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*To my parents,
who taught me values, and to my wife and son,
who gave them enduring importance
on the journey of life.*

All proceeds from
this book will be donated
to charity.

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Acknowledgements

This book would never have been written if it weren't for my parents. They're the ones who taught me about values and how to implement them in life. I've often been called an idealist and a romantic, with the understanding being that I'm detached from reality governed by harsh Darwinian laws. My belief in the creative powers of work, sweat-drenched work, which brings tears and wisdom, and justice, work you sometimes have to wait for, which requires sacrifice, moderation, discipline, and patience, I also owe to my parents.

These values, thanks to the positive experiences they've given me, have made for a satisfying life. They are the most precious gift my parents have given me and I thank them for it. These values represent something infinitely more substantial than material possessions. Cultivating these values together with my wife and son has enabled us to support each other in difficult times, and savor each others' successes, large and small. My wife Marzena has been patient and understanding towards the ideas I've pursued, even as it sometimes tested our family life. Thank you, Marzena, for our 30 year journey together, on roads that weren't easy.

I've tried to pass my experiences and convictions to my son, who has turned out to be a good listener and gifted student, creatively building his own value framework. Thank you, Filip. Your attitude confirms that values are the most important.

The significance of values in business wasn't a surprise for me. By violating business ethics, such as responsibility, honesty, integrity, diligence, and solidarity, one can run into trouble with either the law or society.

However, I only realized that a wider range of values could be used as a tool to manage workers attitudes, behaviors, and relationships with clients, shareholders, and stakeholders when I stood at the helm of Poland's third-largest financial institution, and faced the biggest challenge of my career: creating two banks out of scratch.

Management by values wasn't an obvious choice in a country where only one-fourth of companies admitted to having a set of values. In Poland, the jump to a market economy was interpreted as a call to get rich and maximize profit in as short a time as possible. Under my leadership, mBank, MultiBank, and BRE Bank were one of the few companies in Poland consistently managed by values. This strategy exceeded all expectations. The business culture that grew out of such values as continual personal development, effectiveness in individual and team work, responsibility, and engagement created a revolution in the Polish banking sector. It set the groundwork for innovations: mBank, a low-cost internet bank; Multibank, a friendly bank for Poland's emerging middle class and small businesses; project BREaktywacja, (BREactivation) - the renewal of BRE Bank. Discovering the importance of values in business was an incredible experience for me, and one that I will remember for the rest of my life.

I first created and tried out my model of management by values at mBank and Multibank, and developed it with an entire team of people. The employees of BRE Bank's retail banking unit played an important role in creating and implementing the guidelines of the value-based management model I used. Piotr Kociotek, Alina Strycharz, and Renata Tadeusiak were indispensable to its creation. Meanwhile, implementation would have been impossible without the engagement of BRE Bank's management team and of HR Director Anna Kozińska. I would like to thank them all for the heated discussions and effort put into implementing something which at first may have seemed like an *idée fixe*.

If it hadn't been for the open-mindedness and engagement of everyone, without exception, the words Excellence, Execution, Responsibility,

Readiness and Engagement would be an empty slogan instead of the mission statement, known as DROGA - the JOURNEY - (the acronym for these words in Polish), that they have become. Piotr Gawron, Wojtek Papierak, Bartek Brzozowski, Tomek Gubała, Krzysztof Tworus, Paweł Kucharski, Maciek Witkowski, Zbyszek Grzelczyk, Krzysztof Kuźbik, Ewa Głowacka, Witold Kujda, Joanna Sas, Anna Znamierowska, Joanna Erdman, Hubert Pałgan, Mariusz Zarzycki, Tomek Kowalczyk, Roman Konecki, Marek Żuberek, Krzysztof Lewiński led by example, converting the rest of the staff. mBank and MultiBank started out as tiny, unknown projects, and became large business organizations which are now in a class by themselves. I would like to thank them as well.

Drafting a values-based mission statement for BRE Bank was not easy. The organization had an identity, shaped by history. Implementing the idea of management by values at the bank was even harder. If it hadn't been for the trust that the bank's managers placed in me as their new chief executive, as well as the commitment they displayed towards implementing the new project, I wouldn't have the privilege to say that values improve every organization. This project transformed the bank.

For their support, I'd like to thank Janusz Wojtas, Robert Szarwiłło, Małgorzata Rudnicka, Anna Winiarska, Jan Soldaty, Hanna Dzierżyńska, Agnieszka Popkowska, Anna Pawlińska, Jarosław Fordoński, Piotr Baranek, Krzysztof Gerlach, Alan Wodzyński, Andrzej Klepaczyński, Daniel Ścigala. The example they set gave BRE Bank's list of values practical significance.

I'd like to thank two co-workers especially, Alina Strycharz and Renata Tadeusiak, who co-authored chapter 7 of this book. The chapter wouldn't have taken the form it had without their participation. It's supposed to be a handbook for leaders who decide to manage by values.

Kamil Suskiewicz helped me by gathering source material and was the book's careful first reader. I'd like to end by thanking Jacek Marciniak, the editor-in-chief of Studio Emka, who planted the seed of the idea that a book on values in life and business should exist and that I had a duty to write it.

Sławomir Lachowski

Instead of an Introduction

It is better to light one candle than to curse the darkness.

Chinese proverb

I'd wanted to make the pilgrimage to Santiago de Compostela in Spain ever since I'd first heard about El Camino de Santiago. I had run marathons and climbed high mountains. I was running ten or more kilometers several times a week. I didn't give a second thought to the way thousands of ordinary people make pilgrimages. Instead, I planned to run the trail in the quickest time possible, or to do it by bike. A few weeks after returning from a trip to Antarctica, where I had climbed its highest peak Mount Vinson, however, I decided to walk Camino alone with a backpack, like nearly everyone else on the way to Saint James' tomb.

The faithful started walking to the cathedral at Santiago de Compostela in the ninth century. In the Middle Ages, a spider's web of pilgrimage roads enmeshed Europe. Camino Francés, or the French road, became the most heavily travelled route of western civilization. It is 780 kilometers long and is considered the most important pilgrimage route to Saint James' tomb. It begins in Basque country, in Saint-Jean-Pied-de-Port, then runs along the Atlantic coast through the Pyrenees, then through the valleys of the Ebro and Arga rivers to Pampeluna, the Rioja wine region, Meseta Central to Spain's old capital Burgos. It then winds its way by mountain trail to the Celtic hamlet of O'Cebeiro, descends to the Galician plateau, and finally reaches Santiago de Compostela.

Although many years passed during which it was nearly forgotten, now over 100,000 people a year make the pilgrimage on the Way of St. James, with 2010 being a record year of 271,000 registered pilgrims. Camino de Santiago was the first pilgrimage first in Europe route to be declared a European Cultural Route by the Council of Europe, and was named a World Heritage Site by UNESCO in 1993.

Heading out from Saint-Jean-Pied-de-Port on March 13th, 2011, I was an optimist. I thought I'd finish the trail with ease, clocking in 40km to 60km a day. I would have lots of time to meditate and talk to the people I would meet. However, the first day already contained a warning things would turn out not as I had imagined. Although I reached Roncesvalle in eight hours, a 26km mountainous trail deemed as one of the most difficult sections of the route, my feet were rubbed raw. The sharp pain took away any desire I had to hike.

Things got worse in the next few days. The abrasions on my feet multiplied, and I labored over the next few sections of the trail. People were passing me. Not just students, but housewives, female as well as male pensioners, and office workers who had just stepped away from their desks. Finally, a 130kg man passed me like an express train, greeting me cheerfully, only slightly out of breath.

"Buen Camino," he said. I didn't pay attention to the landscape or people. I walked like a robot, trying to focus on rejecting the idea of quitting the pilgrimage and giving it another try some other time. And yet I knew that successfully finishing a marathon or climbing a mountain, especially the final sections, is determined by one's mind - not one's legs. My physical torment lasted ten days, until the wounds on my feet healed. If it hadn't been for the kindness of the people I met along the way, evening talks, their support and ever-present smiles, I would have surely given up.

That's when it occurred to me; maybe this was the way it was meant to be. I got a lesson in humility and in something even more precious: I realized that the people who saved me were those that, under normal circumstances, I should be helping, taking into account my experience and physical fitness. I saw my fellow travelers, ordinary people, in a whole new light. They weren't ordinary at all, but exceptional. Three housewives, a fat percussionist in a flamenco band, a student sleeping in his baseball

cap, a doctor from Korea worn down by life, a young girl from Singapore wondering whether to study medicine or veterinary medicine, a Dutch woman three-months pregnant.

Each one of them hiked with a smile on their lips and serenity in their hearts. Meanwhile I was walking with a grimace, while the sharp pain of my cut-up feet penetrated my brain, not allowing me to focus on anything other than my own suffering. Again and again I asked myself: what gives these people so much spiritual and physical strength that they can match a marathon runner? Where do they get their absolute calm and optimism, enough almost to move mountains? Why do I feel so dumbstruck by their readiness to help, and their openness to the world and to others that makes every conversation interesting and instructive?

The answer was simple and the same every time: goodness, friendship, kindness, love, empathy, readiness to help in exchange for nothing, solidarity, respect, joy -- these values were the invisible fabric of their attitudes, feelings, and behaviors. It made me feel good with these people, safe and happy, as if I had known them for ages. In the world I left behind, uncertainty and chaos set the rhythm of the day as the unforgiving competition and the permanent rat race kept people always on their guard. In the world I left behind, fear turns into constant stress paralyzing the mind and the body. Everything is for sale and anything can be bought. The end justifies the means.

The world I found here wasn't driven by lust for power and money, nor by ruthlessness, selfishness, or envy. The heroes of this world are people whose uniqueness does not arise from their beauty, youth, strength, or wealth. Quite the opposite. They aren't characterized by any of these attributes of pop culture heroism. They are unique because they know how selflessly to offer help, kindness, or a smile. They are ready to listen to others and pay attention to them. Such simple values, demonstrated in everyday actions, make ordinary people unique beings. "Ordinary people can become extraordinary, capable of miracles, if they're guided by a few basic values," became my motto as I walked, and it was confirmed in practice a thousand times. It's a cliché, a banal truth. Everyone can agree with it on a theoretical level. Abstract declarations are one thing, real life is another. But that's what I encountered on the Camino, this motto put into practice in its most beautiful incarnation.

Eventually my wounds healed and I could savor the solitude of the Way of Saint James as well as evening talks in the hostels. And the whole way, until I reached the Cathedral, I thought about those ordinary people guided by basic values, which led me to think about values in my personal and work lives. I came home with a conviction, which turned into a categorical imperative: I had to share my insights with others.

The relation between positive values in life and in business had a real, practical dimension for me in the past. I realized that my personal experiences of putting values on the forefront of managing a business and seeing them as fundamental to worker relations were unique and rare, and I had a duty to bear witness. In today's changing world, society is just becoming aware of the idea that profit isn't the only or even the most important goal of a business. Society's painful experiences of companies and managers driven by greed, ruthlessly pursuing profit maximization have midwived this awareness.

Acting according to values is as important for businesses as it is for people. It allows a person to live with dignity and die with a sense of fulfillment, and gives a business a chance at immortality. Thanks to my value system, I can take things one day at a time to build happiness in my personal life, and achieve success and satisfaction at work. The values by which I aspire to live define what kind of person I am, what choices I make, and how I am perceived by others. The values by which managers aspire to run a business are the bridge transmitting talent. Values enable businesses to grow and be profitable in accord with the environment, with worker preferences, as well as with the expectations of stakeholders and owners. It's the ordinary-extraordinary who, using values as a roadmap, create incredible businesses. Mahatma Gandhi said: "Be the change that you wish to see in the world." That's why I've written this book. It wasn't part of the plan.

Chapter 1.

Ordinary People's Values

Values in a Human Person's Life

Values are the foundation that not only decide on life, but set the behaviors and strategies that build the life of society.

One can't separate personal values and societal values.

John Paul II

We live in a revolutionary era. Years of technological acceleration are transforming society and business. Fear grips us and stress paralyzes us due to the lack of stability, the unpredictability of the future, and the unbridled growth of competition. Often against our will, we join the rat race. Winning one race doesn't change anything. We're still rats and soon a new race begins. Our journey through life is a constant struggle. We search for a way to stay on the right path, to limit the destructive impact of the external environment on our mental and physical health. A system of beliefs and values strengthens our resistance to failure, teaches us how to appreciate and enjoy small successes, and helps us control situations that we can influence. Values can be a framework for our thoughts, attitudes and behaviors. They help us survive, but more importantly, they enable us to be happy in our personal lives and successful and satisfied in our work.

The values we adopt determine how we live, where we are heading and how we relate to others. True values, simple and widely accepted, benefit those who practice them as well as those to whom they are addressed. Values play a huge role in human life. Every facet of human life touches on them because even the tiniest human action is based on how that

Values can be a framework for our thoughts, attitudes and behaviors. They help us survive, but more importantly, they enable us to be happy in our personal lives and successful and satisfied in our work.

human perceives the fundamentals. Values can have various meanings in our lives.

The world of values is an important part of the culture in which individuals live. It's the reality they must address. Values shape consciousness, motivate actions, set objectives, connect people and societies, and they direct and stabilize development.¹ People live in a world of

values that are a part of their personality, but each person's relationship to them is different. Values are one of the fundamental problems of human existence, a problem that is evolving culturally and historically.

For the purpose of this book I will focus on the relationship between practiced values and accomplishments in a one's personal and professional life. Let's start with what values mean, something that's a key to motivating people, and how a twenty-first century business operates. I'll also try to answer the question of whether people who act in agreement with a personal value system are more satisfied with life, are happier, and whether this helps or hinders their attainment of success.

"Values" are a term often used in diverse scientific fields, philosophy, sociology, economics, anthropology, and management theory. So, it's not surprising that the meaning of this concept is very broad. Finding an unambiguous definition of "values" is virtually impossible. In various academic disciplines, in philosophy, psychology, and sociology, there are many theories on values. Each discipline views values from a different perspective and uses distinct methods to study the concept. The values issue is interdisciplinary, however, so it helps to look at it holistically. Some people don't define values, but show what they are not.² Definitions grounded in philosophy, the oldest discipline of all, are abstract and difficult to understand. For instance: "Values are that which is valuable, more specifically, that which is worth something, in the attributes of a

¹ Leon Dyczewski, *Miejsce i funkcja wartości w kulturze, Kultura w kręgu wartości*, Towarzystwo Naukowe KUL, Lublin 2001, p. 39.

² Władysław Cichoń, *Wartości, człowiek, wychowanie: zarys problematyki aksjologiczno-wychowawczej*, Wydawnictwo Uniwersytetu Jagiellońskiego, Kraków 1996, p. 28.

subject.”³ The definition given by psychology and sociology is more practical, more understandable, and therefore more useful to us. Professor Milton Rokeach, one of the most prominent academics of values theory defines values as “an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to its opposite.”⁴

“Values are the norms and rules of behavior that enable a person to grow and attain satisfaction in life,” is a practical definition.⁵ The Oxford Dictionary defines value as “principles or standards of behavior; one’s judgment of what is important in life.”

The history of reflections on the subject is as long as the history of philosophy, but the study of values, axiology, only emerged in the nineteenth century, and the various concepts of values were then sorted. The study of values raised a key question: do values exist objectively, or are they derived from the individual needs and imagination of a person? Axiology formulates two approaches: objectivist and subjectivist. Axiological objectivism is interpreted by the phenomenological concept of Max Scheler, according to which “values are autonomous and independent from the object and subject being evaluated. They are permanent, unchanging templates, created by no one, and impossible to modify. They exist in perfection and specificity, remaining the absolute measure of evaluated objects and the criteria of evaluation conducted by the subject. They are characterized by obligations that flow from them and <demand> to be implemented. They force people to act the right way or to at least assess their actions. That’s how they make themselves felt and implemented”.⁶ Polish priest and philosopher Józef Tischner said that “values are objective; they stand before us as something given, something that acts on us, something that obliges us.”⁷

According to the concept of subjectivism, values are secondary to conscious acts. They are a product of our assessments, and the result of our

³ Józef Lipiec, *W przestrzeni wartości*, FALL, Kraków 2001, p. 36.

⁴ Milton Rokeach, *The Nature of Human Values*, Free Press, New York 1973, p. 5.

⁵ Marek Dziewiecki, *Wychowanie ku wartościom*, „Wychowawca” 1998, no. 9.

⁶ Józef Lipiec, *W przestrzeni wartości*, op. cit., p. 10.

⁷ Józef Tischner, Jan Andrzej Kłoczowski, *Wobec wartości*, W drodze, Poznań 2001, p. 22.

subjective experience.⁸ In this context, people often use the word *ethos* - a set of subjective values created and recognized by a person or group of people that can be diametrically opposed to objectivity. According to objectivist phenomenology, values exist in relation to one another and form a hierarchy. Max Scheler, a prominent twentieth century axiologist, formulated a theory of value hierarchy. His system is made up of five types of values:

1. absolute;
2. spiritual;
3. vital;
4. utilitarian;
5. hedonistic.

The highest values in the hierarchy are absolute and ascribed to God as well as certain natural and social phenomena. Of these, religious values are the most important. The opposite of religious values are values described as profanum. Spiritual values can be broken down into three groups: aesthetic values such as beauty, ugliness, and age; cognitive values such as truth and objectivity; and legal values such as right and wrong. Vital values are life values, related to maintaining physical and psychological health. Whether something is useful or useless is determined by utilitarian values, such as whether something is functional or productive. Feelings of pleasure or displeasure are determined by hedonistic values, which are sensory and are also criteria according to which we judge material goods.

The world of values envelopes a person, but it is up to him or her to decide which to pay attention to, and which to ignore. Even if values are objective and are arranged hierarchically, as philosophy states, their implementation in a person's life is derived from his or her free will.⁹ Some values are incredibly attractive. They compel a person to apply them; they don't allow one to be indifferent towards them.

⁸ Janusz Mariański, *Wprowadzenie do socjologii moralności*, Redakcja Wydawnictw Katolickiego Uniwersytetu Lubelskiego, Lublin 1989, p. 163.

⁹ „Ale właśnie samo to, że »wśród wartości niczego nie musisz«, samo jest wartością – wartością wolności. Podmiotem doświadczenia wartości jest podmiot wolny”. Józef Tischner, *Myslenie według wartości*, Znak, Kraków 1993, p. 522.

Other values affect a person less strongly and remain outside their immediate interest. The realm of values is a rich palette, full of different hues and shades. It is not ruled by chaos, however, as values are arranged hierarchically and are inter-related. Human beings are enmeshed in a web of values, and actively refer to the reality surrounding them, picking some values to give direction to their behaviors.¹⁰ Picking one value necessitates more choices. The values a person accepts, and considers right and desirable, form an internally coherent and stable structure. On their own, values do not create systems. People organize them into relatively stable structures they call value systems.¹¹

A value system sets the general direction of human drive, and it impacts life styles and daily choices and orients the life of the individual and society. "Human beings build themselves. Human beings build the world. That's how they embody values. Thanks to them, that which is worldly and material becomes spiritual-precious",¹² Professor Tischner said.

Regardless of where values come from, what's important is how they manifest themselves in a person's life. And even if an individual doesn't create values, is discovering them an accident or a process of learning about the world? Polish psychologist Kazimierz Popielski sees values making their presence felt continuously and spontaneously in people's lives.

"Values are a need and an object of aspiration in human life. They are implemented through the activity and life style of each individual... They are the stuff of a person's inner life. They are the light of a person's deepest needs, aspirations and desires,"¹³ Popielski said.

According to Polish sociologist Leon Dyczewski, "Human beings answer the call of values and that's how they shape themselves and transform the world. Therefore it is not without significance towards which values they direct their knowledge and desire".¹⁴

¹⁰ Bożena Sztumska, Janusz Sztumski, *Człowiek w świecie wartości*, Gnome, Katowice 2002, p. 36.

¹¹ Ibidem, p.19.

¹² Józef Tischner, Jan Andrzej Kłoczowski, *Wobec wartości*, op. cit., p. 16.

¹³ Kazimierz Popielski, *Wartości i ich znaczenie w życiu ludzi*, w: *Człowiek – wartość – sens*, red. K. Popielski, Lublin 1996, p. 59.

¹⁴ Leon Dyczewski, *Miejsce i funkcja wartości w kulturze*, op. cit., p. 39.

In contrast to philosophy, psychology focuses on the relationships between needs, values, and attitudes. The dominant theory states that a person's actions are determined by needs. Feeling a need initiates actions to satisfy the need and attain a certain value. Other theories say that the value is the motivating factor, and the need is secondary. Actions whose purpose is to apply a certain value shape a person's attitude.

Abraham Maslow, an American professor of psychology, said that needs come before values. A person's attitudes and actions result from needs, and therefore values are derived from needs. Satisfying needs serves the attainment of values. Maslow created a theory of basic needs: physiological, safety, love/belonging, esteem, self-actualization, thirst for knowledge and understanding, and aesthetics.¹⁵ The hierarchy of values reflects the hierarchy of needs, which are biologically determined.

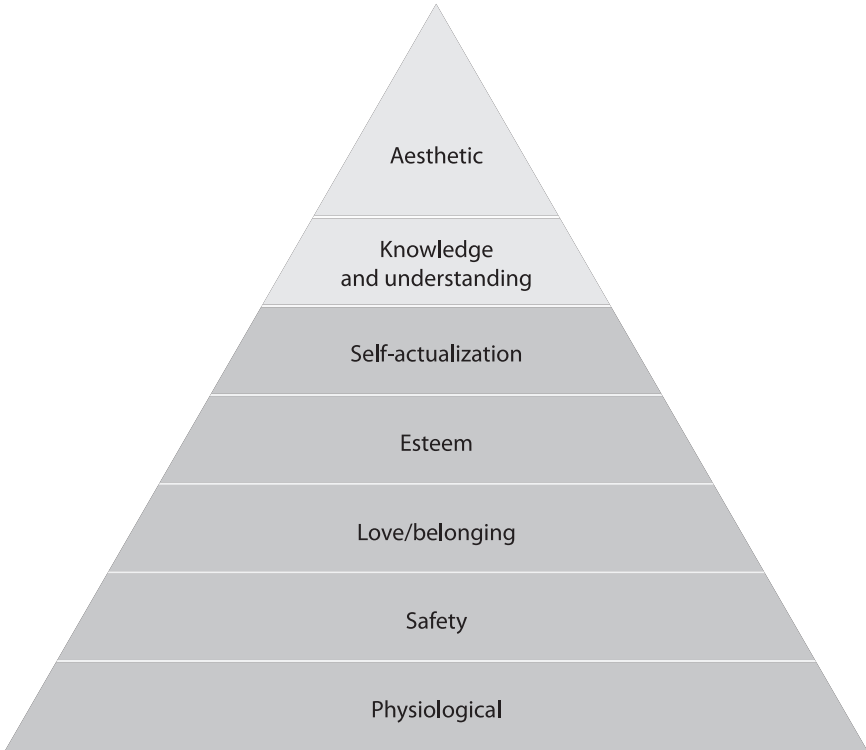
Maslow arranged these needs in a hierarchy, in which a higher-level need is subordinate to a lower-level need. This means a higher-level need only appears after lower-level needs have been satisfied. In reality, however, there are exceptions to the rule. Artists put the need for self-realization above other needs. Idealists are ready to sacrifice everything for a certain ideal or value. Maslow's hierarchy of needs is often cited in sociological and economic research, so it's worth devoting some more attention to it.

Human needs are determined by biology and have a hierarchy:

- Physiological: the most dominant of all needs, a long list that includes, eating, drinking, air, shelter, sex, warmth, and sleep.
- Safety: stability, respect for the law, freedom from fear and chaos.
- Belonging and love: these needs relate to the home and the family, friends, the neighborhood, territory, clan, class, gang, close work colleagues.
- Esteem: respect of others, prestige, status, fame, achievements, sense of self-worth, mastery, and competence.
- Self-actualization: self-fulfillment, achieving one's potential, becoming everything one can become.

¹⁵ Abraham Maslow, *Motywacja i osobowość*, Wydawnictwo Naukowe PWN, Warszawa 2006, p. 62.

Abraham Maslow's Hierarchy of Needs



Source: Abraham Maslow, *Motivation and Personality*, 1st edition: 1954, 2nd edition: 1970, 3rd edition 1987.

- Knowledge and understanding: achieving knowledge and systematizing the world, ability to understand, analyze, organize, and construct a value system.
- Aesthetic: desire for beauty, order, symmetry, completion of the whole, balance, and proper form.

Recognizing that higher-level needs and therefore values are of a biological nature is significant to values theory. It means the highest values are the natural drive of someone whose lower-level needs have been met.

Another prominent American psychologist, Milton Rokeach, has a different approach to values. His theory has many followers and his system is the basis of most modern value preference and behavior studies. According

to Rokeach “a value system is an enduring organization of beliefs concerning preferred modes of conduct or end-states along an importance continuum.”¹⁶

The definition suggests there are two categories of values: final values, which refer to the most important, final goals of life, and instrumental, which refer to behaviors necessary to achieve final goals. The value system has a permanent structure, in which final values are superior to instrumental values, which are a means to achieve higher goals. Final values answer the question, who do you want to become?, while the path to the goal is set out by instrumental values, which answer the question, how do you implement this?

When determining our final values, we need to answer: What is the most important thing in my life? What is the most important thing for the world? The answers will likely include:

- personal values, such as happiness, salvation, an interesting life, health, professional success, friendship, respect, wealth, internal harmony;
- ethical-social values, such as world peace, social justice, democracy, environmental balance.

Rokeach singles out moral values and competence values from among instrumental values. The former describe the proper behaviors towards other people such as honesty, responsibility, trust, solidarity, respect for human rights, love, loyalty, sensitivity, politeness, and cleanliness. The latter, such as skills, logic, culture, creativity, flexibility, sympathy, team work, ambition, and courage, enable a person to effectively achieve life goals as well as career and social goals. Rokeach said the number of values that people can hold dear is limited. There aren't more than 12 final values and no more than several dozen instrumental values.

Values are based on beliefs. Choosing final values necessitates complementary instrumental values to help achieve them. Progressing from the level of values to the level of actions occurs through norms, attitudes and behaviors. Values are personal and internal, the result of beliefs, while norms result from society. Norms are rules of behavior accepted by society based on consensus. In certain cases, they can differ from individual values, but fundamentally

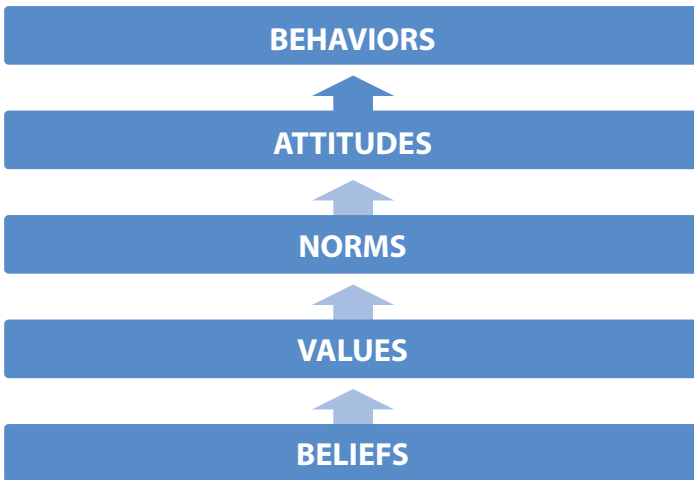
¹⁶ Milton Rokeach, *The Nature of Human Values*, op. cit., p. 5.

they are the instrumentalization of values, a call to action. Behaviors, as a reaction to stimuli from the outside world, are a direct reflection of attitudes on actions. They result from beliefs, values and norms.

Values are the variables that shape an individual's personality. The search and pursuit of values makes human existence better. A person makes their life good and meaningful by living according to values. Values are the regulator of social life. They impact interpersonal relations, and the relations between human beings and their environment. Values are an important element of culture, which they co-create by determining its character and influencing the direction of its development. Life without values is impossible, since they're the criteria for making any decision. You can't make any decision without a clear judgment of values.

Values are the variables that shape an individual's personality. The search and pursuit of values makes human existence better. A person makes their life good and meaningful by living according to values.

From beliefs to behaviors



Source: Milton Rokeach, *The Nature of Human Values*, Free Press, New York 1973.

Happiness is the Measure of Success

Happy is the man who has what he wants and doesn't want anything bad.

Saint Augustine

*The man who possesses happiness has everything one can have.
The man whom happiness has bypassed will do everything to attain it.*

Epicurus

Happiness is someone to love, something to do, and something to hope for.

Chinese proverb

To be happy, a happy family, a happy marriage, personal happiness, to be lucky, to glow with happiness, to look for happiness, good luck, happily, a stroke of luck. In our everyday lives, the word “happy” and “happiness” are used every which way, taking on disparate meanings. It can mean a positive event, an especially serendipitous twist of fate, a state of emotional ecstasy, bliss, contentment with life or with possession of the most valuable things. The breadth of possible meanings is large. How important is the concept of happiness in human life? It is best illustrated through its opposite.

Unhappiness is a tragic accident, a cataclysm, misery, evil, injustice, failure, events that take joy away. In ancient Greece, happiness was considered an absolute good. “The man who possesses happiness has everything one can have, while one whom happiness has bypassed will do anything to attain it,” Epicurus said. Some think happiness is wealth, power, and popularity. Others see it as sharing what they have or as life in the wilderness or a monastery. Wladyslaw Tatarkiewicz, a Polish philosopher, wrote the first full book ever written on happiness. It compiled everything that had been said about the subject in several thousand years and described four types of happiness.

Happiness (luck) is success or prosperity, a lucky turn of events, a coincidence, like winning the lottery, or favorable winds when sailing. This meaning of happiness is best exemplified with the following saying: better a pound of luck than a hundred pounds of wisdom.

The second type of happiness is an intense, positive experience, a joyful moment, satisfaction, a coincidence that creates a beneficial situation. "A moment of happiness means more than a thousand years of fame," Voltaire said. According to Cicero, "life is directed by luck not wisdom."

The third type is happiness as the attainment of the greatest good. Ancient Greeks called it eudemonia. At this point one usually faces a dilemma. What counts as the greatest good? For some, it's a balance of material goods, as well as moral and intellectual accomplishments. For others some material possessions take precedence and become the ultimate goal. It could be money, fame, power, knowledge, or wisdom.

The fourth category of happiness is a synthesis of the previous three and represents contentment with life in its entirety. One can sum up one's life at any moment, but the significance of this summing up grows the farther into the future one looks.

"True happiness is a thing of effort, courage and work," said Honoré de Balzac. The conviction that we have ourselves to thank for our happiness, that we are happy thanks to our own efforts and values, appears in writings on happiness across the centuries.

"Only an honest life is happy," Plato said, while Joseph Conrad added, "Happiness exists in this world, but thanks to honest work, not the promises of fate or lottery". The nature of happiness has occupied ordinary people and geniuses since the dawn of man. In western culture, the concept of happiness is over 2000 years old. For ancient Greeks, happiness was the highest good and final goal. The pursuit of happiness was the only true passion of man.

"Happiness is the greatest good and it is the goal, the final goal -- by living according to virtues we can be happy and possess the most precious good," Aristotle said.¹⁷ Socrates and Plato thought about happiness along similar lines, but limited the concept of eudemonia, or happiness, to certain goods. Philosophers who came after Aristotle shared his definition of happiness, but disagreed on the goods that give humans satisfaction. The Stoics put virtue above all else. Epicureans valued spiritual and physical pleasure. However, they all agreed that the ability to be happy resides

¹⁷ Arystoteles, *Etyka wielka. Poetyka*, PWN, Warszawa 2010, p. 20.

The ability to be happy resides within the individual and that happiness depends on him or her alone.

within the individual and that happiness depends on him or her alone.

The view that happiness is the possession of that which is most valuable, meaning the greatest strengths and goods, dominated western thought until the

Middle Ages. Christianity only modified the assumption that happiness is a product of the individual themselves. The Gospel usually refers to the Kingdom of Heaven when talking about happiness, but maintains that earthly happiness is also possible, but only for people who live according to religious commandments. In Christianity, attaining eternal happiness or salvation and entrance into the Kingdom of Heaven requires obedience to and fulfillment of the commandments in temporal life, including active participation in the life of the Church. Only the Second Vatican Council introduced a significant change in this area, recognizing that a person who, for various reasons, does not have the opportunity to become a believer, but lives according to moral and ethical principles, can be saved.

Władysław Tatarkiewicz wrote his book, *O szczęściu* (On Happiness) from 1939 to 1942, in the dark days of World War II, while Germany was occupying Poland and people were meeting the greatest of misfortunes. To explain this paradox, Tatarkiewicz said, “during unhappiness one thinks about happiness much more than when one is happy.”¹⁸ His definition of happiness is the most precise and the most capacious.

“Happiness is a permanent, full, and justified satisfaction with life. Or: it’s a life that gives permanent, full, and justified satisfaction.”¹⁹ Happiness isn’t transitory joy, or even great satisfaction from the possession of one significant good or important virtue. It’s inextricably linked to a permanent state of satisfaction with the positive balance of one’s life. Happiness is a life that constantly satisfies fully legitimate human needs. Taking into account the fact that the source of our needs is values, then happiness is a life lived according to a value system. Understanding the essence of happiness in this way is what inspired me to write this book.

¹⁸ Władysław Tatarkiewicz, *O szczęściu*, PWN, Warszawa 2010, p. 10.

¹⁹ Ibidem, p. 38.

Tautology: values – happiness – success, as inter-related and inter-connected concepts. This is the insight I would like to share with you, the reader. Usually, it's philosophers, psychologists, or sociologists who reflect on values and happiness as part of their work. But when scientists and academics consider the nature and causes of success, their discussions diverge radically from reality. A practical look at values, happiness, and success from the perspective of an ordinary person, who thinks in terms of personal and professional life, is closer to the realities of daily life, but may be accused of a lack of professionalism.

I decided to take up this challenge knowing the difficulties, the danger of simplification and superficiality. Values, happiness, and success pertain to us all - together and individually. That's why this issue is particularly important and can't be left to the scientists, who tend to complicate things and use language understandable only to themselves. My own thoughts, as well as life experiences gathered over 20 years of work, in small and big companies, at every management level, in the role of both owner and manager, are the material of my story about values, happiness, and success. For many years I've been using my own definition of happiness, which is a simplification of a scientific one. It's summed up in a Chinese proverb: "Happiness is someone to love, something to do, and something to hope for". My understanding and experience of happiness has three aspects: someone to love, meaning love and friendship, something to do, meaning work, and something to hope for, meaning plans and dreams. This interpretation of happiness is connected to an experience that was instructive for me.

I first encountered this Chinese proverb in English. My native language is Polish. I translated it myself, but wanted to double-check, so, naturally enough, I looked it up in Google. In Polish, the translation placed something to do ahead of someone to love. I accepted the Internet's version as correct, and for a long time I used it without giving the hierarchy of the elements of happiness much thought. At one point, the common Polish translation of the proverb was the welcome sign on my personal website. Eventually I realized the significance of the order of each phrase, and that the Chinese, influenced by Confucius, wouldn't have been likely to put work ahead of love and friendship. It's symptomatic in our culture

and value hierarchy that in Polish, the incorrect translation is still widely in use.

Someone to love, or, love and friendship

*People look for love because in the depths of their hearts they know
that only love can make them happy.*

Jan Pawel II

Love is two souls in one body. Friendship is one soul in two bodies.

Tadeusz Kotarbiński

*Friendship is the most beautiful of all presents we can receive to shape
our lives happily.*

Epicurus

The secret of happiness is the ability to enjoy the happiness of others, to make others happy, and the ability to empathize when family and friends are sad. The ability to find people to share your sorrows and joys with also helps. Feelings of happiness double when you can share them with others, and they grow exponentially when you can share them with a significant other. To realize this obvious truth, think back to a moment of happiness you experienced with others and compare it to a moment of great happiness you experienced alone. Many times, after an arduous mountain climb I've reached a peak and have been seized by a euphoria of triumph, but after a moment I've realized my happiness would be much fuller if I could have shared it with my wife, who was at home. We feel something similar in more prosaic situations as well. We often want to share experiences from interesting trips or a good book with family and friends, to encourage them to travel or read, and thus to help increase their satisfaction with life.

Albert Schweitzer expressed this beautifully: "Happiness is the only thing that multiplies when shared." If we assume that proverbs are the wisdom of nations, it's worth quoting an English one: "Happiness held is the seed; happiness shared is the flower." Real happiness requires a person

to walk away from self-centeredness, selfishness, and self-regard. If we want to achieve happiness, we have to stop looking in the mirror and listening only to ourselves and start seeing and listening to other people. Everyone needs friendship and love. Everyone needs closeness, and people they can trust. The ability to establish and maintain close relationships with others is a hallmark of personality. More broadly, relationships are one of the most important aspects of social life.

“No man is an island entire of itself; every man is a piece of the continent, a part of the main,” wrote poet John Donne. Love and friendship, based on moral and ethical values and not economic ones, are the delicate tapestry of social life. True love and true friendship rely more on giving than on receiving something in return. Without going into complicated scientific interpretations on the interdependence of love and friendship, one can say that these feelings are grounded in the same values. Only in the modern meaning of love does the word have an additional erotic dimension that friendship lacks. Friendship can turn into love and vice versa – love can turn into friendship. The key elements of friendship are kindness, wishing someone well just because they are, as well as reciprocity, honesty, and trust.

Winning friends isn't simple or easy. It's a long, tedious, and difficult process. A true friendship usually takes a long time to mature, but then lasts until death. It requires opening up to another person, to discover each other's secrets and recesses of the soul. Understanding another person through really getting to know each other leads you to full acceptance of the other person. The process requires courage and patience. Usually the most beautiful and most solid friendships start when we are young. That's when we still don't have that much to lose by opening ourselves to others. That's when our weaknesses, real and perceived, can't hurt us that much. That's also when we have more time to socialize. As adults, when we are consumed by our work, when we are burdened by family responsibilities, making new friends becomes harder. At that point, our social and professional status starts becoming a hindrance, as

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we have more to fear from opening up honestly to a new person. When asked, "What is a friend", Pythagoras replied that a friend is one "who is the other I" such as 220 and 284. Two numbers are amiable if the sum of each one's divisors is equal to the other. But friendship isn't a given forever. That's why it needs to be tended so

it doesn't wilt. According to an African proverb, "friendship is a road that fades in the sand if it isn't constantly renewed."

Love is an essential factor of a happy spiritual and physical life. Since the time of the ancient Greeks, love has been understood as the meaning of life, a desire fundamental to human life that drives us to goodness. Plato's division of love into sensual love, spiritual (platonic) love, and absolute love has dominated thoughts on love until today. Apart from religious love, which is a relationship between God and the human being, the goal of love is a person – wanting what he or she wants. Understood like that, love does not set conditions. You love a person just as he or she is, completely, with all his or her faults. The pursuit of love is the pursuit of good, and is the fundamental point of human existence.

"People look for love because in the depths of their hearts they know that only love can make them happy," said Pope John Paul II. Love is a source of positive energy, optimism, inspiration, determination, patience, kindness, and empathy in relationships with others and in daily life. The family, as a more or less formalized unit based on love, has enormous significance to this issue. It is often the quiet harbor that shields us from the inclement weather of the outside world. It lets us gather strength and release stress, regain balance, and find the right solutions to face hardship and the burden of work. The road to love and friendship is hard and bumpy. You have to work to deserve love and friendship, by acting in accordance with the values that address the point of love and friendship. This road is riddled with external obstacles that you can't control, and with internal obstacles that are determined entirely by us. Disease, the death of loved ones, losing one's job, unlucky accidents - these are events beyond our control that bring pain and sadness.

Meanwhile, the barriers we build ourselves on the road to love and friendship include envy, spite, selfishness, and narcissism. The biggest obstacle is envy, which brings out everything that is the worst in an individual. It happens to people regardless of their level of education, intelligence, or status. The most important factors that contribute to love and friendship are morality, ethics, wisdom, noble-mindedness, kindness, the ability to listen, and empathy. Adopting an attitude of being rather than having opens the door to the hearts and minds of others. Regardless, in the end we can expect to receive love and friendship in the same proportion as what we put into it, in accordance with the law of equilibrium.

Something to do, or work

Work is the only thing that gives life meaning.

Albert Einstein

I never did a day's work in my life, it was all fun.

Thomas Alva Edison

Man can achieve anything with his own work and effort.

Adam Mickiewicz

Who wouldn't want to have an interesting job that brings both satisfaction and is well compensated? Everyone wants a pastime that enables them to meet their needs and attain their dreams. But finding a steady, well-paid job is becoming harder and harder. Constant change and uncertainty are the mark of the times in which we live. It is getting harder to find stability and to control how things play out. We live in constant stress. Fear paralyzes us. Uncertainty, no stable ground under our feet, and a sense of helplessness are common elements of modern life. Work is the central point of our existence, and so a source of happiness and worry, as well as a mirror that reflects our personal life.

Work is one of the things that set us apart from animals. Work is an expression of our humanity because it's an activity of the mind and of

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that which the mind directs. In contrast to animal behavior, which is driven by instinct, humans work consciously and with purpose. For thousands of years, work was a condition of survival. People had to work to ensure themselves food and shelter.

Since then, the purpose of work has multiplied, evolving from the satisfaction of basic existential needs, to attainment of material goods, to the gratification of lofty spiritual needs. Work was the engine of social and economic development. It hasn't always been a central value, but even in slave or feudal systems - except for times of war - work was the way to amass wealth and prestige. The number of slaves or serfs a lord possessed was an indication of his social status.

In capitalism, work became a product of the market, one of the three factors of production, the other two being capital and land. Work was also subject to the laws of supply and demand. The expression of work in the market is the competition between people for jobs and the competition of work versus capital. In the early days of capitalism and industrial mass production, capital had the clear advantage and reduced the human being to the role of an add-on to a machine. Human alienation as a result of industrial production was Karl Marx's main point of criticism, and the basis for his demand to eliminate economic coercion and reform of the ownership system through the abolition of capitalism. The Eastern European experiment with communism and socialism led to the self-abolition of systems based on state ownership, and a return to capitalism in these countries. In that time, however, capitalism had changed. Technology had replaced economies based on industry with economies based on knowledge, in which human capital took primacy. In other words, work. But the problem of alienation hasn't disappeared entirely. It has simply changed shape.

Modern work, in addition to satisfying basic existential needs, gives life meaning. It dictates one's lifestyle, social contacts, social status, and level of wealth. Sociological studies show that work has a huge impact

on whether we are satisfied with life.²⁰ Self-actualization, self-fulfillment using an individual's potential, talent, and abilities, is still the main issue.

"Work is the asset of a human being, the asset of his or her humanity," Pope John Paul II wrote in his 1981 encyclical. "Through work a person not only transforms nature, adapting it to his or her needs, but also achieves fulfillment as a human being and becomes more human."²¹ How does one achieve this in a world where constant change is the only thing that remains the same, and "fluid modernity" combines a sense of impermanence, uncertainty, and threatened security?²²

Our professional and social positions, as well as our wealth and the likelihood that we will preserve it, are impermanent and uncertain because they are subject to violent swings. It heightens our sense of danger. In a world of rising structural unemployment, no one can feel truly safe. On the one hand there is a war over talent, and on the other there is a process of constantly implementing new technology and new management concepts: Total Quality Management, downsizing, reengineering, Lean Management, Just-in-Time-Management, all "rationalize" employment in only one direction, down. Long-term employment contracts are a thing of the past. Working in one company until retirement has become a nostalgia-inducing memory. Work contracts are usually for a specified time period, with the possibility of extension, and a clause on termination without severance payment. It reminds me of the way certain products are sold with a price, a guarantee, and a return policy. Employers usually justify such practices by highlighting the benefits to the worker, since thanks to this contract structure, he or she can always take advantage of better job opportunities that might turn up. However, as competition becomes fiercer, there is a constant pressure to be more productive, engaged, and flexible. As society becomes more aware of this, workers start to expect more from their employers and their work. Since workers

²⁰ *Zadowolenie z życia wśród Polaków pod koniec XX wieku*, Ośrodek Badania Opinii Publicznej Sp. z o.o., Warszawa, Wrzesień 1999. *Diagnoza Społeczna 2011. Warunki i jakość życia Polaków*. Redakcja Janusz Czapiński, Tomasz Panek, Rada Monitoringu Społecznego, Warszawa 2011, p. 171.

²¹ Jan Paweł II, *Laborem exercens*.

²² See Zygmunt Bauman, *Phylna nowoczesność*, Wydawnictwo Literackie, Kraków 2006.

now put so much effort into their education and continual training, they expect not only adequate compensation but also work that is meaningful, interesting, and that develops them and enables self-actualization. The following becomes increasingly more important: work that aligns with a person's values, work atmosphere, relationships with co-workers, managers and subordinates, justice, open exchange of ideas, kindness, readiness to help one another, subjectivity in achieving objectives, and passion for emotional engagement. This is an incredibly positive development. It's hard to find the work, the company, or the institution that fulfills these expectations, but it's worth it and you should try. Without such a work experience, you'll never understand the true point of work and you won't achieve happiness in the sense of satisfaction with life.

Something to hope for, or plans and dreams

My hope and your hope, Will make a step in the clouds possible.

My hope and your hope, Will help us work miracles.

Kasia Nosowska, Polish bank "Hey"

Follow your dreams and follow your dreams till the very end.

Joseph Conrad

If you can dream it, you can do it.

Walt Disney

Besides friends and family, hope is your closest companion, especially helpful in difficult moments. When the world seems like it has collapsed around you, hope whispers that your luck will turn, that the sun is shining behind the clouds, and that it will come out to warm you. Without hope, it's hard to imagine a way out of the hole that can easily turn into depression. Hope does wonders for our mental health. It's also what often drives us to attempt far-reaching goals that haven't fully taken shape. Goals such as looking for more interesting work, coming up with a new business project, moving to a new apartment, building your dream house, and even more abstract goals like attempting a scientific discovery. Hope

can turn into action when it is based on the expectations that something desirable will happen. Such hope is based on being able to see the seeds of your desires in the real world, the here and now, and gives you the energy to make it happen.

The meanings of the words “hope” and “dream” are similar, except that dreams are described as “often unrealistic” or “fantasies” and can be understood as “trains of thought arising out of sleep, and not subject to the laws of logic”. Such a definition of dream should scare away any reasonable businessman. In reality, it’s the opposite. Today, it’s impossible to overstate the importance of thinking off the beaten path. Intuition is getting nearly magical attributes. Considering various scenarios and options, even apparently unrealistic ones, is a foundation of strategic planning today. It’s also called brain storming and it isn’t logical. Breakthrough innovations that change the world are world-changing precisely because they break all the rules and introduce new solutions to problems. Dreams have a lot to do with sleep. According to sleep studies, people dream for about an hour and a half every night. Dreams protect you from anything negative that may have happened during the day. They are a safety valve for traumatic experiences and help maintain your emotional and psychological balance. Dreams may seem weird and “senseless”, but according to psychoanalyses, they have their own logic that you can perceive if you learn the language of dreams.

According to Sigmund Freud, dreams are a path to the unconscious; they enable the satisfaction of desires that cannot be satisfied in waking life. Their relevance to reality goes far beyond that of any day dream. Both types of dreams, the ones that are the objects of our desires and sleep-dreams, play an incredibly important role in our lives. Some of the loftiest events in history were the result of publicly articulated dreams becoming reality. Martin Luther King, John F. Kennedy, John Paul II, and Mother Teresa are just a few examples of great dreamers in history. In 1963, Martin Luther King made his memorable speech in front of the Lincoln Memorial in Washington, in front of 200,000 protesters. Referring to segregation, he expressed a dream that was also a call to action:

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“Let us not wallow in the valley of despair, I say to you today, my friends. And so even though we face the difficulties of today and tomorrow, I still have a dream... I have a dream that my four little children will one day live in a nation where they will not be judged by the color of their skin, but by the content of their character. I have a dream today!”²³ Martin Luther King’s dream came true faster than one could expect. His activism led John F. Kennedy’s administration to make the civil rights movement one of its policy priorities, and led to the abolition of segregation two years later.²⁴

When in 1962, John F. Kennedy formulated the U.S.’s mission to put a man on the moon, it sounded like science fiction, a fairy tale, a dream:

“But if I were to say, my fellow citizens, that we shall send to the moon, 240,000 miles away from the control station in Houston, a giant rocket more than 300 feet tall, the length of this football field, made of new metal alloys, some of which have not yet been invented, capable of standing heat and stresses several times more than have ever been experienced, fitted together with a precision better than the finest watch... and then return it safely to earth... and do all this, and do it right, and do it first before this decade is out--then we must be bold.”²⁵ On July 20, 1969, Neil Armstrong sent the happy message to Earth that “the eagle has landed” and then, touching the surface of the silver orb, he said “That’s one small step for man, one giant leap for mankind.” The Apollo 11 mission was a spectacular success and one of mankind’s most moving dreams had been fulfilled.

The communist system, as a way of wielding power and organizing economies and societies, strengthened over the course of the 20th century and solidified on the map. So much so, that almost no politician, scientist, or ordinary person living under communism could imagine it would one day fall apart. John Paul II, the Polish Pope, visited Poland in June 1979,

²³ Martin Luther King, *Marzǳ, że któregoś dnia...*, *Wielkie mowy historii*, POLITYKA Spółdzielnia Pracy, Warszawa 2006, p. 42–43.

²⁴ Became part of U.S law, included in the Civil Rights Act (1964) and the Voting Rights Act (1965).

²⁵ John F. Kennedy, *O Narodowym Programie Kosmicznym*, *Wielkie mowy historii*, POLITYKA Spółdzielnia Pracy, Warszawa 2006, p. 37.

and gave a homily during his mass held at Warsaw's Victory Square to a crowd a million strong. He ended it thus:

“And I call, I a son of this Polish land, I John Paul II the pope, I'm calling from the depth of this millennium, I call on the eve of Pentecost, I cry with all of you: Let your Spirit descend! Let your Spirit descend! And renew the face of the land. This land! Amen”.

He was expressing hope, based on hard conviction, that the oppression of Poland and other socialist countries needed to be stopped, and that the strength of the Holy Spirit could bring aid in this endeavor. John Paul II's first pilgrimage to his homeland and the words he spoke in Warsaw became the spark for the strikes in 1980, especially in the Gdansk Shipyards, and thus for the formation of the Solidarity movement, which started Poland's transformation into a democratic country.²⁶ John Paul II, characteristically humble, said, “Communism as a system fell on its own, in a way. It fell due to its own mistakes and abuses. It turned out to be a medicine that was more dangerous than the disease.”²⁷ If you give John Paul II credit for helping defeat communism, then you must also give him credit for political transformations across Central and Eastern Europe. That's how a boy from Wadowice, a small town in southern Poland, fulfilled his dream of “revealing the spiritual unity of Christian Europe, made up of two great traditions, East and West.”²⁸ Dreams don't get fulfilled by accident, but through consistent efforts, though you often have to go against the current. You can't stop at hoping that your dreams will become true on their own.

Dreams don't get fulfilled by accident, but through consistent efforts, though you often have to go against the current. You can't stop at hoping that your dreams will become true on their own.

²⁶ Surveys conducted by pollster CBOS on the 30th anniversary of Pope John Paul II's first pilgrimage to his homeland confirmed that as many as 78% of Poles think that the pilgrimage contributed to the creation of the Solidarity movement, as well as to bringing down communism and attaining independence in 1989.

²⁷ Jan Paweł II, *Autobiografia*, *Wydawnictwo Literackie*, Kraków 2002, p. 216.

²⁸ *Ibidem*, p. 211.

The first step is the hardest, but even the farthest journey begins with a single step. I can attest to this myself. Convinced that an internet-based revolution was underway, I got the idea to create an internet bank. It was 1998, and I was working in a provincial bank in Łódź, a poverty-stricken post-industrial city in central Poland. Many people thought my idea was science fiction, especially since Polish banking was a stronghold of conservatism and suspicious of innovation. But I had a dream to build a bank in Poland that would reflect trends from Silicon Valley. I had recently visited there and I was enchanted.

In 2000, when I was working at BRE Bank, I decided to give it another try, the third one. I had already helped launch a primitive version of internet banking at state-owned PKO Bank Polski. At the time only 40,000 people in Poland used the internet to conduct basic banking operations such as checking their account balance. Early on in the project, when we were all working at capacity, there were moments of doubt, but I kept telling my co-workers that we were making history, and there was no price too high for that. Ten years later, there are over 10 million individual internet bank accounts. Most small and medium sized business use internet banking. mBank - which I managed to create with a group of fanatics - is the first mature virtual bank in Poland, has over 3 million clients, and is one of the largest internet banks in the world. This experience has convinced me that the only barriers to our potential are the limits of our imagination. Having dreams is worth it. The taste of dreams fulfilled is beyond compare.

My Journey of Values

“Journey” means development, getting experience, overcoming weakness, fidelity to principles, moving against the current and catching the wave, making difficult choices, friendship and love, living through hardships, learning, discovering, and getting lost.

Excerpts from an online discussion forum

To think of truth, to feel beauty, to love the good – this is the goal of the considered life.

Plato

[...] if you don't know where to go, the road will lead you.

Jan Twardowski

Values are an attractive topic for theoretical musings and detailed analysis. This topic always draws the attention of audiences at motivational training conferences in big companies and small businesses. The role and meaning of value systems in human life has become the groundwork for much of psychotherapy. It's easy to talk about values on a very abstract level, as we all agree that values are something desirable in life. We tend to disagree, however, on the importance of individual values and how they should be prioritized. But an honest answer to the question of what values are, as we practice them daily, requires deeper consideration, and a look back and within ourselves.

Our value system, partially hidden in the subconscious, is derived from our needs, education, social ethos, and individual fascinations and beliefs. It takes shape over a lifetime, but its foundations are laid in youth and middle age. Evolution is deterministic because of its biological characteristics. But the conscious choice of what one considers the most important in life, gives a value system its individual character. I can't limit my reflections on values to generalities, as it wouldn't be insightful,

An honest answer to the question of what values are, as we practice them daily, requires deeper consideration, and a look back and within ourselves.

and would be of limited use to the reader. The general overview is an introduction. I would also like to use the experiences of a select group of people to demonstrate the role of values in practice, starting with myself.

This approach isn't the result of navel-gazing. I'm just convinced that values have real meaning in the daily life of every person, and they give ordinary people the chance at happiness and satisfaction with their jobs. What were values to me? Where did they lead me? What did they give me? It took me many years to formulate an individual value system. To this day I can't say whether the process is definitely over. The most important were the formative years of adolescence, when my world-view and main beliefs took shape. In subsequent years, my value system hardened and took on the role of a skeleton that supported the "soft flesh of life". Maturity allows for reflection, taking a look back but not yet summing up, just making an assessment and possible corrections.

Looking back at my youth, I see my family home, my schools, books I read, musings. All those shaped attitudes and taught me behavioral principles. When we're young, youth seems to pass slowly as we race towards the future. But seen from a distance, youth is a gallop. The young live in a kaleidoscope, changing quickly and the world along with them. When we're young, we're hungry for experiences, knowledge, love, friendship, and are ready to make sacrifices and take risks. That's when we have the most unencumbered dreams that drive us to act. Fulfilling even one such dream gives us the courage and strength to go forward.

My road to values began at home, where my family taught me a respect for work in all its forms.

My parents were born on farms, moved to the city, and became the first ones in our family to join the intelligentsia class, making their livings as knowledge workers. In a natural way, they valued farm work, factory work, and knowledge and creative work equally. They believed the only

My road to values began at home, where my family taught me a respect for work in all its forms.

privilege of the intelligentsia was that their work required less physical effort. I got my first job at 12 years old, picking blueberries in the forest. At the time, blueberries were a precious export commodity and you could make a lot of money selling them, but the

work was hard. Polish blueberries grow on shrubs that are 15 centimeters high, so picking them requires being bent over the entire time.

Your spine and back muscles start to hurt after less than an hour, and it gets worse throughout the day, until it becomes unbearable. The work requires endurance. The blueberry picking season lasts only up to six weeks, beginning when schools let out in June and ending in July. So you have to hurry to make the most of it. We would leave early in the morning and the walk to the blueberry crop would take an hour. We would pick for six to eight hours and then walk to the depot. Then we would conduct reconnaissance to find plentiful blueberry fields for the next day. It was intense. I would come home dead from exhaustion and fall asleep as soon as I got in bed. I would get up by force of will the next day, but after rubbing my sleepy eyes I would eagerly head out to the forest again. It was the only form of paid work I could do at that age. The pickers were usually old women or young people from the country whose families had pressured them to contribute to the budget in this way instead of going to summer camps. During communism and its cult of industrial production, Poland's countryside was even more economically and sociologically backward than today.

In high school, there were more options in terms of jobs. I chose unloading train cars. It's hard to believe, but at the beginning of the 1970s, cargo such as bags of cement, bricks, or 30 kilogram iron ingots, were unloaded by hand. Materials were just moved from place to place by people. No trucks, forklifts or even hand-wheeled carts. The work was hard to get, exhausting, but well paid. I worked with two friends from my handball team, the circular and the wingman. I was the playmaker. My job was to find gigs. I only took into account fat, ambitious jobs. We practiced six times a week so we were in shape and prepared for this kind of exertion. One time, however, we had to admit defeat after accepting an order to unload 80 tons of iron ingots. After ten hours of murderously difficult work, we gave up and at the same time gave up our right to compensation. The work was more than we could do, and one fifth of it was still left. The incident pained me physically and psychologically, but luckily didn't affect my attitude towards challenges in general. My desire to confront the unknown, the dangerous, and the difficult still remained.

My respect and longing for knowledge is also a value I got from my parents, who left school after high school. Nevertheless, they placed a huge value on education and knowledge. They are the ones who inculcated me with the habit and passion for learning, which is a continuous process of self-improvement, step by step. I was the first one in my family who went to university. I graduated with honors from the foreign trade department of Szkoła Główna Planowania i Statystyki, Poland's answer to Wharton Business School, which was renamed Szkoła Główna Handlowa in 1991, after Poland moved away from a centrally planned economic model.

I've tried to pass this value, fundamental to me, on to my son. I won't take the credit, but he did go a step further than me and got a PhD in economics from Oxford University. My desire for knowledge was always characterized by commitment to doing what I liked to do. So deciding what type of high school course to apply for was a dilemma. I loved literature and mathematics equally, but they were opposites.

Finally I decided to enroll for an extended Math and Science course, but after a few days I started to panic. I was worried the narrow specialization would deprive me of the pleasure of reading, which I loved. Desperately, I put in a last-minute request to transfer to a Humanities course. My Math teacher noticed I was gone, maybe because he knew me from Poland's Math Olympiad. I think he had high hopes for me. A few days later he found me in a crowd of kids standing in the hallway and publicly accused me of cowardice:

"You're deserting from the field of battle," he said. "You can read as much as you like, alone, but it's almost impossible to learn math alone. Talent is a responsibility, and you have the spark. But that's not enough. You need to work hard and with the best." I was back on the Math and Science course again the very next day. It helped me develop a solid foundation of math skills that serves me to this day, and it's what allows me to move through the world of high finance with ease.

Over the next four years I read hundreds of books and acquired thousands of them making the foundation of my private library. I spent all my money – earned in various bizarre ways – and my allowance, on books. Books were scarce in communist Poland. My rivals at the bookstore were the parish priest, the hospital director, and the high school

principal. But I had an advantage. The cashier was going to night school and I wrote Polish and history essays for her. Nowadays, you can buy any book published either in Poland or abroad. You don't have to charm any cashiers or stand in lines. You just have to know what you want to buy, but that isn't always easy. I don't read just to kill time, so certain categories of literature don't interest me. For me, books are a source of refined pleasure and knowledge. I'm passionate about fiction because it develops imagination, educates, delights and entertains. Non-fiction is something I treat more pragmatically, as a source of information and knowledge. I'm a book glutton. Since I was a kid, I've devoured books in large quantities, non-stop, and with the passage of time, this appetite has only grown. I like certain authors and certain books more than others, but this has changed over the years.

My mom read me fairy tales, legends, and other children's books when I was little, and I've never gone back to them. As soon as I learned to read, I dove into the world of adventure books. Mark Twain, Jules Verne, Polish writer and adventurer Arkady Fiedler, and Polish adventure story writer Adam Bahdaj. Soon I discovered Jack London, John Steinbeck, William Faulkner, F. Scott Fitzgerald, and finally Ernest Hemingway, who's *Forty-Nine Stories* became my bible. I read it over and over all the time. I read the Polish translation of James Joyce's *Ulysses* right after it was published in Poland, when I was in seventh grade. I didn't understand much of it, but I impressed my teacher of Polish, who hadn't heard of Joyce. As a teenager I couldn't resist Spanish-language literature, which was all the rage in Poland at the time, reading everything that came on the market. I swallowed Argentinean writer Julio Cortázar's *Hopscotch* whole, first in front to back and then back to front, like Cortázar recommends. While studying abroad in Germany, I got serious about German classic and modern literature. It was a linguistic pleasure. Günter Grass in German isn't easy. I love long-form travel journalism as much as travel itself, and the best travel journalist by far is fellow Pole Ryszard Kapuściński. This genre has grown exponentially over the last thirty years, probably thanks to globalization. The world has gotten smaller. We can go farther, to places that were once inaccessible. I reach for a travel article before I reach for a guidebook.

“One must command from each what each can perform... Authority is based first of all upon reason,” has become one of my main principles as a manager.

Books also inspire me and motivate me to act. Antoine Saint-Exupéry's *Little Prince* was the first book that lodged itself in my emotional and intellectual consciousness. The book is still important to me because of its universal message. A child's perspective in adult life is unique and precious.

“It is only with the heart that one can see rightly; what is essential is invisible to the eye,” is a truth I've rediscovered many times. Meanwhile, “one must command from each what each can perform... Authority is based first of all upon reason,” has become one of my main principles as a manager. It's also hard to imagine an effective leader or manager who doesn't draw knowledge and inspiration from business books. In the 1980s, these books were exotic in Poland. They sold fewer copies than academic management textbooks. But over the past two decades, books written for business people have become a lot more plentiful. Business books can be divided into two categories. The first category includes books that are a commentary on the current legal environment and give practical advice. These books help accountants and managers solve problems. The second category is a lot more interesting. These are books about management, leadership issues, strategy, marketing, and sales. They often touch on specific problems encountered in various sectors of manufacturing and services. This category also contains business psychology self-help books that talk about motivation, stress management, hiring strategy, and negotiations.

The business book market has grown into a billion dollar a year business. In 2007 alone, over 2000 business books were published in the United States. Europe and Asia probably weren't far behind. You could probably throw most of them in the trash after reading a few pages. These are management consultants who want attention, university professors who want to be consultants, and narcissistic chief executives who want to be popular. But don't condemn business books just because some of them don't deserve to be read.

There are business books that spark revolutions, create the material foundations for human existence, and set apart people and countries in

terms of relative wealth. We spend more time at work than at home, if you don't count sleep, so no wonder that the issues of professional life interest so many people. The best business books become best-sellers.

The biggest business book best-seller of all time *In Search of Excellence* by Tom Peters and Robert Waterman, has sold over 6 million copies and growing. But there are many more business books that have sold over a million copies, including *Built to Last: Successful Habits of Visionary Companies* by James C. Collins and Jerry I. Porras, and *Reengineering the Corporation: A Manifesto for Business Revolution*, by Michael M. Hammer and James A. Champy.

Advice and motivation books that lead the way are: *Who Moved My Cheese* by Spencer Johnson with 22 million copies sold, and *How to Win Friends and Influence People* by Dale Carnegie, with over 14 million sold. Stephen R. Covey's *The 7 Habits of Effective People* is also a best-seller that's interesting and useful. These are books almost every manager has on their shelf. They are worth reading, even if the best-sellers aren't always the best ones. A list of the best business books of all time can't exclude great management thinkers who took a more scientific approach to the topic as well as practitioners, great entrepreneurs, and managers who put their experiences to paper.

Of the former, academic and consultant Peter Drucker is unrivaled. His book *The Practice of Management* is considered a pillar of modern management theory. Bearing in mind he worked for over 60 years, *Essential Drucker*, which sums up his most important insights, is certainly worthy of consideration. Harvard Business School professor Michael Porter, who wrote *Competitive Advantage: Creating and Sustaining Superior Performance*, has withstood the test of time to emerge as the preeminent guru of strategic planning. *Competitive Advantage* can hold its own against the best-sellers.

Meanwhile, Clayton M. Christensen, in his book *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail* focuses on the engine of the modern economy, innovation, and has received wide acclaim. I could go on naming books that have made their mark on the business world, but I'll limit myself to two more that every manager should read. *The Fifth Discipline: The Art and Practice of the Learning Organization* by MIT

professor Peter Senge never became a bestseller due to its difficult academic language. It's about how a business manages knowledge, which is critical to its current operations and its future. Senge offers practical advice that's easy to apply and, more importantly, effective. *Emotional Intelligence* by Daniel Goleman isn't a business book, but it's one no manager or business leader should be without. It answers the question of why the people who excel at school are sometimes average workers. According to Goleman, professional success is determined more by emotional intelligence than by specialist knowledge. Goleman's message is an optimistic one, however, since he says that emotional intelligence isn't an inborn trait and can be learned to increase one's chances of success. Books written by famous business people, often chief executives, are another category of business literature with a long history and one that reflects the egos of the people in this field.

These books are often written by ghostwriters, journalists, or professional business-book writers. In rare instances, the chief executives are the real writers who have set themselves the new challenge of writing about themselves and their experiences. These books are usually business autobiographies and are usually inspired by narcissism, rather than a desire to make even more money. But there are books written by famous CEOs on the market that actually tell the stories of unique business experiences - which reveal secrets about leadership, management, investing, and entrepreneurship - that are quite helpful. These books shouldn't be judged by whether they were written by ghostwriters or the executives themselves, since what's important is what they have to say, not their literary style.

I have some definite favorites in this category. *Winning* by Jack Welch, one of the greatest CEOs of modern times, and by his wife Suzy Welch, a business journalist, can be read as a textbook on leadership and the practical challenges of management. Commenting on *Winning*, Warren Buffett wrote, "There's no need for any other book on management." It describes specific situations that arise in the management of a business and answers in a straightforward way the most important questions a manager faces. This book is priceless for managers and leaders who want to get better results. It gives you the detailed knowledge and the tools of the management craft, ones you'll want to try out right away. They've

been tested in practice and are therefore effective. Welch's previous book, *Jack: Straight from the Gut* is more autobiographical and more useful to higher level executives who deal with corporate politics, efficiency, and dramatic or strategic dilemmas. In *Straight from the Gut*, Welch talks about some of the most important business initiatives of the second half of the 20th century, such as Six Sigma, the learning organization, the borderless company, management by values, and business digitization.

In *Who Says Elephants Can't Dance? Inside IBM's Historic Turnaround*, Lou Gerstner tells the story of how he brought IBM back from the precipice, and he wrote the book himself. The former chief executive of IT company Intel, Andrew P. Grove, analyzes the problem of innovation, strategy, and management in an environment of constant crisis brought on by competing technologies in his book *Only the Paranoid Survive*.

"When it comes to business, I believe in the value of paranoia," he writes. "Business success contains the seeds of its own destruction. The more successful you are, the more people want a chunk of your business and then another and then another until there is nothing left." Books are the presents I'm most happy to receive and give to others because not only are they beautiful; they can delight, teach, and inspire new experiences to make a person better. I read a lot and see reading as both a responsibility and a pleasure. I used to buy a lot of books and have amassed several thousand over the years. Some I've read but find hard to part with and some I still have to read. Even the ones I won't ever read make me happy. I'm glad to have the important ones within arm's reach. I love books and I also love the Internet, which is seen as the killer of books. I'm aware there's a technological revolution taking place, radically changing the world and the way we live. I live and work in the countryside, in a landscape that until recently was synonymous with backwardness. Not anymore. Book digitization isn't a threat to the reader, quite the opposite. Books are becoming more accessible. And you can now take all of them with you, even when you travel. For true lovers of paper editions, they'll always remain the representation of the word book.

As a kid, I was a weakling. I was the smallest kid in kindergarten, the weakest in the neighborhood, and I suffered on this account. The sudden reversal came when it turned out no one was a faster short-distance

runner than me, despite my delicate frame and shortness. I started to train enthusiastically in track and field athletics, and soon I was the fastest runner in the whole school. That just inspired me further and my insecurity turned into a passion that I have to this day. Sports gave me unique experiences that helped me understand the world better, and were very useful in my work life.

For several years I was the captain of the handball team, which taught me to value team work. During practice and games, I saw firsthand the importance of co-operation, kindness, help and sacrifice. Without my love of sports, I'd be a different person today. Without sports, I wouldn't know how to deal with crises or how to be humble in moments of triumph. But I learned the most from running marathons and from mountain climbing. You can train diligently for years, but a crisis will come, no matter what. Your body refuses to obey. Exhaustion is a euphemism compared to what a marathon runner experiences. Every cell in your body hurts, you feel every nerve. You fight with yourself and with the temptation to give up and stray off course.

"Give it a break," you think to yourself. "You've run dozens of marathons. You don't have to prove anything to anybody anymore." But you also know that each crisis passes sometime. Once you conquer your doubt, your body feels rejuvenated. Your body finds reserves of energy and you keep running. The finish line. Euphoria. You're happy, smiling. You forget the pain, until the next time. For years, I've balanced work with sports that require extreme effort. Both activities have a common denominator. The physical exhaustion and doubt of the marathon runner are similar to the crises that leaders and organizations experience. And like in sports, there's a thin line between success and failure. The sports I've played, track and field, handball, running, and mountain climbing, are a value in and of themselves, but they've also affected my personal and work lives.

For many years, I worked over 10 hours a day. Some people would call that workaholism. To cope with such physical and mental strain, you need to subject the body to rigor. Training for a marathon requires running five times a week and is much more important than the marathon run three times a year. After running 15 kilometers, I feel reborn and ready for

everything, even after a hard day at work. Running is both rational and emotional for me. Some basic pointers I've gleaned over the years:

- **Training.** Constantly getting better. Experienced runners and managers have had more than one crisis in their lives. They know crises happen, so they know how to prepare for them and minimize their impact. In sports, training is the foundation of success. In business, systematic learning has the same purpose.
- **Experience.** Every marathon teaches you something new. Good weather, bad weather, an easy trail, a hard trail, crowds, solitude, feeling great, a bad mindset. After running over a dozen marathons, nothing should surprise you, but it does. That's when you refer to similar, though not identical experiences, in the past. It's the same with business. Determination inspired by positive experience helps to overcome moments of doubt.
- **Humility.** I've crossed the finish line so many times, why should this time be different? In moments of triumph, you need mindfulness, while in moments of hopelessness, the knowledge that things will get better. This shields you from arrogance and complacency and helps you get up from a fall during a run and in business.
- **Focus.** Everything begins with preparation. That's why you shouldn't skip a single day of training because you may find that little bit of energy in the key moment. Diet is also important, because without proper nutrition, training becomes meaningless. You also need to have enough sleep before a run. Don't allow adrenaline to let you get carried away. You'll regret it when lactic acid poisons your muscles in the second half of the race. Remember, it seems the hardest when it seems the finish line is near. Most people give up between kilometer 35 and 38 (mile 21 and 24), so close to the finish line. Focus lets you consciously avoid danger and skillfully react to surprises. Preparedness in business has a similar benefit. You can waste the best idea if you implement it without properly planning and marshalling your resources. Diligent work done at the reconnaissance and preparation phase gives you the tools to overcome setbacks and react quickly to changing conditions.

- People. You aren't alone. The starting line of a marathon is populated by professionals and amateurs, men and women, the young and the old. They run for themselves, but they are part of a big collective event. Certain marathons, like New York, London and Berlin, have thousands or tens of thousands of participants, cheered by crowds of millions. Other runners are precious sources of knowledge - you can learn from their mistakes as well as from their successes. But the smiles and cheers of the public and family members are the most helpful of all.

“Run, Sławek, run,” heard while running in Manhattan or “Keep going, keep going, it's not far,” on the streets of Łódź, in central Poland, still ring in my ears. In business, team work and support from your managers and subordinates has the exact same significance, especially during crises.

- Slow down to speed up. A good marathoner runs the second half of the race faster. Sometimes you have to slowdown to survive a crisis, but don't stop to rest because it's incredibly difficult to start running again afterwards. In business, planning often takes more time than implementation. So get your ducks in a row. A team's endurance shouldn't be judged by its leaders. People have a limited capacity for change. Organizations, perhaps more than people, can't move at the pace of a sprinter, they need time to breathe and regroup.
- Commitment -- learn to want things. If you don't want to reach your goals, you never will. You'll always find excuses why it didn't work out. When you're ready to make sacrifices over the threshold of ordinary physical and mental effort, you'll succeed and that is the best reward. During a marathon and on a mountain trail, the head is the final decider, because the head is thinking of the categorical imperative of the goal. Commitment and passion in business are the rocket fuel that lets you beat the competition.

I ran my first marathon in Warsaw in 2002, and then soon ran another, in Berlin, and another, in New York, Chicago, and Athens. I was impressed with how well these events are organized. I was also impressed with the number of participants, which form one big marathon family. In

New York, the marathon is a holiday that attracts nearly 40,000 runners and over two million fans tightly packed into the edges of the trail, which winds through all of the five boroughs. Things don't look that different in other cities. Running has become widespread and commonplace.

Now a dozen or so marathons take place in Europe every spring, summer, and winter weekend. In Poland, running for health reasons is growing exponentially, and running events are multiplying. I've run a dozen marathons; I know what happiness tastes like at the finish line.

Keeping in mind Albert Schweitzer's "Happiness is the only thing that multiplies when shared," I wanted to organize a marathon in my beloved Łódź, the city where I stood at the helm of mBank, MultiBank and BRE Bank, which employed 1,500 people here. I have the time and money to run marathons all over Poland and abroad, but not everyone has that privilege. I also wanted to help make running more popular in my native Poland. Drawing on my own experience and passion for running, and supported by a dedicated group of mBank employees and non-bank volunteers, I decided to organize mBank Łódź Marathon. mBank provided a portion of the financing to make it happen as part of its social mission, and as a way to meet the ambitions and passions of its workers.

I wanted the mBank marathon in Łódź to become a regular like the great marathons organized in New York, Berlin, Rome, and Warsaw. I wanted the people of Łódź to be aware of it, and I wanted them to like it. In 1970, 127 people started in the first New York City Marathon, and 55 crossed the finish line. The marathon in Łódź ran from 2003 to 2009, and hosted nearly 2000 runners, a third of them Łódź residents. I ran in the Łódź marathon five times, with my throat tight at the starting point and my face smiling at the finish line. The one I remember most is the last one, which I ran with my son. It was the first and likely the last time that I beat Filip. With one kilometer to go I was swaying as I ran. A man a few years older passed me, and then slowed down and adjusted to my running speed.

"Mister Chief Executive Sławomir Lachowski?"

"Yes," I said weakly.

"I'm so glad we're meeting," he said. "I've always wanted to thank you for this marathon. It happened that the marathon here in Łódź was first

organized just as I got laid off. I've been unemployed ever since. Thanks to training for the marathon, I didn't succumb to alcoholism when I was depressed. Since then I've been running two marathons a year, including this one in Łódź because I don't have the money to go to another city." The man ran next to me, shoulder to shoulder. At the finish line, as usual, I was breathless. We crossed it holding hands.

Work, self-improvement, thirst for knowledge, teamwork, solidarity, fairness, honesty, responsibility, friendship, and openness were the values I learned in my youth, at home, at school, and playing sports. Getting ahead professionally or making money didn't seem that important to me then. I had an idealistic attitude to life in the way that I thought and in the way that I acted. Since I had the freedom to pick any major at any university without having to take an entrance exam, at first I chose the Academy of Physical Education, since I considered sport as most important. In the end, however, I picked Economics, because I came to the conclusion that an Economics degree would let me travel the world, my dream.

In my adult life, philosophical concepts significantly shaped my value system, especially Immanuel Kant's categorical imperative and Plato's virtues. These ethical ideas brought order and unity to my early experience with values, and made me see these values as a consistent and mandatory system.

According to a Polish dictionary, virtue is "a group of moral characteristics: integrity, generosity, nobility" or "obeying ethical rules". Wikipedia has a better way of putting it: "Virtue (Latin: *virtus*, Greek: *ρετή* "arete") – a grounded permanent disposition of a person ready to deploy their moral authority – their intellect, free will and senses – to be and act in accordance with the ethical good". The theory of cardinal virtues comes from Plato, who first described them in *The Republic*. The main virtues are wisdom, fortitude, and temperance, which he assigns to three parts of the soul: the intelligent, the impulsive, and the lustful. Justice, as the fourth virtue, completes the others and ensures the harmony of the soul.

Aristotle developed the idea of virtues in *The Nicomachean Ethics*, introducing a small modification. He called wisdom prudence. Saint Thomas Aquinas adopted the philosophy of the ancient Greeks almost

in its entirety. And so, the idea of cardinal virtues survived, almost unchanged, to this day. It's just as useful in the democratic era.

"Goodness, which stands as a task to be done by human freedom, this is the goodness of virtue," John Paul II said. "This mainly pertains to the four cardinal virtues: prudence, justice, fortitude, and temperance. Prudence is important to leaders. Justice creates social order. Temperance and fortitude determine the internal order within man."²⁹

According to Kant, all moral norms can be derived from the categorical imperative, an injunction to act morally. It's expressed in a categorical standard: "Act according to maxims you'd want to become universal law."³⁰ Another definition: "Act in a way that the humanity in yourself and in every other person is treated as a goal, never as just a means,"³¹ which can be summed up in the Golden Rule, "Treat others as you would want to be treated." As a norm of behavior, the categorical imperative is formal. It doesn't tell you what to do or how to do it. It's just a general principle. The individual has free will and so can strive for moral happiness and the happiness that it brings.

Youth and middle age are years of incredible activity. They are a time of fast intellectual and emotional development, filled with many acquaintances and unusual experiences. In this time, the theory of cardinal virtues and the categorical imperative framed my approach to values, giving it a transcendental character. All the values I adopted and practiced first fit into the ideas of cardinal virtues or the categorical imperative. The values of my youth smoothly flowed into my adulthood, supplemented by a few new ones, which only then took an important place in my hierarchy of values.

The requirements of free market competition made me realize the practical value of character traits such as the ability to act quickly and decidedly, and the will to fight for what's yours. I learned about power, and the power money gives, and about social and professional status. My worldview became more pragmatic, adjusted to the reality in which I found myself. The role of romantic ideals shrank, but didn't stop being

²⁹ Jan Paweł II, *Pamięć i tożsamość*, Wydawnictwo Znak, Kraków 2005, p. 48.

³⁰ Immanuel Kant, *Uzasadnienie metafizyki moralności*, PWN, Warszawa 1984, p. 50.

³¹ *Ibidem*, p. 62.

important. Their meaning would reveal itself with redoubled impact in crisis moments, when they would become the basic criteria for making choices.

My value system is grounded in the imperative to act with wisdom, fortitude, prudence, and justice, in addition to confidence. The ability to make decisions quickly, while taking risk into account, and the acquisition of agency through power and money, enabled me quickly to advance professionally and financially. At thirty-something I was at the top of the ladder. I belonged to a small group of managers at the commanding heights of the Polish economy. I was a deputy chief executive of Poland's biggest bank, PKO Bank Polski, responsible for retail banking, as well as corporate finance and investment banking. But PKO BP was a state-owned company.

The political limitations of working in a state-owned company in a capitalism economy are generally known, but I felt they were having a serious effect on my values. In Poland at the time, interactions between managers at state-owned companies and ruling politicians were one-sided. The business was subordinate to politics, which isn't a good corporate governance practice. These interactions were contrary to meritocratic principles, infringed on the independence of business decisions, and undermined responsibility. It wasn't a fair way to run things as results were not objectively evaluated.

That was the first time I realized clearly the obvious truth that the road is more important than the goal. The way I was to achieve my goal was incredibly important. It couldn't contradict my basic values. No matter how important the goal is you want to reach, there's no excuse for breaking your principles and values. The end doesn't justify the means. I decided to make a change in my career and accept a new challenge. I left a company that controlled 40% of the market, where I managed an over ten thousand strong army of salesmen who could have changed the reality if only they had had the right tools, products and motivation. I was disappointed with the external environment and how political power was being used in the business world. But I left with feelings of respect and gratitude to the bank and its workers. Four of my PKO BP co-workers, who didn't fear change, joined me at BRE Bank. In May 2000, I started

work on a new project, building a modern retail bank from scratch within BRE Bank. It was listed on the Warsaw Stock Exchange and had a strategic investor, Commerzbank, one of the largest banks in Germany.

The decision to create something out of nothing seems risky, but I was convinced that a private-sector company, overseen by its shareholders, would ensure an internally consistent environment to run a business, and moreover it would require it. Wojciech Kostrzewa, BRE Bank's chief executive at the time, gave me far-reaching autonomy in how I prepared and implemented the project.

This autonomy manifested itself first in the location of the new bank. Its headquarters would be in Łódź, while BRE Bank's headquarters were in Warsaw. It was also reflected in how we recruited, evaluated and compensated workers, as well as in the names and logos, mBank and Multibank. I set the bar high. I didn't hide my ambition to create the best retail bank in Poland. Building the bank from the ground up through organic growth gave us the chance to put together well-integrated teams in which each member knew their role.

The environment we were asking people to operate in was demanding, constantly shifting, and requiring quick and flexible reactions to opportunities and dangers. Every candidate needed to have the right qualifications, psychological profile, and unique character traits. Recruiting workers is a long and serious process. In this project, the deciding factors were the results of a test for emotional intelligence called INSIGHT, which revealed the character profile and value system of a potential recruit. In the final round, I would conduct an interview with each candidate and try to discern if he or she held dear the values that were critical to the project's success.

Leadership is a privilege but more importantly a responsibility. As the leader of the project, in the early stages I referred to my own knowledge and experience. So the values and character traits I was looking for in others were: diligence, pursuit of excellence, willingness to learn independently, ambition, resilience to stress, leadership skills, team player, commitment,

No matter how important the goal is you want to reach, there's no excuse for breaking your principles and values. The end doesn't justify the means.

creativity, readiness for new challenges, openness, ability to deal with change, and being goal-oriented.

We didn't look for model students or model resumes. We didn't want stars. We wanted people with intellectual, emotional, and spiritual potential who would be able to handle extreme uncertainty and competitive pressure. I would ask the candidates unusual questions about their interests, what books or sports they liked, whether they volunteered. I was looking for proof they were questioning the status quo, to think and act in a non-standard way. It was in their favor if they were leader in harcerstwo, the Polish scouting organization, a captain of a sports team, a class president, in student government, or if they participated in individual or team sports, were winners in academic Olympiads, or other contests. These things reveal ambition and resilience to stress. It was also in their favor if they had a clear passion in life that they had cultivated for a long time. There are many people like this among us, you just need to know how to notice them, value them, and let them flourish in an organization.

Many years of work in business have taught me to value a clearly defined mission and vision for a company. The mission and vision should ignite employees' imaginations and inspire them to move towards that goal in their daily work. I'm convinced these two things are incredibly meaningful to the culture of an organization. In a way, the culture is what implements the strategy, as it is a description of how the mission and vision of a business can be implemented.

I've never used consulting firms to help me draft a business plan or strategy, assuming that no one will find better ways to implement strategic goals than the people who set those goals, meaning the employees themselves.

Building a retail bank at BRE Bank from scratch was an incredible experience for many reasons. In 2000, Poland's retail banking market reached a high level of technological innovation, offering good quality products. It also became competitive, as international banks with modern and well-developed services had already been present in Poland for a few years. Also in part thanks to me, PKO BP had undergone a restructuring and had now joined the leaders. To succeed, we couldn't be just a bit

better than the competition. Our only chance was to jump ahead, and create a new business model that would set the standard for everyone else.

At that point, I still didn't know what that was supposed to look like so I focused on creating the best possible conditions to foster the planning and implementation of such an undertaking. Getting the right workers is a necessity, but it isn't enough to achieve success. The next step was ensuring them good working conditions and creating a proper motivation system. When the window of opportunity opened, and the idea of creating Poland's first online-only bank became possible, the team quickly did an amount of work that would normally take a year or longer and requires expensive management consultants. They drafted a strategy and a business plan, and then created an operating model of the bank. Three months after the formal decision was made to approve the project, mBank had a compelling mission, a clear vision of the future, and it worked.

The first victories came fast and we were embarking on a business adventure. mBank was a breakthrough innovation in banking and I knew much depended on me and how I managed the project and its people. I felt a great sense of responsibility that was almost overwhelming, but I found a path towards the future which soon became a wide open road. I saw that everything I had been doing up to that point - mission, vision, strategy, business plan, in other words my routine - wouldn't be enough to make this a success. The project needed an adhesive to bind these elements into a coherent whole allowing the organization to stay motivated, and give it endurance, quickness, and flexibility in the years ahead.

This idea wouldn't let me rest. I didn't find a solution by analyzing the best business practices, which is what I had done previously. The answer came suddenly, obvious and non-negotiable. We needed an internal injunction to build a bridge between what drives people, and what motivates them to hard work. Values were such a bridge. They are just as important in personal life as in professional life. They are the best adhesive of organizational culture, a signpost in times of crisis and chaos, they help justify painful decisions, and they are criteria for assessing attitudes and results at work.

The road is more important than the goal. The way you reach a goal is as important as the goal itself. We spend most of our personal

The road is more important than the goal. The way you reach a goal is as important as the goal itself. We spend most of our personal and professional lives journeying; the happiness of achieving a goal is an ephemeral moment.

and professional lives journeying; the happiness of achieving a goal is an ephemeral moment. I quickly got to work and the response to what I did was a life-changing experience. I sent an email.

RE: Vision: mBank as the leader in online financial services market

To: All mBank employees – Electronic Banking Department/ and employees of Bank Czestochowa being merged into mBank

Status: Very important.

mBank launched less than a year and a half ago. Today, it is a significant player on the Polish banking market and the unrivalled leader of e-banking, seen as an online bank. mBank's image agrees with reality, even if the bank uses all available distribution and communication channels except for bank branches. The business model is constantly changing, but certain characteristics remain the same. We don't offer every product ever invented in the world of finance. We offer a few products and services that our clients need most, at the best prices and quality on the market.

This principle is the foundation of mBank's business model and will remain that foundation in the future. The Internet isn't mBank's strategy, but a tool. mBank's growth, outlook, and ultimate success depends on what conclusions we draw from its history up until this point, to what degree we can listen to our clients and business partners, how quickly can we learn and change, adapting to the requirements of the business we're creating, all the while keeping our eyes on what is essential.

You are all witnesses to one of the most spectacular success stories in the history of Polish banking. But this is just the beginning of the way, so humility in the face of the task still at hand is more important than feeling satisfaction with what we've already accomplished. Continued rapid growth is essential to achieve the critical mass which gives independence and satisfactory effectiveness. Our mission -- maximum benefit and convenience in personal finance -- will make us a financial institution, rather than a bank, attractive to a generation that values time and money, as well as freedom and integrity, above all else.

There aren't any examples in banking history that could serve us as an ideal model to copy. We're creating the history of 21st century banking ourselves. You can't plan it or predict it. It just gets created by people like you, without complexes, who believe in the agency of their work and dreams. I keep repeating, despite all my humility in the

face of this challenge, that the only thing limiting us are the borders of our imagination.

Work on the vision and mission of mBank, its corporate culture, and its strategic plan have been on-going for many months. We are creating the reality of mBank with our hard work, intellectual effort, and the physical effort of many sleepless nights. And so I'm convinced mBank as

an institution needs a verbalized mission, a goal, similarly like people need verbalized values that give them direction at work and in their private lives. It matters if we come into work to a place where our efforts agree with principles and values that are fundamental and give us direction in life, or not. I would like your time at mBank to be at least in part a fulfillment of your dreams. It's possible. I know from my own experience. To make it possible, we should determine jointly, what's most important to us. It's been two years since the project started and 18 months since we've been up and running and in that time we've experienced a lot.

Those of you who have worked on this since the beginning know a lot about the reality of mBank. Those who started a little later know a little less. And those of you who have just joined us have certain conceptions about mBank and other experiences. It's time to work out a code of Principles and Values of mBank.

For those who have worked on mBank from the early days, this will be an articulation and a tally of our common experience so far. For those who've joined recently or will join in the future, it will outline what to expect and how they should adapt to work well with the team and make a positive contribution to mBank's future growth. We've held a few meetings about the mission and strategic goals of mBank. Each one has moved the work forward but there hasn't been a definitive decision. That isn't surprising since this is an issue of the utmost importance. It should be settled after we are fully satisfied with the final conclusions.

Instead of organizing another meeting, I'd like to propose we continue to work on determining the identity of mBank via the Internet. The focus is on the values and principles to guide employees in intra-company relations, as well as relations with clients and business partners. Let's not forget mBank came into being as a reflection of the people who created it. mBank is different from traditional banks culturally and emotionally. This is a fact, not an assessment.

The values that guide us in our private and professional lives are important to the success of our enterprise, and certainly to the quality of society. These values are honesty, integrity, willingness to help, commitment, openness, and ambition to achieve success. But we shouldn't neglect other values that may seem less important.

It matters if we come into work to a place where our efforts agree with principles and values that are fundamental and give us direction in life, or not.

These “lesser” values, such as internal communication (chief executives, directors, managers) and the availability of beverages, even milk for coffee, are what create a good atmosphere at work and within teams.

I would like the values that are the grounding of mBank’s unprecedented growth so far to be named and cultivated in the future. Maintaining the best practices and using our positive experiences are the conditions for further growth. Please join in this virtual, yet real, discussion about the values that guide us in our internal and external relations at mBank. I think the most important of these should be set down in document, which has the following working title:

“mBank Principles and Values”

The point of this document is to protect the values that have served mBank and its clients and to disseminate the best practices and experiences of the past. It’s time to assess the past and draw conclusions for the future. This mBank value code will be a guarantee that momentary needs or atmosphere won’t change our corporate culture. I know you can’t codify a corporate culture. Still, it’s possible to name and write down its most important characteristics -- what sets mBank apart from other institutions.

So I’m asking you for your comments. What values, practices, and behaviors make up mBank’s identity internally and externally? What’s important enough for you in your professional and private life that you would want to preserve it, disseminate it, and maintain it at mBank, to make this a workplace you can talk about with pride and feeling?

Thanks in advance. I’m waiting for your emails. I will try to draft the “mBank Principles and Values” by the end of July and send it around for consultations. This should be one of mBank’s most important documents, a document shaping mBank’s corporate culture, and thus our professional community, as well as internal relations on all organizational levels and external relations with our clients and business partners.

Sincerely,

Sławomir Lachowski

Executives who decide to outline a company’s key values usually delegate this task to the human resources department. But seeing the unique importance of clear values to the future of the company, I initiated this project and managed it myself until the end. Key employees as well as volunteers who had answered my email calling for contributions all took part in the work. There are various views on how one should draft an organization’s value statement. One school of thought is that the

values should emerge democratically, as an expression of an organization's collective knowledge and aspirations. Another school of thought is that the leader should determine the values. Usually it's the founder, chief executive, and key managers, since creating a statement of values has nothing to do with consensus. It consists in imposing the leader's fundamental beliefs to reflect the company's vision. According to this school of thought, asking employees their opinion is a particularly bad idea.³²

You can't leave your values behind at home and use others at work.

Our search for mBank's values started with the presentation of my personal and business values, and my belief that they are one and the same, since you can't leave your values behind at home and use others at work. That would create immediate dissonance and conflicts of interest. I was ready to take responsibility for writing the value statement together with some key people, not necessarily the most high-ranking ones.

My email surprised everyone, even though working at mBank was an experience rich with surprises. It unleashed a discussion that took many of us away from our daily duties. It centered on a few simple questions. What are we doing here? Where are we going? What's really important? mBank was still a work in progress but it was becoming clearer that it wasn't just the bank that was different, it was also a company unlike any we had known before. An email written by Tomek Gubała, a new team member who had come over from another bank, reflects the atmosphere of that era:

When I first came on board at mBank, my first contact with mBank's people and the vision presented at the strategic workshops in Stryków gave me a "mental shock". The atmosphere that was coming into being at that time was incredible. After a year and a half, we've managed to create unique corporate culture. I would call it a bond between people concentrated on a goal on which they all agree and want to accomplish together. We have an opportunity to work with people who are open, sincere and have a HUGE sense of humor and this characteristic is, in my opinion, incredibly important. We've

³² Partick M. Leoncioni, *Niech wartości coś znaczą*, „Harvard Business Review Polska”, May 2004.

been able to make informal connections, even friendships, and a sense of community. This has enabled us to unite in difficult moments, overcome obstacles, support each other, and stubbornly strive to reach our goal, to achieve success. These ties and emotional commitment have yielded satisfaction from the visible results of our work and from simply having done it.

I haven't lived that long so this isn't a strongly "documented" statement, but I've never encountered something that could be called "fun" at work. If you add in "excitement" from achieving results, it's not surprising that outsiders may see us as a "cult". As long as we manage not to "close ourselves off" from the outside world, which I think we've managed so far, this cultish phenomenon isn't dangerous. Coming to mBank, I always know that I'll be working my socks off, but that I'll be doing it with amazing people and that I'll always be able to catch my breath.

Krzysztof Tworus, an electrical engineer, joined our team pretty early on, and came from mobile phone operator Polkomtel GSM Plus to shore up our telecommunications expertise. At mBank he underwent a transformation. He started to manage sales in the real world. It's interesting that his perspective on values in his new company completely excluded the issue of technology, which was his field. It was focused on people.

For him, the most important characteristics of mBank were:

- 1) the possibility of unencumbered exchange of ideas with members of other teams;
- 2) such exchanges usually occur in an informal setting, like during a coffee break in the kitchen;
- 3) mutual responsibility for actions and results. There was never a division between us, you, and them. We were always one team. Together when we were rewarded and praised and together when there were complaints;
- 4) we all have an equal voice, regardless of our position or title. Common sense arguments always win;
- 5) team members' sense of humor and kindness in personal relations – the group frequently meets casually;
- 6) the opportunity to fulfill your personal dreams and desires with people who have similar expectations and aspirations;
- 7) a sense that we're doing something historic, which is clearly worth something, helps in difficult moments and gives energy;
- 8) we all want to learn, move forward and achieve, there aren't any outsiders in our group.

We exchanged emails. We talked over coffee in the kitchen. But we also conducted a formal process of identifying the organization's values. Nearly all of the company's employees took part in interviews and workshops to identify the deeper meaning of our value statement. Most frequently mentioned values at mBank and MultiBank were:

- commitment, determination;
- openness;
- professionalism, knowledge, development, competence;
- creativity;
- responsibility, independence, maturity;
- cooperation, empathy, communication, team;
- diligence, conscientiousness;
- modernity;
- effectiveness;
- business awareness;
- energy, enthusiasm, and drive.

Values have to be concrete. They have to be known and obvious enough that a worker can repeat them like the refrain of a favorite song. Jack Welch created a plastic card listing General Electric's values, so that a new hire could put the card in their wallet from the moment they were hired. I wanted to put the values so they formed an acronym that would give them all additional meaning. The theme of a road has always been important to me in both my private and professional life. The road is a journey to a goal. The conviction that the journey is more important than the destination. The road is the meaning of life. Life is a road. The road is growth, experience, overcoming weakness, being faithful to principles, swimming against the current and catching a wave, making choices. It's friendship and love, it's learning, discovering, and getting lost. The road is made up of places, people, and moments we wouldn't have known if we hadn't started walking. It's the meaning of life. The road is the experience; the goal is the crowning achievement that often ends that which was the best. What's important

The journey is more important than the destination. The road is the meaning of life. Life is a road.

In Polish, the values of mBank spell the word DROGA, which means road

D	oskonałość (Excellence)
R	realizacja (Execution)
O	odpowiedzialność (Responsibility)
G	gotowość (Readiness)
A	angażowanie się (Engagement)

is how you make the journey. “When traveling towards a goal, you should carefully observe the Road,” Paulo Coelho said. “The road will point the way and enrich you during your journey.”

Modern work takes up more and more of our time, strength, and emotions. For some, it's the most important part of their lives, even against their will. The boundary between work and personal life disappears. In our free time we do things related to work. Our minds constantly wander to work issues. Our workplace becomes our life. Keeping this in mind, I wanted to make my coworkers realize that our discussions about our company's values were really about the values in their own lives. mBank's values fulfilled this role perfectly.

The DROGA acronym didn't happen by chance. It gave the values it described additional meaning. It stated my philosophy that the journey is more important than the destination. As the project drew to a close, I could say that the results met my expectations. The values of mBank are also a reflection of my personal value system.

Values in Mass Culture

We call people living this way the masses not only because there are so many of them, but also because they live passive and inert lives.

José Ortega y Gasset

The 'content' of a medium is like the juicy piece of meat carried by the burglar to distract the watchdog of the mind.

Marshall McLuhan

Recently I was looking for a book on mass media in my library and I found something very interesting, *Select Works* by Marshall McLuhan. The title and the author didn't surprise me. I've been reading McLuhan for years and I've collected most of this work. What surprised me is what I found inside, a stamp from the public library in the town of Końskie. Końskie is in south-central Poland. Either I forgot about it or I liked it so much that I never returned it and it traveled with me to all of my apartments in Łódź and Warsaw, unnoticed. It settled on my shelf in Węgrzynowice. The Końskie public library is located in one of the buildings of the Tarnowski palace. This led me to a fruitful conclusion about Polish aristocrat Stanisław Tarnowski that will become clear later. Every resident of Końskie knows the city park and the palaces inside. These buildings and the park itself came into being thanks to Count Jan Małachowski.

Małachowski was the one who worked to give Końskie its city rights in 1748. Soon after the owner of this newly founded city had begun to build his residence, his wife Izabela née Humiecka started to arrange the surrounding grounds. The residence and its estate belonged to the Małachowski family for over a hundred years. Stanisław Małachowski added the Egyptian Orangery and fences with towers. He also remodeled the park in the English style from its previous French incarnation, according to the Romantic fashion of the day. But by the middle of the 19th century, the estate fell into financial difficulties. The gardens, park and residence were auctioned off in 1870 to Stanisław Tarnowski, his brother Jan Dzierżysław and two other relatives for 250,000 rubles.

Jan Dzierzysław relocated permanently to Końskie and over the next 14 years paid off his partners. Still, Stanisław was often there after 1870. I couldn't have known any of this as a child when I would look onto the palace windows. Inside, city officials, communist party leaders, and secretaries would be meeting, and they weren't interested in keeping the memory of the count alive. I didn't wonder about what Stanisław Tarnowski thought about looking out of the palace windows onto the park, the park I stood in a hundred years later. But it strikes me now, as I write about popular culture and mass media.

Perhaps he thought about contemporary Polish culture, which he observed and commented on so insightfully. At every step of his scientific and literary road, culture and the changes occurring within it were his central subject, influencing every other one of his interests -- especially because the second half of the 19th century was a time of revolutionary economic, cultural, and social change. Tarnowski's interests are as impressive as the scale of his scientific and political accomplishments. He headed the literature department at the Jagellonian University in Kraków and was its Rector. He was also chairman of the Polish Academy of Arts and Sciences; he served as a member of parliament to the Sejm of Galicia, and was a member of the Herrenhaus in Vienna, the parliament of the Austro-Hungarian Empire.

But most importantly he became an unwavering model of morality, standing in defense of the values which are our unalienable western, Christian heritage. He was a bulwark of these values through his public service and his writing, which touched on numerous academic topics as well as commentary in Polish *Review and Time*, two periodicals he co-created and co-financed. His voice was judicious, consistent, and wise. Despite his polite tone, he made his voice heard in the public debate and was a signpost for those who wanted to listen.

It's worth noting that getting heard was becoming harder and harder in those days at the end of the 19th century. The press promoted those who talked loud, but not those who talked wisely. The media of the day, the press, was sensationalist. It was more eager to print rumor than concrete argument and serious debate. In this respect, the 19th century was the beginning of changes whose harvest we're gathering today.

There's a huge difference in scale between the mass culture that was just taking shape then, and our current, ever-present, all-encompassing mass culture. But it's just a difference of quantity, not quality. Mass production, the condition necessary for mass culture, had already been invented. Universal education had become a popular cause, the classes were becoming less isolated from one another, and society was becoming more homogenous. The age of steam and power brought about the birth of mass culture, even if many of its forms, such as film, comic books, radio, television, or the Internet, didn't exist. To reiterate, its symptoms may vary, but the nature and mechanism are the same. So it's useful to look at some of the reactions to the embryonic popular culture of that era.

They are often more insightful than our reactions today, perhaps because they are reacting to a new phenomenon. It's a perspective that's hard to imagine for people like us, raised in the era of advertising and consumption. In 1873, three years after the auction of the Końskie estate, Stanisław Tarnowski published an essay in *Polish Review* titled "Queen Opinion". His title character is public opinion, understood just as we understand it today, as the general views, assessments, and judgments of a given society. Popular culture couldn't exist without the expansion of public opinion. Its role wasn't always so important. According to Tarnowski, pre-industrial Europe had two separate kinds of culture, high culture and folk culture. High culture existed among the social elite, at royal and aristocratic courts, and in wealthy cities. Folk culture was created by peasants. The two would sometimes overlap and draw from one another. In Poland there are many examples of peasants adopting courtly dress, language and customs. But they were mainly separate from one another.

Each society must have created its own public opinion, but that opinion didn't have any meaning for culture. That's because the parts of society that created culture, both high and folk, were relatively small. Personal taste mattered more than collective judgment. These cultures grew out of individuals, artists, patrons at court, and folk artists in the countryside. Their works expressed the opinions, even political opinions, of the patron or the preferences of the folk fiddler. In no sense did they take their audience into account. The work was created for itself, not for

the audience. This cultural dichotomy ended in the second half of the 19th century, when thanks to universal education, the potential audience for consuming culture grew significantly. This group wasn't pigeon-holed to consume just high culture or just folk culture. That's where industrial production comes in. It was the tool to produce culture on a large scale. Culture began to be seen as any other product that a customer could want, like soap, or furniture, or clothing.

"Mass culture is the phenomenon of large masses of recipients receiving identical content coming from a limited number of sources as well as the phenomenon of uniform entertainment for a large number of people," said Polish sociologist Antonina Kłoskowska.³³ This was a gradual process. The audience grew gradually. The media gradually widened their reach. For Tarnowski, it was limited to pamphlets printed in the thousands of copies. The 20th century brought radio and television, which made mass culture the main culture, and finally the Internet, a tool with nearly unlimited reach. Cultural change didn't always happen at the same pace in all societies. So societies were more resilient to popular culture than others.

"Two conditions facilitate the invasion of popular culture: a lack of strongly-rooted traditional high and folk culture from the pre-industrial age, and the suddenness of industrialization," said Ernest van den Haag, a Dutch-American sociologist and critic.³⁴ That's why popular culture spread so quickly and widely in the United States, a country built on the idea of democracy that didn't have many centuries of traditional culture. Things were different in Europe, where you can still find, though rarely, islands of folklore and of high culture.

The development of culture in Poland is a unique case. From the beginnings of the industrial revolution in Poland until the inter-war period, popular culture spread in widening circles in Poland, but not as quickly or as widely as in Western Europe. Polish society was still very stratified by class. Until 1939, clear classes existed, like the landed gentry, the peasantry, and the city dwellers. The spread of popular culture was also slowed due to

³³ Antonina Kłoskowska, *Kultura masowa. Krytyka i obrona*, PWN, Warszawa 2005, p. 95.

³⁴ Ernest van den Haag, *Szczęścia i nieszczęścia nie umiemy mierzyć*, in: Czesław Miłosz (wybór, przekład i przedmowa) *Kultura masowa*, Kraków 2002, p. 94.

the lower level of urbanization. Czesław Miłosz thought cities were the beachhead of popular culture. Things aren't very different today. It's hard to imagine pop culture developing as much as it has without the scale of modern urbanization.

After World War II, Europe took the American route, not always willingly. Poland's political situation put our culture on a parallel track. The masses were also provided with a popular culture of sorts in the People's Republic of Poland, but something very different than the one across the Atlantic and beyond, or beyond the Iron Curtain. In the west, popular culture was made by businessmen to make money, and thus targeted the tastes of their customers, the public. In socialist Poland, the government, the Communist party made the culture.

This was a mix of pseudo-folk themes, carefully selected classics of literature and art, with the bizarre work of party-sanctioned artists depicting women driving tractors and workers surpassing their assigned production quotas. I say pseudo-folk themes because folk culture can only exist in its natural habitat, not on the stage like it did in the People's Republic of Poland. Next to the government-issued popular culture, there was the intellectual culture of the "second circuit," partially hidden but doing quite well.

Although 1989 is a sacred year in Poland, as it brought the transition to democracy and the jump to the market economy, it also brought the collapse of second-circuit culture, as popular culture from the West gained ground. Before 1989, western pop culture only seeped into Poland through the cracks, mainly in the form of blue jeans, leather jackets, and Harlequin romance novels. It's something that Czesław Miłosz predicted in the 1950s.

"If the barrier were somehow magically lifted, Poland would immediately get swallowed up by popular commercial culture, and to a much greater degree than before the war when the social conditions weren't there for it. Before the war, nearly the entire countryside, meaning an overwhelming proportion of the population, was not participating."³⁵ After 1989, mass culture had a much more powerful arsenal to fuel its

³⁵ Czesław Miłosz, *Pytania do dyskusji*, in: *Kultura masowa*, ibidem, p. 161.

expansion than before the war, namely mass media and Western templates of industrial production. So quickly did it spread that 22 years later we can say that most of our culture consists of global popular culture. All you need to do is look around.

Stanisław Tarnowski called public opinion a “queen”. She has the providers of opinion and its audience under her sway, but also depends on them. She can be gracious or foul, depending on what her subjects are like. For Tarnowski, providers of culture were almost exclusively newspaper reporters. We can add radio and television producers, film directors, authors of books written “with the audience in mind”, bloggers, and anyone with a Facebook profile.

Whether they like it or not, they are taking their creativity into the public sphere, providing culture, however strange that might sound in reference to some of them. The recipients are readers, listeners, and viewers, which means the overwhelming majority of people. We are all subjects to Queen Opinion. The issue comes down to: what kind of queen is she? In a way, her rules are derived from our rules, so what exactly are they?

“Where is the press today? What should it be? Should it be a defender of principles, a shield and representative of beliefs, or the stronghold of our national spirit and honor?” asked Stanisław Tarnowski.³⁶ Anyone who understands that fundamental values should be circulated agrees that things should be the way Tarnowski described them. But they’re not, and even then Tarnowski noticed that.

“Instead, a silly and reckless policy, groveling in front of the powerful, trampling on the weak, adulation of the public by repeating its favorite, if ruinous, slogans, empty phrases, and wretched advertising.”³⁷ Whether we find today’s media in a similar state is another issue. What’s important is that we don’t find what we’d like, what would raise us up to the level of high culture, or give us a model of morality. They are anti-values rather than values. Who’s responsible for the collapse of public opinion?

³⁶ Stanisław Tarnowski, *Królowa Opinia*, in: *Królowa Opinia. Wybór pism*, Ośrodek Myśli Politycznej, Kraków 2011, p. 35.

³⁷ *Ibidem*, p. 36.

“It is not dailies that create opinion, but the opposite. Whatever a country’s opinion, so will be its newspapers. Papers can direct it in the details, but their bias and moral values depend on the public. They will always be what the public wants or allows.”³⁸ The providers of culture, thus, don’t decide what to provide the public, according to Tarnowski. The public decides. This is the overriding principle of culture organized like a capitalist economy, according to the rule “the customer is always right”. The most conspicuous example of this rule is advertising, which is a borderline creation, as it can belong to the world of the economy as well as to the world of culture.

“Advertising stubbornly strives to adapt to the motives and desires of its audience,” said Marshall McLuhan. “The customer and his participation in the creation of the ad take on increasing significance, while the importance of the product recedes. The key is for the ad to include the experience of the recipient. The product and the public’s reaction to it form a single system.”³⁹ But putting it this way should raise some doubts. The idea that mass culture just produces what its audience wants is a bit too convenient for its authors. They’re still people after all. It’s people who decide what to write in an article, what to say in a news program, what to ask in a radio interview. And when I refer to the creators of mass culture, I’m not just thinking about writers, journalists, commentators, and others who directly make the content for consumption by the public. I’m also thinking about their superiors, owners and managers of media organizations. The explanation that the free market of media -- and thus the demand of the public -- is what decides what the supply of products and content will be, is a naïve explanation of reality.

Even economic theory states that supply often creates its own demand. So producers create the demand for products that aren’t necessarily needed or good quality. Sometimes you can make more money on anti-values than on values, but the profit does not justify it. Do the people responsible for mass culture realize what responsibility they have? Do they understand what it means to be a journalist, editor, or publisher in the age

³⁸ Ibidem, p. 42.

³⁹ Marshall McLuhan, *Reklama jest dźwignią zazdrości*, in: *Wybór pism*, Warszawa 1975, p. 119.

of mass culture? They would rather not ask themselves these questions not to step on anyone's toes and hurt themselves. This is the daily practice of Poland's journalists.

Even if reporters have their own value system, which is doubtful, they get rid of it surprisingly quickly when the stakes involve their own financial gain, or their employer's. They write, say, or show what the employer tells them to, even if it's stupid, defamatory, insolent, or vulgar, because you can make more money and advance quicker on insolence and stupidity. The message is clear: you can be as dumb as a rail, you can have no speaking skills, it doesn't matter. As long as you put on a nice suit, smile, and talk nonsense you'll go far, have fame and fortune, and you'll hang out with celebrities. Things aren't better in the print media. You can often read articles that are clearly written to promote someone or something and aren't balanced. It's even worse when the article is inspired by negative PR, financed by someone who wants to defame a competitor using rumor, half-truths, and lies. Then the media become a stage for ruthless warfare, where all's fair to destroy the opponent.

A great responsibility rests with the makers of mass culture for all of Polish society, whether Poles will be able to think critically and have values. Media companies, journalists, publishers, and commentators have to bear this responsibility. And if they don't know how? They should change professions. I'm fully aware it is a voice crying out in the wilderness about values, while the pursuit of profit is shaping the mass culture market. If mass culture is a business then values can be reconciled with profit. In fact, values are the basis for long-term success in business, in terms of efficiency, employee satisfaction, and customer satisfaction with goods and services. Politics are in a similar state.

Politics have adopted the worst practices of advertising wholesale. In the industrial era, advertising's job was to create the image of a product that the customer would gladly buy regardless of the product's characteristics. It created and sold packages independent of their content. That time is behind us now, as customers have gotten smarter and have more access to objective information. There has been a paradigm shift. The customer is king. Competition provides a wide array of choice and the customer knows how to take advantage of it. Woe onto him who breaks the rules of

truth in advertising. Advertisements can't manipulate anymore, and must communicate in a clear and exact manner.

But in Polish politics, the package is still more important than the content. In the past, ideologues had the most important roles in political parties. Now it's image experts and spin doctors. The boundary between strategy and tactics is gone. Ideology based on values doesn't mean anything. Opinion polls have become the key to all action. The media are the fourth estate and have a huge impact on public opinion.

"The medium is the message," McLuhan said. In their modern incarnation the media latch on to news that sells well, and increases circulation and ratings. That makes politics an advertising campaign that uses the media on a huge scale. This strategy wouldn't work in business in the medium term because the client would figure out sooner or later what value the product has. In politics, the time horizon is shorter for those who are focused on the election cycle and time in office. So politicians pick media manipulation over values that could be inconvenient for them, such as honesty, integrity, responsibility, and courage.

Tarnowski wasn't addressing journalists in his essay, though they got theirs. He was addressing the entire reading public. This society of readers decides on the shape of public opinion, so its members can choose values and reject that type of journalism, and that culture, that they are being fed. Tarnowski was looking for the brave and he could count on them to improve public opinion and thus culture. Can we hold onto the same hope about today's popular culture? Who makes up this society of culture consumers? Do the members of this society, even gathered together, have anything to say about it?

"There are theoretical reasons why Mass Culture is not and can never be any good," said Dwight Macdonald, an American writer and editor. "I take it as axiomatic that culture can only be produced by and for human beings. But in so far as people are organized (more strictly, disorganized) as masses, they lose their human identity and quality. For the masses are in historical time what a crowd is in space: a large quantity of people unable to express themselves as human beings, because they are related to one another neither as individuals nor as members of communities – indeed, they are not related to each other at all, but only to something distant, abstract, nonhuman."

“The mass man is a solitary atom, uniform with and undifferentiated from thousands and millions of other atoms who go to make up ‘the lonely crowd’ ... A folk or a people, however, is a community, i.e. a group of individuals linked to each other by common interests, work, traditions, values, and sentiments; something like a family, each of whose members has a special place and function as an individual while at the same timesharing the group’s interests.”⁴⁰ Mass culture does not arise out of a community. It started to detach itself from the community in the 19th century and expand out. The society of today’s mass culture is an international mass of people, not bound by anything. Why would any one of them care what this society looks like, if they don’t feel a part of it?

Such a person just takes what mass culture gives him or her, because it’s the thing to do and because it’s hard to find a replacement. There are many reasons. You take the chewing gum off the shelf at the supermarket, pay for it, and leave. Even if consumed carelessly and casually, mass culture leaves a trace. It transmits some values. But what kind of values? I’m concentrating on television as the medium with the widest reach. The Internet is a more complicated medium as it contains popular portals that function like television, all things being equal, but also has specialist website for the elite.

It would seem that mass culture would be an amalgam of many types of content as it expresses the needs and desires of a huge number of people. But it isn’t. Mass culture doesn’t have diverse content, just a few messages dressed up in various guises. The production of mass culture has to be standardized for the average viewer. This average viewer is a simplified being, stripped of any individual characteristics.

The public is dispersed and heterogeneous, said Ernest van den Haag. Even if it listens frequently, it does so by chance and is prepared to stop at any moment if it isn’t immediately pleased and entertained. It likes loud and easy bait.⁴¹ The makers of mass culture have an impossible task, to meet the needs of the average viewer in their immediate and beautiful picture. One of these needs has been identified as the desire to experience something. Perhaps viewers don’t have enough experiences and don’t feel

⁴⁰ Dwight Macdonald, *Teoria kultury masowej*, in: *Kultura masowa*, op. cit., p. 31.

⁴¹ Ernest van den Haag, in: *Kultura masowa*, op. cit., p. 85.

enough emotions in their own lives, or they've learned not to see them, that they expect culture to fill this gap.

We want to play a character and have a name, according to van den Haag. It's better to have a pseudonym than no name at all, better to borrow a character than not to have one, and better to pretend to be someone than never to feel like a person at all. We can't be ourselves because the only "I" that we know is empty and must be filled from the outside.⁴² Many television series, reality shows, and movies let viewers live through the lives of the characters on screen. The need to look at others and mimic them isn't bad, it's human. As children, we imitate our parents. Then we look for other role models among our friends and teachers. Everyone has people like that in their lives. Mass culture is a caricature of this natural desire for role models.

In the past, consumers didn't have an opportunity to develop their tastes so they would look at leaders and the elite of the community to learn how to act and what to buy, said Melvin Tumin, an American sociologist. Back then, much depended on who those leaders were, and who had the most prestige in society. Often wealth is the first thing that gives prestige, so it's hard to expect style to be an expression of thoughtful, critical judgment on cultural possibilities.⁴³

It's hard to ignore television shows that have millions of viewers. These entertainment shows, so popular nowadays, provide an interesting palette of role models. And what role models they are. If wealth were the determinant of their prestige, that would only be half the problem. Success, popularity, and money at any price, as if the ends justified the means are supposed to be the objects of viewers' desire. The producers of these shows, which are often copies of hits from abroad, do everything to shock, interest, sensationalize, scare, and deform. The participants of these shows subject themselves to every request and requirement, no matter how stupid or humiliating, for their 15 minutes of fame.

"There's nothing in the head except catchy phrases, there's nothing in the character except an unlimited self-confidence, and nothing in the

⁴² Ibidem, p. 81.

⁴³ Melvin Tumin, *Kultura popularna a społeczeństwo otwarte*, in: *Kultura masowa*, ibidem, p. 141.

heart apart from a bit of poison and social hatred,” Stanislaw Tarnowski said.⁴⁴ The growing role of the celebrity, someone who isn’t smart but is famous, lowers the quality of the content and the form of public discourse. A dumb person can’t talk intelligently or beautifully. His phrases are the slang of the street. Compare the language of today’s media with 20 years ago and see how much profanity is now in use. Perhaps style is secondary. A certain “journalist” claims that what matters is what’s being said, not how it’s being said. But content doesn’t exist without form. What we say depends on how we say it. A limited vocabulary is a consequence of a shallow intellect. Not being able to put together a logical statement closes the door on dialog, the cradle of thought according to Socrates and Plato.

Since there can’t be any dialog, language gets a new function in mass culture. It takes the role of decoration -- something to surprise, please, or entertain a child. But to surprise, you always have to show something new, something even more incredible than yesterday. Shallow jokes and jurors that ridicule contestants can’t go on forever. Even stupidity has its limits. Brutality and cruelty exist in mass culture as long as we’ve had action movies. But brutality has never been so accessible in such quantities. Everyone knows about the bad influence of violent content on children. Now violence in films has been joined by another kind of brutality, in public debate. There is no dialog so whoever yells the loudest wins. You have to destroy your opponent. It’s a short way from verbal aggression to physical aggression.

Verbal aggression alone is a threat because it teaches us to think of another person as an enemy. Two examples, the sex and the violence in the media, demonstrate that today’s mass culture isn’t just stupid and worthless, but also dangerous. The anti-values it presents as models are attitudes we can’t accept, and with which we have to fight for the good of our humanity. I would rather write about culture using elegant and polite words, the rich Polish language of Stanislaw Tarnowski, not in an aggressive tone and a raised voice.

But contemporary mass culture has changed the language, and calls for yelling and sharp criticism because it yells and criticizes. What would

⁴⁴ Stanislaw Tarnowski, *op. cit.*, p. 57.

the author of *Queen Opinion* say about our culture today? Would he maintain his tone, would he maintain calm while his interlocutors spit on him? Perhaps he would be terrorized into silence. Tarnowski believed that the collapse of public opinion wasn't a foregone conclusion, and that an authority's opposing voice would be enough to make public opinion what it should be.

"Moral courage and dignity can always be found in individuals," Tarnowski said. "But collective moral courage can be found only when it has something on which it can stand, on which it can focus, and with which it can defend itself. The natural and solid foundations are moral authorities, not official authorities, or noble authorities, or rich authorities."⁴⁵ Since my days in Końskie I believe that the actions of individuals who are indifferent to popularity and the other values of mass culture are able to provide society with beautiful models and hope that the values of ordinary people can win out.

⁴⁵ *Ibidem*, p. 52.

Chapter 2.

Ordinary people and great businesses

Nobody can do everything, but everyone can do something.

unknown

Great businesses are those that give their employees satisfaction, their owners profit, their customers and suppliers contentment, and improve society around them. Big companies that dominate their market usually grow because they've attracted the best people. The talent and commitment of the best produces great products and customer appreciation, which yields profits for shareholders. The globalization of the economy has made many businesses international, giving them worldwide reach. You can find the products of Coca-Cola, Microsoft, IBM, Disney, General Electric, Nokia, Toyota, Canon, Samsung, LG, Shell, BP, Unilever, and Kraft, throughout the world, from London, New York and Paris to the African and South American interior. We know a lot about their operations. Journalists write about them every day. They get analyzed and have books written about them. They become the subjects of case studies taught in business schools. They are natural models to imitate. Their achievements and operations provide examples of best practices.

Great businesses aren't just the biggest ones, the most profitable ones, that are visible on the market due to their products or ever-present marketing. They are companies of all sizes, unknown to the public, operating nationally or locally, giving satisfaction to their workers, fair

profits to their owners, happiness to customers, and contentment to their suppliers, while playing a role in their communities. Small and medium-sized businesses create most of the economic growth in the world. They are the quiet heroes of the 21st century. The practices and management standards used in these businesses determines how 50% of global gross domestic product is made. It also determines the quality of the jobs in which most working-age people are employed.

In this chapter, I'd like to present institutions that owe their success to their unique value systems. I'm not going to use General Electric, Toyota or Hewlett-Packard as examples, even though they are famous for their principled approach to their businesses. The business world is incredibly diverse. It's worth using some lesser known examples which are more appropriate for the conclusions of this book. I've picked mBank, the Polish charity ABCXXI All Of Poland Reads To Kids, and Mondragon Corporacion Cooperativa.

I've picked mBank for personal reasons. I was directly involved in creating it. The ABCXXI Poland Reads To Its Kids Foundation represents the non-profit sector. Mondragon Corporacion Cooperativa is an example of a business based on cooperative ownership, whose mission is to foster the personal and professional growth of its workers and to engage with the community. All these examples show that great businesses are created by ordinary people applying simple values.

mBank: creative passion

Be the change that you wish to see in the world.

Mahatma Gandhi

There is no substitute for hard work.

Thomas Edison

Hard work has made it easy. That is my secret. That is why I win.

Nadia Comăneci, the first female gymnast ever to be awarded a perfect score of 10 in an Olympic gymnastic event

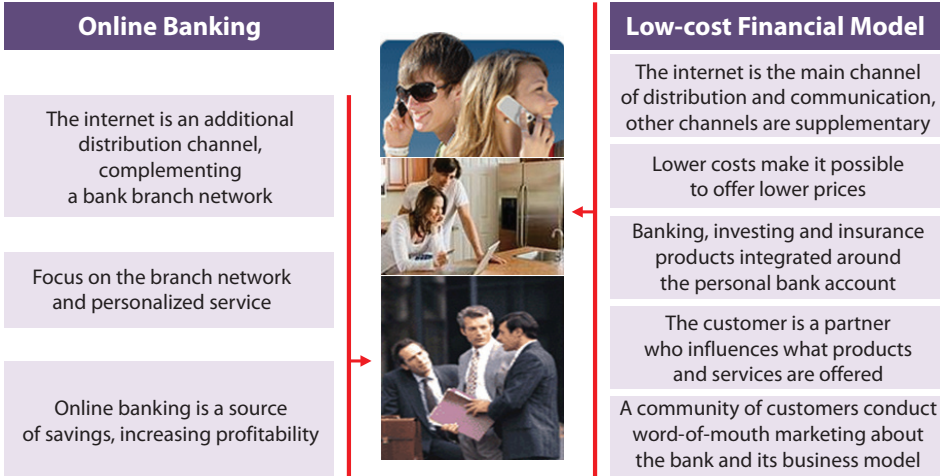
The banking sector has high barriers to entry, making its participants feel secure and keeping competition friendly. The entry of a new player doesn't happen often. Poland's economic transition, when the monopoly of the National Bank of Poland was broken up, created the conditions for exactly this to happen. The early 1990s deregulation of Poland's financial markets and the drafting of liberal banking laws encouraged new banks to form. From 1989 to 1992 alone, 70 new commercial banks were founded in Poland. Many of them collapsed or became targets of takeovers, but those that survived were spectacularly successful. Of the ten largest banks in Poland in 2010, five were founded in the transition period of the turn of the decade.

Before mBank opened in November 2000, it seemed that the cards had been dealt. The market had been carved up by global leaders and a local giant, state-controlled PKO Bank Polski.

However, our team at BRE Bank conducted an analysis of the Polish financial market that identified a niche for an online bank that would also be a discount bank. We were already in the middle of a project to create a modern retail brick-and-mortar bank, MultiBank, but we dropped it to focus all of our efforts and resources on launching the online bank.

I was lucky to find myself in the right place and the right time, working with amazing people. Within three months, we created Central Europe's first full-service online retail bank. Although taken for granted today, the business model of mBank was a breakthrough innovation. It transformed the Polish banking market.

Discount Financial Services another kind of business model



Source: Sławomir Lachowski.

It was never about building yet another bank. We knew we were changing the world of banking from the moment we took the decision to make it an online bank. Violent change driven by technology was evident all around us. We knew that the Information Age was setting the standards for the new economy. We had a sense of mission. We were writing a new chapter in the history of retail banking. “Maximum benefits and convenience in personal finance,” was mBank’s mission statement. We wanted to create a bank that offered services at low prices based on a low-cost platform that was easy to use and available 24 hours a day, seven days a week, 365 days a year, anywhere in the world.

The vision of mBank was a sketch of a new generation in banking:

For people who value time and money, who want to control their finances with a sense of real benefits and convenience, mBank offers a business model that has the client at its center.

mBank provides banking within arm’s reach, at any moment and anywhere in the world. New technology used by mBank lets the client do banking operations using a mobile phone or a landline, a computer or an automated teller machine. By foregoing the network of traditional brick-and-mortar bank branches, mBank has lower operating costs, thanks to which

it can offer much higher interest rates to savers and much lower interest rates to borrowers. mBank not only offers the best prices in each product category, but also ensures the highest quality and security on the Polish market.

mBank is a place where workers respect one another for their knowledge, commitment, and openness, and where they can fulfill their professional ambitions. Working at mBank enables participation in a project that is changing the Polish banking sector, and thus requires competitive spirit, sacrifice, and effort. mBank is actively creating a brand based on common values: freedom, independence, maximum benefits, dynamism, transparency, and integrity. We would like mBank clients to see us as partners. We seek to provide the highest quality and most innovative personal finance products on the market.⁴⁶

ING Direct in North America and Germany, another online-only bank, and mBank in Poland grew rapidly. The discount bank model in the form of an online bank was something new that changed the market. It got increasingly popular.

1. An online bank creates a market for financial services for a new generation of customers, who either don't want or don't need to be served in a bank branch because they're independent and able to pick the best products at the cheapest prices.
2. An online bank is a discount bank due to its lower cost structure and lower unit costs, which gives it a long-term cost advantage.
3. In the first phase of its development, an internet bank offers its customers a limited number of basic bank products of a relatively low quality, but at very low prices.
4. As it grows, the bank can offer a wider array of products, eventually competing with traditional brick-and-mortar banks, while keeping its prices low.
5. Such a large portion of the population has internet access nowadays that the online bank can ensure that everyone, anywhere and anytime, can have access to financial services.

⁴⁶ *mBank vision*, internal document, BRE Bank 2001.

The discount, online-only business model has a chance to change the market in a dramatic way like no-frills airlines and discount retailers have already done.

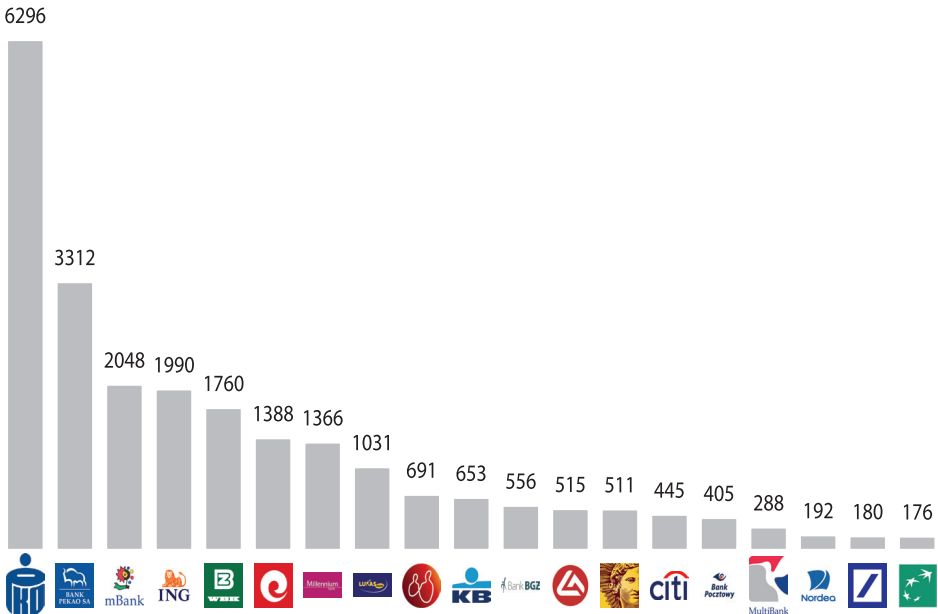
6. The online bank shifts the paradigm of retail banking. It's more convenient, and offers better quality and a wider array of products at long-term low prices.

Over 90% of Polish bank clients prefer to check their bank account balances online, while over 60% pay their bills

online. The discount, online-only business model has a chance to change the market in a dramatic way like no-frills airlines and discount retailers have already done.

In 2011, mBank became one of the biggest retail banks in Poland. It has the third-largest number of customers, 10% of the market. It's outranked only by the historic incumbents of the market, state-controlled PKO

Number of personal checking accounts in Poland



Source: Sławomir Lachowski (based on data from Polish daily Rzeczpospolita 13.09.2011).

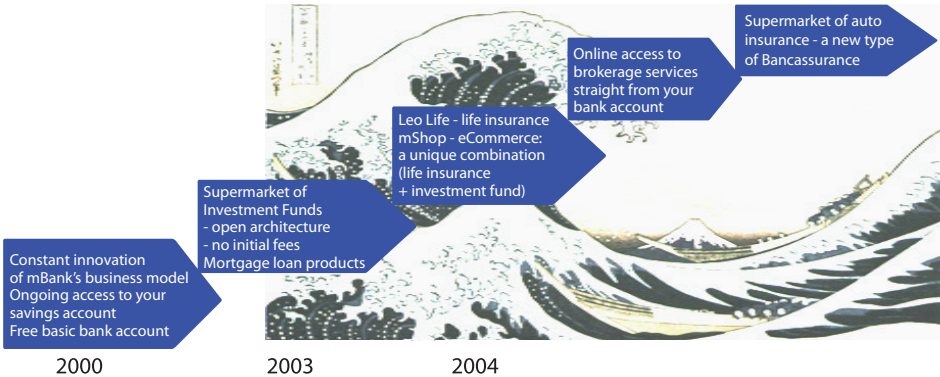
Bank Polski, and Pekao SA, in which Unicredit holds a controlling stake, and which has grown by acquiring other banks. The number of clients at mBank has grown faster than the market, so that it's getting closer to PKO and Pekao, and leaving BZ WBK and ING behind. Seventy percent of its customers are people below 35 and 67% of them are college-educated, meaning they already have or will have in the future more money to save than the average Pole. Since they're young, as they age they are likely to increase their incomes, which means they'll either need more savings products, or they'll be a *good credit risk* to take out larger loans for homes, cars and vacations. These are the types of customers everyone wants.

mBank is the fourth-largest online bank in Europe and the fifth-largest in the world, in terms of number of customers. Keep in mind that mBank is based in a country where not so long ago internet access was still a luxury good and well below the European average, mBank has done remarkably well to win such huge popularity. It has a dominant position in several segments of the market:

- 3.3 million clients – the third-largest retail bank in Poland;
- 350,000 corporate accounts – the second-largest Polish bank in terms of small business customers;
- 503,000 clients in the Czech Republic and Slovakia (about 5% of the market in each of these countries);
- 500,000 clients of the Investment Fund Supermarket;
- 160,000 eBroker clients;
- 14.7 billion zlotys (\$4.3 billion) deposits in Poland;
- 5 billion zlotys (\$1.5 billion) deposits in the Czech Republic and Slovakia;
- 13.6 billion zlotys (\$4.0 billion) in mortgages and consumer loans in Poland;
- 1.5 billion zlotys (\$440 million) in mortgages and consumer loans in the Czech Republic and Slovakia

Consistent implementation of a strategy based on innovation has given mBank a competitive advantage. The initial business model, a discount bank, was a breakthrough in and of itself. mBank then started a revolution of the Polish finance market because of the way it sold investment funds,

mBank's business model: e-revolution on the mass market



Innovation is a constant element of mBank's business model.
The only thing permanent is change.
Once a year on average, mBank introduces a significant innovation.

Source: Sławomir Lachowski.

brokerage services, and insurance. It then entered the Czech and Slovak market, proving it could achieve spectacular success in competitive and mature markets.

mBank's Values

Looking back at mBank's growth, I can see that the secret of its success wasn't the idea or the technology. It was mBank's deep reserves of human talent. We managed to tap into this reserve through the value system we created. We didn't define some core values and declare they would apply from then on. That's what often happens. Companies draft a code of values or commission outsiders to draft one because their managers believe it's the proper thing to do, because their competitors do it, or because they want to be politically correct. mBank made values the basic canon of behavior within the company and in its relations with the outside world. It's a philosophy and a management style.⁴⁷

⁴⁷ Simon Dolan, Bonnie A. Richley, Salvador Garcia, Tony Lingham, *Managing by Values*, Palgrave Macmillan, New York 2006, p. 17.

Managing by values was a discovery for me and an incredible experience when I oversaw the creation of mBank, MultiBank and when I was tapped to lead their parent company BRE Bank as chief executive. For me, management by values became a categorical imperative, an insight that brought together all of my knowledge and experience.

The values of mBank were defined in their final form in 2002, about 18 months after the project had been launched and after all the key participants had come on board. As the boss at mBank, I kicked-off the process. I already knew then that our business model would be a disruptive innovation that had a chance to transform Poland's banking sector. At the same time, I was convinced that acting in agreement with best business practices wouldn't be enough. The bank had an incredibly attractive strategy and an ambitious business plan. My intuition told me the missing piece was core values, which would have strengthened all of our commitments to the company. In a democratic process in which all employees could take part, key workers set out mBank's core values after many hours of workshop sessions:

- Excellence
- Execution
- Responsibility
- Readiness
- Engagement

In Polish, the values of mBank spell the word DROGA, which means road. The DROGA acronym didn't happen by chance. It gave the values it described additional meaning. It stated my philosophy that the journey is more important than the destination.

From that moment forward, these values became the criteria by which we judged attitudes and behaviors. They pointed us in the right direction in moments of doubt. When there were no rules or procedures for a given situation, these values helped us make decisions.

Core values should meet four conditions:

- influence an organization's activity – processes, procedures and products

- remain under control (be visible);
- measurable;
- inspire the individual and collective ambitions of workers.

In 2002, we needed to make our values understandable to all workers. We had to make them concrete, observable and measurable. Only precisely described values in the form of expected behavior would be easily understood. So we had to widen the definition of values, describe the way we expected workers to behave, and explain how this would influence internal and external relations.⁴⁸

EXECUTION table

EXECUTION effectiveness, awareness	
What we are like	Our image
Goal-oriented Effectively completing tasks Clearly defining duties and responsibilities Understanding the mission and strategy and identifying with it Taking the market, competitors and the community into account	Focus on the client and his or her well-being Competitive strength Trust in the bank and its workers Attractiveness to investors Vision of the bank's growth Responsible employer and market participant

EXECUTION is modeled on management by objective, effectiveness in completing tasks, and measuring the degree to which sales and net profit targets get hit. At mBank, however, EXECUTION didn't refer

⁴⁸ Agata Sachowicz-Stanusch, *Potęga wartości. Jak zbudować nieśmiertelną firmę*, One Press, Katowice 2007, p. 14.

only to budget goals. It also set out how workers should behave when they are setting goals and implementing them. We defined competency as a combination of knowledge, skill and motivation and it was a tool to assess workers' attitudes and behaviors. Competency defined what an employee had to know to achieve success. Competency also described what an employee had to change in their behavior if that behavior wasn't delivering results. Finally, competency outlined growth areas.

Key competency required for EXECUTION, an mBank value

VALUE	COMPETENCY	COMPETENT BEHAVIORS
R IMPLEMENTATION	Focus on goals and results	Employee sets goals for him- or herself and others and focuses on achieving planned results. Makes realistic long- and short-term plans; completes tasks efficiently and in a timely manner.
	Decisiveness	Makes decisions after weighing opportunity and risk. Uses available information quickly but not rashly. Sticks to his or her decisions but is flexible enough to adjust them when it's justified.
	Business awareness	Sees the business as a whole. Sets goals taking the market, competitors and the community into account. Takes advantage of opportunities. Understands the business model. His or her behaviors accord to that model.

Source: internal mBank material.

We measured these values, described in terms of competence, on a scale of 1 to 5. We took the employees we had available into account as well as whether a behavior was supervised or unsupervised. A description of competency for each of the EERRE values and their related behaviors formed the mBank Competency Map. *We picked competencies according to the following criteria: if our values are to remain a permanent feature of our operations, what competencies (knowledge, skills, and attitudes) should our employees have or develop to practice these values in line with company expectations and their own choice?*

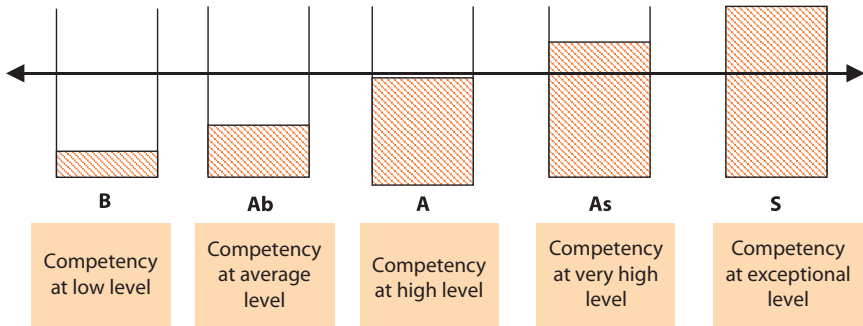
EERRE – mBank's value map

Values	Competencies	Description of competent behaviors
D Excellence	Innovativeness	Looks for new opportunities and finds new ways to apply them. Eschews the beaten path; thinks creatively; encourages others to be creative.
	Openness to change	Sees change as a challenge and an opportunity; accepts the need for change and actively shapes it. Motivates others to participate in new projects. Is flexible; can modify his or her beliefs and behaviors constructively.
	Focus on growth	Accurately assesses his own and coworkers' skills. Develops those skills. Takes advantage of opportunities for growth. Learns new skills and behaviors; supports others in their growth. Looks for ways to improve and optimize his or her own work and the work of others.
R Execution	Goal-oriented	Sets goals for him- or herself and others; achieves results. Makes realistic plans in the long- and short-term; works efficiently and in a timely manner; completes tasks and projects.
	Decisive	Makes decisions after weighing opportunity and risk. Uses available information quickly but not rashly. Sticks to his or her decisions but is flexible enough to adjust them when it's justified.
	Business awareness	Sees the business as a whole. Sets goals taking the market, competitors and the community into account. Takes advantage of opportunities. Understands the business model. His or her behaviors accord to that model.
O Responsibility	Initiative	Is ready to act quickly, even if the action goes outside the narrowly defined scope of his or her duties. Learns from trial and error; doesn't get discouraged by failure.
	Independence	Takes responsibility for his or her actions. Bravely faces challenges; accepts support; works independently without supervision; has high level of self-control.
	Impact on others	Gets others to cooperate to achieve results; inspires others to action; open to discuss views; convinces others through cogent argument.
G Readiness	Maturity	Open to feedback. Is guided by his or her emotions and moods; is aware of his or her strengths and weaknesses; accepts criticism and uses it constructively. Knows how to assess the social situation and people's needs.
	Teamwork	Creates a collaborative atmosphere; spends time with the team; understands that others have opposing interests; seeks compromise; can deal with conflict. As a leader, sets achievable but challenging goals based on the situation and employee potential.
	Dynamism	Maintains self-motivation; works effectively and with energy; reacts quickly to the needs of others; is especially sensitive to the expectations of customers and co-workers. Can overcome unexpected challenges and adapt without skipping a beat.
A Engagement	Self-motivation	Sets him- or herself ambitious goals and works hard to achieve success. Is motivated from within; continues to work despite a lack of external stimuli. Confident of his or her skills and optimistic about the future.
	Tenacity	Steadily works towards a desired result even in the face of failure; can implement long-term objectives. Copes with unexpected or constant stress and exhaustion; recovers easily.
	Loyalty	Sees working at mBank as an opportunity, where his or her career will develop. Shares the EERRE values and talks about them. Demonstrates solidarity with co-workers and availability to work towards the bank's goals.

Source: internal mBank materials.

Companies usually write down a set of values and then stop. Some write detailed descriptions of what those values mean. But they don't outline the consequences of not remaining faithful to those values. We didn't want to take this approach. At mBank, we went a lot further and created an employee evaluation system based on values. We quantified the degree to which attitudes aligned with values and assessed employees on it.

Competency assessment scale



Source: Internal mBank materials.

The scale was 1-to-5, but the distribution wasn't along a bell curve. We set the required level of competency high. In the place on the scale where people are usually "average", in the middle, we placed very good workers. The next two levels were aspirational. We showed employees how to improve and what to learn in order to do so.

Degrees of assessment:

- Low (B): competency at low level – is demonstrated infrequently; manifested only to a limited degree.
- Average (Ab): competency at average level – not demonstrated in its full scope, but rather selectively and with moderate intensity; displayed more vividly under supervision.
- High (A): competency at high level – shown clearly while completing tasks, but not always with the same level of frequency or intensity.
- Very high (As): competency at very high level – applied independently and with high frequency; used appropriately to the task or situation; ensures successful task completion.

- Excellent (S): competency at excellent level – a permanent feature of behavior, used with ease, deployed and developed creatively in new areas, indicative of expertise in skills that fall under its scope.

Our system of employee evaluation, working according to our values, was critical. At mBank, the employee assessment process was the opposite of a traditional worker evaluation. It was based on a self-assessment called PPE, or Plan of Personal Effectiveness. The employees who had been there since the beginning didn't have any trouble with this. But we were hiring new people and we needed a tool to show them what mBank was about and what type of behaviors it expected from its employees. The annual evaluation was a test for every individual worker and the organization as a whole. It showed which competencies were at a satisfactory level and which needed to be developed.

Our personal effectiveness plan (PPE) was designed to determine how workers' daily behaviors aligned with our values. The name itself suggested how the process differed from traditional top-down worker assessments. Employees consciously planned their own EERRE to lead them to the results the company expected. We knew that values are a key factor of success. We had described how they manifest themselves in behavior. Now we had to figure out to what degree they were present in each employee. Our PPE was based on feedback, which isn't a new concept. It was created by an unknown German theologian in the 14th century, and developed 150 years later by John Calvin and Ignatius of Loyola working separately and unbeknownst to each other.⁴⁹

Feedback is information that comes to us from our surroundings. It tells us why what we do and don't do impacts the results of our work. The employees at mBank were asked to figure out the relationship between "how I work" and "what results I achieve". This way of thinking is also an effective learning tool and a way to live the values of EERRE. The PPE was an employee's contract with their supervisory, the company, and themselves. "How I work" and "what results I achieve" were questions employees could pose themselves daily and were also the basis for their

⁴⁹ Peter F. Drucker, *Jak zarządzać samym sobą*, "Harvard Business Review Polska", July, August 2006.

self-evaluations. PPE had to be consistent with the EERRE values. Its purpose was to foster an efficient, responsible and self-aware organization. We designed a 360 degree evaluation, with input from the employee being assessed, their supervisory, and their co-workers.

The evaluation process⁵⁰:

- PPE is a phase in the development of the organization and its employees;
- PPE takes into account both work results and how they are achieved;
- Work style is evaluated based on mBank values as defined in EERRE;
- Drafting and agreeing to PPE with your superior has consequences;
- PPE requires self-awareness and responsibility from the employee and their superiors.

A PPE starts out by holding an employee to account for the results of their work. To help employees assess themselves, we created another tool, FF or Friendly Feedback. The following is a mBank memo on FF:

Friendly Feedback is a way for you to gather information about yourself. It provides material for self-reflection. It gives you a chance to see yourself through the eyes of the people you work with. It's a chance to display READINESS, to bravely accept constructive criticism, in order to get better. Ask people whose opinions you value to do your FF, making sure they have had a chance to work with you in various professional capacities.

These can be members of your team or your internal clients. The contents of the FF is for you alone. Use it to inform your PPE. Remember, analyzing and drawing conclusions from feedback is how you grow into a mature individual.

⁵⁰ PPE, Personal Effectiveness Plan – employee information. Internal BZD information BZD. BRE Bank Retail Banking Department, 2004.

Personal Effectiveness Plan Worksheet

(D) EXCELLENCE (R) EXECUTION (O) RESPONSIBILITY (G) READINESS (A) ENGAGEMENT

Personal Effectiveness Plan 2004				A
Employee number:		Title:		
Start date:		Supervisor:		
Date plan was last modified:		Org. unit:		
MY RESULTS (tasks, projects, responsibilities - accomplishments, numbers)				
Accomplished tasks, percent accomplished		Challenges 2006 Plans (tasks, projects, responsibilities) and measure of their implementation		
Overall, tasks from the past year were accomplished in what percentage				
SUCCESS		FAILURE		
WORKING STYLE AND RELATIONS WITH OTHERS (behaviors and attitudes – Excellence – Execution – Responsibility – Readiness – Engagement)				
STRENGTHS		WEAKNESSES		
PERSONAL AND PROFESSIONAL GROWTH (knowledge, skills, courses, promotions, change, career path, future at the company, time frame)				
GROWTH ACTIVITIES		GROWTH PLANS		
REPLACEMENT PROGRAM (new competencies required)			Talent pool recommendation	No
WHO CAN REPLACE ME		WHOM CAN I REPLACE		
OTHER COMMENTS				
Date	Signature	Date	Supervisor's signature	

Source: internal mBank document.

Feedback was a widely used tool at mBank. What was new was using it in the annual evaluation process.

Friendly Feedback

Example	
Friendly Feedback for Zbyszek Chowluk	
What do I get from you as a co-worker? – support in difficult situations related to IT; insightful diagnosis of a problem, indication of where my understanding is weak, in a professional manner – fair and honest criticism – reliability, I’m confident that once you take something on you’ll do what you said you would	What am I missing? – more eagerness to join my project on the client database – more active support at our Monday meetings with the boss in defense of our idea about handling customer complaints – more understanding of my limited technical understanding – smiling more often
What do I like about your behavior and attitude? – realism, focus on facts, independently of emotions experienced – critical thinking, taking a step back from solutions proposed by yourself or others – resourcefulness	
Author: Aśka Wrzosek May 5, 2004	

Source: Internal BZD document. BRE Bank Retail Banking Division.

Employees fill out the Location on the EERRE based on available information. They assess themselves according to the criteria described in the Competency Map. It’s an incredibly difficult task for everyone. But it’s important and that’s why we created so many detailed instructions for the process:⁵¹

1. When getting ready to write your PPE, consider:
 - a) What have been the results of your work over the past year? Which of your duties or projects have come to a successful conclusion? What projects haven’t you been able to complete to a satisfying degree? Estimate in percentage form the general level of realization of goals that you had for this last year.
 - b) What challenges and priorities do you see for yourself in the year ahead: what tasks, projects, and areas will you take responsibility for? What results do you want to accomplish?

⁵¹ Employee information. Internal BZD documents. BRE Bank Retail Banking Division, 2004.

IT'S THE JOURNEY NOT THE DESTINATION

- c) What are your strengths? What EERRE values are most strongly present in your behavior and attitude? Where can you improve? What would you like to work on?
- d) What helped you grow personally and professionally (completing a course, mastering a new skill, deepening your knowledge, promotion, moving to a new position, etc.)?
- e) What is your professional and personal development plan for the coming year? What competencies would you like to improve? What should you learn? How do you see your future within our organization? In what direction do you want to develop your career?

Your Location on the EERRE

Employee's name and surname Title

Supervisor's name and surname Date

Values and skills		Level of competence					Areas of development							How to develop further
		Low	Average	High	Very high	Exceptional	Customer service	Project management and leadership	Personal and social skills	Foreign languages	IT	Banking knowledge	Other knowledge (finance, marketing, law)	
E	Innovativeness													
	Readiness to change													
	Readiness to improve													
E	Readiness to achieve goals and results													
	Decisiveness													
	Business awareness													
R	Readiness to act													
	Independence													
	Influencing others													
R	Emotional balance													
	Teamwork													
	Pace of work													
E	Resilience in stressful situations													
	Endurance													
	Readiness to succeed													

Source: Internal BZD document. BRE Bank Retail Banking Division.

- f) Who could replace you in your current position and what competency would this person need to acquire before doing so? What position would you be able to move to, if you implemented the development plan you've described above?
2. Ask two to four people for a Friendly Feedback, one or two people you pick yourself and one or two people picked by your supervisor.
3. Write your PPE and your location on the EERRE and send it to your supervisor. He will address it and ask you to sit down for a talk.

The employee then schedules a meeting with their supervisor. The role of the supervisor in the PPE process is important, but self-evaluation is more important. The supervisor must adequately prepare for such a meeting. He must evaluate the worker's PPE and create a Competency Balance on the EERRE.

Excerpt from "Instructions for supervisors":

- a) Suggest two people to your subordinate, whose opinion you trust, to prepare Friendly Feedback for him or her; make sure they have also picked one or two people for additional Friendly Feedback submissions. This could be any other employee in the organization that knows this employee's working style, from a teammate to an internal client.
- b) Prepare for the PPE contract negotiation:
 - o read the proposed PPE and clear up any ambiguities;
 - o prepare a location for the employee on the EERRE, suggest directions for further growth and areas where improvements are needed;
 - o add comments to the PPE;
 - o say whether or not you recommend him or her to the Reserve Management Team
- c) Talk to your subordinate in order to:
 - o discuss the PPE and give feedback based on the location on the EERRE;
 - o talk about the factors that could effect a successful EXECUTION of the PPE by the employee;
 - o agree to the PPE with the employee;
 - o get his or her feedback about you as a boss.

The boss wasn't a one-person authority during the PPE process. Special meetings called Review Sessions ensured the objectivity of the process.⁵² The supervisor of the worker was the host of such a meeting, to which he invited several other people, someone who worked with the person being assessed on a daily basis, a higher-level supervisor, and an HR worker. The subject of the assessment wasn't present at their Review Session.

All managers and employees of mBank were subject to Review Sessions. The evaluated employee's supervisor would first present the employee's accomplishments and their own evaluation. The participants were then asked to judge the person, using EERRE criteria. Heated discussion would then ensue. The final evaluation rested with the supervisory.

As the supervisor of all of mBank and Multibank, I took part in many Review Sessions of my managers. I kept the practice when I became the chief executive of BRE Bank, because I believe picking and evaluating workers should not be a responsibility a manager delegates to others.⁵³ The sessions would take a long time, together lasting three to four working days. We would talk until everyone was sure that the supervisor had taken all relevant facts into account. We weren't afraid to differentiate between managers. The last phase of PPE was the Information Session to present the final assessment. These weren't simple and short conversations. Those being assessed, even the best of them, wanted to make corrections.

The Information Session is about feedback in the form of a grade, but more importantly it's about observing behaviors, discussing examples, and suggesting changes. The seriousness of these talks and their incredible atmosphere is one of my favorite memories of working at BRE Bank. In an organization based on values, employees are more prone to self-reflection and more ready to be critical of themselves. Review Session discussions were the best management workshops of how to implement EERRE. I participated in Review and Information sessions because I believed I owed this to the workers who had put their trust in the organization and had shown their commitment. These were difficult conversations, both with

⁵² Employee Instructions, BZD 2004.

⁵³ Larry Bossidy, Ram Charan, *Realizacja. Zasady wprowadzania planów w życie*, MT Biznes, Warszawa 2002.

employees I had known for years and from whom I expected a lot, and with the young ambitious hotshots hungry for success.

Critics would say that when Information Sessions were in progress, the bank was navel-gazing, providing therapy to its employees instead of working in the best interests of its shareholders. I think it was the best use of time in the whole year. The sessions created a pause, they forced the organization to take a look back at its successes and failures and draw conclusions from them. The Personal Effectiveness Plan was a tool that combined management by objective and management by values. By evaluating workers based on values and their related behaviors, we were able to avoid the classic mistakes of management by objective. We didn't turn management into industrial engineering.⁵⁴

Inviting employees to a dialog helped them see the logic of their own career choices and unlock the energy that lay dormant in them. As workers' picture of their strengths and weaknesses got clearer, it became easier for them to adjust to suggestions and goals thrown up by the organization. Workers became ready to make choices and take responsibility for them. The process of the PPE demonstrated a two-dimensional picture of the organization, both the qualitative aspect of values and the quantitative. It created a map of the organization showing competency and effectiveness.

Stars would get an S grade for behavior and effectiveness. There weren't many stars at mBank, perhaps 1.5% to 2.5% of the workforce. Workers who didn't meet the organization's expectations, with at least one A grade, could be divided into three groups.

Two grades below A, behaviors measured against the bank's value system, didn't leave any doubts. Two B grades meant that we would have to let the person go. For an organization, an employee with a grade above A in the values category but a lower grade in the results category was better than the reverse. It's easy to understand intellectually but harder to put into practice that a worker that gets results but acts contrary to an organization's values can't work there anymore.

⁵⁴ Harry Levinson, *Zarządzanie przez czyje cele?*, „Harvard Business Review Polska”, July, August 2006.

Those who surpassed our expectations received a new growth path. We asked them to prepare for new challenges in their careers. Those who met our expectations received opportunities to improve. Those who didn't meet our expectations were told what those expectations were and got a deadline to meet them. It would seem that things were rough for this last group. But history showed that for many employees, such clear information, access to tools, and time, were the impulse they needed to change or to leave on their own terms. The company managed by values differs from the company managed by objective or by instruction. Employees aren't evaluated only by whether they've hit quantitative targets and followed instructions.

Management is the art of planning and achieving goals using available resources. Achieving a goal gives satisfaction but you can't forget financial motivation. Management by values isn't limited to using a values system as an ethical signpost that unites people around common goals. At mBank, financial motivation was not neglected. But the bonus system rewarded behaviors that aligned with the company's values. Bonuses were calculated based on qualitative assessments and achieving quantitative results. The financial motivation system of mBank, expanded later to all of BRE Bank, was based entirely on the results of the PPE assessment. This way the discretionary variable was completely eliminated from the bonus system, ensuring a transparent process.

Corporate Culture – Invisible Force, True Strength

The values of mBank, consistently practiced, changed its corporate structure and gave it a long-term competitive advantage. Management by values enables companies to use their employees' full potential and to give those employees satisfaction and a creative outlet. Companies are waging a war over talent. A company's values are the best argument in favor of rejecting a competitor's job offer, even a better-paid one. I knew from the beginning that corporate culture would be decisive. But I didn't know how to build it thoughtfully and in a structured way.

There were some values and requirements that were present at mBank from the beginning: meritocracy, openness, striving for excellence, kind-

ness, being helpful, taking ownership of tasks, holding people to account, respect for clients and suppliers, bypassing hierarchy in communications, being fast, and learning from mistakes. Describing these values and having them permeate the organization created the EERRE culture.

The values of mBank, consistently practiced, changed its corporate structure and gave it a long-term competitive advantage.

mBank created a corporate culture that wasn't just unique within the financial sector. Wojciech Kostrzewa, my predecessor as BRE Bank's chief executive, and now the chief executive of ITI Holding, described the mBank team as a "cult", and he meant it in the best way possible.

"Incredibly strong focus on the goal, frenzied diligence, aligning actions to implement the leader's vision, which was pure abstraction to everyone else," is how Kostrzewa described us. People who had worked somewhere else before coming to mBank knew there was something special. For the young, fresh out of university, this culture was a test of their character. It didn't limit their freedom, but expected responsibility and complete commitment. I recruited Arkadiusz Jadczyk, a very promising graphic design hire, reluctant to leave his student days behind. mBank became his first workplace and one to which he contributed significantly. He's gone on to run his own business. According to him:

It was loyalty that made team work effective. Just like in the army or Special Forces, where soldiers have to trust and depend on each other. We were loyal to the project, to the brand, to ourselves and to others. People liked working with one another. That made light work out of tasks which were often tiring. Everyone who has left has found it's hard to recreate this atmosphere. Contrary to what people said on the market at the end of the 1990s, people were welcomed back to BRE Bank if they left. Workers would beg to be taken back like prodigal sons. Some people couldn't step into the same river twice and would leave again. Others, who had remembered lessons learned elsewhere, didn't make the same mistake twice and stayed. The same can be said of former employees attempting to transplant the mBank corporate culture to new businesses they founded. mBank was a once-in-a-lifetime project. Hard to copy both in its business model and the way it was managed. The method arose from many factors, but mainly from people who believed. There was madness in that method. There was method in that madness.

It's hard to describe mBank's corporate culture. Everyone who worked there knew it was unique.

Renata Tadeusiak worked in the human resources department for mBank, Multibank and later BRE Bank. She watched us from a distance and had this to say:

It's hard to describe mBank's corporate culture. Everyone who worked there knew it was unique. It was different than the corporate cultures of traditional financial institutions. When we hired companies to train our workers to give them the skills to complete certain projects, we spent a lot of time introducing them to mBank's culture. We would start by walking them around mBank's offices. Everyone worked in open spaces, even departments that required quiet and concentration, like the loan analysis department. The open space encouraged workers to communicate and to feel that we were all in it together. We were so committed to this way of organizing space that we replicated it even when we moved our headquarters to a new building. The culture of mBank didn't have the trappings of power. Unit directors had small offices with glass walls and open doors.

Meeting spaces were made to look like cafes, making them casual so employees could exchange ideas in a spirit of openness. The furniture was light, so it could be moved around. Meeting rooms were also glass-enclosed to express mBank's desire to "have nothing to hide". There was a 1000 liter aquarium with goldfish, which became the first image on mBank's credit cards. There were two webcams that broadcast what was happening at mBank, one directed at the fish in the aquarium and one at life in the open space. After seeing all these things, trainers would know that openness, togetherness, teamwork, communication, weren't just slogans. When I heard the idea about building bleachers in the open space, like in a soccer stadium, I was worried. Wednesday meetings to present business results were supposed to be held on those bleachers. At first I thought conducting results meeting in the open, where anyone could wander by with a cup of coffee and listen in for a while to find out how sales of credit cards were going, wouldn't lend itself to serious analysis. But I was wrong. The bleachers turned out to be more physical proof of mBank's transparency. Everyone had to be aware of how business was going. mBank didn't need marble and heavy oak tables to discuss results.

Arkadiusz Jadczyk:

mBank started out as a collection of a few departments. The departments would bleed into one another. Sales and marketing would both be responsible for advertising or

distribution, with people from system or product development also joining in. That's how the phenomenon of project work operated. There were no procedures for this but from the beginning project teams would come together even as team members continued to fulfill their official responsibilities. Some people liked it. Some people found it exhausting, especially as projects multiplied.

There was more and more work, putting a burden on people's families. But there was no shortage of interesting projects. You could volunteer. You could respond to someone else's request. Or you could generate your own ideas. The process was always the same. A supervisor would approve the project and work would begin immediately. Not every project would get implemented because its commercial viability still had to be assessed, but meeting rooms and flipcharts would already be put into action. A person's role in a project team mattered more than their official title. There weren't many titles to begin with. Something was always happening, work moved quickly and we were always doing something new. The project approach meant there was a lot to learn. People became generalists. Marketing people would act as salesmen for a given product. They could even become involved in the legal aspects of a product, writing its legal framework before the lawyers would get to it to polish it. What for? To give the term "special task force" new meaning. People would learn more and more, specializing as they worked. Naturally, future leaders emerged. Anyone who proved themselves as team leader could count on a promotion in the future.

Virtual Company in the Real World

At mBank, we learned by doing. If a project didn't have a clearly defined goal, if it was an experiment, or an intuitive idea, the question of whether or not it would be profitable would decide whether we would keep it or toss it.

Arkadiusz Jadczyk:

When mBank was coming up with something new, a product, a service, a process or a new pricing structure, we would always use benchmarking. We would compare ourselves to the competition. We looked for inspiration mainly outside the banking sector. At mBank we could apply and observe the various theories, ideas, tools and techniques we had learned in textbooks, like Porter's five forces analysis, Boston Consulting Group matrix, McKinsey' methodology, cost-benefit analysis, sensitivity analysis, Balanced Score Card, Six Sigma, and Lean Management. Being familiar with these concepts and knowing how to use them was a condition of working at mBank.

Despite using all these tools, we realized the importance of keeping things simple. Not everyone was familiar with textbook style strategic management, but everyone had to participate. Strategic Diagnosis was required for every important business decision. We studied cases, analyzed trends, looked at best practices. We ordered a lot of books on Amazon. We read case studies from Harvard Business School, INSEAD, Wharton, and Stanford. We would regularly ask ourselves: how do others do this? We didn't want to copy; we wanted to learn from others' successes and failures.

"Learn from others' mistakes to avoid your own," as Lachowski used to say. It worked. We would look at other online financial platforms, such as Egg, ING Direct, UnoFirst, Wingspan, ING-DiBa, and Charles Schwab for tips. We would track Inteligo, our main competitor, like hawks, analyzing its every move. We would look at what products and services other Polish banks were offering and how they were reacting to us. The magical break-even point was hanging over our bosses' heads, so we wanted to figure how to be the first and how to be the biggest.

Sławomir Lachowski:

I had multiple bank accounts abroad, especially the ones that were considered the best, like HSBC, Citi, Centurion, and ING. Others did too. We wanted to copy the best solutions. We took what was best of the competition, and learned from our own mistakes.

Arkadiusz Jadczyk:

There were moments of doubt. When we were frustrated we would call it the break even power point, since Power Point can tell you anything you wanted to hear with the right assumptions and data. But we got there on deadline, thanks to strategic thinking and commitment to things big and small.

Renata Tadeusiak:

At mBank, we used to talk about fighting to the bitter end. We were extremely determined to achieve the goals we had set for ourselves. We were also characterized by our togetherness. We would work together, party together, and take responsibility together if something didn't pan out. Every one of our actions was linked to the values in which we believed. All mBank employees could make a difference, so we would invite everyone to our strategic workshops. Every June, the entire company would go on a two-day company retreat. We wanted to invite people to take responsibility for the year ahead, to inspire them, to bring them together to experience something new.

If you've ever organized workshops, you know that it's hard to do it with 60 people. But we did it with 200. At mBank, anything seemed possible. Just because no one else had ever done it didn't mean we couldn't try. Every year we grew, but every year, everyone went on the annual retreat. Everyone knew what mBank's goals would be for the year ahead. Everyone received a T-shirt with the upcoming year's goals printed on it: "Two million customers, number one in quality." And "500 ideas for 500 million." The t-shirts would always be red, the color of mBank, and the goals would always be ambitious. We would arrive, learn the goals, and break off into workshop groups to discuss ideas to achieve them. Then we would listen to lectures about new ideas, trends, and also stories from people's travels. Then we would party hard. At midnight, we would sign our mBank anthem, a song by Polish folk-rock band Golec uOrkiestra called "Bare Field".

It's a bare field now,
But it'll be San Francisco,
See that molehill,
My bank will be there.

We would come back to work confident that we would achieve the year's goals. Had we been manipulated? No. mBank's leaders just realized that employees are a company's most valuable asset. Each one deserves open communication. Each one is interested in where the company is headed. We hosted the workshops each year for a growing staff. Our job was to make the workshop format as effective as possible. Chief Executive Sławomir Lachowski would discuss the agenda with us in detail. Managers would be severely tested because their ideas would often be torn apart, and not just by the chief executive. Employees would learn that anyone could have an idea that would transform mBank, regardless of department. We would make the employees with the shortest tenure at the company, mainly interns, come up with the craziest business solutions they could think of to prime the rest of us for brainstorming.

Scientists say that some corporate cultures are like cults. Employees identify with the organization's value system, use insular jargon, making it hard to relate to people who work in other companies. That insularity can become a liability. I remember talking to a young man who decided to quit after working at mBank for a trial period. It was during our "mBank is a woman" marketing campaign. I asked him why he was leaving. "mBank is a beautiful woman," he said. "But she's not my type." Not everyone wants to work in the corporate culture of mBank. But its clarity was its strength. "If you like to work hard and have fun doing it, come join us." We were all responsible for reinforcing this message.

I like to reminisce about those days. The air smelled of revolution, a revolution in banking, punk style.

Arkadiusz Jadczyk:

Our personal individualities combined to create a whole, which rarely happens in the corporate world. If someone at mBank was a bit quirky, everyone knew about it and could respect it.

Fatigue first set in in the spring of 2002 and we all started seeing everyone else as freaks. We worked hard, all night sometimes, so we had to tolerate various weird behaviors. We also had to tolerate customers who would knock on the windows on the ground floor of mBank's headquarters on Mickiewicz Street in Łódź asking to be let in to mBank's offices. That was twelve years ago. People wanted to see the online bank. They wanted to see that it existed.

I like to reminisce about those days. The air smelled of revolution, a revolution in banking, punk style. We were creating an alternative. Banking would never be the same. We had rituals. Trips abroad were journeys of discovery. Employees would have a concrete purpose for going, like a conference to attend, but would also be attuned to anything else that could help us, like how the London Tube works, or how a Starbucks is decorated or what Portuguese ATM machines look like. Anything that could inspire ideas and beat the competition. We would take pictures of interesting things and bring back marketing materials. Looking at the products and services of banks abroad became standard practice. As soon as an mBank employee would land in the United States, they would go either to Starbucks or the Wal-Mart to see these famed business models with their own eyes. And we would come back and make presentations about what we had seen. Because we were all shooting for the same goal, we happily shared knowledge. We shared notes from training courses and conferences. Meanwhile, Lachowski would give people mandatory reading assignments by handing them books. Books were also his way of rewarding employees for a job well done, and they were always carefully selected for the recipient, with a personal dedication. Such a book was meant as a tool to improve an employee's results even further, to increase their potential. Wojtek Bolanowski read *The Cluetrain Manifesto* from cover to cover in one night. He became our customers' favorite mBank worker. People tracked his every move on the internet. Trips abroad weren't just about learning something from foreign experts. Employees came back all wound up and inspired by what they had seen and heard. They would then set to work like well-oiled machines. Those trips were about seeing where the bar was. What level we should aim to match and surpass.

Alina Strycharz, responsible for all of human resources in BRE Bank Retail Banking, had trouble understanding what mBank was about, at first:

I joined the company in 2002. The train was picking up speed. Even my first interactions with the bank foreshadowed an adventure. I thought banks were serious. But everyone was running from desk to desk and talking loudly on their phones in the open space. It looked like ground control shortly after a shuttle launch. I had worked in small teams for 17 years, training other companies' employees, but I didn't have any experience on the inside. If this is what working in a corporation looks like, it isn't so bad, I thought. I was charmed by the movement, energy and cheerfulness. I was looking for a new challenge but I didn't have the qualifications for the position, which was HR manager in charge of training policy. I didn't have any experience in HR. I didn't have any experience working in a corporation. I just knew how to support people to grow and learn. I was a devotee of American psychologist Carl Rogers and his person-centered approach. I believed that by seeing the potential in people and creating the right conditions for them, you can prompt them to take ownership for their own professional lives and succeed.⁵⁵ I was armed with self-awareness, assertiveness, listening skills and knowing when to give feedback. I have tried to teach these skills to others throughout my whole professional life.

At mBank I was given the opportunity to create the right conditions for people to grow, in an environment based on the values I shared. The business needed workers who could build natural and authentic relationships with customers. Only then could customers feel sure that the offers made to them were prepared with their best interest in mind. Our financial advisors had to be professional, and that professionalism had to be based on communication skills, ability to manage their emotions, and to understand the needs of the customer. We used the Experiential Learning Model developed by American educational theorist David Kolb. He developed a process that starts with concrete experience, goes to observation of and reflection on that experience, then moves on to formation of abstract concepts based upon the reflection, and then testing the new concepts.⁵⁶ Employees analyzed what helped them achieve their goals, which would enable them to figure out what they had to change in their behavior. With each analysis, we encouraged workers to think how they could achieve their goals quicker, more effectively, and at less cost. We taught people how to take advantage of opportunities and how to spot those opportunities in the first place. We didn't want workers to fall into a rut of mechanically repeating learned behaviors. Nowadays, what we did for mBank workers is called coaching. Our trainers didn't tell the financial advisors how to get customers. They would inspire them to think and draw conclusions. At first, workers were not happy at all.

⁵⁵ Carl Rogers, *On Personal Power: Inner Strength and Its Revolutionary Impact*, Delacorte Press, New York 1977.

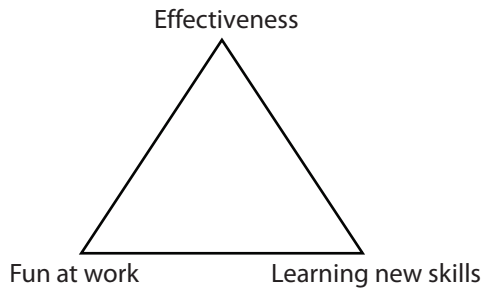
⁵⁶ David A. Kolb, *Experiential Learning*, Prentice Hall, Inc, Upper Saddle River, 1984.

“What kind of training is this?” they would say. “They don’t tell us how we should act. They don’t give us scripts. We have to think of everything ourselves. What kind of experts are these?” We would tell them what to do, but in our own way. We would tell them what the goal is. We would tell them what values we all had to remain faithful to. We would point out guidelines that foster good customer relations. We would practice behaviors we considered constructive. All so that workers could build their own skills.

After our training sessions, workers didn’t ask for regular training courses any more. We would only hire companies that had courses based on authentic participant experience using feedback that would teach how to control your emotions and be assertive. We wanted our workers to be aware and responsible. And we wanted these traits to be the foundation for our corporate culture as a whole.

Building our corporate culture was a planned process, but the process left room for spontaneity.⁵⁷

At mBank, people were looking for challenges. **They wanted to experience an adventure in business while growing personally and professionally.** That required the company’s leadership and employees to balance three elements:



Two things about working with people are paramount to achieving this balance:

AWARENESS	RESPONSIBILITY
Reflection that encompasses all information about work, the goals of work, its context, its terms and conditions, experience, scenarios of action, own motives and behaviors, and relations with others.	Owning your work, taking responsibility for its results and style.

⁵⁷ Piotr Kociołek, *Managing people and projects at mBank and MultiBank*, internal BRE Bank document, 2002.

Employees made progress by leaps and bounds. They were becoming more effective, more entrepreneurial, and ready for new challenges and responsibilities. These were mainly young people. When mBank was founded, the average age of its workers was about 30. They loved being able to influence their workplace and created rituals that became part of mBank's corporate culture. We played soccer together. We partied together after work. mBank organized a marathon in Łódź. We had our Christmas party at the skating rink. But above all, mBank's corporate culture was geared to be effective.

"Management is what tradition used to call a liberal art, 'liberal' because it deals with the fundamentals of knowledge, self-knowledge, wisdom, and leadership; 'art' because it deals with practice and application," said Peter Drucker, the management guru. "Managers draw upon all of the knowledge and insights of the humanities and social sciences, on psychology and philosophy, on economics and history, on the physical sciences and ethics. But they have to focus this knowledge on effectiveness and results."

I agree. As a chief executive, I tried to find business solutions that reached into the foundations of knowledge. Self-knowledge showed me the limits of my own leadership skills. Wisdom is the sum of knowledge and experience combined with self-reflection. Leadership is action measured by results, profit and a company's market capitalization. But in the longer term, leaders are judged by the culture they have created, worker satisfaction, innovation, and the competitive advantage of their firm. I left BRE Bank in March 2008. That's when I realized that my biggest achievement wasn't BRE Bank's profit margins or the record-high share price, but its innovative business model and the idea of management by values. These two things made BRE Bank stand out. They were impossible to copy and gave the bank a long-term competitive advantage.

ABCXXI All of Poland Reads to Kids – Be Prepared, Be Responsible

Read to your kid 20 minutes daily. Every day!

The slogan of ABCXXI

The non-profit sector has been a force in the world for 50 years now and in Poland for the past 20 years. That's thanks to the emergence of civil society and to the increasing effectiveness of non-profit sector management. Manager used to refer only to someone who worked in business. In the non-profit sector it was a bad word. But nowadays, the people who run non-profit organizations are often business school graduates. Non-profit no longer means disregard for accounting. These organizations are judged on their ability to fundraise and then spend those funds effectively. People donate as an investment in charity and they want their money to be spent well. Foundations that are well-run get more funding. So they need effective leaders and managers just like for-profit companies do.

Bill Gates made Microsoft the most valuable company in the world and then stepped down when he was 53 to run the Bill & Melinda Gates Foundation. The foundation funds the search for and the implementation of innovative solutions in health care and education in the developing world. It has \$37 billion to spend, making it one of the richest foundations in the world. One of its biggest donors is legendary American investor Warren Buffet, the founder of Berkshire Hathaway. Buffett has said he will make the Bill & Melinda Gates Foundation the benefactor of nearly all of his wealth when he dies, about \$44 billion. The non-governmental organization sector is big and still growing.

In Poland, there were 12,000 registered foundations and 71,000 associations, according to Polish statistics office GUS. If you include volunteer firehouses, that boosts the total number of Polish NGOs to 100,000. Most of them support sports activities, tourism, or a certain hobby. Some are educational organizations or support art. Polish NGO's are usually run by volunteers. Only a fourth have a permanent staff.⁵⁸

⁵⁸ Jadwiga Przewłocka, Stowarzyszenie Klon/Jawor, *Kto się angażuje w działania trzeciego sektora?*, <http://osektorze.ngo.pl/wiadomosc/668210.html>.

The meaning of not-for-profits' existence is their mission. Their values determine their success. Until now, NGO leaders learned management skills from the business sector. But businesses can learn a lot from the leaders of NGOs. I could have used many NGOs as case studies for this book. The character and mission of the ABCXXI All Of Poland Reads To Kids Foundation are especially dear to me.

The World According to Irena Koźmińska

When I was preparing to write this section of the book, I conducted a long, interesting and incredibly inspiring conversation with the founder of the ABCXXI All Of Poland Reads To Kids Foundation, Irena Koźmińska. I listened to her stories about the foundation for over two hours and didn't dare interrupt though I had prepared dozens of questions. I've met many business leaders in my life, Jack Welch, Bill Gates, Warren Buffett, Steve Jobs, Ingvar Kamprad, the founder of IKEA, and Irena Eris, the Polish cosmetics entrepreneur. And I've found that the best leaders of NGOs are their equals. Irena Koźmińska, a founder of a charity that promotes the idea of parents reading to their kids, is a great example. Since NGOs aren't driven by profit, they need to be driven by the values of their employees. What follows is an introduction and explanation of Koźmińska's limitless commitment to ABCXXI, which she founded and runs. Rather than interpret what Irena has written or told me during our long interviews, I've decided to quote her at length to convey her thinking and the emotional foundation of that thinking:

We work longer and harder than the previous generations. In most families, both parents work to make ends meet, which takes them away from the home. We want to be young, have fun, grow, which also takes time. There's now a shortage of time, especially time for our kids. We use television as a babysitter. We outsource the work of teaching and raising them to nannies, nurseries, and schools. We're rushed, not inclined to reflect. Contemporary culture is ugly and deformed. It promotes selfishness. It's vulgar and

aggressive. It's toxic. The language, interpersonal relationships, and values have become contaminated. The language used in the media as well as the way parents communicate with their children invites comparison with the language of the gutter. The public is fascinated with violence and sex. Young people now simply use one another. Politeness and empathy are becoming extinct, and moral values are no longer a factor in decision making.

Culture used to develop the mind, teach us etiquette, raise people up. Today it turns people into thoughtless, insatiable consumers. We as a society permit the degradation of language and manners, the deterioration of the family, and the erosion of moral principles. Contemporary culture is supposed to sell well. So it must be simple and appealing to a wide audience. Culture is an expression of the state of being of the people who create it. It also is a response to the moods and appetites of society. It's now being created by a generation that was badly raised. It expresses rebellion, anger, frustration and moral emptiness. It's filled with ugliness and contempt for others.

But culture isn't just a mirror. It creates fashions and new ideas. The values it promotes are appearance, strength, cheek, sexual skill, and money. According to contemporary culture, the purpose of life is unlimited consumption and pleasure. Lack of respect for yourself and others, selfishness, betrayal, cheating, and violence. This is a recipe for a life of failure, and children are the ones who are the most susceptible to it. They grow up thinking these behaviors are normal. Many children don't know how to talk without cursing or how to behave politely because no one has taught them. No one has nurtured their talents and interests, no one showed them beauty and goodness. This is a dark side.

Children are now facing incredible peer pressure. Vulgar and aggressive behavior, which is often unhealthy and even life-threatening, is rewarded. Parents, on the whole, are poor psychologists. But businesses hire armies of psychologists to seduce children with brands that promote rebellion and sexuality. Two-year-olds can recognize brands now. Three-year-olds ask for them.

That makes children into loyal customers. Children also become very effective brand ambassadors. They are being betrayed by their parents and the institutions that should be protecting them. Their main skills become things that don't require education or work, meaning strength, arrogance, risk-taking, and sex. They don't want to feel helpless and invisible. Like all humans, they want attention and recognition. They want to grow up fast, because grown-ups don't have to listen to rules and lectures. They don't see adulthood as being responsible for oneself and others.

"Raising children is teaching them to enjoy that which is good," Plato said. But children today enjoy being destructive. We as parents, teachers and politicians have a lot to answer for. We've shirked our duties. If we don't stop this, these kids will grow up to be adults that don't know how to keep a job, maintain a loving relationship, or raise their own kids.

We're destroying these kids' future by tolerating a culture of ugliness, vulgarity, selfishness and anti-values. This culture is making life shallow. These kids will be unhappy and will make others unhappy.

It's hard to raise kids nowadays. It's hard to be a kid. Childhood is formative. It determines the future of civilization. Psycho-historical studies show that dictators and murderers were mistreated as children. Parents are the most important people in a child's life, but they aren't professionals. No one prepares them for the most difficult job of their lives, raising an emotionally and socially well-adjusted, smart and creative child. But that doesn't mean they should be let off the hook. They need to be supported and given good examples. Sending a child to a nursery from a young age is a recipe for emotional problems later in life.

Politicians see the dangers of global warming, terrorism, or the epidemics, but are blind to the dangers of badly raising the next generation. Sue Palmer, the author of *Toxic Childhood: how modern life is damaging our children... and what we can do about it*, said young people may not be able to carry the burden of contemporary civilization. But we can make a difference by spending more quality

time with our kids and by convincing other families, nurseries and schools to do this.⁵⁹

Singular Foundation

ABCXXI, founded in December 1998, fosters the emotional, psychological, and mental health of children and teenagers through educational and marketing campaigns.

Its goals:

- the emotional, psychological, mental and moral health of children and teenagers;
- raising smart, cultural and happy people;
- a society based on moral values.

The foundation's ethical code is based on 12 values:

1. respect;
2. honesty;
3. responsibility;
4. courage;
5. discipline;
6. peace;
7. optimism;
8. justice;
9. solidarity;
10. friendship;
11. beauty;
12. wisdom.

⁵⁹ Irena Koźmińska, Elżbieta Olszewska, *Wychowanie przez czytanie, Świat Książki*, Warszawa 2011; Irena Koźmińska, Elżbieta Olszewska, *Z dzieckiem w świat wartości, Świat Książki*, Warszawa 2007, and excerpts from my conversation with Irena Koźmińska of September 15th, 2011.

The foundation obliges its members to follow 12 principles:

- Actively promote the ethics code;
- Act in good faith;
- React to evil, even small evils;
- Look for and create win-win situations;
- Focus on the positive;
- Don't criticize;
- Work for the foundation selflessly;
- Have the good name and interests of the foundation at heart;
- Cooperate, support one another, and respect the foundation's structure;
- Strive for excellence, read widely;
- Be creative;
- Be apolitical.

The foundation's main activities:

1. Raise awareness about the dangers children now face.
2. Raise awareness about the formative characteristics of childhood and children's emotional needs.
3. Raise awareness about the widely available, affordable, and effective tools for developing children's emotional intelligence, moral fiber, and knowledge:
 - Advertising campaign "All of Poland Reads To Kids"
 - The Teaching Values Program.

The foundation's first big project was an international conference titled "How to Love a Child: New Discoveries in Psychology", held in Warsaw in May 1999. In 2000, the foundation launched pilot education program called "Childhood for the Rest of Your Life", aimed at kindergarten teachers, and "A School with Character", aimed at elementary and middle school teachers. They taught basic psychology, how to build a healthy relationship with your child, and how to create a good environment for learning. In June 2001, the foundation launched a national campaign to promote reading. It was received enthusiastically by the media and society, even though Koźmińska was a prominent critic of mass media and passive

parenting. The purpose of the campaign was to raise awareness about how reading to your child will improve their mental and moral health and imbue them with the habit of reading. The phrase, “Read to your child 20 minutes a day, every day,” entered the Polish language.

In June 2002, the foundation organized Poland’s First Annual Week of Reading to Kids, in which over 150 towns and cities participated. A year later, 300 towns participated, and by 2010, there were 2,500 of them. In 2003, the foundation launched two educational programs, “The Reading School” and “The Reading Kindergarten”, which encouraged teachers to read aloud in class. In Poland, 2339 schools and 2376 kindergartens joined in. The foundation also produced several television ads showing Polish celebrities reading to their own kids.

In 2004, the foundation ran a national book-drive thanks to which libraries across Poland received thousands of new books. In March 2006, the foundation launched a literary contest named after Swedish children’s author Astrid Lindgren. Over two years, the foundation received over 1,500 manuscripts of children’s books. The winners had their books published. The foundation also joined up with *Polityka*, a Polish weekly, publishing together a collection of 23 books, the first of which was handed out for free. That very first book was printed in 250,000 copies, and the total for the whole collection reached 2 million copies printed. From 2006 to 2011, the foundation organized over 100 educational conferences and workshops for parents, teachers, journalists, psychologists, police officers, priests, and politicians. In 2008 and 2009, the foundation created a post-graduate course for teachers at Wyższa Szkoła Psychologii Społecznej w Warszawie, (University of Social Sciences and Humanities in Warsaw) called “Reading as a Tool of Education and Development”.

In 2011, the foundation started to work in prisons, helping them to create reading corners in visiting rooms and teaching prisoners and guards about the benefits of reading to children. When children visit their fathers or mothers in jail, everyone is often silent. They don’t have anything to talk about. Reading is a way to connect. That same year, the foundation launched an online education platform, Internetowy Uniwersytet Mądrego Wychowania (Online “How To Raise Your Kids” University). It also started an in-hospital program of donating a book, My Baby’s

First Book (Pierwsza książka mojego dziecka), to mothers of newborns. New mothers also received a DVD called How To Love Your Child and a CD of lullabies. The foundation also supports organizations abroad that promote reading to children. In the Czech Republic, the foundation helps out with “Celé Česko čte dětem” (All Of Czech Republic Reads To Kids), a campaign that was embraced by Vaclav Havel. Slovakia has its own equivalent and similar programs will soon kick-off in Lithuania and Slovenia.

On the tenth anniversary of ABCXXI, Irena Koźmińska inaugurated a new initiative, “All of Europe Reads to Kids”.

All of Poland Reads To Kids?!

“Read to your kid 20 minutes daily. Every day!” We should treat this advice as a categorical imperative. Reading develops a child emotionally, spiritually, morally and intellectually. Twenty minutes a day is enough to provide your child with a whole array of useful skills. There’s no investment that yields a higher return. “Reading to your child daily has magical properties,” Irena Koźmińska and Elżbieta Olszewska wrote in their book, *Educating through Reading*. “It satisfies your child’s emotional needs, fosters their psychological, intellectual, and social development... and makes your child happy, giving them wonderful memories for a lifetime. Plus it’s easy to do. It doesn’t require preparation; it’s pleasant and inspiring for the reader. If you borrow books from the library or trade them with other parents, then it’s also free... Children that get read to every day feel important and loved. This gives them self-esteem, internal strength, and faith in themselves, things that are as important to their future well-being as a healthy spine. Reading aloud creates a bond between the parent and child. This bond is one of the child’s most important developmental needs, necessary for them to grow into an emotional healthy and mature adult... Reading aloud to your child also fosters their language and intellectual skills. The way a person speaks and writes is their calling card. Having a rich vocabulary, being able to hold interesting conversations, and express yourself clearly and logically, are priceless.”⁶⁰

⁶⁰ Irena Koźmińska, Elżbieta Olszewska, *Wychowanie przez czytanie*, op. cit.

Thanks to thousands of volunteers and partners who supported the foundation financially, ABCXXI has managed to raise awareness in Polish society about the benefits of reading to your kids. Reading to your kids has become obvious. The foundation's annual budget was 1.2 million zlotys on average, a small amount when you take into account what it has accomplished. According to a public opinion survey conducted by pollster Ipsos in October 2006, 85% of Polish society recognized the "All of Poland Reads To Kids" campaign and one-third of respondents have changed their behavior in response to it. A study from 2011 showed that 54% of parents said they read to their kids, with one-fifth saying they read to their kids every day or nearly every day.

The campaign has lasted 10 years now and it should continue till the world ends! We have a tendency to forget obvious truths or not to pay them enough attention. By repeating the slogan, "Read to your kid, 20 minutes, daily, every day," we inspire new parents to act.

Children and the World of Values

I met Koźmińska in the spring of 1999, when she was in the midst of preparing the foundation "ABCXXI - Program Of Emotional Health" for an international conference called "How To Love Your Child: New Discoveries In Psychology." We met because she came to convince me of the need to shape people's emotional intelligence and to support her initiative. She was pleasantly surprised to find that the topic of emotional intelligence also interested me and that I had read the required texts of Daniel Goleman already. A lot of time has passed since then. The foundation has changed its name to "ABCXXI - All Of Poland Reads To Kids" and focuses on raising awareness about bringing up children through values, an idea I hold dear. Irena Koźmińska even co-wrote a book on this subject, *Z dzieckiem w świat wartości (The Child and the World of Values)*, with Elżbieta Olszewska. The Teaching Values Program is one of the foundation's more important initiatives. Its main tools are:

- training courses and conferences across Poland;
- the book *Z dzieckiem w świat wartości (The Child and the World of Values)*;

- Little Moral Compass – a publisher that produces books about values;
- an educational website called Living a Worthy Life (Tak Warto Żyć);
- Online educational platform Internetowy Uniwersytet Mądrego Wychowania (Online “How to Raise Your Kids” University).

“Introducing a child to the world of values is incredibly important as values become the child’s signposts in its daily life,” Koźmińska and her co-author wrote. “A child that knows right from wrong makes better choices. This knowledge, combined with self-esteem, makes a child resilient to being manipulated. It gives a child life capital in the form of respect, honesty, responsibility, loyalty, and optimism. If our children adopt these values, they will be sought after as students, friends, partners and workers.”⁶¹

We all love our kids and want them to grow up to be smart, happy, and professionally successful. We want them to create happy families of their own and to be good citizens. But raising kids is often seen as basic parental duties such as providing food, clothing, and shelter. But the most important duty is imbuing your children with values to guide them as a compass throughout their lives. Nothing compares to teaching by example.

When we make difficult choices, when we strive for excellence by learning new things, when we show respect for others, when we offer friendship, when we’re fair, responsible and loyal, we show our kids values in action. ABCXXI launched the Teaching Values Program to remind parents and teachers about the need to teach children values. The Living a Worthy Life website teaches how to develop your potential, emotional intelligence, and self-esteem to handle life better in our rapidly changing world. The website embraces the 12 values on which the ABCXXI code is based: respect, honesty, responsibility, courage, discipline, peace, optimism, justice, solidarity, friendship, beauty, and wisdom.

In *Children and the World Of Values (Z dzieckiem w świat wartości)*, Koźmińska and Olszewska suggest a set of values to use when raising your child. They explain why these values are more important than others and what to do to encourage your child to act in accordance with them.

⁶¹ Irena Koźmińska, Elżbieta Olszewska, *Z dzieckiem w świat wartości*, op. cit., Świat Książki, Warszawa 2000.

Little Moral Compass – a program to teach children about values

Mały Kompas Moralny

Przyjaźń i miłość

Przyjaźń to bliskość i bliskość serc -
i serce jest dla siebie
Bliźni są dla siebie
Człowiek spotyka, rozumie
potęgę, brzoję
Miłość to bliskość i bliskość serc
Miłość to bliskość i bliskość serc
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Miłość to bliskość i bliskość serc

Mądrość

Ciepły człowiek
Szlachetny człowiek
Zrozumienie się z sobą
Ciepły człowiek to człowiek, który rozumie i rozumie
Nie jest powściągliwym, powściągliwym
Jestem człowiekiem, ciepłym, ciepłym
Wierzę w siebie i doświadczenie
Pracuję nad sobą, pracuję nad sobą
Wierzę w siebie i doświadczenie
Pracuję nad sobą, pracuję nad sobą
Wierzę w siebie i doświadczenie
Pracuję nad sobą, pracuję nad sobą

Szczęście

Szczęście to bliskość i bliskość serc
Szczeniwość, optymizm, humor
Szczeniwość, optymizm, humor
Szczeniwość, optymizm, humor
Szczeniwość, optymizm, humor
Szczeniwość, optymizm, humor
Szczeniwość, optymizm, humor
Szczeniwość, optymizm, humor

Szacunek

Szacunek to bliskość i bliskość serc
Szanse, szanse, szanse, szanse
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Uczciwość

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www.calapolskacztydzieciom.pl

Odpowiedzialność

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Odruga

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Samodyscyplina

Samodyscyplina to bliskość i bliskość serc
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Polejność

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Sprawniwość

Sprawniwość to bliskość i bliskość serc
Szanse, szanse, szanse, szanse
Szanse, szanse, szanse, szanse
Szanse, szanse, szanse, szanse
Szanse, szanse, szanse, szanse
Szanse, szanse, szanse, szanse
Szanse, szanse, szanse, szanse

Solidarność

Solidarność to bliskość i bliskość serc
Solidarność to bliskość i bliskość serc
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Solidarność to bliskość i bliskość serc

Szczęście, optymizm, humor

Szczęście, optymizm, humor to bliskość i bliskość serc
Szczeniwość, optymizm, humor
Szczeniwość, optymizm, humor
Szczeniwość, optymizm, humor
Szczeniwość, optymizm, humor
Szczeniwość, optymizm, humor
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Pielno

Pielno to bliskość i bliskość serc
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Mondragon Corporacion Cooperativa: Values in action

Nothing differentiates people more than how they react to the conditions in which they live. Those who decide to create history and change the course of events have an advantage over those passively waiting for things to change.

José María Arizmendiarieta

Mondragon Corporacion Cooperativa (MCC), based in Basque Country in northern Spain, may be the most successful cooperative in history.⁶² Founded as an experiment in 1956 by five pupils of Jose Maria Arizmendiarieta, a progressive priest, it has grown into the biggest company in Basque Country and the tenth largest employer in Spain. In 2010, this cooperative had sales of 14.55 billion euros and a headcount of 83,859 spread over 19 countries. In less than 12 years since it expanded outside Spain, Mondragon has become a truly global company, present in Europe, Asia, North and South Americas.

The roots of this incredible enterprise reach deep into history and reflect the identity of Basque Country, an incredible region of Europe located in northern Spain on the Bay of Biscay. Some leaders leave an imprint on the businesses they found. Arizmendiarieta is surely one of them. In 1941, he arrived in the Basque (Euskal Autonomia Erkidegoa) village of Mondragon, a town in a valley destroyed by civil war.⁶³ Before he had taken his vows, the young Franciscan priest had fought in the Spanish civil war on the Republican side and had been sentenced to death by the victorious Francoists, avoiding the firing squad by a stroke of miraculous luck. Arizmendiarieta, also known as Arizmendi, was practical and hardworking. He wanted to rebuild society and exceeded his traditional duties as a priest in order to do so. In 1943, he set up a Polytechnic School, or institute of technology, a democratically run education center for 14-17 year olds.

⁶² Cheney, G., *Values at work: Employee participation meets market pressure at Mondragon*. Cornell University Press. Ithaca, New York 1999; Greider, W., *The soul of capitalism: Opening paths to a moral economy*, Simon & Schuster, New York 2002.

⁶³ Joxe Azurmendi, *El hombre cooperativo. Pensamiento de Arizmendiarieta*, Azatza, Otxalora 1992.

“Education is necessary to emancipate the worker,” Arizmendi said. He believed in cooperative ownership and in workers being co-managers of a business, because he felt it would bring about freedom and social justice. But he also believed that cooperatives needed to be commercially viable. In 1954, five graduates of his Polytechnic founded a small kerosene heater factory in Vitoria, which the priest soon convinced them to move to Mondragon and to turn into a cooperative. They named it Experiencia. This cooperative was the beginning of the Mondragon Corporacion Cooperative we have today. For the next 35 years, until his death in 1976, Arizmendi was the driving force of nearly all of Mondragon’s businesses and a shining example to all of the cooperative’s new members.

The model of a cooperative business turned out to be an incredible success. The number of cooperatives mushroomed. By the end of the 1950s, there were a few cooperatives in the retail sector that became the foundation for the EROSKI supermarket chain.

In 1959, Mondragon members founded a cooperative bank, Caja Laboral. It supported Mondragon’s existing businesses and helped nurture new ones. The 1960s was a decade of rapid growth for the cooperative in sectors including farming, heavy and light industry, and consumer goods. The 1970s brought consolidation and the rise of research and development in the form of Ikerlan Applied Research Center, which helped Mondragon innovate. In 1997, Mondragon founded its own university, by merging three schools it had previously run. Mondragon Unibertsitatea has four departments: technology, management, humanities and education, and gastronomy. Thanks to the university’s closeness to the cooperative, 90% of graduates begin working at Mondragon within three months of graduation.

Initially, the various cooperatives operated independently, but within the framework of Grupa Cooperativista Mondragon. Spain’s entrance into the European Union brought new opportunities and challenges. In response, the cooperatives formed a corporation, which soon had global reach. The cooperatives were reorganized by sector instead of by region (industry, retail, farming, finance, and research and development).

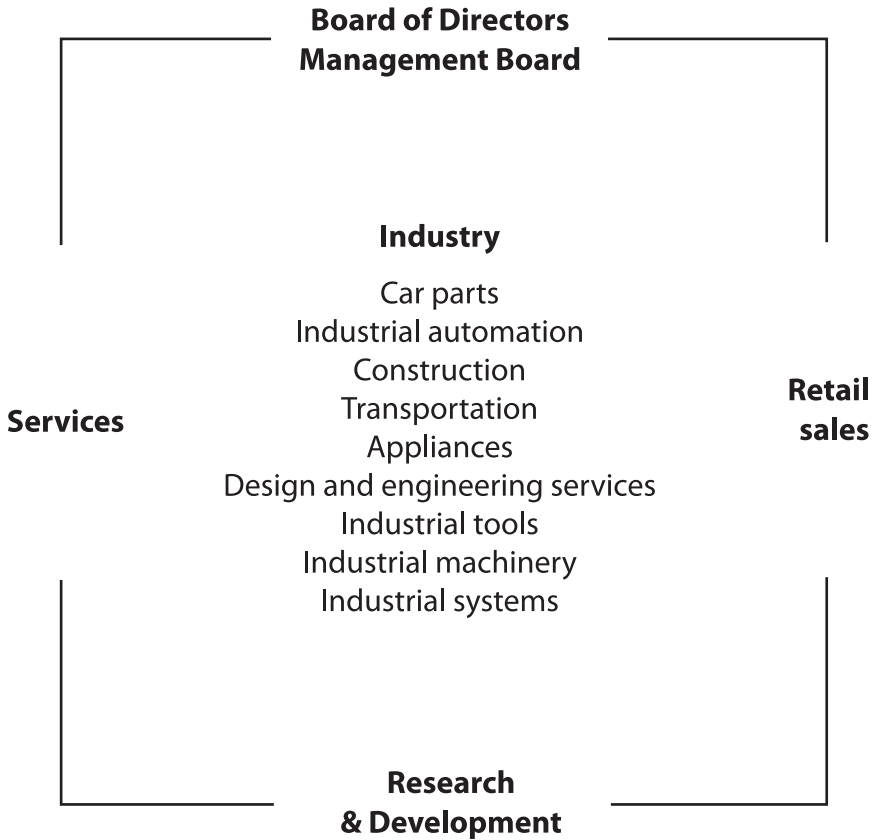
Mondragon – economic data

millions of euros

Description	2009	2010	Change year-on-year
GROWTH			
Total assets	33,334	33,099	-0.7
Equity	4,284	4,287	0.1
Consolidated Earnings	61	178	191.8
Caja Laboral Assets Under Administration	18,614	18,629	0.1
Lagun-Aro Endowment Fund	4,210	4,478	6.4
Total Revenue	14,780	14,755	-0.2
Total Turnover (Industrial and Distribution)	13,819	13,989	1.2
Overall Investments	378	101	-73.3
EMPLOYMENT			
Workforce at year-end	85,066	83,859	-1.4
% members of co-operative workforce in Industry Area	88.1	85.9	-2.4
% women members of co-operative workforce	43.7	43.7	-
Incident/Accident rate for Industry Area	38.8	37.9	-2.3
PARTICIPATION			
Stakeholding capital of worker-members	2,161	2,204	2.0
No. worker-members in Governing Bodies	904	892	-1.3
SOLIDARITY			
Resources allocated to community schemes	22	16.7	-24
No. students at Educational Centers	8,567	9,282	8.3
ENVIRONMENTAL MANAGEMENT			
No. ISO 14000 Certificates in force	54	54	-
No. EMAS Certificates in force	4	6	50
LOOKING TO THE FUTURE			
% Resources allocated to R&D over Value Added – Industry Area	8.1	8.1	-
No. Technology Centers	12	14	16.7

Source: mondragon-corporation.com

MCC organization structure



Source: Mondragon Annual Report 2010.

Four Sectors of Operations

Industrial Production

Most of MCC's operations focus on industry, divided into 12 sectors that employ 42.91% of MCC's workers as of 2009. MCC manufactures a wide array of goods, including industrial machinery for woodworking and packaging, construction, micro-processing, elevators, forklifts, refrigerators, car parts, appliances, and furniture. Mondragon has 75 subsidiaries in 17 countries: 13 in China, 9 in France, 8 in Poland, 7 in

the Czech Republic, 7 in Mexico, 5 in Brazil, 4 in Germany, 4 in Italy, 3 in the United Kingdom, 3 in Romania, 2 in the United States, 2 in Turkey, 2 in Portugal, 2 in Slovakia, 2 in India, 1 in Thailand, and 1 in Morocco.

Financial services

MCC operates a bank, a pension fund and an insurer. At the heart of Mondragon is its cooperative bank, Caja Laboral Popular Sociedad Cooperativa de Credito, opened to attract client deposits to finance the development of its cooperative businesses. It specializes in financing the development of the new and existing businesses of Mondragon, which is a risky corner of financial services, so it's a characteristically commercial bank and investment fund. It employs 1,800 people working in 370 bank branches, located mainly in Basque Country. It was the first bank in Spain to extend its opening hours into the afternoon and evening. It pays special attention to its advisory services, especially to institutional investors connected to Mondragon. In 2010, its deposits exceeded 17.5 billion euros, while loans exceeded 16.5 billion euros. The bank has one of the highest capital adequacy ratios in the Spanish banking sector, at 12.2%.

MCC also runs a private pension fund, Lagun Aro, for its worker-members and their families. In 2010, it had 29,973 active members paying contributions worth 2.5% of their salaries and 9,784 retirees drawing pensions. It has 4.48 billion euros in assets. Finally, MCC runs an insurance company, Lagun Aro Seguros, which sells life, property and car insurance both to members of the cooperative and to outside clients.

Retail Sales and Farming

Eroski is one of Spain's largest supermarket chains. Eroski has over 2,600 stores ranging from big-boxes to small corner shops in Spain and southern France. In 2010, it employed 48,000 people and had turnover of over 8.2 billion euros. Meanwhile, another MCC brand, Erkop, focuses on raising farm animals and cultivation of fruits and vegetables. It employs 6,500 people in its farms and food processing plants.

Research & Development

Over 1000 people work in MCC R&D, which includes Mondragon's university or Mondragon Unibertsitatea in Basque, trade schools, and a center focused on management. Its research centers include:

- Aotek - automation and optics;
- Edertek - prototype testing;
- ETIC Microsoft;
- Fagor Homotek - electronics, communication, acoustics, thermodynamics, power, nutrition, as well as appliance innovation;
- Ideko - machine tools and lasers;
- Ikerlan - new technology and its industrial implementation;
- Isea - business services;
- Koniker - solar panels;
- Lortek - welding;
- MTC - thermoplastics in cars;
- Orona EIC - packaging;
- Ulma - packaging.

Mondragon research centers – 2010

Name	Budget (millions of euro)	Headcount
Aotek	2.5	31
C.S. Centro Stirling	0.6	8
Edertek	4.1	32
ETIC	0.6	10
Hometek	3.5	39
Ideko	7.6	101
Ikerlan	20.2	266
Isea	1.1	11
Koniker	1.9	27
Lortek	3.2	42
MIK	2.0	25
MTC	7.0	105
Orona EIC	2.5	53
UPTC	2.3	28
	59.1	788

Źródło: Mondragon Annual Report 2010.

Mondragon's R&D centers study things agreed up on the highest level of the organization, as outlined in the Education and Technology Plan. The 2009-2012 plan focuses on:

- new materials and systems;
- alternative energy;
- IT and communications;
- healthcare;
- management.

The Mission of Mondragon Corporacion Cooperativa

Humanity at work



The secret to MCC's success is its culture and the fact that values are central to the way it's managed. The mission of Mondragon Corporation Cooperative combines the basic goals of a business competing on the global stage with democratic organization methods, job creation, its employees' personal and professional growth, and concern for other stakeholders in the community. Values are at the heart of MCC's organization, they point each worker-owner in the right direction, supply a set of useful guidelines for daily work, form the foundation of the organization and its identity. MCC's values describe its identity and are, at the same time, rules to follow daily.

Those values are:

- cooperation – shareholders and protagonists;
- participation – employee involvement in management;
- social responsibility – equitable distribution of benefits;
- innovativeness – constant renewal.

From the beginning, MCC was profit-driven. But the organization also had a vision of social and economic equality, human dignity, the dignity of work, and solidarity. Its foundations are:⁶⁴

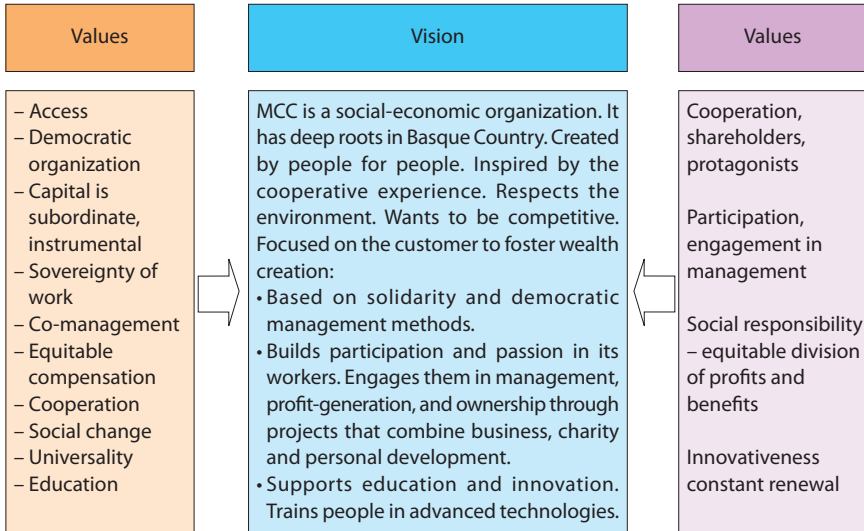
1. Hybrid organizational system based on profit-seeking and social responsibility aimed at accumulation of capital and driving the personal development of its members.
2. Creating tangible and intangible benefits for the individual, society and the business itself.
3. Democratic values.
4. Puts people first and net profit second.
5. Sees people, not institutions, as the driver of social change.
6. Expresses a pluralistic philosophy of life, where social and economic wealth grows in a society based on values.
7. Is an example to others.

Mondragon was built according to the principles of Catholic social thought and is considered the best example of the co-existence of traditional economics with social economics, based on the co-ownership of the means of production and self-employment of worker-owners. Despite its size, its geographical diversification and the extensive range of businesses it operates, its principles are simple. Only people who work for the cooperative can become its shareholders. Each cooperative member has one vote during elections to the supervisory board. The supervisory board then picks the management board.

Managers also have to join the cooperative. Membership costs 5,000 euros, which can be paid over two years. To prevent income disparity, the

⁶⁴ Bonnie Richley, *A Theory of Socio-Business Diffusion: Understanding the Influence of Mondragon Corporacion Cooperativa as a Positive Force for Change at the Intersection of Business and Society*, Case Western University, August 2009, p. 94.

Mondragon Culture



Source: Francisco Javier Forcadell Martínez, Democracia, cooperación y éxito: Implicaciones prácticas del caso de Mondragón UNIVERSIA BUSINESS REVIEW-ACTUALIDAD ECONÓMICA, Segundo Trimestre 2005, p. 57.

cooperative has a rule that the highest salary cannot be higher than the lowest salary times five. In practice, this means that low-ranking workers make more at Mondragon than their counterparts at other companies. Upper-level managers make less than executives in traditional capitalist corporations. The ratio of income disparity ranges from three-to-one and nine-to-one, with anything higher than five-to-one requiring the approval of all workers.

Mondragon's values, similarly to the values of any other organization, are the most important ingredient of its corporate culture. These values say what the purpose of the company is and what the common goal is. These values give its members a set of clear pointers of behavior and expected attitudes in daily work. They decide on the company's identity, bind the organization together and help develop an individual management philosophy. At the highest level, Mondragon has established a mission/vision and overarching values to support execution of that mission.

Chapter 3.

Breakthrough Ideas and Great Management Gurus

*Management competency, thoroughness,
and efficiency in the coming decades will determine the future
of the United States, and the free world.*

Peter F. Drucker

For over twenty years management was my main occupation. As a manager in companies both big and small I made decisions about restructurings and reorganizations. I supported the business ideas of my peers, and initiated some of my own. I also devoted my attention to the company's core needs, like planning, organizing, coordinating, evaluating and motivating employees, and enhancing both internal and external communication.

Without a doubt, I was lucky to have participated in some unusual projects and business ventures. Being in the top tier of management, I made decisions about essential company matters, which by virtue of their magnitude affected whole sectors of the economy. Sometimes I made these decisions as part of a team, and sometimes alone.

In the early 90s I was responsible for the restructuring of PBG SA, the third largest bank in Poland by assets at the time. I was responsible for its most important clients, such as Płock Petrochemical, Bełchatów Coal Mine & Power Plant, and Opole Power Plant, and the biggest textile makers in Poland. I faced the challenge of restructuring the largest bank in Poland, PKO Bank Polski, and creating its growth and development strategy.

I always consciously and consistently strove to use the best management knowledge and practices made accessible to me by business leaders, so as to increase the chances of success of my own ventures.

When I was working on creating the first online bank in Poland (mBank) and innovative brick-and-mortar bank for emerging middle class (Multibank), I was granted a rare privilege. I was lucky to have the chance to work on projects from the moment of their conception and then watching the seeds grow into businesses with millions of customers and that changed the reality we live in.

I always consciously and consistently strove to use the best management knowledge and practices made accessible to me by business leaders, so as to increase the chances of success of my own ventures. I had to balance intense work, with continuing education - both self-education and participation in management programs at leading universities and business schools. When analyzing business ventures, I first approached them from a scientific standpoint, but I didn't ignore my intuition. I am deeply convinced that the internal voice which tells one what to do in moments of uncertainty must be based on knowledge, experience, and reflection. I expect the same from my coworkers and project team members. As culmination, I created a special program of study for the leaders of mBank, MultiBank, and BRE Bank.

The price of knowledge is never too high, but using the experiences of others to avoid your own mistakes is free. From over twenty years of work which mainly consisted of managing projects and organizations, I was able to verify the effectiveness of the management concepts I had learned. It also helped that I had direct contact with many famous world business leaders, management gurus, consultants, and university professors. Driven by necessity, knowledge, instinct, and sometimes even curiosity, I tried out many theories and ideas on management. I can testify to their effectiveness based on the partial and general results which I gained by using them. Management is not an arcane science, but exploring its depths requires a lot of work, consistency, and patience. The ultimate test of knowledge and theory is always the result it brings when applied in reality, and this distinguishes management from economics and the social sciences.

In addition, the science of management, but even more so its application in the real world is constantly undergoing revolutions. This is why in the realm of management there are so many different concepts, ideas, as well as a slew of distinguished people who created them and convinced others to implement them. There is no Unified Theory of Management. It is quite the opposite - for different tasks, you can and should apply a variety of approaches to achieve the best results possible.

Hefty textbooks are stuffed with general management knowledge, which students diligently study so that they can pass their exams, but theory is useless when they face management challenges in the real world. I'm not saying that studying general management practices isn't important. Reading management classics is worthwhile, and I encourage it because it allows you to understand the context in which decisions should be made, and how to use the management tools at your disposal.

In practice, the most meaningful tools are the ideas and concepts which help you solve concrete problems critical to the workings of the company at its current stage, and they also often depend on changes in the economic environment and your own outlook on where the company is heading. It's best to use a few tools at once that allow you to deal with the most important issues in a concentrated manner. Studies have shown that big companies use an average of 11.4 management tools simultaneously, which embody different concepts of management such as strategic planning, management by mission, Total Quality Management, Six Sigma, benchmarking, Customer Relationship Management, balanced scorecards, and many others.⁶⁵

In this chapter I would like to share my professional experiences, and present a menu of the most effective management concepts for a given set of conditions, often of a breakthrough nature. New management ideas are the result of changing environmental conditions and the operating principles of enterprises. This doesn't mean, however, that old concepts are going the way of the dodo. In fact, they still remain in force - whether in full, in part, or after adapting - and are worth mentioning because they have stood the test of time. As a rule, management ideas and practices

⁶⁵ Darrel K. Rigby, *Putting Tools to the Test: Senior Executives rate 25 Top Management Tools*, Strategy & Leadership, MCB University Press, 29.03.2001, p. 4.

are closely tied to their creators, quite often prominent luminaries. In presenting these ideas to you, I will also have the occasion to introduce you to the management gurus I respect. They are researchers in the most general sense of the word - as managers, business leaders, and consultants.

Since 1993, Bain & Company - a well-known and respected consulting firm - has been publishing a list of the most popular and most widely used management tools and concepts. In 2002 a different consulting company, Accenture, created a list of the fifty greatest management gurus, thinkers, and writers whose books and articles on management were currently most popular among readers.⁶⁶ In 2001, and every two years thereafter, the website thinkers50.com lists the fifty most respected management personalities. Who gets on the list is based on user votes and an evaluation by an expert panel of judges.

The International Institute of Management also announced, in alphabetical order, its own list of the most recognized business gurus - limited to fifteen - as well as a list of fifty management thinkers and practitioners who belong in the Hall of Fame.⁶⁷ In 2003, Harvard Business Review asked 200 business gurus whom they preferred as representatives of their field, and the results were quite shocking. In first place, as expected, was Peter Drucker. But the names that followed were unknown to the general public - James March, a professor at Stanford University, specializing in social sciences; Herbert Simon, the 1978 Nobel Prize laureate in economics for breakthrough research on decision making within economic organizations; and Paul Lawrence, a professor at Harvard Business School, and a specialist in organization theory.⁶⁸ *The Economist* published a *Guide to Management Ideas and Gurus* by Tom Hindle; it presents 103 management concepts and their 54 inventors.

My list is limited to only a few management concepts, which have proven effective in helping me accomplish my projects, and a few

⁶⁶ Thomas H. Davenport, Laurence Prusak, H. James Wilson, *What's the Big Idea? Creating and Capitalizing on the Best New Management Thinking*, Harvard Business School Press, Boston 2002.

⁶⁷ iim-edu.org

⁶⁸ Laurence Prusak, Thomas H. Davenport, *Who Are the Gurus' Gurus*, Harvard Business Review Survey, December 2003, p.14-16.

innovative thinkers, consultants, and business leaders whom I regard most highly. Management is a relatively young field that has evolved over the last 100 years. It's more than just a field of knowledge. It's a separate industry that can be divided into three parts: business schools, consulting, and a market of conferences, training, and business books.

The science of management is growing and developing at many business schools, which often operate in parallel with well-respected universities that maintain great traditions. The growing phenomenon of post-graduate studies in the field of administration and management has made it an almost mandatory pre-requisite for young managers, despite the high cost. The best schools gather people from all over the world, both among faculty and students. In the forties, managerial lessons were included in the curriculum of only three universities in the US - now they are present in almost all institutions of higher learning. Although management is one of the more popular and prestigious fields of study to major in, it still lacks a uniform definition. Interpreting the term "managing," which is sometimes likened to "directing," shows a wide variation. There are about as many definitions of management as there are books on the topic, as if the authors feel that creating their own definition is a point of honor.

Mary Parker Follett and Henry M. Boettlinger believe that management is an art - a creative "tidying of the organizational chaos" - and like every branch of art and literature, it requires three components: the vision of the artist, craftsmanship, and an effective way of communicating with the audience. Michel Crozier argues that management was and is half science, and half wise decision making in uncertain conditions. Wikipedia provides us the general definition that management is the art or practice of using your resources rationally to achieve your goals. Today, the management paradigm has changed, and it's understood in terms of its purposefulness, as an action which serves to realize a predefined result with limited resources. Managing is a set of actions - including planning, making decisions, organizing, leading, and controlling - which target the organization's human, financial, material, and informational resources, and is executed with the intention of achieving organizational successes in an efficient and effective way, according to Ricky W. Griffin, a professor at Mays Business School. Peter Drucker, the father of management theory,

“Management is taking action to achieve a goal.”

came up with the simplest definition in his book, *The Practice of Management*, published in 1954: “Management is taking action to achieve a goal.”

Management Pioneers and the Beginnings of the Science of Management

One of the first famous management thinkers was undoubtedly Frederick Winslow Taylor. An inscription on his gravestone reads, “Father of Scientific Management,” and he certainly earned that title. His management theory, dubbed Taylorism, was one of the first created. Taylor started his professional career in 1878 as a regular worker at the Midvale Steel Works in Philadelphia and over the course of twelve years he quickly climbed to the rank of chief engineer. During his time at Midvale, he began his research on management from a technical standpoint - by studying methods of metal processing and the operation of conveyor belts - as well as from an organizational one, where he studied compensation methods, and measuring the time it took workers to complete various tasks. During this time, he also won two doubles US tennis championships and attended Stevens Institute, where he earned a mechanical engineering degree.

For three years, he was the chief director of the Manufacturing Investment Company, a company that operated large paper mills in Maine and Wisconsin. Later, he became an independent organizational consultant working for a series of companies like Northern Electrical Manufacturing

One of the first famous management thinkers was undoubtedly Frederick Winslow Taylor. An inscription on his gravestone reads, “Father of Scientific Management.”

Company, Johnson Company, Lorain Steel Company, and many others. During that period he studied and reorganized the sorting of bicycle ball bearings in the technical inspection department of the Simons Rolling Company. He gained some well deserved fame, because his results were impressive:

- cut the number of sorters to 35 from 120;
- increased sorters' wages by 100% on average
- shortened the workday by two hours
- increased sorting precision by 50%

In 1898, Bethlehem Steel Corporation hired Taylor to reorganize the company. While conducting studies in the field of industrial engineering, he improved machining tools by developing High Speed Steel (HSS) with a team of assistants. As a result, the new tools increased cutting speeds to 18 m/min. At the time, the best carbon steel cutting tools reached speeds of only 3.6 m/min. However, he spent most of his time increasing productivity through improving work organization. He was often seen patrolling with a stopwatch in hand, measuring the time it took to complete simple manual operations that made up the production process. His research on men who worked loading and unloading raw materials and finished goods (ores, coal, coke, slag, sand, limestone, pig iron in blocks) on railway sidings and stacking yards went down in history. Daily wages were in effect, and work crews of 5 to 20 employees were supervised by foremen, whose role was confined to formal control. By determining the exact details of the loading and unloading process - including the shape of the shovel, the length of the handle, the angle of the shovel upon scooping, the correct posture when leaning to unload the materials onto a wagon, and even the positioning of a worker's feet - Taylor elicited a 3.8-fold increase in productivity among loading laborers. He specified required productivity standards, and introduced a performance-based pay system that relied on different piece rates.

Another case described by Taylor that is worth remembering is one which concerns the unskilled laborer Henry Knoll, disguised under the name Schmidt. A scientific analysis of his work process made it possible to introduce changes which resulted in a significantly higher productivity. Before implementing the new system, Schmidt machined an average of 12.5 tons of steel daily. Thanks to the modifications, his standard rose to 47 tons daily, and his salary increased by 60%. According to Taylor, the application of new management and organizational methods in the work place benefits everyone interested, employee and employer alike. "Our

system does not depend on the initiative of our people,” Taylor said. “We don’t want any initiative. All we expect from our workers is to execute their orders - to do exactly what we have told them to do, and to do it quickly.”

The experiences Frederick Winslow Taylor garnered at the Bethlehem Steel Corporation and elsewhere became the basis of principles which constituted his scientific approach to the organization of work. In 1903, he published a book about his findings called *Shop Management*. It was the first book ever written about the science of organization and management.

In 1911, Taylor refined this theory in a book he titled *The Principles of Scientific Management*, which served as an expansion of his earlier scientific management principles. It became a bestseller. In Soviet Russia, scientific management was hailed enthusiastically by Lenin, and later under Stalin, it became part of the economic ideology of the state.

However, only a primitive version of Taylorism was implemented, and its practices quickly degenerated. In 1935, Alexei Stakhanov, a famous Soviet miner, mined 14 times his standard quota of coal in one day. Soviet leaders used him as inspiration of a Stakhanovite Movement, which encouraged workers to exceed standards of production. Mateusz Birkut, a character in *Man of Marble*, a movie directed by Andrzej Wajda, was a mason hailed as a Stakhanovite.

The principles of scientific management quickly gained popularity and followers. But some saw it as a system which allowed for the extensive exploitation of workers. People criticized Taylor for treating man as an extension to a machine, and for not analyzing the psychosocial and ergonomic effects of his organizational work methods.

“In the past, man was the most important; the future belongs to machines,” Taylor said. His theory placed technology and scientific management above sociological factors, and ignited the ongoing debate about the roles of people versus technology. His ideas aroused the violent opposition of the American Federation of Labor, who in 1914 asked Congress to prohibit the implementation of the principles of scientific management. This resulted in a ban on timing workers, and ended the use of bonus pay systems in companies which produced things for the US Army. However, this did not prevent the rapid dissemination of Taylor’s

scientific management principles. An International Committee for Scientific Management was established in 1924 to research and propagate management ideas.

Frederick Winslow Taylor's publications and achievements inspired Henri Fayol, a pioneer of modern management in Europe. Fayol amassed a slew of unusual experiences during his thirty years of work from 1888 to 1918 at the large mining and metallurgical corporation Compagnie de Commentry-Fourchambau-Decazeville, where he rose to the level of director. Fayol was then appointed as chief executive officer to carry out the liquidation of the company, which had become uncompetitive and was losing money. Instead, by applying new management principles, Fayol brought the company back from the brink of bankruptcy and transformed it into a leader in Europe.

In 1916 he published a book, *Administration Industrielle et Générale; prévoyance, organisation, commandement, coordination, controle*, which summarized his management knowledge and experience. He classified the broadly defined functions of a company into a list:

- Technical, relating to manufacturing;
- Commercial, including the purchase, sale, and exchange of goods;
- Financial, relating to the raising of capital, and its use;
- Insurance (protection of assets and personnel)
- Accounting (inventory, costs, and analyses)
- Administrative

Fayol, a mining engineer by trade, spent his entire professional career in one place, rising to the very top of the corporate ladder. He didn't think management required any special abilities, but was simply a skill like any other. His message was that the success of any manager depended on their compliance with some fundamental principles, which simply needed to be learned and skillfully applied. According to him, the roles of a manager are:

1. Planning;
2. Organizing;
3. Decision-making;
4. Coordinating;
5. Controlling.

You won't acquire knowledge through everyday work alone.

“Command and control” was the authoritative message of management schools, especially popular in the fifties and sixties, whose source was based on

Fayol's theory. The management concept Fayol presented was to some extent contradictory to Taylor's scientific management theory. “Taylor's approach differs from ours, in that it analyzes companies from the bottom to the top,” Fayol said. Fayol observed companies from the perspective of a top-tier manager, and was able to analyze managerial techniques in a way which ensured their effectiveness. Using himself as an example, he was the first to promote the idea that managerial success wasn't the result of extraordinary abilities, but the effect of applying appropriate managerial methods. He was certain special talents or an innate know-how weren't necessary to be a successful manager, because management could be learned. In 1917, shortly after the publication of *Administration Industrielle et Générale*, Fayol founded the Centre d'Études Administratives in Paris. The following year, the Higher School of Commerce (Ecole Supérieure de Commerce) in Paris introduced two management courses to its curriculum – “Management of Companies,” and “Labor Organization” – taught by Fayol. “You won't acquire knowledge through everyday work alone,” he told students. “Cultivate your minds through books, magazines, and your own work - otherwise you will find only disappointment.” Using himself and his achievements as an example, Fayol created the universal foundations of management.

When Frederick Taylor's associate, Henry L. Gantt, began working as an independent management consultant, he modified the system of incentives – originally created to increase work efficiency - by making worker performance evaluations public. In addition, while working for Bethlehem Steel, he developed the Task and Bonus System in 1910, which

Cultivate your minds through books, magazines, and your own work - otherwise you will find only disappointment.

contained within it an innovative system of charts that scheduled production. These bar charts that illustrate a project schedule quickly became a popular planning tool, and are still in use today. They're called Gantt charts.

A Polish pioneer in scientific management, Karol Adamiecki, actually invented the Gantt Chart before Gantt himself.⁶⁹ Adamiecki's activities and achievements place him among the prominent pioneers of scientific management theory. He graduated from the Higher School of Crafts in Łódź, and later acquired his title of process engineer while studying at the Institute of Technology in St. Petersburg. He took up work at the Bankowa Steel Rolling Mill in Dąbrowa Górnicza, where he rose through the ranks to become the assistant to the chief executive. He was fascinated by technical and organizational innovations. His main goal was to limit wasted time. As the director of the Pipe & Iron Rolling Mill in Yekaterinoslav, now Dnipropetrovsk, in the early years of the twentieth century he developed a method of organizing teamwork, known as the harmony method, or teamwork diagram planning method.

He was one of the original founders of the International Committee for the Scientific Organization of Work, and presented his Law of Harmony during its first congress, which took place in Prague in 1924. "In order to achieve exemplary performance in economic terms, you must choose organs of work with characteristic graphs, and then have these organs function in close cooperation with each other so that each action occurs in its rightful time," Adamiecki said.

Meanwhile, a parallel discipline was developing which emphasized the importance of psychological and sociological phenomena in the workplace. This new discipline, human relations, tried to answer the question of what motivates people and analyzed human behaviors within organizations. Hugo Munsterberg and Elton Mayo, professors at Harvard University, were the pioneers of this new field. Munsterberg was a German-American philosopher and psychologist, who founded the psychological laboratory at Harvard, where he studied the application of psychological tools to match personnel appropriately and motivate workers. He published his findings in 1913 in a book titled *Psychology and Industrial Efficiency*. Mayo was born and educated in Australia. As a professor at the University of Queensland, he taught philosophy, logic, ethics, and psychology. He

⁶⁹ Daniel A. Wren, *The History of Management Thought*, John Wiley & Sons, Hoboken 2005, p. 237.

moved to the United States in 1922, and found that the conditions at Harvard University were favorable to conduct his research on the psychological and sociological aspects of the organization. A team under his direction carried out experiments at textile factories in Philadelphia. The Hawthorne Works, a Western Electric factory outside Chicago, commissioned Mayo to “study to see if its workers would become more productive in higher or lower levels of light,” according to Wikipedia. “The workers’ productivity seemed to improve when changes were made and slumped when the study was concluded. It was suggested that the productivity gain occurred due to the impact of the motivational effect on the workers as a result of the interest being shown in them.” The results of these experiments came to be known as the “Hawthorne effect.”

Mayo’s research showed that workplace productivity is largely dependant on workplace conditions, and not only on the individual economic benefits which can be reached by an employee. The effect witnessed at Hawthorne indicated that material incentives were not the cause of increased productivity. Mayo published his findings on the social functioning of people in organizations in 1933, in a book titled *The Human Problem of Industrial Civilization*.

Among the pioneers of scientific management who deserve a special place in history is Mary Parker Follett, an American social worker, management consultant and one of the first women to lecture at the London School of Economics. A strong believer in teamwork, she identified management as “the art of reaching goals through other people,” and criticized Taylorism as having a “one-sided and mechanical character that overlooked psychological aspects.” Follett’s contribution to management theory was her theory on conflict within organizations, especially the concept of constructive conflict, which stated that conflicts are a normal function of organizations, and result in the “creation of a valuable difference in potentials that benefits all concerned.”

Follett is the author of four famous principles of coordination:

- 1) It requires direct contact between managers and subordinates;
- 2) It should begin at the very start, the planning stage, of any project;

- 3) It should take into account all the reciprocal effects that the decision of one employee will have on everyone else, as well as the organization itself;
- 4) It should be continuous and ongoing.⁷⁰

Follett was an unusually versatile management thinker. It's hard to pigeonhole her into a specific movement or school. She's perhaps most closely associated with humanistic management.

Classic Management Theory

Hailing from wealthy family living in Vienna, Peter Drucker, who would grow up to be the preeminent guru of management theory, was raised in a house where intellectuals, scientists, and high ranking government officials came to socialize. Typical visitors included Sigmund Freud and Joseph Schumpeter, the economist and political scientist, who popularized the term “creative destruction”. Drucker received his doctorate in public and international law from the University of Frankfurt.

In 1933, as the Nazis were gaining power in Germany, he left for England, where he worked for an insurance company, and then as chief economist at a small, private bank. In London, he attended lectures by British economist John Maynard Keynes, which made him realize he didn't want to be an economist. “Everyone present in the lecture hall was interested in the fate of products, and I was interested in the fate of men,” Drucker said.

In 1937, Peter Drucker came to the United States, as a correspondent for two Britain's most serious financial magazines, *Financial News*, and *Financial Times*. He taught at Bennington College, and at New York University, and then in 1971, he moved to California, where he created an MBA program for Claremont Graduate University. But he never put down roots in academia. He was also working as a consultant for business, but devoted half of his time for non-profit, public organizations, working

⁷⁰ Zbigniew Martyniak, *Prekursorzy nauki organizacji i zarządzania*, PWE, Warszawa 1993, p. 79.

pro bono. In line with his philosophy, Claremont still reserves a third of its admission spots for students outside the business world.

Drucker, who worked until he was 92, thought differently than everyone else. He thought the idea that profit was the main goal of business was false. He thought companies were social organisms, not lifeless mechanisms. He thought management was the greatest innovation of the twentieth century. His books differ significantly from other business publications. He avoided complex modeling theories, distinguishing himself instead by his eruditeness, lucid reasoning, and unusual associations. Drucker's maxims lend themselves well to books of quotations. He was capable of being poetic, ironic, and mocking - but he was always direct. Drucker's works read like great literature. His creative achievements are remarkable: twenty six books, thousands of articles, tens of thousands of lectures, and an enormous sum of consultations.

"Drucker is the one management theorist who every reasonably well-educated person, however contemptuous of business or infuriated by jargon, really ought to read," John Micklethwait and Adrian Wooldrige wrote in *The Witch Doctors: Making Sense of the Management Guru*.⁷¹

In his first book, *The Concept of the Corporation*, Drucker concentrated on a few selected management problems he observed during a two-year study of General Motors. Drucker analyzed the operation and management of one of the world's largest corporations at the time - one that employed a million people. In fact, GM was only a stand-in for corporations in a broader context, as social institutions. *The Concept of the Corporation* lays the foundation for a number of postulates on industrial society, including social responsibility, earnings and employment guarantees, as well as the incorporation of a workers' council into the management. GM's management opposed the proposal to implement these recommendations. But, before he became a persona non grata, Drucker organized an essay contest among the workers entitled "Why do I like my job?" He received over 300,000 responses. This told him workers identified with their company and felt responsible for the quality of its products. It led

⁷¹ John Micklethwait, Adrian Wooldrige, *Szamani zarządzania*, Zysk i S-ka Wydawnictwo, Poznań 2000, p. 71.

him to the conclusion that workers should be treated as a resource, not only as a cost. Drucker's proposals contained only cautious criticism of worker-manager relations, the use and role of central headquarters, and relationships with sales representatives. But management saw it as treason.

General Motors then chief executive, Alfred Sloan considered it damaging. However, when other members of GM's management board attacked Drucker at the meeting to discuss the book, Sloan defended him.

"I fully agree with you," Sloan said to his colleagues. "Mr. Drucker is dead wrong. But he did precisely what he told us he would do when we asked him in. And he is as entitled to his opinions, wrong though they are, as you or I."

Drucker's book didn't go off without an echo. GM and its competition adopted Drucker's ideas on decentralized managing at lightning speed. Alfred Sloan introduced decentralized management to General Motors in the 1920s, right after he became chief executive. Drucker established that GM was, in fact, many branches with a high degree of independence because as much as 95% of decisions were made by branch managers. Sloan said that his company was centrally managed in terms of strategy and decentralized in terms of administration. Ford quickly followed, implementing a decentralizing process that saved the company from bankruptcy. Then came General Electric, which decentralized as part of a large reorganization in 1950. By the mid-1980s most Fortune 500 companies had moved to decentralized management. Alfred Sloan later wrote a memoir, *My Years with General Motors*, mainly as a reply to *The Concept of the Corporation*. It became a bestseller and a bible of decentralized management. Meanwhile, Drucker and Sloan stayed in touch and Drucker wrote the introduction to Sloan's book, describing him as a person of warmth, who lavished time and kindness on his colleagues, and actively gave to charities and other social causes. Drucker said Sloan's most important message was that: "The professional manager is a servant. Rank does not confer privilege. It does not give power. It imposes responsibility."

Sloan was the first great manager who passed on his knowledge and experiences to the next generation in the form of a book. It's the first volume in the canon of management literature that followed. The book

and the concept of decentralization became his trademarks. Sloan was also the first to use strategic planning successfully as a tool to coordinate the disparate operating units of his company. While Ford was making a car for “the great multitude”, the Model T, GM was implementing a plan to produce a whole range of cars for “every purse and purpose” that would satisfy the individual needs of their users and at the same time wouldn’t compete with one another.

When Sloan took the helm at General Motors, Ford controlled 60% of the car market to GM’s 12%. By the time Sloan retired, GM was the dominant car maker in the world, with the highest headcount and the highest turnover.

The Concept of the Corporation brought Drucker fame, but it was his next book, *The Practice of Management*, that caused a real breakthrough in the field of management. Indeed, Peter Drucker can be considered the father of management as a scientific discipline. *The Practice of Management* was published 43 years after Frederick Winslow Taylor’s *The Principles of Scientific Management*. In the intervening years, people had written many books about management and organization, but they “resembled an anatomy textbook whose author only described one part of the body, like the elbow for example, failing even to mention the spine or the muscles,” Drucker said. *The Practice of Management* was the first to recognize companies as a whole: “An important task for top management in the next society’s corporation will be to balance the three dimensions of the corporation: as an economic organization, as a human organization and as an increasingly important social organization.”

Back then, management was underappreciated. Managers were not held in high esteem. They themselves weren’t conscious of their power and capabilities. As CEO of General Motors at the height of its powers, Alfred Sloan was a corporate monk - nobody knew his wife, he didn’t have any children, and he lived alone in the company’s workers hotel in Detroit, in a room without a bathroom. He occupied the same type of room at GM’s offices in New York. He was always available in case an employee needed to reach him, and thus enjoyed great respect, but only future generations recognized him as a management guru.

By saying that “management is the biggest innovation of the twentieth century” and that “it will remain a basic and dominant institution for perhaps as long as Western Civilization endures,” Drucker gave managers a new prestige.

“Progress can only be ensured by increasingly competent managers who are more and more productive - only this can prevent our languidness, complacency, and laziness.” For Drucker, managers were the heroes of the twentieth century. *The Practice of Management* raised basic questions, provided concrete answers, and expertly presented the overall problems of managing a company. A quick glance at the table of contents makes this clear. The book deals with business management, and managing workers, work, and managers themselves. Yet Drucker also saw managers as people, and writes about relationships at work, the effectiveness of activities as based on goals, organizational culture, and corporate social responsibility. He posed questions, which are still discussed today. Like “what is a business?” Drucker’s answer: “something created and managed by people.” In *The Practice of Management* Drucker said that the commonly held view that a company is “an organization which has to turn a profit” is “not only false, but irrelevant.” It’s interesting to note that Drucker himself spent 50% of his time on *pro bono* consulting work for not-for-profits, NGOs and public institutions. His approach to management was an attempt to strike a fair balance between the two current, but opposing, schools of management - the scientific, and the humanistic.

Cultivate your minds through books, magazines, and your own work - otherwise you will find only disappointment.

According to Drucker, the most important management characteristics are:

- that it concerns people; uses people’s strengths so that they can achieve their goals, negating the effects of any single individual’s weakness;
- it’s deeply embedded in culture, because it integrates people who are linked by a common goal;
- requires a commitment to the goals - with a mission, or vision - as well as the cultivation of common values;

- ensures the growth and development of its employees, making the company an entity that both teaches and learns - meaning, it adapts to changing conditions;
- builds mutual understanding and responsibility among employees;
- that a system of indicators in areas specific for the company's mission, not just a single result, is the measure of success and survival;
- that a company's results only exist on the outside, in the form of a satisfied customer; within a company there are only costs.

The Practice of Management created the foundations of modern management. It has sold millions of copies worldwide, but gained particular renown in Japan. It's even said that Drucker had a significant impact on the development of the Japanese management model, and likewise on the postwar development of the country. What is surprising is that half a century later the book has retained all of its strengths and is just as valid now as it was then.

Peter Drucker was unusually active for fifty years - he taught, advised, and wrote books and articles, which shaped the development of management both in theory and in practice. His first management book, *The Concept of the Corporation*, was published in 1945, and became an instant classic of business literature. His last work, "What Makes an Effective Executive", was an article published in the *Harvard Business Review* in 2004 - it was awarded the title of best article of the year.

Over the years, the world has undergone economic and social changes, and paradigm shifts in the discipline of management. And Peter Drucker? If he wasn't the creator of these new ideas, he was most certainly their keen observer and critical commentator. It was Drucker who introduced the concepts of decentralized management, social enterprise, the knowledge worker, the knowledge society, management by objectives, business strategy, and even privatization.

Management by Objectives (MBO) is Drucker's brainchild, and has enjoyed great popularity in practice. *The Practice of Management* contained the seed of the idea, but Drucker fully developed it in 1964 with his book *Management for Results*. MBO is a concept opposite to management by instruction. The logic of MBO lies in harmoniously integrating all

the parts of an organization to maximize its operating efficiency. For a company to be successful it has to ensure that any action taken focuses its efforts towards the objectives of the whole company. Each person brings something different to the table, but everyone must set their sights on a common goal.

The trouble with implementing this strategy is the difficulty in setting the proper unit objectives so that each part of the company, despite doing something different, contributes itself to achieving the overall objectives. Sometimes people can understand a goal differently, even though their focuses are aligned. Take for example the anecdote of the three stonemasons: when each was asked what he did, the first answered that he worked to make a living, the second that he shaped stones to the best of his ability, and the third that he was building a cathedral. The process of specifying goals for employees so that they fit into the overriding goals of the company requires a lot of effort, and managers not only need to be independent, but possess strong business acumen. The greatest advantage of managing by objectives is, perhaps, the ability for managers to guide their own performance through self-control. This way of managing a company favors delegating decisions to subordinates, and rewarding good results.

Managing by objectives was quickly adopted by companies like General Electric and Hewlett-Packard. It became synonymous with success, and encouraged others; it was part of the management style known as “The HP Way,” admired worldwide. David Packard, one of the two founders of Hewlett-Packard, said “no operation solution contributed more to the success of HP than management by objectives. [...] MBO is the antithesis of management by control [...] on the other hand, it’s a system where all goals are clearly established and agreed upon, and which gives people the flexibility to act in a way that best uses their responsibilities.”⁷²

MBO has become a flagship product of consulting companies, and through them it has been implemented - in various forms - in most American and European companies. As was the case of many concepts during the nineties, interest in the methodology waned after a short period

⁷² David Packard, *The HP Way*, HarperBusiness, New York 1995, p. 152.

of fascination. However, it's now experiencing a small comeback, and that's no surprise - it's an elegant concept which appeals to the imaginations of technocratic managers aiming to improve financial performance. Many management analysts believe that MBO is one of the most important business ideas in the whole field of study.

Quality in Management

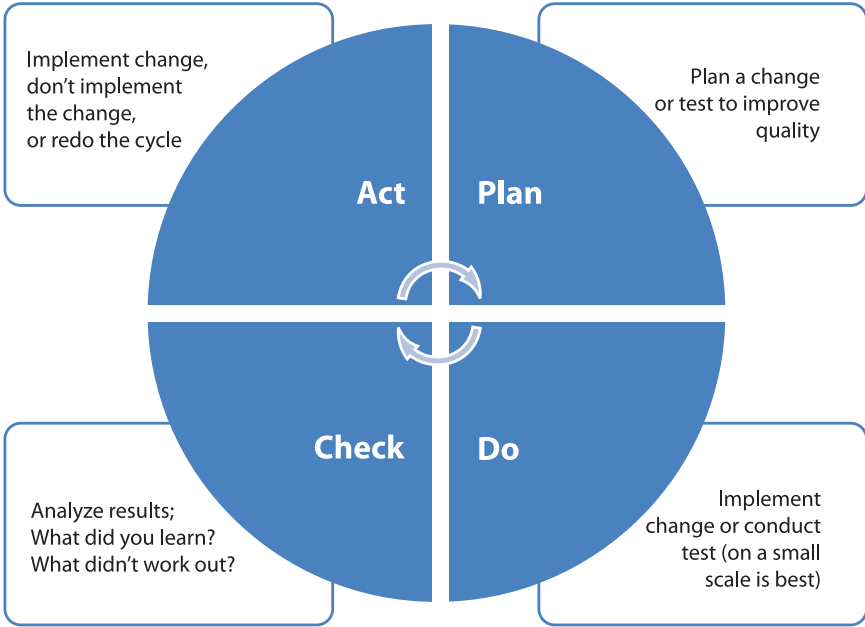
From its very beginning, management by objectives found not only supporters but also fierce opponents. Among the latter was William Edwards Deming, a former colleague of Drucker from NYU, who thought that it threatened quality since it concentrated solely on results. One of his fundamental recommendations for companies read: "Beware of management by objectives. Eliminate management by numbers, or numerical goals. Replace management by objectives with leadership."⁷³

The career path that led Deming to the study of management was unusually winding. He studied at the University of Wyoming and the University of Colorado - and got his doctorate degree in math and mathematical physics from Yale. For a few years he worked as a mathematician in the U.S. Department of Agriculture (USDA), then at the U.S. Census Bureau. It was during his time at Bell Laboratories that he met Walter Andrew Shewhart, a brilliant physicist and mathematician whose concept of statistical process control (SPC) became the core of a new approach to managing. During World War II, Deming heavily involved himself in training programs which aimed to increase the quality of weapon production. To achieve this, he used a special method dubbed the Shewhart Cycle, which was based on the idea of statistical control and process guidance. As Deming was the one who made it popular, this management method eventually became known as the Deming Cycle.

He personally trained 2,000 people, and his trainers proceeded to train another 31,000. After the war ended, Deming taught management at NYU's Graduate School of Business Administration, and began consulting.

⁷³ William Deming, *Out of the Crisis*, MIT, Cambridge, MA, 1982, p. 24, 11b.

Shewhart-Deming Cycle/PDSA (Plan - Do - Study - Act)



Source: Sławomir Lachowski.

Deming moved to Japan in 1947. He was hired to work at the headquarters of the Allied Occupation Forces, led by General Douglas McArthur. They were to prepare the first post-war census which would assess war damages. Although he was working for American occupants, his expertise in the field of statistical process controls was noticed by the Japanese Union of Scientists and Engineers (JUSE), and in 1950 Deming was invited to give a series of lectures on the subject to 230 representatives of Japanese business. He also held a special meeting with twenty-one top managers, who were members of an influential organization composed of Japan's largest companies, Keidanren, or the Japan Federation of Economic Organizations. The overall message of the lectures was that improving the quality of production leads to diminished costs, and a simultaneous rise in productivity and market share. He said, "I'm not an economist, nor a sales expert. I am not a specialist in the technical issues of production. However, I deeply believe that statistical techniques and

the practices associated with them are useful for everyone.”⁷⁴ And indeed, his theses were met with enthusiasm and applause, but more importantly they began to be implemented with an unflagging determination. It was the beginning of Japan’s economic miracle. “I think that I was the only person in Japan in 1950 who believed my prediction - that in five years producers around the world would be crying out for protection from Japanese imports,” Deming said. “And it only took four.”

To show its appreciation, Japanese government established the Deming Prize, the most prestigious business award in Japan. In 1960, the emperor honored him with the Order of the Sacred Treasure, Second Class – the highest honor in Japanese history ever awarded to a foreigner. According to the award’s citation, Deming was recognized for his contribution to “the rebirth of Japanese industry and the international success of Japanese companies.”

Deming traveled to Japan 18 times to give lectures and consult, remaining largely unknown outside the country. At the same time, he was also a professor at the Graduate School of Business Administration, publishing 56 articles, on the use of statistics in production process management and quality control, and on the quality improvement cycle (Plan - Do - Study - Act), on 14 management principles, and 7 threats. He described the positive results of implementing new management rules in Japan and said they were needed in the United States as well. However, as the saying goes, “A prophet is not without honor, but in his own country.” His call for change fell on deaf ears.

It was only when NBC - an American commercial broadcasting television network - aired the program, “If Japan can... Why can’t we?” that Deming and his methods became an overnight hit in America as well. The rush to apply new management techniques began a “quality revolution” in the US and Europe. Many companies sought advice on how to increase their quality and efficiency directly from Deming. He was over eighty years old.

⁷⁴ *Deming’s 1950 Lecture to Japanese Management*: hclecures.blogspot.com/1970/08/demings-1950-lecture-to-japanese.html.

Japanese companies, first carmakers such as Toyota, Mazda, Nissan, Suzuki, and Honda, and then electronics makers such as Canon, Matsushita, Nashua, and Nikon, were encroaching on the market share of their American rivals, such as GM, Chrysler, Ford, Kodak, and Xerox. Americans, appreciating the quality of Japanese products, began choosing them over their domestic counterparts. The hardest hit was the automotive industry. GM, Ford, and Chrysler, were pushed to the brink of bankruptcy. It happened so that Americans buying American cars preferred models with parts produced in Japan, because they were more reliable. And when Ford recorded losses exceeding three billion dollars in 1979-1982, they came to William Deming for help, acknowledging that the main cause of their performance was the poor quality of their vehicles. Deming's recommendations brought about an almost immediate change, and in 1986 Ford became the most profitable corporation in the US.

"Ford is building a new culture of quality, and these big changes are directly rooted in Dr. Deming's teachings," said Ford's chairman, Donald Petersen.

In 1992, the Ford Taurus became the best selling car in America, ahead of the long-time leader Honda Accord, and the Ford Motor Company moved up to second place in terms of number of cars sold. In spite of his age, Deming kept working, advising U.S. companies, delivering dozens of lectures, and running hundreds of training programs - as if he wanted to make up for lost time. All the great American companies - Ford, Chrysler, and Xerox - and many European companies as well, studied his methods extensively.

It was during this period that Deming's most important publications appeared, presenting his mature views and ideas on management. In 1982 he published *Quality, Productivity, and Competitive Position* whose revised edition in 1986 appeared under the title of *Out of the Crisis*. In the year before his death, he published *The New Economics for Industry, Government, Education*. Deming's ideas showed companies how to increase their management efficiency, increase profit, sales volume, and market share by improving the quality of production processes and of manufactured goods.

The essence of Deming's new approach to management was his set of 14 management principles.

These main ideas are:

- a quality improvement cycle: Plan - Do - Study - Act
 - an interdependency chain: quality, productivity, decreased costs, increased market share;
- 14 Management Transforming Principles
 - 7 Threats

The essence of Deming's new approach to management was his set of 14 management principles. According to him, they are the key to successfully organizing a company which will have good interpersonal cooperation, and an attitude that focuses on more than just results. Management transformation makes satisfying customers easier, because the quality of the goods produced goes up. This is essential, because in traditional organizations up to 94% of all errors are derived from the existing system, and they wind up putting a strain on the managers instead of the workers.

The 14 Management Transforming Principles:

1. Create constancy of purpose towards improvement of products and services to gain competitive advantage.
2. Adopt the new philosophy.
3. Cease dependence on massive inspection as a way to achieve quality.
4. End the practice of awarding business on the sole basis of price.
5. Improve constantly and forever the system of production and service to improve quality and productivity, and thus constantly decrease costs.
6. Institute modern methods of training on the job.
7. Leadership, instead of bureaucratic management.
8. Drive out fear from the feeling that productivity must increase.
9. Break down barriers between departments.
10. Eliminate slogans, exhortations, and targets for the work force that ask for zero defects and new levels of productivity.
11. Eliminate management by objectives.

12. Remove barriers which rob workers and managers of their right to pride in workmanship.
13. Institute a vigorous program of education and self-improvement.
14. Put everybody in the company to work to accomplish the transformation.

Deming warns that implementing and adhering to the above principles is not easy, and those who try face many obstacles. He eloquently calls these the 7 Deadly Threats - issues which prevent the system from functioning as it should. They are as follows:

1. Lack of constancy of purpose
2. Emphasis on short-term profits
3. Evaluation by merits, or annual performance review
4. Mobility of management
5. Running a company on visible figures alone
6. Excessive inspection costs
7. Excessive costs of warranty

Deming didn't create a uniform, compact concept, which could be used by business leaders as a product straight off the shelf. That is why his personal involvement as a lecturer, teacher, and counselor had a huge impact during the time when his theories first began being implemented. Although he was a mathematician and the source of his proposed solutions came from statistical observations, the general principles he formulated seemed to be obvious, and the secret of their effectiveness resulted from the persistence and consistency of their implementation. In the 1980s, a surge of interest in quality helped to popularize the concept of managing by quality. Many publications took advantage of this, including the *Harvard Business Review*⁷⁵, which printed an article titled "Quality on the Line", describing the source of Japanese companies' successes.

Deming's ideas are the main components of the concept called *Total Quality Management* (TQM), which became a codification of what is meant by quality in management. Its definition is the standard

⁷⁵ David Garvin, "Quality on the Line", *Harvard Business Review*, September 1983.

of the International Organization for Standardization: "Total Quality Management is a way of managing an organization that concentrates on quality, is based on the participation of all its members and aims to achieve long-term success through customer satisfaction, and by benefiting all of its members and society. All members of the organization means employees in all units and at every level of the organizational structure. Quality means the achievement of all management goals. Social benefits assumes the fulfillment of social requirements." (PN-ISO 8402:1996).

Another management concept, which sets constant improvement in quality as its priority, is Six Sigma. It's mostly based on the ideas of the other "father of quality management," Joseph Juran, who also preached and implemented them in Japan first, independently of Deming. In a way, Six Sigma negates the concept of zero-defects; it does not assume the total elimination of shortcomings, but rather endeavors to limit them to an acceptable level. In statistics *sigma* refers to the standard deviation of a variable. Six Sigma's goal is to reduce the average number of defects to 3.4 (three and four tenths) defects per million chances for making an error. You should realize that Six Sigma is a level of quality which does not refer to the entire product, but to its individual features - crucial to its quality. The definition of quality according to Six Sigma, states that quality is the "right to value" for the purchaser and the provider in every aspect of an economic exchange. Six Sigma further expands the definition of the quality of a product or service to include its economic value and utility, both for the company and the buyer. The "right to value," in Six Sigma's world, means that a company has a legitimate right to expect that its high quality products will bring the highest possible profits, and on the other hand, that the purchaser should have the highest possible satisfaction. Six Sigma is more than just acting to improve quality - it's acting to change the culture of an organization, with the goal of focusing it on meeting the needs of its customers, and ensuring greater satisfaction from its delivered products and services, which results in improved competitiveness and higher profitability.⁷⁶

⁷⁶ Peter P. Pande, Robert P. Neuman, Roland R. Cavanagh, *The Six Sigma Way*, McGraw-Hill, New York 2000, p. XI.

The main Six Sigma concepts are:

- Identify and define customer needs - design according to their preferences;
- Seek opportunities for improvement within the company;
- Maintain contact with customers to determine their needs and draw up a plan of action;
- Planning and carrying out Six Sigma projects in order to perfect the services of the company;
- Regularly inform the customer about new developments and the progress of improvements;
- Meeting or exceeding the customer's expectations;

Six Sigma became a popular management tool after its first successful implementation at Motorola. After that, it was implemented by General Electric and other American companies. Today, GE evaluates the importance of Six Sigma as follows: "The results of implementing Six Sigma at GE have exceeded even the most optimistic expectations. [...] Six Sigma has changed the DNA of General Electric - it's now simply the way we work, and is reflected in everything we do, as well as every product which we design." When Ford once again plunged into a crisis in the late nineties - losing to its competition in terms of modernity, design, and quality - Chief Executive Jacques Nasser reached for Six Sigma in order to save it. The use of Six Sigma in Ford's Canadian plants in St. Thomas, which produced the Grand Marquis and Crown Victoria models, reduced customer complaints by 97% in less than a year, and the statistical number of defects per vehicle dropped from 2.89 to 1.29. Implementing the program throughout the whole company reduced the unit cost of the warranty service by 60%. Ford trained 60,000 employees to achieve this goal, of which 7,000 so-called black-belts devote all their time to organizing Six Sigma sub-projects. As a result, the net savings of the company exceeded \$350 million per year.

We implemented the Six Sigma method of management by quality at MultiBank in conjunction with the launch of project *Repair Marketing Data*, because MultiBank had poor quality data about its customers. We couldn't develop customer profiles correctly or apply advanced

behavioral analysis tools to anticipate their future needs or assess their credit risk. Now Multibank requires new customers to fill out forms about personal information because the more data the bank has, the better it can identify the financial needs of its customers, assess their credit risks, and to sell them additional products or services. For MultiBank, which sought wealthy clients, the quality of its service was supremely important. Project *Repair Marketing Data*, initiated in November 2003, exceeded our expectations, and we kicked-off more Six Sigma projects in late April and May of 2004. We wanted to eliminate gaps in MultiBank's key business areas, to streamline processes, raise the customer satisfaction levels, and reduce the costs associated with poor quality.

The following projects were implemented in the areas of:

- Sales: Credit cards; Overdraft; Revolving credit for individuals;
- Marketing: Project Repair Marketing Data;
- Claims Department: Time taken to process claims and complaints; Claims and complaints handled via the internet.
- HR: Improvement of the recruitment process for bank branches.

We saved 780,000 zlotys per year, while the return on investment of the Six Sigma programs ranged from 300% to 3,000%.

MultiBank has an innovative business model. In contrast to traditional retail banks, we wanted it to be “an online bank with branches.” Its multi-channel service model ensured access to all its products at any given time, in a variety of ways. After learning about and choosing an offer at an actual MultiBank branch location, clients could manage their finances remotely from anywhere, and at anytime. There was a problem, however:

- o “We’re an online bank with local branches, but only 42.1% of our customers log on via the internet.”
- o Our local branches are there to advise customers, but 15% of the operations happening on location are outgoing transfers.
- o People started complaining about “long lines” after the number of customers using local MultiBank branches exceeded 3,500.

The goal of Project *Right Channeling* was “the activation of customer self-service through remotely-operated distribution channels - telephones

and the internet - so that they would become the primary platform for customers to handle their accounts. Telephones and the internet allow customer service to be personalized almost to the same extent as what a bank branch can offer while being cheaper and more convenient for both sides - the client and the bank.” Thanks to the implementation of the project, the number of active bank customers making use of online services rose from 42.1% to over 75%, the share of transactions made via the internet rose from 92.2% to 97.7%, and the average number of customer branch visits per month fell from three to less than two.

The idea of management by quality found fertile soil in Japan, and eventually developed into a coherent system called *kaizen*, Japanese for “improvement”, or “change for the better”.⁷⁷ The system can be imaged as an umbrella made up of several components, Total Quality Control, Just-In-Time, Deming circle (plan–do–check–act or plan–do–check–adjust), Total Productive Management, and Quality Circle. *Kaizen* is a philosophy that can be applied to both business and life. Its commandment is continually to improve yourself and everything around you. Following the export successes of Japanese companies, managers in Europe and the United States took notice. They became fascinated with *kaizen*, but implementing it at home was hard. Somehow culture and bureaucracy got in the way. European and American businesses also found the reporting burdensome.

Differentiate Yourself or Die - Strategic Planning

About 90% of managers say they use strategic planning, according to a survey conducted by consultancy Bain & Company. One of the first proponents of strategic planning was GM chief executive Alfred Sloan. He kept control of company strategy at headquarters even as he decentralized many other management functions. Strategy is a distillation of a company’s long-term goals, according to Alfred Chandler, a Harvard Business School professor who wrote extensively about General Motors. It expresses the general direction in which the company is heading and how it should

⁷⁷ Masaaki Imai, *KAIZEN: klucz do konkurencyjnego sukcesu Japonii*, MT Biznes, 2007, p. 36.

allocate resources to achieve its goals.⁷⁸ Chandler, who was an economic historian, helped Sloan write his memoir, *My Years with General Motors*. According to Chandler, strategic planning was necessary for a company just like planning for the future was important in a person's private life, governing a country or waging war. The root of the word *strategy* can be traced all the way back to Ancient Greece where its derivative, *strategos*, meant the leader of an army.

“So it is with the expert at battle that his strategic advantage (*shish*) is channeled and his timing is precise,” Sun Tzu, the ancient Chinese military general, strategist and philosopher, wrote in *The Art of War*. “His strategic advantage (*shih*) is like a drawn crossbow and his timing is like releasing the trigger.” According to Carl von Clausewitz, the greatest military strategist of the 20th century, while “tactics teaches the use of armed forces in the engagement; strategy, the use of engagements for the object of the war.” Competition in the business world is a bloodless war whose purpose is to win the market from other businesses. Sometimes, even wars of survival occur.

In business, the father of strategic management is Igor Ansoff, a Russian-American, applied mathematician and business manager. In 1965, he published *Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion*, the first book dedicated wholly to strategy. It was a tough read. Readers were put off by the complicated and detailed descriptions of strategic planning. Having a strategy isn't enough, Ansoff said. It needs to be accompanied by implementation, which requires managers to overcome others' resistance to change.⁷⁹

Harvard Business School professor Michael E. Porter had a different take on the subject.

He is a six-time winner of the McKinsey Award for the best Harvard Business Review article of the year, and is the most cited author in business and economics.

“A company's definition of strategy is important, because it predefines choices that will shape decisions and actions the company takes,” he said.

⁷⁸ Alfred Chandler, *Strategy and Structure: Chapters in the History of the American Industry Enterprise*, MIT Press 1969.

⁷⁹ Igor Ansoff, *Strategic Management*, Macmillan, London 1979.

“Vision statements and mission statements should not be confused with strategy. Companies may spend months negotiating every word, and the results may be valuable as a corporate statement of purpose, but they do not substitute for strategy.” His most important book, *Competitive Strategy*, published in 1980, has the distinction of being an academic book that every manager feels he needs to have in his library despite being hundreds of pages long. Porter’s most intriguing thought, however, is strikingly simple.

“The essence of strategy is choosing what not to do.,” Porter said. “Strategy: defining and communicating the company’s unique position, making trade-offs, and forging fit among activities.” Organizational perfection isn’t strategy and it’s important to differentiate operational efficiency and strategy. Both these things are important to a company’s success, but have different meanings. Operational efficiency decides on short-term results and is a necessary condition, but it isn’t enough for a company to survive and thrive in the long-term. Strategy provides the foundations for a long-term competitive advantage. Porter said there are three types of strategy, based on having the lowest costs, differentiation, and focus. He’s a supporter of differentiation as a way to create long-term competitive advantage.

According to Porter, competitive advantage flows from:

- unique market position, especially through differentiation;
- matching organizational structure and processes to strategy;
- making difficult choices;
- systemic solutions;
- operational excellence.

Helping companies with their strategy is how consulting firms make money. McKinsey & Co, Boston Consulting Group, and Bain have made strategic planning and implementation their trademark. In order to advise companies, consultants need data, lots of it. Collecting this input usually takes up a great deal of a company’s time. Consultants then conduct some simple surveys and analyses and present them in an impressive format. The whole process can be summed up in a joke. A consultant walks into a

meeting with his client, who asks him, “What time is it?” The consultant asks if he can look at his client’s watch and then replies, “According to my best knowledge, its 3:47PM.” The reality is that planning isn’t complicated. Anyone can do it.

I encountered the need for strategic planning at my first job, as an advisor to state-owned enterprises during Poland’s jump to a market economy after 1989. Market conditions were undergoing revolutionary change; in fact an embryonic market was just emerging following 45 years of central planning. Every company was asking itself: “what next?” It was a moment in history when someone like me, with little experience but some theoretical economics knowledge from university, could get hired to restructure the bad debts of Poland’s third-largest bank by assets, and come up with a new strategy for the bank.

Later, as a manager, I was involved in restructuring and creating a new strategy for Poland’s largest banks, Powszechny Bank Gospodarczy in Łódź, and then PKO Bank Polski and BRE Bank. At BRE Bank I was hired to create mBank and MultiBank, two online bank brands targeting different niches of the market. I had never created a strategy for a start-up before, and those were two start-ups, even if they were owned by a large, established bank.

I prefer to do strategic planning in-house. I would select a team to manage planning, which would then delegate elements of planning to individual segments of the business. Crafting a strategy in-house fosters a sense of responsibility for the future among workers. Workers then have a sense of ownership over plans. Implementation of these plans was challenging because it forced us all to change our routines. But strategic

planning, when it becomes an ongoing process, has a routine of its own.

Modern strategic management is an on-going process. In my experience, it starts with a strategic diagnosis, as an introduction to every three-year business plan that is updated once a year. Strategic workshops conducted to analyze various future scenarios, new initiatives and

Modern strategic management is an on-going process. In my experience, it starts with a strategic diagnosis, as an introduction to every three-year business plan that is updated once a year.

projects, happen once a year, usually in June. An important strategic project can be started *ad hoc*, at any time, if it meets the requirements. Strategic planning has become simpler. It's tied to annual business plans and the repeated actions of creating the right documents. Here's my checklist:

1. Strategic Diagnosis;
2. Business Plan;
 - 2.1. Marketing Plan;
 - 2.2. Operational Support;
3. Financial plan.

Periodic strategic diagnosis, conducted at least once a year, should confirm the correctness of the chosen path or justify making a change. It's made up of several obvious elements:

1. Mission and vision.
2. Position versus the competition (status quo).
3. Competitive positioning, in accordance with vision:
 - (for whom?) target client group;
 - (needs of target group) client needs: basic, secondary, supplementary;
 - (who is dissatisfied?) justification of business opportunity, why clients expect a different product offer, a different sales channel, a different way of communication;
 - (differentiating characteristics) target group, way of satisfying needs, process;
 - (competition) main competitors – assumed advantages of competitors.
4. Target group – detailed analysis:
 - segment description;
 - client characteristics;
 - ideal client.
5. Needs of target client group:
 - hierarchy of needs (basic, secondary, supplementary);
 - which needs will be satisfied and why;
 - differentiation.

6. Products that respond to needs:
 - (our product) we supply a product that addresses a need – focus on client preferences according to a value hierarchy: basic, secondary, supplementary, differentiation;
 - (key product characteristics) according to client value preferences
 - design, price, quality;
 - market benchmark – competitive advantage.
7. Distribution method – organization of sales – distinguishing features, competitive advantage.
8. Communication – marketing strategy.
9. SWOT.

Strategic diagnosis is very similar to market analysis. But its aim is to identify business opportunities. A good way to identify these opportunities is to find a category of underserved customers, a better internal process, or a better way to distribute your product. To do that you need properly to identify existing trends and conditions. When I was recruiting workers to create mBank and MultiBank, I was looking for the type of people who would want to be mBank and MultiBank clients themselves. I wanted them to create a bank geared to their own needs and aspirations, which I hoped were high. The mBank team was young, well-educated, curious, and casual. They liked to wear jeans and t-shirts. Many of them were geeks who loved all things related to technology. Meanwhile, the Multibank team was a typical representation of the middle class, well-educated, and ambitious in what they wanted to achieve socially and professionally. They were organized, focused on convenience and looking for a bit of luxury out of life.

The strategy for mBank, Multibank and BRE Bank as a whole was also prepared in-house. mBank became the third-largest retail bank in Poland and the fourth-largest online bank in the world. Multibank became the leader in customer service and BRE Bank as a whole moved up to become the third-largest Polish bank by assets and number of customers.

In-house teams are more knowledgeable about their own companies, while consultants know more about the market, general trends and how to predict the future. Consulting firms have a store of knowledge

which is constantly being replenished by consultants' experiences on projects around the world. Consultants also know better how to manage complicated projects. But this advantage doesn't mean one should outsource crafting a strategy to consultants. If a company has a culture of knowledge and is a learning organization, its people can handle the work of creating a strategy. Working with consultants can bring a lot of benefits. Employees can learn a lot from them. But their skills shouldn't be overestimated. It's easy to get addicted to consulting services. Be careful about undertaking projects in-house when it isn't justified, however.

Strategic planning fell into disfavor in the late 1980s. The idea of management by continuous improvement was on the rise. Some companies stopped making any strategic plans at all. Henry Mintzberg, an academic and business author, published *The Rise and Fall of Strategic Planning*, which was basically an obituary for the practice. But by the mid-1990s, strategy was back and it remains a popular management tool today. In the 1990s, market conditions were changing rapidly. Technology was quickening the pace of change. Companies that wanted to gradually evolve couldn't adapt to new conditions fast enough. Even Toyota, the classic practitioner of *kaizen* or continuous improvement, saw the need for revolutionary innovation.

"Fifteen years ago I would have said that as long as we had enough people Toyota could achieve its goals through *kaizen*," the company's chief executive Katsuaki Watanabe said in an interview in 2007. "In today's world, however, change ... may also need to be brought about by *kakushin* [radical innovation]."

Strategic Management in the New Economy

As companies moved into the world of the New Economy, the essence and source of competitive advantage changed. Management concepts had to change and managers needed new skills. Innovation has been considered a source of competitive advantage for a long time. Many management thinkers have ascribed an important role to innovation in the process of building strategy, including Jay Kay, Gary Hamel, Coimbatore K. Prahalad, Michael Porter, Herbert Simon, Michael L. Tushman, Charles

The leaders of the New Economy have built their positions almost entirely thanks to innovative products and business ideas.

O'Reilly, and Richard Burgelman. But only in recent years, as the new economic order has taken shape, has innovation started to be seen as the main motor of growth and as indispensable for survival in the long-term. Many age-old, well known companies owe their place on the

economic map to a strategy based on constant innovation, introducing innovative products, processes and business models. These companies include companies that dominate their markets, have made innovation their main skill and have undergone deep and repeated restructurings, sometimes completely changing their business models. These include well-known American companies such as IBM, 3M, Microsoft, General Electric, Nike, Wal-Mart, Procter and Gamble, Johnson & Johnson, Walt Disney & Co., and Du Pont, European giants such as Nokia, SAP, BMW, BP, Philips, and Ryanair; and Asian tigers such as Sony, Samsung, LG Electronics, and Toyota. The leaders of the New Economy have built their positions almost entirely thanks to innovative products and business ideas.

There are many examples of such companies, but the embodiment of growth through innovation is Apple, recipient of many awards for most innovative company in the world, maker of computer equipment, audiovisual devices and even mobile phones. The Apple personal computer, the first mass-produced computer, set the standard for an entire industry, the complete set: the computer itself, the keyboard and the monitor, all ready to be used from the moment they are unwrapped and plugged in. "Plug and play" became Apple's motto when creating new products.

Apple's next paradigm-shifting innovation pertained to improving the use of the personal computer. The Graphic User Interface (GUI), combined with a mouse, used on the Macintosh, enabled users to experience something completely new and was decisive to the computer's incredible success on the market. When the company came close to bankruptcy at the end of the 1990s, more innovation saved it and changed the market forever. The Macintosh evolved into the iMac, then the iBook, a computer created to surf the internet. Eliminating floppy disks and introducing Wi-

Fi capabilities enabled Apple to create a new level of technological quality and, more importantly, a unique user experience. Apple didn't stop there. In 2002, it introduced the iPod, a music player to be used in conjunction with iTunes, a program to play audio and video files. iTunes was the only interface of the iTunes Store, and the three things together transformed Apple into a purveyor of digital entertainment and changed the face of music and film distribution. In the fall of 2009, sales of various versions of the iPod surpassed 220 million. Apple had revolutionized the market for digital entertainment and had demonstrated that illegal downloading could be replaced with a commercial model if the price was low enough, the files were easily accessible and the service was easy to use.

Experts said Apple didn't stand a chance on the mobile phone market, which was dominated by companies such as Nokia, Motorola, Sony Ericsson, Samsung and LG. Apple's smartphone, called iPhone, went on sale in the third-quarter of 2007 and immediately won a core of fans and customers. By 2010, over 50 million iPhones had been sold. By 2011, sales growth accelerated and iPhone had 20% of the smartphone market. In April 2010, Apple introduced another hit, the iPad. Other companies had made tablet computers, as early as 2002, including HP, Toshiba, Fujitsu, Lenovo, Gateway and Dell. Apple didn't invent the tablet, but its version of this device deserves to be called a breakthrough innovation because of how well it's suited to browse the Internet, and read books, magazines and newspapers. Its lack of a keyboard, high resolution, good Wi-Fi connection and 3G, and its beautiful design sets it apart and inspires praise. It creates a new category. It changes the way a user interacts with images and information. A month after its debut, Apple had sold three million iPads. In 2010, 14.8 million had been sold, giving Apple a 75% market share in tablet computers. In 2011, Apple sold 40 million iPads. Its supremacy on the table market remains unquestioned, despite attempts by the competition, and its market share is still over 60%. In June 2011, the market capitalization of Apple surpassed that of its age-old rival, Microsoft. If that wasn't enough, that August Apple became the most valuable company in the world with a market capitalization of \$337 billion.

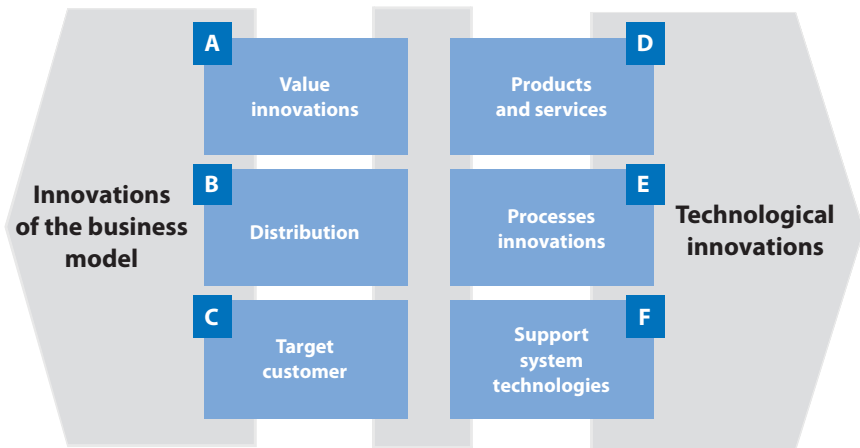
“Wealth in this new regime flows directly from innovation,... not optimization... that is, wealth is not gained by perfecting the known, but by imperfectly seizing the unknown,” Kevin Kelly, the founding executive editor of *Wired* magazine, and a former editor/publisher of the *Whole Earth Catalog*, wrote in his book *New Rules for the New Economy*.⁸⁰ Famous New Economy innovators include Intel, Cisco, Google, Amazon, PayPal, and eBay. Companies innovate in one of two ways, by changing their business models or by adopting new technology.

There are three business model innovations:

- A. Value innovation that determines the meaning of what is sold.
- B. Supply chain innovation.
- C. Choice innovations.

Investments In Businesses

Businesses conduct on-going innovations on six levels



Source: T. Davila, M. Epstein, R. Shelton, *Making innovation work*, Wharton School Publishing, 2005.

There are two types of technological innovations:

- A. product and services innovations;
- B. process innovation – less visible to the customer than product and service innovation, but may lower costs or increase quality or efficiency.

⁸⁰ Kevin Kelly, *Nowe reguły nowej gospodarki*, WIG Press, Warszawa 2001.

Joseph Schumpeter, the Austrian-Hungarian-American economist and political scientist, who popularized the term *creative destruction*, identified innovation as the critical dimension of economic change.⁸¹ According to Schumpeter, innovation is an entrepreneurial act that appears in five variations:

1. Introducing a new or better product on the market.
2. Introducing a new method of production.
3. Finding and developing new markets.
4. Using new natural resources.
5. Changing the organization of an economic sector, forming a monopoly or breaking up a monopoly.⁸²

Schumpeter defined creative destruction, which he derived from Marxist thought, as the disruptive process of transformation that accompanies innovation.

“Capitalism... is by nature a form or method of economic change and not only never is but never can be stationary,” Schumpeter said. “The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates... The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the same process of industrial mutation... that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in.”⁸³

Peter Drucker also wrote about innovation:

“Innovation is the specific tool of entrepreneurs, the means by which they

⁸¹ Thomas K. McGraw, *Prophet of Innovation*, Belknap Harvard, Cambridge 2007.

⁸² Joseph Schumpeter, *The Theory of Economic Development*, Harvard University Press, Cambridge Mass, 1934, p. 830–831.

⁸³ Schumpeter, Joseph A. (1994) [1942]. *Capitalism, Socialism and Democracy*, London: Routledge. pp. 82–83.

exploit change as an opportunity for a different business or a different service.”

In the 1990s, economic change gained pace. The birth of the New Economy redefined the terms of competition, knocking down the status quo. Evidence that we live in a world of creative destruction is now visible to the naked eye. The New Economy is real and every company has to deal with it. In the past, breakthrough innovations came along once in a few decades, now they happen much more frequently.

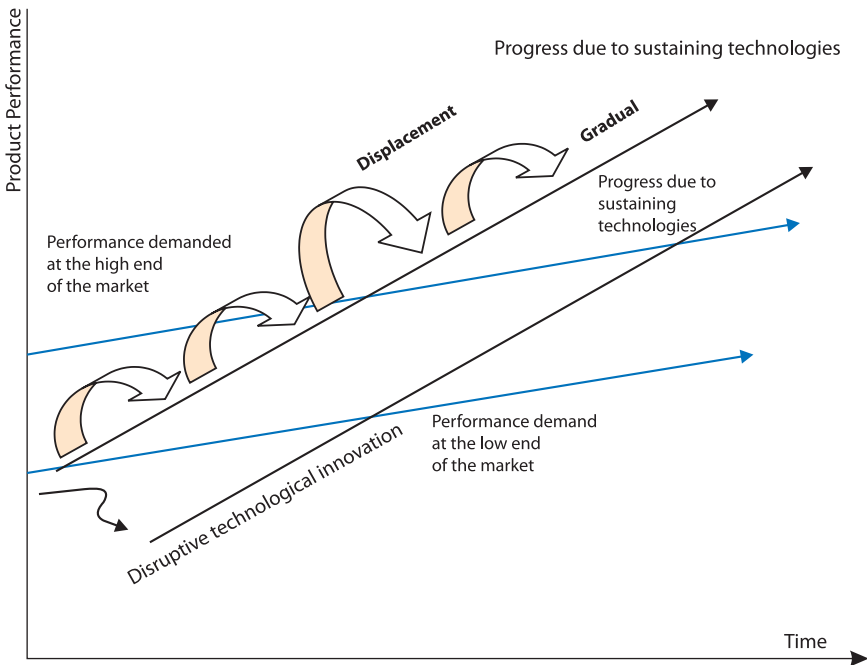
Clayton M. Christensen, a Harvard Business School Professor, articulated his theory of disruptive innovation in a book titled *The Innovator's Dilemma*.⁸⁴ To write the book, Christensen studied why businesses fail, especially businesses that had been market leaders, had good management, innovated, and listened to customers. He looked at Compaq, Sears, RCA, Xerox, ATT and IBM. According to Christensen, innovation is based on three observations:

- 1) In every sector, there's a limit to a product's productivity. For example, telephones come with an increasing number of functions but most people only know how to use a fraction of them.
- 2) A product's productivity grows over time, but slower than the pace at which market leaders introduce the innovations.
- 3) There are two types of innovations, breakthrough and conservative, which satisfy different types of customers.

Sustaining innovations improve an existing product to satisfy the most demanding customers. Market leaders continuously innovate to satisfy the most refined needs of a marginal customer base, which doesn't benefit remaining customers, showed on the blue plot line in the graph above. Breakthrough innovations provide a simpler, easier-to-use, and cheaper product for people who hadn't used such a product at all before, or for less demanding customers. These products tend to be the revolutionary ones that quickly dominate an already saturated market. They are the ones that satisfy a need people didn't even know they had. Breakthrough

⁸⁴ Clayton M. Christensen, *The Innovator's Dilemma*, Harvard Business School Press, Boston 1997.

The Impact of Sustaining and Disruptive Technological Change



Source: Clayton M. Christensen, *The Innovator's Dilemma*, Harvard Business School Press, Boston 1997, p. XIX.

innovations usually start out having no competitors, so they get ignored by market leaders.

Another type of breakthrough innovation is products that attack low-margin industries. Entrepreneurs who invent a new way to make a product more cheaply have a chance to break into a mature market. Market leaders usually don't react to these market entrants. They're focused on other, higher-margin segments. So they ignore the upstart. Discounters such as Wal-Mart in the United States or ALDI in Germany, which have taken over the retail market, are examples of such innovators. These types of companies start off in the low-margin businesses, but through additional innovations, aim higher and higher, trying to break into higher-margin niches over time.

Using Christensen's theory, you can predict future changes in the market and find opportunities to innovate.⁸⁵ Christensen's books were what inspired the idea of the low-cost finance, which grew into mBank. They also taught me not to stop at one innovation, because over time everyone on the market would adopt it. This is exactly what happened. Most banks in Poland now have sophisticated online banking, but a process of constant innovation of both procedures and products has enabled mBank to maintain a competitive advantage and strengthen its position on the market. When you introduce new production methods or enter new markets, you take risks. It takes trial and error. It requires leaving old routines behind. But innovation gives you an edge.

Managing By Mission

For the past 20 year, the second-most popular management concept among business leaders, after strategic management, is managing by mission. James C. Collins and Jerry I. Porras spent six years studying the secrets of successful companies and published their findings in a book titled *Built To Last*.⁸⁶ According to Collins and Porras, companies that set themselves Big Hairy Audacious Goals, or BHAG, are the ones that survive and thrive over the long-term. A company's mission is something much greater than being profitable. It motivates and stimulates workers to act. It brings people together to achieve a common goal. And it's especially important in difficult times. It points the way and gives people a sense of being part of something big and important. A mission is specific and engaging. It gives people energy and focus. It exists on the border of the possible and the impossible. It's a company's trademark, pointing towards what must be done and how to do it.

"The mission is a general statement describing the identity of a company," Pablo Cardona and Carlos Rey said in their book *Management*

⁸⁵ Clayton M. Christensen, Michael E. Raynor, *Innowacje. Napęd wzrostu*, Studio Emka, Warszawa 2008; Clayton M. Christensen, Scott D. Anthony, Erik A. Roth, *Innowacje. Następny krok. Wykorzystanie teorii innowacji w przewidywaniu zmian na rynku*, Studio Emka, Warszawa 2010.

⁸⁶ James C. Collins, Jerry I. Porras, *Wizjonerskie organizacje. Skuteczne praktyki najlepszych z najlepszych*, MT Biznes, Warszawa 2008.

by *Missions*.⁸⁷ It's my favorite of the many definitions of the mission statement. Based on this definition, many missions of the past, which focused on beating the competition, sound jarring, like Pepsi's, "Beat Coke", Honda's, "Yamaha wo tsubusu," (We will crush, squash, and slaughter Yamaha!), or Nike's "Crush Reebok". They sound like they are defining themselves by their hated arch-rivals.

A mission statement should describe the purpose of the company, what it is, what it does and what it wants to accomplish. It should be short and simple so that it's easily understood by its employees, clients, suppliers, shareholders and stakeholders. But it isn't etched in stone. Microsoft has changed its mission three times since its founding in 1975:

- 1975 – "A computer on every desk and in every home."
- 1999 – "Create experiences that combine the magic of software with the power of Internet services across a world of devices."
- 2011 – "To enable people and businesses throughout the world to realize their full potential."

Mission statements also go by other names including, philosophy, organizing principles, credos, and company goals. I like to subject mission statements to the elevator test. If I manage to present the company's mission to another elevator passenger during a ride from the ground floor to the second floor, manage to convince the person of it and have them repeat the mission back to me in roughly 30 seconds that means it's a good one. It has to be memorable, because it should always be used as a reference for independent decision making by employees.

When I became the chief executive of BRE Bank I met with the top 100 managers of the bank and asked them what BRE Bank's mission was. They answered with confused stares. These were young, well-educated and experienced business people, so it was likely the fault of the mission, not them. A few people said BRE Bank definitely had a mission, but they couldn't remember it. They said it was probably to maximize profit, value and quality. They had the general idea, but the fact that the mission wasn't

⁸⁷ Pablo Cardona, Carlos Rey, *Zarządzanie poprzez misję*, Wolters Kluwer Polska – Oficyna, Kraków 2009, p. 72.

at the front of their minds meant it had to be scrapped. I finally found it deep in the bank's paper archive, hidden in a document on strategy:

"BRE Bank's mission is to build permanent relationships with clients and shareholders by offering them the highest quality of financial services and to maximize the bank's market capitalization. To implement its mission, the Bank uses its potential in order to create a comprehensive offer of financial services and products from both corporate and retail customers."

Its first sin was that it was too general, hard to remember, and at the same time too obvious. We decided to look for a new way in which to phrase BRE Bank's mission. A few weeks of workshops yielded the following:

"The best financial institution for demanding corporate and retail clients." It was true. We wanted to be the best. This was ambitious, because BRE Bank was a mediocre bank at that point. We narrowed our focus to the most demanding customers. We didn't want to be everything to everyone. And it was inclusive, because it was applicable to mBank, MultiBank, BRE Leasing, and Polfactor, BRE Bank's various brands and subsidiaries. Four years later, in 2008, Polish daily *Rzeczpospolita* awarded BRE Bank the title of "The Best Financial Institution in Poland".

A well-written and thought-out mission statement builds a company's identity, giving it the competitive advantage of differentiation. Good mission statements take time and effort to write. For example, although mBank and MultiBank appear to operate on the same market, each had a unique mission statement to summarize their individual brands. mBank's was "Maximum benefit and convenience in personal finance," while MultiBank's was "A friendly business world for demanding retail customers and business people." mBank's business model was low-cost, like Wal-Mart or Ryanair. The changes wrought by discount stores and no-frills airlines are revolutionary. Companies that operate based on this business model control over half of the mature market on which they operate. The main benefit of this model is the low prices, but market leaders can also offer high quality, enabling them to gain a competitive advantage over traditional businesses.

mBank, by eliminating the need for traditional bank branches and having customers conduct banking operations online, can offer unrivaled low prices. By using new technologies, it can offer quality on par with traditional banks. Process quality, ease of use, and remote access make mBank's convenience its trademark. mBank's mission is short and clear. It indicates what mBank's identity is. More benefits than elsewhere and convenience that enhances customer satisfaction.

We elaborated on mBank's mission in a statement on our operational philosophy, in which we said mBank stood for transparency, simplicity of products, and putting customer interests before our own.⁸⁸ MultiBank's mission signaled the company wanted to build relationships based on emotions. The word „friendly” was supposed to contrast with the common conception of banks as arrogant bureaucracies. We wanted to talk directly with our demanding customers, a dialog on a friendship basis.

Mission is a very good tool of managing change. PKO BP underwent a deep restructuring in 1998 and needed a new strategy. Its goal was to retake the title of market leader. But PKO BP had problems. It didn't offer products that met customers' expectations and needs, both of which had risen sharply as Poland's economy had developed, and it was known for terrible service. Updating and improving the products the bank offered was the easy part, because we could do that at the top of the bank's hierarchy using well-known methods like benchmarking and interviews with customers. All it took was listening to customers and getting the help of a few dozen competent people. But improving the quality of service was tougher. It required all our employees, especially at the bottom level, to change their behaviors and routines. So we settled on a simple mission statement: „The customer is the center of attention.” And we signed all communication with customers „PKO BP Close To You”, to let them know that PKO was always nearby because it had the most bank branches in Poland. This mission and slogan guided how we conducted purchasing, introduced new technology, evaluated workers, recruited them and trained them.

⁸⁸ mbank.pl

Modern management can't rely on routine. There is no universal tool or concept that will always apply and solve every problem. Management priorities change over time, depending on life cycles, the business's situation, and changes in the market. These changes require the proper management tools, of which there are many. A given manager can choose tools to optimize their individual preferences. In the 20 years I've spent working as a manager, I've found a few management concepts useful and effective: strategic planning, management by mission, strategy of innovation, Six Sigma, Balanced Scorecard, benchmarking, segmentation, knowledge management and management by values. I will develop this final concept, as the most revolutionary, in the successive chapters of this book.

Chapter 4.

Paradigm Shift: Animal Spirits, Not Rational Choice As Drivers Of Economic Activity

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it.

Adam Smith

Animal spirits... a spontaneous urge to action rather than inaction... Enterprise only pretends to itself to be mainly actuated by the statements in its own prospectus, however candid and sincere. Only a little more than an expedition to the South Pole, is it based on an exact calculation of benefits to come.

John Maynard Keynes

For a long time, the doctrine of classical economics, whose fathers are Adam Smith, David Ricardo and John Stuart Mill, monopolized the discipline of economics. All subsequent economic concepts are elaborations on the groundwork laid down by the above three thinkers. This canon assumes that the driver of economic activity is selfishness and greed. But this attempt to force everything into one overarching framework is a mistake.

“It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own interest,” Smith wrote in *The Wealth of Nations*. “We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.”⁸⁹ The idea of the invisible hand, derived

⁸⁹ Adam Smith, *Badanie nad naturą i przyczynami bogactwa narodów*, PWN Warszawa 2001, p. 20.

The idea of the invisible hand, derived from a phrase Smith used only in passing, assumes maximum benefit for the greatest number is the result of individuals acting based on egotistical impulses. In classical economics, there's the idea of homo economicus, a person who is motivated only by material gain and always acts rationally to maximize that gain.

from a phrase Smith used only in passing, assumes maximum benefit for the greatest number is the result of individuals acting based on egotistical impulses. In classical economics, there's the idea of *homo economicus*, a person who is motivated only by material gain and always acts rationally to maximize that gain. The economic thinkers who followed Adam Smith often praised greed, justifying it by saying the invisible hand creates a positive result out of this base emotion.

Actually, it was Bernard Mandeville, a philosopher, political economist and satirist, who came up with the idea that greed is good and morality is gratuitous.

In his work, *The Fable of The Bees: or, Private Vices, Public Benefits*, which was published in book form in 1714⁹⁰, he describes “many key principles of economic thought, including division of labor and the invisible hand, seventy years before these were more thoroughly elucidated by Adam Smith,” according to Wikipedia. In Mandeville’s hive, wickedness in economic and social relations creates a public good. In the fable, private morality is meaningless.

“Would you render a Society of Men strong and powerful, you must touch their Passions,” Mandeville wrote. “Divide the Land, tho’ there be never so much to spare, and their Possessions will make them Covetous: Rouse them, tho’ but in Jest, from their Idleness with Praises, and Pride will set them to work in earnest: Teach them Trades and Handicrafts, and you’ll bring Envy and Emulation among them.”⁹¹ This idea, that everything that we do, regardless of whether it is moral or not, maximizes the public good, is revolutionary and dangerous. What’s even more dangerous is the idea that vices are useful for society. Mandeville again:

⁹⁰ Bernard Mandeville, *Bajka o pszczołach*, PWN, Warszawa 1957.

⁹¹ *Ibidem*, p. 187-188.

Then leave complaints: fools only strive
To make a great an honest hive.
To enjoy the world's conveniences,
Be famed in war, yet live in ease,
Without great vices is a vain
Utopia seated in the Brain
Fraud, luxury, and pride must live,
While we the benefits receive.⁹²

Many people today also believe that the invisible hand works more efficiently when we act on our basest instincts of selfishness, greed, jealousy, and subterfuge. They use this idea as an excuse because they think the ends justify the means. But Adam Smith, as well as George Berkeley, the Anglo-Irish philosopher, who was a proponent of the theory of subjective idealism, and David Hume, the Scottish philosopher, economist, and essayist, were all critical of Mandeville's writings.

"There is, however, another system which seems to take away altogether the distinction between vice and virtue, and of which the tendency is, upon that account, wholly pernicious: I mean the system of Dr Mandeville," Smith wrote in *The Theory of Moral Sentiments*. "Though the notions of this author are in almost every respect erroneous, there are, however, some appearances in human nature, which, when viewed in a certain manner, seem at first sight to favor them. These, described and exaggerated by the lively and humorous, though coarse and rustic eloquence of Dr Mandeville, have thrown upon his doctrines an air of truth and probability which is very apt to impose upon the unskillful."⁹³

Adam Smith, John Stuart Mill, John Locke and Thomas Malthus were philosophers who focused on morality first and foremost. Economics was a side line to them, and was for a long time taught only as part of ethics. The current popular interpretation of Adam Smith's thinking completely misses the point he was trying to make, that moral feelings are stronger than the principle of maximizing utility.⁹⁴ The life of John Maynard Keynes

⁹² Ibidem, p. 27-28.

⁹³ Adam Smith, *Teoria uczuć moralnych*, PWN Warszawa 1989, p. 461.

⁹⁴ Adam Smith, *Teoria uczuć moralnych*, PWN Warszawa 1989, p. 126-121.

A key element of Keynes' theory, often overlooked today, is the idea that actors present on the market aren't always rational, the way classical economics assumes.

is an apt reminder of the problem of the „two Smiths.” In 1936, in the middle of the Great Depression, Keynes published *The General Theory of Employment, Interest and Money*, considered his magnum opus. Keynes' macroeconomic theory became even more popular after his death, in academia and among politicians in

the 1950s and 1960s. Simplified by his followers, the theory states that government spending can ensure economic growth and full employment. This theory gave politicians, deciding on how much to put their countries in debt, a feeling of omnipotence. It didn't last. By the end of the 1970s, high inflation and unemployment mired many western economies in a state of crisis. A key element of Keynes' theory, often overlooked today, is the idea that actors present on the market aren't always rational, the way classical economics assumes. This is Keynes' explanation for why market crashes and recessions occur. Keynes calls these non-rational motivations *animal spirits*.

“Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than mathematical expectations, whether moral or hedonistic or economic,” Keynes wrote in *The General Theory of Employment, Interest and Money*. “Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits – a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities.”⁹⁵

Keynesians who promote Keynes' theories often omit any of his references to animal spirits or irrational behavior, though this was an important element of his thinking.⁹⁶ By the 1980s, Keynesian economics

⁹⁵ John Maynard Keynes, *Ogólna teoria zatrudnienia, procentu i pieniądza*, PWN Warszawa, 1985, p. 184-185.

⁹⁶ George A. Akerlof, Robert J. Shiller, *Zwierzęce instynkty. Czy ludzka psychika napędza globalną gospodarkę i jaki to ma wpływ na przemiany światowego kapitalizmu*, Studio Emka, Warszawa 2010, p. 13.

had given way to neoliberal economics, with its belief in the free market, the strength of the invisible hand, and maximization of individual benefit as the driver of all human action. Economists at the University of Chicago, Milton Friedman, Frank Knight, and George Stigler, played the main roles in putting forth this neoliberal challenge to simplistic Keynesianism. Those three were also influenced by Austrian philosopher and economist Friedrich Hayek. Neoliberal economists argue the role of the state in the economy should be reduced, regulation should be limited, and the rights of labor unions curtailed. Margaret Thatcher and Ronald Reagan put these ideas into practice, at least in part, in the United Kingdom and the United States respectively. Neoliberalism soon became the reigning doctrine all over the world. The political and economic bankruptcy of Soviet Bloc countries seemed to be proof of neoliberal theories. Neoliberalism refers to the classical economics of Adam Smith but treats it in the same way Keynesians treated their source documents. They select only those passages that support their theories and confirm the rule of the invisible hand, which, overarching, self-regulates an economy. The free and unfettered market and the paradigm of the *homo economicus*, a being that acts rationally and makes decisions based on economic accounting, is the cornerstone of neoliberalism, which dominates economic thinking and practice today.

Now greed is praised in mainstream economics. Starting in the 1980s, chief executives of the world's largest companies, banks and insurers began asking and receiving ever higher salaries and bonuses, which neoliberal economics seemed to justify. But despite reports to the contrary, animal spirits, especially unbridled greed, have been alive and well these last twenty years. We've seen the dot com bubble burst and are now mired in deepest global recession in 70 years, triggered by a housing market bubble followed by a credit crisis that is now in fifth year.

Utility maximization isn't the whole story. A myriad of other things drive human behavior and provide clues to how an economy actually functions, including trust, sense of fairness, honesty, corruption, anti-social behavior, the money illusion, and stories, according to George Akerlof and Robert Shiller, who expanded on Keynes' observation in their

“Being honest is worth it, even though it doesn’t always pay. It pays to be dishonest, but it isn’t worth it.”

book *Animal Spirits*.⁹⁷ A new paradigm must take into account what is visible to the naked eye, how animal spirits influence the economy. Animal spirits can include positive values such as ethics, team work, empathy, solidarity, and integrity.

But they also include non-values such as selfishness, greed, disloyalty, and cheating.

An apologia for immorality, justified through the success it brings, and not just financial success, has a long history. According to Niccolò Machiavelli “the ends justify the means” and people are driven by lust and selfishness.

“Everyone understands how praiseworthy it is in a Prince to keep faith, and to live uprightly and not craftily,” Machiavelli wrote in *The Prince*. Nevertheless, we see from what has taken place in our own days that Princes who have set little store by their word, but have known how to overreach men by their cunning, have accomplished great things, and in the end got the better of those who trusted to honest dealing.” It isn’t surprising that *The Prince* is still mandatory reading and a source of inspiration for power-hungry politicians and businessmen driven by insatiable desire for profit. Many politicians and many nations, just like many business people and many businesses, owe their success to this maxim. The idea that cunning pays suggests that it is necessary to succeed. Władysław Bartoszewski, a Polish World War II resistance fighter, former Auschwitz concentration camp prisoner who went on to serve as Poland’s Minister of Foreign Affairs, twice, would counter thus: “Being honest is worth it, even though it doesn’t always pay. It pays to be dishonest, but it isn’t worth it.” Greed and the drive of companies to maximize their profits have caused the last two serious economic crises of the past decade. They’ve deprived tens of millions of people of work around the world, caused bankruptcies, and caused thousands of companies to report losses. Now many countries, even the richest and most developed are facing a sovereign debt crisis that threatens their futures.

⁹⁷ George A. Akerlof, Robert J. Shiller, *Animal Spirits*, Princeton University Press, 2009.

When the internet stock market bubble burst in 2001, retail and institutional investors lost about \$5 billion. The bubble had been fueled by brokerage firm and investment banks, who created hundreds of millionaires and dozens of billionaires, who made their money quickly and hadn't always earned it. It all started when in August 1995 Netscape Communications Corporation, the first internet browser, debuted on Nasdaq 15 months after it was founded. The market valued the company at over a billion dollars. By the end of 2000, 378 American internet start-ups had been listed at astronomical valuations. At the beginning of 2000, the market capitalization of all Nasdaq listed dotcom companies reached \$1.5 trillion, while their total sales were only \$40 billion, mainly generated by AOL, Amazon and Qwest. Of those 378 companies, 370 never reported any quarterly net profit. Those were the days Cisco had a market cap of \$500 billion, making it the most valuable company in the world, worth more than even General Electric. In January 2000, America OnLine acquired the world largest media company, Time Warner, for \$183 billion in stock. At first considered the most visible example of how the rules of the game had changed in the New Economy, the merger ended up being one of the most value destructive transactions in history. After nine years, Time Warner said it would spin off AOL into a separate entity. In March 2012, AOL is valued at \$1.75 billion, while Time Warner is valued at \$35 billion.⁹⁸

Many dotcom-bubble era companies didn't have a viable business model. Even if the popularity of their products or services was growing rapidly, there was no comparable growth on the revenue side. Now we see that these companies benefited from the temporary blindness of investors seduced by the false prophets and snake-oil salesmen of Silicon Valley. Clever dotcom company founders and investment banks made a huge amount of money from the initial public offerings of these companies. When the bubble burst in 2001, share prices collapsed, many dotcoms

⁹⁸ With hindsight, the merger of AOL and Time Warner has turned out to be a complete fiasco. It's been called the worst merger transaction in history. In 2003, the company dropped AOL from its name, in effect returning to its roots. Then, in 2009, AOL was spun off. By that time AOL's sales had dropped to \$4.2 billion from \$9.1 billion in 2002. At the time of the spin-off Time Warner's annual revenues were \$47 billion.

went bust and investors were left shocked and sobered. The Nasdaq, where most technology companies choose to list their shares, fell from a record-high of 5132 points in March 2000 to just above 1108 in October 2002. The S&P 500 index fell 50% over the same time period, which is comparable to the market correction of the Great Depression, taking into account the drop in production and employment of that era.⁹⁹ The bear market, comparable to an earthquake of 8 on the Richter scale, touched the capital markets of the United States, Europe and Asia. In the United States alone, investors lost over \$5 billion. The drop in share prices and lack of external financing swept away most of the dotcoms, which had emerged on the stampede of investor interest, fueled by stock market analysts hungry for profits for themselves. Only the companies that had viable business models independent of innovative technology survived.

At the same time, corporate scandals were erupting in the United States. Companies like Enron, WorldCom, Tyco, Qwest and Cendant went bust. The chief executives and other c-suite executives were arrested and accused of embezzlement and bad governance. Attorney General Elliot Spitzer's investigations revealed the corporate world's many illegal practices, conflicts of interest and insider trading at the banks that had financed the bankrupt companies. The ten largest U.S banks settled out of court by paying fines worth \$1.4 billion. They paid \$350 million for their negligence at Enron alone. Enron became a symbol of corporate corruption, using creative accounting to show profit when there was none, for the benefit of top managers who could then collect bonuses. The jury convicted Enron's board of directors and top managers and sentenced them to many years in jail. And the root of it all was greed, the emotion so praised by mainstream economics. One of the largest accounting companies in the world, Arthur Andersen, shared Enron's fate. It got blamed for lack of diligence in auditing Enron and also ceased to exist.

In 2002, Congress passed the Sarbanes-Oxley Act, which was supposed to change how things were done and to protect investors in public companies by introducing more disclosure and internal control requirements. There was much public debate about the need for best practices in corporate

⁹⁹ Roger Lowenstein, *Origins of the Crash*, The penguin press, New York 2004, p. 220.

governance and ethics. Many ideas on how traditional management practices should change were discussed. But soon everything went back to normal. The crisis passed thanks to the easy money policy of the Federal Reserve. The bull market and the hunt for quick profit was back.

Greedy companies and greedy individuals created an auto-destruct machine, a financial pyramid scheme.

Companies became profitable again and managers were earning higher salaries than ever before in cash and stock options. Not surprisingly, the pressure to report ever-rising quarterly profits was huge, because that's what ensured stocks kept rising, giving high-level executives so many benefits. Six years passed and a new crisis erupted, the credit crunch. We're still mired in it today. Greedy companies and greedy individuals created an auto-destruct machine, a financial pyramid scheme. Assuming housing prices never fall, banks gave mortgages to anyone with a pulse, regardless of their credit histories, their incomes, or their net worth. Those dodgy mortgages were then sliced and re-bundled with other mortgages into other securities which were considered less risky because, with the housing market booming, it seemed improbable that all those homeowners would stop making mortgage payments at once. The collateralized debt obligations (CDOs) were rated triple-A on this assumption. But just in case, buyers of those securities bought insurance on them in case they did default, in the form of credit default swaps (CDSs). While it lasted everyone benefited, people lived in larger, more luxurious houses than they would otherwise be able to afford, real estate agents were busier than ever, mortgage brokers earned fees, investment banks earned fees, rating agencies earned fees, sellers of default insurance got a steady stream of income, and investors got yield. But once nearly anyone in America who wanted a house had bought one, the pyramid had to collapse. Housing prices stopped rising and some people stopped making their mortgage payments. Banks had losses instead of profits. No one was sure how large those losses were and whether counterparties were viable. For Lehman Brothers, that dilemma became so acute that when the US government and the Federal Reserve refused to bail them out, they declared bankruptcy. Getting spooked by the panic that followed, governments started bailing

out other financial institutions now considered too big to fail. Losses were nationalized, while the profits had long been spent. In the United States, the cost of bailing out the financial sector set taxpayers back over \$700 billion. In Europe, the cost was even higher. Because of this, sovereign debt levels have skyrocketed.¹⁰⁰ That's why higher values are so important in economics and society.

“Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity, myself included, are in a state of shocked disbelief,” Alan Greenspan said in a hearing before Rep. Henry Waxman's House Committee and Oversight and Government Reform. Twenty-five of 100 best-paid chief executives made more money than the companies they run paid in taxes, according to a report put together by Institute of Policy Studies, a Washington D.C.-based think tank.¹⁰¹ Earnings at those 25 companies in 2010 averaged \$1.9 billion and they included General Electric, Boeing, Coca Cola, Prudential, Verizon, Ford, International Paper, and eBay. But they also included financial institutions such Mellon Bank of New York, Capital One Financial, Prudential and AON, which had been criticized for their excessively high compensation packages for executives in the past. Citigroup and Bank of America, who benefited most from government help in 2008, have 427 and 115 branches, respectively, in tax havens to avoid paying taxes in the United States.

Income inequality in the United States fell since the Great Depression all the way until the beginning of the 1970s, according to a study by University of Berkeley researchers. Then it grew rapidly. In 1970, the 10% best paid Americans earned 32.6% of total income. By 2007, that 10% was earning 49.7% of total income. In 1970, richest 0.1% earned 2.78% of all income. By 2007, that 0.1% earned 12.28% of all income.¹⁰² This

¹⁰⁰ The public debt of the United States has increased by 50% from 2007 to 2011 and is forecast to surpass 100% of GDP in 2012. On August 6, 2011, rating agency Standard & Poor's lowered the credit rating of the United States government to AA+ from AAA. Earlier, S&P also lowered the ratings of most European Union countries, except Germany.

¹⁰¹ *Executive Excess 2011: The Massive CEO Rewards for Tax Dodging*, Institute for Policy Studies, Washington 2011.

¹⁰² Thomas Piketty, Eduard Saenz, “Income Inequality in the United States, 1913-1998”, *Quarterly Journal of Economics*, 118(1), (Tables and Figures Updated to 2010 in Excel format, March 2012 <http://elsa.berkeley.edu/~saez/>)

trend appears to be strictly correlated with the rise of neoliberal economic thought into the mainstream.

Managers make money even when the companies they run lose money. They get paid like owners without bearing the responsibility of ownership. It contradicts

the basic rules of a healthy economy. Executives want to be compensated like entrepreneurs when the skill and effort of managing an existing company is nowhere near as hard as creating one from the ground up. But income inequality isn't just an American problem.

Growing Unequal, a report prepared by the Organization for Economic Co-operation and Development in 2008, contains data confirming the growth of income inequality in the OECD's 30 member countries over the past 20 years.¹⁰³ In OECD countries the average incomes of the 10% richest citizens are nearly nine times higher than those of the 10% poorest citizens. Comparing the income gaps between the wealthiest and poorest citizens from country to country is especially interesting. Sweden and Denmark, famed for their social economic models, have a low level of stratification. The rich earn about five times more than the poor. Mexico, a developing country, and the United States, one of the worlds most developed countries, have the greatest degrees of stratification. In these last two countries, the richest segment of society earns 25 and 16 times more, respectively, than the poorest segment. In Poland the stratification indicator is 13.5, the third-highest level in Europe and surprising for a formerly communist country where the income gap was nearly non-existent two decades ago. Poland's rank is also in sharp contrast to other countries in the region which share its past as Soviet satellites. In the Czech Republic, Slovakia and Hungary, the stratification indicator is between 5.5 and 7.

In 1970, the average salary of chief executives of America's largest corporations was 28 times higher than the average salary of all workers. In 2007, this ratio hit a record 344-to-1. In 2009, a crisis year, it fell

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¹⁰³ OECD, *Growing Unequal? Income Distribution and Poverty in OECD Countries*. 2008, p. 1-312.

to 263-to-1 before rebounding in 2010 to 325-to-1. Richard Fuld, who spent his whole working life at Lehman Brothers, starting in 1969 and as chief executive from 1996 to 2008, has become a synonym of greed and the excesses of executive pay. From 2000 to 2008, Fuld earned \$522 million, in the form of cash and exercised stock options. His friends in the management board earned not much less, \$491 million. That adds up to an unimaginable \$1.041 billion.¹⁰⁴ The management board and supervisory board of Lehman Brothers also had 6 company jets at their disposal, including a Boeing 767, one of the largest jet airlines in the world. Lehman Brothers went bankrupt in October 2008. Creditors' claims exceeded \$300 billion, making it the largest financial catastrophe in history.

„We had a compensation committee that spent a tremendous amount of time making sure that the interests of the executives and the employees were aligned with shareholders,” Fuld told Waxman, the head of the congressional committee charged with reconstructing what happened at Lehman when asked if he thought his compensation was justified, given the company's ignoble end. „My employees owned close to 30% of our company because we wanted them to think and act and behave like shareholders. When the company did well, we did well. When the company didn't do well, we did not do well.”

In 2008, Fuld was the 11th best paid executive in the United States, according to Forbes. Other banking sector CEOs outranked him, including Richard Fairbank, the chief executive of Capital One at no. 9 (\$73 million), Lloyd C. Blankfein, the chief executive of Goldman Sachs at no. 8 (\$73.7 million), Angelo R. Mozilo, the chief executive of Countrywide Financial, the bank specializing in mortgage lending, at no. 5 (\$102.8 million). Mozilo was the co-founder of Countrywide Financial, a bank created in 1969 and made mortgage lending its core business from the beginning. At the peak of the mortgage boom in 2006, Countrywide Financial had a 20% share of the mortgage market. In 2007, in its annual

¹⁰⁴ Lucian A. Bebchuk, Alma Cohen, Holger Spamann, *The Wages of Failure: Executive Compensation at Bear Stearns and Lehman, 2000-2008*. HARVARD JOHN M. OLIN CENTER FOR LAW, ECONOMICS, AND BUSINESS, Discussion Paper No. 657, 12/2009, Revised 02/2010, p. 20.

report, Countrywide disclosed that 20% of its portfolio consisted of high-risk loans. Countrywide Financial was profitable for a long time. In 2005, it reported net profit of \$2.5 billion, an all-time high for the company. In 2006, net profit had fallen to \$1.7 billion. By 2007, it was only \$700 million. Things got drastically worse from there. The banks liquidity was cut off as suspicions mounted that Countrywide was insolvent due to terrible quality of its loan portfolio. In 2008, pressured by the Federal Reserve, Bank of America said it would take over Countrywide which was teetering on the brink of bankruptcy.

The deal closed in July and was worth \$2.8 billion plus many billions of dollars in government guarantees. A year later the Securities and Exchange Commission launched an investigation into the negligence and fraud of Countrywide's management, namely the procedures for granting loans, as well as into whether management hid the true state of the company from investors. In July 2010, Bank of America paid \$180 million in fines for Countrywide's practice of collecting excessive fees on sales of mortgages to the poor. A month later Bank of America paid a \$600 million fine as part of a settlement for other improper procedures at Countrywide. The media also reported that Countrywide had „VIP program” to give sweetheart loans to influential people, including politicians.¹⁰⁵ The SEC ruled that the chief executive and two other Countrywide Financial management board members had misled investors, had loosened lending rules, and didn't disclose that the quality of its mortgage loan portfolio had deteriorated. Mozilo eventually paid \$67.5 million in fines as part of a settlement. That compares with his earnings of \$521.5 million from 2000 to 2008, the era of the sub-prime mortgage that Countrywide had a significant hand in creating.¹⁰⁶

Sinfully high executive salaries weren't the only reason for the financial crisis which erupted in 2008, but they were part of a system of profit maximization using the Machiavellian rule of the ends justifying the means. Values in business, such as putting the interests of others before your own, solidarity, loyalty, honesty, have become a synonym of outdated fashion, something that had passed, never to return. Gordon Gekko's

¹⁰⁵ *Mozilo's friends on the Hill*, The Washington Times, 2010.10.13.

¹⁰⁶ Robert Lenzner, *Why Isn't Angelo Mozillo In Jail?*, Forbes, October 2010.

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words have become the mantra: „Greed is good. Greed is right. Greed works”. The corporate world of the ever-present rat race hasn't drawn conclusions from the fact that Gekko, the main character of Oliver Stone's Oscar-winning movie *Wall Street* ends up in jail for 20 years. In the sequel of *Wall Street*, Gekko observes the world of the new millennium from behind

bars and concludes that, economically, everyone has gone mad.

“Someone reminded me I once said ‘Greed is good’,” Gekko tells a lecture-hall full of college students in *Wall Street: Money Never Sleeps*. “Now it seems it's legal. Because everyone is drinking the same Kool Aid.” In 2012, four years since the financial crisis began, the world still can't get to grips with its consequences. The world, but especially Europe, is still in and out of recession and the future doesn't look rosy. Uncertainty is higher than ever. But the lessons that the collapse of financial systems in the United States and Europe want to teach us haven't been learned. The outrage and debates on the causes of the crisis haven't translated into the necessary corrective actions. This is hard to understand and it's dangerous. The regulatory changes necessary to ensure the stability of the financial system are taking place slowly and are fragmentary. Moral hazard and internal conflicts of interest haven't been eliminated from banks' operations. The attitudes of managers and the way businesses, including financial institutions, are run are still the same. Nothing has changed. Everything has gone back to the pre-crisis normal. We live in a world in which maintaining the status quo ante is a bomb with a long fuse. The seed of the next crisis is there.

Goldman Sachs is the biggest and the most famous investment bank in the world. It employs 30,000 people. Working at Goldman Sachs is the dream of many of the most talented graduates of the world's best universities. The firm accepts one out of every 100 people who apply for jobs there. The demand for working at Goldman Sachs is so high because of the money, prestige and good reputation of the company. And that's despite the work being backbreaking, from 9:00 in the morning to 11:00 in the evening, with a break for dinner. Goldman Sachs employees think

highly of themselves and their work. Goldman Sachs Chief Executive Lloyd Blankfein even famously called it “God’s work”. Goldman Sachs employees truly are royally compensated. Blankfein earned \$73 million dollars in 2007, three times more than Goldman Sachs paid in taxes that year. The average salary, including bonus, of a Goldman Sachs employee exploded towards the end of the first decade of the new millennium to \$600,000. The rationale for compensating employees so richly was that the company was earning more profit. In 2011, when Goldman Sachs reported net profit of over \$4 billion, the average salary was a less-than-expected \$367,000 and there was talk of great disappointment.

Goldman Sachs was always proud to be an institution that did things differently. Goldman Sachs has a set of Business Principles set down by Sidney Weinberg, who ran the bank from 1928 to 1969. These include the rule that the interest of the client is always the most important and is placed ahead of the bank’s interests. Other principles say integrity and honesty should always be the center of attention and excellence and professionalism should be evident in each employee’s daily actions. Goldman Sachs’ corporate culture was always the secret of its success. It was based on team work, ethics, humility and working in the interest of the client. The events of recent years and new information about the reality of the firm’s culture suggest its identity is now diametrically different.

The stuff that made Goldman Sachs so profitable is now gone into the dustbin of history. People now say Goldman Sachs has succeeded to avoid major failures not due to its employees’ talent but in large part due to the firm’s connections and skillful lobbying. Goldman Sachs emerged from the financial crisis unscathed thanks to a government bailout coordinated by Treasury Secretary Hank Paulson, a former chief executive of Goldman Sachs. When AIG, America’s largest insurer, was bailed out to the tune of \$85 billion, it prevented Goldman Sachs from losing a single cent on the insurance it bought on loans and bonds backed by mortgages. Over the course of one weekend, Goldman Sachs got regulatory approval to change its status from an investment bank into a commercial bank in order to qualify for government aid. As could be expected, it got the approval, granted by Stephen Friedman, the Chair of the Federal Reserve Bank of New York, a former Goldman Sachs employee. In the fall of 2008,

Goldman Sachs received \$12 billion of aid, which was a positive sign for private investors, including Warren Buffet. Buffet bought \$5 billion-worth of convertible bonds from Goldman. From then on Goldman overcame its problems and started making huge amounts of money benefiting from the misfortune of other banks and the crisis of the financial sector in general, a crisis Goldman Sachs had contributed to creating. It now turns out that the bank was earning money using dubious methods during the mortgage loan boom. It was selling mortgage-backed securities while at the same time buying financial instruments betting that these securities would collapse. Following an investigation into this practice, the bank settled for \$500 million.

The former Prime Minister of the United Kingdom, Gordon Brown, accused Goldman Sachs of moral bankruptcy following these revelations. In 2009, other unsavory Goldman Sachs practices came to light. The bank had helped the Greek government hide the true size of its debt and budget deficit from investors and from the European Commission. Even as more ethically-ambiguous Goldman Sachs practices have been revealed, the firm has been doing well in terms of profitability, which helped it maintain its image despite these repeated gaffes. On March 14, 2012, the New York Times published an op-ed titled *Why I Am Leaving Goldman Sachs*, written by former Goldman Sachs director Greg Smith, responsible for derivative trading in Europe, Asia and Africa, who had worked there for 12 years. It was the first time in the investment bank's 143 year history that an employee publicly said why he was resigning, and to top it off, broached the topic of the firm's principles. The following is an excerpt:

"I believe I have worked here long enough to understand the trajectory of its culture, its people and its identity. And I can honestly say that the environment now is as toxic and destructive as I have ever seen it.

To put the problem in the simplest terms, the interests of the client continue to be sidelined in the way the firm operates and thinks about making money. Goldman Sachs is one of the world's largest and most important investment banks and it is too integral to global finance to continue to act this way. The firm has veered so far from the place I joined right out of college that I can no longer in good conscience say that I identify with what it stands for.

It might sound surprising to a skeptical public, but culture was always a vital part of Goldman Sachs's success. It revolved around teamwork, integrity, a spirit of humility, and always doing right by our clients. The culture was the secret sauce that made this place great and allowed us to earn our clients' trust for 143 years. It wasn't just about making money; this alone will not sustain a firm for so long. It had something to do with pride and belief in the organization. I am sad to say that I look around today and see virtually no trace of the culture that made me love working for this firm for many years. I no longer have the pride, or the belief.

But this was not always the case. For more than a decade I recruited and mentored candidates through our grueling interview process. I was selected as one of 10 people (out of a firm of more than 30,000) to appear on our recruiting video, which is played on every college campus we visit around the world. In 2006 I managed the summer intern program in sales and trading in New York for the 80 college students who made the cut, out of the thousands who applied.

I knew it was time to leave when I realized I could no longer look students in the eye and tell them what a great place this was to work.

When the history books are written about Goldman Sachs, they may reflect that the current chief executive officer, Lloyd C. Blankfein, and the president, Gary D. Cohn, lost hold of the firm's culture on their watch. I truly believe that this decline in the firm's moral fiber represents the single most serious threat to its long-run survival.

Over the course of my career I have had the privilege of advising two of the largest hedge funds on the planet, five of the largest asset managers in the United States, and three of the most prominent sovereign wealth funds in the Middle East and Asia. My clients have a total asset base of more than a trillion dollars. I have always taken a lot of pride in advising my clients to do what I believe is right for them, even if it means less money for the firm. This view is becoming increasingly unpopular at Goldman Sachs. Another sign that it was time to leave.

How did we get here? The firm changed the way it thought about leadership. Leadership used to be about ideas, setting an example and doing the right thing. Today, if you make enough money for the firm (and are not currently an ax murderer) you will be promoted into a position of influence.

What are three quick ways to become a leader? a) Execute on the firm's "axes," which is Goldman-speak for persuading your clients to invest in the stocks or other products that we are trying to get rid of because they are not seen as having a lot of potential profit. b) "Hunt Elephants." In English: get your clients — some of whom are sophisticated, and some of whom aren't — to trade whatever will bring the biggest profit to Goldman. Call me old-fashioned, but I don't like selling my clients a product that is wrong for them. c) Find yourself sitting in a seat where your job is to trade any illiquid, opaque product with a three-letter acronym. (Commonly known as derivatives or "weapons of mass destruction" in Warren Buffet's words).

Today, many of these leaders display a Goldman Sachs culture quotient of exactly zero percent. I attend derivatives sales meetings where not one single minute is spent asking questions about how we can help clients. It's purely about how we can make the most possible money off of them. If you were an alien from Mars and sat in on one of these meetings, you would believe that a client's success or progress was not part of the thought process at all."

It doesn't matter if Smith's confession is a full and fair reflection of Goldman Sachs' corporate culture. It illustrates a trend of how business is conducted today and has been for a number of years. Profit maximization, especially by high-level managers supersedes values. The founder of investment management company Vanguard, John Bogle, was right when he said: "We're moving, or so it seems, to a world where we're no longer making anything in this country; we're merely trading pieces of paper, swapping stocks and bonds back and forth with one another, and paying our financial croupiers a veritable fortune. Never has so much been paid for so little."¹⁰⁷ In a time when progress and economic growth have become the highest good, economics has become a religion and economists and managers its high priests. They explain reality, forecast the future, and shape the myths that become common truths. Their forecasts are about as accurate as the Delphic Oracle and also about as decipherable. Managers are the true heroes of modernity, as Peter Drucker, the management guru,

¹⁰⁷ John C. Bogle, *Dość. Prawdziwe miary bogactwa, biznesu i życia*, PWE, Warszawa, 2009.

noted correctly many years ago. That's because managers are the ones who shape reality, promising heaven on earth via continuous growth.

Economics professors and the chief executives of large corporations have become celebrities on a stage shaped by the mass media. Look at the front pages of newspapers, weeklies and business monthlies. The economy has become the most important topic of public debate. Growth is considered the highest good and an end in itself. Growth is treated as an economic term, even though for centuries it referred to spirituality. Now it's just a quantity.

„We become obsessed with economic growth,” Czech Economist Tomas Sedlacek wrote in his book *Economics of Good and Evil: The Quest for Economic Meaning from Gilgamesh to Wall Street*. “We don't really know where it's leading us but we compensate for this discomfort with speed.”¹⁰⁸ Businesses and employees need to maintain ethical and moral values more than ever in the face of threats posted by destabilizing economic trends and the anti-values which have gone viral. For much of history, economics was strongly influenced by philosophy, religion and the study of ethics. This has changed over the past several decades as people have been turned into human capital, a cog in the machine to maximize production to achieve the highest possible growth, the highest purpose of all. Contrary to what you might expect having the reigning paradigm in mind, selfishness and greed do not contribute to the common good. Recent examples show that selfishness and greed are the causes of crises and bankruptcies and pose a risk to the economic and social order.

The economy has become the most important topic of public debate. Growth is considered the highest good and an end in itself.

¹⁰⁸ Tomas Sedlacek, *Ekonomia dobra i zla*, Studio EMKA, Warszawa, 2011.

Chapter 5.

Being a Manager in the New Economy

It is the foremost task and responsibility of this generation to re-imagine our enterprises and institutions, public and private.

Tom Peters

Looking Ahead

A series of inventions, put into use at the turn of the 18th and 19th centuries and then perfected over the 100 years, transformed how products were manufactured and distributed. Together, they also transformed society and the political landscape. Machines replaced the strength of muscles in manufacturing goods and the energy needed to make them. Using widely available natural resources made mass production possible and increased standards of living. The spinning machine, the steam engine, the smelting of iron and steel with the help of coal, railways and other inventions advanced the world more in the course of one century than it had progressed in the previous 1000 years. The progress of civilization isn't a linear process. Waves of fast-paced growth are followed by slowdowns as the force of innovation intermittently creates a critical mass for acceleration. Continuous-discontinuous change is the trajectory of economic growth and the progress of civilization.

Over the last 50 years, innovation in IT has gathered considerable momentum and transformed our lifestyles and how we work, how businesses operate, how political parties, charities, and all of social and economic life functions on the national and global scale. We live in an

Innovation in IT has gathered considerable momentum and transformed our lifestyles and how we work, how businesses operate, how political parties, charities, and all of social and economic life functions on the national and global scale.

era of technological revolution that is becoming socially and economically relevant. Contrary to popular belief, revolutions don't start suddenly and don't last just a short time. They aren't always bloody. Revolution is a widespread, irreversible change. We are witnessing one right now, similar in scale and scope to the one of 200 years ago.

It's a revolution of relationships facilitated by computers and phones. This interconnectedness helps us do our jobs, communicate, have access to information and disseminate it. Information technology and the internet give people the tools to find information, analyze it, process it, and pass it on to others. It's making us more effective than ever before. The value of this new technology is that it enables us to store, analyze and send information constantly, from wherever we are, cheaply. From a business point of view, this lowers the costs of design, production, marketing, and accounting. It makes doctors, teachers, bankers and government workers more productive. Advances in computer equipment technology, programming, telecommunications and networking are what's driving this growth. The eye of this storm of change is a phenomenon whose strength is derived from the speed, scope and quality of the impact they have. Three laws have made this phenomenon grow exponentially.

Moore's law is a rule of thumb in the history of computing hardware whereby the number of transistors that can be placed inexpensively on an integrated circuit doubles approximately every two years.

Metcalf's law states that the value of a telecommunications network is proportional to the square of the number of connected users of the system (n^2).

Gilder's Law is an assertion by George Gilder, visionary author of *Telecom*, which states that "bandwidth grows at least three times faster than computer power." (netlingo.com)

In the medium term these laws combine to create a new world. IT and the internet are now present in every aspect of the economy, transforming

how businesses operate and influencing every aspect of our lives. Both private and professional life is increasingly defined via internet relations.

The internet is the most important catalyst of change of 21st century business.

“Information technology and the internet increase the power of the mind to the same degree that the industrial revolution’s inventions strengthened the power of muscle,” said Brad de Long, a professor at Berkley. This opinion is a good description of the value that information technology and the internet bring to the remolding of civilization from an economic and social aspect.

The internet is the most important catalyst of change of 21st century business. It has enabled more information to be exchanged more quickly, saving time and money. A radial breakthrough is happening before our eyes, a paradigm shift.

Consumers have the upper hand against the makers of goods and providers of services. Now consumers can instantly compare available offers based on any criteria of their choosing, which gives them incredible power. Only products that meet the needs of consumers, that are the best quality and most competitively priced, stand a chance. Consumers can maximize their own benefits.

The increased access to fast, cheap information has improved the functioning of every market, the capital market, the labor market,

New Economy - Paradigm Shift

The development of information technology and the internet brings economic activity closer to the ideal model of the market and free competition

full access to information
(comparison and choice)

many buyers and sellers

transaction costs = 0

lack of barriers to entry for producers



20th century

Product
Price
Distribution channel
Marketing

21st century

Client
Choice
Convenience
Communication

Source: Sławomir Lachowski.

This paradigm shift is challenging for traditional businesses. It requires them to change radically how they've done things for a long time. It requires workers to change how they think and learn new skills.

and the market for goods and services. Barriers to entry have fallen away, driving competition, as markets have become more transparent and transaction costs have dropped. As the number of businesses proliferates, the competition impels them to improve quality and cut prices. The paradigm has shifted thus:

- Value is based on a consumer's individual experience. Companies focus on individual consumers and each consumer's experience as a user, regardless of how many consumers they have.
- Each company has access to global resources and global knowledge. Operational optimization entails using multiple suppliers based on price and quality.

This paradigm shift is challenging for traditional businesses. It requires them to change radically how they've done things for a long time. It requires workers to change how they think and learn new skills.

Challenges of the Future

The typical business will be knowledge-based, an organization composed largely of specialists who direct and discipline their own performance through organized feedback from colleagues, customers, and headquarters. For this reason, it will be what I call an information-based organization.

Peter Drucker

Management is out of date. Like the combustion engine, it's a technology that has largely stopped evolving, and that's not good.

Gary Hamel, a professor at London Business School

The challenges business leaders face do not have a precedent in recent history. They're most usefully compared to the challenges of the dawn of the industrial revolution. Management guru Gary Hamel, a professor at London Business School, argued that both the theory and practice

of management have become dated and need to be radically altered to adapt to the socio-economic changes of the 21st century.¹⁰⁹ It's hard to say management hasn't evolved. Published in 2008, the *Guide to Management Ideas and Gurus* contains 103 management concepts by 54 thinkers. Management has come a long way since American mechanical engineer Winslow Taylor wrote *The Principles of Scientific Management*, published nearly 100 years ago and considered the first scientific approach to management.

This means that management:

1. Isn't a single discipline, but many independent and inter-related concepts used in practice.
2. The knowledge and practice of management is rich. Over a century, more than one management concept has emerged every year.

Companies usually use over ten management concepts simultaneously. That means that many old management ideas are still current and in practice.

We live in an era of transition from an industrial to a knowledge-based economy. This is what is changing:

- flow of information;
- geographical reach;
- demographic change, the emergence of a new generation of customers;
- customers taking control of companies;
- walls separating companies from the outside world are crumbling.

The operating model of businesses changed in the 1990s. Decisions used to be made based on the technology of the production process. The customer was at the end of the value chain, and therefore passive. The costs of production and a margin were used to determine a price. The marketing department was responsible for distributing the product and maximizing sales. This has changed. Now customers, their needs, preferences, and financial means, are the center of attention and determine the characteristics

¹⁰⁹ Gary Hamel, *Future of Management*, Harvard Business School Press, Boston 2006, p. 16.

of a product. Customers have a limited amount of time, so they value convenience and expect clarity, not advertising that obscures the true nature of the product. Companies now gather tons of data, but it's not access to data that has become significant, but how it's used. Vertical integration is being replaced by horizontal integration. Outsourcing has become an obvious solution to optimize many segments of a business's operations.

Traditional companies focus on getting to know their target group of consumers. New Economy companies focus on creating a personalized offer for each of their customers, bolstered by a personal relationship. Personalization isn't anything new, but now it's ubiquitous. Personal service, bespoke clothing, and made-to-order cars used to be available only to a small group of wealthy people. Now, most cars are made to order. NIKEiD, a service of Nike, lets customers customize their sports gear by color, material and design. Each user of social networking sites like Facebook or MySpace creates their own world. Users of Amazon or Ebay have a personal login and have their interests analyzed through the products they buy and even simply look at. Businesses that operate in the New Economy have to address the following management problems:

- leadership;
- new generation of customers;
- the values and needs of the customer as foundations of a new business model;
- knowledge management;
- finding talented employees and helping them grow;
- innovation;
- adapting organization structures to the challenges of the moment.

In the New Economy, the mystery of leadership is gone. But leadership remains preeminently important. Leadership should become

In the New Economy, the mystery of leadership is gone. But leadership remains preeminently important.

commonplace and appear at every level of an organization, regardless of formal power structures. That doesn't leave much room for charismatic, neurotic, authoritarian leaders. There's no dilemma whether "to manage or lead" because

only leadership can ensure employees fulfill their potential, become passionately engaged in their workplaces, and take on responsibility.

A new generation of customers has grown up. They pose a challenge to traditional ways of managing businesses because they turn strategic assumptions and business models on their heads. This generation of consumers is independent and demanding. They are aware of their purchasing power and they use it. They demand personalized products and services. I'm talking about Generation Y, young people born between 1982 and 1995. They don't like their parents' products because they don't fit their lifestyles. They use the internet for everything.¹¹⁰

Characteristics of the new generation of customers:

- Expect products that are tailored to their needs and accord with their values.
- Independent, resistant to traditional advertising. Prefer to survey the market themselves before choosing a product or service. Value recommendations from family and friends.
- Practical, ready for change – if they find a new, better, cheaper offer, they tend to switch to that service provider; they value convenience, accessibility, and a wide array of products.
- Early adopters of new technology – members of social networks, who use the internet every day for everything.
- Socially aware – sensitive to social and environmental issues.

This new generation of customers doesn't just include Generation Y. Generation X, those born between 1961 and 1981, as well as baby boomers are adopting Generation Y behaviors. Everyone now demands high quality and satisfaction of individual needs. Everyone is growing resistant to traditional marketing, becoming price sensitive, and comparison shopping. This new generation is forcing companies to change the assumptions of their strategies and business models.

This new generation is forcing companies to change the assumptions of their strategies and business models.

¹¹⁰ Don Tapscot, *Grown Up Digital. How the Net Generation is Changing Your World*, McGrawHill, New York 2009.

The Coming Wave of New Generation Customers



Source: Sławomir Lachowski.

A learning organization is one that is able to understand the problems it faces and solve them. “The organizations that will truly excel in the future will be those that discover how to tap people’s commitment and develop the capacity to learn at all levels in an organization,” said Peter Senge.¹¹¹ Senge, who came up with the idea of the learning organization, identifies five characteristics of such an organization:

- systems thinking – the ability to explain complicated phenomena by seeing the interdependence of individual phenomena;
- personal mastery – the ability of the organization’s workforce to learn and constantly strive for improvement of their skills;
- mental models – the ability to draw conclusions from available data and to think creatively;
- shared vision;
- team learning.

“A learning organization is a place where people are continually discovering how they create their reality. And how they can change it,”

¹¹¹ Peter Senge, *Piąta dyscyplina. Teoria i praktyka organizacji uczących się*, Dom Wydawniczy ABC, Warszawa 2000, p. 17.

Senge said. An organization that isn't just a collection of individuals, that is able to adapt to change, is a learning organization. Such companies gather the individual skills of their workers. They also share information with both workers

The most important skill of the learning organization is its tendency to multiply the knowledge of its members.

and clients, bringing them into the decision-making process. The most important skill of the learning organization is its tendency to multiply the knowledge of its members. In such an organization, knowledge transfer occurs quickly and effectively. The problem of managing knowledge isn't new, but it's becoming increasingly important in the digital age. Not many companies have managed to create a corporate culture of learning. One of the exceptions is Toyota, where all workers and managers understand the production process and have the critical skills to analyze it.¹¹²

The pillars of Toyota's learning culture¹¹³:

- Direct observation;
- Change as a structured experiment;
- Acceptance of frequent experimentation;
- The manager as a coach.

American carmakers needed over 20 years to understand that the secret of Toyota's success wasn't just its lean management and just-in-time supply chain. It was a management style that made every worker, even those on the production line, someone who looks and thinks independently. *Genchi genbutsu*, or "go and see" is the motto behind every worker's responsibility to understand a given problem and look for a solution.

¹¹² Jeffrey Liker, *Droga Toyoty*, MT Biznes, Kraków 2005, p. 343 and onward.

¹¹³ Steven J. Spear, *Learning to Lead At Toyota*, „Harvard Business Review”, May 2004.

Chapter 6.

Management by Values

I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being.

David Packard, co-founder of Hewlett-Packard

As I look back on my life's work, I'm probably most proud of having helped create a company that by virtue of its values, practices and success has had a tremendous impact on the way companies are managed around the world.

Bill Hewlett, co-founder of Hewlett-Packard

Usually, many roads lead to one destination. One can travel by the quickest route in terms of distance or travel time. Or one can pick the most beautiful route in terms of scenery. It's similar with managing a business. There's no management style that's objectively the best, because so much is determined by the mission to be accomplished, the vision of what the company is to become, as well as, to a large extent, by the individual characteristics of its leaders. That's why one observes a multitude of styles and various management ideas, which all lead to success.

Until recently, business success had one dimension, profit. That's changing, significantly and permanently. A company's goal has become increasingly complex and the absolute primacy of profit is being questioned. Managers have introduced new sub-goals, such as customer satisfaction, employee satisfaction, sustainable growth, and supporting the local community. The point of a given business, once thus reevaluated, becomes multidimensional. How a company attains its results, transparency, mercantile integrity, respect for the values and aspirations of its employees, customers and suppliers, as well as social responsibility, all start counting for more. The journey becomes more important than the destination, or at least equally important.

Management by values is a philosophy. But it's also practical action whose goal is to focus on the practice of essential values within a business as well as aligning them with the mission and future vision of a company.

Hence, a need arises to set out unchanging, basic principles, to guide the actions of its workers and point in the right direction in case of doubt, like a compass, regardless of temporary turbulence and uncertainty as they typically appear in modern business. Managers usually focus on quantifiable metrics, such as profit, budgets, technology, neglecting the humanistic aspect of business, which is more abstract and therefore unpractical.

A company's basic values like the values adopted by people are usually a closed set of timeless ideas that have real meaning to the members of the organization and help with the accomplishment of short-term goals or a strategy. Using values every day as management tools creates groundwork for a new concept of management - management by values. Permeating every layer of a company as well as how it relates to the outside world with values is humanized management, which creates a new dimension of a company's operations. Management by values is a philosophy. But it's also practical action whose goal is to focus on the practice of essential values within a business as well as aligning them with the mission and future vision of a company.

In this chapter I will present the main problems of management by values. First, I'll analyze the meaning of values in the life of a business, then I'll describe the main tenets of management based on values and finally I'll focus on corporate culture as the form in which values take shape in a company. I'll conclude by showing the usefulness of managing by values as a tool to overcome the challenges of 21st century business.

Values in the Life of a Business

Every excellent company we studied is clear on what it stands for, and takes the process of value shaping seriously. In fact, we wonder whether it is possible to be an excellent company without clarity on values.

Thomas J. Peters, Robert H. Waterman

Companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world.

James C. Collins

Aren't values a luxury in the business world? Isn't business mainly about making money? Yes, profit is a goal, but not the most important one. "Work is the asset of a human being, the asset of his or her humanity," Pope John Paul II wrote in his 1981 encyclical. "Through work a person not only transforms nature, adapting it to his or her needs, but also achieves fulfillment as a human being and becomes more human."

This may sound jarring to business-type tough guys fighting to succeed in business at any price. Still, the fact remains business leaders have identified the significance of company values. They've been called various things: overarching values, common values, belief systems, and creeds.

In 1943, the chief executive of Johnson & Johnson, Robert Wood Johnson, wrote down a mission statement for the consumer goods company. It's still in use today. It says the company is responsible to the people who use its products. It says its products must be high quality and fairly priced. It also says the company is responsible for the environment and for the community in which it operates. Finally, it says the company owes its workers respect and fair compensation. The mission statement is Johnson & Johnson's most important strategic document. "Latin for 'I believe,' Our Credo serves as a compass as we navigate the rapid change of today's environment," says the introduction to the Credo.

Thomas Watson Jr., who succeeded his father as chief executive of IBM, created the foundations for the company's amazing growth. In his 1963 book, *A Business and Its Beliefs. The Ideas that Helped Build IBM*,

he said: “I firmly believe that any organization in order to survive and achieve success must have a sound set of beliefs on which it premises all its policies and actions. Next I believe that the most important single factor in corporate success is faithful adherence to those beliefs.”

Overarching values set out by founders are the trademark of Hewlett-Packard. From the beginning, the company set itself the goal of contributing to societal progress. Its main task was the design and production of the best electronics possible to advance science. Hewlett-Packard wanted to be a “good and responsible citizen” before anyone had heard of corporate social responsibility.

“Our basic principles have endured intact since our founders conceived them,” said John Young, a former chief executive of Hewlett-Packard. “We distinguish between core values and practices; the core values don’t change, but the practices might. We’ve also remained clear that profit – as important as it is – is not why the Hewlett-Packard Company exists; it exists for more fundamental reasons.”

Values had been practiced by some business leaders long before they became the subject of study for management consultants and academics. But Thomas J. Peters and Robert H. Waterman were the first to introduce the wider public to the concept of values in their book *In Search of Excellence*.

“Let us suppose that we are asked for one all-purpose bit of advice for management, one truth that we were able to distill from the excellent companies research,” Peters and Waterman write in their book. “We might be tempted to reply, figure out your value system. Decide what your company stands for. What does your enterprise do that gives everyone the most pride? Put yourself out ten or twenty years in the future. At what would you look back with greatest satisfaction?”

Built to Last. Successful Habits of Visionary Companies by Jim C. Collins and Jerry I. Porras made another ripple in the public’s awareness of values-driven leadership when it was published in 1994. It analyzed and distilled the values of the most successful American companies. It took them six years to find the reasons behind these companies’ successes. Collins and Porras called the companies they focused on “visionary organizations”. These companies are successful in multiple fields, have been in business

a long time, have survived several product cycles, and have undergone revolutionary change. Collins and Porras carefully assembled a list of companies that are leaders in their fields, have consistent earnings, and are admired by their communities and have left a mark on the universe. The authors then studied the factors that contributed to the companies' success and were surprised to find that in the long term it was neither having a charismatic leader, nor a clever strategy, abundance of capital, innovation, great products, or high margins. It was values.

"We've never encountered an organization, even a global organization composed of people from widely diverse cultures, that could not identify a set of shared core values," Collins and Porras said. Visionary organizations, the best of the best, have a clearly conceived set of core values. They keep these values unchanged much like their central purpose or mission, even as they adapt their strategies and procedures to the changing world. Paradoxically, "core values are essential for enduring greatness, but it doesn't seem to matter what those core values are," Collins and Porras said.

It's hard to find a canon of values that would work for everyone. It's easy to find values seen as overarching to a given company, but those values are not always shared by other companies. That's the strength of values. Values are an individual choice. They distinguish great companies.

Core values have become trendy. Most companies in developed economies say they adhere to a system, canon or code of values. A report titled *Corporate Values Index 2009* confirms this. Companies that belong to the ***International ECCO Network*** are the ones conducting the research that goes into the index.¹¹⁴ The index shows to what degree a company uses values to plan strategy and marketing over time. The report also aims to show the differences between the value systems of small, medium-sized and large companies. For the *Corporate Values Index 2009*, researchers surveyed people in over 14 sectors, in 3,800 companies in 11 countries including Poland, Germany, France, Italy, Austria, India, the Netherlands, Spain, Great Britain, the United States, and Ukraine. Researchers sorted companies into three size categories, those that employ up to 1,000 people,

¹¹⁴ *Corporate Value Index 2009*, ECCO International Communications Network.

Companies that say values are important to their corporate culture use many different words to describe these values.

those that employ 1,000 to 5,000 people, and those that employ over 5,000 people. Over 77.5% of companies surveyed said they had a value system.

In 54% of cases, the system included from three to five individual values. Only 9% had less than that, while 29% had over five values that were part of the company's value system. The 3,726 companies surveyed that said they had a value system submitted 18,551 slogans and phrases that referred to their own value system. The report confirms the theories of Peters and Waterman, as well as those of Collins and Porras. Most companies have a value system but value systems vary widely across companies. The 2009 index is useful because it was generated based on surveys from around the world on a large sample of diverse companies.

Companies that say values are important to their corporate culture use many different words to describe these values. Sounds like semantics, but it's quite important. Researchers had a huge set of names for these values and they started to categorize these words. Once they were sorted by concepts and redundancy sifted out, researchers found they had a set of 89 pilot-values. Those 89 pilot values could be divided into eight families of values. Researchers organized values into categories according to their function.

The category of values a company adopts says a lot about that company's character. If its values fall into the Professional and Combative categories, it tends to be focused on the market and the competition. Values from the Behavioral and Relational categories reflect a company's relations with its own workers as well as with its suppliers and customers. The Society and Social categories contain a company's corporate social responsibility ethos. And the Fulfilling and Moral categories of values tend to be universal and spiritual.

Of all the values named, the largest number referred to the skills of a company's workers (Professional) as well as those that determined competitiveness (Combative), 35% and 22%, respectively. Behavioral values were the third most popular at 13%. Societal values made up 10% of the whole. Ethical-social values together, 16%. Relational, 8%; moral, 6%; Social, 2%.

Families of Values

Value family – category	Examples of values assigned to family
Professional values – refer to the quality of a company’s offer or its core operations, company or product characteristics	Trust, Customer Satisfaction, Determination, Diversity, Excellence, Internationality, Know-how, Management, Organization, Pragmatism, Professionalism, Quality, Regionalization, Reputation, Service, Specialization, Speed
Combative values – refer to the “soft” secrets of success or competitiveness	Ambition, Foresight, Enthusiasm, Fighting Spirit, Initiative, Success, Growth
Behavioral values – refer to how a company works, how its employees work	Adaptability, Authenticity, Sense Of Humor, Freedom, Individualism, Instinct, Passion, Openness, Pride, Humility
Society values – refer to a company’s relationship with the community, the environment	Environment, Protection, Sharing, Responsibility, Sustainability
Relational values – refer to how a company communicates	Accessibility, Confidentiality, Closeness, Partnership, Respect, Harmony
Fulfilling values – refer to a company’s respect for its workers’ feelings and personalities	Humanism, Personal Growth, Leisure, Talent, Sensitivity
Moral values – refer to a company’s ethics	Ethics, Transparency, Loyalty
Social values – shared with the community	Democracy, Equality, Integration, Patriotism, Pluralism, Quality Of Life

Source: Corporate Values Index 2009.

Professional values were preeminent in all 11 countries surveyed, while in most countries other than Germany, Combative values came in second place. Behavioral values were in second place in Germany, and in third place in most countries surveyed, except for Austria, India, Holland and the United Kingdom, where they were fourth. Societal values were in third place in Austria, Holland, Spain and the United Kingdom. Four of these values, environment, social responsibility, sustainable growth and health, were among the 30 most popular values in all the countries surveyed.

The survey from 2009 showed that the number of slogans about and expressions of values has jumped from 16,076 to 18,551. This may be partially explained by the fact that researchers surveyed more companies this time than three years ago. But it seems companies are

trying to strengthen their corporate cultures by crafting their own unique value systems. The drop in popularity of expressions such as “customer satisfaction” and “adding value” shows companies are moving away from generic value systems and looking to differentiate themselves.

Researchers ranked the words to describe values by the frequency with which they appeared in companies’ codes of values. Here are the top ten.

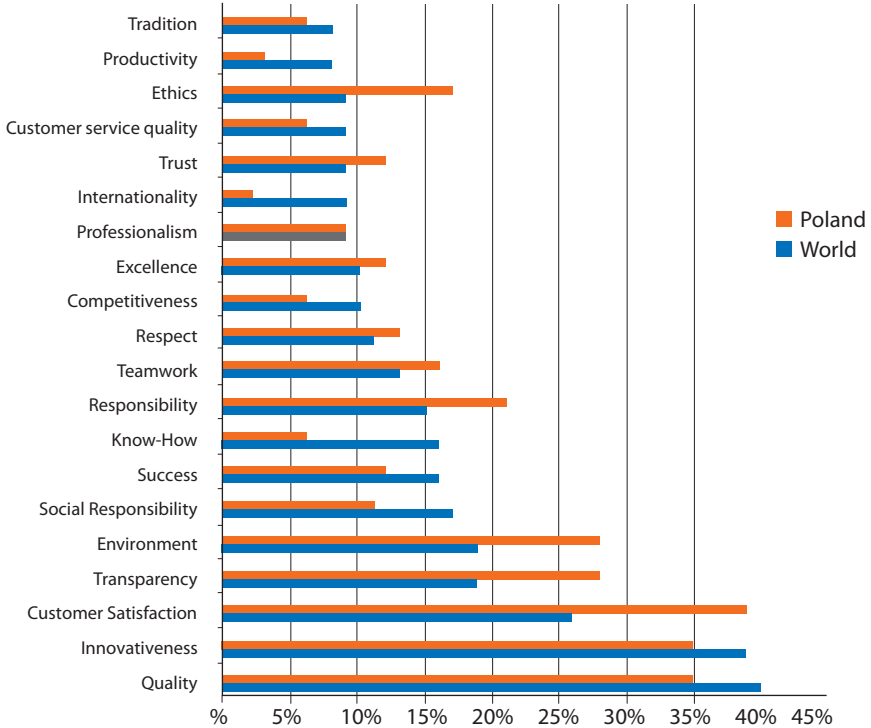
Most Important Values on an International Scale



Source: Corporate Values Index 2009.

Over 30% of value statements refer to quality and innovation. Customer satisfaction, transparency, the environment, and corporate social responsibility, were the second largest group named in 15% to 30% of value statements. And finally, success, know-how, responsibility and teamwork come up 10% to 15% of the time. Poland stands out both in terms of how few companies have stated values systems and what values were important to the companies that did have them. In 2009, of the 349 Polish companies surveyed, only 103 said they had a value system. For Polish companies, the major values were customer satisfaction (39%), quality (35%), innovativeness (35%), transparency (28%), responsibility (21%), the environment (21%), teamwork (20%), and ethics (18%). Polish companies attach less significance to quality, innovativeness, corporate social responsibility, know-how, being international and productivity.

Major Values of Polish Companies versus Global Benchmark



Source: Corporate Values Index 2009.

The percentage of Polish companies that say they have a value system is decidedly lower than in developed countries, but this percentage is rising fast. The pilot values listed in the study correspond with universal human values. But each company describes its values using a very unique vocabulary.

Values can be described and defined in a myriad of ways. Even the same word can have a different definition depending on the company. The world of values is incredibly diverse and nuanced. Each company has its own unique set. The 2009 report paints an optimistic picture of the role values play in companies. But it can't capture how declared values translate

Values can be described and defined in a myriad of ways. Even the same word can have a different definition depending on the company.

Average Number of a Company's Declared Values by Country

Austria	5.7
France	4.65
Germany	5.17
India	4.85
Italy	2.54
Netherlands	4.54
Poland	4.59
Spain	4.51
UK	4.71
Ukraine	8.65
USA	3.33
Average	3.726

Source: Corporate Values Index 2009.

into a company's behaviors. According to Peters and Waterman, as well as Collins and Porras, the most long-lasting, best companies have a set of values at the beginning and stick to it. There must be something to this as an increasing number of companies have begun setting down value systems of their own. Taking a closer look at the companies surveyed for the *Corporate Values Index*, I couldn't help but think that the tendency to adopt values has become trendy. It seems to me that many companies formulate a value system to check off a requirement, and then their employees ignore it.

A value system that remains on paper doesn't help. In fact, it's a setback because it leads to hypocrisy. Openness, respect for others, integrity and excellence were the values of Enron. The behavior of Enron's executives contrasted sharply with the company's stated values. And Enron isn't the exception. Executives are usually prompted to write down a set of values for the sake of public relations. Of course, what's most important isn't the declaration that one has a value system, but how an organization lives that value system every day.

Corporate values get talked about a lot at business conferences, but business leaders usually don't treat values as part of their companies' business models. Many managers prefer concrete performance indicators. It's time for this to change.

The Groundwork for Managing by Values

I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company's existence, we have to go deeper and find the real reasons for our being.

David Packard

We try to remember that medicine is for the patient. We try to never forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they will never fail to appear. The better we have remembered that, the larger they have been.

George W. Merck, Jr., the son of the founder of Merck & Company

According to Niccolo Machiavelli, the ends justify the means. People are driven by egoism and primitive desires. “Everybody knows how laudable it is in a prince to keep his faith and to be an honest man and not a trickster,” Machiavelli said. “Nevertheless, the experience of our times shows that the princes who have done great things are the ones who have taken little account of their promises and who have known how to addle the brains of men with craft. In the end they have conquered those who have put their reliance on good faith.” Machiavelli’s masterpiece, the political treatise *The Prince*, remains required reading for politicians who lust after power and for businessmen driven by greed. To be sure, Machiavelli’s advice has served many leaders of countries as well as businesses. Luckily, not everyone subscribes to the Italian diplomat’s brand of cynicism. Success based on amorality and selfishness tends to be short-lived.

The urge to maximize profit at any cost was the source of the spectacular bankruptcies and collapses of the early 21st century. Enron, WorldCom, Tyco, and Siemens were the darlings of investors until it turned out they had falsified their earnings figures or engaged in corrupt business practices. The managers at those companies were greedy and that’s what made them behave immorally or even criminally. Many of them have been

The urge to maximize profit at any cost was the source of the spectacular bankruptcies and collapses of the early 21st century.

sentenced to a number of years in prison. One of the largest accounting firms in the world, Arthur Andersen, shared the fate of companies such as Enron, because it didn't hold up its responsibility to audit them, and also went out of business.

Those failures made transparency, internal controls, and good governance the focus of much attention and public debate in the years that followed. But despite greater awareness, application lagged. Exhibit A is the global financial crisis which erupted in 2008 and has pushed the western world into the deepest recession since the Great Depression. Driven by greed, companies and individuals acting together created a pyramid scheme that had to collapse eventually. Banks should not have given mortgages to people who couldn't ever pay back the money.

Theoretically, the high risk of an individual mortgage was reduced when it was cut into little pieces and spread across many different portfolios of mortgages, especially if rating agencies deemed the risk was low. Investment banks eagerly sold those loan portfolios because they were insured against default and had high yields. Over a few years, the banks reported astronomical profits and their employees received gargantuan bonuses, which they promptly spent. The implosion of that tidy system hurt borrowers, banks, insurance companies and the rest of the economy.

The collapse of Lehman Brothers in October 2008 triggered a domino effect of fear. With more banks on the brink, governments decided to bail them out, considering them too big to fail. In the United States, this cost \$700 billion. In Europe, it was even more. Many banks were wholly or partially nationalized. Big banks are like nuclear power plants. Meltdowns are catastrophes.

These examples of failure show how important overarching values are to economic growth and to society. Alan Greenspan, the former head of the Federal Reserve, was a true believer in free markets and deregulation.

"Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity are in a state of shocked disbelief," Greenspan told the House Oversight Committee that was investigating the credit crunch. Corporate social responsibility is now becoming a requirement instead of what it used to be, an option to have a competitive advantage. It can't be left to the public relations department anymore. CRS, including the

idea of sustainable growth, relations with stakeholders, and philanthropy, isn't new. Companies such as Johnson & Johnson, Merck, General Electric, and Hewlett-Packard have practiced it consistently and successfully. But the idea of "normal business", or focus on profit maximization, has dominated. When David Packard said that "profit is not the proper end and aim of management" in the 1950s, he said he clearly felt that businessmen who were his contemporaries ostracized him. Things haven't changed much since then, until the financial crisis showed that single-minded focus on maximizing profit could threaten the world's entire financial and social fabric.

Values refer to people, but also to procedures and behavioral norms.

Corporate social responsibility is part of a company's value system. It refers to a company's relations with the community in which it exists and with its various stakeholders. But values are even more important for a company's internal relations, because they are the building blocks of its corporate culture and thus its competitive advantage. Values refer to people, but also to procedures and behavioral norms. They are the measuring stick for internal regulations as well as for a company's products or services. Core values are a set of permanent rules on which an organization is built. They usually don't require much explanation.

Translating a Mission into Results



Source: Sławomir Lachowski.

Core values are timeless:

- They aren't subject to trends.
- They aren't affected by the changing market environment.

Values are just as important in a person's private life as in the life of a business; values determine character in a person and corporate culture in a company; values allow a person to live with dignity and die in peace; they give companies a shot at immortality. Values provide internal balance amidst turbulence and propel people to pursue excellence.

A mission and values are interdependent. Together they create the corporate culture of an organization. It's not a coincidence that companies usually present their mission statements and set of values together. Let's take a look at how Microsoft does it:

Microsoft's Mission Statement and Core Values

Our Mission

At Microsoft, we work to help people and businesses throughout the world realize their full potential. This is our mission. Everything we do reflects this mission and the values that make it possible.

Our Values

As a company, and as individuals, we value:

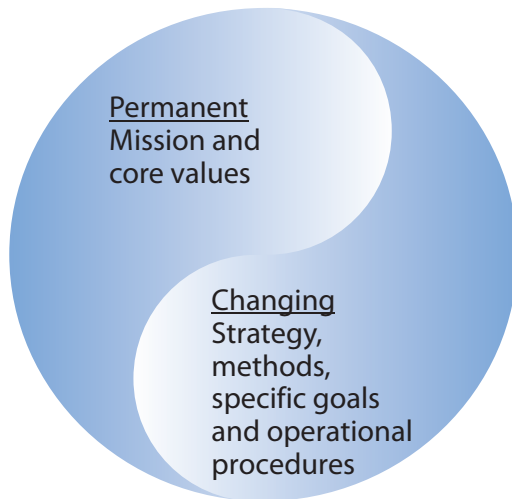
- Integrity and honesty.
- Passion for customers, for our partners, and for technology.
- Openness and respectfulness.
- Taking on big challenges and seeing them through.
- Constructive self-criticism, self-improvement, and personal excellence.
- Accountability to customers, shareholders, partners, and employees for commitments, results, and quality.

Source: Microsoft.

Companies strive to change along with the world around them. Executives come and go. Products become out-dated. New technologies emerge. But values are permanent and fresh. They are the keystone that connects a company's mission, the meaning of its existence, with

its vision, what it wants to become. A well-written mission statement and carefully chosen values are so concrete that they usually reveal what kind of business it is. The mission statement is a clear declaration of purpose. Values describe the behaviors that will help people accomplish that purpose. The mission statement and core values are the most solid parts of a company's architecture. A company's vision changes in the face of external threats or opportunities. That can precipitate a change of strategy, which is evolving gradually anyway due to socio-economic trends, paradigm-shifting innovations, market opportunity or regulatory changes, over which a company has no control.

Core Values in a Changing World



Source: Sławomir Lachowski.

Adhering to a mission, vision and strategy requires that a company's workers reach their full potential of skills, passion, energy, and sacrifice. This isn't something one can achieve simply through traditional methods of management by instruction or management by objective. A common set of values has an incredible impact on employee behavior and the quality of management:

- increases loyalty;
- unites workers around common goals;
- encourages ethical behavior;
- inspires passion and increases productivity;
- fosters cooperation and kindness;
- reduces stress levels and tensions in the workplace;
- encourages workers to teach themselves new skills;
- attracts talent.

The ideas of management by instruction and management by objective are based on the conviction that people are driven to act mainly by fear and greed. We now know that isn't exactly true. People don't want to defer into some distant future their dreams of a job they can do with passion in an atmosphere of understanding and kindness. It's time management practices were aligned with the expectations of shareholders and workers in order better to achieve strategic goals.

Management by values addresses the weaknesses of other management methods, especially those focused exclusively on earnings. Consistently practiced values have a magical effect on a company's corporate culture,

giving that company a permanent competitive advantage. Human capital is the deciding factor in business success today. Management by values enables a business to unlock its workers' full potential. We are in the midst of a war for talent. A company's values are the best argument for choosing one job offer over another.

The ideas of management by instruction and management by objective are based on the conviction that people are driven to act mainly by fear and greed.

Corporate Culture – Invisible Strength

An organization is more than a set of products and services. It is also a human society, and like all societies, it nourishes particular forms of culture, “company cultures.” Every company has its own language, its own version of history (its myths), and its own heroes and villains (its legends), both historical and contemporary. The whole flourishing tangle serves to confirm old-timers, and to induct newcomers, in the corporation’s distinctive identity and its particular norms of behavior. In myriad ways, formal and informal, it tells them what is okay and what is not.

Michael Hammer

Management by values is closely linked to corporate culture. For most of the academics, consultants and executives studying the problem, management by values is basically management of corporate culture.¹¹⁵ Values are the building blocks of corporate culture. „Culture is the collective programming of the mind distinguishing the members of one group or category of people from others,” according to Dutch academic Geert Hofstede. If so, then workers need to be aware of their company’s core values. The idea of a company having its own culture has been around for a long time. But it didn’t become the subject of study until the 1980s.¹¹⁶ Since then it has been the focus of multiple humanistic disciplines, including sociology, psychology and economics.

Case studies of successful businesses or business leaders, as well as business failures, now refer to corporate culture, which is often the key to explaining everything. Managers believe in the driving force of corporate culture. Ninety-one percent of upper-level managers are convinced that corporate culture has as much of an impact on a company’s success as a good strategy, according to consultancy Bain & Company. Eighty-one

¹¹⁵ Simon Dolan, Bonnie A. Richley, Salvador Garcia, Tony Lingham, *Managing by Values*, Palgrave Macmillan, New York 2006, p. 50 and onward.

Ken Blanchard, Michael O’Connor, *Zarządzanie przez wartości*, Studio Emka 1997, Warszawa. Agata Stachowicz-Stanusch, *Potęga wartości. Jak zbudować nieśmiertelną firmę*, Wydawnictwo Helion, Gliwice 2007, p. 49 and onward.

¹¹⁶ Terrence Deal, Allan A. Kennedy, *Corporate Cultures: The Rites and Rituals of Corporate Life*, Addison-Wesley, Reading MS, 1982.

At some companies, corporate culture is particularly visible; even a casual observer can see what its workers value, what behaviors are rewarded, whether the customer is a supplicant or the boss.

percent are convinced that without the right corporate culture, even the best business idea will fail to succeed in the marketplace.¹¹⁷

Elliott Jaques, a Canadian-born psychologist and social analyst, was the first to develop the concept of corporate culture. „The culture of the factory is its customary and traditional way of thinking and doing

of things, which is shared to a greater or lesser degree by all its members, and which new members must learn, and at least partially accept, in order to be accepted into service in the firm,” Jaques wrote in his 1952 book *The Changing Culture of a Factory*. “Culture in this sense covers a wide range of behavior: the methods of production; job skills and technical knowledge; attitudes towards discipline and punishment; the customs and habits of managerial behavior; the objectives of the concern; its way of doing business; the methods of payment; the values placed on different types of work; beliefs in democratic living and joint consultation; and the less conscious conventions and taboos.”

Culture is hard to define, though it's possible to understand intuitively what it means. American anthropologist Edward T. Hall called culture a system of inter-human communication. Culture teaches us how to move about in the world, how to interpret the world, how to know what is good and what is bad. Culture helps man function in society and follow its rules. Culture is a communal product of humanity. Within an organization, its workers produce its culture. At some companies, corporate culture is particularly visible; even a casual observer can see what its workers value, what behaviors are rewarded, whether the customer is a supplicant or the boss.

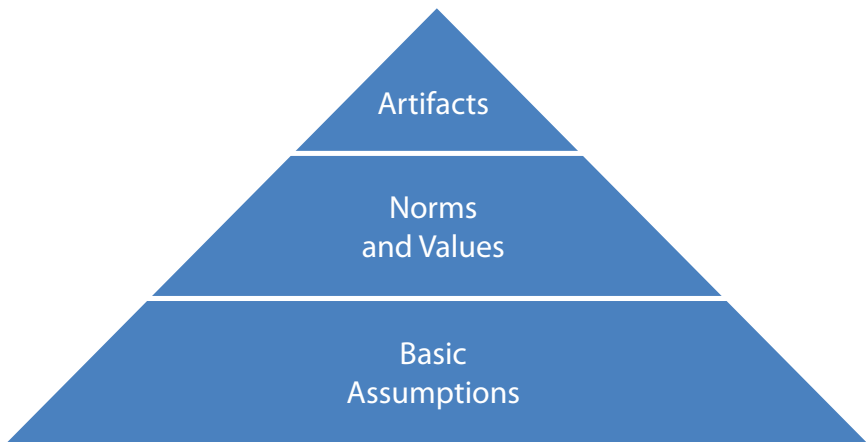
Edgar Schein was one of the first scholars to describe corporate culture.¹¹⁸ He defined culture as „a pattern of shared basic assumptions

¹¹⁷ Paul Meehan, Darrel Rigby, Paul Rogers, *Creating and Sustaining a Winning Culture*, „Harvard Management Update; A Newsletter from Harvard Business School Publishing”, Boston 2007.

¹¹⁸ Edgar H. Schein, *Organizational Culture and Leadership*, Jossey-Bass, San Francisco 1985.

that the group learned as it solved its problems of external adaptation and internal integration that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way you perceive, think, and feel in relation to those problems.” Schein saw corporate culture as a pyramid. At the top, he put artifacts, any tangible, overt or verbally identifiable elements in an organization. Architecture, furniture, dress code, and office jokes all exemplify organizational artifacts. Artifacts are the visible elements in a culture and they can be recognized by people not part of the culture.

Schein’s Model of Organizational Culture



Source: Edgar H. Schein, *Organizational Culture and Leadership*, Jossey-Bass, San Francisco 1985.

When describing a given company’s corporate culture using language, it’s important to consider not only words commonly used by the organization, but its myths, legends, and stories as well as taboo subjects. Physical artifacts are anything that can be described as material culture, buildings, their grounds, and the décor of the offices, parking spaces, or company cars. Behavioral artifacts include ceremonies, office etiquette, and rituals. These are all signifiers that are perceptible to the casual observer of a given organization. Often, these artifacts create the image of the company. Steve Jobs, appearing on stage in jeans and sneakers, was the symbol of Apple. Photos on the internet of Google’s fanciful offices shape our image of this company.

The second level of corporate culture is its norms and values. They are only partially visible and employees are only partially conscious of them. Norms and values say what, in a given organization, a virtue is and what a sin is. In each organization, there are two kinds of norms and values, declared and practiced. The first are broadcast, especially to the outside world, as ethics codes and standards of customer service. The second are the moral backbone of the organization. They are what social relations are based on in the culture. The companies in which the declared and practiced norms and values are one and the same are the ones that succeed. That's the case when all workers asked about the values of the organization provide the same answer.

The third level of organizational culture is invisible. This level refers to basic assumptions, often unquestioned, according to which the company and its employees operate. It's these assumptions that determine how members of the organization perceive occurring events, what they think of them, and how they react emotionally. These tacit assumptions are the foundations of every organizational culture. Discovering them allows you to understand the spirit of the organization. But these suppositions become hard to change. People are reluctant to change the basic definitions that explain the world in which they live. One example is the conviction that the only effective way to motivate a worker is by offering them a bonus, a conviction which can limit a company's growth and potential to innovate. Another is perception of office politics. If employees are convinced that promotions are politically motivated, they won't be inclined to learn new skills or be more productive.

Companies differ because of the myriad of businesses in which they operate, but they differ to an even greater degree because of their diverse cultures. And there are many ways to classify corporate cultures. Often companies are sorted by how they relate to their individual workers and vice versa. It includes the level of employee engagement, how closely individual workers' goals correspond to the company's, and the degree to which the employee identifies with the company. According to Schein, there are three types of organizational culture.¹¹⁹ A coercive corporate

¹¹⁹ Edgar H. Schein, *Organizational Culture and Leadership*, Ibidem.

culture is one in which employees don't identify with the company at all. A normative corporate culture is one in which employees feel fully as part of the whole. In the first type of culture, people work only for money and agree to follow rules set by those above them. In such cases, people feel alienated and leave as soon as they get a chance to. In such cases, employees don't feel like they are a part of the company, they treat it as a temporary necessity, they don't become fully engaged in projects, and they are passive.

In a normative culture, workers feel that they are a part of the organization, that they are connected with it, and thus engaged, because the organization's goals are their own. People then are dedicated to their work, give it their best. The company becomes their second home.

There is something between these two extremes, the utilitarian culture. This culture is based on the principle of honest work and honest pay. Therefore, there's a clear rational reason for employees to become engaged with the work of their company. However, in such corporate cultures employees often create their own norms and values that strengthen their relationship with the organizations. It's usually a healthy approach. The individual finds a balance between work and home life, between passion and growth, and between financial and non-financial motivation.

It's important to distinguish between cases when a new company is founded and its culture is just taking shape and when a new leader takes the reins at a company with a fully-formed culture. In the case of the newly-founded company, the culture is shaped by the founder, his or her knowledge, experience, skills, standards, and values. In the case of an existing company with a new leader, the culture has been shaped by the company's experiences and the people who have worked there. If you want to change a company's culture, it helps to know what type of culture already exists. If you want to create a culture from scratch, it helps to know what you're aiming for.

"Without exception, the dominance and coherence of culture proved to be an essential quality of the excellent companies," Thomas Peters and Robert Waterman wrote in their 1982 book *In Search of Excellence*. "Moreover, the stronger the culture and the more it was directed toward the marketplace, the less need was there for policy manuals, organization

To be a good leader you need to have a value system, you need to understand and respect values, and your values need to align with those of your company.

charts, or detailed procedures and rules. In these companies, people way down the line know what they are supposed to do in most situations because the handful of guiding values is crystal clear.”

Corporate culture is something that can be shaped to support a company's drive to implement a vision and to become more

competitive. But managing a company's culture is a task for upper-level management and shouldn't be delegated. Understanding and shaping corporate culture is the mark of a true leader. The values and goals of an organization are determined more by what a leader does than what he or she says. Setting a personal example is the most important feature of good leadership. More broadly, an effective leader is honest, open, dedicated to truth, able to change direction, but also goal-oriented.

The best leaders are skilled in three fields, according to INSEAD professor Manfred F.R. Kets de Vries:

- Personal: motivated to attain goals, confident, energetic, and productive.
- Social: able to influence others, politically aware, have empathy.
- Other: have general and professional knowledge, ability to think conceptually, have a helicopter view.¹²⁰

Leadership is a privilege and a responsibility. To be a good leader you need to have a value system, you need to understand and respect values, and your values need to align with those of your company. Employees will only practice a company's values if they see that the leader is practicing them too. The magical force that is values increases the leader's effectiveness and builds the company's long-term success. The strength of good leaders is said not to reside in their mental power but in their hearts.¹²¹ It arises from their ability to combine humbleness with professionalism, modesty with confidence.¹²² Its source is in the understanding of one's own emotions,

¹²⁰ Manfred F.R. Kets de Vries, *Mistyka przywództwa*, Studio Emka, Warszawa 2008.

¹²¹ James G. Clawson, *Level Three Leadership*, Prentice Hall Inc., 1999, p. 53.

¹²² James Collins, Jerry Porras, *Level 5 Leadership – The Triumph of Humility and Fierce Resolve*, “Harvard Business Review”, January 2001.

needs and behaviors. Good leaders can read the history of their own life, correctly interpreting the signs that give it meaning and direction. They are able to experience joy every day. They can be spontaneous. If a leader doesn't communicate his or her true thoughts, values and emotions, the results can only be bad. Deceiving oneself is deceiving others.

Culture and leadership have a long-term effect on a company's success or failure.¹²³ Even if a company makes a desirable product or offers a valuable service and possesses an effective business model, it's unlikely to succeed if it isn't lucky enough to have the right leader and a healthy corporate culture.

Management by Values - Future Challenges

Twenty years from now, the typical large business will have half the levels of management and one third the managers of its counterpart today.

Work will be done by specialists brought together in task forces that cut across traditional departments. Coordination and control will depend largely on employees' willingness to discipline themselves.

Peter Drucker

Managing by values is both a philosophy and a practice.¹²⁴ It isn't a new idea. Some companies have been managing by values for over a hundred years or from the time they were founded. Still, it isn't taught in business schools. It isn't a service offered by the most prestigious management consulting firms. Perhaps because it's more of an art than a science.

Most business leaders say that values are important, but they usually don't take values seriously enough to make them a tool they actually use on a daily basis. It's opportunistic hypocrisy. Values are treated as some separate entity. Academics and management consultants haven't developed the idea of management by values enough to make it easily applicable

¹²³ John Kotter, James L. Heskett, *Corporate Culture and Performance*, Free Press, New York 1992, in: Stoner, Freeman, Gilbert, Jr., Kierowanie, op. cit., p. 193.

¹²⁴ Simon Dolan, Bonnie A. Richley, Salvador Garcia, Tony Lingham, *Managing by Values*, Palgrave Macmillan, New York 2006, p. 17.

Most business leaders say that values are important, but they usually don't take values seriously enough to make them a tool they actually use on a daily basis.

across a wide variety of businesses with consistent results. Right now, people approach this concept individually and intuitively, without method.

Thomas Peters and Robert Waterman, the authors of *In Search of Excellence*, as well as Jim C. Collins and Jerry Porras, the authors of *Built to Last*, first identified

values as the secret ingredient of the success of certain companies. Their books have become bestsellers. These authors argue that values are a part of best practices for the future. But they don't provide detailed instructions of how to have values and instill them in a given company. What happened is that values entered the collective consciousness of managers, but as something that's "nice to have", not as a categorical imperative, something that's "absolutely necessary" and something that should affect how management is conducted on a daily basis. This situation lasted a long time. No one questioned the meaning of values in business but only a minority of managers and businesses actually implemented them.

Finally, other writers picked up where Peters, Waterman, Collins and Porras left off. Ken Blanchard and Michael O'Connor tackled the "how-to" issue of values in their 1997 book *Managing by Values*.¹²⁵ Its authors argue that due to speed at which we live, given the pace of technological, economic, cultural, social and personal change, the pressure on workers, managers and business owners is immense and requires a different approach to management, one based on values that goes beyond general thoughts on their importance in a company. It's an easy-to-read fictional story about looking for meaning in business.

Ten years later, a group of writers, Simon Dolan, Bonnie A. Richley, Salvador Garcia, and Tony Lingham, published a book of the same title, *Managing by Values* ¹²⁶ with the subtitle *A Corporate Guide to Living, Being Alive, and Making a Living in the 21st Century*. The authors spent

¹²⁵ Ken Blanchard, Michael O'Connor, *Managing by Values*, Berret-Koehler Publishers, Inc, 1997.

¹²⁶ Simon L. Dolan, Bonnie A. Richley, Salvador Garcia, Tony Lingham, *Managing by Values*, Palgrave Macmillan, New York 2006.

years studying people who practice management by values and used this research to write a step-by-step guide to implementing this tool.

Polish academic Agata Stachowicz-Stanusz has also written a book on the subject, titled *Potęga wartości. Jak zbudować nieśmiertelną firmę*¹²⁷ (The Power of Values: How To Build An Immortal Company). But the publishers of management textbooks tend to ignore the idea of values as a management tool. *The Handbook of Management*, which is over 1,200 pages long, doesn't mention values. Neither does the *Guide to Management Ideas and Gurus*. But the internet is an entirely different story. There is a ton of information online on values in business, making it seem the dominant management theory right now. Try typing the words "core values" and the name of a company into a search engine. You'll immediately see a link to that company's mission, vision and list of values, along with an explanation of how the company interprets these values. The idea of the importance of values has become commonplace.

Due to the evolution of management methods that are adjusting to the New Economy, values are slowly gaining in importance as a management tool. This change is happening before our eyes. Of course there are declarations that remain on paper, but values are also filtering through to the daily life of companies.

Managing by values is a tool to overcome obstacles:

- re-evaluation of goals;
- new leadership;
- change management;
- needs and values of customers propel growth;
- war for talent;
- knowledge management;
- innovation;
- process improvement.

Until now, each of the above-mentioned issues had its own specialist management tool, such as Activity Based Costing, Lean Management, Customer Relationship Management, Six Sigma, management by

¹²⁷ Agatę Stachowicz-Stanusz, *Potęga wartości. Jak zbudować nieśmiertelną firmę*, Helion, Gliwice 2007.

objective, results scorecard, strategic planning, or re-engineering. But management by values addresses all of them, while at the same time amplifying the impact of the existing tools.

The company of the future doesn't exist only to generate profit. People now see that companies have to be socially responsible. They have to attract talented workers instead of being dependent on the leader. These workers have to invest in themselves by reading and learning in order to be able to create innovative products and services that customers want. Companies like Nike, Gap, or Starbucks have led the effort to ensure that workers all along their supply chain have safe working conditions and adequate pay, especially in developing countries. They have reduced the worker exploitation that went on in the fields that supplied their cotton and the plantations that supplied their coffee beans. Starbucks has committed itself to buy only the best-quality coffee, and only from sustainable plantations that don't harm the environment.

"At Nike, we are on the offense, always. We play hard, we play to win, and we play by the rules of the game," says Phil Knight, the co-founder of Nike, in the introduction to the company's code of ethics. "Nike's good name and reputation result in large part from our collective actions. That means the work-related activities of every employee must reflect standards of honesty, loyalty, trustworthiness, fairness, concern for others and accountability. We are expected to be sensitive to any situations that can adversely impact Nike's reputation and are expected to use good judgment and common sense in the way we all conduct business. This Code of Ethics applies to Nike and its subsidiaries worldwide."

Nowadays, the market capitalization of some of the world's best companies is many times higher than their book values. Why? Because these companies leverage the brains of their employees. It's also known as human capital. According to an old *Fortune* article from 1994, "Your Company Most Valuable Asset: Intellectual Capital", three-fourths of the difference between market capitalization and book value can be attributed to intellectual capital in various guises.¹²⁸ The value of intellectual capital is rising. It has become the scarcity good of the future. That's because

¹²⁸ "Your Company Most Valuable Asset: Intellectual Capital", *Fortune*, 03.12.1994.

human capital is what generates innovation which is the huge factor of modern business success. Innovation is what determines whether a company grows or gets taken over by a stronger player. Innovation touches on new products, new levels of quality, new production processes, new services, new markets, new materials, and new management styles. Most innovations are the result of looking for new business solutions or for new ways to satisfy customers.

In 1876, Thomas Edison opened the first industrial research lab in history. „Far from being a lone tinkerer, he employed as many as 200 laboratory assistants and machinists at his facilities in Menlo Park and West Orange, N.J.,” writes Steven Mintz in *Digital History*. “His West Orange factory had 10,000 employees in the mid-1910s. Edison demonstrated that it was possible to produce a steady stream of new inventions and technologies. Early in his career he said that his goal was ‘a minor invention every ten days and a big thing every six months or so.’” Edison’s hard work and genius enabled him to be one of the most productive inventors in history. His lab created over 5,000 inventions. Edison registered 1,093 patents under his own name. Perhaps most importantly, his inventions were often commercially viable.

Today, scientific and industrial labs still exist and operate, but as the costs of entry to research have dropped, thanks to easier access to knowledge and technology, innovation has become decentralized. That’s how college students were able to create the biggest economic phenomena of the 21st century. Bill Gates and Paul Allen created Microsoft, the software leader; Steve Jobs and Steve Wozniak, created Apple, Jerry Yang and David Filo created Yahoo!, while relatively recently Sergey Brin and Larry Page created Google, the search engine that has taken over the internet.

But innovation doesn’t come from nowhere. Sometimes it’s serendipitous, but not often enough. And it can’t be created simply by throwing money at a problem. How do you make the grey cells in your employees’ brains generate new ideas? Inspire employees to embrace your company’s values. Core values stimulate workers and make them feel responsible for the future of their company. Core values make workers take the initiative. People don’t just work for money. As they become richer and have satisfied

their basic needs, financial incentives become less effective. That's when higher values, satisfaction with a job well done, personal development, and nurturing relationships become the motivating factors for successful workers.

The symbol of the New Economy, Google, founded in 1998, is a great example of a company that continually innovates by attracting the best talent and focusing on customer satisfaction. The story of the company's creation is almost biblical. It was founded on an equation which brought order to an internet universe still in chaos. "The algorithm, called PageRank, was developed at Stanford University by Larry Page (hence the name Page-Rank) and Sergey Brin as part of a research project about a new kind of search engine," according to Wikipedia. "Sergey Brin had the idea that information on the web could be ordered in a hierarchy by link popularity." It was inspired by the practice of counting the number of citations to articles and books to establish how important those works are, which is especially common in academia. PageRank made the information that was already present on the internet easily-accessible and useful. Google quickly came to dominate internet search, and has managed to maintain its de facto monopoly position for over a decade.

But Google is now a lot more than a search engine. The company has also dominated the market of online and mobile device advertising through its AdWords and AdSense programs, which are its main revenue sources. Other Google products you probably use are Gmail, Google Maps, Google Earth, iGoogle linked to Google Gadgets, and browser Google Chrome. Since 2007, Google and other companies of the Open Handset Alliance have developed Android, an operating system for mobile phones and tablet computers. The company is known for its secrecy about new services, but its founders declare they're thinking way ahead, perhaps even to artificial intelligence on a grand scale.

Google offers dozens of products and services in fields as diverse as online search, communication, publishing, computer software, applications, and software for mobile devices. And Google can offer these things for free because 96% of its revenues came from advertising in 2010. The company has revolutionized online advertizing thanks to its business model, which only charges advertisers for short one-sentence

ads that appear near related search terms and which enables websites to make money on advertising whose control they relinquish to Google. Google's business model is deadly to dominant market players if it chooses to enter their market, usually with a product that's both free to use and of better quality than theirs. Google is now one of the largest companies in the world by market capitalization. In 2010, the company earned \$8.5 billion in net profit, up from \$6.2 billion in 2009 and \$4.2 billion in 2008. The company's margin is an eye-popping 28%. Google is growing organically and by acquisition of small, medium and large companies with new technologies or those that enable it to enter new markets that fit its business model. From 2001 to September 2011, the company acquired 102 companies, mainly small ones. They've also made large acquisitions, including Android, a Linux-based operating system for mobile devices such as smartphones and tablet computers, YouTube, the video-sharing website, and Doubleclick, a provider of Internet ad services.¹²⁹

Google has become an icon of the New Economy. It supplies amazing products and services that are highly valued by users, it's a great investment for shareholders, and it's also considered one of the best companies to work for. Its achievements are in large part due to the consistent application of its unusual philosophy expressed in the motto, "Don't be evil". The motto was suggested by Paul Buchheit, the developer of Gmail, at a meeting on the company's values held in 2000. Google employees believe that companies, like people, should be moral. The company elaborated its informal motto into a set of values and principles, a document which Google titles, "Ten things we know to be true."¹³⁰

Here it is in its entirety:

We first wrote these "10 things" when Google was just a few years old. From time to time we revisit this list to see if it still holds true. We hope it does—and you can hold us to that.

¹²⁹ Wikipedia

¹³⁰ <http://www.google.com/about/corporate/company/tenthings.html>.

1). Focus on the user and all else will follow.

Since the beginning, we've focused on providing the best user experience possible. Whether we're designing a new Internet browser or a new tweak to the look of the homepage, we take great care to ensure that they will ultimately serve you, rather than our own internal goal or bottom line. Our homepage interface is clear and simple, and pages load instantly. Placement in search results is never sold to anyone, and advertising is not only clearly marked as such, it offers relevant content and is not distracting. And when we build new tools and applications, we believe they should work so well you don't have to consider how they might have been designed differently.

2). It's best to do one thing really, really well.

We do search. With one of the world's largest research groups focused exclusively on solving search problems, we know what we do well, and how we could do it better. Through continued iteration on difficult problems, we've been able to solve complex issues and provide continuous improvements to a service that already makes finding information a fast and seamless experience for millions of people. Our dedication to improving search helps us apply what we've learned to new products, like Gmail and Google Maps. Our hope is to bring the power of search to previously unexplored areas, and to help people access and use even more of the ever-expanding information in their lives.

3). Fast is better than slow.

We know your time is valuable, so when you're seeking an answer on the web you want it right away—and we aim to please. We may be the only people in the world who can say our goal is to have people leave our website as quickly as possible. By shaving excess bits and bytes from our pages and increasing the efficiency of our serving environment, we've broken our own speed records many times over, so that the average response time on a search result is a fraction of a second. We keep speed in mind with each new product we release, whether it's a mobile application or Google Chrome, a browser

designed to be fast enough for the modern web. And we continue to work on making it all go even faster.

4). Democracy on the web works.

Google search works because it relies on the millions of individuals posting links on websites to help determine which other sites offer content of value. We assess the importance of every web page using more than 200 signals and a variety of techniques, including our patented PageRank™ algorithm, which analyzes which sites have been “voted” to be the best sources of information by other pages across the web. As the web gets bigger, this approach actually improves, as each new site is another point of information and another vote to be counted. In the same vein, we are active in open source software development, where innovation takes place through the collective effort of many programmers.

5). You don't need to be at your desk to need an answer.

The world is increasingly mobile; people want access to information wherever they are, whenever they need it. We're pioneering new technologies and offering new solutions for mobile services that help people all over the globe to do any number of tasks on their phone, from checking email and calendar events to watching videos, not to mention the several different ways to access Google search on a phone. In addition, we're hoping to fuel greater innovation for mobile users everywhere with Android, a free, open source mobile platform. Android brings the openness that shaped the Internet to the mobile world. Not only does Android benefit consumers, who have more choice and innovative new mobile experiences, but it opens up revenue opportunities for carriers, manufacturers and developers.

6). You can make money without doing evil.

Google is a business. The revenue we generate is derived from offering search technology to companies and from the sale of advertising displayed on our site and on other sites across the web. Hundreds of

thousands of advertisers worldwide use AdWords to promote their products; hundreds of thousands of publishers take advantage of our AdSense program to deliver ads relevant to their site content. To ensure that we're ultimately serving all our users (whether they are advertisers or not), we have a set of guiding principles for our advertising programs and practices:

We don't allow ads to be displayed on our results pages unless they are relevant where they are shown. And we firmly believe that ads can provide useful information if, and only if, they are relevant to what you wish to find—so it's possible that certain searches won't lead to any ads at all.

We believe that advertising can be effective without being flashy. We don't accept pop-up advertising, which interferes with your ability to see the content you've requested. We've found that text ads that are relevant to the person reading them draw much higher clickthrough rates than ads appearing randomly. Any advertiser, whether small or large, can take advantage of this highly targeted medium.

Advertising on Google is always clearly identified as a "Sponsored Link," so it does not compromise the integrity of our search results. We never manipulate rankings to put our partners higher in our search results and no one can buy better PageRank. Our users trust our objectivity and no short-term gain could ever justify breaching that trust.

7). There's always more information out there.

Once we'd indexed more of the HTML pages on the Internet than any other search service, our engineers turned their attention to information that was not as readily accessible. Sometimes it was just a matter of integrating new databases into search, such as adding a phone number and address lookup and a business directory. Other efforts required a bit more creativity, like adding the ability to search news archives, patents, academic journals, billions of images and millions of books. And our researchers continue looking into ways to bring all the world's information to people seeking answers.

8). The need for information crosses all borders.

Our company was founded in California, but our mission is to facilitate access to information for the entire world, and in every language. To that end, we have offices in more than 60 countries, maintain more than 180 Internet domains, and serve more than half of our results to people living outside the United States. We offer Google's search interface in more than 130 languages, offer people the ability to restrict results to content written in their own language, and aim to provide the rest of our applications and products in as many languages and accessible formats as possible. Using our translation tools, people can discover content written on the other side of the world in languages they don't speak. With these tools and the help of volunteer translators, we have been able to greatly improve both the variety and quality of services we can offer in even the most far-flung corners of the globe.

9). You can be serious without a suit.

Our founders built Google around the idea that work should be challenging, and the challenge should be fun. We believe that great, creative things are more likely to happen with the right company culture—and that doesn't just mean lava lamps and rubber balls. There is an emphasis on team achievements and pride in individual accomplishments that contribute to our overall success. We put great stock in our employees—energetic, passionate people from diverse backgrounds with creative approaches to work, play and life. Our atmosphere may be casual, but as new ideas emerge in a café line, at a team meeting or at the gym, they are traded, tested and put into practice with dizzying speed—and they may be the launch pad for a new project destined for worldwide use.

10). Great just isn't good enough.

We see being great at something as a starting point, not an endpoint. We set ourselves goals we know we can't reach yet, because we know that by stretching to meet them we can get further than we expected. Through innovation and iteration, we aim to take things that work well and improve upon them in unexpected ways. For example,

when one of our engineers saw that search worked well for properly spelled words, he wondered about how it handled typos. That led him to create an intuitive and more helpful spell checker.

Even if you don't know exactly what you're looking for, finding an answer on the web is our problem, not yours. We try to anticipate needs not yet articulated by our global audience, and meet them with products and services that set new standards. When we launched Gmail, it had more storage space than any email service available. In retrospect offering that seems obvious—but that's because now we have new standards for email storage. Those are the kinds of changes we seek to make, and we're always looking for new places where we can make a difference. Ultimately, our constant dissatisfaction with the way things are becomes the driving force behind everything we do.

It's visible to the naked eye that Google practices what it preaches, as anyone who has visited the company's many far-flung offices can confirm. The company employs 25,000 people. Its super-modern, 46,000-square-meter Mountain View campus, has solar panels on the roof. Employees move from building to building on company bikes and scooters. At their disposal are massage chairs, foosball tables, video games, pianos, gyms, and yoga classes. Google also provides its employees with free gourmet food, daycare and laundry services. You can bring your dog to work. The offices are open 24 hours a day. Google's organizational structure is relatively flat and its employees tend to be assertive. Every idea is given a chance, which is why the company has a large "graveyard" of ideas, projects and products.

Google's founders are still at the helm of the company. They're always around to approve or improve various products even though Eric Schmidt served as the company's chief executive from 2001 to 2011. In 2004, Page and Brin wrote a letter to shareholders ahead of the company's initial public offering, which they called "An Owner's Manual for Google's Shareholders". They said it was inspired by Warren Buffett's essays in his annual reports and his "An Owner's Manual" to Berkshire Hathaway shareholders¹³¹:

¹³¹ *Letter from the Founders 'An Owner's Manual' for Google's Shareholders*, p.32.

Google is not a conventional company. We do not intend to become one. Throughout Google's evolution as a privately held company, we have managed Google differently. We have also emphasized an atmosphere of creativity and challenge, which has helped us provide unbiased, accurate and free access to information for those who rely on us around the world.

Now the time has come for the company to move to public ownership. This change will bring important benefits for our employees, for our present and future shareholders, for our customers, and most of all for Google users. But the standard structure of public ownership may jeopardize the independence and focused objectivity that have been most important in Google's past success and that we consider most fundamental for its future. Therefore, we have implemented a corporate structure that is designed to protect Google's ability to innovate and retain its most distinctive characteristics. We are confident that, in the long run, this will benefit Google and its shareholders, old and new. We want to clearly explain our plans and the reasoning and values behind them. We are delighted you are considering an investment in Google and are reading this letter....

Don't be evil. We believe strongly that in the long term, we will be better served-as shareholders and in all other ways-by a company that does good things for the world even if we forgo some short term gains. This is an important aspect of our culture and is broadly shared within the company... We aspire to make Google an institution that makes the world a better place.

The sale of Google shares was also non-standard. It was conducted via the Internet and used a reverse auction, known as a Dutch auction. That was controversial and made bankers on Wall Street unhappy.

The importance of corporate values in business is increasing in the 21st century. Management by values is a philosophy and practice that gives companies competitive advantage because it unlocks the full potential of an organization's human capital.

A value system should guide how employees are hired, evaluated, and motivated. It is the DNA of the organization, making it resilient

A value system should guide how employees are hired, evaluated, and motivated.

to crises and protecting it from self-satisfaction during times of prosperity. A value system creates the conditions to increase productivity while respecting basic ethical and social values. It enables a company to achieve sustainable growth, the harmonious development of its employees, good relationships with local communities, and the respect of its shareholders. From an organizational point of view, using values supports the implementation of the vision and mission, strengthens corporate culture, motivates and unites workers, manages change and helps in crisis situations. For workers, values help with self-actualization, searching for identity, belonging, professional advancement in line with their ambitions, finding a moral compass when making decisions, and having continuity in the face of change. These two sets of benefits support each other. This means that management should balance the aspirations of an organization as a whole with the individual aspirations of its workers. Because this is what enables everyone to work together, for something they believe in.

Chapter 7.

Management by Values: Road Map

People in business talk a lot about mission and values, but too often the result is more hot air than real action. No one wants it that way, but the loftiness and the imprecision inherent in both terms always seem to make it end up like that.

Jack Welch

When aligned around shared values and united in a common mission, ordinary people accomplish extraordinary results.

Ken Blanchard

The theory of management by values has been gaining popularity, as traditional concepts have proven increasingly ineffective and inapplicable. In 1982, Thomas I. Peters and Robert H. Waterman identified the fundamental values that contribute to the long-term success of the most competitive companies. James C. Collins and Jerry I. Porras followed suit in 1994 with books on this topic that turned into the most successful business bestsellers in history. Contrary to popular opinion, however, fundamental values have not begun to inform the daily functioning of companies; they remain symbols. For many companies, words such as catalogue, code, or guideline are empty. There are no actions, sanctions, or rewards reflecting values underlying this jargon. Someone may randomly summon them when there is a need to emphasize overarching aims, but they disappear again moments later. Even though almost 80% of international companies declare that they have a definite set of values, few actually enact them. This doesn't result from hypocrisy or bad intentions. It's simply easier to name these values than to translate them into daily behavior.

There is a lack of knowledge on methods for effectively implementing values as a management tool. I created an approach to management based

on this idea, which I put into practice first at mBank, then at MultiBank, and later in all of BRE Bank. The acronym EERRE (Excellence, Execution, Responsibility, Readiness, and Engagement) conveys the core values we applied and used to evaluate workers.¹³² As a result the bank earned above-average profits, its share price rose, and the level of satisfaction and loyalty of clients, workers and managers improved. My experience confirms this cause-and-effect relationship. The market recognized both the financial results achieved by BRE Bank and, even to a greater extent, its management style. Investors priced BRE Bank at a premium for its management style. From 2005 to 2008 its price-to-book value and price-to-earnings multiples were 25% higher than the rest of Warsaw-listed banks, on average.

Because it's so challenging to create a Road Map to Management by Values, I requested the collaboration of individuals who helped me turn values into action at mBank, MultiBank and BRE Bank. Alina Strycharz and Renata Tadeusiak witnessed the birth of the concept, and for a few years, as key employees in human resources, they were responsible for putting the values (Excellence, Execution, Responsibility, Readiness, Engagement) into specific operations, including: recruitment of employees, training and education, periodic worker assessment, reward and motivation strategies. For the boss of a modern company, human resources management and the development of an organizational culture is as important as strategic planning.

In this chapter, Alina, Renata and I explain how to implement management by values. Despite its imperfections, this attempt at creating a Road Map – for those who are convinced that management by values is useful and who want to implement it in their own companies – could prove to be a helpful guide. It isn't impossible for a company without established values to achieve success. However, the likelihood of success increases when these values are defined and implemented. The decision to determine fundamental values will impact a company's present and future. Making this decision is the first, remarkably important and courageous step toward change.

¹³² A detailed description of the implementation of management by values in mBank can be found in Chapter 2.

After you establish a set of values to which you believe your company should adhere, the more difficult task of reforming company operations can begin. It affects the entire company, including all employees. In order to become the company's competitive advantage, these values must inform every operation. In other words, the core values must become the company's DNA, which no one can copy or fake.

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Then the core values of a company boil down to human relations, the attitudes and behaviors of employees and managers in relationship to one another, to clients, shareholders, suppliers and other stakeholders. However, these values are also connected to processes, procedures and products. For example, if a company believes in partnership and innovative products that truly satisfy client needs, then it must eschew domination over clients and contractors, it must be friendly and fair, and the products and services that it offers must be valuable to recipients. Values are company's characteristic mark, its DNA, which gives it a long-term strategic advantage. Values are also an effective management tool as long as you ensure they are present in every dimension of a company that has an impact on its organizational culture. Transposing values onto the level of everyday behaviors happens in the spaces where interpersonal relations occur, where formal procedures are designed, where a company interacts with its environment, and finally, it should be visible in the quality of products and services offered to customers.

VALUES IN HUMAN RESOURCES MANAGEMENT:

- Recruitment of employees in accordance with values;
- Training and education within the company;
- A system of employee evaluations based on values;
- A compensation system and motivation.

VALUES IN PRODUCT MANAGEMENT, SALES AND EARNINGS:

- Products that satisfy client needs;
- Handling regulations and relations with clients based on values;

- A system for sales and earnings management that connects quantitative values with qualitative ones.

The Road Map to Management by Values includes a few indispensable elements:

1. Establishment of fundamental company values.
2. Communication of these values to company members and the surrounding environment.
3. Management by values – translating basic values into business operations on all company levels.

The core values of a company – just like the values of individual human beings – should reflect identity. In other words, they should be the essence of operations – permanent, even in the face of shifting strategies. At a time when the only thing we can count on is change, values are a like compass, without which we wouldn't be able to set out into the unknown.

Identifying Values – A Description of the Process

In an organization that truly manages by its values, there is only one boss—the company's values.

Ken Blanchard

The values of small and medium-sized firms often reflect the values of their founders or owners, who are managing business operations. In a way, this is obvious taking into account the powerful stamp of the personality of a leader who has the mandate of ownership. Among these companies, the values are visible and easily recognizable because they are apparent in operations, even if they have not been clearly defined and publicly articulated. It may not seem obvious that these values have to be set down in writing, but they do. The establishment of basic values – even if they are apparent in the company's actions and in the owner's personality – is imperative in order to create a transparent and indisputable company identity. In such cases, the leader – who is both owner and manager

– imposes their value system on the company and its employees. This process has nothing to do with democracy. It's authoritarian. In order to increase the credibility and effectiveness of the process of formalizing the company's values and to avoid simple errors, it helps to enlist the assistance of trusted co-workers and outside consultants.

For large, privately-held companies, which often have complex ownership structures, as well as for public and government-owned companies, the establishment of values is more complicated. There are two ways to do it:

- a) an authoritarian establishment of values by a charismatic leader or a strong board of directors;
- b) a democratic search for an appropriate set of values, which reflect the preferences of key employees.

It's difficult to state unequivocally which one of these two ways is better. It depends on the unique nature of each company, the quality of the managerial team, the ownership structure, as well as the leader's personality and management style. A company that has a dominating owner doesn't have a choice – it must succumb to his value system. The only exception to this rule is when a dominating owner has not established the company's basic values, and the company itself takes on the initiative. In such cases, however, corporate politics often become a problem and achieving agreement is complicated.

Given the great variety of companies, there are three ways to establish basic values:

- A. Small and medium-sized, family companies, and large companies with strategic investors will have their values established by an authoritarian owner.
- B. Large businesses, which often have a diverse set of shareholders and are managed by a charismatic leader or a strong board of directors, will have their values imposed by autocratic leaders, without much input from management.
- C. Large, private, public, and state companies will have their values established through a democratic process that involves the participation of a wide variety of employees.

Whether you are a talented, young student who wants to start a business or a burned-out corporate manager who has decided to break out on their own, it's worth considering what is most important to you in business – is there anything you can't compromise on, even at the risk of losing a deal?

In choosing colleagues, a business's owner-founder often subconsciously recruits according to a given "key," which is sometimes called chemistry, but boils down to a similar approach to business, shared motivation and world-view. Even if an owner doesn't name their values, during meetings with co-workers they often refer to them when they talk about relationships with clients, business partners, contractors and of course, employees. However, as an organization grows, the owner has a harder time diffusing their values organically. At this stage, the owner often feels like they're losing control of their own businesses. Writing down a code of ethics or guidelines is often a response to the owner's need to regain that control.

Many managers and owners resist naming and writing down the values that they hold dear. They think these values are obvious. In some case, they're right and their companies continue to succeed. However, an organization eventually takes on a life of its own. Negative habits that are contrary to the owner's intentions can quickly become ingrained in a company's culture. That's why it's better consciously to take control of this process and find the courage directly to name your underlying, fundamental values. These values tend to relate back to the initial inspiration that led to the creation of the company.

Big companies with diffuse shareholders, a strong board, and strict supervision can expect a different trajectory. The decision to establish values depends on a few things which are central to the success of the initiative. In such cases, it's imperative to ask the following questions:

1. Does the chairman have the approval of the owner, or the board, or the shareholders to incorporate values in management?
2. Did the company already attempt to incorporate values in business operations? If so, did this process go smoothly?
3. Among lower-level managers, are there individuals who would support the incorporation of values?

4. Does the organization have a reliable human resources manager, who could take the lead in the whole process and adjust all aspects of human resources to the newly established values?

If the answer to even just one of the above questions is “no,” then discuss the idea with an outside expert. Making the decision to incorporate values and then interrupting the process could result in serious problems for the company.

On the other hand, if an analysis of the situation leads to the conclusion that the time is right to take on the challenge, there are three ways to begin incorporating values:

1. **the directive way** – values are established by one or a few individuals, from among the highest ranks; the values reflect the needs and visions of the board; they are imposed on the whole organization.
2. **the participatory way** – all employees are included in the process, and the values reflect their vision.
3. **the mixed way** – many employees are included in the process, and the values reflect the interests of many; employees are involved in the process of incorporating the values in business operations.

The mixed model engages employees most and therefore has the most potential to enhance their loyalty to the company. It turns the process of establishing values into a collaborative effort and allows for a sense of identification with the company. It takes various points of view into consideration, including an expert analysis of company dynamics based on the history of the business.

There is no point in half-heartedly initiating management by values. If doubts arise, if there are signs that implementation will be exceptionally difficult, if the company isn't prepared for the challenge, then don't start this process. Once a company tries to identify a given set of values and that process fails, individuals won't trust to implement a value code a second time. They may become suspicious of organizations that infuse values in their operations in general. One failure has the capacity to remain imprinted in the mind, and it may cause some individuals to believe that “companies that are managed by values actually can't exist.”

The attitude of the leader of an organization will determine, to a large extent, whether management by values can be successfully implemented.

The attitude of the leader of an organization will determine, to a large extent, whether management by values can be successfully implemented. If the leaders, including non-official ones, believe that there is a point in managing by values, then it'll work. Otherwise,

the exercise loses meaning. Setting an example can powerfully influence others in the company.

At Multibank and mBank, the leaders became aware of the company values from the start, when we were recruiting them. Our professional development programs reinforced the values in the bank's culture. They allowed future employees to learn about the impact that values can have on their work, how values create a sense of confidence in leadership positions, and increase self-esteem.

Today, many alumni of our leadership training workshops have gone on to become high-level managers at other large companies in Poland. And they've become proselytizers of the importance of values in everyday business.

Conveying Values

Is it necessary to communicate a company's values to the outside world? A company's decision to communicate its philosophy improves relationships with interest groups, and it improves business, according to a survey of Europe's largest companies issued by public relations firm Burson-Marsteller.¹³³ Companies that function according to their values and can communicate this fact clearly achieve financial results that are better than average market indicators. Organizations that act according to their code of ethics achieve results that are 8% better than the competition in their sector.

¹³³ Two hundred thirteen European companies from 10 industries were invited to participate in the study. Sales turnover served as the selection criteria. The study presents a qualitative analysis of all 213 companies and in-depth interviews with representatives of 27 of those companies.

It's a good idea to convey your company's values in a simple and clear way, so that people come to think of them as a part of daily functions, as something obvious. Name your values and highlight how they function in business operations.

Successful communication of values includes:

- participation of leading personnel;
- incorporation of a wide variety of communication streams:
 - internal distribution of information
 - intranet
 - internal branding
 - in-person meetings
 - video and telephone conferences
 - gadgets and presents
- incorporation of the plan to communicate values into internal and external public relations functions

Use a cascade approach to information flow. Effective approaches indicate that the following steps lead to success:

1. Early communication with leading personnel about the plan to incorporate values.
2. Information sent from the deciding committee to the entire company regarding the decision to incorporate values in business operations.
3. A meeting between leaders and all other employees regarding the aim of management by values.
4. Collective analysis of the impact of values on the daily functioning of company teams.

“It all starts with the eye,” observed Aristotle. Indeed, psychological studies indicate that people are sensitive to images. In memorization, images play a more significant role than words, and they remain in the memory longer. Visual interpretations of company values are a great way to reinforce them. These images should be consistent, and they should create the same impression inside and outside the company. The names of values could appear on employee IDs, business cards, and on

the walls of management offices. However, it's important to ensure that the communication of values doesn't begin to feel like indoctrination. If employees start to express to contractors that the beautiful values which decorate the walls are meaningless and just a memory of something that "died a long time ago," it's time to change the style of communication. Otherwise, the display of values will be nothing more than fiction.

A large company's human resources department decided to initiate managing by values. The company's board responded enthusiastically, and the process began. Human resources identified the company's collective values and with the help of marketing, it attempted to communicate those values to the outside world. The HR people sent out press release about the company's values. They organized a series of presentations for industry conferences and seminars. They prepared intranet materials and organized information sessions for leading management teams on the meaning of company values. Implementation was complete. However, the information did not reach all employees. The values didn't translate into the operations. The effort fell short of its aims. Implementation of values through public relations helped create a positive reputation for the company among experts. However, employees and clients did not manage to recognize the values in business functions. In this case, it would have been better to refrain from initiating a process that ultimately failed and even hurt the firm's image.

Another company took a different approach. The company's management board came up with a long-term strategy. Then some executives, the company's HR director, and outside consultants wrote down its fundamental values and a model for leadership behavior. The company taught its employees about those values through training sessions, helping them to master value-based attitudes and behaviors. Management asked employees from some of the company's factories to embrace a few important initiatives to translate those values into daily operations. One of the values was "transparency." To put that value into practice, employees installed information boards in the kitchens of factories to convey up-to-date results. Every employee could see how they were performing versus the factory's performance targets. Every employee could also see the results of other teams and company branches, and determine whether they had

a chance at receiving a bonus for that month. Transparency became something tangible.

It's a good idea to select values that are embodied by employees who can function as ambassadors of those values. What these model employees say, supported by their behavior, will be more convincing than the best presentation prepared by public relations experts. Consistency is key. Incorporating the names of values in the titles of training programs, employee contests, company meetings, and other important events is an effective touch, creating positive associations with chosen values.

Translating Fundamental Values into Real Action

Genuine success does not come from proclaiming our values, but from consistently putting them into daily action.

Ken Blanchard

First and foremost, values don't exist on their own, only in human action, otherwise they are empty. The department of human resources plays the main role in this translation process. Human resources incorporates the chosen values into its daily decision making process. They become the compass by which HR recruits and hires employees, the point of reference for development programs and an important standard for evaluating results. It's a step away from the typical notion of a human resources department, where there is clear division of labor between recruitment, training, rewards, motivation, and social functions. That's because we want to avoid HR divisions being responsible for individual tasks that could be contradictory.

Management by values connects every HR function to important, strategic aims, and it holds HR accountable for results. It downplays the need for sophisticated tools and systems that tend to take on lives of their own. Instead, it emphasizes the search for coherent solutions that are based on values. These

First and foremost, values don't exist on their own, only in human action, otherwise they are empty.

solutions are designed to bring in employees who are well-suited for the job, capable of learning, while developing their personal interests too.

The greatest challenges facing contemporary businesses, which are also the main aims of human resources departments, include:

1. building a strong leadership for the future.
2. increasing employee engagement.
3. keeping key employees in the company.¹³⁴

It's possible to achieve these aims through the incorporation of fundamental values in business operations. Human resources become more coherent when they are informed by company values. According to the theory of management by values, HR boils down to five processes:

- Recruiting suitable employees;
- Creating a highly competent team of specialists and leaders;
- Ensuring impressive business results through value-based operations;
- Building a company culture that's based on values, which increases employee engagement and satisfaction;
- Developing effective personnel and payroll management.

Values play a role in every one of these processes. Values inform decision-making, internal regulations, evaluation criteria, and employee development.

¹³⁴ *From a report based on a study titled, "The Best Employers," AON Hewitt.*

The Recruitment Process – The Right People Rather than the Best People

*We don't want people to wear masks when they come to work.
We want them to be themselves, we don't want them to have to put
on an artificial personality.*

We enjoy them and value them for who they are, not facades.

Herb Kelleher, founder of Southwest Airlines

*We employ individuals who have passion, are concerned about clients and focused
on development and success.*

BRE Bank recruitment guidelines

Recruitment is one of the key processes that determine the quality of a company's human resources. Even though this is obvious, many managers believe that the process is simple and they don't spend much time tending to it. Small business owners use their intuitions when recruiting employees – which seems like a natural thing to do for someone in that role. These owners simply hire people with whom they want to work. They make their decisions based on their impressions from initial interviews – who comes across as trustworthy?

The owner's intuition is usually informed by their values – which consciously or unconsciously shape the questions they ask candidates during interviews. However, many owners of small and medium-sized companies are coming to the conclusion that intuition isn't enough. Candidates who made a good impression at the interview don't fulfill expectations when they start to work for the company.

The labor market is changing. People are getting savvy. They know how to sell their qualifications and to make a great first impression. Mistakes made in recruitment are especially costly for small and medium companies, which have limited funds. Every error in recruitment can decrease the effectiveness of the company.

Choosing the right candidates is also important because it eases adaptation and controls training cost. It takes a long time to shape the behaviors of employees according to company values. As a result, when

possible, it's best to hire employees who already embrace a system of values that's coherent with the company's ethics.

Employer Branding – Communicating Values on the Labor Market

When thinking about hiring employees, consider how your company portrays itself on the labor market. Recent studies indicate that demographic changes will force businesses to compete with one another over specialists. The issue at hand isn't just an aging population. Companies that are aware of the increasing significance of human capital will use the most sophisticated methods to recruit the best specialists and candidates with the highest potential. This war over talent hasn't affected business on a large scale yet; however, it's bound to break out soon and last for a long time. Generation Y, which includes people who were born after 1980, and Generation Google, which includes anyone born after 1990, are entering the labor market and are changing the way companies recruit and treat their employees.

Many HR specialists are attempting to develop an effective response to the presence of Generations Y and Google on the labor market. Young people, who were born after 1980, have different expectations of their employers. They value independence and flexible work hours. They have excellent knowledge of technology and are more open to change than their older counterparts. They are eager to work in teams, including international ones. On the flip side, they don't like to adhere to regulations. Their own comfort is more important to them than making sacrifices for their employers. When they search for jobs, they look into all available information about the companies they consider applying to. Their intention is to find work with a company that has a good reputation – a job that will live up to their expectations and enable them to grow professionally, but leave enough time free for private life and hobbies.

What is the best way to reach candidates and convince them to apply to and stay with your company, in an age where independence is so important? Increasing mobility, which is connected to globalization, offers endless opportunities in a variety of companies around the world – and makes recruiting more difficult. How can we create a bridge that

will help employees of various psycho-social backgrounds understand one another, as they work for one company? How can we avoid a “civil war” among Baby Boomers, Generation X and Generation Y?

The answer to these challenges is management by values. A business with a clear identity and with a system of values that’s visible in daily functions, practices transparency and offers clear principals. This creates a basis for understanding and teamwork in business.

Employer branding should be based on the values that are most important to employees and the organization in general. The choice of channels by which a company communicates with potential candidates, as well as the style of that communication, depends on which generation the company hopes to hire. In every case, however, it’s imperative to include company values. Values should serve as guidelines in marketing efforts to communicate between the company and the labor market. Communicating values, in our opinion, is the key element in building the reputation of the company as an employer. It’s also a great way to select candidates, especially those that belong to Generation Y, who search for work in a company that embraces the same values as they do. Clear communication of values on the labor market is also part of the process of candidate pre-selection. The more transparent the communication is, the greater the chance that candidates who respond to it will already embrace similar values. A company can then more effectively attract potential employees who fit the business profile. This in turn, will decrease costs associated with recruitment.

How to Find Candidates Who Embrace Similar Values

“We’ve always believed that business can and should be fun,” said Herb Kelleher, the founder of Southwest Airlines. “At far too many companies, when you come into the office you put on a mask. You look different, talk different, act different -- which is why most business encounters are, at best, bland and impersonal. But we try not to hire people who are humorless, self-centered, or complacent.” It’s difficult to change a person’s attitude. That’s why it’s a good idea to try to recruit people with the right attitude from the start. The long-term CEO of Southwest Airlines,

Howard Putnam, suggests the following: “Hire attitudes; develop their skills.” Southwest Airlines’ motto is: “Employees are first, Customers are Second, and Shareholders are third.” Herb Kelleher clarifies this seemingly controversial statement in the following way: “Happy and pleased employees take care of the customers. And happy customers take care of shareholders by coming back.” In 2011, Southwest Airlines announced that it had been profitable for 38 consecutive years. Its value as measured by market capitalization exceeded the sum of its top four competitors which over the same time period had serious financial problems and had to request legal protection in proceedings against creditors.

I recall one interview -- for a position at BRE Bank’s private banking unit -- when I asked the candidate why he wanted to change jobs. He was working at a global American bank at the time. “My current employer’s main expectation is for me to be effective at sales,” he said. “My company gave me the opportunity to participate in excellent training programs in public relations and sales strategies, and I was a dedicated learner. I am capable of talking practically any client into buying products sold by my employer, but not every client needs them. I am excellent at sales. I carry out the company’s strategy – the company gets great results, and I receive great bonuses. But I would like my knowledge and talents to serve clients just as much as they serve my company. I want to be an adviser, not just a sales-person.” This individual was in search of a company where he could work in accordance with his own values. He was even willing to earn less, in order to work for a company with similar values, in order to avoid conflict of interest and pangs of conscience. It was wonderful to find out that he chose to work for BRE Bank precisely because he agreed with the company values, which were so clearly announced on the market. Shared values are an important criterion in recruitment – both for the potential employee and the company.

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A candidate’s profile is the best tool in the selection process. It constitutes the full set of abilities necessary for the job. For companies that embrace management by values, this set of abilities includes skills that are required for the specific

position, as well as values. Profiles make it possible to compare company requirements of employees with a candidate's real-life attributes.

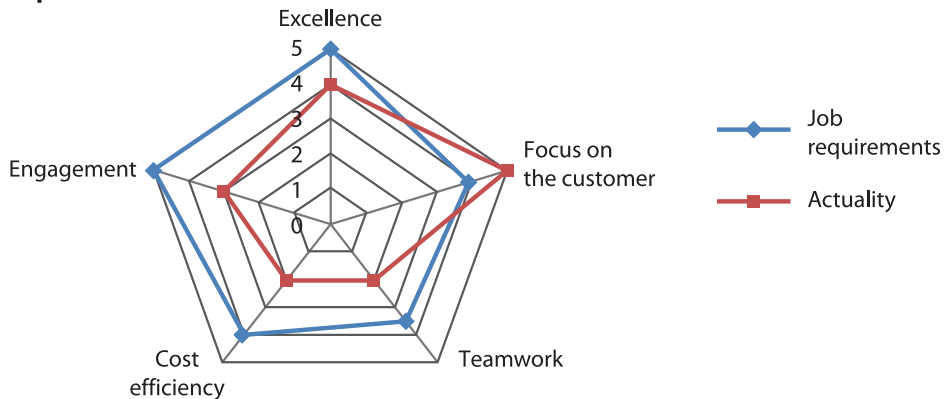
While engaged in recruitment, it's worth considering whether all values that have been defined by the company are equally important in determining the candidate's potential for success on the job. This will help determine whether all of the values must exist in the candidate's profile. Perhaps some of them aren't as important at the start and can be developed by the candidate through training sessions.

When planning and realizing the recruitment process, it's worth answering the following two questions:

1. Are our company values defined in a way that makes it obvious what kind of profile (or behaviors) we are looking for in a candidate?
2. Is recruitment organized in a way that makes it possible for candidates to get a sense of company values from the company representatives they meet in the process?

Values defined according to behavioral indicators are easy to check with various known and tested methods. The table below is an example of a competence profile used in the recruitment process.

The Level of Competence of the Candidate in Comparison to Company Expectations



Source: Sławomir Lachowski.

An Example of a Profile of Competence that Includes Values

CANDIDATES PROFILE		Attachment no. 2 to Recruiting Guidelines
Department		
Full job title		
SHORT JOB DESCRIPTION <i>(three or four bullet points)</i>		
CANDIDATE EVALUATION CRITERIA		
Professional qualifications		
Please mark the column to indicate which qualifications will be used as criteria of candidate assessment during the selection process. Fill out the space reserved for qualification definitions. Then select four categories for the selected criteria for a given position, according to the following guideline: 1–NECESSARY, 2–USEFUL, OR 3–NICE TO HAVE / CAN BE TAUGHT		
QUALIFICATIONS	Definition	Category
Education		
Professional knowledge		
Professional experience (how many years, what type?)		
Specific qualifications for given job (licenses, certificates, permissions)		
Foreign languages (which ones, at what level?)		
Familiarity with computers (please define)		
Other (For example, important factors to be successful at this job)		
EERRE		
Qualifications	State level (state level of defined qualifications)	
Define select behavioral criteria desired in the candidate based on the EERRE model		
D Excellence		
R Execution		
O Responsibility		
G Readiness		
A Engagement		
_____ date _____		Signature of Manager, Stamp

Source: BZD document archives, the Retail Banking Department of BRE Bank.

A competence profile helps establish which characteristics, knowledge, abilities and attitudes are desirable in a candidate. It helps the company to avoid employing a person who has earned the obligatory degree and professional experience, but who lacks the abilities that are necessary for effectively carrying out specified tasks. The competence profile makes it possible to compare the candidate's abilities to the company's expectations. The chart below - *The Level of Competence of the Candidate in Comparison to Company Expectations* - is an example of this kind of comparison.

Lewis Alan, the owner of travel agency Grand Circle Travel, which is a company worth \$600 million dollars, believes that selecting candidates who match the company culture and values is more important than skills and experience. "In most cases, if an employee has the same values as the company, it will be possible to train him," Allan said. He adjusted his company's recruitment process so that it would prioritize the search for candidates who have the same value system as the company.

The Behavioral Interview – Recruiting Method to Identify Values Effectively

It's necessary to use a set of tools that reflect desired qualifications. The following tools are used in recruitment based on competence:

- a. competency tests;
- b. case studies;
- c. practical exercises designed to determine select skills;
- d. questionnaires;
- e. interviews that include scenario questions;
- f. behavioral interviews.

The interview is the method that's most often used by managers. Unfortunately, because of a great number of variables that spoil its accuracy, an interview isn't the ideal tool. Studies have shown that the value of interviews in the recruitment process is dubious. Its greatest weakness is connected to the subjective nature of human perception. The interviewer tends to group candidates according to stereotypes. The interviewee may also impose their own bias on the interview process.

The content of a conversation during an interview is varied, and the person leading the interview asks candidates a wide range of questions. Most importantly, critics highlight the fact that interviews focus on the candidate's statements and lead to assumptions about their behavior in the future. Since the interview is one of the most readily accessible tools, it would be a good idea to apply it in a way that eliminates the problem of subjective perception. A behavioral interview could be a viable alternative. A behavioral interview is, in essence, a collection of facts about the candidate's behavior at their current workplace. On the basis of this information, it's possible to evaluate whether or not the candidate has skills that are applicable to the position they are applying for.

During the interview, the person in charge of recruitment focuses on the candidate's previous experiences and pays particular attention to behaviors that indicate the necessary skills and abilities for the desired position.

It's important to communicate about company values during an interview. "Be crystal clear about your culture and values," Alan said. "You don't want to hire someone destined to fail, wasting their time and energy (and yours). Being open is the best way to avoid that. Prospective associates will walk away on their own if they don't believe they can fit in with your culture. We've seen it many times — as in the man who called our raw-egg exercise 'really weird' and the woman who announced she didn't want to be part of our 'kumbaya culture.' It was far better to screen out these people in the initial interview than learn of their discomfort with our values during their first months on the job."

As we have already mentioned, it's also important to ensure that company values inform the behavior of employees who are responsible for recruitment. Communication with the labor market happens through the establishment of standards in the recruitment process. A candidate for a job at your company should have the opportunity to see its values in action. It's a good idea to speak about professional development programs during recruitment and then ask the candidate about their experience with training sessions.

It's important to communicate about company values during an interview.

The final phase of recruitment should also be in line with company values. The Human Resources is the first to contact newly hired employees. It's advisable to maintain the impressions created during the recruitment process. If instead, new employees begin to feel like not much time is reserved for their on-boarding and they are expected to "read up on their own," then they may begin to form legitimate doubts about the company's commitment to professional development.

The Adaptation Process **– Initial Contact with Company Core Values**

According to a study conducted by Right Management Consultants in 2005¹³⁵, 35% of managers experience failure at a new job, and they leave or they are fired within the first 18 months. The first few months of work are a unique test for new employees – a time to test whether it's necessary to act according to the values that the company says it espouses. If the behavior of other employees doesn't confirm the information that the new employees receive from the Human Resources Department, then it's not likely that they will act according to the values that were presented to them.

Educational programs that teach employees about company core values are central to management by values. They help employees understand what the company expects of them on the job. Training programs that have been implemented by big corporations can be applied to small organizations – short meetings with important managers who speak about their experiences can convey core values. There are two advantages to this approach. First, new employees learn from an adaptation program that distinguishes between desirable and undesirable behaviors and speeds up their introduction to the company. Second, managers are included in the constant effort to incorporate values into company functions. The attitude of the managers and their capacity to motivate is central to these adaptation programs. Without managers' involvement, management by values can't truly operate in the company.

¹³⁵ Anne Fisher, "Starting a new job? Don't blow it," *Fortune*, 07.03. 2005.

The employment of individuals who embrace values similar to yours is the best way to secure the long-term success of your company.

The arrival of a new employee is an excellent time to check whether values are truly being implemented in daily business operations. The most reliable test is quite simple: ask a newly hired employee if – according to their experience so far – the company is operating according to its values.

New employees have a fresh take on the company and often make interesting observations. They may see things that other employees – who have been working longer for the company – have become accustomed to and now take for granted. New employees are an excellent source of information regarding the process of systemically incorporating values in business operations.

The employment of individuals who embrace values similar to yours is the best way to secure the long-term success of your company. It leads to lower turn-over rates and better customer relations.

Developing Skills Based on Values

Hire attitudes, develop the skills.

Howard Putnam, former CEO of Southwest Airlines

An organization that has a mission and a vision defines its values to convey certain norms and regulations to workers. This in turn helps the company achieve its aims. Values determine what kinds of skills are necessary to work in a given company. Specific abilities should be assigned to each value – this will help identify employees who will be capable of achieving company goals.

Despite the variety of words used to denote values, in truth they all fit into a short list of categories. For example, the Corporate Value Index identifies eight groups of values (Professional, Combative, Behavioral, Society, Relational, Fulfilling, Moral, and Social). Simon Dolan, Salvador Garcia and Bonnie A. Richley, on the other hand, have named just three

groups: practical-economic, ethical-social, and developmental-emotional. Recruiting people based on their values is just the start. Then you must develop employees' skills and monitor to ensure the company's values are being lived in business operations. Values that can be categorized as

An organization's task should be to prepare employees to fill their professional roles throughout the course of their careers.

Professional and Combative are developed through expertise. Behavioral and Relational values can be developed through work with clients and other employees. Values found in the Society and Social categories, as well as the Fulfilling and Moral categories require the development of "soft skills," such as style of communication, management, and leadership.

An organization's task should be to prepare employees to fill their professional roles throughout the course of their careers. The values and skills that they possess determine the range, content, and form that their professional development should take.

Values and the Scope of Training Courses

Specialized training courses are designed to develop specific skills; they are for beginners, specialists, and experts alike. In order to perfect skills it's necessary to obtain knowledge, develop the skills, and then practice them in various situations. The company must create the appropriate conditions for employees to be able to develop their skills and reach goals in accordance with fundamental, company values.

In the case of the value EXECUTION which is described as "a focus on results," it's easy to name the tasks that should be incorporated in company developmental training courses:

- Project management;
- Time management;
- Productive work habits.

Every training program that addresses the above topics brings the company closer to achieving a number of goals, including the following: to establish aims, to turn aims into actions, to gather the resources necessary to achieve goals, to design schedules, and to overcome obstacles.

If we want values to function in business, we must provide employees with the necessary conditions for them to develop the skills that are necessary for realizing values.

Employees who are provided with the opportunity to develop important skills will be more willing and able to realize fundamental, company values. Satisfaction from obtaining desired results is necessary for positive conditioning. Satisfaction comes from earned success that's achieved through effort. It motivates

individuals to continue behaving in ways that are rewarding, even without external reinforcements.

If we want values to function in business, we must provide employees with the necessary conditions for them to develop the skills that are necessary for realizing values. Training programs should convey knowledge that helps employees put values into practice.

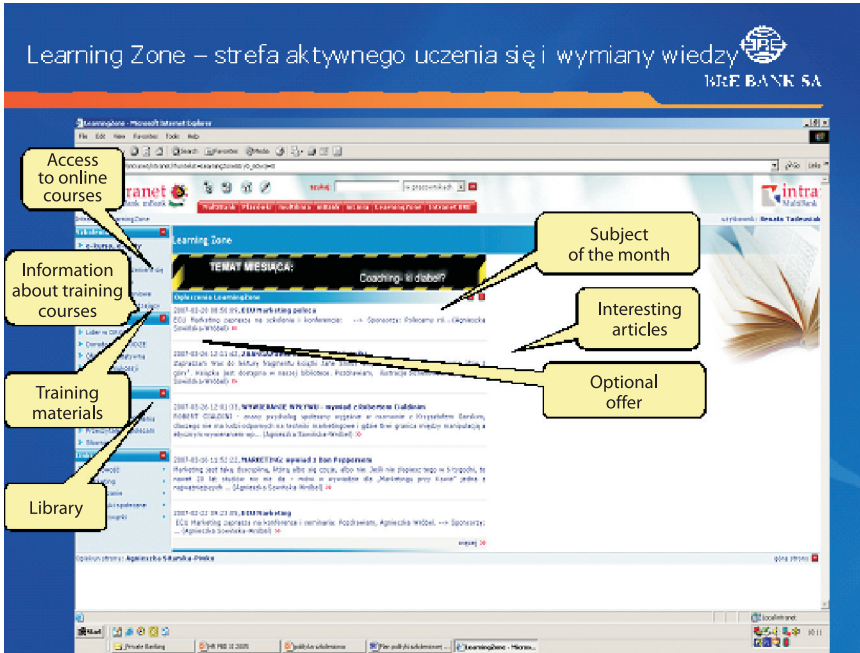
A company that wants to practice management by values must develop a comprehensive training program that addresses all fundamental values. At mBank and MultiBank, we developed a special hyperlink on employees' intranet system, called *Learning Zone*. It presented training courses, articles, and websites that addressed our company values.

The website was organized around themes. Its intention was to broaden employees' horizons. The website exposed workers to information that could be useful to them in their daily attempts at informing their actions with values. Articles about assertiveness, emotional intelligence, effective communication, innovation, and control over oneself, one's career, and one's personal life were most popular.

The publications that the website recommended were of such high quality – they were selected by a team that lived up to the value of EXCELLENCE – that employees could use them to prepare for their coursework at universities. Many employees expressed gratitude for the inspiration they gained from the articles, especially as it applied to resolving conflicts both on the job and in private life. Some employees even said that they had impressed others outside of the company with their knowledge on a topic that they had learned about through the website.

“The unique culture of our organization was maintained by a number of professional tools,” said Adam Barański, a BRE Bank human resources specialist

The Website, Learning Zone



Source: Sławomir Lachowski, BRE Bank materials.

who was on the learning team that created *Learning Zone*. “It’s a tool that enriches employee development by strengthening EERRE, creating opportunity. The website helped increase competence and improve skills, but it also helped employees gain knowledge that was important to them for personal reasons. It made us a learning organization. *Learning Zone* offered about 100 articles and a library. There were monthly topics of focus. Its e-learning courses were highly valued. Every company employee – no matter what their position – had access to the application. This was one of its greatest strengths. Links and opinions were often attached to interesting topics.

An indispensable aspect of *Learning Zone* was the fact that it helped distribute knowledge like a cascade. Employees were involved in their work and in the culture of the company and they were open to sharing their knowledge. As a result, every time they completed an external training program, they participated in meetings that were organized by the company to provide a setting for sharing freshly gained knowledge.

I had the pleasure of organizing such meetings. I remember one of them in detail because it offered me the opportunity to share my knowledge about employer branding, which I had learned about through workshops in Barcelona. This meeting was popular; it was broadcast via video-conference to our office in Warsaw.

Learning Zone was not only a source of knowledge but also an interdisciplinary space where employees shared their experiences. It allowed us to feel the joy of sharing our expertise with others.”

Learning Zone was a place where workers could propose topics, and we would then help them organize training courses, which took place after work hours. In order to uphold the value of “a focus on growth,” we recommended facilitators, often our external trainers, and provided space and equipment. The most popular training courses were on interpersonal skills and on turning values into actions.

Values and the Style of Training Courses

Company employees could develop their skills through participation in a variety of educational initiatives, in both lecture and workshop form. Those took place in conference rooms and on-line. We also had on the job training. Coaching and mentoring are two more forms of professional development. David Kolb, American educational theorist, has developed an exceptionally effective model for adult development, which he outlines in his 1984 book, *Experiential Learning: Experience as the Source of Learning and Development*.¹³⁶

Learning is a closed process and has the form of a recurring cycle, according to Kolb:

- Knowledge is gained through practice and experience.
- A set of specific experiences increase the chances of understanding through observation.
- Reflection leads to the creation of abstract generalizations, which do more than just describe a specific incident; they also shed light on similar events.

¹³⁶ David Kolb, *Experiential Learning: Experience as the Source of Learning and Development*, Prentice-Hall, Englewood Cliffs, New Jersey 1984.

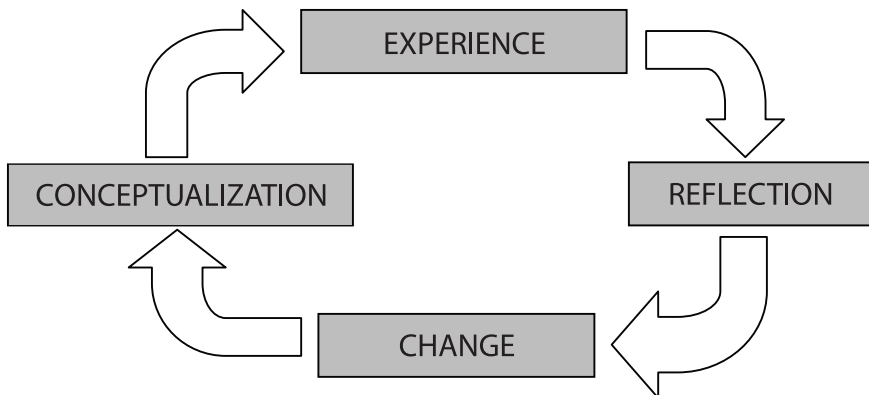
- Knowledge created through the above process is verified through experiments – in other words, it's verified in practice – which leads to the creation of new experiences, and the cycle starts over.

Kolb said adults learn about things they believe are useful. Their main motivation is to gain knowledge that will help them with life challenges, including the difficulties that arise at work. When designing adult learning programs, it's worth creating conditions that enable employees to realize their potential in ways that will apply to their daily work.

According to traditional models of learning, first a theory is presented and practical experience comes later. At mBank and Multibank, we often reversed this order of things. We created the opportunity for employees to have experiences through which they could come to certain conclusions. They could then compare their conclusions to theories, which then helped in understanding the observations they had made earlier. Thanks to this approach, they could use their observations to make inferences about other situations. Theoretical knowledge – when applied to activities in which employees were engaged on a daily basis – was tied closely to their personal experiences.

The facilitators of employee training courses should be moderators rather than lecturers. Using a variety of teaching methods, they should accommodate the needs of all participants.

The Model of a Development Program Offered at BRE Bank



Source: Sławomir Lachowski.

By adhering to the value of EXECUTION, a company should do the following when it creates training programs for employees:

- Establish a clear aim of the training activities and tell participants what that aim is.
- Establish a contract of results to be achieved through the training.
- Maintain disciplined organization.
- Create a coherent action plan.

If EXCELLENCE is a company value, then training courses should embrace the following standards:

- Use of the most innovative practices.
- Application of the most up-to-date knowledge to work.
- Use of creative approaches to training courses.
- Use of independent learning.

Key Skills and Behaviors Associated with the Value of EXCELLENCE

Value	Skill	Description of Skill
Excellence	Innovativeness	Looks for new opportunities and finds new ways to use them. Avoids old patterns; exhibits creativity and encourages others to be creative.
	Openness to change	Sees change as a challenge and a new opportunity – accepts the inevitability of change and shapes it. Motivates others to participate in new projects. Exhibits flexibility; is capable of constructively and adequately modifying personal opinions, attitudes, and behaviors.
	Focus on development	Adequately evaluates and develops personal talents and the talents of colleagues. Is eager to learn; gains new qualifications and skills; supports the development of others. Seeks out ways to work more productively.

Source: BZD, Department of Retail Banking, BRE Bank.

Once individuals learn desirable behaviors, they don't forget them. They are happy to aim for higher efficiency and bravely experiment with new ideas.

Values in Special Programs for Managers

Programs that are designed for select groups of employees, managers, exceptionally talented people, and for your potential successors, deserve

extra attention. It's not possible to overstate the significance of these groups to the theory of management by values. We have already noted how important it is for influential individuals to believe in values. For this reason, the company should pay particular attention to building awareness about values among leading employees.

One of the most important aspects of management by values is the preparation of managers to lead by example.

A plan to develop managerial capacities must be derived from company standards of management and leadership. One of the most important aspects of management by values is the preparation of managers to lead by example. Training programs should prepare managers to fill the role of a boss who manages through values. These programs should include the following:

- Clearly stated expectations of employees regarding results, and ways to achieve the results in accordance with values;
- Recognition of employees' behaviors when they are in line with values, and constructive criticism when employees don't follow regulations;
- Two-way evaluations of employees, including: results and level of value-based competence achieved;
- Help in enhancing efficiency, specialized skills, and value-based competence.

Companies that espouse management by values should develop training programs for leading personnel that prepare these leaders to be role models.

Values in Succession Planning

Succession programs prepare employees to fill key positions in the future. Successors are candidates for positions of leadership or expertise. Succession programs help organizations prepare for situations when there are changes in key positions. A development program for future experts and managers should begin at the time when an individual qualifies for

such a program. The candidate's behaviors up to that point must have been in line with values. As far as qualifications are concerned, this is just as important as the achievement of excellent results.

In situations like these, companies typically use Assessment Centers or Development Centers, which offer "a standardized evaluation of behavior based on multiple evaluations including: job-related simulations, interviews, and/or psychological tests," according to HR-Guide.com. Each candidate receives their results – whether they qualify for the program or not. This serves as a powerful message from the company. If an employee fulfills the company's expectations, they may be promoted.

This kind of approach is used by organizations that embrace the following values: transparency in communication, a focus on development, openness, and willingness to develop.

Talent Management

Skillful management of high-potential individuals should be a paramount mission of every manager. Companies that use management by values must define talent according to effectiveness and adherence to their core values. Highly talented individuals, as defined by a value-based company, are exceptionally productive but also exemplify those values through their style of work and level of engagement.

Even the most productive workers shouldn't qualify for fast-track programs if they don't have the minimum requirement of adherence to values. Sessions in the Assessment Center check for this criterion.

Such programs have to emphasize values, both through appropriate content and through daily functions.

Companies that use management by values must define talent according to effectiveness and adherence to their core values.

For example, the program's structure should comply with the value of RESPONSIBILITY by creating conditions for employees to exemplify responsible behaviors throughout the course of the program.

Key Skills and Behaviors Associated with the Value of RESPONSIBILITY

Value	Skill	Description of Competent Behaviors
Responsibility	Initiative	Expresses a willingness to act decidedly and quickly. Reveals reflections and actions that go beyond the responsibilities associated with his or her position. Easily learns through trial and error, without losing heart after failure.
	Independence	Is responsible for his or her own decisions and behaviors. Takes on challenges with courage; seeks support when necessary; doesn't require supervision; exhibits impressive self-control.
	Influence on others	Finds others to collaborate with, in order to achieve desired results; inspires others to action; convinces others of his or her opinions; effectively argues in discussions.

Source: BZD, Department of Retail Banking, BRE Bank.

The following basics should inform programs for high-potential employees:

- Participants themselves are responsible for the work done during the training courses;
- The program is built on the notion of self-education;
- In addition to fulfilling the program's expectations, participants are expected to follow through on their regular, professional tasks (without additional compensation);
- Activities develop practical skills and use case studies;
- Activities require teamwork;
- Participants are challenged to learn a number of things at once (for example, activities are run in a foreign language).

The participants – future leaders of the organization – practice behaviors that increase their level of responsibility for the program and strengthen their capacity to tend to their own development. They learn to recognize the tangible benefits of these behaviors. Even if an individual isn't entirely convinced that they want to follow this path, by observing others who have no doubts and achieve success, they will eventually realize that it's worth aiming for EXCELLENCE. It is possible to incorporate positive values in business without indoctrinating and manipulating employees.

Interacting with Suppliers

An organization loses credibility if it doesn't adhere to the values it has chosen for itself in its daily practice. This also happens if it works with partners or suppliers who embrace different values, or worse, who function in ways that are in conflict with the organization's values, as potential clients start to associate such a company with the valueless supplier. Management by values strongly emphasizes collaboration with external suppliers and other partners in the production process. Apple, Nike, Gap, and Starbucks have all been accused of misappropriation of funds and unethical conduct because they have worked with suppliers who don't respect worker's rights or don't adhere to western-level health and safety standards. In response to the criticism they received, these companies obliged their suppliers and partners to follow their values and codes of business ethics.

Be especially careful when hiring people or companies to run your training courses. Just like in recruitment, the following questions are important in selecting partners for training courses: are the potential partners competent, do they possess the knowledge and skills, as well as the values necessary for work with the company?

Key Skills and Behaviors Associated with the Value of "Readiness"

Value	Skill	Description of Competent Behaviors
Readiness	Emotional Maturity	Is open to feedback and makes use of it. Is in control of his or her emotions and moods; is aware of his or her weaknesses and strengths; can take criticism and use it effectively. Accurately interprets social situations and human needs, and responds to them appropriately.
	Ability to Work in Teams	Creates a collaborative environment; identifies with the team; understands the varied interests of others and works to establish understanding; handles conflict well. If he or she is a leader, he or she sets realistic yet challenging goals on the basis of his or her evaluation of the situation and team members.
	Dynamism	Maintains a sense of mobilization; is skillful and energetic; reacts quickly to the needs of others, with particular sensitivity to the expectations of clients and partners. Is capable of overcoming unexpected difficulties and adjusting his or her approach without losing speed.

Source: BZD, Department of Retail Banking, BRE Bank.

As alumni of development programs, company employees who embrace the above value – READINESS – have the right to expect the following of their advisors, trainers, and instructors:

- Collaboration based on partnership throughout the course of the development program, and two-way, open communication;
- Brave command over teamwork; high expectations of participants, which help in overcoming barriers;
- Engagement and effective participation adjusted to the needs of the group.

The HR Department is responsible for selecting the appropriate trainer for development programs. Don't pick external training companies based on trends, prices, the charm of sales people, or promises. Designing the development program with the trainer is a sure way to verify whether they're a good match. Discussions about the style of facilitation, the desired aims and results of the training are absolutely necessary. This kind of collaboration is an excellent way to get to know the partner's style and values. It's worth getting to know each other in this way.

Core Values and Exceptional Results

Execution is not only the biggest issue facing business today, it is something nobody has explained satisfactorily. Execution is a specific set of behaviors and techniques that companies need to master in order to have competitive advantage.

Larry Bossidy

In order to make your mission and values actually impact your organization, you've got to reward those who practice them and punish those who don't. Many people were fired from GE because they didn't fit with GE's mission and values.

Jack Welch

There are managers who think values aren't practical. I believe that they are wrong. Companies who have a concrete set of values and stick to them achieve better results. The secret link between values and results is motivation. To motivate your workers, create and communicate your strategy, your annual

The secret link between values and results is motivation.

budget, tell your employees what you expect of them and set concrete goals, and evaluate them based on their results.

In an organization managed by values, all employees participate in the creation of strategic plans. Participation assures buy-in and responsibility. A strategy and budget are an agreement among many individuals – this agreement establishes the individual and team-based tasks that will be necessary to achieve the desired result. Values play an important role in setting down these tasks. They are critical to the execution process because they ensure security and are the distinguishing marker that builds competitive advantage. In the execution phase, values have incredible significance for budgets, where the ends cannot justify the means. Values are both the engine pushing forward and the break, which ensures security in the competitive race. An awareness of which direction a company is heading and what objectives should be prioritized from a strategic point of view is incredibly important for managing results. Not just management board members and other directors, but also workers should have this awareness. Outlining business priorities to workers is an indispensable element of a coherent and transparent strategy. It's also very important to make clear which values take on special meaning when certain tasks are being implemented.

Companies celebrate the moment when they communicate their strategy. These kinds of companies hold workshops about strategy in which all employees (or at least the most important ones) participate. These workshops delineate the behaviors that are desired, according to established aims and obligatory values. It happens sometimes that one value in particular gains special significance. For example, all tasks that involve this value are prioritized. All achievements that are based on the execution of this value are rewarded. Coherent conduct creates a clear focus for the company.

Evaluation of Attitudes and Abilities

The aim of employee evaluations is to support the execution of strategies and budgets through the appropriate development of desired employee attitudes and abilities. The process has emotional connotations.

That's because the evaluation criteria are often unclear, don't have much to do with daily tasks, and the process itself is carried out in a routine way – in a hurry and on the basis of the belief that an evaluation is nothing more than a useless formality. It's even worse when the evaluation process isn't objective. The inclusion of values into the evaluation process can positively impact its reputation among participants.

A two dimensional evaluation is believed to be most effective. It includes a quantitative evaluation of the results achieved by an employee and a qualitative analysis, which takes into consideration the style used and values adopted by the employee to obtain these results. Values fit perfectly into this second dimension of an evaluation. When values are defined by level of competence, they can be measured.

Competence is a key work that gets defined in multiple ways in professional literature. For most people, competence implies the following: knowledge, skills, and attitude. An increasing level of competence guarantees good results and proper execution of the company's mission and values. When competence is measured according to the level of compatibility between values and actions, it becomes a concrete criterion of evaluation.

Two processes are involved in the measurement of competence – evaluation and diagnosis. Diagnosis is a definition of competence that is built on intermediate indicators. This takes place during recruitment. Evaluation addresses behaviors that are observed on the job. Behaviors that reveal certain kinds of competence are called behavioral indicators. They can be measured.

MultiBank and mBank used a scale to evaluate employees according to behavioral indicators. Our managers took into consideration their observations and experiences culled from their interactions with the employee being evaluated. The presence of fundamental values in daily work becomes natural. In order to use values properly in evaluations, the following conditions must be fulfilled:

1. Values must be described through behavioral indicators – it's best to define concrete skills with reference to knowledge, ability, and willingness to use them in practice. The example below offers one description of the value of EXECUTION.

2. The evaluation of values should be conducted with the help of a specially designed scale.
3. Employees should be familiar with the description of values before they are evaluated.
4. Evaluation should occur during a meeting between a boss and an employee, and it should be a dialogue that addresses concrete employee behaviors.

Execution: Skills and Behaviors

Value	Skill	Description of Competent Behaviors
Execution	A focus on the goal and the result	Sets goals for him- or herself and others, achieves expected results. Makes realistic long-term and short-term plans; works efficiently and meets deadlines; effectively completes tasks.
	Decidedness	Makes decisions based on chance and risk, and makes use of information quickly, not recklessly. Sticks to decisions but is flexible enough to change them when necessary.
	Business Conscious	Sees the organization in its entirety. Considers the market, competitors, and the social realities in the formulation of business aims, seizes opportunities. Understands business models and develops tasks in accordance with them.

Source: BZD, Department of Retail Banking, BRE Bank.

A company that practices management by values will never have a standard evaluation process. The managing team must know its employees and their work well. A manager who evaluates an employee will be able to refer to concrete facts from the history of the employee’s work experience. A manager in this position must be psychologically capable of evaluating, prepared to follow procedures and use specified tools. An example of a tool that helps managers evaluate according to values is “Location on the EERRE” (in Polish: “Bilans Miejsca na DRODZE”) – presented in Chapter 2.

People like to know where they stand. Employees need recognition for their achievements more than good evaluations. Employees value any kind of feedback that helps them be more productive. Since values help achieve business aims, making reference to them in evaluations creates an image of the company’s potential. Evaluations become a powerful tool to

increase employee engagement because they offer specific suggestions on how to improve results.

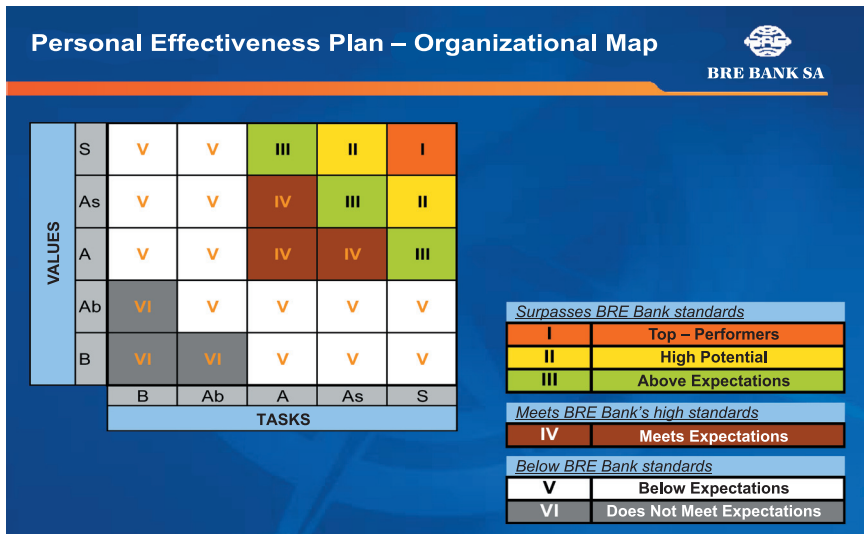
Organizations that want communicate their expectations on value-based behavior must find an effective way to provide feedback. Feedback has a special role in management by values. When employees receive information about their behavior, they find out to what extent they act according to company values. If other people in the company perceive a certain behavior differently from how an employee intends it to be seen, they get a chance to change it. Conduct that is in line with or against values becomes a question of choice. Organizations that practice management by values expect their employees to make this choice.

Recognizing Achievement

Management is the art of planning and achieving goals using existing resources. Undoubtedly, achieving a goal is accompanied by emotional satisfaction. However, when striving to unlock an employee's full potential, you cannot forget about financial motivation. Management by values can't be limited to using a value system as an ethical street sign and cement of shared convictions about goals and how they should be achieved. It isn't surprising that employees expect something in exchange for their contributions to attainment of company goals. This is an element of the agreement made at the moment a work contract is signed. The terms of employment state this transparent arrangement. The most important of these is an employee's compensation for their work. In companies that define themselves by their core values, having a compensation system truly based on the accepted values and convictions is absolutely necessary. An organization communicates what it values and what it's ready to pay for by the way it compensates its workers. The point is to send your employees a clear message what's important to the company. You'll be able to execute such a strategy only when and if you begin evaluating your workers based on the degree to which they achieve pre-determined goals and on the degree to which their behaviors align with agreed-upon values. That in turn will give you the groundwork to achieve the overarching

goal of your compensation policy, rewarding for results and behaviors that match the company's most important goals. Such a compensation system becomes truly correlated with the results the company achieves and increases its competitive advantage. More than anything, the power of this system rests on the link between salary and a given employee's skills and engagement. The reference to a common value system is an invitation to build a relationship based on partnership. Through their participation in this partnership, workers can understand the company's goals, what their own role is in achieving those goals, and become more involved in decision that affect them. This enables them to receive compensation determined by the degree to which goals are achieved by the company as well as the degree to which they contributed towards achievement of those goals. Linking a company's economic accomplishments to the financial success of its workers becomes quantifiably significant. This system encourages desired behaviors in employees but also triggers consequences when those behaviors aren't put into practice as often as the company intends.

A Map of Results of a Periodic Evaluation at BRE Bank



Source: Sławomir Lachowski and materials from the Retail Banking Department of BRE Bank.

Thanks to a periodic, two-way evaluation system, each employee qualifies to be member of one of the following groups:

- I. Level: Above Standard.
- II. Level: Meets the Standard.
- III. Level: Below Standard.

The idea behind this system is to encourage those who perform well to achieve even greater results, and to encourage those who aren't doing as well as they could to make a greater effort to improve their performance.

Bonus systems, development programs, and promotions in the form of higher salaries and higher status, are all important tools to motivate employees.

Compensation Systems

There is nothing controversial about rewarding behavior that's in harmony with company values. However, when the reward is financial the situation can become ambivalent. If a contract with an employee states that compensation will depend on the level of results achieved by the company and by the individual, then a bonus for achieved results is compatible with the contract.

If a company honors RESPONSIBILITY, EXECUTION, and TEAMWORK, then its compensation system should include the following elements:

- A link between qualitative and quantitative goals;
- Employee control over the size of their reward because it's based on the completion of certain established tasks and high quality of work;
- Recognition of the employee's individual and team-based input;
- Attention to the financial results of the company (rewards for the execution of a plan and additional accomplishments).

This kind of system not only strengthens the company's position in relation to competitors, but it also highlights the fact that only effective teamwork leads to success. At BRE Bank, employees who adhered to company values could see their bonuses increased by up to 20%. Simultaneously, the category "doesn't fulfill expectations" (B), according

to company values, would strip an individual of the right to a bonus at all, no matter how good their evaluation was with regard to tasks.

The example of a compensation system that follows is based on the results of the company, the results of individuals, and the system of values. An employee's level of achievement is bound to the reward system and brings in bonuses according to the following model:

$$\text{Bonus} = \text{CEA} * [\text{BIT} + \text{BTT}]$$

Where: **CEA – Coefficient of Evaluated Attitudes** – takes into consideration the impact of the value-based, qualitative evaluation on the size of the bonus

BIT – Bonus for Realizing Individual Tasks

BTT – Bonus for Realizing Team-based Tasks

The entire bonus is composed of the bonus received for the execution of individual tasks and team-based tasks, which is then adjusted according to the Coefficient of Evaluated Attitudes.

This kind of reward system not only strengthens obtained results, but it also rewards behaviors (values) that led to these results (personal efficiency, teamwork). It provides employees with a way to earn extra money – by conducting themselves in ways that are in line with company values. From the point of view of the organization, the best employees and managers should be systematically rewarded. Average employees and managers should be fairly evaluated and rewarded as well. Those who don't fulfill expectations should be encouraged to improve or to leave the company. People are the key to success in business on a competitive market. A motivation system based on a transparent system of salaries and rewards makes it possible to make the most of human capital and compete on the market.

At mBank and MultiBank, and later at BRE Bank, we created a system of financial motivations that reflected company values. Before that system could be implemented at mBank, MultiBank, and BRE Bank, the organizations had to establish precise aims that had measurable indicators. The Personal Scorecard was the fruit of that effort. It documented

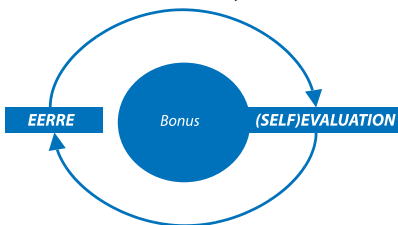
the measurable aims of each employee. A qualitative self-evaluation of employees, which was based on EERRE values, contributed to the overall evaluation process. This comprehensive evaluation also included the achievement of quantitative results and the way in which they were achieved.

“Values become truly meaningful, when a company rewards the people, who promulgate them,” former GE chief executive Jack Welch said in his bestselling book *Winning*. A company should compensate its best workers and managers progressively. It should evaluate average workers justly and pay them a standard wage. And it should motivate workers who haven’t been meeting expectations to improve or move on. People are now the key to business success in this fiercely competitive market. Motivation systems must be based on transparent compensation policies and simple salary rules. Such systems then enable companies to unlock the potential of their human capital to create a competitive advantage. The company accumulates above-average profits, the value of shares increases, clients are loyal, and employees and managers are satisfied. My experience verifies the existence of this cause-and-effect relationship. Evaluation standards and rewards must be transparent, fair, and objective. In this kind of context, impressive results complemented by high bonuses don’t lead to controversy; on the contrary, employees feel motivated to make a greater effort and to become more involved.

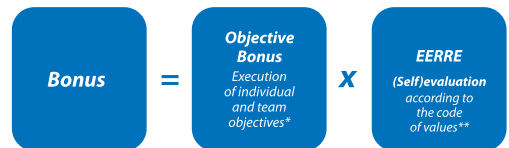
At BRE Bank, we determined the size of the individual bonus according to the employee’s qualitative evaluation and the execution of quantitative tasks. The mBank motivation system – on the basis of which

Self-Evaluation as the Basis of Employee Evaluation at BRE Bank

Code of BRE Bank Corporate Values and Its Financial Incentive System



Code of BRE Bank Corporate Values and Its Financial Incentive System



* according to the weights of the Personal Scorecard, Team Results and Bank Results

** according to the weights of the BRE Bank code of values

Source: Sławomir Lachowski.

the BRE Bank system was developed – was entirely based on the employee Individual Efficiency Plan and Personal Scorecard. The evaluation process was transparent – discretionary power of superiors was eliminated from the reward system. This approach was introduced in BRE Bank in 2005, two years after the pilot program was initiated at mBank and MultiBank. Results exceeded all our expectations – objectively, according to market capitalization, and comparatively in relation to our competitors. Employees were satisfied with their level of bonuses and shareholders were happy with the stock price.

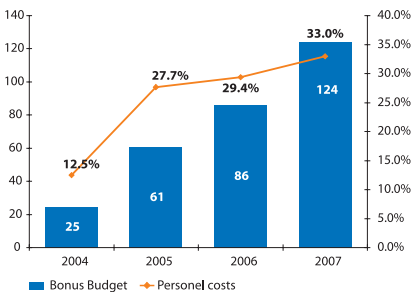
The employee bonus pool increased in 2004, 2005, 2006, and 2007, by 24.6 million, 60.8 million, 86 million, and 124 million zlotys, respectively. The share of per-capita bonus increased and amounted to the following, each year accordingly: 12.5%, 27.7%, 29.4%, and 33%.

Even when we take into consideration the increasing level of employment during those years (from 3,200 to 4,800 employees), the gradual increase in rewards for full-time employees is impressive. It amounted to: 8,900 zlotys in 2004, 20,200 zlotys in 2005, 25,900 zlotys in 2006, and 32,110 zlotys in 2007. Simultaneously, company results sky-rocketed: they went from 237 million in 2004 to 338 million, 576 million, and 955 million each year accordingly.

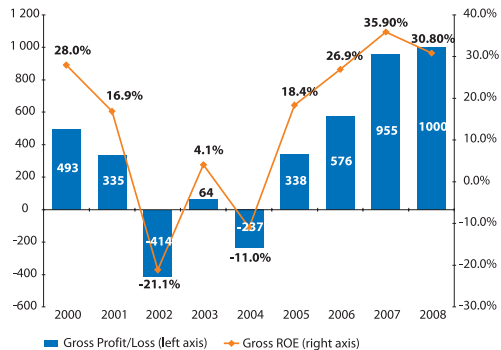
The Impact of Its Transparent Evaluation and Motivation System on BRE Bank's Results

Compensation for results and attitude

Bonus Budget and its share of total personnel costs from 2004 to 2007



BRE Bank Results in 2000-2008
Gross profit/loss and ROE



Source: Sławomir Lachowski.

The market recognized both BRE Bank's financial results and – to an even greater extent – its unconventional business model, which was publicly advertized. BRE Bank's stock price rose faster than its competitors'. From 2005 to 2008, BRE Bank's price-to-book value and price-to-earnings were 25% higher than the average indicators of peer banks.

Over the course of the four years when we implemented the management by values model, BRE Bank grew to become Poland's third-largest bank by assets from sixth-largest. Client satisfaction indicators for retail and corporate banking were better than the rest in the industry.

Supporting the Development of the Best Employees

Investment in workers, who have potential, brings the greatest results of all investments. The employees with the potential for development are those who achieve the greatest results through the execution of tasks and who act according to company values. They deserve special attention from the company. Employees who don't meet company expectations should also receive support to help them improve. Your company's employee development program should be diverse:

For Level I (above average results):

- Individual Development Program with an accompanying individualized budget;
- Special development programs: a prestigious course of professional studies, advanced management programs, etc.;
- Participation in strategic projects for the company.

For Level II (meets expectations):

- Recommendation for select development courses – for specialists or managers;
- Participation in company projects.

For Level III (results don't meet expectations):

- Improvement programs that establish a road to achieving desired results within a specified time frame;
- Self-education, access to a database of company training materials.

A Promotion and a Pay Raise

The best companies do their recruiting in-house. The best candidates for promotion are the individuals who achieve impressive results on a value-based scale. They may be individuals from Level I or II, even if they aren't specialists in a given area. It's easier to develop expert skills in an employee who already embraces company values than to inspire an appropriate attitude in a new employee.

An equally important challenge is to keep the employees who embrace the same values as the company and achieve expected results. These employees should have priority in the distribution of rewards. If rewards are to be a practical tool that upholds company values, then employees who achieve the best results should obtain the highest bonuses.

Building Employee Involvement and Corporate Culture

GE's business success is built on our reputation with all stakeholders for lawful and ethical behavior. Commercial considerations never justify cutting corners. Upholding this standard is the specific responsibility of the leaders in the room.

For any serious lapse, the warning is clear: One strike and you're out.

Jeff Immelt, CEO of General Electric

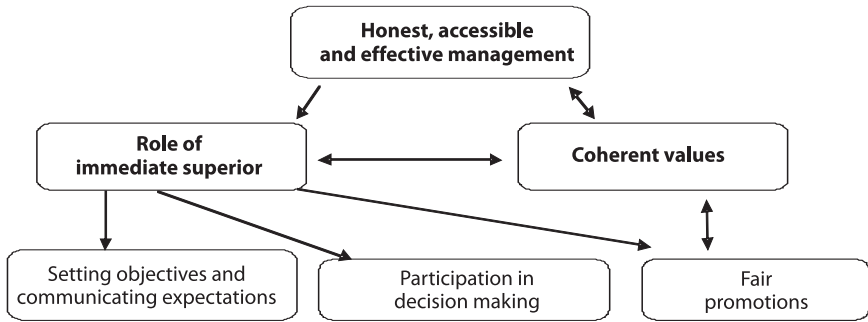
Employees think that the best employers are those with good management, which value their workers, and have a coherent brand, according to an Aon Hewitt survey conducted among 41,000 workers at 112 companies in Poland.¹³⁷ Respondents indicated that there are a few factors that have an immense impact on their level of engagement at work:

- **the management**, which is honest, open, effective, and capable of valuing others;
- **a direct supervisor**, who knows how to establish goals and can communicate their expectations, who includes employees in decision-making, and who fairly distributes promotions and raises;

¹³⁷ Reported in “Best Employers Study 2011,” Aon Hewitt.

- a **coherent set of values** that are shared by the management and other employees, and which inform the process of distributing rewards, recognition, and promotions.

Values, Leadership and Employee Engagement



Source: "The Best Employers Study 2011," Aon Hewitt.

Core Values constitute the DNA of an organization. They are often present in the culture of an organization but they remain unwritten, unseen, yet powerful because they affect the level of employee satisfaction and earnings. In Chapter 5 we presented Edgar Schein's model of organizational culture, which is composed of three levels: artifact, norm and value, and basic assumptions. Artifacts, which are artificial creations of culture, are the most visible level of an organization's culture.

The following things are classified as artifacts: the visible and tangible behaviors of members of the organization, the technological results of company functions, the specific language that's used in a given company, and symbols such as flags, hymns, and logos. The structure of the organization is also a key element of the culture. The main aim of artifacts is to strengthen the bonds that exist between employees and the company.

Artifacts can be classified into the following categories:

- physical artifacts – everything that can be labeled as "a material aspect of culture", physical, tangible products of culture, examples include: furniture, machines, company cars and dress code.
- linguistic artifacts – a specific kind of language, which is used by members of a given cultural group. Myths and legends are included

in this category – they tie in to history, successes, and heroic times. They become visible especially during the creation and strengthening of an ideal image of the organization and its value system.

- behavioral artifacts – ceremonies, rituals, and habits. Thanks to rituals a given community feels intact. When rituals are followed, they make community members feel safe. Examples of rituals include the following: team sports, picnics, meetings and gift-giving on various occasions, such as birthdays and holidays.

All of these elements can be shaped directly, so that they reflect a company's value system. An organization that's managed by values shouldn't have doubts about how to arrange its work space. If a company says it prioritizes clients but reserves the parking spots closest to the entrance for management board members and other employees, both clients and employees will recognize the hypocrisy. This power of artifacts is immense. A company that says it values employee development but spends its entire training budget on trips for employees to socialize isn't living its values. Artifacts shouldn't be used only when we post our values on our company website or hang them up on company walls.

BRE Bank's retail banking unit rewards employees with carefully chosen books if they obtain impressive results. A regular book doesn't have great monetary value – many other things are more valuable. However, the books chosen by BRE Bank management for exceptional employees symbolize EXCELLENCE and a FOCUS ON DEVELOPMENT. These books aren't always about professional development; many of them reflect the private passions and interests of those who receive them. From the start, giving books as rewards was an important aspect of the culture of BRE Bank's retail unit. Books are my passion, but introducing the tradition of giving books to employees was mainly the result of my conviction that they would be useful in helping a given employee develop through knowledge.

Products, Sales and Financial Results

Companies that are guided by values in their operations and that require their workers to adhere to them are more competitive, achieve more success, and are appreciated both by their workers, owners, stakeholders, and even competitors.

BRE Bank - EERRE (DROGA) Corporate Canon of Values

If values are to inform every level of business, then they must also be present in relations with the outside world. They must shape the services and products offered to customers. Companies want to be seen as transparent, socially responsible, and caring for the welfare of their customers and the quality of their products. Taking a closer look, however, reveals that often this is just part of a marketing game, driven by a desire to be politically correct. Or it is often a public relations campaign, skillfully designed to create an image of a friendly, open and responsible company, the company customers and shareholders would want to see. Nearly every company wants this image, but only a few fulfill their promises and the market's expectations in full, in this regard. One can find many examples, even among the most widely recognized companies, of dissonance between the values they proclaim and their actual behavior. The scandals of American companies like Enron, Lehman Brothers, Tyco International, Merrill Lynch, Salomon Smith Barney, Martha Stewart and Xerox, or European companies like Siemens, Volkswagen, Ergo, Deutsche Bank, Bankgesellschaft Berlin, News Corp, Parmalat, Elf, and Vivendi are fresh in our minds. In Poland we can put forward cases such as Art-B, Bezpieczna Kasa Oszczędności, and Konsorcjum Finansowo-Inwestycyjne Colloseum. Corporate scandals come in various hues, manipulating results also known as creative accounting, acting to the detriment of the company, fraud, sex scandals. But the origins of these scandals were the same: the greed and selfishness of company managers and owners. Greed makes people manipulate accounting numbers to receive benefits in the form of bonuses. I won't even mention cases of simple theft of tens or hundreds of millions of dollars. Selfishness, bolstered by a sense of absolute power, makes people take advantage of the position they are in to satisfy their vanity and outsized ambitions to the detriment of the

company and its workers. Almost all of the above-mentioned companies had defined their core values, on which they prided themselves in their marketing, but as it turned out, behaved very differently.

Ethics in business isn't a value that can be implemented selectively. It is binding, for both people and companies, regardless of whether a non-ethical behavior is legal or not. And this isn't a case where the rule, "everything that isn't forbidden is permitted," applies. A company's values – which are contained in its documents, its mission and philosophy, its code of proceedings, its system of fundamental values – are binding at times of prosperity and at times of crisis. It's important to establish how values are to inform business operations – in what ways they should be visible in outside relations and in products and services offered to customers. Let us take a look at some of the most common values, which have a great impact on products, services, relations with customers and other interest groups: transparency, advising, quality, price, and innovation.

Many companies operating in the financial services sector eagerly promote themselves by emphasizing their advising services. It's meant to entice the customer and create a sense of trust. Many customers really need help in making the right decisions because they lack professional knowledge about the world of finance. The definition of advisory services is providing professional counsel, advice, especially legal or economic. Financial institutions, such as banks, insurance companies and financial middlemen, like to use the word *advisor* in the communications with customers. What they're really doing is pushing customers to buy their own products or other products that bring these companies the highest profit. An *advisor's* job is to act according to the best knowledge and in good faith. The art of selling is the skill of getting someone to exchange their money for a product and its done best when it makes the biggest profit for the seller. Bank employees, often called "customer advisors" don't have a choice but to push the bank's products, especially the ones that bring the highest profit, not for the customer, but for the bank, of course. That's because these workers' salaries are dependent on sales. Thus advisory becomes manipulation and the negation of itself. However, the customers who actually need help usually find out about being used because of their naïveté, about how their trust was abused, only in rare

instances. They find this out only when a product they bought glaringly doesn't meet promises made, such as when the value of shares or an investment fund falls, when an interest rate on a loan is much higher than what's being offered by the competition, or a high interest rate on a saving account turns out to be a short-term marketing gimmick.

The operations of universal banks that have a strong investment banking unit have been controversial for a long time because they have an internally-programmed conflict of interest. For example, conflicts of interest arise when a bank is hired to organize an issue of shares or bonds and at the same time is advising its customers to buy the shares or bonds and buying them on its own account. In response to criticism, universal banks say they have Chinese walls, meaning departments conducting business that would have conflicts of interest don't communicate with each other. At one of Switzerland's largest banks, these departments are located five meters from each other, separated by a glass wall and a door that is opened with a personal identification number. At another local bank in Zurich with similar operations, the "Chinese wall" is made out of a flower pot.¹³⁸ Almost all banks in Poland have private banking operations and try to out-do each other with statements about how they are the best advisors to their customers, when in reality, each one has an internal conflict of interest. Each of these banks' advisors push the sales of propriety investment products or other products on which they get a hidden fee or kick-back.

It's possible to avoid this kind of conflict. Charles Schwab – an American stockbroker company – is proof. It only sells third party financial products. As a result, it can truly state that it advises on sales. Similarly, mBank made the sale of investment funds accessible on the open architecture platform of its Investment Fund Supermarket with no front-load fees. In order to avoid potential conflicts of interest, as the chief executive of BRE Bank I exited my own investment in Skarbiec TFI investment fund, which BRE Bank also wanted to sell on its open architecture platform. In their annual reports, companies present their detailed P&L, cash flow and balance sheet and lately as well information about the compensation

¹³⁸ "Ein einziger Intressenkonflikt", *Neue Züricher Zeitung*, 14.10.2011.

of the management board. Companies often provide the total budget for management bonuses, because regulations require them to do so, but they often don't provide the breakdown by board members. They should, if they want to be considered transparent.

Too often, listed companies try too hard to fulfill market expectations. But quarterly results fluctuate, which usually has a big impact on a company's stock price, so companies try to smooth out their financial results with accounting. For example, on October 16, 1998, the share price of Progressive Insurance, an American insurance company, jumped 18% during one session and then it fell by 19% on January 26, 1999. The moves were prompted by the publication of the company's quarterly financial results, which first exceeded and then disappointed the expectations of analysts. The CEO Peter Lewis did not succumb to the pressures of the market, however. He did not make accounting changes that would fulfill market expectations. He believed that this would be dishonest. Instead, he increased transparency by publishing monthly results.

Transparency in dealing with customers is first and foremost providing thorough, clear, and accessible information about products and services. Financial institutions create problems for customers by adopting complicated systems of payments and commissions, or even unclear interest rates on loans and deposits. The way mobile phone companies charge for their services is also often confusing. Customers don't know how much they will have to pay in a given month and for what. That makes it hard to comparison shop. It's not enough for the words of a contract to adhere to the values a company espouses; the spirit of the agreement must accord with values as well. Companies are eager to talk about transparency while actually preferring the water to remain murky. That way it's harder for customers to make the best choices and they'll likely overpay. It's become a bad tradition to advertise products by highlighting their low price or high quality, but including a footnote with the detailed terms, conditions and exceptions that are in direct contradiction to the attractiveness of what's being offered. Like *noblesse*, having values obliges one. If a company declares to have values then it should adhere to more than the minimum specified in a contract, because, similarly to how the law should be interpreted, the spirit is more important than the content.

To illustrate this important rule, this time I'll use a negative example from the business histories of mBank and Multibank.

In Poland, most mortgage loans have variable interest rates, unlike in many more developed countries, where mortgages overwhelmingly have fixed rates. This variable interest rate is usually determined based on a reference rate, the inter-bank market WIBOR 3M for mortgages in zlotys and the LIBOR for loans in foreign currencies. In the early phase of the mortgage credit market in Poland, PKO BP, MultiBank and mBank used a mechanism for determining the individual interest rate based on internal rates. These internal rates depended on the situation on financial markets and on general economic conditions. MBank and Multibank had two types of loan portfolios; one functioned according to the internal credit rate and the other according to the external rates of reference WIBOR or LIBOR. Interest rates fluctuated, but it was accepted that all clients would be treated equally and that the internal rate would fluctuate according to LIBOR and WIBOR rates, which are considered objective. This was the case until the 2008 financial crisis, which caused great turbulence. When the LIBOR 3M rate for the Swiss franc, in which the majority of mortgage loans were denominated, fell to 0.45% in December 2009 from 2.7% in January 2008, the bank lowered the interest rate proportionally, but only in the new part of its credit portfolio. The old part, which was based on the internal rate, was lowered by only 0.4 percentage points.

The earning power of the mortgage credit portfolio fell. Multibank and mBank used the internal reference rates, found in older mortgage contracts, to slow the rate at which income was decreasing. This put 17,000 MultiBank clients and 9,000 mBank clients at a disadvantage - they were paying an interest rate that seemed to be set unilaterally by the bank for its own advantage. But it helped BRE Bank remain profitable. The affected clients felt disrespected.

Regardless of whether what BRE Bank did was legal or not, the right thing to do would be to treat all customers equally, especially in a time of crisis. BRE Bank made a mistake. According to mBank's philosophy, the bank is the client's advocate. Business isn't a zero-sum game. The definition of success is the well-being of both sides. The interests of the customer should come before the interests of the company. A company

that considers its values its distinguishing feature must come to terms with the fact that this attitude has certain consequences. Adhering to your values can have a negative effect on short-term financial results, but from a longer-term perspective, it builds loyalty and a positive reputation, which attracts new clients.

Many companies declare quality and innovativeness to be their top priorities but not many of them manage to deliver these two values to a degree justifying their declarations and guarantees. One of the few companies that manage to put into practice its declared commitment to quality and innovativeness is Apple. Amazingly, in the United States, Europe and Asia, people stand in long lines to buy new Apple products long before opening hours. Apple products distinguish themselves through their quality, innovativeness, durability, reliability, technological solutions, and unique appearance. Steve Jobs, the co-founder and long-time chief executive of Apple Inc. said: "Design is the spirit of human creativity made visible in the external appearance of a product." Apple products are a testament to Jobs's belief. The Museum of Modern Art in New York has 25 Apple products in its collection and has devoted a permanent exhibition to the brand. The secret to Apple's innovativeness is the company's search for simple solutions. The paradigm shift of the iPhone or the iPad was based on the simplification that new technology can provide. The Apple eco-system, built with vision and a great foresight into how technology will evolve, allows the user to satisfy their most important needs in a friendly way.

High-quality customer service is a value to which many large modern companies say they subscribe. There's nothing surprising about that. The customer's experience in dealing with the supplier is key to success in business. Friendly service, a willingness to understand the customer's needs, communication skills, and empathy do not mean a lack of assertiveness. The ability to say "no" to a customer is worth more than making empty promises that make the customer happy in the short-run and disappointed in the long-run. More than anything, providing high-quality service requires a company's employees to have the right attitude and the highest professional skills. Only workers that are aware and satisfied with their work can guarantee the exceptional level of service

required from a market leader. Having a set of common values that are adhered to in the internal and external operations of a company lets that company meet this challenge. According to its mission, MultiBank intends to create “A friendly business world for demanding retail customers and business people”. BRE Bank declares that, “Our people make us exceptional.” These two banks would not succeed at offering the highest quality customer service if they did not embrace the following values: responsibility, readiness, and engagement.

The examples considered and put forward above clearly show that a company’s declared values can and should be reflected in that company’s products, services, and relations with its environment. Such a combination creates a harmonious whole with corporate culture and is an important factor of competitive advantage.

Leadership by Values

Act like a leader, not a manager.

Jack Welch

The leader is central to the process of establishing fundamental values and translating them into daily functions. During the defining phase, the leader’s role may be based on true leadership or on providing support; however, it should not be neutral because then the process will not even start. Many excellent companies and third sector institutions have a founder or leader to thank for their values. Some examples of organization leaders are: William Hewlett and Dave Packard – founders of HP, Sam Walton – the founder of Wal-Mart, Bill Gates – the co-founder and long-term CEO of Microsoft, Steven Jobs – co-founder and long-term CEO of Apple, J. Willard Marriott – the founder of Marriott, Irena Koźmińska – creator of the ABCXXI Foundation and All of Poland Reads to Kids (in Polish: Cała Polska czyta dzieciom), and Janina Ochojska – founder of Polish Humanitarian Action (in Polish: Polska Akcja Humanitarna).

There are many talented leaders, such as: Jack Welch – the long-term CEO of General Electric, José Maíria Arizmendiarieta – a Franciscan

priest and spiritual leader of Mondragon Corporation, James C. Fargo – the brother of the co-founder and CEO of American Express, Thomas J. Watson – the son of the founder and successor to CEO of IBM, Robert W. Johnson – also the son of the founder and successor to CEO of Johnson & Johnson. They all left their mark on the companies they led – either alone or in teams – by establishing a catalogue of fundamental values, which guide business functions to this day. All of them were extraordinary leaders, not only in terms of effectiveness when it is defined as the achievement of impressive results, but also in terms of style of functioning, culture, and social responsibility.

The core values these companies espouse are recognized as a deciding factor in each company's success over time. Adhering to values for decades hasn't been easy for these companies. Each one had a phase when its values started losing significance, but fortunately, historical memory helped to bring the values back to life. Returning to one's roots protects and rebuilds identity, helping these companies get back on track. Creating a corporate culture based on values requires an immense effort, a capacity to multitask, and persistence over a long period of time. It's impossible to achieve that without a strong leader who is determined to be a role model. Company values are like flowers – if they aren't cultivated, they wither and die.

The rhythm of life of a company brings many changes that touch its products, procedures, operating model or strategy, depending on the time horizon. The leaders of an organization change as well. But it's paramount that values are permanent, that they act as the reference point amidst constant change and at times of uncertainty. Leadership has a special role to play here. A leader should consider preserving and upholding values to be one of their highest priorities to give workers a sense of continuity and security and to give the company the resilience to survive and thrive in the long-term. Unfortunately, sometimes leaders neglect values and don't give them the proper attention because they assume that during times of cut-throat competition, only hard management tools like budgets, unit goals, financial motivation, and discretionary bonuses disbursed according to subjective evaluations, will work. In these cases, the company's value system falls apart very quickly and all of the responsibility for this rests on the leaders and their leadership styles. What follows is usually the awakening of dormant selfish

behaviors, pretending to work, a rat race with its cut-throat, destructive, internal competition, which can lead to desired results because the company becomes a machine for making money that runs on greed at every level of the company. It doesn't last long. Simultaneously, the people who had taken the value system seriously start to leave. These are usually the most talented, the most creative workers with the highest potential. Those who, for various reasons, cannot find an attractive alternative outside of the company, become frustrated and they decrease their level of engagement. They become robots who simply fulfill tasks and vegetate.

New leaders who join companies that are managed by values take on the great responsibility of continuing and enriching a tradition. Problems arise when a new leader tries to leave their mark on the company, at any cost. Unfortunately, this is not rare. These kinds of leaders are just as motivated to erase the traces of earlier leaders, as they are to build their own monuments. There are many narcissistic and neurotic leaders at the highest levels of management in business. The "I can do it better" syndrome leads to the disposal of the company's history, as if it were something backward. Values often fall victim to this kind of attitude, especially since the destruction of values can be rationalized as effective leadership and management. A departure from management by values is very painful – and a return to it is very difficult. In contrast to many other management tools – which are interchangeable – management by values, which invokes a higher level of consciousness, engages employees emotionally and spiritually. If they end up feeling that they have been cheated, rebuilding loyalty is an extremely difficult process.

I have already emphasized that management by values increases the chances of success in business, and it creates a multidimensional nature to business, but it does not have a monopoly over business. In other words, companies that do not embrace a given set of values can also achieve excellent results. However, if a company once practiced management by values and was defined by those values, but later stepped away from them, then it is in danger of a degradation of internal and external relations. It also risks a change in quality of its operations, which can negatively impact results and decrease competitiveness. Over time, this kind of company can compete with similar companies, but it has no chance in competition with leaders

who manage by values. These are the leading companies where cooperation blooms, engagement, responsibility, pursuit of excellence, readiness to help, and the desire to serve the customer are clearly evident. All of these values are rooted in deep motivations, and they enhance competitiveness. These companies do not only achieve excellent financial results, but above all, they excel at the creation of a satisfied team of employees, a satisfied set of clients and shareholders. These companies are seen in a positive light by all other stakeholders, as well.

Management by values starts with good leadership and for better or for worse that is also where it ends.

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