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Corporate Values and Employee Cynicism

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A values-driven organization poses unique risks for its leaders—in particular, charges of hypocrisy if the leaders make a mistake. Sandra Cha of McGill University and Amy Edmondson of Harvard Business School discuss what to do when values backfire.

by Martha Lagace, Senior Editor, *HBS Working Knowledge*

Positive values are a fixture on corporate mission statements these days. But when leaders fail to live up to the values they've articulated, it's a recipe for employee cynicism, according to Sandra Cha and Amy Edmondson.

Cha, an assistant professor at McGill University, and Edmondson, of Harvard Business School, have studied the risks and rewards of organizational values in depth using a young, ambitious advertising agency for a field study. What they learned about positive values surprised them, and their findings were published in the February issue of *The Leadership Quarterly* as "When Values Backfire: Leadership, Attribution, and Disenchantment in a Values-Driven Organization."

"Our research shows that values must be managed with care," Cha and Edmondson say.

Below, they join forces for an e-mail Q&A with *HBS Working Knowledge.*

Martha Lagace: How did you execute this study? How did you choose Maverick as a research site? Was the company open to this kind of study?

Sandra Cha and Amy Edmondson: Hypocrisy was not at all on our minds when we started the research. Our initial interest in this company was team creativity. Maverick Advertising was radically different from large, traditional Madison Avenue agencies. Instead of having stable teams based around individual clients, this upstart agency used ad hoc teams that formed and disbanded with every project. Clients commissioned specific projects rather than paying a retainer fee.

Many companies are a little hesitant about opening their doors to researchers, but when [we] called up the CEO without ever having met him, he was extremely open to learning from the research and to our spending a great deal of time at the company—sitting in on meetings, observing interactions, chatting informally with the employees, and conducting interviews.

Maverick Advertising is a pseudonym; it captured the spirit of the agency. The CEO/founder envisioned a new kind of unpretentious, collegial ad agency without the industry's characteristic love of competition, politics, and chrome and swank, as he put it.

Q: How did you come to see charismatic leadership as a potential double-edged sword? What observations led to your decision to investigate this topic in depth?

A: As we conducted our interviews with employees, there was a recurring theme: values. Many employees told us that the best thing about the company was its values. But employees also said that the worst thing about the company was that the CEO had been, from their point of view, breaching the values that he himself had developed for the company. Unwittingly, even a committed leader may appear to followers to be violating principles he or she has espoused.

Charismatic leadership has been defined in various ways, but a common thread across definitions is that charismatic leaders motivate people by creating a vision that revolves around some set of meaningful higher ideals or values. This was clearly the case at Maverick.

Q: What were some of the conditions at Maverick that led employees to feel disenchanted and to believe the CEO was behaving hypocritically? How did employees show their sense of disenchantment?

A: A key factor that set the stage for employees seeing the CEO as hypocritical was that employees interpreted the values somewhat differently than the CEO did. Specifically, they interpreted the values a little more broadly than the CEO intended; we call this "value expansion." For example, the CEO articulated values of unpretentiousness and a sense of community. Employees interpreted his statements as implying a core value of equality—an absence of hierarchy. As another example, discussing diversity, one employee made a leap to broader ideals of equality and treating employees like family:

> Read the story of the company, it's . . . sophisticated. [The CEO] calls it diversity; I call it love your neighbor. But I think it's exactly the same thing. At its best you feel like you're not working for a company but a cause. . . . We're working for this notion of 'non-hierarchical,' 'treat people right.' It's like working for a much higher cause than 'create advertising,' 'make money.'

We recently saw this same type of tension at Hewlett-Packard, the Silicon Valley technology giant. HP is famous for its values, known as the "HP Way." Employees saw the actions of former CEO Carly Fiorina in 2001-2002, including large-scale layoffs and the HP-Compaq merger, as violating HP values, which they understood as revolving around mutual respect and the company as a family. Focusing on a different element of the HP Way, Fiorina saw her actions as consistent with the HP value of seizing opportunities.

> ## Hypocrisy may be unavoidable for leaders in the modern world.
>
> ### —Sandra Cha and Amy Edmondson

At Maverick, employees' morale had gone down, but no one had quit. In my conversations with the CEO, he was eager to learn how employees were feeling about the company, but did not express awareness of this problem.

Q: In this firm or others, can such conditions be lessened or avoided? Are these potential risks at most other organizations?

A: One of the next steps with our research is to look at leader strategies that reduce the chances of becoming seen as hypocritical. We theorize—but still need to test the ideas—that employees are less likely to jump to and maintain this harsh conclusion about leaders when leaders do four things:

(i) Explicitly acknowledge the tension among multiple aims. Sometimes values bump up against one another—consider the cases in which leaders need to manage tradeoffs between maximizing profits and investing in employees in a given year. L'Oréal manages such tensions by explicitly assigning responsibility for different values to specific people. Senior managers focus on short-term goals; HR is responsible for reminding them about long-term goals such as developing employees. These different foci are meant to trigger continuous dialogue about the tensions, leading to creative solutions.

(ii) Clarify the values' appropriate meanings, but not restrict their scope excessively. The problems at Maverick began with employees' interpretations of the corporate values, which were broader than the CEO intended, causing them to interpret some of his actions as breaching the values. Obviously, greater agreement about the values' meanings would have helped to prevent their reactions. At the same time, we believe that leaders should not clamp down hard on how employees interpret corporate values, because it is in the process of personalizing abstract values—of finding unique personal meanings—that employees find inspiration.

(iii) Proactively "give sense" around actions that could be seen as values-threatening. When another person takes an action that harms us, we tend to automatically assume that the other person is bad and has negative intentions. When employees witness a leader acting in ways that could be seen as threatening cherished values, they are quick to conclude that he or she is a hypocrite. But leaders who take the time to carefully explain the reasons behind negative decisions (which are often invisible to employees) may be able to show employees the ways in which they are trying to sustain the values, while also managing business realities.

(iv) Create a sense of psychological safety. Employees need to feel that it is safe for them to express negative views about leaders. Leaders can make this possible by seeking regular feedback through anonymous surveys or other safe forums. Dreyer's Grand Ice Cream (also sold as Edy's) is a fantastic example of the last two strategies. In the late 1980s, several employees accused Dreyer's leaders of being hypocrites who were not implementing the company's employee-centered values in practice. In response, senior executives began

working hard to do a better job of supporting the values, conducting and responding to regular employee surveys about the values. Then in 1998, Dreyer's faced a number of serious challenges simultaneously. Among them: Competitors were engaging in aggressive discounting, the price of butterfat had skyrocketed, and the CEO was coping with a brain tumor. Dreyer's senior executives decided that they needed to restructure the company financially. The day after they announced the restructuring to the financial community, they were on planes all over the country, meeting face-to-face with every employee to explain the situation and the changes that would have to take place. Rather than feeling bitter or disenchanted, employees rallied around the company. Their efforts helped Dreyer's to recover from the toughest business climate it had faced in twenty years to become the leading U.S. ice cream producer today, with over 1.5 billion dollars in sales in 2004.

Q: What would you like our manager-readers to be aware of as they think about your research and try to apply it to the context of their organization? How should people on both sides of the fence (leaders and the led) avoid or diminish the kind of tension that happened at Maverick?

A: Leaders need to seek feedback before significant bad events transpire. At Maverick, although morale had gone down, there was no mass exodus of employees to other companies, no sharp decline in the quality of the work, no lost clients. Although employees were upset with the CEO they were still loyal to the organization, and they were still there. When people like Maverick's CEO are open to seeking feedback before there is any obvious signal of things being bad, there is a much stronger chance of identifying and fixing problems in the making.

Employees can help prevent their own—sometimes unwarranted—disenchantment by questioning their knee-jerk responses to leader actions that seem hypocritical. They can consider the possibility that external constraints and multiple, conflicting aims are driving a leader's behavior, and they can test these hypotheses by asking questions and sharing their concerns. But we think that the opportunity for fixing such problems lies mostly with a company's CEO and leadership.

Q: As more companies attempt to base their mission and culture around positive values, do you see foresee an increasing risk for similar problems at other organizations?

A: Many studies have shown the power of meaningful values to energize employees, providing them with a sense of purpose and identity in a world that is in flux. But our research shows that values must be managed with care.

Hypocrisy may be unavoidable for leaders in the modern world. With rapid changes in the environment, it can be very hard for leaders to keep promises at "Time 2" that they made at "Time 1." Companies also have more stakeholders—parties to whom the public feels they are responsible—than ever before. The public itself is a powerful stakeholder that is increasingly demanding about issues ranging from the environment to employee benefits. With the incredible speed and reach of modern communications, companies are now under unprecedented scrutiny, not only from their employees and shareholders, but also from advocacy groups, watchdog organizations, and an ever-savvier public.

The news these days is filled with stories about leaders and organizations that are seen as hypocritical by either employees or the public. For instance, the public has reacted negatively to Google's compliance with restricted access to information in China; this is seen as breaching the company's motto, "Don't be evil." In 2003, Jeffrey Leiden at Abbott Laboratories set off a furor by announcing a 400 percent increase in the price of the HIV treatment Norvir.

Q: How would you like to conduct further research on how values can backfire? Do you wish to possibly expand this study or investigate the subject from a different direction?

A: Our research so far has laid a foundation regarding how employees come to see leaders as hypocritical. The next step will be to investigate how leaders can reap the benefits of values while avoiding the pitfall of perceived hypocrisy. Most fascinating are organizations that explicitly embrace multiple, sometimes conflicting, values and goals. For example, healthcare organizations are increasingly facing a tension between providing quality care and access while controlling costs. Many businesses are also incorporating employee-centered values and socially responsible values into their core missions; these can appeal strongly to both employees and consumers while also creating the challenges we have identified.

We welcome suggestions from readers regarding organizations that are explicitly trying to manage such value tensions, and encourage them to contact us (sandra.cha@mcgill.ca and aedmondson@hbs.edu). wK

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