



RESEARCH & IDEAS

# High Commitment, High Performance Management

Q&A with: Michael Beer  
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*High commitment, high performance organizations such as Southwest Airlines, Johnson and Johnson, McKinsey, and Toyota effectively manage three paradoxical goals, says HBS professor Michael Beer. His new book explains what all companies can learn. Q&A Key concepts include:*

- *High commitment, high performance (HCHP) firms carry out performance alignment, psychological alignment, and the capacity for learning and change.*
- *HCHP transformations are a unit-by-unit process.*
- *HCHP firms allow employees to speak to power in honest, collective, and public conversations.*
- *Leaders must make conscious, principled choices. Leaders develop an institution that cares about people while understanding the importance of profits.*

With many companies battered by the economy, commitment from leaders and employees might seem like increasingly precious resources. Yet commitment and performance are essential elements of any successful firm no matter the health of the economy, according to HBS professor Michael Beer. His book *High Commitment High Performance: How to Build a Resilient Organization for Sustained Advantage* explains why and how to align the two.

"High commitment, high performance (HCHP) companies are firms designed and led by their founders or by transformational CEOs—those who take charge of a company in a crisis—to achieve sustained high commitment from all stakeholders: employees, customers, investors, and community," says Beer. "These firms stand out by having achieved long periods of excellence."

HCHP stalwarts include Southwest, Johnson and Johnson, Hewlett Packard for six decades, Nucor Steel, McKinsey, Goldman Sachs and Toyota, says Beer. Yet any company can change for the better, no matter the industry. GE, Becton Dickinson, Campbell Soup, IBM, and ASDA, a U.K. grocery chain, are examples of companies that were transformed by new

CEOs taking charge, usually in times of crisis. These CEOs employed change strategies that focused on both commitment and performance. As ASDA's CEO, Archie Norman, tells it, the new leader has to set a general direction, but must listen and engage people to identify and solve problems. Top-down leadership, he argues, will not work.

"This list is illustrative and by no means inclusive. The majority of companies do not, however, fall into the HCHP camp. Despite many differences in industry, products, and strategy, the companies and their leaders employ common principles and values," says Beer.

For our email Q&A he discusses what it takes to build a high commitment, high performance company.

## **Martha Lagace: What differentiates HCHP firms and their leaders?**

**Michael Beer:** The leaders manage with a multiple stakeholder perspective. Contrary to many CEOs, HCHP leaders—with support from their boards—define firm purpose as much more than shareholder value, though they all understand profit as an essential outcome.

HCHP firms are able to show sustained performance because they achieve the following three paradoxical goals:

1. **Performance alignment:** Managing with their head, leaders develop an organizational design, business processes, goals, and measures, and capabilities that are aligned with a focused, winning strategy.
2. **Psychological alignment:** Managing with their heart, leaders create a firm that provides employees at all levels with a sense of higher purpose, meaning, challenging work, and the capacity to make a difference, something that people desperately need and want but often do not get in organizational life. To accomplish this, HCHP firms establish and institutionalize human resource management policies and practices that look fairly similar.

3.

## **Capacity for learning and change:**

By keeping their egos in check, leaders of HCHP firms are able to avoid defensiveness and resulting blindness. HCHP firms institutionalize what I call Learning and Governance Systems, a means for having honest, collective, and public conversations with key people at lower levels about what stands in the way of success.

Why do firms need a learning and governance system? Performance and psychological alignment that works for a period of time—sometimes many years—can create rigidities that require challenges. In the book I discuss what leaders must do, be, and know to lead a collective process of learning, and I provide specifications for a Learning and Governance System that can help leaders avoid destruction, their own or their firm.

These three goals are paradoxical. That is, leaders who focus on one often undermine the others. Consider how hardheaded performance alignment can undermine psychological alignment and commitment if the process is too top-down. Or consider how achieving high levels of dedication to the firm (a strong culture) can easily slip into an attitude that resists change. Only if learning and change become an equally valued outcome can the status quo be challenged.

## **Q: How can companies stand the test of time?**

**A:** Leaders must make conscious, principled choices. Such principled choices define a firm's character. They are:

1. **Purpose:** It defines the firm's contribution to customers, employees, investors, community, and society, not only increasing stock price.
2. **Strategy:** HCHP firms must fashion a distinctive and focused winning strategy to stick with through good times and bad regardless of attractive opportunities outside their field, though clearly adaptations of the strategy will be needed. HCHP firms

are clear about who they are and committed to preserving their identity in the eyes of customers and employees. They know who they will not serve, businesses they will not be in, and activities they will not engage. They do not pursue profit for its own sake if it means getting into areas that are outside their defined distinctive capabilities. The disaster on Wall Street in 2008-2009 at firms like Merrill Lynch can in part be explained by the pursuit of profits for their own sake. HCHP firms, by contrast, grow by using their distinctive capabilities to move into adjacent markets, products and services, and geographies.

3. **Risk:** HCHP firms avoid undue financial or cultural risk that could destroy the firm, though they do take bold business initiatives. Some firms like Southwest have no long term debt. Southwest self-financed because to grow too quickly would have undermined their ability to hire employees who fit Southwest's collaborative values and culture. HCHP companies also manage acquisitions carefully. When they do make acquisitions they work hard at integrating the acquired company's people into their culture. Consider how Hewlett Packard's 1999 acquisition of Compaq undermined HP's HCHP culture.
4. **Motivation:** How people will be managed has to be a conscious choice. Leaders need to examine their assumptions about people: Do leaders assume employees want to be involved and make a contribution, or are they negative and assume that people only work for money and do the least they can get away with?

**Q: If HCHP firms are desirable, why are there so few? What are some of the "undiscussible" fault lines you have identified?**

**A:** Poor leadership and management stands in the way. These may arise because of ineffective leaders and flawed values, but they can also develop when historic leadership and management practices no longer align with newly emerging circumstances.

In the last twenty years my colleagues at TruePoint and I have asked leadership teams to define a strategic direction (business strategy and values) and then commission a task force of their best performers one to two levels below them to interview 100 key people in all parts of the organization about the strengths of and barriers to commitment and performance. These task forces are clearly instructed by the CEO or business unit manager (depending on the level

of the organization in which this process is applied) to bring back the truth. Everyone in the organization is told about the inquiry—it is public—and asked to be honest. This process is later adopted by a number of organizations as their ongoing learning and governance process.

Our analysis of what dozens of task forces from underperforming organizations has shown is the same single strength, "our people," and the same six "silent barriers" or silent killers. We call them silent killers because while everyone knows about them and they are discussed in private where it is safe, they are not discussible publicly with senior management.

The fact that a company's people are seen as a universal strength suggests that the primary barrier to effectiveness, commitment, and performance is the system and the management, one unable to unleash people's energy and align them with purpose and strategy.

**Q: What are the six barriers?**

**A:** The six silent barriers are:

1. **Unclear strategy, priorities, and values.**
2. A CEO or business unit leader who is **too top-down or laissez faire** in his or her approach to leading. They do not engage people in a way that allows an honest problem-solving dialogue.
3. An **ineffective leadership team** (the team does not work as a unit and spends time on administrative matters and reviewing financial results instead of confronting strategic, organizational, and people issues and priorities.
4. **Poor coordination and collaboration** between key value-creating activities, preventing effective execution.
5. **Inadequate leadership development.**
6. **Closed vertical communication:** Lower levels have not been communicated with about values, strategy, and priorities sufficiently and often in person. And equally important, organizational silence prevails about barriers to effectiveness, commitment, and performance. This barrier makes the silent killers self-sealing and unchangeable.

**Q: The economic crisis of 2008-2009 has shown that companies make mistakes that derail and even destroy them. How can companies sustain commitment and performance in this environment?**

**A:** Clearly the 2008-2009 economic crisis has some macroeconomic causes. But it can just as easily be explained by the approach to organizing and managing that many banks and

mortgage and automobile companies employed—approaches that are diametrically opposite to those outlined in my book and discussed here. These firms did dumb things because their leaders did not make the principled choices outlined above.

Probably most important, CEOs or their boards did not want to know the truth nor did they develop the type of learning and governance processes that would have enabled truth to speak to power. Journalistic accounts and interviews with current or past employees of companies like Merrill Lynch and Washington Mutual, for example, make it clear that people in the middle and lower levels of these firms knew that bad loans were being made and that these would lead to the defaults we have seen. Some tried to tell upper management but were beaten down and eventually fired.

This does not happen in HCHP firms because the culture is more open. A disciplined, institutionalized process that allows examination of the whole system is essential. Even in HCHP companies, the capacity to learn and change through honest, collective, and public conversations is not as robust as the other pillars, performance alignment and psychological alignment.

Speaking up to CEOs and boards of directors is hard but ultimately the only path to sustained commitment and performance. Human nature is such that we do not want to know the truth, and lower levels are afraid to speak truth to power due to fear, and experiences that tell them nothing will change. Our tendency to be overprotective of people also causes us to avoid giving feedback to top management.

**Q: What kind of leadership is necessary for a HCHP firm?**

**A:** Leaders must have HCHP vision and values (empowerment, collaboration, maintaining firm identity, learning, humility, and a non-heroic approach to their job) and must be able to confront conflict. They see their job as stewards of the institution and want to leave a positive legacy.

It is hard work to build a HCHP firm and sustain it over time: Leaders take on the challenge because they see their goal as more than quarterly profits. Yet they understand the importance of profits to long term success.

HCHP leaders embrace the paradox inherent in tough business- and profit-oriented decisions on the one hand and developing an institution that cares about people and allows them to develop and exercise their unique gifts on the other. They inspire people by holding out the potential for creating a better organization and world.

**Q: Your vision is very ambitious. What change strategy do you recommend?**

**A:** Transforming an underperforming

company into a HCHP organization is a challenge but well worth the prize. It takes will but also a great deal of skill. Here are some essential elements in a change strategy:

- Embrace "the" and "also." Leaders must embrace the paradox of people and profits. They must improve profits, of course, yet be consistent with the values and precepts discussed above. The process cannot be top down, though the direction can only come from the top.
- Develop a leadership team that embraces the values and perspective discussed here. If that means moving people out and replacing them, that must be done. Engage the leadership team in a discussion of purpose, mission, values, strategy, and the approach they will take to motivate people. The top team ideally spends time discussing the legacy they want to leave: This develops the sense of long term purpose required for a successful journey to HCHP.
- Engage key people below the leadership team. Ask them if the new direction makes sense and about the strengths and barriers in the organization to achieving that direction.
- Put together a set of corporate change initiatives to transform the company. In my book I identify levers of change that through experience and research I have found are typically addressed by leaders to achieve performance alignment, psychological alignment, and the capacity for ongoing learning and change. These include a learning and governance process discussed earlier; a strategic performance management process by which the senior team sets strategy and goals, develops strategic initiatives, and reallocates human and financial resources as needed; an organizational design that enables coordination; and human resource management policies and practices to enhance competence and commitment and develop a community of purpose. In particular, leadership must enable the development of the next generation of leaders: employees who share the values underlying the transformation and will carry on the journey to HCHP after current leaders have left the scene.
- Recognize that HCHP transformations are a unit by unit process, and must occur at the corporate as well as the business, regional, and operating unit level.
- Avoid the fallacy of programmatic change, running tens of thousands of people through education aimed at changing their attitudes

and behavior. Change must be led by local leaders and involve people in shaping their own destiny. Corporate staff groups can support it, but it is the act of leading change that both develops leaders and the HCHP culture.

**Q: What are you working on now?**

**A:** My colleagues at the TruePoint Center for High Commitment and Performance, a not for profit research and education institute, and I are engaged in a study of HCHP leaders. We want to understand HCHP leadership through their own experience. What is the source of their commitment to building a HCHP company and how do they describe the transformation journey they are leading? We are analyzing the data from these interviews and plan to write a book tentatively titled *True Leaders: Lessons from Companies Who Create Both Wealth and Worth*. Our article "The Uncompromising Leader" in the July 2008 issue of *Harvard Business Review* reported our early findings.



## About the author

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