



The Culture Clash

THE IMPORTANCE OF VALUES TO LEADERSHIP AND BUSINESS PERFORMANCE



THE SCIENCE OF PERSONALITY

At first glance, Robert Nardelli seemed like the perfect candidate to renovate Home Depot's market presence.

Known for his strict, militaristic leadership style, talent for systems, and relentless work ethic, the former General Electric Executive was hailed in the business press as the ideal commander to bolster the home improvement chain's slipping market share and lead the company back to its former glory. Stockholders seemed to agree; the company's shares, stalled at \$39 when Nardelli arrived, rose to \$53 per share by the next year.¹

The story of a smart, talented individual hired to repair an ailing company, only to fail and cost the company dearly in the process, isn't unfamiliar.

As Nardelli's tenure wore on, however, things fell apart. Customer complaints increased, senior staff jumped ship, and stores fell into disrepair. Finally, prompted by stalled stock prices and increasing investor outrage over Nardelli's opulent compensation package, the board of directors ousted the embattled CEO in 2007.

Nardelli's story – a smart, talented individual hired to repair an ailing company, only to fail and cost the company dearly in the process – isn't unfamiliar; Jack Griffin at Time, Inc. and Leo Apotheker at HP are just a few recent examples. Although each of these leaders was influenced by a different set of outside circumstances, many of their stories share a common thread: their ability to lead was undermined by a misalignment of values.

WHAT ARE VALUES?

Hogan measures personality along three dimensions: bright side personality, dark side personality, and values. Bright side personality, measured by the Hogan Personality Inventory

(HPI), is the characteristics that people exhibit when at their best. Dark side personality, measured by the Hogan Development Survey (HDS), is made up of strengths that, under stress or boredom, become debilitating obstacles to building and maintaining productive relationships.

Values, measured by the Motives, Values, Preferences Inventory (MVPI), are the core beliefs, drivers, and interests that drive behavior. Values are a powerful, inherent part of your personality that shape the choices that you make. Values impact careers in four ways:

- **Drivers Values** are key motivators – they determine what we strive for and hope to attain.
- **Fit Values** determine how well we fit with any organizational culture. People are happy and productive in cultures consistent with their values, and distressed and unhappy working in cultures defined by values that differ from their own.
- **Leadership Style and Culture Values** determine what we find rewarding and what we dislike. Consequently, our values shape the kind of culture that we, as leaders, create for our staff and subordinates.
- **Unconscious Biases** occur when we project our values onto others. Unconscious biases affect what type of behavior we reward or punish, who we promote, how we handle conflict, and our ability to form and maintain a cohesive team.

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In some cases, organizational culture is supportive and productive. In other cases, the culture can be toxic and destructive.

“Values are important to understanding leadership because they explain the focus and direction of people’s actions,” said Dr. Robert Hogan, President of Hogan Assessment Systems. “Fit, leadership style, and unconscious biases influence business unit performance.”

“Leaders’ personalities shape the culture of the organization, team, or business unit. Followers identify and interpret the values implicit in the behavior and decisions of their leader. Eventually, organizational processes, norms, and culture come to resemble the values of the leader.”

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TOXIC CULTURE

Immediately after taking the helm at Home Depot, Nardelli set about transforming the company’s traditionally free-wheeling culture. He began enforcing a rigid top-down command structure at the company; a sharp contrast to the inverted pyramid leadership diagram – which placed customers and store employees at the top – favored by Home Depot’s founders. Stores were held to rigid plan structures, and underperforming store managers were culled from the ranks.¹

Initially, Nardelli’s culture changes seemed to work; in a March 2006 cover story, published just 11 months before Nardelli was ousted by the board, Bloomberg praised the CEO’s ability to centralize operations of the more than 2,000-store chain. By centralizing purchasing and controlling costs, Nardelli pushed company profits to \$5.8 billion in 2005.¹

Eventually, however, Nardelli’s focus on performance metrics and internal streamlining backfired. His decision to replace the older, experienced workers with legions of lower-paid, part-time employees alienated customers and damaged Home Depot’s reputation as a source of expert knowledge. Customer service and satisfaction rating fell to all-time lows, and the company’s stock stagnated as a result. Between 2001 and 2006, Home Depot lost 12% of its stock value as that of Lowes, its main rival, nearly doubled.²

LEADERSHIP VALUES

Unfortunately, Nardelli’s story is a familiar one; a recent survey showed that 40% of executives fail within 18 months of taking office.³ As recently as February, Time, Inc. ousted CEO Jack Griffin after less than six months on the job. Media outlets reported that Griffin’s ouster came after a string of decisions that ran contrary to the publisher’s long-standing culture.

Successful leadership hinges on the executive’s ability to build and maintain consensus.

“Broadly speaking, the responsibilities of the CEO boil down to two basic functions: setting his or her organization’s aspirations and mobilizing the organization to meet them,” Hogan said. “Successful leadership hinges on the executive’s ability to build and maintain consensus.”

“People are only willing to follow the lead of individuals whose values align with their own. So, if an executive’s values do not align with those of the larger group, he or she will not be able attract followers, and will therefore likely fail as a leader.”

Because values are a deeply ingrained part of our personality, many leaders are unaware of the kinds of values they hold, and how their values impact their subordinates. Values assessment is the most effective way to ensure incoming leaders values

By making leaders aware of their unconscious biases, they are empowered to modify their behavior.

will fit with that of the extant population. When a part of a comprehensive leadership development program, values assessment is a valuable tool for existing leaders. By making leaders aware of their leadership style and unconscious biases, they are empowered to modify their behavior before it impedes their effectiveness.

ABOUT HOGAN

The international authority in personality assessment and consulting, Hogan has more than three decades of experience dramatically reducing turnover and increasing productivity by helping businesses hire the right people, develop key talent, and evaluate leadership potential.

Grounded in a more than a century of science and backed by the largest and most complete research archive in the industry, the Hogan assessments predict job performance by assessing normal personality, derailment characteristics, core values, and cognitive reasoning ability.

Hogan's portfolio of employee selection, development, and leadership tools allow companies to better manage their most valuable assets – their people.

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1. "Renovating Home Depot" *Bloomberg Businessweek*. March 6, 2006. <www.businessweek.com>
 2. Lublin, J., Zimmerman, A., and Terhune, C. "Behind Nardelli's abrupt exit." *The Wall Street Journal*. Jan. 4, 2007. <www.wsj.com>
 3. Ciampa, Dan. "Almost Ready: How Leaders Move Up." *Harvard Business Review*. January 2005. <www.hbr.org>

VALUES IN THE C-SUITE

In their article "Values-Based Leadership," Hogan and Dr. Jorge Fernández uncovered four distinct leadership styles based around a person's values: the strategist, the analyst, the mentor, and the innovator.

The Strategist

Strategist executives are driven by power, recognition, and excitement. Interpersonally, they are forceful and decisive. Accordingly, Hogan said, leaders who use this approach create a work environment that is competitive and confrontational.

The Analyst

Where the strategist is forceful and values excitement, analyst executives desire to control resources and pursue stability and predictability. They often devote much of their time to developing detailed prescriptive policies, procedures, and rewards to reinforce desired behaviors. The internal climate they create will likely be formal and structured.

The Mentor

Executives who display characteristics of the mentor value collaboration, helping others, and maintaining high standards. Interpersonally, they are open, warm, and friendly; thus, they create an internal climate that is comfortable and cordial. These executives likely spend the majority of their time in personnel-related activities.

The Innovator

Executives who rely on the leadership style of the innovator, on the other hand, value knowledge and imagination. Unlike strategy CEOs, these executives focus more on process than final destination. For them, the reinvention of business practices and products is imperative. Interpersonally, they are bright, curious, and enthusiastic, and build an environment that is conducive to learning and experimentation.