Return on Culture:

New Perspectives on Corporate Governance

Sustainable Business Forum
The Future of Healthy Enterprise

DuPont Sustainable Solutions

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Introduction
Richard McGill Murphy

It's often said that culture is the competitive advantage of the modern corporation. In his book *How*, the management theorist Dov Seidman defines corporate culture as "the way things *really* work, the way decisions are *really* made, e-mails *really* composed, promotions *really* earned and meted out, and people *really* treated every day." If that's true, then how can companies foster cultures that will attract the most talented employees and encourage them to release their best efforts? What concrete steps can business leaders take to harmonize governance and culture? And how can businesses measure the economic impact of cultural change? In the following pages you'll find arguments and case studies by leading corporate culture scholars as well as business executives who have led cultural change efforts within their organizations.

In "Is Shareholder Capitalism Broken", *Fortune* magazine contributing editor Marc Gunther analyzes the "B corp", a new corporate governance mechanism that requires companies to operate for the good of society, not just for their shareholders. In "Apple, Steve Jobs and the Perils of Iconic Leadership," USC business professor Edward Lawler argues that companies need sustainable leadership models to avoid the management crises that often ensue after the retirement of an iconic CEO.

In "Why Social Capital Matters," Charles Ericson argues that the latent power of corporate communities and the citizenship of their constituents will be realized only to the extent that authority and responsibility are matched to local knowledge.

Of course, strong corporate communities require effective communication at all levels of the organization. In his piece "Cultural Alignment: Four Communication Traits of Strong Leaders," Aad Boot explains how culturally sensitive CEOs can inspire their teams to work together across cultural lines. And in "How to Drive Cultural Change," Ted Coiné tells the story of Brazilian CEO Richard Semle, who applied his keen insight into the dynamics of corporate culture to take his family business from $2 million (and near-bankruptcy) to more than $250 million in annual revenue.

In "The ROI of Safety Culture," finally, Simon Herriott traces the influence of organizational culture on performance, growth and business sustainability. Good safety is good business, Herriott argues, and you can't have good safety without a strong safety culture.

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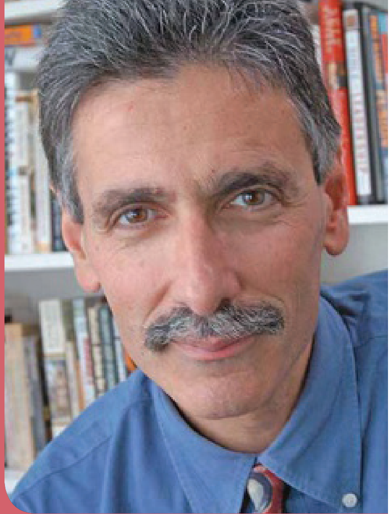

PART 2

Does Business Need Social Governance?

A new corporate legal structure would force companies to operate for the good of society.

Marc Gunther

Is shareholder capitalism broken?

Few would argue that it's working well. Business as usual has us on a path to climate catastrophe. The housing/banking industry collapse threw the world into recession. We've seen Fukushima, the BP oil spill, the Massey coal mine deaths. Growing income inequality has become a persistent worry.

The conventional response to all that—indeed, the one that I share—is that smarter (though not more) regulation is needed. But a growing number of business people say the problems go deeper. They say a new kind of corporate legal structure is needed to require companies to operate for the good of society, not just for their shareholders. These new for-profit organizations—they're called B Corporations—are growing in number, and their structure has been enshrined into law in four states—Vermont, Maryland, New Jersey and Virginia.

Here's what B Lab, the nonprofit behind B Corp, says on its website:

Our vision is simple yet ambitious: to create a new sector of the economy which uses the power of business to solve social and environmental problems. This sector will be comprised of a new type of corporation—the B Corporation—that meets rigorous and independent standards of social and environmental performance, accountability, and transparency.

And in its annual report: "After the latest round of economic and environmental crises, it's clear we need systemic solutions to the systemic problem that places the interests of shareholders over the interests of workers, community and the environment."

Interesting, no? A couple of months ago, I heard Jay Coen Gilbert, a founder of B Lab along with Bart Houlahan and Andrew Kassoy, talk about B Corp (it stands for Benefit Corp.) at a GreenBiz conference. Afterwards we caught up by phone to talk some more.

"We can't have a new economy unless we have a new type of corporation," Jay told me. "Corporate law actually works against sustainability." Current law, he argues, require company executives to put shareholder interests ahead of everyone else's.

Jay is himself a business guy. After graduating from Stanford, he joined McKinsey & Co., then spent a couple of years working on child welfare issues for the government of New York City. In 1993 he founded a shoe and apparel company for basketball players called And1. "We were very much the upstart, street ball brand," he says. The company, which grew sales to $250 million, was sold in 2005, giving Jay the freedom to think about what to do next. He'd been inspired by socially responsible companies like Patagonia, Body Shop and

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Does Business Need Social Governance? (CONT'D)

Newman's Own, each of which, he said, was "very cool and inspiring in its own way, but all of the power and energy was diffused."

How, he wondered, could the power of responsible business be harnessed? "There was a clear need for a unifying brand that could help project the voice of this very compelling marketplace, from fair trade to clean tech, from microfinance to organic and local," he says. B Lab is the result, and he explains that the nonprofit is trying to do several things at once. First, it's a certification effort, aimed at helping consumers identify responsible companies that meet rigorous and independent standards of social and environmental performance. "You can think of it as a LEED for business," Jay says, referring to the system for rating green buildings.

More than 400 companies in 54 industries have been certified as B Corps. Most are small and privately held. Total revenues are under $2 billion. Among the early adopters are Seventh Generation, Method, Numi Organic Tea, New Leaf Paper and Sansko. One of the bigger firms to be certified is Cascade Engineering, a $250-million Michigan plastics firm.

These companies get actual benefits, along with the right to use the B Corps brand. Salesforce and Intuit offer them discounts on software. Graduates of the Yale School of Management get favorable treatment of their student loans if they work for B Corps. The city of Philadelphia gives them tax breaks.

Second, B Lab is working with private equity investors to use its performance standards to help them make better-informed decisions about private companies. Its ratings are part of an initiative called the Global Impact Investment Rating System, or GIIRS, which provides data on the social and environmental impact of companies to investors who want to put their money into enterprises that are doing good. B Lab is beta-testing the GIIRS methodology with fund managers who have about $1.2 billion in assets under management.

Finally, B Lab is pushing for new laws. The Benefit Corp legislation passed in four states creates a new corporate form which "redefines fiduciary duty, and holds companies accountable to create a material positive impact on society and the environment as measured by an independent, transparent third party standard." Fundamentally, the idea is to shield companies from shareholder litigation when they make decisions that could hurt short-term profitability. Corporations that currently operate in any state could theoretically re-incorporate in one of these four states to, in effect, redefine their purpose.

This is where I part ways with B Lab, but not before saying that what Jay and his colleagues have accomplished in a few short years is nothing short of

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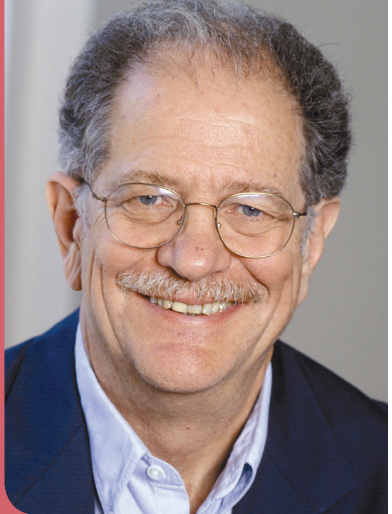
remarkable. They've catalyzed a movement, developed a sophisticated set of metrics around corporations and the public good, won over hundreds of entrepreneurs and changed laws in four states. They're onto a big idea, and we can only hope it gets bigger.

The trouble is, the idea of business for the public benefit is not going to get big enough or important enough so long as it remains on the sidelines of shareholder capitalism. The world's big companies—the Walmarts and GEs and McDonalds—would find it very hard, if not impossible, to re-incorporate as B Corps. If nothing else, they'd have to concede that there's something fundamentally wrong with shareholder capitalism. They're not going to do that—because, in my view, there's nothing fundamentally wrong with today's model.

While there are undoubtedly tensions between maximizing short-term profits and building long term shareholder value, the job of a leader is to navigate those tensions and choose long-term value. Competitive markets also drive businesses to externalize their costs, but that problem is best addressed with regulation—starting, importantly, with a price on carbon. Corporate governance, too, needs fixing, so that managers are accountable to shareholders in fact as well as in theory.

There's no doubt, in other words, that reforms are needed. But it's my firm belief that companies that make the world a better place–by serving their customers, enabling their workers to flourish and giving back to their communities–will, in the long run, be rewarded in the market and deliver superior returns to the owners. That will drive the change we want to see, at a scale that matters.



PART 3

Apple, Steve Jobs and the Perils of Iconic Leadership

The history of American business demonstrates how hard it is to replace a charismatic CEO.

Edward E. Lawler III

For the last several months CEO succession at Apple has gotten a considerable amount of attention because of Steve Jobs' health problems. The corporate board has been asked what their succession plan is for the CEO role and so far, they have avoided giving a definitive answer.

It's no wonder that investors are concerned. There are many examples in the history of American business that demonstrate how hard it is to replace an iconic leader. GE has not done well since Jack Welch left. Polaroid went bankrupt a few years after its founder Edwin Land retired. Disney floundered for a number of years after Walt Disney retired.

The most common reason given for the failure to find replacements for iconic leaders is poor leadership development on the part of their companies. But there is much more to the problem of succession in icon-led companies than simply the lack of talent development and succession planning. Iconic leaders such as Welch and Disney often spend decades in their CEO roles and exert enormous influence through all aspects of their company's strategy, operations and design. They create leadership roles that fit them. They institutionalize their way of managing to such an extent that their replacements simply have to do the job the way they did it or make enormous changes in how senior management operates. Of course, it is virtually impossible to find a leader who can replace icons such as Welch and Disney in the jobs they have created, no matter how good the internal development system of a company is. But in essence, these icons create unsustainable leadership roles in their companies.

What's the antidote to this? There is an alternative to the kind of iconic leader who is impossible to replace: have a senior leader who installs a sustainable leadership model. This of course raises the question: What is a sustainable leadership model? Perhaps the best way to describe it is as a shared leadership approach, one where individuals throughout the organization are expected to demonstrate leadership behavior and not be overly dependent on the CEO to provide a sense of direction, mission and purpose for the organization. When leadership is shared, people throughout the organization take advantage of leadership moments to influence the direction of the corporation.

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Apple, Steve Jobs and the Perils of Iconic Leadership (CONT'D)

Finding a new CEO is much easier with the shared leadership approach. Bill Gates did it at Microsoft and the pay-off has been continued high performance. Herb Kelleher did it at Southwest Airlines, which has also continued to perform well. The implication of this for boards is clear; they need to focus on talent development and how their firm is led, not just on succession planning.

But what about Apple? Is Steve Jobs more like Bill Gates and Herb Kelleher or more like Jack Welch and Walt Disney? Has he created a sustainable leadership approach for Apple? It does not look like it to me, but only time will tell.

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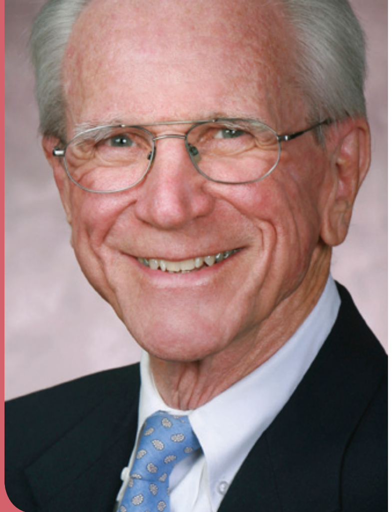

PART 4

Why Social Capital Matters

Dialogue can help align social strengths to common purposes.

Charles Ericson

One of the most important lessons my career has taught me is that relationships between people really matter. I have also learned that a retributive, command and control management style, practiced long enough, drives an organization's people to informal but powerful social shelters. I have seen enough evidence at first hand to convince me that the latent power of communities and the citizenship of their constituents will be realized only to the extent that authority and responsibility are matched to local knowledge.

The most powerful and universal tool for applying social strengths to common purposes is structured omni-directional dialogue. At the Ericson Business Group, my consulting firm, we are convinced that effective leadership depends on applying these hard-learned lessons.

Before I had ever heard the term "social capital," I found that in order to do my work as well as I wanted to, I really needed to understand the ways in which people within an organization interact. When grasped, that knowledge is a powerful leadership asset that can be invested in operations.

Those seem like pretty ordinary statements. They might even sound trite. I find, however, that making positive use of them is still quite rare.

At one time I was assigned responsibility to restore competitive productivity levels to a manufacturing facility. It had once enjoyed a very large and profitable market share for its products, but had been in a downward physical and financial spiral for a long time. In my assessment of what needed fixing, I was told repeatedly by recent and current management leadership that they didn't trust the work force; that the people weren't loyal to the company; that their allegiance was to their labor unions.

Union leadership told me that management didn't care a fig about the people; that the workforce had only themselves to turn to for support and understanding; that blame for whatever was wrong was assigned to them without benefit of any conversation aimed at assessing, let alone addressing, root causes.

Professional design, development, and administrative staff were a separately represented body. Many of these employees told me that all they wanted was to carry on with their work inside what had become a very rigid seniority system; that they weren't really involved in any discussions about how things could be made better; that whatever went on between the hourly workforce and management was not of real interest to them, except for the singular fact that professional pay scales were impacted directly by hourly union negotiations.

Within each of these distinct and tightly bonded social networks there was a palpable body of trust that

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Why Social Capital Matters (CONT'D)

served as the glue holding each of them together. None of them had any discernible interest in undertaking serious bridging initiatives aimed at improving the company's vitality, and management had provided no impetus for doing so. There was no substantive dialogue between them, and hardly any common ground. What social scientists might refer to as their respective radii of trust did not extend beyond each group.

In very large measure, then, each group regarded the other two as outsiders. It was a business comprised of two organizations set defensively against each other, and a third that sensed it had its own life with no real stake in what went on between the others. All three spent their days simply going through the motions of fulfilling customer orders. They generally adhered closely to their very detailed job descriptions, believing implicitly that by so doing they met the requirements of their employment.

The professional and labor workforce groups were exceptionally skilled at applying their respective technologies. The finished products were functionally excellent, but they were always delivered late and over budget. Successive management groups had failed to lead constructively for a long time, largely because they didn't recognize the real nature of the three troves of social capital that dominated the culture. The enormous power of the organization's social assets was being squandered, because in that segregated landscape there was no operative sense of common purpose, and no sense of citizenship accountable for the conditions of the whole.

In cases like the one described above, it is unrealistic to expect that the culture can be changed without a fresh leadership intervention. Successful interventions first require a comprehensive and thoughtful exposition of existing conditions, unclouded by ambient politics. The process of creating a clear picture of things as they really are, fueled primarily by structured internal dialogue, will almost surely reveal the possibilities for common ground and common purpose. That same process also facilitates moving on toward a new, more hopeful, frame of reference for the people and their enterprise.

PART 5

Cultural Alignment

Four communication traits of strong leaders.

Aad Boot

Companies face the impact of a globalized market. New economies are emerging fast. Mergers and acquisitions are increasing. Traditional market positions of companies are challenged. As a result leaders are confronted more and more with new and different ways of thinking, behaviors, motivations, and habits of people.

Over the past years I have worked with executives and leadership teams of different companies and nationalities. I see a clear difference between leaders who enjoy dealing with people and cultural alignment and leaders who don't. Between those who see it as a challenge that motivates them, and those who try to avoid it. Between those who see how tangible it can be and how big an impact it has on business performance, and those who don't … at least not yet.

Mastering cultural alignment: Is it a leadership quality that you need to be born with? No, I don't believe so. Is it a skill you can easily learn? Just follow a course on inter-cultural management skills and you know it all? No, studying will probably help but aligning cultural differences requires more. Human beings are far too complex to be boxed into generic models and answers.

The real trick lies in the actual communication between the people involved. Alignment grows from real dialogue with each other. Successful leaders give priority to this dialogue. They know they do not have all the answers, but they believe that dialogue is vital to creating understanding and to defining the right actions to boost collaboration and performance.

A specific set of communication traits distinguishes leaders who are successful in creating cultural alignment from those who are not. These traits are related to our mindset and our way of leading team meetings and discussions, especially when cultural differences hinder effective performance and collaboration. I witnessed many times how these traits changed the atmosphere and the outcomes of meetings drastically.

Based on numerous discussions with leaders, facilitating meetings with their teams, and individual coaching sessions, I have filtered out four key communication traits that effective leaders must master. I illustrate these traits below using four brief case studies (the names are not real):

Focus on questions, not answers

Every time the discussion in his team turned towards conclusions, solutions or actions, John stopped them and raised a question. He would dig deeply into issue, no matter how trivial, as if he was deliberately preventing the team from moving forward. This behavior sometimes caused irritation among colleagues. He continuously challenged the conclusions and triggered people to think deeper. If there was a problem, he wanted to know the details of the problem. He wanted to know the causes.

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Cultural Alignment (CONT'D)

He wanted to know if everybody was looking at it the same way. If not, what did they see differently? And why? And did the others understand what their colleagues meant? What did they not understand? And why?

John understood that we have a natural tendency to jump to conclusions too quickly. We hear half the answer and we have our reaction ready. It is very human, but also very ineffective from the point of view of making sound decisions within a business organization. Even when John's team didn't like it, he deliberately pushed them to find the right questions, more than to find the right answers. It felt like losing time, but in the end they realized that they saved time by understanding better what they were talking about. As a result they could make better decisions, which motivated employees and created team spirit.

Dig deep

It was very interesting to see how Lisa dealt with her team when she noticed some of them were not taking up the tasks she had delegated to them. The team was new after a merger and the people came from four different nationalities. Some team members complained that certain colleagues were not pulling their weight. Morale was declining. Lisa did not approach these issues as a daily problem that she had to correct. She did not put pressure on those who underperformed. Instead she called a team meeting and explained that she wanted to have an open discussion on what responsibility meant to the team and how they wanted to deal with it. She forced herself not to judge employees who acted irresponsibly. Instead she focused on clarifying what team members expected from each other and how they could improve.

After a while, a colleague whom Lisa had identified as showing a lack of responsibility carefully expressed how difficult he felt it was to step into the shoes of his superior! Surprised reactions. What did he mean? Nobody expected him to take Lisa's place? Slowly it became clear that from his perspective, his boss had effectively placed him in her chair by delegating some of her responsibilities to him. He didn't want that, because he thought it would show disrespect to Lisa if he took on her responsibilities.

So from this employee's cultural perspective, doing your superior's work was a sign of disrespect. From the team's perspective, his behavior showed a lack of commitment. But it became clear that there was no shortage of commitment, only a lack of clarity. Lisa learned that she needed to do a better job of explaining how delegated tasks supported her work (and that of the team). And her entire team came to understand that it's not disrespectful to support your superior's work.

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Cultural Alignment (CONT'D)

Avoid "agreement discussions"

Paul has become very effective in leading team meetings. He is able to speed up the process from problem-analysis to problem solving to decision-making. How does he manage it? Not by hurrying or pushing or tabling certain topics for later. Instead he avoids what I call "agreement discussions".

Paul wants his team to have open discussions where they can exchange ideas, concerns and perceptions. He strives to understand why colleagues might see a given issue differently. He has noticed that whenever his team tries to reach agreement on an issue, they tend to get into discussions about who's right and who's wrong. These debates rarely help move the process forward. Instead they tend to create irritation or superficial compliance. Paul sees both as a waste of time. Instead he believes that mutual understanding boosts performance. He doesn't care whether his team sees things identically, as long as they understand and accept their mutual differences. He has learned to ask himself "Can I live with this, even if I don't share your point of view? If not, I need to explain why I can't live with it. Otherwise, let's do it!" Paul is an effective leader in part because he interrupts discussions when they become too focused on agreement.

Communicate on the same "scale"

Michael was having a meeting with his leadership team. The board had asked them to come up with a business strategy to counter the impact of the financial crisis. In attendance were seven country managers along with the directors of Sales & Marketing, Supply Chain and Research. The atmosphere was tense; everyone in the room was clearly under a great deal of pressure.

Soon the discussion veered into possible areas of improvement in specific aspects of the company's operations. The leadership team started arguing about details: "We in the north manage our production shifts like this and that works, you in the south should do the same." Or: "We don't have these issues with our customers in the south, because we arrange our teams thus. You should too!" Etc.

After a few minutes, Michael interrupted the team and said: "From now on I want everybody to use the northern production shift model. And I want everybody to use the southern customer service approach." The team went silent. Everybody stared at Michael in disbelief. Did he really think that was the solution? You can't approach our customers that way! You can't expect our employees to accept a new shift model!

Michael had expected this reaction. He continued: "Are you here to defend the interests of your countries, or to defend the interest of the group? Both are

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Cultural Alignment (CONT'D)

necessary, but they can't happen at the same time. We need to decide together, before we continue, the scale at which our discussion will proceed. Should it be the group or local country level?"

By forcing the members of his group to adopt a common scale for their conversation, Michael created a sense of clarity and common focus. That helped them go step-by-step and not mix things up. It saved them from getting lost in details on cultural differences. And it took away a big part of the irritation. By distinguishing shared group priorities from local country priorities it became much easier to align cultural differences.

PART 6

How to Drive Cultural Change

Global management lessons from Brazil.

Ted Coiné

"Leading a top-ten global corporation is like steering a supertanker. The Chairman doesn't get things done himself. He sets the course, but it's the culture that actually steers the ship. And if he wants to change direction, there's nothing easy about that. The culture of a large organization is very reluctant to change. In my experience, it's next to impossible."

That observation came from a family friend who was at one time a top executive at Exxon—so I guess you could say he knew at least a bit about maneuvering supertankers; he certainly had plenty of experience leading people.

Leading a transformation of culture is difficult, probably the most difficult thing any business leader will ever have to do. And, it is much easier to change a culture for the worse than the better: think of the countless brands that used to stand for something, but that are now either gone entirely or are mere remnants of something once much more significant.

Still, bringing about a radically positive change in culture can happen. To illustrate this point, let me introduce you to Brazil's Ricardo Semler, whose father handed him the reins of Semco, the family maritime equipment business, when he was just 21.

Semler had a couple of problems starting out. First, the economy in Brazil at that time (the early 1980s) was incredibly chaotic, and many mid-sized manufacturing concerns were in peril of foundering. Second, U.S.-educated Ricardo was a renegade, and business-as-usual at his father's stodgy, class-obsessed company held no appeal for him at all. Third, Semco's executives were convinced they just had to ride out their owner's fit of nepotism long enough for Ricardo's father to see what a mistake he'd made and rescue them from the son's new-fangled ideas.

So how did cultural change help Ricardo Semler bring his company from $2 million (and near-bankruptcy) to over $250 million in annual revenue, keeping it in the family all the while? He crafted a strategy that can certainly work for your company as well. Here are the five simple—though not even remotely easy—steps to follow:

Lead. Culture change must come from the very top of the organization. When change is driven from lower in the hierarchy, there will come a time when leadership has to either stand behind it or bail out. If change is not owned by the ultimate decision-maker, the ensuing crisis will not end well for the change agents. Then the culture will revert to its previous state, as Semco's executives hoped would happen for them.

The reason Ricardo's change initiative succeeded was that he was in fact the final authority at his company. As the senior Semler observed how his son led, he

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How to Drive Cultural Change (CONT'D)

winced—but he did not revoke the decision to let Ricardo run things. When his former executives appealed to him for support, Ricardo's father stood behind his son.

Cull. The trick here is to cut fast and cut deep. This is painful for individuals and often for the organization as a whole. One can also argue that it's cruel to end careers in this way. But you won't change culture without also shaking up the existing culture—and culture is people, pure and simple. Leave too many powerful resistors in place, and change will be fleeting, if it happens at all.

After substantial conflict with his top reports, Ricardo made a fateful decision. That day, he removed sixty percent of his top leaders from the company. The ones who remained were willing and emotionally able to make the transition with the rest of the company.

Double down. The true test of any change comes with its first major crisis. Change is easy when it's convenient. But something dramatic is bound to challenge the new ways. When it does—and not before—a leader will have the opportunity to show how committed she is to the change. Only then will the rest of the company get behind the new direction.

Ricardo faced a number of crises in the first several years of transforming Semco. Some were small, like when he returned from a trip to find that his newly-democratized employees had moved him into a smaller office. They had voted in his absence, choosing a different use for his original space. A less committed leader would have vetoed their decision. By acknowledging that his one vote did not override theirs, he signaled his commitment to democracy at work.

Other challenges were more substantial. Even though management loosened the reins of power, there were still a number of strikes in the early years of Semco's transformation. Ricardo bucked tradition by respecting, even accommodating, his protesting workers rather than trying to break these strikes. He faced down pressure from government officials and fellow industrialists, including customers and suppliers, to revert to a less enlightened management style. Each time he was faced with such a test of his resolve, he proved again that his support of Semco's cultural changes was not just the lark of a spoiled heir.

Hire. Once a new direction has been selected for a company's culture, it is essential to hire for traits that sustain, indeed intensify, those new values. Not every person will fit into a strong culture. To keep the culture strong, applicants that reject your core values should be rejected. Applicants that embrace them should be pushed to the front of the line.

Reinvent. Successful culture change is a process of continual iteration, not a one-time initiative. Even today, nearly thirty years since Ricardo took the helm

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How to Drive Cultural Change (CONT'D)

of his family firm, Semco remains a strikingly innovative company. Semco constantly reinvents itself. It diversifies into new markets and industries as it sees opportunities. Indeed, there is very little evidence today of the maritime-equipment plant that Ricardo took over in the early Eighties. But culture isn't about a product line, or even an industry. Culture is a matter of how things are done. In that way, by its very quirkiness and continual evolution, the culture of Semco today is very much a continuation of its culture a generation ago.

How do you change your company's culture for the better, whatever "better" means to you? As at Semco, it must begin with leadership, or the change is doomed from the very start. A painful period of culling is absolutely necessary, as unattractive as it may seem. When things get dicey–and they will–leaders must double-down and demonstrate their sincere commitment to the change. Forevermore, the company will need to hire to enhance its culture. Finally, this change and growth can never stop. The company must reinvent itself continually, or else it will stagnate and fail.

Are you ready? It's fine if you're not. Just make sure of your decision, either way. And when you are ready to create change, jump in with both feet!

PART 7

The ROI of Safety Culture

A strong corporate safety culture engages all employees and can yield broad dividends.

Simon Herriott

Business success is typically described in terms of numbers—revenue, profit, stock value, productivity gains. Much less attention is paid to the influence of organizational culture on performance, growth and business sustainability. But increasingly, business books, articles, and other media testify to the importance of organizational culture for performance. Why is culture so important? Lloyd M. Field answers simply in his article "Culture and Corporate Success": "An organization's culture encompasses everything it does and everything it makes."

At DuPont, a foundational component of our corporate culture—and one, we believe, that has had a significant impact on our longevity and business success—is the strong, pervasive safety culture that has taken root over the company's 208-year history. It influences everything we do and every decision we make.

At the heart of our safety culture is an ethical imperative that calls for all companies to do their utmost to keep their employees and partners safe. Nothing that follows in the examination of business returns trumps this value for human health and safety. But while this belief—thankfully—has found increasingly broad acceptance across industries and around the world, what is often overlooked is its influence on the organization beyond safety performance. Based on our internal experience, as well as what we have seen in other organizations, good safety is good business in many ways.

Leveraging Safety Excellence for Business Excellence

Often discussions around the business benefits of safety focus on cost avoidance. Organizations know that each workplace safety incident incurs both direct costs (e.g., the cost of medical treatment) and indirect costs (e.g., loss of morale, loss of production, damage to equipment and loss of work time). For some organizations, the cost of these incidents, including the toll they can take on reputation, is sufficient motivation for improving safety performance. However, as performance improves and a strong safety culture takes root, organizations achieve wider business excellence in addition to safety excellence by creating principles and structures that can be applied to other areas of an organization.

Driving the Safety Imperative

In driving our own safety imperative and in helping other companies transform their safety performance, we have learned that equivocation about the end goal corrodes the belief and commitment of management and employees alike. Our goal is "zero" (incidents, injuries or illnesses)—even if, for some, this may seem an impossible aspiration in the immediate term. However,

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as performance improves and the intervals between incidents grow longer, celebrations of "zero" become more frequent and lend credibility and momentum to the drive to succeed. This momentum builds in a way that lesser goals allowing for at least some injuries do not, as they fail to strike an emotional chord with the workforce and get lost in the myriad of other metrics surrounding the modern organization.

The Role of Culture in Safety Performance

We have known intuitively for many years that sustained excellence in safety was somehow correlated with the culture of the organization, that is, with the social norms, beliefs and values that prevail but that are often difficult to describe and even harder to measure. For DuPont, two major developments have helped make this relationship between culture and performance more tangible.

The first was the development of the DuPont Bradley Curve, shown in Figure 1. It helps us and our clients see where we stand with regards to the maturity of our safety culture by describing the behaviors indicative of the advancement of that culture.

The second and more recent development was the creation of an index of Relative Culture Strength (RCS), for which we took the responses from several hundred thousand employee perception surveys, which have been conducted in multiple industries and geographies, and developed a measure of the safety culture of the organization. Most importantly, this index correlates strongly with actual safety performance, finally proving to us that our intuition was right: a strong safety culture is a pre-requisite for sustained high performance.

The DuPont Bradley Curve describes four stages of safety culture development: Reactive, Dependent, Independent and Interdependent, as follows:

The Reactive stage is characterized by a lack of management involvement, with employees operating by natural instinct and a safety manager having sole responsibility for safety compliance.

In the Dependent stage, there is some management commitment, but supervisors are generally responsible for safety control, emphasis, and goals. Attention to safety is a condition of employment, but the emphasis is on discipline, rules and procedures, and on the consequences of breaking those rules.

Companies in the Independent stage stress personal knowledge of safety issues and methods, commitment, and standards. They actively engage in safety practices and habits and recognize individual safety achievements.

At the Interdependent stage, employees choose to eliminate safety incidents and work interdependently in teams to ensure their own safety and the safety of coworkers. At this stage having zero safety incidents is a source of organizational pride.

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The ROI of Safety Culture (CONT'D)

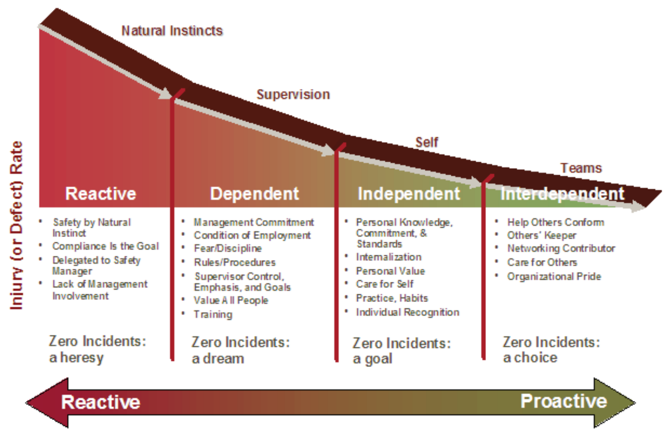

Figure 1. The DuPont Bradley Curve

Developing a Safety Culture

Arriving at an Interdependent safety culture goes far beyond reducing the number of injuries; it requires organizations to examine their safety model from three perspectives:
Leadership – What does management do to lead employees to safety excellence?
Structure – What are the organizational structures that enable the pursuit of safety excellence?
Processes and Actions – What actions does the organization take on a regular basis to increase safety performance?

Leadership

The greatest challenge to creating a safety culture is instilling felt leadership, which means that company leaders, including executive leadership, demonstrate they are irrevocably committed to safety. They cannot waiver, no matter the business conditions, and they must make it clear that whenever a decision involves a choice—between safety and productivity, for example—safety comes first. The question is then, How do business leaders show employees that safety excellence is not optional?

The primary requirement of felt leadership is visible engagement. This demands, for example, company leaders, including the CEO, to regularly interact with employees through actions such as performing safety observations, having conversations with employees about safety, leading safety meetings and taking active roles in other safety-promoting activities. The goal is to create a level of intrinsic motivation and operational discipline where people choose to follow the rules and where leaders enforce the rules fairly and consistently.

Supporting safety leadership elements include:

- Clear and meaningful policies and principles that confirm the priority of safety and provide a clear basis for decisions
- Safety goals and objectives that are a prominent part of standard operating procedures

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The ROI of Safety Culture (CONT'D)

- High performance standards that apply to all safety matters and are obvious and known to all employees.

Structure

A strong safety culture engages all employees. This requires the company's safety organization to deploy people strategically throughout the organization. Traditionally, many companies have employed safety professionals or established entire departments to which safety was effectively outsourced. More "safety cop" than engaged participant and out of touch with the real challenges and choices of safe production, these safety professionals end up with an unenviable and unviable task. One of the very earliest principles established by DuPont's founding fathers was that line managers should be responsible for the safety of the units that they operate. The supporting safety professional then becomes expert, mentor and guide to the line organization.

An effective safety organization also produces data—lots of it—measuring both performance (past) and leading indicators (future). It develops strategies, is open to new ideas and takes corrective and proactive actions. To do this, both line and safety professionals need to set up integrated managing structures to ensure that the data is interpreted and used to drive change and that actions are agreed upon, assigned and completed. Usually taking the form of committees or teams, the very best are dynamic and productive groups working effectively to improve performance.

Processes and Actions

Even with strong leadership and an enabling structure in place, organizations need to act to be effective.

Organizations with a strong safety culture have certain action-oriented practices in common:

- They have developed effective communication programs that keep safety top of mind throughout the organization.
- They have ongoing development programs that transfer knowledge and skills that help employees recognize unsafe situations, correct them and work safely.
- They use comprehensive audit programs with second- and third-party participants to proactively identify gaps in their processes to help ensure that the safety culture remains strong and is embraced by the organization.
- They use both reactive and proactive processes to analyze and prevent safety incidents. For example, incident investigations help organizations learn from what has happened, while regular safety observations help prevent what might happen. In both cases, the key is to socialize the findings and show strong discipline in implementing conclusions.

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The ROI of Safety Culture (CONT'D)

Measuring the ROI

The Return on Investment that results from developing a strong safety culture comprises 1) returns that are relatively quantifiable (direct costs saved), and 2) returns that are less easily quantified (indirect costs avoided from loss of production, interruptions, quality losses, equipment damage, etc.). The size of direct costs depends in part on the regulatory framework in which the organization operates, but indirect costs are much less country-dependent and apply everywhere. Direct costs alone are often enough to justify investments in safety improvements. The iceberg illustration in Figure 2 applies to all organizations although proportions may change.

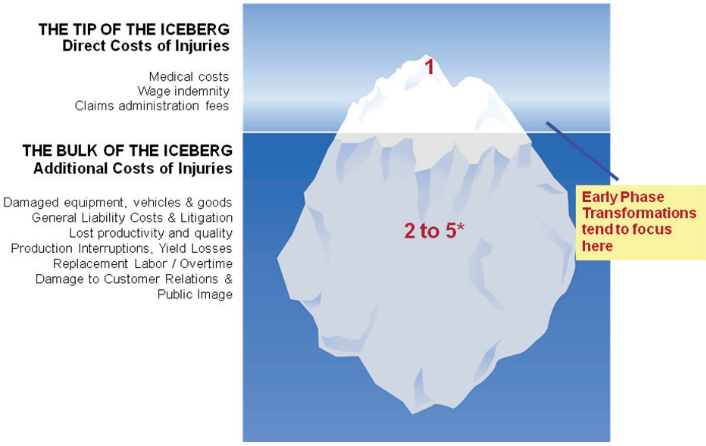

Figure 2. Direct and indirect injury costs

However, it does a disservice to the impact of a well-run safety organization to focus exclusively on the benefits of avoiding incidents. The necessity of engaged leadership, the structured organization able to diagnose issues and act to correct them and the supportive and collaborative nature of an interdependent safety organization spill over into broader organizational effectiveness. Dividends include stronger operational discipline, greater productivity, an improved risk profile and higher employee morale, as shown in Figure 3.

There is much said today about resilient organizations, i.e., those that can weather economic turbulence or the change of a leader. In effective safety organizations we may well see the epitome of a resilient organization.

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The ROI of Safety Culture (CONT'D)

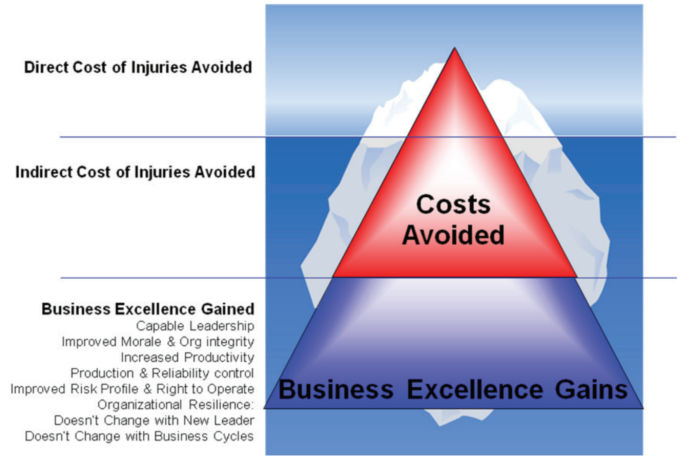

Figure 3. The dividends of safety excellence

Keeping It Going

Sustaining a safety culture transformation requires a plan that keeps safety alive and fresh across the organization; otherwise, the accomplishments may be temporary. The plan should take into account employee turnover and leadership changes, maintain operating discipline, provide for continued audits, monitor data and report progress or slippage, and reinvigorate structures with new and rotating staff. And finally, organizations should look for new challenges such as off-the-job safety or community engagement.

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