

BOOK EXCERPT 10.1

The Soul of the Organization

WILLIAM J. O'BRIEN

As CEO of Hanover Insurance from 1979–1991, Bill O'Brien was one of the great practitioner pioneers of the interdependent development of people and their institutions. This new approach was the inspiration for the founding of SoL. In this excerpt from *Character at Work* (published posthumously), O'Brien explains why the most basic problems and flawed behaviors of an organization derive not from its lack of knowledge but from its lack of virtue. He defines four key values – localness, merit, openness and leanness – at the heart of those corporations that succeed in bringing out the best in its members. Ahead of its time, O'Brien's work is an important resource for those responsible for the process of developing organizational leaders and for those experimenting with new designs to enable corporations to operate for the benefit of all stakeholders.



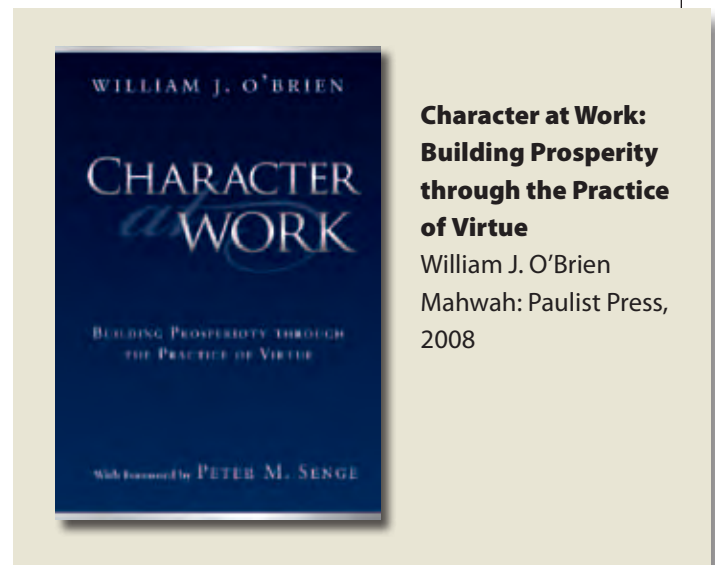
William J. O'Brien

The crisis inside the American corporation runs deep. It shows up when office politics dilute an organization's sense of mission, or when euphemistic language masks honestly held viewpoints, or when managers adopt a game-playing veneer

that stunts their authenticity. Operating matters consume daily agendas. We have meetings to attend, reports to prepare, people to see, e-mail to read, calls to return, and deadlines to meet. Often we push aside the very values that normally steer our lives and instead simply give in to the pressure to perform.

In the race for the rational, the scientific, and the measurable, we have lost sight of something more important – an ecology in which work serves people, not only as a means for earning a living, but also as a platform on which we can develop our talents and express our best selves. The soul of an organization concerns more than matters of the bottom line.

By ecology, I mean the fundamental interrelationship of humans and their environment. An enabled ecology



**Character at Work:
Building Prosperity
through the Practice
of Virtue**

William J. O'Brien
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means that people, organizational goals, and espoused values are aligned, and that the emotional and psychological aspects of an institution are congruent with the basic, deeper, and higher attributes of human nature. Cultivating this kind of ecology requires a values-based, vision-driven leadership—a careful nurturing of the corporate culture and an acute moral awareness on the part of both managers and individual workers.

These ideas are not new. Some, indeed, are very old. If they sound “soft” to you, know that in actuality they are hard work, because they run against the grain of conventional management approaches. But they pay vital dividends, for they release the human potential trapped within us by the traditional command-and-control approach to leadership.

The Principle-Centered Organization

In a workplace shaped by a values-based, vision-driven leadership, the goals and values of the organization are in alignment with those of the people who work there. Most important, the atmosphere stimulates people to express their highest attributes – their desire to help others, their eagerness to contribute to something larger than themselves, and their courage to stand up for what’s right.

Whenever there is an ocean of information about a subject without central principles around which to organize that information, we find ourselves confused and frustrated. That is why in business we organize financial information around the income statement and balance sheet, and why we make decisions about manufacturing physical materials based on engineering principles derived from the scientific method. Through training and practice, Western management has become quite adept at resolving both financial and materialistic issues. But as a whole, it has been less successful when it comes to the management of human beings.

Since it is human beings who make the decisions and perform the actions that determine a company’s results, people are arguably the most important influence on a corporation’s performance in the competitive marketplace and consequently on its long-term financial achievements. Therefore, we should have principles for the governance and development of people, just as we do for financial and physical matters. Shouldn’t we be striving for human excellence in

corporations in the same manner as we strive for engineering or marketing excellence?

During my experience as a CEO leading cultural change, I found it necessary to constantly stimulate progress in improving both the moral climate of my organization and the individual moral maturity of the people within it. When one lagged behind the other, the community began to become dysfunctional. For example, when the value merit, which stated that all decisions should be made on the basis of what works best instead of what pleases a boss, was widely internalized in a unit and a manager was observed playing politics, feelings of betrayal and accusations of hypocrisy were generated, which worked against our business imperatives. Then again, a morally underdeveloped institutional climate usually overwhelms even the most valiant efforts of individuals to practice principle-based leadership. So I found myself constantly ratcheting up both sides of the equation to keep the ecology in balance while continuing the “never-arriving” march toward greater and greater congruence between values and behavior. A “nine” in individual moral effort with a “two” in corporate moral climate was significantly less effective than a “five” in each.

Is it possible to move an organization to a higher plane where there is less of a gap between what we say and what we do? And can you cultivate an organization that liberates the individual, pursues truth, is just, acts with courage, acquires wisdom, practices virtue – and still earns a profit?

I believe the answer to each question is yes. A climate of moral excellence can provide an enduring source of inspiration for the people who are part of it. It will also lead to high-quality service to customers, thus feeding back even greater satisfaction to the company. Naturally, a finely tuned, values-based business culture still requires a sound strategy and competent

staff. But if you build on strategy and competence by nurturing the relationships in your ecology, providing a structure for honest communication and feedback, and designing processes that fill people's need for a sense of purpose, then the business imperatives of profit, market share, growth, and competitive advantage will fall into place.

Where to Begin – A Shift of Mind

The antidote to the dispiriting impact of the command-and-control, authoritarian institution is to cultivate deep respect for each individual worker, recognizing that all work has dignity and understanding that managerial humility is an important virtue for long-term success. To do this requires a shift of mind.

I am generally skeptical when someone suggests a shift of mind to me. There are too many people peddling all-purpose snake oil cures for organizational illnesses. So let me be precise about what I mean by a shift of mind.

Transformational cultural achievements require the replacement of a higher value for an inferior one, such as substituting merit-based decision making in place of political decisions, or individual responsibility in place of bureaucracy, or openness in place of unjustified secrecy. This shift of mind results in a superior mental model replacing a less effective one.

Values and Mental Models

What is the difference between a value and a mental model? A value is an eternal truth about human nature that an individual believes is important and right. We live up to a value because we believe it is right to do so. We expect values to be constant.

A mental model is a set of assumptions we develop about how the world or other complex systems work so that we can process information quickly and make

effective decisions. We use our mental models to decide large strategies or small tactics. The test of a mental model's effectiveness is how it works. When the outcome of a decision does not satisfy us, we should reexamine our assumptions and decide if our mental model was appropriate for the issue.

For instance, an accountant takes in information and views it through a lens that measures its impact on the income statement and balance sheet. Because of his mental model, the accountant may view the data as more important than any other information about the company. Meanwhile, the sales manager takes the same information and views it through a lens that measures customer reaction and competitive advantage. Her mental model says that, no, information from this domain is more important than any income statement or balance sheet. These two people can quickly reach an impasse about what is important unless they develop a larger, integrative mental model that encompasses both of their perspectives.

While narrow, compartmentalized mental models in the heads of employees lead to fragmented behavior in a company, integrated models encourage cooperation and competitive advantage. A larger, more overarching model helps people make more effective decisions because they can see the broader implications of their actions – not only within the company but also over time. In addition, it sharpens people's sense of the organization's overall mission; as a result, they can see how their actions contribute to the whole. When we fail to examine or revise narrow mental models, our organizations become rigid. In contrast, when we insightfully analyze and refine the models, and learn to understand others' perspectives, our organizations grow agile and our individual performance improves. Enduring competitive edge is driven not by getting the right mental model but by mastering the process of constantly improving mental models.



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The Character of Management

The idea that a manager can serve his employees as well as lead was proposed by the ancient Chinese sage Lao Tzu. Robert K. Greenleaf, in his excellent book *Servant Leadership* (New York: Paulist Press, 2002, p. 240), develops the subject in a modern context, saying: "We are not wanting for knowledge of how to do things better, or for material resources to work with. But we are sorely in need of strong ethical leaders to go out ahead to show the way so that moral standards and the perceptions of many will be raised, and so that they will serve better with what they have and what they know." It is an idea whose time has returned.

Building an ecology of soul presupposes a different approach to corporate management. It respects the need for good, orderly direction but combines that

with a respect for individual capacities. It understands that organizations need to serve and satisfy all members of their work family. By carefully selecting and nurturing people who espouse and practice these ideas, the leader of an organization can help shift its ecology.

But before such a shift can take place, the leader must look within his own soul and determine what he wants to do with his life – and only then what he wants his company to do. To paraphrase Gandhi, transformation takes place when you become the change that you wish to see in the world.

Transforming Our Institutions

The central organizing principles – the decisions and actions that involve an organization's people, values, and aspirations – cannot be reduced to a formula. Nor

will there ever be a package of rules, such as there is in accounting and in science, to be plugged in and applied to human relations. It is not only unwise, but also unworkable, in this age of democracy and capitalism, to try to run an organization on principles that are forced on people. A value, by definition, can be embraced only voluntarily.

Nevertheless, there are certain values for guiding human behavior that, if followed to a reasonable degree, will transform the ecology of an organization, not only creating greater happiness and personal fulfillment in the workplace but also improving productivity and financial performance.

An organization's culture, without regard to its size, can be transformed around fewer than a dozen ideas. The most powerful transforming ideas, in my experience, are four specific corporate values and four leadership principles.

Corporate Values

Localness: Distributing power so that decisions can be made as close to the scene of the action as possible. Localness is more than decentralization. It is a path of discovery on which people stretch their talents to become what they are capable of becoming. Localness disperses power to competent people in an orderly, disciplined way. Over the long term, wisely distributed power produces better economic results than does centralized power.

Merit: Evaluating decisions based on their worth, not on how much they please the boss. Merit means directing every decision and action toward the organization's goals and aspirations while being consistent with the company's other values. Its practice eradicates the office politics that demean the dignity of people engaged in work.

Openness: Allowing the free flow of information throughout the organization. Since nobody has all the answers, openness is the best navigational instrument for an institution or individual to use to take stock and to chart a course.

Leanness: Being stewards of the organization's resources. Leanness tempers the human inclination for excess comfort and expansion, so that an organization or individual maintains its health in both good and poor economic times. It embeds in the soul of the corporation the ancient virtue of thrift.

None of these four values stands alone. Merit without openness is unachievable; openness without merit is unpalatable; merit and openness without localness leave too many people with untapped potential because they underuse their talent; and using merit, openness, and localness without leanness increases the risk that the enterprise will violate economic law and fail to prosper.

If creating value-centered cultures serves constituents so well and sounds so good, why isn't everyone doing it? Because it is hard! Because you cannot hire someone else to do it! Because it has to be done one by one until you achieve a critical mass, when the herd mentality kicks in!

Leadership Principles

A values-based, vision-driven culture is possible only when both the vision and the values of a corporation are internalized. This means that the creation of the organization's vision cannot be a top-down process but must be generated from all levels. In the twenty-first century, corporate ecologies based on values and visions will generally out-perform command-and-control corporations characterized by trickle-down disbursement of power, office politics, and bureaucracy.

The moral formation of managers occurs in a series of stages: intellectual understanding, then internalization, and finally the integration of action with beliefs or convictions. Values in the mature manager are embedded in the mind, the heart, and the hands. Being a leader in a values-based, vision-driven organization requires service, learning, and love. In the final analysis, leadership is building character and advancing learning. That is why the moral formation of our managers is of critical importance.

A learning organization aligns people and profits, values and financial performance. "How to" knowledge is technical. "What to" knowledge is directed by values and, in turn, gives direction to our lives and our organizations. A learning organization invests in human capital as the surest way to build financial capital.

A practical understanding of love starts with the understanding of the significance of work to the personal growth of the individual. Work is a platform on which people mature, develop, and achieve happiness

through growing their competencies as well as contributing to the Gross World Product. Therefore, as an employee, a person is first a human being and only secondarily an instrument of production. When workers sense this order in a company, they devote quality energy to achieving the organization's business goals.

Maturity. The responsibility of leaders is to know moral principles, human nature, human needs, and human values, and how best to apply this knowledge to ordinary business tasks. We do not need to micro-manage each person or situation but to know that, over time, high-quality principles will drive out low-quality principles when they are advocated by leaders with integrity who live by the values they espouse. When people are free to choose between high quality and inferior ideas, they inevitably choose the former. All people deserve a chance to have this choice in their work. Maturity is a never-ending journey. We can't teach it, but we can help one another along the road. That's what the great leaders do. ■

ABOUT THE AUTHOR

Bill O'Brien was president and chief executive officer of Hanover Insurance between 1971 and 1991. During his tenure, Hanover rose from the bottom of the insurance heap to the top of the industry and in 1994 was recognized as one of the top 10 underwriting companies in the country. The company's spectacular rise was attributed to Bill's commitment to reshaping Hanover's governing ideas, the two most important of which were an emphasis on maintaining a lean corporate structure and reliance on an open-system view of management. Bill was a founding member of the Board of Governors of the MIT Center for Organizational Learning and was a founding partner of Generon Consulting. He died in 2002.

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