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The High Engagement Work Culture

Balancing Me and We

David Bowles and Cary Cooper

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Balancing **Me** and **We**

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and

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Dedications and Acknowledgments

David Bowles

This book is dedicated to the memory of my mother, Colleen Bowles, who passed away at the age of 96½ while it was being written. She was an extraordinary woman who had lived in England her whole life, including through two world wars, with all that entailed. She generously passed along, through her genes and interactions, so many things that made her children stronger. I would also like to make a special dedication to Dr. George W. Stuart, retired nuclear physicist and all-round intellectual, who also made his passing during the writing of the book. George made my consulting firm's abilities so much greater with his custom database software we named RCI/In*Sight; my clients can often hardly wait to see the powerful data it has mined from their morale and engagement surveys.

Many people helped with the creation of this book, in so many ways, and I am grateful to all. My wife Janice is first on the list, lovingly supplying everything, from the emotional support that all authors need, to valuable advice on content in her specialized area of psychology.

I am grateful to V. Frank Asaro for the many conversations we have had during the year about his brilliantly simple concept of "co-opetition", which forms part of this book, and other ideas that I floated for inclusion in the book. Also to Jochen Frey at BMW's press office in Munich, who patiently took my calls for three months as I attempted to gain an interview, and to Harald Krüger, who generously granted that interview and took such great interest in it! My friends at the local Starbucks were their usual supportive selves, especially Frank and Andrew, Sasha and Meredith. At Palgrave Macmillan, I want to thank Stephen Rutt so much for taking a chance on our ideas for an improved, high engagement culture in our organizations, along with Hannah Fox, who shepherded us through the process in such a friendly way. Palgrave Macmillan's copy editors in Chennai, India, did a great job, and I want to thank P. M. Bhuvana Raj (or "Raj" as I know him) and his team for all their painstaking help and support. Physicist Professor Sir John Enderby was kind enough to grant an interview and enlighten me on the view that physics takes on the financial services industry. (*Full disclosure*: his status as my brother-in-law made the interview much easier to obtain!) Graef "Bud" Crystal, a man with an extraordinary history as probably the best known executive compensation "guru" of a generation in the US, was so helpful; his encouragement and extensive writings pointed me in the right direction to uncover some of the more egregious forms of the executive

compensation "arms race" that so exemplifies the pay imbalance in many (US) organizations. Bud had the courage to stand against some of these excesses. I also want to say that John Mackey, co-founder and co-CEO of Whole Foods Market, which is featured as a case study in this book, was a real inspiration for what we had to say. For many years, and long before it became obvious how out of balance things were in many of our organizations, Mackey had been on the "road less travelled", slowly building a world class organization that lives and breathes so much of what we talk about in these pages. His strong acceptance in even the most capitalist-worshiping environments such as *The Wall Street Journal*, and his blending of card-carrying libertarianism with a softer side he calls "conscious capitalism", shows us that these ideas can draw from and be accepted by all parts of the political spectrum, while offering a positive way forward for society as a whole. Mackey's work personifies an optimal balance between "me" and "we" in the organizational world. Thanks too to the distinguished team of David MacLeod, Professor Ed Lawler, Dr. David Zinger and Dr. Pius Baschera for agreeing to preview and recommend our book.

Finally, a word about my co-author, Cary Cooper. I met him at Southampton University when I walked into his social psychology class for the first time. That was in 1970, and he has been a treasure trove of support and enthusiasm for me and my career ever since, including inviting me to be his very first Ph.D. student at UMIST in 1973. Cary is an inspiration to all with whom he comes into contact. It is an honor to have known him for more than 40 years, a fact that brings up many feelings of gratitude. To have now written two books with Cary is simply great. Thank you dear friend!

Cary Cooper

I have really enjoyed working on this book with David. He was my first Ph.D. student, and when he contacted me again after many years saying he would like to write a book together, I was really moved and honored. I have four children and two grandchildren, and I feel that David is one of my family. I would like to dedicate this book to all my children, including David, and to my two new grandchildren, Jai Lucas Cooper and Isabella May George.

Introduction and Background

The 2008 collapse of Lehman Brothers and Bear Stearns in the United States set off a systemic panic that almost engulfed the world's financial system. Only as a result of major efforts within the US and the UK, along with worldwide cooperation, were we able to pull back from the brink. Recent data shows that the US Federal Reserve lent no less than *$3.3 trillion* to prop up the world's economy, including to the Bank of England. The amount of money "lent, spent or committed," was an incredible *$7.7 trillion*, according the influential financial firm Bloomberg, which points out that even that number might be an underestimate.[1] Even the "unsinkable" Goldman Sachs received far more (and went to the "Fed" much more frequently) than had been thought. In one week in September 2008, *12 of the 13 largest US banks were technically insolvent*, including Goldman itself. Thanks to the rapid and successful recovery efforts, most still do not grasp the fact that the US was facing a *financial meltdown of far greater proportions than the Great Depression*. This is not our opinion, but that of an expert on that earlier period, Ben S. Bernanke, Chairman of the US Federal Reserve, speaking to the official US government enquiry into the Crash.[2]

Even some economies that had "appeared" relatively strong before were brought to their knees. No one had noticed what shaky ground they had been on until the Crash, which exposed all they were doing to put off their day of reckoning and rendered it useless. Such was its power that countries like Ireland have had to nationalize their entire banking system. Much of the industrial world (large swaths of north and south America, most of Europe and parts of Asia) is only just beginning to recover from this event; and the developing world, harnessed as it is to the well-being and "trickle down" effects of larger economies, was equally or more affected.

How could this happen? Clearly, out-of-control capitalist urges unleashing some of the baser human instincts, combined with lax oversight mixed with failed social engineering, nearly ruined the world's interconnected economy.

What are the longer-term consequences of this, and what can we learn from it? Can any country afford to go through this every now and then, shooting itself in the foot and taking years to recover from this self-inflicted injury, while its competition moves ahead?

In this book we look at the Crash of 2008 and the subsequent Great Recession through a different prism than that of the numerous government reviews and press articles. While recognizing the part played by government, *we look instead at its genesis within our organizations and its effect on the most precious resource in any organization: its people*. We ask the questions we believe need to be asked: *most importantly, whether we can change our behavior within these organizations in such a way that it is far less likely to happen again*. Specifically, we look at:

- What happened before and during this Crash? What part of the Crash relates to how we manage our organizations, and to the "culture" within them?
- If this "work culture" is at least partly to blame, what elements within that culture can we identify that led to this catastrophic event? Did greed and "ego-centric" ("me" instead of "we") values act as a partial driver of behavior in some of the organizations involved in the Crash? If so, is this simply inevitable as a by-product of any human endeavor or is it part of a seriously dysfunctional element that needs to change? Is it widespread even outside the financial services industry?
- Has there been a backlash to what happened? Do emerging political trends such as the "Tea Party" and "Occupy Wall Street" in the US and elsewhere represent an attempt to redress some of the underlying and unwritten cultural "values" in our organizational life, which led to this Crash?
- What effect has the Crash of 2008 had on the morale and engagement of our workforce? Has there been damage in that area, or will there be in the future if we continue this way? Were worker engagement levels high, even before the Crash? If not, why not?
- Have those parts of the work culture that led to the Crash also damaged worker morale and engagement, even during the pre-Crash period?
- Can we emerge from the Great Recession not only with the desire to change but also with insights that allow us to build a *sustainable, high engagement work culture*, which (a) does not subject us to the periodic prospect of ruin because of the actions of a few, while (b) still maintaining the capitalist system that has brought such prosperity to the world?
- If so, how might this look, and is anyone successfully working this way now?

These questions are not just speculation; many countries, including the US, UK and those in continental Europe such as Germany, France and Italy, *do not enjoy high levels of worker morale and engagement*; in fact several are below average on a worldwide basis. This detracts significantly from organizational performance: morale and engagement are not only correlated with, *but drive key performance factors* such as productivity, profitability, customer satisfaction and worker health, as we demonstrated in detail in 2009.[3] Even before the Crash, therefore, many countries around the world were running at an "engagement deficit" in their workplaces.

By sustaining the culture that leads to this in many of their major organizations, they are missing the opportunity to manage people in a different way, creating much higher worker engagement, and generating the enormous performance benefits that flow from this.

We believe we indeed can "do things better" to create this high work engagement scenario, and draw on the parallel trends of sustainability in the environmental world and especially the movement from "me" to "we", which is already starting to be seen even in the very companies that were at the heart of the Crash, and in some societies at large. To add urgency to the theme for those most affected by the years of the financial meltdown, emerging giants such as China and India hardly slowed down at all during this period; this means that many Western and other countries that participated in this catastrophic event can hardly afford to repeat such self-destructive behavior in the future, if they wish to pass on their standard of living to the next generations.

Part I
What Has Happened to Our Work Culture and Why?

1
The Crash of 2008: What Happened and Why Did It Happen?

> As a scholar of the Great Depression, I honestly believe that September and October of 2008 *was the worst financial crisis in global history, including the Great Depression*.
>
> Ben S. Bernanke, Chairman, US Federal Reserve, quoted in the US Financial Crisis Inquiry Commission (FCIC) report, published early in 2011 (emphasis added)[1]

Causes of the Crash: Most frequently cited

We've survived; some would even say it's almost like it never happened. That we did is only testimony, however, to the skill of those who presided over these events at the head of governments in the US and Europe. Chairman Bernanke's quote above should give us pause. It was much worse than we might like to admit. Like a patient recovering from a serious, life-threatening operation, it is easy to forget afterwards how bad things were. Maybe we need some more help remembering so that we can be sure to do something this time? Mr. Bernanke can assist us again: as quoted in the FCIC Report,[2] he said that during the autumn of 2008, of the 13 most important US financial institutions, "*<u>12 were at risk of failure within a period of a week or two</u>*." That's right, it was a total meltdown, and only J. P. Morgan Chase would have survived without massive government intervention. The "Masters of the Universe" rescued by the US government? One would think that such a humbling experience would change behavior; but did it? Certainly, regulation has been tightened and governments everywhere have vowed to not let this happen again. Now, only time will tell.

By now, most people are aware of the witches brew of lax and poorly conceived government regulation, sloppy or nonexistent enforcement of rules and regulations and cheap money, which tempted everyone from ego-driven CEOs to brainy financial product engineers to legions of others (including less-than-honest mortgage loan brokers and home buyers) into taking full advantage.

Like any such event, things lined up perfectly to enable this, making what had seemed impossible very possible. Others have covered the details in ways that are not the focus here, especially books with marvelous titles such as *It Takes a Pillage* by Nomi Prins, *The Big Short* by Michael Lewis or *Fools Gold* by Gillian Tett. Films such as the Oscar-winning documentary *Inside Job* add their own interpretation. A very shortened version of events is as follows:

- Government regulation had been moving for some time in the US toward extending home ownership across a larger range of economic bands. People who had challenges affording the purchase of a house discovered that many of the obstacles they had previously found had been removed.
- This was partly enabled by a cheap money policy pushed by the Federal Reserve under Chairman Alan Greenspan, thereby lowering interest rates.
- US government entities such as those nicknamed “Fannie Mae” and “Freddie Mac”[3] enabled less fortunate people to have mortgages by buying them from the lenders who originated them.
- The financial services industry, *which had lobbied for years to be allowed to increase its “leverage,”* or the amount of capital required to back up its investments, had succeeded spectacularly in that endeavor and was at between 30 and 40:1, depending on the firm. That means for every $40 invested, only one dollar was their own capital, with $39 borrowed. By way of comparison, for most individuals, such leverage is limited to *one* pound, euro or dollar borrowed for every one of capital.
- The financial services industry in the US had also lobbied furiously for years to repeal the *Glass–Steagall Act*, which Congress had passed in two actions during the Great Depression (1932 and 1933) and which among other things separated investment banking (Wall Street) from deposit-taking banks (Main Street). It also created federal deposit insurance, which guaranteed the principal of consumer bank deposits up to a certain level. Part of this Act, of separating investment banking from deposit-taking banks, was repealed in 1999 and is widely believed to have contributed significantly to the 2008 Crash.[4]
- The reason for this belief about Glass–Steagall’s partial repeal being a contributory factor in the Crash is that it allowed some Wall Street banks to gamble with Federally insured consumer deposits, and gamble they did. They also had the brilliant idea (at the time) to *securitize mortgages*, whereby these were bought in large quantities, packaged together and formed into a security like a bond that could be purchased by institutions. The ultimate owner of such mortgages would therefore often be thousands of miles and many countries distant from the homes for which the mortgages paid.
- Ratings agencies such as Standard & Poor’s and Moody’s were paid by the banks, who were selling these mortgage-backed securities, to rate the

financial quality of the securities on a scale starting at AAA for the very best. Many, if not all of these instruments, received the highest rating, even for mortgages that turned out to be worthless.

- Extremely smart people (especially those at AIG's now defunct Financial Products division in London) created new forms of insurance called CDSs (credit default swaps) which guaranteed the solvency of these mortgage-backed financial instruments, and such insurance was offered by AIG even though they seemed to know little about what they were insuring (AIG was bailed out by the US government, deemed "too big to fail," to the tune of a breathtaking *$150 billion*).
- Investors around the world, including sophisticated European banks, put their money into these instruments; after all, they were AAA rated, right?

If there was one way to summarize what had happened, it would be that government oversight of US banks had deteriorated to such a degree that the tail was now wagging the dog. Even some of the very people in government charged with regulating the financial services industry were refreshingly honest about this: as Spencer Bachus, the GOP chairman of the House Financial Services committee put it, government regulators "exist to serve banks."[5]

Physics, chaos and the financial system

As we prepared to discuss the causes of the Crash here, we were curious as to whether such things are "inevitable," *perhaps part of the natural order of events in the universe*. To answer this question, we asked one of the top physicists in the world, Professor Sir John Enderby,[6] to tell us about how the laws of physics interpret the financial system and its effects on society. We chose a physicist because we noted that many physicists are employed in the financial services industry, especially in areas such as high-speed trading, where nanoseconds make the difference between profit and loss, and in developing complex new financial products.[7] Sir John pointed out to us that the global financial system is "nonlinear," which means that in its natural, unregulated state it is *chaotic*; this is typified by the fact that Brazilian or Italian banks can have sudden and unpredictable effects on other banks worldwide. Lehman Brothers' 2008 demise comes to mind in this context. In a typical physics experiment, methods of "*damping*," or controlling, a chaotic system are used to bring some order to this chaos, as Sir John explained to us, and in the financial sector, this damping consists of *regulation*. As damping increases, chaos is reduced, but so is growth; at some point, so much damping has been applied *that there is no longer any growth*. If we take just three stages of this in the following Chart 1.1, we see the relationship between damping, chaos and growth quite clearly:

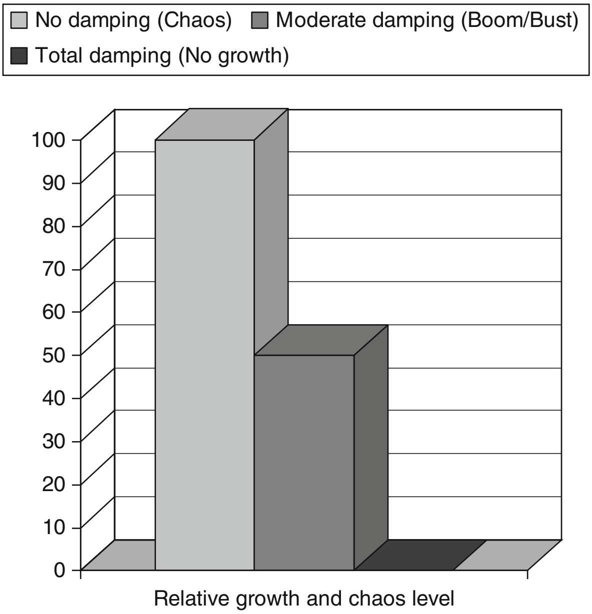

Chart 1.1 "Damping," Chaos and Growth

The challenge for the world's interconnected economy, as Sir John pointed out to us, is finding the right amount of regulation to ensure continued growth, but not too much to destroy that growth. *His main point was that a certain amount of chaos, the effects of which he calls "boom/bust," is inevitable to ensure growth*. This is a message that certain governments around the world, especially in Europe, might want to take to heart as they struggle with low growth. It also seems likely that damping of the US economic system, in the form of regulation, *was so loosened that it unleashed the chaos that ensued.*

Causes of the Crash: Inside the organization

It is understandable that government often takes much of the blame for the Crash and its aftermath, and it certainly deserves plenty. As we saw earlier, it seems likely that the amount of "damping" in the US economy had been loosened and chaos ensued. However, *we believe that it would be a big mistake to place it all there*. Indeed, it would be a missed opportunity for us (meaning certainly the US and the UK, but also beyond that Anglo-American axis) if we did not take a *long, hard look inside our organizations for factors* that also contributed heavily to this event. If we ignore these, they will come back and bite us again, and next time we may not be so lucky as to have one of the world's top students of the

Great Depression at the helm of the US Federal Reserve, along with a team of gutsy individuals who were able to make the right decisions to prevent the ship from sinking. As much as it was to blame for some of this mess, then, the government was also the only entity that had the size and scope to rescue us from it.

When we step away from the government "blame game" we have the opportunity to ask something about some of our organizations: *what is it about them which is able to create such destruction?* Fortunately we have some courageous and insightful individuals who are starting to look in the mirror and not like what they see, even within the financial services industry. In what may be one of the most significant quotes in this book, James Gorman, CEO of one of the US banks that was hanging on to life by its fingernails in the autumn of 2008, Morgan Stanley, was quoted as saying something simple but extraordinarily powerful.

> Gorman, speaking at the Securities Industry and Financial Markets Association conference, said some individuals "who in many cases were frankly pretty average" made as much as 10 times that of people in other industries during the financial crisis … Fixing the culture will require "creating a compensation system that *better aligns or balances shareholders' interests and the broader society's interests with the individual's interests, and changing the perception that it's the individual that's the hero,*" Gorman, 52, said. "As an industry, we can have larger-than-life personalities, but individuals don't make institutions."[8]
>
> (emphasis added)

"*Don't make the individual the hero?*" As John McEnroe would have shouted to the umpire on Centre Court at Wimbledon, "*Surely you cannot be serious?*" The individual as hero is the mother's milk of Wall Street, it is the bedrock of financial sectors from New York to the City of London, Frankfurt, Paris and Shanghai; central to the rugged individualism of this industry and core to its culture! Yet there he was, suggesting that that has to change. Interestingly, right after Lehman Brothers failed in September 2008, Morgan Stanley was the target of the short sellers and barely escaped with its life. Gorman was not CEO at the time,[9] but was brought in later to turn things around, which is perhaps why we are hearing this from him and not from any incumbents who were in place when the Crash occurred.

"*Aligning or balancing shareholders' interests and the broader society's interests with the individual's interests?*" Again, McEnroe would be apoplectically screaming at the umpire up in his high chair! Since when does Wall Street have to worry about "society"? It's all about the next bonus and that in turn is all about the next deal. *Shareholders?* Do you mean those people who own the shares and therefore own the company, but who are allowed very little say on important things such as executive compensation?

Mr. Gorman is right of course, and he has stuck his neck out and given us a blueprint for change, even with such a short quote. Perhaps being an Australian and not having spent his whole career on Wall Street[10] gives him the chance to look beyond the normal operating procedures and culture of the "Street" and bring a fresh, outside perspective. One day we might all look back and thank him that his words helped us move in a different direction, one in which we no longer lurch from one catastrophe to another. After all, 2008 was barely 25 years after the US "Savings and Loan crisis" in which hundreds of banks went under, massive amounts of taxpayer rescue money was funneled into the (yes!) financial services industry, and systemic risk was high. These events are not without consequence and do not always end well: Japan had its own such real-estate bubble shortly thereafter and there is some evidence that it has never fully recovered even all these years later.

James Gorman's quote therefore leads us into the role played by our organizations in the Crash. If we can understand the mechanisms operating there, we can start to see how those can be changed. To do this we first need to look at the "culture" at work, since culture is what determines whether the organization focuses equally or unequally on society, its shareholders, the welfare of its suppliers, its workers as a whole or just its individual "heroes."

Organization culture

Organizational culture is an immensely important and interesting subject, which will be our focus for much of this book, as we attempt to explain the organizational contribution to the Crash and to factors that either *hold us back at work, or propel us forward*. There is a simple and workable definition of culture in our organizations, which has stood the test of time, and it is this:

> The way we do things around here.[11,12]

According to this definition, culture (how we "*do*" things) is a set of *behaviors*; these are driven in turn by *values* held by leadership. In the financial services industry, it is generally accepted that the cultures of the member firms are hard driving, individual ("hero," "star") oriented, always on the knife-edge, much like the businesses they are in. Firms like Morgan Stanley and Goldman Sachs make their money from trading, from being brokers for others who trade, from advising companies on mergers/acquisitions and from listing new companies on stock exchanges, among other things. These are all fiercely competitive activities, and many might say that such internal cultures are not only justified but absolutely necessary to achieve their mission. However, the low tide of the Crash exposed the dark side of the culture of these companies.