively debates as individuals with diverse backgrounds share different perspectives about the market, changing customer needs, developing technologies, etc. This high level of activity can appear disorderly and chaotic, but produces continual improvement and innovation—the specific nature of which is unpredictable.

While “order” to most people implies activity guided by an ordering mind, that is controlled order—the form of order envisioned by Aristotle. Within self-organizing spontaneous order, there is neither a specific ordering activity nor any ordering mind. A variety of forces indirectly cause order to happen spontaneously.

The market pricing system, Adam Smith's "invisible hand," indirectly influences individuals to take actions by circumstances of which they are largely unaware and which produce a variety of unintended consequences. For example, buying an apple at the grocery store satisfies a personal desire for that fruit while also providing income to the orchard owner who grew the apple encouraging him to grow more. Likewise, we encourage the fertilizer company employees with whose product the orchard owner nurtured his trees, the trucker who transported the apples to the store, the grocery clerks who arranged the displays, and numerous other unseen and unknown individuals who were involved in the process of growing and marketing that apple. Through the market we serve people unknown to us and, in turn, constantly utilize the services of those about whom we know nothing. Other examples of self-organized spontaneous order identified by experts include development of languages, natural law, shared cultural beliefs, and the Internet.

Complexity expert Dr. Stuart Kauffman<sup>13</sup> points out that scientists have recognized for years that many simple physical systems exhibit spontaneous order. For example, a droplet of oil forms a sphere in water and snowflakes exhibit six fold symmetry without any central direction, guided only indirectly by molecular forces. Kauffman suggests that the range of spontaneous order within natural systems is far greater than appreciated: "Profound order is being discovered in large, complex, and apparently random systems." These discoveries offer new insights into the origins and evolution of life suggesting that many biological features are the result of spontaneous order and not the chance results of Darwinian selection.

Hayek used scientific analogies to explain the concept noting that it is impossible to build a crystal of salt by stacking one molecule on another as we would go about constructing a house. However, we can take advantage of spontaneous order by creating conditions under which a salt crystal will form in water. Our knowledge allows us to create the conditions favorable to achieving our objective—growth of the crystal, but we cannot predict or control the location of any particular molecule within the crystalline structure.<sup>cxxxix</sup> Spontaneous order within organizations shares similar characteristics. Management can be confident that associates will to

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<sup>13</sup> Nobel Laureate Philip Anderson said, "There are few people in this world who ever ask the right questions of science, and they are the ones who affect its future most profoundly. Stuart Kauffman is one of these." *“At Home in the Universe,”* Jacket cover

do their best to help their organization succeed, but cannot predict specifically how they or their units will act or align themselves.

Kauffman emphasizes that it is impossible to forecast the consequences of specific actions within complex systems because interactions between elements are too complicated to analyze. Since organizations are complex systems, this suggests experimenting to test ideas—a plausible explanation for the success of trial and error efforts to build freedom-oriented cultures. This also suggests that experimentation can produce superior solutions for changing customer needs and desires that are too complex to analyze.

Kauffman notes that "patch theory" suggests there is no optimal decentralization, nor any optimal size for decentralized organizational units.<sup>cxl</sup> Too much centralization can restrict agility while too little produces chaos. The optimal is achieved at the edge of chaos where self-organizing, spontaneous order happens, and is likely to be found through experimentation.<sup>cxli</sup>

Interestingly, a search of the Internet revealed wide-ranging research into self-organizing applications in science and engineering. Scientists at the University of Massachusetts and IBM have harnessed “the *self-assembly* abilities of commonly-used polymers to create tiny masks that allow them to etch smaller silicon capacitors than current production methods permit.”<sup>cxlii</sup> Cornell engineers think “the new age of complex, *self-organizing polymers*” could produce material for “an airplane wing that doesn’t ice up” or for “monitoring body biochemistry.”<sup>cxliii</sup> Norwegian researchers have discovered that manipulating temperature causes “a system of ferromagnetic objects (to) *self-organize* into template-replicating polymers.”<sup>cxliv</sup> Experts at Helsinki University, MIT, Harvard and Cambridge are pursuing “*self-organized molecular electronics and photonics*” to make material structures near the molecular level.<sup>cxlv</sup> Another group at MIT sees *self-assembled peptides* as “the 21<sup>st</sup> century’s building blocks.”<sup>cxlvi</sup> Chemists at the University of Pennsylvania are trying to brew tiny wires through *self-assembly* using “a bottom-up approach of having circuits build themselves molecule by molecule.”<sup>cxlvii</sup> And German experts have discovered that “cholesteric liquid crystals can act as *self-organizing* systems to produce dye lasers.”<sup>cxlviii</sup> Yet nothing turned up in business schools suggesting that the pervasive “controlled order” paradigm has concealed opportunities from management experts. Our research revealed that the combination of vision-led freedom and self-organized spontaneous order produces improvements like these.

**Freedom plus spontaneous order transform the ability to generate and utilize knowledge**  
**(1) Employee knowledge** Hayek observed that economic opportunities arise always and only as the consequence of change. So long as events continue as expected, there are no new opportunities or problems requiring a new decision or plan. He also noted that the knowledge of time and place from which change can be detected rarely exists in concentrated or integrated form, but is usually scattered among individuals as bits of incompatible and frequently contradictory information. Identifying changes that represent organizational opportunities therefore usually requires that individuals share their information and knowledge—much of which resides with employees in commercial enterprises.

To appreciate the difficulties this presents it helps to understand a few characteristics of knowledge. Each individual possesses knowledge about local activities and surrounding conditions that exists nowhere else in the organization, much of which is specific to the time,

place, and circumstances. For example, a sales associate has knowledge about current customer requirements or competitive conditions that can change tomorrow or this afternoon, creating a missed opportunity if not acted upon promptly. A delivery truck driver understands the reactions of store personnel when he unloads merchandise in the morning. A plant operator possesses knowledge about current operating conditions which vary continuously.

***Tacit knowledge*** Much individual knowledge is what philosopher of science Michael Polanyi calls tacit or inarticulate, and is virtually impossible to communicate via the written or spoken word. As Polanyi noted, "We know a great deal that we cannot tell."<sup>cxlix</sup> A classic example is how to ride a bicycle. It is impossible to explain to somebody unfamiliar with bicycles the many nuances and reactions required to keep a bike upright and aimed in the right direction with the rider in the saddle. Such knowledge can be transferred only by teaching another to ride through trial and error as parents do with children.

The potential value of tacit knowledge is far greater than appreciated by societies that emphasize formal education. The book "Longitude" provided an eye-opening example telling how unschooled John Harrison solved one of the great 18<sup>th</sup> Century scientific problems—how ship captains could determine longitude when sailing around the globe. Using his tacit woodworking knowledge Harrison invented a pendulum-free clock that required no oil and allowed captains to carry with them their home port time. They could then calculate current longitude by comparing home port time to local solar time and use that knowledge to avoid the known shoals and reefs on which countless ships had foundered ignorant of their position.<sup>cl</sup> Enterprises can capitalize on employee tacit knowledge only by enabling and encouraging them to act on it since collecting and transporting it to managers in a control hierarchy is virtually impossible.

***Unproven knowledge*** Much knowledge is also unproven or potential such as hunches and intuitions. When faced with an issue we often develop a hunch about a possible solution which has no value unless tested or offered for consideration by others. Experts have found that unproven knowledge is the source of much creativity. As Maslow noted it is wrong to think that inventions arise from flashes "of insight in which in one instant darkness becomes light and ignorance becomes knowledge." Rather most invention, however novel, results from people collaborating to integrate previously known bits of knowledge. One individual mentions a hunch to colleagues who refine or add to the idea allowing a half-baked notion to evolve into a creative solution or a wholly new invention as others build on it. More often than not discovery results from collaborators recognizing a previously unidentified pattern among bits of knowledge rather than the creation of something from nothing.<sup>cli</sup>

Development of this book followed such a path as our intuitions about a fundamentally better system of management evolved as we bounced ideas off each other and colleagues. Then one day Paul threw out what seemed like a crazy question—why can't employees have 100% responsibility, 100% authority, and 100% accountability? Two years later after pursuing many blind allies, friends pointed us toward philosophical writings about the inter-dependence of freedom and self-responsibility which provided the missing element in the management paradigm shift. Later reviewing decades of management, economics, science, and philosophy writings from that different perspective revealed the pattern of ideas explaining how vision-led freedom can replace control in management.

Hierarchically controlled organizations utilize only a small fraction of unproven knowledge since even when employees participate in decisions, fear of being wrong or making mistakes or looking silly discourages many from sharing hunches with managers. Tapping this knowledge requires an environment where employees understand the vision for success, are comfortable sharing ideas openly, are free to experiment and take risks, and are encouraged to learn from their mistakes.

**Freedom-based management** positions the enterprise to take full advantage of employee knowledge and the resulting business benefits are vast and varied. A team of PQ plant operators, mechanics, and engineers got together spontaneously to re-examine a proposed project that showed an unsatisfactory return at the estimated cost of \$1.2 million. Capitalizing on their local knowledge, members found a way to achieve the objectives for one-third the initial estimate. After the facilities were installed, the lead operator dressed in business attire and carrying a briefcase reviewed the project scope and economics with corporate management in Valley Forge and received a rousing ovation for the \$800,000 he and his associates saved the company.<sup>clii</sup>

Nucor employees at a new \$250 million high tech, continuous roll mill took advantage of their knowledge to increase throughput to 140% of rated capacity within one year of start-up with no major new investments. The expansion resulted solely from defining and eliminating bottlenecks—a bigger motor here, a larger valve there, etc. Representatives of the German firm which designed the plant were incredulous that ordinary steel workers with high school educations could improve their sophisticated engineering. The additional capacity provided Nucor the equivalent of a \$100 million bonus derived solely from the knowledge of employees.<sup>cliii</sup>

Sam Walton told of \$8 million of annual savings generated by Wal-Mart associates in one year. One of his favorite ideas came from an hourly associate in the traffic department who questioned why Wal-Mart shipped fixtures bought for its warehouses by common carrier when it owned the largest private truck fleet in America. She figured out how to back-haul those fixtures on company trucks saving more than a half million dollars annually.<sup>cliv</sup> When Herman Miller encountered serious financial problems in the mid-1980's, associates quickly came up with ways to save \$12 million/year along with other ideas for new markets and for reducing the delivery times for the company's new furniture line.<sup>clv</sup>

**(2) Organizational learning** Re-reading the writings of experts Peter Senge and Chris Argyris through the lens of freedom exposed how many traditional organizational learning problems share the root cause of hierarchical control—organizational politics, fear of making mistakes, lack of trust, lack of openness, managers' needs for control, lack of shared vision, and managers' win/lose attitudes. A culture of freedom resolves those issues while simultaneously capitalizing on all five disciplines Senge's classic book recommended to maximize organizational learning.

- **Shared vision** Senge suggested that "Few, if any, forces in human affairs are as powerful as shared vision."
- **Personal mastery** This is Senge's term for achieving one's potential through work, an opportunity available to everybody in freedom-based organizations.
- **Team learning** Senge recommended three improvements to enhance team learning that happen spontaneously within a culture of freedom— tapping the potential of many minds; alignment with business objectives to provide common direction for team innovation; and spreading learnings which happens when employees continually search for better ways to satisfy customer needs.

- **Mental models** The traditional “game playing” mental model Senge identified where "merit means doing what the boss wants, openness means telling the boss what he wants to hear, and localness means doing the dirty stuff that the boss doesn't want to do" simply does not exist in freedom-based cultures.
- **Systems thinking** Vision-led freedom offers a systemic solution for the long-standing organizational problems caused by hierarchically controlling employees and, in doing so, confirms Senge’s observation that "Today's problems come from yesterday's solutions."<sup>clvi</sup>

While freedom eliminates traditional organizational learning problems, Sam Walton warned that strong organizational cultures tend to resist outside ideas. He and Max De Pree confronted this risk by emphasizing the need to avoid organizational arrogance and valuing diversity of opinions.

**(3) Planning as a learning process** A key objective of planning within hierarchical control management is to establish control targets against which individuals can be held accountable such as forecasts for revenue, expenses, head count, etc.—a process that too often degenerates into game-playing where creative energies focus on out-smarting the controllers. **Freedom-based management** views planning as a learning process where managers and associates collaborate to generate knowledge by assessing the future environment, identifying high priority issues and opportunities, evaluating alternatives, and agreeing on plans and objectives. Accountability then focuses on learning. How can the individual improve his/her performance? If results deviate from the expected, what was the cause and what changes are required to achieve objectives? This transforms planning and accountability into a powerful source of organizational learning that focuses creative energies on satisfying customers and improving competitive advantages.

**(4) Creative employee driven experimentation** Several indirect influences of freedom and self-organized spontaneous order encourage associates to collaborate and to integrate their bits of information and knowledge. First, their creative capabilities and energies focus externally on customers and improving the business rather than trying to outsmart management controls. The emphasis on teamwork, risk taking, and learning from mistakes encourages sharing tacit and unproven knowledge through brainstorming and experimenting that contribute to learning. Profit center structures and open access to financial records enable individuals to self-assess the success of initiatives. Finally as Maslow noted self-actualizing individuals are attracted to mystery and comfortable with change.<sup>clvii</sup>

Most HP success prior to Ms. Fiorina’s arrival derived from the creative capabilities of employees as emphasized in a Forbes article. "In an era when a great deal of corporate growth is through megamergers, the bulk of HP's impressive sales gains have come from internal growth, which is the best kind. If there is a single explanation for HP's success, it is this: Although HP hasn't invented nearly as many breakthrough products as Lucent, IBM, or Xerox, what HP has invented it has fully exploited. HP, in short, gets a lot of mileage out of the money it spends on its laboratories—\$239 million plus another \$2.5 billion on product research and development (in 1996). In some cases HP's products were the first of their kind, such as the handheld HP 35 calculator of 1972. More often they were improvements in technologies that others had invented, such as laser printing and RISC computers." "Those things don't grab the big headlines, but they keep big companies growing in double-digit rates," said Joel Birnbaum, director of HP Labs. As the writer noted, "The challenge for Lew Platt and his team is to keep

this spirit alive. *It is worth more than all the assets listed on the corporate balance sheet.*"<sup>14</sup>  
(Bold italics added.)

This creative capability can also convert problems into opportunities as happened when a Nucor plant manager struggling through an industrial depression reduced the work week from five to three days instead of laying off employees. Rather than reduce research spending as so often happens during hard times, he put the plant's limited cash flow into research and development to give his people something to do and challenged them to come up with new ideas. Those employees invented and patented "the best (prefabricated) steel roof that money can buy" and sales skyrocketed. That same plant a short time later installed a \$14 million addition to manufacture steel decking, a product so superior to competition's that first year profits paid off the investment.<sup>clviii</sup>

Wal-Mart's "people greeters" are another problem converted into an opportunity as described by retired Senior Vice President, Tom Coughlin. "Back in 1980, Mr. Walton and I went into a Wal-Mart in Crowley, Louisiana. The first thing we saw as we opened the door was this older gentleman standing there. The man didn't know me, and he didn't see Sam, but he said, 'Hi! How are ya? Glad you're here. If there's anything I can tell you about our store, just let me know.' Neither Sam nor I had ever seen such a thing so we started talking to him. Well, once he got over the fact that he was talking to the chairman, he explained that he had a dual purpose: to make people feel good about coming in, and to make sure people weren't walking back out the entrance with merchandise they hadn't paid for. The store, it turned out had trouble with shoplifting, and its manager was an old-line merchant named Dan McAllister, who knew how to take care of his inventory. He didn't want to intimidate the honest customers by posting a guard at the door, but he wanted to leave a clear message that if you came in and stole, someone was there who would see it. Well, Sam thought that was the greatest idea he'd ever heard of. He went right back to Bentonville and told everyone we ought to put greeters at the front of every single store."<sup>clix</sup>

Herman Miller President Ed Simon expressed belief that people enjoy creative cultures, but that traditional management undermines this by inhibiting risk taking and trying to keep employees comfortable. Herman Miller, in contrast, strives to strike a balance between the desire for continuity and the need for creativity by sustaining their core values while letting go of old ways. Simon suggested that this capability requires a new paradigm of how organizations produce continual learning.<sup>clx</sup> We suggest that vision-led freedom offers that new paradigm and a story from De Pree suggests that Herman Miller is well-positioned to capitalize on it. After the steel framework for a construction project was virtually complete, a Herman Miller superintendent noticed that the structure was eight inches too tall requiring the tops to be cut off all columns. De Pree had two of those column ends chrome plated and placed in his office as a reminder that no one is perfect. Most control-oriented leaders under similar circumstances would discipline the superintendent for making a mistake rather than collecting a memento.<sup>clxi</sup>

David Packard described how HP operated this way, "We encourage every person in our organization to think continually about how his or her activities relate to the central purpose of serving our customers. . . . (N)ew ideas then form the basis for development of products that will meet latent needs of future importance to our customers. The vice president of marketing was a strong advocate for helping the customer, so much that he wanted our sales engineers to take the customer's side in any disputes with the company. . . . We want you to stick up for the customer. After all we're not selling hardware, we're selling solutions to customer problems. . . . He also

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<sup>14</sup> In 1997 when this statement was made, HP's assets were worth more than \$32 billion.



insisted that our salespeople never speak disparagingly of the competition. This reflected our feeling that the (ideas generated by) competition should be respected."<sup>clxii</sup>

HP creativity and ability to absorb information paid early dividends with the company's first calculator which was actually invented by Tom Osborne, a Smith Corona engineer. Unable to sell the idea to his management, Osborne walked into HP where alert employees recognized that he had "a little powerhouse of a machine that perhaps could be developed into a desktop calculator capable of silently and swiftly calculating trigonometric, hyperbolic, and logarithmic functions—and be programmable as well. . . . Working with Osborne, an HP team developed the Model 9100 desktop calculator, highly successful in the marketplace and exemplifying truly innovative design."<sup>clxiii</sup>

History is filled with examples of human ingenuity solving problems and seizing opportunities when given the chance to do so, and vision-led freedom unleashes that capability inside organizations enabling employees to tackle whatever surprises, problems, or opportunities an enterprise encounters. Paul described PQ as “one big damned laboratory of continual change and product innovation.” Creative associates operating freely revolutionize an organization's ability to “hear” customers, as well as its speed and nimbleness in dealing with new opportunities and threats in the marketplace. The business value of this capability can only increase as the pace of change continues to accelerate.

**(5) Decision making** Most business decisions require collaboration since it is rare for an individual to possess the expertise, knowledge, and information to decide any but the simplest issue. Several indirect influences of vision-led freedom and spontaneous order increase the probability that decision making involves the right individuals, utilizes the best information, and happens in timely fashion.

First the chances of involving the right people are far higher when everybody understands their responsibility to seek help if they lack the competence or knowledge to deal with an issue, and to involve others whose authorities or property rights could be affected. Individuals are also more comfortable asking for help when that is viewed as responsible behavior and carries no stigma of weakness as so often happens when employees compete for higher rankings in hierarchically controlled organizations. Associates willingly assist when teamwork and community are valued and when everybody is aligned with the vision for success and shares the rewards of achieving that success. If an individual knows a better qualified associate, that suggestion is made spontaneously because it serves the best interests of the enterprise and employees.

Providing associates the authority to make decisions positions the organization to take advantage of their tacit and unproven knowledge. Finally, the shared values of humility, trust, honesty, and ethics increase the probability that management decisions have access to the best information because associates are willing to share “bad news” or ideas inconsistent with conventional thinking—risky actions that are often avoided in traditionally managed organizations.

***Freedom and spontaneous order enhance the organizational ability to self-transform***

Kauffman observed that spontaneous order allows complex natural systems to locate niches within which they grow and prosper.<sup>clxiv</sup> For example tree roots and limbs take in information from the surrounding environment and spontaneously change their direction of growth toward better sources of light and moisture. Analogously associates with information

from the external environment are able to respond spontaneously to opportunities and threats—a capability that greatly increases the enterprise chances for surviving and prospering in an ever-changing marketplace.

Kauffman also noted that complex natural systems relying on spontaneous order exhibit the ability to evolve into higher order systems.<sup>clxv</sup> PQ showed that capability evolving from a domestic commodity chemical company into a global specialty chemical enterprise as the culture became freedom-based and capitalized on self-organized spontaneous order. Likewise HP evolved from an instrument company into a computer focused enterprise that ultimately spun off the original instrument business into Agilent, a separate enterprise. Wal-Mart's evolution has produced an ever-increasing offering of products and services in traditional Wal-Mart stores as well as successful new businesses such as Sam's Club and the Super Wal-Mart stores. And the company is now taking advantage of electronic commerce on the Internet and exploring opportunities in the medical industry.

### **Freedom inoculates against corruption and management misbehavior**

***Freedom-based management*** accomplishes this spontaneously through:

- accountability for honest and ethical behavior;
  - “authority” intrinsically encouraging individuals to do what’s right;
  - the dispersed of power associated with freedom reducing temptation for abuse;
  - open access to business records making it virtually impossible to alter the books;
  - self-actualizing individuals becoming intolerant of phoniness, lying, and hypocrisy; and
  - employees acting like internal auditors because they share the financial rewards of success and calling attention to potential problems is treated as “heroic action” rather than “whistle blowing.”
- Experiences of the representative companies suggest that this “self-inoculation” is more effective and less costly than external auditing or legislative solutions such as Sarbanes-Oxley in preventing management misbehavior.

### **Freedom balances the needs for continuity and change**

Change can be disorienting and consume employee time and energy adapting to new conditions. At the same time, the ever-changing needs of customers, actions of competitors, and technological advancements demand that organizations continually improve. ***Freedom-based management*** satisfies employee needs for continuity through shared values and beliefs, and the constancy of purpose provided by the vision for success. Individuals can concentrate on satisfying changing customer needs without worrying whether a solution will eliminate their jobs—confident that management will help to find other opportunities.

The business value of this capability was reflected in Jim Olson’s transformation of HP’s oldest division, Video Communications, in which sales and profits were declining. “(W)e developed a very exciting plan that centers on video servers for two markets, the broadcast market and the broad-band-video-on-demand market. There is almost no relationship between the old division and what we have now. . . . We changed the name of it, changed the location, we sell to customers who have no relationship to the old ones. It was something we'd never done at HP before. . . . (W)e made a conscious decision to move quickly, to take everything a division was doing and put it someplace else and throw lots of people at the new product area. . . . We downsized the division by 55%, a decision made less painful by the fact we don't lay people off or fire them at HP; we find other jobs for them.”

"Our CEO, Lew Platt, talks a lot about balancing continuity and change. The change part was the new leadership practices—the four key success factors that we borrowed from our very successful printer group that we try to get every manager in the place to think about in considering a course of action. . . . We decided to apply (these) start-up management practices inside our division within a 55-year-old company. That is the change part, and I think it's what really helped us be successful."

"The continuity part was going back to the HP Way. The HP Way is really our core values, our company culture based on trust and respect for individuals. It's about empowering people at the lowest level in the organization to run with their ideas. That freedom fosters a lot of creativity and enthusiasm. I am often asked how we changed the culture of HP within our division. The answer is we didn't. We really went back to the core culture and emphasized it more. People were familiar with the HP Way, but the division had lost sight of it. . . . We were going to shrink the division by 65% the first year by giving away a lot of products to other divisions. We were becoming smaller in a company where you get points by getting bigger. So vision number one became: Grow the place to the size it was before we started this transformation by 1997. It turns out we are going to beat that all to hell. Vision number two: To become a model for leading HP into this new business and creating a multi-billion dollar market by the year 2000. We're going to beat that too. There are now many divisions involved in the video business in HP. We started as the point division, but today we are just one of many divisions focusing resources on the vast opportunities in the video and multi-media explosion. Every product we've brought to market has been created in less than nine months and there have been about 20 of them. (In essence, we) stripped away a lot of the traditional bureaucracy that creeps into large divisions and companies."<sup>clxvi</sup>

Stock analyst A.G. Edwards observed how Wal-Mart associates operate comfortably with change and credited their ideas for producing substantial sales increases, expense reductions and productivity improvements.<sup>clxvii</sup> Nucor designs new facilities to last only 20 years assuming that technological improvements will obsolete them long before they wear out. But that does not worry employees who have confidence that should their plant become obsolete, management will work with them to harmonize their security needs with those of the business.

The business value of explicit shared values stands out in contrasting HP downsizing experiences with those of Exxon. During the late 1980's and early 1990's when HP shifted into the computing business, hundreds of employees were redeployed, some into jobs or locations they didn't like. Thousands more accepted enhanced early retirement or voluntary severance packages, and there were long periods of hiring freezes. It was a particularly wrenching time and a new experience for a company that attached so much importance to job security. However, shared values documented in *The HP Way* gave employees confidence that the long traditions of trust, fairness, and respect for people would be sustained. While many did not like the changes, they still found HP an attractive place to work.<sup>clxviii</sup>

Exxon management enjoyed similar levels of employee trust prior to the 1970 oil shocks, but carried out periodic downsizings in response to changing market conditions in the absence of a shared values statement. While management tried to ease the financial burden on displaced individuals, employees worried that values were changing and became unclear about what the future held. When management announced that 9000 jobs would be eliminated as part of the Exxon/Mobil merger, rumors were rampant even among executives that the long-standing practice of financial assistance for early retirement would no longer apply to individuals forced out by the merger.

***Freedom produces the ability to simultaneously act small/local and large/global***

The needs of customers vary widely from area to area and such differences will increase as more and more companies expand to compete globally. At the same time, economy of scale and standardization offer advantages in many industries. Three elements of ***Freedom-based management*** position an enterprise to take simultaneous advantage of these seemingly conflicting business pressures.

***Shared values*** create the ability to present a standard image to the marketplace regardless of location where that has business value. For example Wal-Mart is sufficiently standardized to ensure that customers find what they expect when they walk into a store in New Jersey, Tennessee, Virginia, or New Hampshire. Part of this is the "look" of the store including the greeter and certain standard merchandise, while part is the "feel" produced by the company treating all associates consistent with shared values wherever they work.

Second, ***placing authority with associates*** ensures that merchandise and services are appropriate for local needs and tastes of customers. This provides Wal-Mart with remarkable flexibility to accommodate local needs while also capitalizing on its tremendous economies of scale. One striking example is in Panama City, Florida, where stores only five miles apart differ dramatically in customer base and merchandise mix. Both have the Wal-Mart look and feel, but one is stocked for tourists going to the beach while the other is tailored for local residents.<sup>clxix</sup> As Walton noted, "That's why we try to put a merchant in charge of each store, and to develop other merchants as the heads of each department in those stores. If the merchandise mix is really going to be right, it has to be managed by the merchandisers there on the scene, the folks who actually deal face to face with the customers, day in and day out, through the seasons. That makes it management's job to listen to those merchandisers out in the stores."<sup>clxx</sup> Southwest Airlines ground personnel have authority to adapt local operations to the requirements of airports and the character of the community while maintaining the standard practices customers expect.

The final element that enhances this ability is using ***internal markets*** to guide centralized activities and flows of resources between profit centers. This provides Wal-Mart the ability to capitalize on economies of scale by centralizing activities such as buying and distribution while minimizing the traditional problems of bureaucracies. Associates in the centralized organizations understand that their success depends on satisfying customers who in this case happen to be fellow Wal-Mart associates. The ECS worldwide network served Exxon units around the globe and stayed responsive to their needs through regular communications and periodic formal surveys of customer satisfaction.

**Overall Impact on Organizational Effectiveness**

Collapse of Soviet Union revealed the freedom-oriented U.S. economy to be 3 to 5 times more effective than that of centrally controlled Russia.<sup>clxxi</sup> The chart below suggests how vision-led freedom can be equally powerful inside organizations as these various improvement factors interact synergistically like the compounding of interest.

If everybody achieving their potential doubles individual contributions.	$1 \times 2 = 2$
If taking risks and thinking creatively doubles the effectiveness of associates working on their own.	
<b>Compounded Impact on Individual Employee Effectiveness</b>	<b><math>2 \times 2 = 4</math></b>
If shifting from control to vision-led freedom doubles the effectiveness of working together as teams and organizational units.	
<b>Compounded Impact on Effectiveness</b>	<b><math>2 \times 4 = 8</math></b>
If freedom plus spontaneous order doubles the generation of organizational knowledge.	
<b>Overall Impact on Organizational Effectiveness</b>	<b><math>2 \times 8 = 16</math></b>

This analysis, of course, is only speculative since there is no measurement for overall organizational effectiveness. However, long term profitability is an indirect indicator and on that standard PQ, HP, Wal-Mart, Nucor Steel, and Southwest Airlines outperformed the S&P 500 by factors of 5, 7½, 35, 10, and 9 for three decades. Further none of those companies tapped more than a fraction of the improvement potential we identified—plus that potential is destined to grow as others study and apply this new management paradigm instead of trying to improve hierarchical control. This all suggests that freedom has extraordinary potential inside organizations which is broadly applicable across diverse industries—service and manufacturing. Early adapters therefore have the opportunity to establish competitive advantages that late-comers will find difficult to overcome.

**Chapter 7 Summary**

**Freedom-based management transforms organizational effectiveness**

- **Freedom fundamentally improves management by replacing traditional “controlled order” with “self-organized spontaneous order.”**
- **The combination of vision-led freedom and self-organized spontaneous order transforms organizational effectiveness by:**
  - *Improving the ability to generate and utilize knowledge;*
  - *Enabling organizations to self-transform;*
  - *Inoculating against corruption and management misbehavior;*
  - *Balancing the needs for continuity and change; and*
  - *Providing the capability to simultaneously act small/local and large/global.*
- **These improvements interacting synergistically with revolutionary individual effectiveness produce extraordinary potential to improve organizational effectiveness across diverse manufacturing and service industries.**

## Section Three

### Strategy for Introducing Freedom Step by Step

**David Packard** *"Bill (Hewlett) and I often thought about how a company like ours should be organized and managed. We thought that if we could get everybody to agree on what our objectives were and to understand what we were trying to do, then we could turn them loose and they would move in a common direction."*<sup>clxxii</sup>

**Ken Iverson** *explaining Nucor success "It is 70% culture and 30% technology. The truth is, I'm not sure if it's 80 to 20 or 60 to 40 percent, but I'm certain our culture counts for more than half of our success as a business. Equality, freedom, and mutual respect promote motivation, initiative, and continuous improvement."*<sup>clxxiii</sup>

**Max De Pree** *The art of leadership is "liberating people to do what is required of them in the most effective and humane way possible. . . . , the art of leadership lies in polishing and liberating and enabling those gifts."*<sup>clxxiv</sup>

**Sam Walton** *"(Wal-Mart's extraordinary success) proves there's absolutely no limit to what plain, ordinary working people can accomplish if they're given the opportunity and the encouragement and the incentive to do their best. Because that's how Wal-Mart became Wal-Mart: ordinary people joined together to accomplish extraordinary things. At first we amazed ourselves. And before too long, we amazed everybody else, especially folks who thought America was just too complicated and sophisticated a place for this sort of thing to work anymore."*<sup>clxxv</sup>

**Herb Kelleher** *"I can't anticipate all of the situations that will arise at the stations across our system. So what we tell our people is . . . , you handle them the best way possible. You make a judgment and use your discretion; we trust you'll do the right thing. If we think you've done something erroneous, we'll let you know—without criticism, without backbiting."*<sup>clxxvi</sup>

Comments like these reflect the freedom-oriented mindsets that guided leaders of the representative companies as they created company cultures step by step through trial and error experimentation. Their experiences and ours suggest that leadership mindset—specifically the vision-led freedom paradigm or at least openness to the possibility that hierarchical control is unnecessary, is key to successfully introducing freedom. Once Bill's ECS leadership team made the mindset shift from hierarchical control they were naturally attracted to ideas and techniques that shifted responsibility and authority to employees, and uncomfortable with those that strengthened management controls. Transforming that company's culture became easy "like pushing a stone downhill!" On the other hand business history is littered with unsuccessful attempts to increase freedom or empower employees in the absence of this mindset shift. For example GE CEO Jack Welch declared at the height of his fame—"If you want to get the benefit of everything employees have, *you've got to free them*—make everybody a participant. . . . It is ours to win with—*if we can shift gears from decades of controlling things to a decade of liberating—turning people loose to dream, dare, and win.*"<sup>clxxvii</sup> Yet that powerful CEO could not introduce freedom into his hierarchically controlled company.

This three step strategy, therefore, concentrates on helping leadership achieve this mindset shift before involving anybody else. It provides opportunities for the leadership team to discuss and debate all aspects of *Freedom-based Management*, and to directly experience freedom's impact on their own responsibilities before introducing freedom to others. These experiences should convince even the most skeptical that freedom is a powerful and practical alternative for hierarchical control which offers a high priority opportunity for dramatically improving their company's performance. In the rare situation where that does not happen company leadership can pause to consider corrective actions or shut down the initiative without involving employees—thereby minimizing the risks and costs of the experiment.

Step One (Chapter 8) deals with issues for a CEO to consider prior to involving other leadership team members. In Step Two (Chapter 9) the CEO and leadership team work together to design and test a freedom-based system to manage their personal responsibilities. That test can run as long as needed to produce the mindset shift to freedom, confidence in freedom's benefits, and the role models needed to cascade freedom throughout the organization in Step Three (Chapter 10). At each step we suggest issues, tools, techniques, and cautions to consider which should satisfy the range of concerns and issues from rapidly growing small companies in need of formalizing a management system that sustains the freedom enjoyed while everybody knew and trusted each other, to larger mature companies desiring to transform their hierarchical control culture. Chapter 11 shifts gears to address a different issue—how middle managers and employees can introduce freedom locally in the absence of an enterprise-wide initiative as Bill did in ECS.

Before turning to specifics three Hayek observations about spontaneous order in society provide helpful background for introducing freedom.<sup>clxxviii</sup>

• **The formation of spontaneous order can be understood only in terms of general rules.**

This strategy focuses on the general rules of *Freedom-based Management*—which only indirectly influence business results and differ fundamentally from traditional control-oriented rules. Debating issues like these may feel strange for individuals accustomed to direct involvement in business activities, but should make sense once leaders personally experience the advantages freedom offers.

Former treasurer George Newman commented on how this worked in HP, "I think a lot of it had to do with the kinds of objectives that Hewlett and Packard made central to the culture many years ago. They weren't specific. Instead they represented more of a general philosophy of how to be successful—a timeless philosophy that talks about the value of profit, satisfied customers, a good environment for employees, and the like. I think our collective commitment to those principles has helped us adapt to a changing world much more successfully than firms that have as core values such things as 'maintain an AA bond rating.' I think it also helps that our culture encourages people to step up to the plate. It encourages us to have a radical idea every once in a while. That helps to keep us from getting too set in our ways."

• **The general rules guiding spontaneous order in society evolved over the centuries through trial and error.** The general rules offered in this book were extracted from the trial and error experiences of PQ, ECS, and the representative companies and are likely to evolve as others gain experience with this powerful concept. However, the likelihood of future improvement is no reason to delay introduction since an early start can produce competitive advantages that will be difficult to overcome. Richard Pascale noted that it is easy to reverse-engineer products or to replicate specific advances in finance, marketing, and production, but competitive advantage built upon organizational culture produces invisible barriers.<sup>clxxxix</sup> Freedom-based cultures present special challenges for competitors since the paradigm of freedom is so difficult for control-oriented managers to comprehend.

• **A system can contain a mix of controlled order and spontaneous order. However, once the character becomes spontaneous in nature, further attempts to improve through control-oriented actions are likely to do more harm than good.** This strategy produces a mix of controlled and spontaneous order for a period of time which Hayek confirms is feasible. In fact the representative companies, ECS, and PQ all functioned successfully with such a mix for years. However, it will be important to remember Hayek's warning that management can disrupt spontaneous order by trying to influence specific business details or imposing controls. Unfortunately this has happened in some representative companies as successor CEO's did not understand the critical role freedom played in company success, or how to sustain that freedom.



## **Chapter 8 Step One—CEO Preparations**

We suggest these issues for the CEO to consider prior to involving members of the leadership team.

**Issue 1-1 Hiring an Organization Development (OD) expert.** We relied extensively on OD expertise to assist with planning and implementing organizational change initiatives. In ECS Dave Morris was a talented facilitator with a training background whose skills expanded as the organization's needs changed. Dave helped to plan and then facilitated the team-building session which produced the vision for success, and later designed and managed surveys of employee opinions and customer attitudes. He even learned about Total Quality and helped to deliver that training.

Paul relied on Bill Rathgaber who among his many contributions designed and delivered a leadership course consistent with the new PQ culture, which became so popular that attendance was viewed as a reward. Bill also became the company's ombudsman capitalizing on the trust he earned with employees and management to find solutions that harmonized company and individual needs.

Our experiences suggest that OD expertise is virtually essential for planning and executing the introduction of freedom. These experts know how to design environments that encourage open dialogue and active listening. They are also skilled at drawing out beliefs and assumptions that underlie statements and have techniques for dealing constructively with disruptive behavior.

Early hiring provides time for the CEO and OD expert to build a relationship and for the expert to provide staff support and serve as a sounding board where appropriate. We found that personal chemistry and the ability to learn and grow were as valuable as technical expertise, so time spent interviewing candidates should pay long term dividends. Human Resource managers generally know how to find OD resources and, if not, the Web Site "[www.odnetwork.org](http://www.odnetwork.org)" provides a service for matching candidates with openings. Extra care should be exercised with Internet candidates since anyone can advertise as an "OD consultant" or "Organizational Effectiveness consultant." It will be especially important to avoid social workers, psychologists, and personal coaches, and to find an individual comfortable in a business environment.

**Issue 1-2 Defining a business case for freedom.** Presenting freedom as an economic opportunity helps leadership team members understand the importance of devoting time and attention to the initiative at the expense of other demands on their busy schedules. Clarity about expected benefits can also help to track progress once freedom begins influencing organizational results.

A business case can be generated by adapting the business benefits in Section Two to specific company conditions:

- Does freedom address specific concerns about competitiveness, or current high priority issues?
- Is the company at risk of being surprised by changing technology, shifting customer requirements, or competitive actions because it fails to utilize employee knowledge?

- Do employees understand business objectives sufficiently to recognize emerging problems and opportunities?
- Would resources devoted to past improvement efforts—for example trying to empower employees, have produced more lasting results if invested in freedom?
- Have personal experiences contributed to your enthusiasm for freedom? Do you get excited thinking how much more effective you could have been as an employee or manager working in a freedom-oriented culture?

The costs of implementation can be more difficult to estimate, but expected financial benefits should be large enough to produce a robust return for a credible cost estimate and to demonstrate why freedom represents a high priority opportunity. A short, succinct summary of what freedom means and does not mean in your organization can also come in handy if colleagues question your enthusiasm for freedom.

**Issue 1-3 Considering whether company has strategic business uncertainties?** Clarity about strategic direction is a prerequisite for developing an effective vision for success. Also resolving any strategic questions that could produce layoffs or cutbacks can help to prevent confusion that freedom caused such actions—for example withdrawal from a business, spin-off of a unit, or outsourcing of an activity. Consulting firms can provide fresh strategic thinking where that adds value.

**Issue 1-4 Re-evaluating size of leadership team.** Our experiences suggest that Freedom-based management requires fewer managers and smaller headquarters organizations than traditional hierarchical control. For example, the headquarters staff of PQ Corporation declined from 200 to 25 while Paul was CEO as annual sales increased 20 fold and the employee population grew from 1200 to 1600. The ECS leadership team shrank by 50% over the five years that organization evolved toward freedom.

Several factors contribute to such reductions. For instance concepts like "span of control" become obsolete and fewer managers are required to coach and help as individuals become adept at self-controlling and self-coordinating their activities. Also as headquarters support activities shift their emphasis from controlling to serving customers fewer employees are needed. Coordination units become unnecessary as information begins to flow freely and spontaneously among units. Finally human resource organizations tend to shrink as managers pick up more and more people responsibilities.

On the other hand David Packard's advice about keeping profit centers small with simple product/service lines can increase the number of business units and leaders required to coach and help managers of those units. Packard sought "to avoid bureaucracy and. . . to retain and nurture the kind of intimacy, the caring for people, and the ease of communication that were characteristic of the company when it was smaller."<sup>clxxx</sup> Simplicity also helps employees understand how they can personally impact business success and facilitates their interpretation of profitability feedback from the marketplace.

"Small" and "simple" are, of course, relative terms. PQ with 1600 employees was organized into 70 independent business units with each plant functioning as a profit center, some with only four employees. HP began to worry about profit centers getting too large as they approached 1500 employees, and used "local decentralization" to split off new units with responsibility for at least one profitable product line when divisions grew too large.<sup>clxxxi</sup> Before

Ms. Fiorina centralized responsibilities in 1999, HP had 83 business units for an organization of about 85,000 employees—an average of about 1000 employees per unit.

Sam Walton viewed each store as a profit center and utilized the "Store Within a Store" concept to create even smaller and simpler centers among departments. As he described, ". . . we make our department heads the managers of their own businesses. . . . We share everything with them: the costs of their goods, the freight costs, the profit margins. We let them see how their store ranks with every other store in the company on a constant, running basis, and we give them incentives to want to win."<sup>clxxxii</sup> All Nucor plants operated as profit centers when Ken Iverson was CEO, and in several locations a Vulcraft profit center, which fabricated joists and steel products, negotiated the necessary relationships to buy raw material steel from the mini-mill profit center on the same site.

It is therefore worthwhile to think through the potential impact of issues like these on size of the leadership team. If this analysis suggests a leadership team larger than 6-8, we suggest considering alternative structures. While larger teams are not impossible to work with, the time and energy required to build and sustain trust, candor, openness, and teamwork grows with size.

### **Issue 1-5 Selecting leadership team members with demonstrated attributes for success.**

Three leadership team responsibilities suggest that selecting individuals with the following attributes helps to stack the deck for success:

- (1) Shared enterprise leadership which includes collaborating on the vision for success, policy setting, strategic planning, decisions on major financial commitments, etc.—*“thoughtful,” “creative,” and “risk-taker.”*
- (2) Co-ownership of the management system and organizational culture—*“people-oriented” and “good communicator.”*
- (3) Leading, coaching, and helping—*“team player,” “good listener,” and “ability to trust and be trusted.”*

We suggest gathering information about candidates widely including, if possible, 360 feedback from subordinates and peers. Managers in control-oriented organizations are often adept at projecting images upward that differ from the reality experienced by others. Gender and ethnic diversity can also stimulate creativity and help in understanding diverse employee and customer needs.<sup>15</sup>

Removing up front any incumbent unlikely to succeed in the new environment usually also works to the individual’s advantage if helped to find another opportunity or provided financial assistance for retirement. From the organization's perspective, the cost of dealing with performance problems grows with time since the whole team must invest time and energy to bring a replacement up to speed.

**Issue 1-6 Planning for self-improvement.** Step Two presents an opportunity to teach freedom-oriented leadership by example so preparing now can yield powerful benefits. The OD expert can help to assess your strengths and opportunities for improvement by considering questions like these:

- Does my behavior reflect the humility, honesty, openness, sensitivity to needs of others, risk-taking, learning from mistakes, trustworthiness, and teamwork expected of freedom-oriented leaders?

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<sup>15</sup> Jim Collins makes additional points worth considering in Chapter 3 of *Good to Great*.

- Which specific behaviors are strengths that I should I emphasize, and which represent opportunities for improvement?
- Have you observed any behavior or actions that could detract from my effectively leading, coaching, and helping my teammates to grow in a freedom-oriented environment?

Working together the two of you can use this information to develop a plan for personal improvement and also prepare for collecting feedback on these issues from team members during Step Two. If handled skillfully this can powerfully demonstrate humility, openness, and honesty since few managers have experienced a leader admitting to needing improvement, or asking for their help.

Step One will be complete when the CEO is comfortable that the organization's strategic direction is sound enough to proceed with developing a vision for success and is prepared to name a leadership team in Step Two.

## **Chapter 8 Summary**

### **Step One—CEO Preparations**

**Considering issues like these ahead of time can improve the introduction of freedom:**

- **Issue 1-1 Hiring an Organization Development expert.**
- **Issue 1-2 Defining a business case for freedom.**
- **Issue 1-3 Considering whether company has strategic business uncertainties.**
- **Issue 1-4 Re-evaluating size of the leadership team.**
- **Issue 1-5 Selecting leadership team members with attributes for success.**
- **Issue 1-6 Planning for self-improvement.**

## **Chapter 9 Step Two—Leadership designs and tests Freedom-based management system**

The objectives of this step are: (1) to convince leadership team members that freedom offers a practical, powerful, and high priority opportunity by personally experiencing freedom's impact on fulfilling their responsibilities; and (2) to prepare members to lead the cascading of freedom across the organization. We offer issues to consider, but recommend treating these as only a checklist as other suggestions emerge from the team—since those ideas will be evidence of self-organized spontaneous order in action.

**Step 2.1 Form the leadership team and introduce the freedom initiative.** The CEO should talk privately with individuals selected for the team and any others who probably expected to be chosen. Handling the latter group carefully demonstrates sensitivity to their needs and can help to prevent disappointments triggering destructive behavior.

Considering the following during planning for introduction can maximize the probability of success:

- Site Our experiences suggest that offsite locations minimize distractions from current responsibilities, and overnight accommodations provide the opportunity for evening socializing and informal discussions that help to build teamwork.
- Length of session Deciding whether to address the vision for success at the introductory session will be a key determinant. Both options can work and the choice is likely to be influenced by how long the team is likely to spend wrestling with freedom issues.
- CEO and OD expert roles and responsibilities:
  - CEO should be responsible for content of all presentations and discussions.
  - CEO behavior should strike a balance between enthusiastic advocate for freedom and open-minded coach concerned with understanding and addressing member questions.
  - CEO should look for opportunities to reinforce freedom-oriented behavior and confront inconsistent actions in a manner that encourages learning.
  - OD expert should be neutral facilitator and avoid involvement in content. If discomfort arises with content, he should use off-line opportunities such as coffee breaks to discuss with CEO.
  - OD expert should set behavior ground rules— such as showing respect for colleagues, open-mindedness, listening carefully, and avoiding domination of discussions— and confront non-conforming actions in a manner that encourages personal learning.
  - OD expert should be responsible for maintaining open and candid dialogue.
  - The two should share responsibility for sensing when team is ready to move on to next topics. If second session is planned, the two need to establish criteria for ending the first.
  - Before ending session, CEO should obtain consensus among leadership team members on next steps.
- Topics to consider for CEO Presentation:
  - Your business case for freedom.
  - Background on how you came to appreciate that hierarchical control of employees is unnecessary and ineffective. If you struggled with some issues initially, sharing those experiences can role-model humility, candor, and honesty.
  - What does freedom mean to you personally and to your organization?
  - Why the freedom initiative focuses on changing management rather than employees?

- How freedom displaces the need for hierarchical control by generating employee commitment to the vision for success, and by aligning their interests and harmonizing their needs with those of the business. Clarify that everybody is responsible for:
  - \* Focusing on the mission and aspirations;
  - \* Behaving consistently with shared values;
  - \* Establishing and achieving personal objectives that maximize their contributions;
  - \* Deciding and acting with competence and appropriate knowledge;
  - \* Respecting the rights and property of others; and
  - \* Managing their own personal development.
- Clarifying your expectations of members to lead, serve, and help rather than control.
- Acknowledging that freedom involves personal change and growth, and that mistakes will be made. Emphasize your availability to coach and help to learn from mistakes. Admit that you will make mistakes and request help in learning from those.
- Prepare to help individuals grapple with paradigm concept; recall Senge's observation how some will recognize for first time that there are few "truths" in our perceptions which are only interpretation of events through the lenses of personal beliefs and assumptions. Sharing the "flat earth/flat horizon" anecdote can help.

**Step 2.2 Develop freedom-oriented vision for success.** As emphasized before, this vision will provide the guidance and focus managers and employees require to operate freely and the constancy of purpose needed to cope with the continual change and innovation that characterize freedom-oriented organizations. We recommend, therefore, approaching this task with the mind-set of producing a document that will stand the test of time and require only infrequent updating — a different philosophy from the trial and error experimentation in other introduction activities. Grappling with the issues addressed in this step may be frustrating for some action oriented individuals, so patience can help to prevent members paying lip service—which may fool teammates but not employees. Effectiveness of this step can also be enhanced by spending time only on issues truly important for success of the enterprise. If a discussion starts to drag, pausing to question whether the issue at hand will help to fulfill the team's responsibilities can facilitate the process; a "no" answer usually suggests that debate has wandered off course.

***Development of mission and aspirations statements*** Mission is the marketplace niche(s) on which the leadership team chooses to concentrate—what Paul refers to as “the shared purpose” toward which all employees strive. Aspirations are critical results that will define “success” and/or competitive advantages and core competences the company must develop to be successful.

Reviewing representative company examples (Chapter 3) and expert writings on strategic planning can help to spark thinking and discussion. Michael Porter's “***Competitive Strategy***” describes five forces underlying competition and a generic set of strategies which can help to define aspirations. In “***Competitive Advantage***” Porter introduces the value chain concept which helps to identify sources of competitive advantage. A Harvard Business Review article by Hamel and Prahalad discussing “The Core Competence of the Corporation” helps to clarify issues that are important for long term success. More recently Jim Collins offered “The Hedgehog Concept” as a helpful strategic planning technique in “***Good to Great***.”

Finally wording these statements in compelling terms will excite employees and intrinsically motivate “idealization” through their work.

***Defining Shared Values and Beliefs*** Re-reading the role these play in harmonizing employee and business needs, and reviewing the freedom-oriented suggestions can be helpful background for this discussion. (Chapter 2) Including only those that are truly important for success and discarding the unimportant can clarify the guidance required for operating freely.

Approaching drafting of the vision statement as a shared responsibility and not endorsement of the CEO's work can help to generate ownership and encourage members to "walk the talk." On the other hand when the team is ready to write statements, assigning responsibility to a skilled writer can facilitate the process—much like the founding fathers asked Thomas Jefferson to draft the Declaration of Independence. Writing as a group can be frustrating and bog down in different styles.

**Step 2.3 Consider whether restructuring is required before testing freedom-oriented management system.** Once the vision for success is complete, the leadership team should review the freedom-oriented structure sketched out by the CEO in Step One, modify it as appropriate, and decide whether any restructuring is required before designing and testing their management system. Two reminders can help this process. First, structure in freedom-oriented organizations defines responsibilities, accountabilities, and property rights, but does not influence communications or work coordination. Individuals are expected to interact directly guided by common sense rather than lines or boxes on a chart. Second profit centers are the fundamental building block of freedom-oriented structures and serve to provide marketplace feedback on effectiveness in delivering value to customers. We suggest considering these specific issues:

- Restructuring business units as profit centers.
- Options for restructuring head office activities such as reducing, eliminating, or treating as internal service units guided by an Internal Markets system.
- Out-sourcing internal service activities.

**Step 2.4 Design management by objectives system for leadership team planning and accountability.** It is important to recall that freedom-based planning encourages individuals and organizational units to develop objectives that fulfill their responsibilities and maximize their contribution to enterprise success. Accountability then facilitates learning and improvement of future objectives. It is also important to remember that self-responsibility for four issues transforms the relationship between managers, their associates, and their colleagues:

- focusing on the company mission and aspirations;
- behaving consistently with shared values;
- deciding and acting with competence and appropriate knowledge; and
- respecting the rights and property of others.

Within the leadership team these responsibilities encourage teammates to place enterprise interests above local issues, and to involve others when a decision or action could affect their responsibilities or benefit from their knowledge.

Peter Drucker designed MBO to enable manager self-control, but unfortunately the tool served that purpose only in freedom-oriented companies like HP and PQ which found that it also supported freedom and self-control by employees.<sup>clxxxiii</sup> David Packard described MBO as “. . . a two way street. Managers at all levels must be sure that their people clearly understand the overall objectives and goals of the company, as well as specific goals of their particular division or department. Thus managers have a strong obligation to foster good communication and

mutual understanding. Conversely, their people must take sufficient interest in their work to want to plan it, to propose new solutions to old problems, and to jump in when they have something to contribute. . . . We encourage every person in our organization to think continually about how his or her activities relate to the central purpose of serving our customers. . . . These new ideas then form the basis for development of products that will meet latent needs of future importance to our customers."<sup>clxxxiv</sup>

We suggest a two-dimensional MBO planning system addressing the business and people development. Reviewing business objectives with the entire team will reinforce accountability to colleagues while also encouraging teamwork and the spread of ideas across the organization. On the other hand some people development objectives could require private reviews with the CEO if personal issues are involved.

***MBO system for business activities*** Each member should develop objectives for high priority responsibilities that describe specifically what is to be achieved but provide latitude for creativity and innovation in the means used. This system can also be used to plan improvements to the management system. Rob Lebow and Randy Spitzer provided a survey in “*Accountability, freedom and responsibility without control*,” which can be used with a sample of employees to assess the organization’s starting point with regard to freedom orientation, and to identify important priorities for the change initiative.<sup>clxxxv</sup>

***MBO system for people development*** Team members should develop objectives that address high priority opportunities for their personal growth and improvement. In that regard we recommend soliciting feedback using the 360 tool since we seldom see ourselves as others do.<sup>16</sup> If carefully worded these questionnaires can be administered without exposing the freedom initiative. We suggest that this feedback be treated as private property to be shared as individual owners so choose, such as sharing with the CEO to identify coaching or training opportunities. This system can also be used by the Leadership Team to manage development of the organization’s highest potential individuals where reviewing objectives with the whole team can help to make available the broadening experiences required for growth.

**Step 2.5 Examine policies for consistency with a freedom-oriented culture.** We suggest ensuring that policies are in place to support two key culture elements—sharing property rights to company resources and the sharing financial rewards of success.

***2.5.1 Sharing property rights to company resources*** This policy enables management to control company resources without controlling employees and should acknowledge/consider four issues. First, since the corporation legally retains ownership employees will indirectly benefit from holding property rights through profit-sharing and stock ownership. Second, holders of rights should be free to use their property as they see fit including transferring rights to associates or third parties—consistent with their freedom-oriented responsibilities. Third, assigning rights to all physical assets and intellectual properties can avoid the problem economists refer to as “tragedy of the commons” where property owned by everybody or nobody tends to be abused and neglected. Fourth, everybody requires rights to sufficient financial resources to fulfill their daily responsibilities; for example PQ provided all employees annual rights to spend \$25k as

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<sup>16</sup> This tool was designed to solicit information from persons working all around managers in control hierarchies, their boss, peers, and subordinates—hence the term “360.” Like other valuable ideas, it has produced mixed results in control-oriented organizations where individuals often say what the requester wants to hear when trust is low.



they saw fit. When opportunities arise for larger spending individuals should be able to request additional funds analogous to borrowing from a bank to buy a house or car.

This fourth point will be a key factor for the leadership team test—the amount each member is free to commit without involving the CEO or teammates. There are numerous ways to approach the issue with one idea providing members with rights to a fraction of the cash generated by their business portfolio. Members can recommend the appropriate fraction as part of the planning process and the team can test those recommendations against the corporation's overall strategies for investing funds by business sector and for managing cash.

**2.5.2 Sharing the financial rewards of success** We suggest considering this policy now in case plans need to be developed for evolving existing bonus or stock option policies. The representative companies other than Nucor relied on two policies—profit sharing and discounts on company stock to encourage employee ownership. Before describing their systems,<sup>17</sup> it is important to clarify definitions since the concepts of “sharing financial rewards” and “incentive pay” have been confused; for example Packard referred to HP's profit sharing as “incentive pay.” From our perspective sharing financial rewards reinforces the intrinsic motivation to do one's best while also preventing employee concerns that managers or shareholders receive an unfair share of the profits flowing from their efforts—the cause of many historical labor problems. On the other hand incentive pay is an extrinsic motivator paying more for producing or selling more—a need that simply does not exist within freedom-oriented organizations.

- ◆ **PQ** created an annual financial reward pool reflecting a percentage of profits above a threshold level that was shared so everybody received the same percentage of base pay/salary. These rewards were paid into a retirement savings plan which offered several investment options including PQ shadow stock (since the company was privately owned, real stock was unavailable). Liquidity options were provided should funds be needed for current expenditures.
- ◆ **Wal-Mart:** Associates with at least one year of service who worked at least 1000 hours a year were eligible for profit sharing. Each year's pool was based on profit growth and distributed so that associates received the same percentage of base pay. For the period 1980-1990, profit sharing payouts averaged about 6% of wages and salaries. A committee that included associate representatives managed the accumulated profit-sharing accounts which through the years were invested mainly in Wal-Mart stock and produced spectacular growth. The company also encouraged associates to buy additional stock through payroll deduction by offering a 15% discount off market value.

Sam Walton noted in 1992 that, “. . . more than 80% of our associates own Wal-Mart stock, either through profit sharing or on their own, and personally I figure most of the other 20% either haven't qualified for profit sharing, or haven't been with us long enough to catch on.” The influence of these programs on employee alignment with company interests is reflected by comments like these:

- Bob Clark, a Wal-Mart truck driver: “I went to work for Mr. Walton in 1971. . . last time I checked, I had \$707,000 in profit sharing, and I see no reason why it won't go up again. . . . When folks ask me how I like working for Wal-Mart, I tell them I drove for another big company for 13 years—one they've all heard of—and left with \$700. Then I tell them about my profit sharing and ask them, 'How do you think I feel about

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<sup>17</sup> The described systems were put in place by Paul, Sam Walton, David Packard, Max De Pree, Ken Iverson, and Herb Kelleher. We made no attempt to track subsequent changes because these were likely influenced by a mix of freedom and control philosophies.

Wal-Mart?"

- Joyce McMurray, district office trainer: "I live and breathe Wal-Mart. Sam always gives so much to the associates, I want to give as much as I can back in return. I've had the maximum taken out of my check for stock purchases, and I've bought some on the outside too. . . . This year my profit sharing amounts to \$475,000."
- Jean Kelley, associate in general office: "My brother tried to talk me into quitting back in the beginning. He said I could go anywhere other than Wal-Mart and make more an hour. Well, in 1981 I had \$8000 in profit sharing. In 1991, I had \$228,000. I told my brother to show me anywhere else I could go and do that. . . . If you have faith in this company, it's amazing how your loyalty pays off."<sup>clxxxvi</sup>
- ◆ **Hewlett Packard** U.S. employees with more than six months of service were eligible to share in an annual pool based on pretax earnings which was distributed so that individuals received the same percentage of base pay. Since the company was always profitable, the program continued uninterrupted since the 1950's with payouts ranging from 4.1% to 9.9% of base salaries. HP's stock purchase plan, which allowed employees to use a percentage of their salary to purchase shares at a discount of 15%, provided valuable additional cash to finance growth since HP did not utilize long term debt at that time.

Packard shared an interesting early lesson from this plan. "In setting up the stock purchase plan we made one important mistake. We did not require employees who bought HP stock at a preferential price to keep it. There is a long-standing truth about wage and salary levels—no matter what the pay, the employee thinks he . . . needs about 10% more. We found many of our people. . . sold their stock right away [to cash in on the 15% discount]. Even our employees at high levels. . . . That situation has been corrected."<sup>clxxxvii</sup>
- ◆ **Herman Miller:** All employees were stockholders in the company through a profit-sharing plan and purchase of stock at a 15% discount. Max De Pree noted that "Over half the employees regularly purchase shares in addition to those that come as a benefit of employment. . . . Around here the employees act as if they own the place."<sup>clxxxviii</sup>
- ◆ **Nucor:** In addition to the well-known production incentive pay plan, this company offered profit sharing of 10 percent of the company's pretax earnings (with full vesting after seven year's service) and the opportunity to purchase stock monthly with the company contributing an additional 10 percent.<sup>clxxxix</sup>
- ◆ **Southwest Airlines:** Employees became participants in the profit-sharing program on January 1 following their date of employment. The company invested 15% of pretax operating income in the plan with 25% of that total going to purchase company stock—a percentage employees were free to increase. In 1996 employee ownership of 12% of the company produced the mindset reflected in actions like the flight attendant "picking up trash and cleaning out ashtrays in the gate area. When a pilot jokingly asked, 'Is that in your job description?' the flight attendant responded, 'No, but it affects my profit-sharing.'<sup>cxc</sup>

**Incentive pay/Merit pay/Employee rankings** We felt obliged to examine the issue of incentive pay since the Nucor production pay system has received such high praise from Iverson and the business press. As it turns out, the management literature sees this practice, as do we, as a double-edged sword which can:

- unintentionally crush intrinsic motivation by subjugating the joy of work and innovation to pursuit of more income;

- disrupt interdependencies among employees and organizational units, a problem Nucor experiences at interfaces between production groups and employees who cannot earn incentive pay; and
- create conflicts of interests between customers and employees such as salespersons motivated by commission to sell a bigger copying machine than really needed or a fancier insurance policy than appropriate.

While not recommended for freedom-oriented organizations, we were left wondering whether incentive pay might have unique benefits that offset the negatives where work is unusually physically demanding such as the construction of heavy steel girders in Nucor.

This research also revealed negative opinions about “merit pay” and “employee ranking,” which we share. The only favorable argument for either was to retain good employees which Deming rebutted, “Everyone that I work with could get higher pay in some other company. Why does he stay here? He stays because he likes it here. . . . He takes joy in his work. Money, above a certain level, is not enticement.” To the best of our knowledge, none of the representative companies utilize employee ranking or merit pay and all have excellent track records of employee retention. Some companies like Exxon rank employees on ultimate potential in addition to performance. This can be a valuable tool for planning development of the highest potential individuals and compatible with freedom-oriented principles so long as it does not suggest that other employees lack potential for growth.

We suggest avoiding incentive pay, merit pay, and employee performance rankings during startup of freedom-oriented management systems. Any company interested in these tools would be wise to wait until the culture of freedom is solidly in place at which point they can better assess the potential advantages and problems.

### ***2.5.3 Special property rights issues***

**Rights to company management system** We suggest that leadership teams retain property rights to this system well into implementation. Managers and employees can suggest improvements after they are exposed to freedom, but the risks of free-flowing experimentation are too great until the organization has solid experience with this fundamentally different form of management.

**Rights to developing highest potential employees** We suggest the leadership team share the rights for developing these employees with their manager— say individuals with potential to become members of the leadership team. Such individuals will benefit from varied experiences in different parts of a company which leadership team members can help to make happen.

**Layoffs, out-sourcing, and sale of organizational units** We recommend that leadership teams retain property rights to practices such as these to help protect the shared belief of avoiding layoffs unless enterprise survival is at risk.

**2.5.4 Existing policies that conflicts with freedom** Most companies have accumulated a variety of policies consistent with control-oriented management—for example time clocks, dress codes, rules about taking company equipment home, cubical standards, etc. This can be a good time to review the policy manual, flag any which impinge upon personal freedom, and decide whether to address these now or in Step Three.

**2.5.5 Language and terminology** Our research exposed a plethora of management terminology derived from control-oriented thinking. For example, “supervisors and subordinates” and “top management” reflect hierarchical thinking and “span of control” has been a key consideration in organizational design. Even dictionary definitions of “manager” and “management” refer to “directing,” “conducting,” and “supervising” and are silent about leading, coaching, and helping

employees.<sup>18</sup> We mention this for three reasons. First introducing new terminology can help to purge control-oriented thinking and facilitate the introduction of freedom—PQ and Wal-Mart refer to both managers and employees as "associates." Second, leadership teams interested in using new terminology should consider company-wide introduction to avoid confusion. Finally, a leadership team considering new terms would be wise to test them. The following are offered for consideration along with some pros and cons of each.

- "**Leadership team**" eliminates the hierarchical connotations of "senior management" or "top management," reinforces this group's key responsibility, and emphasizes teamwork.
- "**Associates**" applied to both employees and managers helps to break down hierarchical thinking. A potential downside is that "associates" has become a fad also used by traditional control-oriented organizations.
- "**Responsibility chart**" helps to purge the hierarchical and control-oriented connotations of "organization chart."
- "**Enterprise within an enterprise**" is an alternative to "profit centers" which suggests broader responsibilities such as business planning, organizational culture, community relations, etc.

**2.5.6 Policy/philosophy on job design** Job design in an environment of freedom differs fundamentally from traditionally managed organizations. Nucor for example has no job descriptions and encourages employees to evolve their responsibilities as they grow and search for ways to maximize their contributions.<sup>cxci</sup> The only potential need we found for job descriptions is to communicate responsibilities, accountabilities, and property rights—which can be handled through other means. If used, job descriptions must provide flexibility for employees to adjust their responsibilities as their capabilities and skills develop.

**Step 2.6 Test the freedom-oriented management by objectives system.** This test will provide invaluable practical experiences and learnings, so there is no need to rush. Where the starting culture involved little freedom, members may struggle for awhile to shed control-oriented habits and to replace those with teamwork. Where interpersonal competition has been the norm, members must build trust among themselves and with the CEO. The lessons learned working through issues like these will improve everybody's effectiveness when they ultimately cascade freedom throughout the organization.

This test also provides opportunities for the CEO to assess whether teammates are prepared to lead the cascading of freedom throughout the organization. Have their doubts about the validity and value of the freedom paradigm been resolved? Are they truly enthusiastic about the opportunities offered by freedom? Do they have the knowledge, skills, and understanding required to satisfy their responsibilities? Are they prepared to walk the talk of freedom? Nothing will jeopardize an initiative faster than a leadership team member paying lip service to the effort—which employees will interpret as a lack of management sincerity. So doing everything possible to ensure that all members believe that freedom is right for the organization and are prepared to enthusiastically lead the introduction can be worthwhile.

This step will be complete when leadership team members agree unanimously that:

- The management system satisfies the needs of the business, enables them to operate with full freedom, and can be adapted to manage the cascading of freedom throughout the organization.
- They have the experience, skills, policies, procedures, and role models needed to

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<sup>18</sup> Meriam Webster Collegiate Dictionary, 10th Edition 1993

successfully lead the cascading of freedom throughout their business units. At that point team members can celebrate achieving this critical milestone on their road to freedom.

## **Chapter 9 Summary**

### **Step Two—Design and test Freedom-based management system**

- **Objectives: (1) to convince leadership team members that freedom offers a practical, powerful, and high priority opportunity by personally experiencing the impacts on their responsibilities, and (2) to prepare members to lead the cascading of freedom across the organization.**
- **These steps can accomplish these objectives:**
  - Step 2.1 Form the leadership team and introduce the freedom initiative.**
  - Step 2.2 Develop the freedom-oriented vision of success including the mission, aspirations, and shared values and beliefs.**
  - Step 2.3 Address whether any restructuring is required to test the management system.**
  - Step 2.4 Design a two-dimension management by objectives system for leadership team that addresses planning and accountability for the business and for people development.**
  - Step 2.5 Examine existing policies for consistency with a freedom-oriented culture.**
  - Step 2.6 Test the freedom-oriented management system.**
- **Ideas emerging from leadership team members should be nurtured as signs of self-organized spontaneous order, and our suggestions treated as only a checklist.**

## **Chapter 10 Step Three—Cascade freedom throughout the organization**

By this time members of the leadership team have operated freely for months and experienced how freedom and management by objectives facilitate their self-planning, self-coordination, and self-management of activities. They appreciate how freedom-oriented responsibilities require them to seek help when others have knowledge, information, or experience of value to decisions and to give help when requested. Their enthusiasm for freedom's powers to improve individual and organizational effectiveness should be high and rumors of their successful test have probably spread among managers and employees creating a sense of anticipation for the day freedom cascades throughout the organization.

We offer this five-step process of controlled change to relax current controls and spread freedom at a pace the leadership team judges chooses for moving toward the goal of everybody enjoying full responsibility, full authority, and full accountability. Alternatively, teams can rely on self-organized spontaneous order to guide freedom's spread and treat these ideas as a checklist for developing plans.

**Step 3.1 Finalize the freedom-oriented structure.** We suggest using test experiences to reassess organizational structure one last time:

- Are the responsibilities and sizes of profit centers appropriate?
- Are headquarters and centralized activities appropriately structured?
- Should any activities be out-sourced?
- Is the internal markets system in place and working as planned to guide the flow of resources and services among units?

If this produces any employee surpluses or opportunities for out-sourcing emerge, dealing with those now and handling affected employees consistent with freedom-oriented shared values can minimize organizational confusion.

Once the structure has been finalized, individuals with a high probability of success as freedom-oriented managers should be selected to lead the profit centers and centralized service units. Again this process should take advantage of all available information including 360 feedback, and place special emphasis on leadership skills and traits such as humility, trust, honesty, teamwork, and risk-taking.

**Step 3.2 Develop plans for cascading freedom throughout the enterprise.** We suggest considering how much coordination of profit center plans and schedules is desired. Smaller companies or those with close interactions among profit centers may require closer coordination than organizations with diverse and independent profit centers. The pace and form of implementation can also be tailored to fit specific needs and preferences such as deferring one or more profit center's implementation because of conflicting business priorities, or allowing some organizations to take the lead so that others can learn from their experiences. This is also an appropriate time to decide whether a company-wide employee opinion survey will be used to track progress and, if so, to assign responsibility for managing that.<sup>19</sup> Finally once an introduction strategy is in place a communications plan should explain what employees can expect with regard to the freedom initiative.

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<sup>19</sup> Alternatively "The Freedom Survey" in the book, *Accountability* by Rob Lebow and Randy Spitzer, can be used to assess freedom in seven organizational elements.

**Step 3.3 Leadership team members introduce freedom to their managers.** The CEO's introduction of freedom to the leadership team can be adapted for this purpose using this check list of key issues:

(1) Describe what freedom means and doesn't mean.

- Freedom does not eliminate control, but shifts primary responsibility for control from managers to employees.
- Everybody is expected to behave self-responsibly by:
  - \* focusing on the company's mission and aspirations;
  - \* behaving consistently with shared values;
  - \* establishing and achieving objectives that maximize their contributions;
  - \* deciding and acting with competence and appropriate knowledge;
  - \* respecting the rights and property of others; and
  - \* managing their own personal development.
- Freedom does not eliminate managers, but changes their role from supervising and controlling to leading, coaching, and helping.
- Freedom and democracy are fundamentally different concepts; freedom in the workplace entails no right to vote.
- Freedom requires a fundamental change in management thinking— the management paradigm shift from control to freedom. (*Chapter 5*)
- Four principles are used to create a freedom-oriented organizational culture:
  - \* Align long term individual and business interests. (*Chapter 1*)
  - \* Strive to harmonize individual and business needs. (*Chapter 2*)
  - \* Articulate a clear vision of enterprise success—mission, aspirations, and shared values. (*Chapter 3*)
  - \* Emphasize self-responsibility, authority, and accountability. (*Chapter 4*)

The resulting culture aligns employee and business interests and earns their commitment to business objectives; fully aligned and fully committed employees can be relied on to operate freely.

- Describe property rights and the specific rights and authorities to be distributed to managers and employees.

(2) Describe why freedom is critical to enterprise success.

- Introduce the enterprise vision for success—the mission, aspirations, and shared values and beliefs.
- Discuss why freedom is critical to achieving that vision including the specific expected business benefits.

(3) Describe the next steps in implementation.

- Explain how freedom will change your relationship with the managers to emphasize leading, coaching, and helping them— not supervising and controlling.

- Introduce the MBO system and the schedule you will use for planning and accountability.

\* Since MBO has a spotty reputation, explain how the tool worked successfully for the leadership team test and in the freedom-oriented cultures of HP and PQ, but has failed in control-oriented organizations where it became just another tool for management control.

\* Emphasize how freedom-oriented planning encourages setting objectives that maximize individual and organizational contributions; accountability to colleagues and the organization then facilitates learning and improving future objectives. (We suggest developing objectives for three areas— business responsibilities, people development, and a temporary third category for the freedom initiative.)

\* Emphasize your willingness to coach and help managers as they develop objectives.

- If appropriate discuss how the employee opinion survey will be used to measure progress toward freedom-oriented culture, and 360 surveys will gather feedback for self-improvement planning.

- Clarify next steps.

OD experts can advise on sites that will improve the quality and effectiveness of these discussions and help to create environments in which individuals are comfortable expressing questions, doubts, and concerns. Since freedom may be counter-intuitive, sufficient time to debate and question the concepts will help individuals internalize what freedom implies for their personal roles, responsibilities, and behaviors.

### **Step 3.4 Managers develop and review their objectives.**

This is the opportunity for leadership team members to use MBO as the focus of their relationship with managers and to influence business results indirectly by coaching and helping as they develop objectives for the three categories.

*Objectives for the freedom initiative* Introducing freedom to employees is likely to be a totally new experience for most managers, so sharing personal anecdotes and lessons learned from the leadership team test can help them plan appropriate communications. Opportunities may arise to reinforce risk-taking, learning from mistakes, and “outside the box” thinking. Unless an idea is glaringly inconsistent with freedom-oriented values, we suggest encouraging experimentation which will produce either successes that can be shared with others or opportunities to learn.

*Business objectives* We suggest probing whether appropriate plans are in place and supportive of the enterprise vision for success using questions like Paul used with PQ managers.

- Where does your business stand today? What’s an honest assessment of current reality?

- What does the profit center offer the market/customers that is unique?

- How can the profit center best capture the opportunities offered within its marketplace?

- How does the plan for capturing those opportunities fit within the marketplace regarding market share, competition, etc.?

- What does success imply in terms of cash flow? Returns on investment? Opening other possible opportunities? Etc.?

Ex-GE CEO Jack Welch asked business unit managers with dominant market shares to re-define their market so that GE had no more than a 10 percent share. According to him this produced “the ultimate mind-expanding exercise as well as market-expanding breakthroughs.”<sup>20</sup>

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<sup>20</sup> Jack: *Straight from the Gut*, pages 201-204. This idea came from an army colonel who observed that GE managers had learned to “safely remain No. 1 or No. 2” as required by Welch’s prior edict—a classic example of game playing in a high control environment.



When questioning or suggesting ideas, clarify that managers are free to respond as they judge appropriate since some may lack the confidence and trust needed to exercise independent judgment.

We suggest asking profit centers to position their objectives and plans within the context of outlooks for the economy and appropriate business sector(s)—another area where members can help by sharing the outlooks reviewed by the leadership team. A 3-5 year outlook for key financial indicators such as cash generation, sales revenue, etc. that is consistent with achieving the objectives can add value. Finally objectives reviews provide opportunities for profit center managers to identify any special help or support required from the leadership team.

People development objectives People planning can benefit from the stretch philosophy used by the representative companies. As Sam Walton noted, ". . . (W)e give our department heads the opportunity to become real merchants at a very early stage of the game. They can have the pride of proprietorship even if they weren't fortunate enough to go to college or be formally trained in business. They only have to want it bad enough, pay close attention, and work very hard at developing merchandising skills. We've had many cases where the experience has fired people up with ambition, and they've gone on to work their way through college and move on up in the company, and I hope we have many more."<sup>excii</sup>

De Pree emphasized, "We do not grow by knowing all of the answers, but rather by living with the questions."<sup>exciii</sup> Nucor assigned factory worker, Ken Kinsey, responsibility for constructing the multi-million dollar melt shop in a new high tech plant, a job Kinsey successfully managed while noting, "I didn't sleep a lot my first week on the job, but I didn't puke even once."<sup>exciv</sup> Ferold Arend estimated that 9 out of 10 Wal-Mart's stretch cases proved successful—a batting average making “stretch” far more attractive than the risk-averse philosophy of providing development opportunities when employees are ready.<sup>excvi</sup>

This stretch philosophy contrasts sharply with that of a control-oriented executive friend who was convinced that fewer than half his employees had potential for growth—classic confusion of cause and effect. While behavior of some employees may suggest limited abilities, that is often the result of control-oriented management failing to offer encouragement and opportunities. The sword of self-fulfilling prophesy cuts both ways; when management doubts the ability of individuals to grow some will fulfill those doubts. As De Pree noted, "When we think about leaders and the variety of gifts people bring to corporations and institutions, we see the art of leadership lies in polishing and liberating and enabling those gifts."<sup>excvi</sup>

Leadership team members are likely to have two special interests in this section—each manager's objectives for their personal self-development and plans for developing the organization's highest potential employees. Max De Pree offered a series of insights that characterize an appropriate mindset for working with managers.

- "People are the heart and spirit of all that counts. Without people, there is no need for leaders."
- The art of leadership is "liberating people to do what is required of them in the most effective and humane way possible."
- "The signs of outstanding leadership appear primarily among the followers. Are the followers reaching their potential? Are they learning? Serving? Do they achieve the required results? Do they change with grace? Manage conflict?"
- "Leaders owe people space, space in the sense of freedom. Freedom in the sense of enabling our gifts to be exercised. We need to give each other the space to grow, to be ourselves, to exercise our diversity. We need to give each other space so that we may

both give and receive such beautiful things as ideas, openness, dignity, joy, healing, and inclusion."

"[E]ffectiveness comes about through enabling others to reach their potential— both

- their personal potential and their corporate or institutional potential."<sup>cxvii</sup>

Tensions may develop in the early stages of cascading between desire to allow members to operate freely and the leadership team's natural interest in how the introduction is progressing. This can be managed by members reviewing a summary of their profit centers' objectives and plans with the whole team, and providing periodic progress reports. The cycle of such reviews can be extended over time as confidence builds that freedom is working as expected.

### **Step 3.5 Maintain and protect freedom in the workplace.**

The introduction of freedom will be complete once everybody is operating with full responsibility, full authority, and full accountability—another critical milestone that the leadership team and entire organization should celebrate. Beyond that point leadership teams should shift their attention to maintaining and protecting freedom which history indicates is not a trivial task. CEO successors severely eroded freedom in HP and threatened it within Nucor and PQ Corporation.

This book provides new tools for protecting organizational freedom that were not available to representative companies. For example exposing CEO candidates to the vision-led freedom paradigm and the principles of freedom-oriented management should increase the probability that the successor will reinforce the freedom-oriented culture. Testing new ideas for consistency with the freedom principles can help to guard against unintentional "contamination." Opinion surveys built around these principles can monitor the health of freedom within the organization and provide early warning of problem areas.

Unfortunately though none of these protect against the greatest risk—complacency! Economic freedom in this country has declined to 12<sup>th</sup> on the most recent Heritage Foundation Index as complacency has desensitized Americans and their political leaders to the importance of resisting popular appeals for a new regulation here and another there. As a result the US has dropped below countries like Estonia and Chile where recent experiences with Marxist dictators created stronger appreciation for freedom. Similarly freedom within the enterprise can be protected only by vigilance energized by deeply held personal convictions that freedom is critical to enterprise success. And that vigilance must be refreshed from time to time with reminders that freedom is a top personal priority for leadership team members.

In this regard it is important to recognize that freedom-oriented management does not seek to eliminate employee dissatisfaction since humans are wanting animals who are never satisfied. Freedom's objective is to focus that dissatisfaction on business results and organizational elements that detract from competitive success. So once freedom becomes the norm, complaints about such issues will confirm that the organization is functioning as expected and that complacency has not set in among employees—a risk that worried Sam Walton.

## **Chapter 10 Summary**

### **Step Three—Cascade freedom throughout the organization**

**Five steps are suggested for leadership teams to consider as they spread freedom throughout the organization:**

**Step 3.1 Finalize the freedom-oriented structure and select individuals for key manager positions.**

**Step 3.2 Develop plans for cascading freedom throughout the organization.**

**Step 3.3 Introduce the freedom initiative to managers.**

**Step 3.4 Coach and help managers as they develop plans and objectives for spreading freedom.**

**Step 3.5 Maintain and protect freedom in the workplace.**

## Chapter 11 Suggestions for middle managers and employees

The target audience for this book is business leaders and management experts whose actions can help to catalyze a fundamental shift in management thinking and practices. However even if successful in making that happen control-oriented companies will be around for decades. This final chapter therefore suggests how managers and employees in those organizations can use these ideas to improve personal effectiveness or performance of their unit when they are in no position to influence enterprise-wide change. We also point out some of the risks involved.

***Demonstrate self-responsible behavior to earn increased freedom*** The lowest risk opportunity is to improve one's effectiveness by earning additional freedom—i.e. additional authority to act without having to seek management approval. The key to accomplishing this is self-responsible performance that encourages your supervisor/manager to entrust you with additional authority.

A good place to start is using the freedom-oriented responsibilities in Chapter 4 to self-assess how responsibly you are performing today.

- \* Do I consistently focus on my company's mission and aspirations? Do I concentrate on what is best for the company and avoid being distracted by selfish or local interests? Do I understand what is best for my company?
- \* Do I behave consistently with freedom-oriented shared values such as trust, honest and ethical behavior, openness, teamwork, humility, and fairness? Do I take risks by offering creative ideas or experimenting with them?
- \* Do I do my best within current authorities to help the company succeed? Do I establish and achieve personal objectives that maximize my contributions?
- \* Can my manager rely on me to make decisions with competence and appropriate knowledge, and to seek help from others when I need it?
- \* Do I respect the rights and property of colleagues? Do I self-coordinate with colleagues when my activities could influence their responsibilities?
- \* Do I manage my own personal development? Do I identify development needs and suggest training or developmental opportunities that can improve my effectiveness?

The opportunities identified through this assessment can be prioritized to develop an action plan for self-improvement. For example, if you do not consistently focus on what's best for the company, develop a plan for changing. If you don't understand what is best for your company, schedule a discussion with your supervisor/manager to clarify how your unit contributes to the company's mission and aspirations. She/he may not know the answer, but if handled properly the issues raised can be beneficial to both of you.

Once clear on how you and your organization contribute to company success, a second action step can involve brainstorming improvement opportunities using examples like these from the representative companies to stir your imagination.

- Herman Miller shipping employees saved \$3 million in annual shipping costs by loading trailers differently;
- an ECS employee created a new meeting planning service;
- a PQ operator introduced Quality to a customer organization and earned a sole-supplier relationship;
- Nucor employees recommended attaching wood to steel beams to compete against wooden beams in Western construction;

- Southwest Airlines employees figured out how to turn planes around faster to earn more revenue by spending less time on the ground; and
- a PQ employee suggested designing plants that could be operated by one person.

Remember that breakthroughs most often result from collaborations where others can build on or extend ideas, so discussing your ideas with colleagues or your manager can add value. Even if the idea doesn't pan out, she is likely to appreciate your concern and initiative.

When confident that you are performing as a self-responsible individual, identify specific additional authority that would increase your effectiveness by considering activities you could competently handle that currently require her approval? If you come up with more than one choose the opportunity with greatest influence on your effectiveness which your manager likely has authority to delegate. Be prepared to provide a specific example of how this will improve your contributions; the business benefits in Section Two provide ideas to consider.

If successful in gaining added authority, work for awhile until you and your manager feel positive about the results. Later you can build on success by suggesting additional authority, or perhaps suggesting that the two of you experiment with MBO. If appropriate, you might suggest collaborating on ideas to increase your unit's contributions. Opportunities of this nature should be endless so long as you approach the effort seeking win/win outcomes for yourself and your manager.

We suggest avoiding a big show of your initiative and any mention of "freedom" which is a scary notion for many managers. It is usually safer to talk about "empowerment," a popular concept in the management literature that is basically consistent with increased freedom. You can also consider sharing with your supervisor/manager the questionnaire you used to self-assess your self-responsibility which she might find helpful working with other employees.

The greatest risk for an initiative like this is backlash from a manager who feels threatened, or who values control more than business results, or who is incapable of trusting others. Under such circumstances the chances of developing win/win proposals are greatly reduced so it may be wise to wait for a change in leadership. You should also be alert for jealousy or favoritism complaints from colleagues which should be manageable with help from your manager if spotted early. After all, you are only trying to increase your contributions by acting self-responsibly.

***Experiment with increased freedom within an organizational unit*** A supervisor/manager in a control-oriented enterprise can take advantage of these concepts to improve the effectiveness of their organizational unit—the strategy Bill used to transform Exxon Central Services. His primary motivation in creating a people-oriented culture was research showing that service employees rarely treat customers any better than management treats them. But in hindsight that experience demonstrated that units can progress far along the path toward freedom and achieve business benefits even though operating within a high-control enterprise.

One key when creating an "unusual" culture is to carefully manage stakeholder expectations. In ECS Bill focused on his Corporate contact executive (an Exxon Board) and leaders of the customer organizations. Ensuring that those individuals were never caught by surprise and were kept up to date on progress with periodic reviews generally satisfied their needs. We caution again to avoid mentioning freedom and to focus instead on empowerment, effectiveness, and business results. It is also wise to emphasize the experimental nature of the initiative and minimize discussion of specific improvements opportunities. That can prevent getting more help than you need from colleagues with insufficient understanding of what

freedom really means; besides most stakeholders don't care how you produce favorable results so long as you abide by company policies. In this regard it is important to remember that you can provide employees no more authority than you enjoy within the overall control hierarchy or as is permitted by delegation of authority rules. Seeking an exception to company policy will usually add substantial risk.

You can consider the pros and cons of communicating with employees outside your organizational unit. On the one hand that has the potential of creating too much attention for a local, experimental initiative. On the other hand, once the initiative starts the grapevine may spread the word to other organizations about empowering of employees. Risks can be minimized by preparing your employees to answer questions candidly without trying to "sell" the culture you have created, or lording it over others.

Implementation within the unit can be planned and managed by adapting the step-wise strategy in Section Three to fit the specific needs of the organization.

This type initiative is always at risk from reorganization and management succession. ECS was dismantled in a corporate reorganization which eliminated or relocated major customer organizations and none of the freedom-oriented culture survived. However, in spite of that premature shutdown Bill and most ECS colleagues felt the effort had been worthwhile providing business benefits for Exxon while producing powerful growth and life-changing positive experiences for many individuals which later opened the way to post-ECS opportunities. Management succession creates risks because initiatives usually require 2-3 years to show demonstrable results and even longer to become engrained in an organizational culture. Therefore long term success depends on successor leaders supporting the initiative.

***Propose a freedom-oriented change initiative for an enterprise or organizational unit***

This last and highest risk option should be considered only when the individual to whom the proposal will be presented is unusually people-oriented, or where the existing culture contains elements of freedom. For example, press reports suggest that companies like W. L. Gore, Malden Mills, and Harley Davidson have managements who utilize freedom-like philosophies and therefore might be receptive to a freedom-oriented proposal.

We suggest collaborating with at least one colleague while developing such a proposal since two minds are better for thinking through and brainstorming issues. On the other hand, we also recommend keeping the group small so there is no risk of the proposal being perceived as an employee revolt. If the proposal involves the whole enterprise, we suggest explicitly referring to freedom since culture change involves the paradigm shift to freedom.

The key to success here will be a convincing business case—the specific advantages a freedom-oriented culture offers compared to the status quo, and ideas for developing this can be extracted from Section Two. You can also develop a first pass assessment of the key changes likely to be required by comparing the current culture with the freedom-oriented principles in Section One. If the current culture contains freedom-oriented elements, highlighting how the initiative builds on those strengths can increase the probability of a favorable reaction by management. The implementation recommendations in Section Three and tools such as MBO, the 360 feedback tool, and employee opinion surveys can be considered for your package. Proposals of this magnitude are usually most effective when submitted in written form, which can be reviewed before face-to-face discussions. A copy of this book can be included as background.

*Final advice* The risks of any local freedom-oriented initiative in a control-oriented culture will always be higher since top management is not committed to the effort, so a judgment about whether or not to proceed should balance that and other risks against the potential benefits. In doing so, remember that large scale change often begins with small steps. There is always the chance a local initiative will be the seed from which organization-wide freedom grows.

## Chapter 11 Summary

### Suggestions for middle managers and employees

- **Managers and employees can use the freedom-oriented ideas:**
  - to improve their individual performance,
  - to improve performance of their organizational unit, or
  - to propose a freedom-oriented change initiatives.
- **Although risks of inconsistencies with the enterprise culture are high, there is always a chance that freedom will spread.**

## Closing Thoughts

We undertook the reading and research for this book years ago hoping to give something back to this great country whose opportunities rewarded us so richly. The findings already described should achieve that objective by helping leaders to take advantage of our experiences. However, as our appreciation deepened for freedom's profound influences on human development and behavior, and for the negative impacts of hierarchical control in today's workplaces, we came to appreciate that collateral benefits could help to re-vitalize the wonderfully successful American experiment.

- **More Americans consistently experiencing freedom and self-responsibility 24/7 should help to rekindle appreciation for this critical interdependence, and avoid the potential problem Thomas Jefferson identified 200 years ago that working under control of managers could make citizens unfit for self-government.**
- **Freedom should revitalize middle class income growth when employees can fully use their potential to contribute to business success and share in company profits and stock value appreciation.**
- **By dispersing power, opening access to records, and motivating employees to behave like an army of "internal auditors," freedom should prevent management corruption and help to rebuild public trust in capitalism.**
- **Finally freedom's opportunities for enjoyable work, personal growth, profit-sharing, and employee stock ownership should finally shatter the Marxist myth—still influential today, that capitalism exploits workers.**

More profoundly, freedom inside workplaces should finally position capitalism to take full advantage of human capabilities and mankind's noblest impulses. As Alexander Solzhenitsyn observed "A society based on the letter of the law and never reaching any higher, fails to take advantage of the full range of human possibilities. The letter of the law is too cold and formal to have beneficial influence on society. When ever the tissue of life is woven of legalistic relationships, this creates an atmosphere of spiritual mediocrity that paralyzes men's noblest impulses. . . ." <sup>excviii</sup> And Max De Pree noted that freedom within Herman Miller built "covenantal" relationships with employees in place of the traditional legal contracts.

Finally an observation by Charles Handy suggests that freedom actually returns the management profession to its roots. Handy noted that "manage" meant "coping with" until purloined by experts like Frederick Winslow Taylor to focus on planning and control, and "company" is an old Anglo-Saxon term for fellowship, a group of companions. Reestablishing the true meaning of management should re-energize the bountiful blessings of American democratic capitalism for citizens and as a beacon for freedom-seeking peoples around the globe.

If we live to see a fraction of this impact, we will consider this book a job well-done.



## Appendix

### A Role Model for Freedom-Based Management

**The Foundation**—Leadership mindset open to possibility employees need not be controlled—i.e. to the Management Paradigm Shift to Vision-led Freedom.

<i><u>Assumptions about:</u></i>	<i><u>Traditional “Hierarchical Control”</u></i>	<i><u>“Vision-led Freedom”</u></i>
<i><b>Business</b></i>	* Employee interests conflict with those of the business.	* Management can prevent conflict by creating proper conditions.
<i><b>People and Work</b></i>	* Coercion and control are required to make employees work hard.	* Work can be as natural as play or rest.
<i><b>Freedom</b></i>	* Freedom for employees would produce disorder and chaos.	* Responsible, self-controlled employee behavior maximizes freedom for all.
<i><b>Control</b></i>	* Control of property and business processes requires control of employees.	* Property and business processes can be controlled by assigning property rights.
<i><b>The Nature of Order</b></i>	* Only managers can maintain order in an organization.	* Employees can self-control and self-coordinate activities to produce order spontaneously.

- Freedom does not eliminate control, but shifts primary responsibility from management to employees.

**First Principle**—Articulate compelling vision for enterprise success— mission, aspirations, and shared values/beliefs.

- Provides guidance and constancy of purpose employees require to operate freely.

**Second Principle**—Align long term employee and business interests

- Freedom is the natural state for humans, so Freedom-Based Management eliminates the long-standing conflict created by hierarchical control.

- To achieve alignment:

- \* *Leaders must believe conflict is avoidable.*
- \* *Everybody should understand the roles of profits in a free market system.*
- \* *Employees should share intrinsic and financial rewards of success through profit-sharing and stock ownership.*
- \* *Management can use property rights to control company property and business processes instead of controlling employees.*

### **Third Principle—Harmonize individual and business needs**

- Individual needs include:
  - \* *Physiological needs for sustenance satisfied by food, water, etc.*
  - \* *Safety needs such as security, stability, and freedom from fear.*
  - \* *Belongingness needs for relationships.*
  - \* *Esteem needs for self-respect, self-esteem, and the respect of others.*
  - \* *Need to self-actualize, to fulfill one's unique potential.*
  - \* *Idealization— need to be used for purpose greater than selfish interests.*
- Leadership should recognize that organization is people gathered to pursue a worthy cause and that finances, facilities, brands, etc. are only tools for their use.
- Shared values/beliefs like these can help:
  - \* *Respect for human dignity.*
  - \* *Ensuring everybody has opportunity to achieve their unique potential.*
  - \* *Information should flow freely and openly.*
  - \* *Taking risks and learning from mistakes.*
  - \* *Honest and ethical behavior.*
  - \* *Trust.*
  - \* *Humility, especially among leadership.*
  - \* *Fairness and sharing.*
  - \* *Avoid layoffs unless survival of the enterprise is at risk.*
  - \* *Showing appreciation.*
  - \* *Teamwork and community.*
  - \* *Individuals have a safety valve to express concerns.*

### **Fourth Principle—Emphasize freedom, self-responsibility, authority, and accountability**

- Freedom profoundly influences human development and behavior.
- Employees should be accountable to organization and colleagues for at least these responsibilities:
  - \* *Focus on company mission and aspirations;*
  - \* *Behave consistently with shared values;*
  - \* *Establish and achieve personal objectives that maximize one's contributions;*
  - \* *Decide and act with competence and appropriate knowledge;*
  - \* *Respect the rights and property of others; and*
  - \* *Manage one's own personal development.*
- Employees work with managers to define:
  - \* responsibilities which utilize their skills, talents, and personal interests; and
  - \* authorities and property rights required to freely fulfill responsibilities.
- Manager responsibilities shift to leading, coaching, and helping instead of controlling.

**Seven dimensions of freedom deserve special attention and protection:**

- *Freedom to develop, to grow, to achieve one's unique potential—a source of tremendous business value.*
- *Freedom to make mistakes and to fail—essential elements of human creativity and growth.*
- *Freedom to question and to investigate.*
- *Free access to all business information except that which is private.*
- *Freedom to decide and to act.*
- *Freedom from boundaries.*
- *Freedom from arbitrary limitations such as work hours, location, dress, etc.*

**Business Benefits**

**Freedom revolutionizes individual effectiveness by:**

- stimulating growth and development;
  - encouraging everybody to achieve and utilize their unique potential;
  - enabling employees to match personal interests with responsibilities;
  - producing higher energy workplaces;
  - nurturing human virtues extinguished by hierarchical control; and
  - everybody thinking and acting like business owners.
- Individuals behave like energetic entrepreneurs focused on the vision for success rather than employees.

**Freedom transforms organizational effectiveness by replacing traditional “controlled order” with “self-organized spontaneous order.”**

**The combination of freedom and self-organized spontaneous order:**

- *Improves ability to generate and utilize employee and organizational knowledge;*
- *Enables organizations to self-transform;*
- *Inoculates against corruption and management misbehavior;*
- *Positions enterprise to balance needs for continuity and change; and*
- *Provides capability to simultaneously act small/local and large/global.*

**Freedom played a critical role in these companies outperforming the S&P 500 for decades:**

- PQ Corporation by factor of 5
- HP by factor of 7 ½
- Nucor Steel by factor of 9
- Southwest Airlines by factor of 10
- Wal-Mart by factor of 35

## **Bill and Paul's Stories**

## **Bill's transformation of the Exxon Central Services culture**

This story began decades before I became a manager when experiences—possibly blue collar summer jobs during college, shaped my ideas about how people relate to work. Reading *“The Human Side of Enterprise”* by Douglas McGregor in early Exxon supervisory training first raised awareness of how such ideas can influence management systems and the way managers think and act. Exxon's classic hierarchical control system assumed that coercing and controlling employees would maximize their efforts—a mindset McGregor labeled *“Theory X.”* On the other hand I found myself far more comfortable with his *“Theory Y”* ideas such as:

- *work can be as natural as play or rest;*
- *employees will self-direct and self-control their activities if committed to organizational objectives;*
- *under proper conditions employees will not only accept, but seek responsibility;*
- *most employees have the imagination, ingenuity, and creativity to solve organizational problems.*

Years later during the research for this book I came to realize that neither mindset reflects any fundamental truth. Although in my opinion the vast majority of employees exhibit *Theory Y* characteristics, some clearly do not. The power of the *Theory Y* derives from managers expecting the best from employees and creating working conditions that encourage them to grow, to innovate, and to contribute to their fullest—instead of controlling everybody out of concern for how a small minority might behave. Two other McGregor observations fit with my work experiences:

- *Organizations could be far more effective if managers discovered “how to tap the unrealized potential present in their human resources.”*
- *“The ingenuity of the average worker is sufficient to outwit any system of controls devised by management.”*

I saw much imagination and creativity consumed getting the “right” thing done in spite of management controls.

During the '60's I tested *“Theory Y”* thinking by experimenting with *“Management by Objectives,”* which Peter Drucker recommended to encourage “self-control” of work activities. Unfortunately though “self-control” conflicted with Exxon management controls creating confusion, so that effort was short-lived. Through the years I tested other ideas some of which like participative management added value, but did not think about addressing culture until an assignment as Operations Manager of the Baytown Refinery reframed forever my mindset about how leaders can influence business results.

My predecessor, who was now refinery manager and my boss, left behind an initiative to reduce maintenance costs by changing the Operations Division culture. After recovering from the shock of him expecting me to focus on culture instead of the “real work” of running a refinery, I warmed to the notion of encouraging Process Division operators to do routine maintenance tasks traditionally handled by Mechanical Division personnel. Operators had ample spare time since units were staffed to handle the rare emergencies, and were controlled by computers during normal times requiring only minimal attention and effort. The logic of using

this spare time to reduce costs by freeing skilled mechanics for more sophisticated work seemed irrefutable—plus there were no unions to squabble over work rules.

Three years later as I left Baytown that effort had produced little lasting progress, but did caused me to reflect on the difficulties of changing habits and behaviors of well-intentioned employees who shared my interest in the refinery being successful. The resulting insights persuaded me to focus on organizational culture whenever the opportunity arose. For example I came to appreciate the value of employees understanding their organization’s over-arching business objectives—what W. Edwards Deming called the “constancy of purpose.” I discovered how failure to understand the impact of change initiatives on those objectives motivated employees to look good with what they perceives as management’s latest ”flavor of the month.” I learned to consider “What’s in it for me?” from the employee’s perspective— a question that naturally influences human behavior. Leaders can speculate, but true understanding of employees’ perspectives requires candid and open dialogue which when done right greatly increase the chances of meaningful progress. Finally working with friend Bill Veltrop, Baytown’s Organization Development (OD) specialist, taught me how that expertise helps managers increase the probability of success in change initiatives.

When I transferred to New Jersey as Corporate Vice President of Information Systems and head of the Exxon Communications and Computer Sciences organization, the first questions I asked my management team were “What are our over-arching business objectives? How do we contribute to Exxon success?” Their silent stares led to several weeks of conversations across the corporation which identified three roles for the organization to add value:

- to develop and support software needed by Exxon affiliates;
- to manage the corporate data center and worldwide telecommunications network which served affiliates (pre-Internet); and
- to coordinate computing activities among the Exxon affiliates.

With that knowledge I transferred one unit to another affiliate where the responsibilities fit better, utilized early retirements and a layoff to match the work force with current needs, and with help from OD expert Dave Morris set out to change a technology-focused culture to one emphasizing “customer service” within which 300+ employees could satisfy our business objectives.

Three years later that culture change had barely stabilized when the Exxon CEO, as part of a corporate reorganization, asked me to merge into my organization a variety of other service activities in the New York/New Jersey area to create Exxon Central Services. The resulting company had 600 employees, an annual budget of \$100 million, and a services portfolio that included computing, telecommunications, accounting, purchasing, security, building operations, travel, the executive jet fleet, and a range of human resource activities. This provided the perfect opportunity to apply my learnings from Baytown since personal research revealed that service employees rarely treat customers any better than their management treats them. In addition the literature suggested that the best service companies empowered employees to satisfy customers without seeking management approval. So I sat out to build a people-oriented ECS culture focused on customers that empowered employees.<sup>21</sup>

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<sup>21</sup> Throughout this period I also served as Exxon Vice President for Information Systems, a role supported by a small staff where the same leadership principles were applied.

My first steps in forming the new company were to design an organizational structure using traditional span-of-control thinking, and to stack the deck for success by filling as many management team positions as possible with people-oriented individuals. Finding candidates was easy since such individuals tended to stand out as exceptions within Exxon's sophisticated management development system, although I did have to stay alert for other organizations trying to unload "problem" individuals.

Once the leadership team was on board, OD expert Dave Morris helped to design and facilitate a several day offsite session where I shared my research findings about the keys to success in the service industry and used McGregor's "*Theory Y*" to describe the people-oriented environment we needed to create. Those discussions generated a high level of enthusiasm and set the stage for the first of the Leadership Team's many trial and error efforts—developing our vision for success described below:

#### **The ECS Commitment**

- **Our mission is to provide the services Exxon colleagues require to achieve their business objectives.**
- **We aspire to earn a reputation for quality service, cost effectiveness, competence, timeliness, and dependability.**
- **We strive to build a culture based on four principles:**
  - *customer service,*
  - *continual improvement,*
  - *success through people, and*
  - *teamwork and partnerships.*

Looking back years later I'm amazed how effectively *The ECS Commitment*, created during two days at that offsite with no role model nor any practical experience with vision-led change, communicated the company's overarching objective and management's priorities for achieving that. In fact I would make only two changes to capitalize on learnings since then. I would re-label the last point "shared values" instead of "principles" and add "risk-taking" and "learning from mistakes" to the list as values because those clearly differentiated ECS from the traditional Exxon culture.

This vision for success contained no surprises for employees in my prior computing and telecommunications organization, but represented radical change for many others who saw their role as controlling customers rather than serving them. The vision also required a dramatic shift in emphasis for many managers and supervisors from "controlling employees" to "leading, coaching, and helping."

Startup was a gut-wrenching year which I likened to overhauling an Indy 500 racer traveling at full speed. Many employees and some managers viewed *The ECS Commitment* as little more than a pipe dream. Morale was abysmally low in ECS and customer organizations since the corporate reorganization had produced layoffs, early retirements, and assignments into lower rated positions with salary freezes. ECS employees also made mistakes as they struggled to figure out the new requirements of customers, some of whom enjoyed complaining loudly and using our employees as lightning rods for unloading frustrations.

In spite of the chaotic environment the Leadership Team initiated several trial and error communication activities that first year. I began weekly lunches with 10-12 employees to discuss *The ECS Commitment*, current priorities, and their questions and concerns. This chance to talk openly and without fear of reprisal helped to make employees comfortable with the new culture of openness. The lunches also provided opportunities to meet associates from other service lines and helped to build an ECS spirit across the diverse organization. Over time the sessions reinforced that management truly cared about employees—not just the bottom line, and sincerely wanted to hear what they had to say. I thoroughly enjoyed these opportunities to dialogue since I am uncomfortable “managing by walking around,” and only had to be careful that issues mentioned to “the boss” at lunch did not automatically become top priority when fed back to the management team.

We introduced “*The ECS Newsletter*” which was an immediate hit, especially my monthly column discussing key current issues and “*The Forum Column*” which provided employees an opportunity to ask questions and express concerns. Consistent with the shared value of “open communications” all submissions were printed except those referring to private matters, and managers provided responses where appropriate.

Finally the Leadership Team began annual reviews with customer managements and our contact directors on the Exxon Board. While there was little progress to report that year, the meetings provided opportunities for these key stakeholders to express concerns and for us to assure that we understood their priorities and issues. These reviews later evolved into a multi-faceted customer communications strategy.

By the end of year one most services had stabilized at acceptable quality levels and the Leadership Team introduced a “Total Quality” initiative to strengthen the focus on customers and to provide a discipline for managing continual improvement. Quality training, which was given first to the Leadership Team and later the whole company, provided a common language and mindset by teaching ideas such as “the customer’s perspective of quality is what counts;” “service problems are often caused by business process flaws;” and “high quality and low costs are compatible when employees strive to do it right the first time and to eliminate the root cause of process flaws.”

After some early resistance to another “flavor of the month” employees began to experience how Quality supported “*The ECS Commitment*” and how the tools and concepts could improve their work lives. Interestingly Quality evolved very differently in ECS than other companies described in the literature where it frequently led to more sophisticated control systems like “*Six Sigma*.” In ECS employees, with management encouragement, took responsibility for improving the business processes within which they worked. Instead of hiding mistakes to avoid punishment, they became comfortable discussing service problems and seeking to eliminate root causes. The “Quality” emphasis also helped ECS become a welcomed partner with several customer organizations.

The company suffered a temporary setback in year three when Corporate Management announced that headquarters was relocating from New York City to Dallas. However, the



Leadership Team successfully managed employee anxiety by explaining how headquarters represented only 15% of the service portfolio and assuring that management had no plans to move other customer organizations. The trust built through open communications put the issue to rest and employee attention quickly shifted back to satisfying customer needs.

Trial and error initiatives produced other successes and a few flops through the years. An Employee Opinion Survey implemented in year two helped to identify company-wide issues requiring management attention as well as organizational units needing help. This annual survey later provided an unexpected bonus—confirming progress that was too gradual for the organization to perceive day to day. Celebrating those results re-energized management and employees to continue the culture improvement efforts.

The employee opinion survey also served as an indirect leading indicator of customer satisfaction consistent with the research showing that employees tend to treat customers like management treats them. This filled the void I created by not collecting formal customer feedback until year four for fear that poor results might damage the company's fragile reputation with a few key customers and jeopardize the experiment. In hindsight I probably waited too long since customer survey data did identify improvement priorities and provide quantitative confirmation of progress that was helpful in customer management reviews.

The Leadership Team emphasized employee recognition from the start and in year three implemented an employee suggestion to formalize a system of one page "Thank You" sheets which individuals could fill out and hand to associates. The guidelines were broad recognizing anything from positive actions to behaviors exemplary of the ECS culture, and produced a system unique within Exxon as far as I know. This became another hit with employees and helped to strengthen the organizational focus on positive achievements. I even received a "Thank You" from Mary for "Caring about employees and being a real people person" when ECS shut down.

"Upward feedback" was introduced during year four to provide opportunities for individuals to comment on their boss as input to the Exxon performance appraisal system. The resulting system, similar to the "360 Feedback" subsequently discussed in the literature, proved popular with employees praising strong supervisors/managers and offering suggestions for improvement for others. The facts and hard data produced by the system also improved the quality of performance discussions with managers and supervisors which previously relied on subjective perceptions.

***The Results*** ECS produced solid business results reducing the constant dollar costs of the initial services portfolio (ex the impact of inflation) by 31% or \$34 million/year over the five years of operation. This resulted primarily from three factors. First overhead costs were halved by flattening the organizational structure and reducing manager and staff positions as employees became adept at self-managing and self-coordinating their activities. "Span of control" became an irrelevant issue in what I later learned was a freedom-oriented culture. Second the Travel Service Line as described later transformed itself from a cost center to a profit-generator. Finally and most importantly employees and managers generated dozens of creative ideas that saved \$25-30 million annually. Over that same period the company added \$6 million per year of new

service activities as our quality supplier reputation spread across the corporation, and was in the process of implementing \$10 million of new projects for customers at the time of shutdown.

Not surprisingly the quality of ECS services improved dramatically. While there were no formal early surveys, ratings improved to 3.7 on a 5 point scale in the final one indicating that customers were satisfied “to a great extent” with ECS services.<sup>22</sup> Even more impressive in cost-conscious Exxon, customer ratings of ECS “cost effectiveness” improved from 2.8 to 3.3 over the last year of operation.

All indicators of employee morale improved steadily over the four annual opinion surveys with the final results showing remarkable 80% alignment with *The ECS Commitment*. As I observed to employees in the closing newsletter, “*Working together we proved that an organization can earn a reputation for quality service and be a great place to work.*” The rest of this chapter expands on this last point and in particular how the atmosphere of energy, vitality, creativity, fun, and freedom influenced employee attitudes and behavior. Although a few comments may sound critical of Exxon, that is not the intent. Exxon (now ExxonMobil) is one of the world’s premier hierarchically managed enterprises and provided me a satisfying and rewarding career with training and developmental assignments equivalent to top MBA programs supported by priceless mentoring from colleagues like Bill Stevens, Ed DiCorcia, and Dick Kruienga. In retrospect, the corporation’s control-oriented management system even provided latitude for my experiment with freedom in ECS!

Unfortunately though people development in Exxon, like most hierarchically controlled companies, concentrates on a small group of “high potential” candidates and leaves the vast majority of employees to fend for themselves. Instead of expecting managers and supervisors to coach and to encourage employees to take risks as ECS did, hierarchical control imposes obstacles like forced ranking. Too often supervisors must use annual performance discussions to justify ranking results instead of helping their people to learn and grow. Fears of reprisal, rocking the boat, being caught out on a limb with no support, or being labeled a troublemaker encourage individuals to avoid personal risks and to conceal mistakes from which they could learn and grow.<sup>23</sup> Any comments that sound critical of Exxon are only examples of problems which prevent hierarchically controlled organizations from fully capitalizing on people’s potential to learn, to grow, and to contribute fully to enterprise success.

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<sup>22</sup> Within the tough-minded Exxon culture ratings above 4 were rare on any 1-5 scale.

<sup>23</sup> Thanks to ECS employee Jessie who shared her pre-ECS fears.

With that background here are comments ECS employees volunteered about their experiences.

Service Line Manager Pat: "Of my 30 years with the company, the last five here at ECS have been the most dynamic and fulfilling. . . . ECS has been a place where people, both customers and employees, were the primary concern. A place where the word 'Quality' had real meaning; it wasn't a slogan but translated to outstanding customer service and sound business results. A place where respect for the individual and their differences was paramount. . . . ***A place where people felt like they built a business. Yes, it was for Exxon, but it was theirs and they gave their all for this very special organization within the Exxon community.*** I don't know if this experience will ever be duplicated, but it will certainly never be forgotten by me and the terrific people who made it all possible."

Service Line Manager Steve: "ECS made the job a joy by challenging employees to do better, to grow, to trust, to work as a team and by holding them accountable. I was a square peg in a square hole!"

Mary: "I am very proud to have been part of such an exuberant and challenging organization."

Ed: "The one item I valued most in ECS was 'autonomy.' Management was sincere in their efforts to empower and give everyone the freedom to make their own decisions."

Jessie: "These are people who have taken the spirit of teamwork to higher levels, who have worked beyond their differences to have an impact on a common goal."

Supervisor Paul: "Having been in other Exxon environments, I can say my trip through ECS was like being let out of a dark cave into the sunshine. I hope there are enough folks around who have been a part of the sunshine to keep a crack open in the Exxon cave door."

Tom: "ECS was a company that prided itself on continually improving the quality of our work. We went from an environment in which people were reprimanded for uncovering problems to one in which employees were rewarded for corrective action. We were all made to feel empowered to fix things when needed. Everyone was part of a team, from top management to entry level employees."

Dave: "I felt like I was part of a very special group within Exxon—like I was involved in something important to create a better organization. . . . I was treated with respect by management as a highly valued member of the team, and sought out as someone who could make a positive difference; my contributions were acknowledged and appreciated. Perhaps most important of all there were untold challenges with clear accountability. I couldn't hide in my office hoping the challenges would go away or that somebody would pick up the slack."

Vinnie: "In reminiscing about ECS I was struck by how much we all cared. We cared about the company doing well. When the company came apart we felt like we were in mourning. It was so sad and personal. This is unusual in companies today."

Karen: “There is a more comfortable openness within the channels of communication here than I’ve found anywhere else in nearly 22 years with the Exxon family. Management doors are indeed open to encourage employees to speak freely. . . Esso and Exxon have been around for a long time and will undoubtedly command and hold a certain amount of respect for many more years to come. But those of us who have worked with ECS earned our own self-respect and a strong sense of personal pride as well.”

Russ: “ECS promoted autonomy and professionalism. . . ECS provided an open door for innovation and new ideas. . . ECS has rekindled my belief that quality work should be, and can be, as much fun as it is a challenge.”

Wilma: “ECS’ pursuit of ‘The Innovative Spirit and Smart Risk Taking’ has taken away the fear of making mistakes and any consequences thereof.”

Early and continuing encouragement “to take smart risks” and “to learn from mistakes” gradually transformed the culture of fear ECS inherited to produce a steady flow of creative ideas. Soon after startup Service Line Manager Ken transformed Travel into a profit maker by forming a legal travel agency and collecting commissions from airlines and hotels for customer reservations. That opportunity had been available for years before ECS encouraged Ken to take a risk and act. Later he created a new “Meeting Planning” business which Michelle volunteered to handle. With Ken’s help she transformed her skills from taking airline and hotel reservations over the phone to professionally interacting with customers ranging from secretaries to Exxon Board members. When ECS closed down Michelle, whose efforts repeatedly earned kudos for the company, identified a service industry secret and unexpected ECS strength, “***I think the hardest job we in a service organization have is not making the customer happy, but rather finding the right job for each of our employees. If the employee likes what he is doing and feels he is making an impact, it will be felt by the customers he serves.***” By encouraging individuals to self-define their responsibilities consistent with ***The ECS Commitment***, a higher percentage of ECS employees truly liked their work than in organizations where managers design jobs and select individuals to fill them.

Like all successful Exxon executives ECS customer managements prided themselves on tight-fisted control of costs and head count. Yet the Materials Service Line persuaded several to pay for added staff by promising to save substantially more through better vendor contract negotiations. Later employees in that same service line pulled off a first within the Exxon management succession planning system. After hearing a rumor that their manager faced a new opportunity, employees presented a unanimous petition recommending his successor—advice which the Leadership Team accepted when the position actually opened up!

After attending company-wide awareness training on sexual harassment and diversity issues, someone recommended creating a team of “Fair Treatment Counselors.” Eight individuals from a cross section of the company volunteered to add counselor responsibilities to their regular workload and after appropriate training helped employees resolve issues that in traditional cultures either fester unaddressed or explode into crises. For example accounting employee Marcie shared with a counselor her concern about racial discrimination by her

supervisor—instead of filing a complaint with the Equal Employment Opportunity Commission. That counselor with help from a Leadership Team member resolved what turned out to be a communications problem and management spent a couple hours on the issue instead of days with lawyers and governmental representatives. Equally important the incident reinforced the people-oriented culture with Marcie who later wrote the Leadership Team a personal thank you note.

I received personal satisfaction seeing individuals blossom in ways that nobody expected or could predict. Tom, an early skeptic about whether central services could work in Exxon, grew into the Leadership Team's strongest member, an eloquent spokesman for the company, and a fully qualified successor for me had the company survived. Several service line managers who arrived as narrow technical specialists grew into entrepreneurial business managers as they strived to satisfy customer expectations and to fulfill their responsibilities for financial results—growth we nurtured by coaching, training, and recommending books and articles.

Ken, the engineer who accomplished so much in Travel was a good example. Steve, a PhD computer specialist, was another. Under his leadership the Networking and Computer Services business earned a reputation for customer service head and shoulders above that of internal and external competitors. In fact when ECS closed down customers insisted that Corporate Management create another internal computer services organization to replicate that service quality rather being forced to deal with existing computing organizations. Sharon, a talented Human Resources professional, successfully managed a portfolio of HR services including a \$35 million/year self-insured medical plan. Later when ECS combined the Quality, business planning, and employee development responsibilities to reduce overhead, Sharon volunteered to manage those.

Janet, who prior to ECS was on a career path as administrative assistant or secretarial supervisor, skillfully managed our office to ensure that it reflected ECS values. She volunteered to personally manage the company's periodic progress celebrations and took the initiative to create an "Office Practices Guide" that helped the diverse units present a common ECS image to customers. When *The ECS Newsletter* editor left on maternity leave, Janet volunteered to fill in and did a wonderful job managing that critical publication. She even stepped in to manage an interior redesign project on the corporate jets after the Exxon CEO and President became frustrated with manufacturer efforts—and according to their feedback did a great job! From my perspective Janet transformed herself, with a little encouragement and lots of personal initiative and potential, into the broad-based individual who after ECS continued to grow by designing and editing Exxon affiliate newsletters, developing and publishing marketing literature, and serving as Communications Center supervisor—several salary grades higher than in ECS. From Janet's perspective, the ECS experience built her confidence by valuing her opinions and providing opportunities to test her talents and skills.

David, the OD and people development expert who facilitated the Leadership Team efforts, self-managed his education to handle our steady stream of trial and error initiatives. He learned about Quality and helped to deliver that training to employees and managers. Later he became the in-house expert on opinion surveys volunteering to manage the development and implementation of both the annual employee opinion survey and the customer satisfaction survey.

Vinnie grew from a shy technical writer into the creative editor of *The ECS Newsletter*—seeing herself as “a small circle who stumbled into an organization where I was treated as a big circle, so I became one.” Equally important, Vinnie’s growth did not make others smaller. In fact she grew in part because others encouraged and helped her—but did not try to do it for her. She managed the “*Forum column*” through which employees asked questions and expressed opinions. Vinnie also helped to write my monthly editorials and became such an expert on the ECS culture that her drafts presciently captured my thinking on the topic at hand.

Encouraging and helping everybody to grow and develop did not interfere with development of high potential candidates, who remained a high priority. This shift in emphasis, like so much of the freedom-oriented culture, primarily required a management mindset recognizing as McGregor pointed out *that the imagination, ingenuity, and creativity to solve organizational problems are widely distributed across employee populations!* Once that mindset was in place the resources to make this happen became available as managers and supervisors shifted to leading, helping, and serving employees rather than controlling them.

ECS discovered that growth for everybody has special value in the service business where front line employee exposure to changing customer requirements produces some of the organization’s most valuable information. Knowledgeable employees aligned with business objectives and encouraged to take risks naturally worked with customers to test new ideas, and their successes often became new or improved service offerings.

When I sat down to write this story I puzzled over the ease of creating a culture with such a profound impact on employee attitudes and behavior. Although the first year was stressful,<sup>24</sup> the Leadership Team made all this happen by trying a series of common sense actions.

- We developed the ECS Commitment to ensure that employees understood the overarching business objective and management priorities.
- We treated employees as self-responsible adults.
- We provided ample opportunities to ask questions and express concerns.
- We provided the authorities individuals needed to fulfill their responsibilities.
- We expected individuals to be accountable for satisfying their customers after appropriate training.
- We trusted individuals to make decisions and to do what was best for the organization.
- We encouraged smart risks and learning from mistakes.
- We created an environment where employees were recognized for their achievements by management and peers.
- We expected supervisors and managers to lead, help, and support their employees.

Later I recognized that, without appreciating it at the time, the ECS Leadership Team had intuitively made the mindset shift from “controlling employees” to “vision-led freedom.” I set the stage by selecting as teammates “people-oriented” managers who were naturally inclined to trust employees to do their best without management looking over their shoulders. As a group we were naturally attracted to ideas that shifted responsibility for control to employees and

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<sup>24</sup> Much startup stress derived from desire to protect the experiment within the highly politicized Exxon environment and concern that a high-visibility mistake would undo the many positive accomplishments.

uncomfortable with any strengthening hierarchical control. That mindset shift also explained why the ECS Quality initiative evolved in the direction of employees taking responsibility for business processes while in hierarchically managed companies Quality strengthened management controls.

Paul and I have concluded that “*leadership mindset*” presents an important paradox. On the one hand once the mindset shift to freedom is in place introduction becomes easy like pushing a stone downhill as ECS demonstrated! On the other hand purging the belief that management must control employees presents the greatest obstacle to capitalizing on the powers of freedom inside organizations. The hierarchical control on which management has relied for centuries is fundamentally incompatible with trusting employees to behave self-responsibly and to be accountable for their objectives. Unless leaders can make this shift their organization will reject freedom-oriented ideas much like the human body marshals defenses against threatening virus and bacteria. Looking back it was that dissonance which undermined my experiment with MBO by creating an illogical message to employees—“I trust you to be self-responsible and accountable for your objectives, but must control you anyway because Exxon requires that.”

So I want to close my story by encouraging any leader for whom freedom feels right to try it. The impacts on employees and organizational effectiveness are remarkable as reflected in the comments of ECS employees. The strategy recommended in Section Four to introduce freedom step-by-step will minimize your risks by starting with the leadership group and allowing those individuals to personally experience freedom’s benefits. If as a group you overcome the mindset hurdle and make the shift from “controlling employees” to “vision-led freedom,” further implementation will be easy.

## **Paul's transformation of the PQ Corporation culture**

My journey from childhood to "Freedom in the Workplace" began at Camp Pocono on Lake Wallenpaupack in Northeast Pennsylvania. Chuck and Dot Paxson's boy's camp was based on outdoors camping and tripping on water and overland with a mission to help children grow in character and ability based upon Quaker beliefs. Small groups around evening campfires were a focal point. I learned respect, trust, communication, listening, teamwork, joint efforts and the rewards of individual and group "worthy undertakings."

The next step along the way was education at Scarsdale High School, Dartmouth College, and Harvard Law School. The subject matters, taught with excellence, provided a worthwhile base and provided the opportunity to learn and practice leadership as captains of my high school and college football teams and as an official in my fraternity and the student governments. Charles Bednarik of Penn, Jeff Flieshman of Cornell, and Dick Kazmier of Princeton taught me humility on the football field.

My summer work in Brooklyn, New York as a card carrying member of Local 47 of the International Brotherhood of Carrying and Common Laborers Union taught me great love for the fine "common man." My first full time job as an officer in the Navy Seebies exposed me to superb leadership training by Chief Petty Officer James Companion at OCS and Master Sergeant John Booth USMC at Camp Pendleton, both my "Sergeant Foley's" (Officer and Gentleman.) The Navy experience convinced me that leading a group of people producing goods would give me far more satisfaction than being an attorney.

Based on these early experiences, I sought a "line" position with Procter and Gamble "Making Ivory Bar" and became foreman at its Quincy, Massachusetts plant—the start of eleven years in P & G manufacturing management. This provided an exciting and demanding post-graduate degree in leadership and exposure to excellence in manufacturing leadership. I gained exposure to six Proctor plants, five product divisions, and coast to coast America. I learned to be comfortable and successful dealing with people from first line operations to the company Chief Executive Officer. I was exposed to cooperative competition with my fellow managers throughout the company based on quarterly comparison of results with "tens" of similar units across the company.

My greatest P & G learning came with emergence of the new management thinking entitled Organization Development. (O.D) In my fourth year at Sacramento, Phil Willard from headquarters Human Resources paid a visit, introduced me to O.D., and gave me a copy of "The Human Side of Enterprise" by Douglas McGregor of MIT. I started it after dinner that evening and read through the night. It was a revelation! Much of my lifetime experience to that date fell on the "X" side of the "X – Y" split identified by McGregor. I was immediately hooked on Theory Y. My very first day after reading the book, I embarked on a life time of practicing and learning to build organizations based on the Theory Y explanation of human nature. I owe Willard and McGregor a great debt.



The last half of the 20th Century saw an explosion of new O.D. ideas, tests, evaluations, new thinking, and a makeover of the U.S. workplace—and I tried every new idea that came "down the pike." Some worked, some didn't, but the overall progress in the workplace showed up in hard results.

From an overall perspective, the U.S. overwhelmed the Japanese and German challenge to our industrial leadership. Head to head, a U.S. workforce could change and prosper. In P & G, Central Industrial Engineering and Human Resources group led the charge. We were offered every opportunity to attend outside training and experiment with the new techniques— the Blake Grid, sensitivity training, group dynamics, team building, individual training, self directed work teams, Management by Results, Designing Quality Circles, and many more. This led P & G into pioneering efforts such as the famous Lima, Ohio plant, designed, built, and operated on "self directed principles" that produced outstanding results.

My time with P&G encompassed increasing responsibility to making synthetic detergent at Long Beach, California, to Group Manager of Detergents at Sacramento, California, General Production Manager at Kansas City, Missouri, to Detergent Plant Manager at Staten Island, New York and returning to Long Beach as Plant Manager serving 5 company divisions. It was 11 years of steep learning and wonderful challenges and satisfaction.

A key learning experience at Long Beach occurred when I volunteered to participate in an experiment headed by Professor Jim Clark of the Business School at UCLA. He wanted to try the techniques learned in "T group" training to an ongoing operation i.e. my top management group at Long Beach. It was a huge success with Long Beach moving from the bottom of the pack "to near the top" in P & G plant rankings. On me personally it had high impact. I moved out on the leading edge of "Organizational Development" work but caused my career with P & G to come to an end when I was identified as a "soft manager." It became clear that I needed to seek new pastures because I was stalled out at P & G.

I concentrated on finding a job with opportunities to grow and learn and utilize the newest suitable management techniques. In 1969 a search firm was commissioned to find a head of manufacturing for a small private chemical company based in Philadelphia. Pete Henderson, a good friend at Dartmouth and member of the firm, set up a contact for me with the search office in New York. I met with Tim Elkington, CEO of The Philadelphia Quartz Company, and two sessions in California and a visit to the Philadelphia head office sealed the deal.

I joined PQ for three reasons:

- First was Tim Elkington. He was a wonderful human being with a profound Quaker respect for their fellow human beings. He had a great love for the company and its 140 year history. He wanted the company to be saved and to prosper into the future. He was fascinated by what I had learned in P&G about the new management thinking of the day.
- Second was the company's 14 small plants in the US, Canada, and Mexico which would give me 14 individual units to work with, to grow revised cultures.
- Third, with only \$20 million in sales and sound competitive positions in the three countries, the growth potential looked very good.

To sum up, Tim and I saw eye to eye to build a company by building “its people”.

I joined PQ as Director of Manufacturing and soon became Vice President of Manufacturing and a member of the top management team and the Board of Directors. My first year was spent getting to know the company, its people, its locations, its business, and its overall and individual cultures. Building on my experience with P & G, inside and outside I listened, asked questions, and listened some more learning an immense amount. Overall I was impressed by the dedication, knowledge, and energy of most people from plant operators to Tim, as CEO.

The first step along a wide road forward was to create profit and loss statements each quarter for each production unit at each plant and to share them in complete detail with all associates in each unit. We had immediate results. Errors in accounting were quickly identified and corrected. Ideas were brought forward everywhere to improve revenue and reduce costs. At the outset we even had a few people suggest that their jobs could be eliminated to reduce overall crew. We were off and running!

In reflection, roughly 25% of our people seized upon improvement as a way of life, 50% took some time to come around, and 25% resisted taking such a revolutionary change in approach to their jobs at PQ. We offered to help those who found themselves out of step to find another place to work outside the company.

The next step seemed to come naturally. People saw opportunities to improve product quality results, customer service results, growth in income, return on assets, and appearance of the plants. This in turn led us to adopt the then new management idea of “management by objectives.” Each plant created a yearly MBO list covering the key results aspects of their operations and published results each quarter. From a culture that called for little freedom in individual initiative, freedom in the workplace was underway.

After three years as V. P. of Manufacturing, I was appointed President with responsibility for plant operations, engineering, planning, sales, and research and development for the US, Canada and Mexico. We carried out step by step improvements in organizing ourselves by profit centers. All associates had joint responsibility for success at the PQ level, country level, profit center level, plant level, and finally the team level.

We took a big step into the future with adoption of the new ideas in strategic planning. As a first step we reorganized ourselves to becoming more effective in the conduct of our ongoing business on a continuous basis in every corner of the enterprise. Everyone had that responsibility and freedom in the workplace got everyone involved.

Next we went back into the basic chemistry of our long time product, sodium silicate and developed insights no one else possessed. Then we focused on increased uses and new uses of our products by our customers. Many ideas were uncovered by us and our customers and a number produced substantial new volumes and in turn uncovered additional uses. An example was silicate for enhanced oil recovery.

Next we focused on finding new products derived from our growing family of sodium

silicate. Our biggest success in this area was zeolites for detergents where Henkle Corporation and P & G were on the same path. P & G became a very large customer as they replaced phosphates with zeolites. Finally, we expanded geographically around the world, going everywhere we could find demand and a welcoming environment.

In the late seventies I became CEO and continued to build PQ for the future. The next most profound step forward was initiated by our staff head of technology, Randal Carroll. He attended a conference by Innovation Associates of Boston on Company Vision. He rapidly sparked interest of the other members of our Operations Committee (who met weekly) and they in turn convinced me we should undertake to build a vision for PQ with Innovation Associates assistance.

The undertaking required a good deal of effort and time to accomplish, and produced a one-page document covering our shared purposes, shared aspirations, and shared values. We involved everyone in the company around the world, about 1600 associates, and the results were profound! It utilized everyone's input and kept together everyone in the consolidated company. All our people everywhere responded with innovations and the company's results surged forward.

In 1990 I retired early as CEO to make way for the next generation. Dick Kelso and Stan Silverman were succeeding CEO's and with an exceptional group of people, continued the improvement momentum into the next century. In 2005 the owners decided to divest their investment to the private equity firm associated with JP Morgan via a private auction. Two years later, another auction moved the ownership to Carlyle Co. From 1970 to 2007 the PQ stock value grew from \$20 a share to \$500 a share, a 20%+ per year total return growth rate for 37 years that exceeded the S&P 500 by a factor of five.

Through vision, individual and team responsibility, total involvement, innovation, hard work, and enthusiasm, PQ built an excellent group of people oriented to the enterprise, customers, associates, and owners. Overall, it was the growing freedom in the work place that made it possible.

## Incentive Pay

Because Ken Iverson placed such emphasis on Nucor's incentive pay system for production workers, we felt obliged to examine what others have had to say about this topic. Before getting into details, we want to point out again that the objective of incentive pay is extrinsic motivation—to encourage performance by paying more for producing more widgets or selling more insurance policies.<sup>25</sup>

### Background on Nucor Incentive Pay

When Bill visited Nucor and Ken Iverson in 1994, the company utilized a series of incentive pay systems that covered all employees and managers, were uniformly implemented across the company, but varied somewhat by type of plant and within plants by the type of employee (production workers versus non-production personnel). The incentive pay system for teams of steel production workers, which has received the most publicity, paid weekly bonuses based upon the quantity of "on-spec" product each team produced over a baseline level. Management was convinced that those bonuses, which ranged from 100-200 percent of base salary, played a key role in Nucor having the world's highest productivity. According to Iverson, "Nucor production workers earned an average of more than \$60,000 in 1996. They're the best-paid employees in the industry."

Using a steel mill as an example, a melting and casting team had 20-25 workers whose job was to melt scrap metal and cast it into billets, intermediate products which were subsequently rolled into steel bars, angles, etc. A team could earn a bonus of 4 percent of base pay for every ton of quality steel produced over a baseline of 50 tons of on-spec billets per hour. Members of a team averaging 100 tons per hour during its work week earned a 200% bonus which was received along with their base pay checks on the following Thursday. Maintenance personnel participated in the bonus along with the production personnel. The baselines were adjusted only when Nucor invested in new equipment to improve productivity.

Incentive bonuses for non-production employees (engineers, secretaries, clerks, receptionists, etc.) were paid semi-annually and based upon their plant's return on assets, varying from zero to 25 percent of base pay depending upon results. Bonuses of department managers—six to eight in each plant—were based primarily on their plant's results with a small increment tied to overall company results and could vary from 0 to 82 percent of base pay. According to Iverson, Nucor officers (a group that includes plant managers) received "a base salary that is typically just 75 percent of that earned by executives in comparable positions across manufacturing. The remainder of their compensation is variable and entirely at risk, just like the production bonus." They received nothing if the company's return on shareholder equity was less than 8 percent, and could receive as much as 200 percent of base pay in cash if the return exceeded 24 percent, the point at which bonuses were capped. A stock bonus worth 100 percent of base pay was also included at the highest level. Iverson said that Nucor had paid the maximum bonus three or four years out of the past twenty and no bonuses three or four other years.<sup>excix</sup>

### Benefits and potential problems of incentive pay

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<sup>25</sup> Others refer to this as "Individual/Team Incentive Pay" or "Gain Sharing"

Our review of the management literature identified four key issues to be considered before implementing an incentive pay system. Interestingly, only the first—extrinsic versus intrinsic motivation—mentioned benefits as well as potential problems while the others focused on problems of varying magnitude, some of which are particularly concerning in cultures emphasizing freedom and spontaneous order.

- 1. Intrinsic versus extrinsic motivation:** There is little doubt that extrinsic motivation can influence attitudes toward work. Paychecks are the primary source of funds that enable most individuals and their families to achieve a life-style to which they aspire. However, writers raised two intriguing questions: (1) What are the relative roles of extrinsic and intrinsic motivation in causing individuals to perform to their fullest capabilities? (2) Does too much focus on extrinsic motivation negate the positive benefits of intrinsic motivation? We've not attempted to answer either, but will share interesting views others expressed that can help readers formulate their own response.

First Ken Iverson's view—"I'll let you in on a little secret. Most people will work hard for money! In fact, we find that motivating people boils down to: a) the opportunity to earn an above-average income; b) job security; and c) opportunities for advancement. You can pretty much throw away 'good training,' 'clean bathrooms,' and the rest of the list of what motivates employees. Without good pay, job security, and opportunities for advancement, those other things won't mean very much.

"If that's not a secret, it might as well be. Most businesses vastly underutilize money as a day-to-day motivator. They set a strict budget for what they're willing to pay people in wages and salaries, then they squeeze as much work as they can out of their people for that fixed number of dollars.

"I don't know why any employer would expect much from this approach. Look at it from the employees' perspective—they come to work each day knowing exactly how much they will earn. And when you get right down to it, all they must do to get that amount is not to get fired. Work hard today or hardly work at all, and the pay is the same. So tell me, where's the day-to-day motivation to work harder and smarter."<sup>cc</sup>

McGregor offered a fundamentally different observation that pay and most fringe benefits (such as vacations, health and medical plans, and annuities) provide satisfaction only when individuals are off the job. He suggested that it was, therefore, not surprising that many employees, especially wage earners, perceived work as a form of punishment to be endured in order to be happy away from the job. He concluded that it is unreasonable to expect employees to endure any more of this punishment than absolutely necessary.<sup>cci</sup>

James Champy in "Re-engineering Management" questioned whether people would work with the imagination, resourcefulness, willingness, and sensitivity to the marketplace necessary for business success if they work only for a paycheck. He suggested that to achieve the level of commitment, involvement, and performance necessary for future success, management must address much deeper issues such as the questions on the minds of employees about what their business was really about and why should they help it succeed.<sup>ccii</sup>

Deming suggested that too much emphasis on extrinsic motivation can crush intrinsic motivation and subjugate the joy of work and innovation to pursuit of more income. He felt that as individuals become more extrinsically motivated, they rely on things to make them feel good, often discovering later in life that their work has no

meaning. This logic led him to recommend that the most important action a manager can take is to understand what is really important to each individual. Spending time listening to each employee would help managers understand how their needs could be harmonized with those of the business—action which would intrinsically motivate and shift an individual's focus away from the pay issues control-oriented management has emphasized.<sup>cciii</sup>

Fred Emery, an expert on sociotechnical organizational design formulated a list of intrinsic and extrinsic factors that make work satisfying. His extrinsic list included fair and adequate pay, along with job security, benefits, safety, health, and due process—but made no mention of incentive pay. The intrinsic factors were variety and challenge; elbow room for decision making; feedback and learning; mutual support and respect; wholeness and meaning; and room to grow—a bright future. We found it interesting that freedom-oriented cultures address all his issues.<sup>cciv</sup>

2. **Disrupting interdependencies among employees and organizational units:** Incentive pay carries substantial risks of disrupting the voluntary and spontaneous collaboration and cooperation among individuals and organizations that is so critical for organizational effectiveness. Evidence of this problem was observed between Nucor production crews and the engineers and staff supporting their efforts who resented working under a far less lucrative bonus system. David Packard noted—"As the company grew, we could no longer take teamwork for granted. We had to emphasize and strengthen it. That's one of the reasons we didn't single out divisions or groups that were doing particularly well. And why benefits such as profit sharing are provided not to selected individuals or groups but to all eligible employees. It's imperative that there be a strong spirit of helpfulness and cooperation among all elements of the company and that this spirit be recognized and respected as a cornerstone of the HP Way."<sup>ccv</sup>
3. **Difficulty defining valid measures of individual contribution:** Deming argued that neither the performance of an individual nor his contributions can be measured or evaluated except possibly over the long-term. He argued that it is impossible in the short term to separate impacts of the system and colleagues from those of an individual. Further, he suggested that basing incentive pay on any measure other than contribution to overall profitability creates potentially serious problems. For example, a salesman motivated by commission can damage the company's reputation by "overselling"—selling a bigger copying machine than the customer needs or a fancier insurance policy than the customer can afford. Under-selling can do just as much damage if the salesman sells a smaller machine than the customer needs because the customer argues he cannot afford to pay for the right one. In either case the customer will resent the results over time damaging the company's reputation.
4. **Over-justification:** This concept coined by Deming addresses situations where rewards are given for acts or achievements done for sheer pleasure or self-satisfaction, the net effect of which can range from no impact to discouragement. For example, offering tips to a crew member for taking a bag off the plane, or to a doctor for solving your health problems is more likely to offend than to positively motivate. Paul is convinced that incentive pay for PQ employees would have been over-justification since they already strived to do their best. In addition, incentive pay would have disrupted the teamwork and cooperation that was so important to the company success.

### **Summary thoughts about incentive pay**

This brief review indicates that incentive pay is at best a double-edged sword. Because of Nucor's enthusiasm, we were left wondering whether the concept might have value where work is unusually physically demanding—like the steel work in Nucor mini-mills and Vulcraft plants. Otherwise, we recommend progressing far down the path toward freedom before considering incentive pay. That will establish a foundational level of motivation and effectiveness resulting from freedom against which potential improvements can be judged.

None of these comments are intended to criticize Nucor's incentive pay systems since we lack sufficient information to judge the net impacts. It is interesting though that all three elements Ken Iverson identified for motivating employees are present in a culture of employee freedom without incentive pay: a) the opportunity to earn an above-average income; b) job security; and c) opportunities for advancement. So in effect, Iverson endorsed the caution expressed that an organization should first determine the level of intrinsic motivation that is created by providing employees freedom in their work before considering adding incentive pay.

### **Employee ranking/merit pay**

Our literature review of incentive pay exposed a related issue regarding merit pay and the system of employee rankings utilized to determine that pay, neither of which is recommended for freedom-oriented organizations. Deming was the strongest critic voicing four arguments against these practices:

1. He argued that ranking systems are fundamentally flawed because of the impossibility of accurately assessing the performance or contributions of an individual over a short period like a year. He emphasized that the effects of the individual's efforts cannot be separated from effects of the business process within which the individual works. This is further complicated by the fact that individual contributions vary from day to day. The Nucor production workers made this point when asked about the merits of team incentives versus individual incentives. Those workers were unanimous in the view that it is impractical to discern differences in the value of individual contributions and that trying to do so would distract from teamwork.
2. Attempts to rank or rate individuals create interpersonal competition which detracts from the cooperation and collaboration that can be so critical to the creative process of improving the business. Also, most individuals value the approval of their co-workers and many are willing to forego any merit pay differentials to obtain and sustain that approval.
3. Deming's third point was that ranking takes the pleasure out of work. Nobody enjoys being graded on their work or having it ranked against that of others.
4. Finally, he asked if workers are already motivated to do their best, what value does either ranking or merit pay add? Even if a method could be developed to rank people with accuracy, why would anybody think this would improve performance?<sup>ccvi</sup>

We were unable to find a satisfactory answer to the profound question Deming raised in this last point. The closest we came was the need to identify and deal with unsatisfactory performers who do not meet the minimum standards of the organization. However, there is no need to rank all employees to define the extremely poor performers. In fact, 360 feedback surveys offer a much more effective technique for achieving that objective.

Some managers have suggested that merit pay is essential to keep good performers. Deming on the other hand suggested that everybody he worked with could get higher pay in

another job. They stayed not for pay, but for reasons like the opportunity for growth, or enjoying their work and co-workers.<sup>ccvii</sup> The representative companies confirmed Deming's point since none have experienced problems retaining good people—suggesting that the many intrinsic benefits of working in an environment of freedom are sufficient for most people.

We would like to add one last criticism of employee ranking based upon our experiences with Exxon and Proctor and Gamble. Ranking creates a negative self-fulfilling prophesy for many individuals who in spite of their best efforts to improve become stuck in the bottom half of the rank group. After years of receiving feedback that "you're below average," many eventually accept the organization's judgment and give up trying to improve, creating a sad waste of human capability and a lose/lose situation for the individual and the organization.





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- <sup>ii</sup> *The Wealth of Nations* by Adam Smith, Page 42-48, Borzoi Book published by Alfred A. Knopf, Inc., Fourth Printing
- <sup>iii</sup> *Plain Talk* by Ken Iverson, Page 16
- <sup>iv</sup> *The Human Side of Enterprise* by Douglas McGregor, Pp. 47-48
- <sup>v</sup> *Ibid.* Pages 33-35
- <sup>vi</sup> *The Human Side of Enterprise* by Douglas McGregor, Chapters 3 and 4
- <sup>vii</sup> *The HP Way*, Pages 135/136
- <sup>viii</sup> *Sam Walton: Made in America* Pages 176/177
- <sup>ix</sup> *Plain Talk*, Pages 73/74
- <sup>x</sup> *The HP Way*, Pages 126/127
- <sup>xi</sup> *Leadership is an Art*, Pages 22/23, 58/60
- <sup>xii</sup> "Nuts" Page 158
- <sup>xiii</sup> Forbes, October 5, 1998, *Management's New Paradigms* by Peter F. Drucker
- <sup>xiv</sup> *Sam Walton: Made in America*, Pages 162/164, 169
- <sup>xv</sup> *The HP Way*, Pages 57, 132/133
- <sup>xvi</sup> *Leadership is an Art*, Page 77
- <sup>xvii</sup> *The HP Way*, Pp. 80-81
- <sup>xviii</sup> *Built to Last*, P. 58
- <sup>xix</sup> *Ibid.* Page 65
- <sup>xx</sup> New York Times, January 15, 1998
- <sup>xxi</sup> These comments were extracted from speeches by David Packard; 3/8/60 to HP's training group and 1/24/58 to the American Management Association, San Francisco, California. We found them in *Built to Last* by James Collins and Jerry Poras, Pp. 57-58
- <sup>xxii</sup> *Sam Walton: Made in America*, Pages xiii, 171
- <sup>xxiii</sup> *Ibid.* Page 298
- <sup>xxiv</sup> *Executive Excellence* January 2001, "New Definition of Diversity" by William Cavanaugh
- <sup>xxv</sup> Forbes, October 5, 1998, *Management's New Paradigms* by Peter F. Drucker
- <sup>xxvi</sup> Forbes, July 28, 1997, *What have you invented for me lately?* by Eric Nee
- <sup>xxvii</sup> Time Magazine, November 8, 1998
- <sup>xxviii</sup> *100 Best Companies*, Page 294
- <sup>xxix</sup> *Built to Last*, Pages 208/210
- <sup>xxx</sup> *Plain Talk*, Page 17
- <sup>xxxi</sup> *Ibid.*, Page 21
- <sup>xxxii</sup> Bill Nobles and Judy Redpath interview with Nucor management, June 1994
- <sup>xxxiii</sup> *American Steel* by Richard Preston, p. 83
- <sup>xxxiv</sup> *Plain Talk*, Page 20
- <sup>xxxv</sup> *The HP Way*, Page 129
- <sup>xxxvi</sup> *100 Best Companies*, Page 183
- <sup>xxxvii</sup> *Plain Talk*, Page 67
- <sup>xxxviii</sup> *Sam Walton: Made in America* Pages 177/178
- <sup>xxxix</sup> *Leadership is an Art*, Pages 58/60
- <sup>xl</sup> *Eupsychian Management*, Page 87
- <sup>xli</sup> *Sam Walton: Made in America*, Pages 234/236
- <sup>xlii</sup> *Sam Walton: Made in America*, Page 181
- <sup>xliiii</sup> *Making It In America* 1995, P. 64
- <sup>xliv</sup> Thanks to David Hodges, an OD consultant to Exxon Central Services for this quotation.
- <sup>xlv</sup> Bill Nobles and Judy Redpath interview with Nucor management, June 1994
- <sup>xlvi</sup> *Leadership is an Art*, Page 104
- <sup>xlvii</sup> *The Southwest Airlines Way*, by Jody Hoffer Gittell, Page 5
- <sup>xlviii</sup> *Ibid.*, Page 80
- <sup>xlix</sup> *Plain Talk*, Pages 146, 149/150
- <sup>l</sup> *American Steel*, Page 147
- <sup>li</sup> "Nuts" by Kevin and Jackie Freiberg, Page 135
- <sup>lii</sup> *The HP Way*, Page 151
- <sup>liii</sup> *Plain Talk*, Page 81
- <sup>liv</sup> *Sam Walton: Made in America* Pages 277/278
- <sup>lv</sup> *Built to Last*, Page 212
- <sup>lvi</sup> Bill Nobles and Judy Redpath interview with Nucor management, June 1994

- lvii *Sam Walton: Made in America*, Pages 178/179
- lviii *Ibid.*, Pages 215/216
- lix “Nuts” Pages 60-61
- lx Bill Nobles and Judy Redpath interview with Nucor management, June 1994
- lxi *Sam Walton: Made in America*, Pages 323/324
- lxii *The HP Way*, Pages 133/134
- lxiii *Ibid.*, Pages 179/180
- lxiv *Plain Talk*, Pages 83/84
- lxv April 1997 Speech by CEO Stan Silverman who was president at the time.
- lxvi “Nuts” Pages 191-198
- lxvii *The New Economics*, Pages 113/114
- lxviii *The Fifth Discipline*, Page 4
- lxix *Sam Walton: Made in America*, Page 290
- lxx *The HP Way*, Page 138
- lxxi *The HP Way*, Page 93
- lxxii Hewlett Packard Corporate Objectives, November 1996, Pages 4-15
- lxxiii *Leadership is an Art*, Pages 72-74
- lxxiv <http://www.hermanmiller.com>, 1/16/99
- lxxv *Sam Walton: Made in America*, Pp. 32, 79, 103, 178, 221
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- lxxviii Bill Nobles and Judy Redpath interview with Nucor management, June 1994
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- lxxx “Nuts” Page 318
- lxxxi Introductory film at Monticello, "Thomas Jefferson, The Pursuit of Liberty"
- lxxxii *Scientific American*, July 1999; data from the *American Sociological Review* for church attendance in the 1990's.
- lxxxiii *American Beliefs* by John Harmon McElroy, page 101.
- lxxxiv *New York Times*, April 30, 2002
- lxxxv *Ibid.*, January 12, 2005 by William Safire
- lxxxvi We are indebted to Terry Balderson and his friends who pointed us to David Hume and Viktor Frankl's writings on freedom.
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- lxxxviii *American Steel* by Richard Preston Pages 87-88
- lxxxix Thanks to Bill's associate Vinnie Pratt for calling attention to this anecdote.
- xc *The Economist* March 27, 1997
- xci *Built to Last*, by James C. Collins and Jerry I. Poras, Pages 147-148
- xcii *The HP Way*, by David Packard, Pages 107-108
- xciii *Sam Walton, Made n America* by Sam Walton with John Huey, Page 298
- xciv *Religion & Liberty*, November and December 2002, Page 15 Publication of the Acton Institute
- xcv *The Collected Works of F.A. Hayek* Volume 1, Edited by W.W. Bartley, The University of Chicago Press, Pp. 30, 32, 34, 35
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- xcvii *Ibid.*, Pages 28/29
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- cx *Management's New Paradigms* by Peter Drucker, *Forbes*, October 5, 1998

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- cxix *At Home in The Universe*, Page 71
- cxix *The Practice of Management*, pages 217, 136.
- cxix *The Human Side of Enterprise* by Douglas McGregor, Page 152
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- cxix *Bionomic: Economy as Ecosystem* by Michael Rothschild, Henry Holt, 1995 Page 272
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- cxix *Leadership and the New Science* by Margaret J. Wheatley, Berrett-Koehler Publishers, 1992, 1994 Page 8
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- cxix *Leadership is An Art*, by Max De Pree, Pages 84-87
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- cxix *The Road to Serfdom*, by Friedrich A. Hayek, 1944, Page 213
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- cxix *American Beliefs* by John Harmon McElroy Page 222
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- cxix *Sam Walton: Made in America*, Pages 173/175
- cxix *Open Book Management*, by John Case, Foreword
- cxix *Ibid.* Page 280
- cxix *Kinds of Order in Society* by F. A. Hayek, Copyright 1964 by *New Individualist Review, Inc.* Pages 6 and 8
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- cxix *Ibid.* Pages 28/29
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- cxix *Leadership is an Art* by Max De Pree, Pages 1,8
- cxix *The HP Way*, Page 111
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- cxix *At Home in the Universe* Page 86

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- clxvii *Built to Last*, Page 37
- clxviii *100 Best Companies*, Page 183
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