

Companies are engaging in transformation efforts to achieve superior financial returns. Many suffer false starts due to the difficulty of behavioral change. Former insurance CEO Bill O'Brien did pioneering work in this area in the '70s, long before business consultants offered support. He says companies must go through an inner journey to absorb the values that will govern their organizations.

Bill O'Brien, today there is heightened interest in corporate cultures and organizational learning. What are the reasons for this movement?

Today there is actually an explosion of interest in cultural transformation by major corporations in the US. Many widely admired Fortune 500 companies are reaching out to the consulting and academic professions for help in reexamining their theories of governance and overcoming serious learning disabilities. It is driven by a recognition of the infections that afflict the typical command-and-control, authoritarian hierarchical structure – a structure which emerged for manufacturing and service industries in the 1920s. Dupont, Ford and Alfred Sloan at General Motors conceived a neatly organized command-and-control design that fulfilled the principal needs of society at the time, which was the production of goods and services, and with this it created the enormous middle class in the western world.

Command-and-control emphasized order and uniformity over human initiative and individual judgment and assumed that business complexity could be understood and decided by a few people at the top and converted to narrow, categorical procedures for armies of workers to carry out. Superior competitive advantage could be maintained by simply engaging its labor on the basis of an exchange of physical and mental work for pay.

But I think the leaders of those same companies today see the need for change. They see that the internal politics which puts self-interest ahead of common interest, the bureaucracy that stifles individual responsibility, the lack of authentic conversation about important corporate issues, the breakdown of what I call the central nervous system of organizations that gets decisions made and actions implemented, are working against the profitability and growth of their companies. At least that is what motivated my colleagues and me in the early 1970s when we undertook to transform Hanover Insurance, a company frustrated by the waste of untapped human potential, due to its governing theories, culture and structure that constrained initiative, personal responsibility and productive learning.

When you first started your process of transformation, what sort of goals did you have?

When we began our journey in the early 1970s, we never used the word transformation or thought of ourselves as changing the culture. Our goal was to increase profits and grow. Our mission was to build a company that helped every member to use his or her job to become all they were capable of becoming and in so doing add to the company's financial success. Our fundamental approach was considered outside the mainstream of management theory. We were not the employer of choice for anyone with a herd mentality. Only in retrospect did I come to see the advantage of that situation.

Our culture, as we began to cut a new path in 1970, was 118 years old. At the time we thought it would take us three years to move the company from its political, bureaucratic tendencies to one that was palpably purposeful and guided by shared values and common aspirations. We found that renewing a century-old culture is not a short-term project, nor suited for anyone who is short-winded or low on stamina.

Purpose of transformation

You spent 35 years of your professional life in the property and casualty industry. For the past five you've been working with automobile, oil, transportation and manufacturing firms. Can lessons from these industries now be applied to insurance?

The fundamental purpose of most transformational efforts is to engage the whole person – the hands, the mind and the spirit – at all levels in the organization, and to develop latent talents so that the corporation's business performance is raised. Put differently, we want to design the cultures of our commercial enterprises to recognize the basic truth that over time human capital drives financial capital and not vice versa.

Transformation is about attending to the human side of enterprise with the same vitality we devote to marketing, finance, engineering and manufacturing. This applies to all industries, but I believe it is most pertinent to the insurance industry. We invest so much responsibility in front-line personnel. Line underwriters routinely bet policy limits on the basis of probabilities, claim representatives develop facts and make decisions time and again with high financial consequences, and an agent's competence in developing his book of business is a core building block in a company's underwriting performance. The annual report each CEO sends to his shareholders every April is the sum total of the acts and decisions of each employee.

What is the challenge facing insurance today?

Our industry lags behind manufacturing in moving from political, bureaucratic structures to value-based, learning-driven cultures. Looking at the modern history of manufacturing is insightful. By 1980, the US had lost most of its electronics manufacturing to Asian companies and its automobile manufacturers were losing market share to Japanese companies at an alarming rate. We see signs now that our manufacturing quality is catching up, our inside-the-factory-walls quality and productivity is in the Asian league, and that in a couple of years our supply chain productivity will also be world-class. These achievements have been driven by a cultural and learning transformation in response to an external threat that led to our manufacturing being characterized in the early '80s as the "rust belt."

The insurance industry, as of yet, has not had its rust belt. Nevertheless, I believe transformation to a culture that better taps human capital and motivates learning beyond reductionism holds out the probability of enormous competitive advantages to those with the appetite, will and stamina of the decade-long journey.

Developing purpose

Your journey began a full decade before the phrase "corporate mission statement" became fashionable. How did you develop yours?

In the early '70s A.M. Best downgraded us to a B rating. Our combined ratio was much higher than the industry average and our premium growth was much lower than average. Our franchise value for agents was also low. By any comparative measure we were at the bottom of the industry. Jack Adam, my predecessor as CEO, had just become president at the time. Our perception was that the potentials and the capabilities of our people were being thwarted by the system. So we set out to change the system we had inherited – one that was just rife with politics, bureaucracy, verbal gamesmanship, and hoarding power. When you mapped in your mind the currents in our work environment, it was clear why people on the front line dispirited. We thought if everyone understood the “why” of our organization, as those of us near the top did, there would be a higher sense of purposefulness, and meaningful activity at the front line. It would, we hoped, overcome the political and bureaucratic games. Only later did we learn how simplistic and naïve this notion was.

First, our purpose was to provide clients with maximum value for the insurance premium dollar. Second, it was to help each member of the company become all he or she is capable of becoming. And third, it was to earn superior financial returns that fuel future growth, to accumulate a rainy day fund for adversity, and to reward our shareholders. In fact, the novelty of a purpose with multiple stakeholders piqued the interest of the *Harvard Business Review*, which subsequently published an article by Jack Adam on our purpose.

Values as antibiotics

Why did you get into values?

At first we thought that as employees increased their understanding of our purpose, both enthusiasm and learning would be stimulated. But it never happened. As time went on we realized there were more impediments to transformation. These were the petty behaviors that grow within a political, bureaucratic environment. It became clear we really needed to find a cultural force to raise low-road behaviors to the high road. The function of each value was to encourage everyone to choose high road behaviors over less demanding alternatives. Let's say a mid-level manager is faced with a choice. One of his direct reports comes to him with a carefully reasoned plan to resolve a difficult problem. But the manager intuitively knows that the vice-president he reports to will not be pre-disposed to the plan because he is engaged in a turf battle with another vice-president whose cooperation is needed. Should the mid-level manager follow his political instincts or back his direct report's thoughtful plan? What principles or values would support our people in choosing a high-road approach? Out of much thought and discussion over many similar situations, we adapted key values around which we centered our culture.

These values were merit, openness and localness. Merit opposes politics and bureaucracy. It commits people to making decisions on the basis of what best achieves the company's purpose, vision and goals, and is consistent with other values. However, it is a difficult concept to practice in the face of pressure to be political, or when confronted by an entrenched bureaucracy. It comes down to “what's right” as opposed to “who wants.”

Openness is a skill as well as a value. It is the commitment and the ability to discuss serious subjects when the participants hold differing core assumptions, by making these assumptions explicit so they may be tested. It channels conversation toward a best answer, not toward winning and losing. Openness opposes verbal gamesmanship where the intent is often to put a spin on information, manipulate the other person toward a certain response, or withhold important data as an instrument of power. Practicing openness requires skill and a mature intent.

Localness is a value concerning how people who are at different levels in the company relate to one another. It opposes the common tendency to “suck power upward” and thus remove much content from work at the lower levels. It says that knowledge held by people at the front line is valuable, and that they should have an important voice in the process of making decisions. If they have the competence and perspective, they should make the decision. Our goal was to increase self-reliance throughout the company rather than create dependency on experts at the home office. The challenge is to develop managers who see themselves as teachers and mentors responsible for growing human capital as well as financial performance. Very important to remember is that each value is linked to the other two. Merit without openness is unachievable. Openness without merit is unpalatable. Without localness, the staff wilts.

The importance of the inner journey

Management literature about leadership refers to the importance of the search for purpose and values, or what you have called the inner journey. What does it mean to you?

Transformational change doesn't start with companies. It starts with people. And transformational leaders must make an inner journey. They have got to absorb and believe in whatever values they want to have at the center of their enterprise's governance. They must nurture their views about human nature, the role work plays in advancing the human condition, and the purpose of the organization.

At the root of a journey toward corporate transformation is an alignment of leadership's personal values and purpose with those espoused by the corporation. Today it is becoming widely accepted in management circles that enlisting people to achieve high financial goals alone just isn't effective. Consistent superior financial returns are usually a by-product of a commitment to the pursuit of excellence in adding value to the business transaction for the customer. A quality culture based on values will enrich relationships with customers.

What fuels people

What motivates people in organizations?

I know of five sources of psychic energy that fuel people. They are:

Fear. Economic fear is prevalent in many business institutions. It increases compliance and decreases personal responsibility.

Greed. One problem with greed, besides its impact on one's level of maturity, is that it creates an internal competition and gamesmanship between people and functions, with everybody trying to get their share. It de-emphasizes cooperation which is so important as business becomes increasingly complex and specialized.

Applause. Manufactured applause is usually recognized as such after a time, and loses its power to motivate. Genuine applause is appreciated and has a beneficial impact on motivation. But it is not a main-line fuel nor does it furnish the deeper meaning to life that work should provide. There is a morphine effect when a company is driven by applause, i.e. it wears off and leaves a craving for more.

Moral excellence. The pursuit of moral excellence, in my judgment, is the best path for energizing the human talent in corporations. I am not contending that there is an immorality problem to overcome. Rather, in living up to such time-honored principles as truth, responsibility, freedom, courage, and others, there are high roads and low roads. All are legal and common. Commitment to the high road of moral excellence in the practice of these fundamental values will inspire employees to the same level of excellence in business performance. Work takes on a different meaning, at all levels and for each person. That deeper meaning is a source of energy that provides competitive advantage.

Love. The most powerful psychic fuel is love. Unfortunately, in our western cultures, we invariably use the word love to describe special romances or family relationships. The definition of love I prefer, particularly in a business context, is "the predisposition of helping other people to complete themselves." Why? Because it gets at the enormous amount of under-developed talent that resides in almost every corporation.

In reality, every company uses a combination of such energies, but most have one dominant source. My contention is that at this point in time of corporate evolution, the pursuit of moral excellence provides the most effective path to energizing human assets.

Three main ideas

What are the ideas that personally drive you?

Three ideas have guided my professional life over the past 25 years.

Idea Number 1. In every person there is an enormous reservoir of untapped potential, which, when you succeed in achieving it, sets the scene for two desirable events. First, if you channel the potential appropriately, you will raise the performance of your enterprise. Second, you will increase the happiness of the individual. I distinguish happiness from pleasure and recreation. Happiness is that feeling of inner well being that your life as a whole is going well because you are using your talents to contribute to something larger than yourself, be it your family, employer or community, and this larger entity appreciates your contributions and treats you fairly.

Idea Number 2. Work is often misunderstood. Many see it as a necessary. In reality, work, in combination with family, is an important vehicle for achieving happiness I just explained.

There are two dimensions to work: the objective and the subjective. The objective side is the exchange of work for money to produce a good or service of economic value. Managers tend to spend a lot of time and energy measuring and incentivizing the objective dimension of work. The subjective nature of work is the impact that spending 20, 30, 40 years at the human workbench has on the personality, self-image, confidence, and character of the individual. Some people enter the workforce at 20, love what they do and how they are treated, and their vocation has a highly positive impact on who they become as human beings. In other instances, people interact with the human workbench in a way that by the time they're 50, they're counting the days until retirement. If management paid as much attention to the subjective nature of work as they do the objective dimension, productivity would double. When all jobs have dignity, when each person is respected, when learning is encouraged and mentoring is valued, business performance always invariably improves.

Idea Number 3. Typical corporations, particularly the larger ones, are not designed to help people achieve their potential. Instead, they are designed to prevent mistakes. By design I do not mean the layout of the organization chart but the fundamental ideas that drive the organization. The benefits to the enterprise from unleashing people's innate talents from the few occasions that they get in over their heads.

It's not my suggestion that my ideas should be anybody else's or that there is only one path to transformation, one has to think seriously about human purpose, human nature, the nature of work and the corporation's role in society.

Bill O'Brien was CEO of Hanover Insurance Company from 1979 to 1991. Since retiring, he has spent much of his time helping organizations consider the ways in which leaders can marry individual growth and economic performance.