How Your Culture Is Guaranteeing Weak Performance

Written collaboratively by Michele Clay & Mark Kamin

The current paradigm for organizations ***guaranteees*** **weak performance**. *(And you are either blind to it or perpetuating it.)*

The current paradigm for business is to maximize shareholder return. This is an obvious consequence of the need for investors to receive a fair return on their capital.

This paradigm was best and most prominently articulated by American economist, Milton Friedman, when he was a professor at the University of Chicago. In a 1970 interview with the NY Times, he said:

"There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits…"

In other words, in the current paradigm, organizations exist **only** to get shareholders maximum return on their investment.

The pressure for shareholder return has devolved into a culture that drives quarter

over quarter profitability. Wall Street analysts speak with the C-suite of every major corporation every quarter – and the price of that company's stock (and the fortunes of C-suite executives) rise and fall based on the outcome of the analysts' assessment of whether or not the company can
make their short-term numbers. Forget about long-term value and sustainability as drivers for corporate behavior.

Even if a company shows short-term quarterly returns; **this means nothing about the long-term viability of a company**. Here is an example, from one of our Program Leaders, to demonstrate what we mean:

"When I was working with GE, I worked with a plant manager who had recently taken over a large manufacturing facility. The plant manager showed me machine after machine, which was in complete disrepair. The previous plant manager received a promotion, and gifted the new plant manager with a dilapidated facility. The previous plant manager's promotion was predicated on a P & L that had no spending on maintenance and purchase of new equipment. He made his quarterly number, quarter over quarter, and he got his promotion. However, GE's productivity in that plant degraded over the long-term."

In one way or another, the culture of short-term return on investment plays out this way across American business. Even organizations that are not publicly traded, and do not have quarterly calls with Wall Street analysts, are deeply impacted by the current paradigm and culture of short-term return to shareholders. This frame of reference, or said another way, a culture oriented around short-term results, permeates and shapes all of business.

One of the serious consequences is, that despite corporate speak, investment in and attention to employees and the commitment to employee fulfillment take a back seat to everything else.

Gallup, in their 2017 *State of the American Workplace* study, found:

67% of employees do not like their jobs or where they work… *"16% of employees are actively disengaged — they are miserable in the workplace and destroy what the most engaged employees build. The remaining 51% of employees are not engaged — they're just there."*

"Organizations are not giving [employees] compelling reasons to stay, so it should come as no surprise that most employees (91%) say the last time they changed jobs, they left their company to do so. The competition for skilled and talented workers keeps intensifying."

"Organizations have nowhere to hide. They have to adapt to the needs of the modern workforce, or they will find themselves struggling to attract and keep great employees and therefore customers."

"Employees look for fit to role, culture and life."

How is it possible to have long-term sustainability and long-term value if the people at work in organizations are miserable in their jobs and they are ***not*** ***committed*** to what they are doing?

The scandals that rock American business on a regular basis and erode trust in business are everywhere: Wells Fargo (2016), the devastation of the Louisiana and Mississippi coasts from the BP Deepwater Horizon blow-out (2010), the Wall Street and sub-prime debacle that resulted in 750,000 people a month losing their jobs in 2009, Enron and Arthur Andersen (1997-2002), and the list goes on and continues to grow.

The noise about employee and customer satisfaction mostly is a pretense hiding the real game being played: *make quarterly numbers to placate shareholder concerns about maximizing return.*

We believe people, for the most part, are the greatest asset of American business. Obviously customers also are a serious priority if a business is to be sustainable. It could also be said that issues like global climate change are a consequence of this very myopic approach to business and the relationship of business to the global village within which business must be effective.

The default setting of short-term shareholder return *first* (as the #1 priority) by necessity relegates employee fulfillment, customer satisfaction, and good corporate citizenship to inferior priorities across corporate America.

This default setting is "water to fish" for people in business. In fact, there are people

who are reading this blog right now who are saying to themselves, *"What's the problem?"*
We call the paradigm of existing business a "**You <u>OR</u> Me**" (I win/you lose) culture – every man for him- or herself.

What goes with that culture is: *CYA, silos, turf battles, fighting over career opportunity, and a variety of other destructive and undermining behaviors.*

We design businesses to operate from a different paradigm – what we call the ***"You AND Me" Business Model***. In our model – all four constituencies (Employees, Customers, Shareholders, and the Community) are equally important and need to be attended to as equal in their priority.

There will be times where shareholder return will need to be maximized, **AND** there will be times where customer satisfaction will need to be maximized, **AND** employee fulfillment — **AND** always, an eye needs to be kept on good corporate citizenship.

We will dive more deeply into our ***"You AND Me" Business Model*** in our upcoming blogs.