strategy+business

**ONLINE** APRIL 26, 2018

**ORGANIZATIONS & PEOPLE**

# Conversations That Kill Your Culture

Deceptive messages can undermine your enterprise from within. Relabel and reframe them to develop positive narratives.

BY JEFFREY SCHWARTZ AND JOSIE THOMSON

pwc | strategy&

**Jeffrey Schwartz**
*jmschwar@ucla.edu*
is a research psychiatrist at the University of California, Los Angeles, and the author/coauthor of three bestsellers: *Brain Lock* (HarperCollins, 1996), *The Mind and the Brain* (HarperCollins, 2002), and *You Are Not Your Brain* (Avery, 2011). He was the first scholar to identify self-directed neuroplasticity and attention density, terms that he coined, as means of making personal and organizational changes.

**Josie Thomson**
*josie@josiethomson.com*
is an executive coach based in Brisbane, Australia, who has pioneered the use of neuroscience principles in working with business leaders.



**In the early 2000s,** Transpacific Industries (TPI) was on a roll. Its founder, Terry Peabody, had built it from a small coal ash recycling company into the largest Australian waste management enterprise, making about 50 debt-fueled acquisitions along the way, and had become a billionaire in the process. He was a press-shy business leader, nicknamed the "Golden Garbo" for his company's rapid growth, and known for his idiosyncratic strategies. TPI's expansion culminated in 2007 with the purchase of a waste management business called Cleanaway for A$1.25 billion (about US$1.1 billion) — an extraordinary amount for that industry in that region.

Then came the global financial crisis. The bottom fell out of the industrial waste removal business, one of Transpacific's most vital sources of profit. The share price, which had been A$9.96 (US$8.96) in mid-2007, fell below A$1 (US$.90), and TPI received an A$800 million (US$648 million) bailout from the private equity fund Warburg Pincus. After Peabody retired in 2010, the company went through three chief executives in rapid succession. It fell so close to bankruptcy that in 2011, multiple turnaround and restructuring activities were running concurrently.

In this context, the board of directors approved the recruiting of an outside turnaround specialist named Keith Bailey as general manager of one of TPI's troubled divisions. "I was told, 'Here are the keys. You're on your own,'" he later recalled. "My directive was: Find out the problems, fix them quick, get the business back to profitability, and position it for divestment within nine months."

Rescuing any part of Transpacific was an enormous challenge. As an article

The biggest problem in the company may well have been the deceptive organizational messages that were embedded in its culture.

in the Brisbane *Courier Mail* put it, the company had "so much debt it almost fell over." TPI had landfills that were running out of room, overdue compliance costs related to new environmental regulations, and a reputation for operational waste and inconsistency. Its internal division leaders barely communicated, and they often worked at cross-purposes.

But the biggest problem in the company may well have been the stories it told itself: deceptive organizational messages that were embedded in its culture and repeated constantly throughout the enterprise. During the high-flying years, the messages had been exuberant and confident: *We're extraordinary. The rules don't apply to us.* Now, they were black: *No one can save this company. There's going to be a bloodbath. It's everyone's fault but mine.*

None of those messages turned out to be accurate. But the darker ones would have dominated decision making at Transpacific, and led it to further decline, if Bailey and his fellow leaders in the turnaround had not addressed them directly. During his two years as general manager, Bailey held repeated meetings in which he brought these covert assumptions to the surface. In effect, he shone a light on the invisible rumination of the firm's culture, relabeling this culture as collective mental habits that people happened to hold at this company, not as aspects of reality. And once he had relabeled them that way, people could reframe their situation, choosing a set of more optimistic mental constructs that would move them further along: *However bad this situation is, we can fix it if we don't fight.*

This new approach made all the difference. Bailey had tapped into the way people can build and manage their own cognitive habits. The division he oversaw was back to breakeven after nine months and profitable within a year. It was sold as a going concern in the 18th month. This preserved shareholder wealth, and most of the related jobs. Transpacific Industries has had its ups and downs since then, but it continues to operate profitably under the name of its former acquisition, Cleanaway; the company won the Turnaround of the Year award in 2016 from the Australasian branch of the Turnaround Management Association (a global group of professionals in Bailey's field).

## The Nature of Deceptive Messages

Many companies have the same cultural issue: a constant flow of inaccurate but persuasive messages that take the enterprise in dispiriting, self-defeating directions. Indeed, when business leaders complain about their culture, they're usually complaining about these corporate cognitive distortions. It's as if people throughout the company are deceiving themselves and their colleagues about the business and its potential.

These deceptive organizational messages are unexamined, taken for granted, and strengthened through everyday conversation. When a leader says about a proposed idea, "We tried that in the past and it didn't work," an implicit consensus often follows: *Nothing like that will ever work.* People treat this message as an unquestionable axiom, assume that others believe it, repeat it up and down the enterprise, and avoid any action that would contradict it. There's generally a pattern of deceptive messages when organizations cover up sexual harassment: *That's not the kind of company we are. Therefore, this must be an isolated case.* Or, *There must be something wrong with the accuser.*

Deceptive organizational messages are larger-scale analogs to the deceptive brain messages that most people have experienced as individuals. These are the thousands of thoughts, impulses, urges, and desires embedded in habitual brain activity. They too are often false or inaccurate, and they tend to distract or dissuade people from important goals and intentions, but they seem so natural that they are regarded as real and irresistible. When you experience a recurring rumination of this sort — *I always screw up*, or, *Nobody appreciates me*; or, conversely, *I'm so special I can get away with anything*, or, *Everyone else sees things the same*

Habitual thoughts and feelings become stronger, and easier to repeat, over time. They also affect the way you pay attention to the world.

*way I do* — you are experiencing a signal generated by nothing more perceptive than the habitual churn of your brain circuits.

The phenomenon of neuroplasticity — the fact that recurring mental activity tends to strengthen the brain circuits related to it — gives these deceptive messages their power. Habitual thoughts and feelings become stronger, and easier to repeat, over time. They also affect the way you pay attention to the world, making you more likely to notice the events and phenomena that reinforce those thoughts. If repeated enough, messages like these become a consistent way of making sense of the world.

By the time we become adults, most of us learn to resist our own deceptive brain messages somewhat. We recognize that we must step outside our comfort zone to learn and achieve new things. But even resistance carries a cost. As Stanford University psychologist James Gross has noted, the act of ignoring or suppressing deceptive brain messages results in a higher level of stress for individuals. For some, this leads to problematic conditions such as obsessive-compulsive disorder and some forms of addiction and depression. And in companies, it leads to unexamined, counter-strategic behavior grounded in assumptions and beliefs that no one particularly likes, but that nobody can seem to discard. In that context, the task of a strategic leader is to do what Bailey did: relabel those messages (becoming aware that they're simply messages, not reality), reframe them (substituting new, more wholesome, and more accurate messages), and refocus leaders' attention, again and again, on the new and more accurate messages until they, too, become second nature and part of the culture.

This difficult task is made a little bit easier because many deceptive organizational messages are prevalent in multiple organizations. Below are four of the most common categories.

### 1. Misperceptions of Risk

"Again and again," wrote economists Carmen Reinhart and Kenneth Rogoff, "countries, banks, individuals, and firms take on excessive debt in good times without enough awareness of the risks that will follow when the inevitable recession hits." The title of their book, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton University Press, 2009), was a reference to the deceptive message voiced during the buildup to the financial crisis of 2008, and before similar crises throughout history: "We are doing things better, we are smarter, we have learned from past mistakes," wrote Reinhart and Rogoff, paraphrasing mistaken assessments of risk. "The old rules of valuation no longer apply."

Overconfident exceptionalism of this sort, in which executives underestimate the riskiness of their activity, has led many companies into complacency, and then to failure. *We don't have to worry about losing customers*, executives say when faced with an upstart competitor. *They have nowhere else to go.* Sometimes this type of deceptive message arises around a narcissistically heroic leader. *Our CEO takes chances and always comes out on top.* If the exceptionalism extends to the entire company, then managers get into the habit of overstepping boundaries or fudging numbers, growing bolder and bolder until the risks catch up with them.

The flip side of overconfident exceptionalism is excessive risk aversion. This can be equally debilitating, especially when it becomes a way of life. *We must prevent — or at least prepare for — every possible failure.* Excessive risk aversion often takes the form of accumulating as much support for a decision as possible before granting approval. *It looks OK to me, but we can't take any chances. You'd better ask these other two people as well.* It can also show up as "analysis paralysis" — refusal to move forward without considering every possibility in detail. As a result, decision makers shut down entrepreneurial decisions and forgo valuable opportunities — including the opportunity to learn from risky situations and build up their own capacity for judgment. Excessively risk-averse companies

# Though the skill of risk assessment is fundamental to strategy, it is difficult to develop in the face of deceptive organizational messages.

unintentionally take the greatest risk of all: being left behind because of the time spent in collective rumination.

As they did at Transpacific Industries, these two deceptive messages can coexist. Underlying them both is the perception that the decision maker's comfort level is an accurate indicator of risk. In reality, comfort levels are problematic indicators: They are derived from past experience with success (which might not continue) or painful failure (which need not happen again). Though the skill of risk assessment is fundamental to strategy, it is difficult to develop in the face of these deceptive organizational messages, especially when they aren't recognized as such.

## 2. Misperceptions of Value

Deceptive messages involving value provide a misleading idea of the potential worth of current endeavors. Often, these misperceptions are manifested as perfectionism, or all-or-nothing thinking: *It should be completely flawless, or it won't have any value.* A functional team might decide not to propose an interesting idea because they fear it isn't good enough. A research group might second-guess an innovation, drag it down with extra features, and delay it until it's eclipsed by rival offerings. A supervisor, considering promotions for the staff, might oscillate between extremes — treating a direct report as a star one year, but deeming that person a total screwup the next.

The opposite of all-or-nothing thinking is "ticking the box": accepting sub-optimal work, as long as it complies with specifications. *It's close enough for* *government work* is a deceptive message of this sort. This type of message leads people to under-promise so that they can under-deliver without penalty, to dismiss improvement efforts as not worth the cost, and to look the other way when their colleagues cut corners.

Misperceptions of value often reflect a perspective that Stanford psychologist Carol Dweck calls the fixed mind-set. If everyone's basic worth is fixed in place by the time they come of age, limited by the talent, intelligence, and circumstances they have inherited or acquired as children, then static judgments of value make sense. As Dweck points out, a more accurate view is the "growth mind-set," or the idea that people can change habits, transcend limits, and expand their capabilities throughout their lives. Indeed, people continually do this through self-directed neuroplasticity. They focus their attention, over and over, in a way that builds new habits by etching new neural pathways in the brain. If you believe in the growth mind-set, then neither all-or-nothing perfectionism nor "ticking the box" makes sense; instead, you regard human activity as an investment worth making if it will lead to genuine learning and consistently improved results.

### 3. Misperceptions of Proficiency

How capable are you and your company of influencing others and getting things done? Your answer reveals an attitude that psychologist Albert Bandura termed self-efficacy, that is, confidence in one's own ability to succeed. People with unrealistically high self-efficacy assume they will prevail at difficult tasks, even if they lack the proficiency to do so. People with excessively low self-efficacy are likely to give up, even when they could actually succeed. Deceptive organizational messages can carry either misperception.

In organizations, low self-efficacy is manifested as entrenched insecurity. Entire groups internalize the idea *We are not effective now, and we never will be.* This misperception often involves the cognitive distortion called "discounting the positive." Any good attributed to your company or your work must be false.

Consider the story of Lauren and Majid, two regional managers at an artisanal food company. (Their identities are disguised by request, but the details are real.) Lauren, the product manager for the region, had looked forward to

> Excessively high self-efficacy tends to take the form of "mind reading," or projecting your attitudes onto others, assuming that they share your opinion.

a blossoming career — until Majid questioned a decision that she had made to postpone expansion to a new location. Instead of checking with Lauren, he took his questions back to headquarters, which intervened by taking Lauren's side. But Lauren didn't interpret this as a victory; she felt that the fact that Majid went around her was itself a sign of failure. After the incident, both felt they would never be fully accepted, Lauren because of her gender and Majid because of his background as a foreign national. Meanwhile, their bosses had seen both of them as high-potential managers — until it began to seem like they couldn't work well together.

The flip side, excessively high self-efficacy, tends to take the form of "mind reading," or projecting your own attitudes onto others, assuming that they share your opinion about yourself and the situation, and acting on that assumption. *Everybody wants this deal just as much as I do.* This type of deceptive messaging shows up in complex technologies, when the engineers discount the novices' complaints. *When they get used to this user interface, they'll appreciate the many features we've given them.* In other companies, mind reading leads to underestimating customer concerns, for example, about privacy or security. *Of course they trust us.* Mind reading is also present in many cases of workplace sexual harassment or other inappropriate behavior. *When people say no to me, they don't really mean it.*

#### 4. Misperceptions of Validity

Misperceptions of validity lead us to believe that something is true because of the way it feels, or because of the pure logic underlying it, but not both. It is often a cognitive distortion to split reason from emotion; the most effective, long-lasting decisions bring together the two types of validity.

Messages with the cognitive distortion called "emotional reasoning" suggest that if you and your colleagues have the sensation that something is true, it must be true. *We feel good about this; therefore, we expect no problems.* Or, conversely, *It doesn't feel right; there is a problem here.* When you base the logic of a decision on how it makes you and your colleagues feel, you may be led astray. This pattern often affects deals, because people tend to evaluate investments with their emotional impression of past transactions. *We were stung by our last deal in this region. Never again.*

Emotional reasoning often leads to self-fulfilling prophecies. For example, if your company is acquired, you may recall a similar experience from the past. *This is just what happened when that other company laid me off.* Whether or not you are actually marked for dismissal this time, you feel the same mistrust, fear, and lack of commitment that you would feel if you were. Naturally, you are self-conscious, stiff, and resentful, thereby making leaders more likely to ask you to depart.

The flip side of emotional reasoning is rigid rationalism: *We came to this decision logically, so there will be no disagreement with it.* This is the misperception underlying the "economic rationalism fallacy," or the idea that a rationally defensible outcome will automatically be persuasive. *Everyone supports this downsizing because they have heard the rationale; they know it will make us a higher-performance company.* The layoffs may be necessary and justified, but they will not necessarily spark the emotions you think they will, any more than people have proven to be purely rational actors in economic situations.

## Relabeling Deceptive Messages

The first step in dealing with deceptive organizational messages — or deceptive messages of any sort — is to recognize them for what they are. We call this step relabeling rather than labeling because deceptive organizational messages already have an implicit label: "the way things are." As a business leader, you raise collective awareness of them, under the new label of artifacts. *These messages are*

# By abandoning the automatic assumption that deceptive messages are accurate, you assert the agency of the mind.

*not reality. They don't represent us. They are simply things we tell ourselves, and the more clearly we see them as such, the more capable we are of changing them.*

The simple act of relabeling may not seem like much in itself, but it is, in fact, one of the most powerful things you can do as a leader. By abandoning the automatic assumption that deceptive messages are accurate, you assert the agency of the mind. This helps you and others in your organization detach from the automatic churn of messages supporting expedience and short-term solutions, and move closer to more executive function, broader aspirations, and greater long-term awareness. (See "The Neuroscience of Strategic Leadership," by Jeffrey Schwartz, Josie Thomson, and Art Kleiner, *s+b*, December 5, 2016.)

Inquiry, not preachiness, is the key to effective relabeling. Don't say, "This message is wrong," or, "Why do we even believe this?" Instead, engage in open-ended inquiry, for example, "How did this message become part of our way of life? What problem were we trying to solve?" If no one has questioned the concept, the strategy, or the approach in years, simply asking questions like this will make it clear that these are not unchangeable precepts. They're ideas and practices that were adopted in the past, and that can be reconsidered, once they are recognized for what they are.

## Reframing the Message

Keith Bailey's turnaround of Transpacific Industries went beyond raising awareness of existing deceptive messages. It also involved reframing, that is, replacing the old messages with a new conception of the company's potential value.

Late in 2011, on the second day of his assignment, Bailey brought together the top 14 managers of his division. Seven were in a conference room, and the other seven dialed in from far-flung cities. He summarized his thinking on a mind-map document, a single schematic page laying out all elements of the turnaround strategy in graphic form.

The map was simple and clear enough to be shared with everyone in the company, from the senior-most levels to the factory staff. It provided the context for a new narrative: *Yes, these problems are serious, but we are capable of fixing them ourselves, if we overcome our internal difficulties and change our practices.* During the next two years, Bailey said, the company would need to undertake many painful measures, including huge cuts in staff and other unnecessary costs, to "stop the bleeding." It would also need major operational changes, applying the "lean thinking" approach that had helped many companies instill quality practices at lower cost. Finally, it would divest some major underutilized assets, in a way that allowed those assets to survive — and maybe do better — in other companies that were better suited to managing them.

Though the holidays were approaching, Bailey insisted they start executing the new approach right away. "I had three weeks to do site audits, meet all the key managers, and conduct the high-level assessment before most sites closed for three weeks," he recalled. "I could not wait until they came back in January." When he asked for their reactions and input, most people were skeptical, and he understood why. "I had not met any of these managers before. I was new. There was low trust and high personal stress. Corporate management could shut down the business any day."

During the first two months of the following calendar year, Bailey followed up with a series of in-depth meetings and training sessions in all eight of the company's main office locations. He reassured people that the pervasive rumors of a "bloodbath" were not accurate, and acknowledged that their ability to come up with new ideas had been impaired by the emotional impact of the past year, including the natural drive for self-preservation, which had led many of them to blame others.

For one pivotal training session with about 30 functional leaders and key managers from all eight sites, Bailey asked participants to prepare in advance

## Reframing can bring a group from ambiguity and conflict to a sense of shared purpose.

short talks about what they personally wanted their businesses to achieve. After the discussion ended, he passed around a statement of his own position and objectives, which he had typed up the day before. "It turned out to be very aligned to what they had just said," he explained. "It blew them away."

They had all believed the deceptive organizational message that they were in competition. Now there was a reframing: *We're in this together.* "We then went into a formal review process," Bailey said. "I asked them to identify the waste and key failure points within their processes that prevented products being delivered profitably and on time, and how they and their teams could address them. Everyone contributed." Within five hours, they had identified more than 130 problems and agreed on the seven that needed to be fixed first. They also agreed on who would drive the corrective actions, with a support team nominated for each. These were all broad common issues that had affected most or all of the eight sites. This reframing brought the group from ambiguity and conflict to a sense of shared purpose.

An equally powerful case of reframing occurred at the food company with Lauren and Majid. Lauren screwed up her courage and asked Majid to have lunch with her, just the two of them. This wasn't easy, and when they met, speaking openly about her concerns was even harder. "Majid," she said gently and without rancor, "we have a problem between us, and it's affecting everyone on our team."

Majid, to her surprise, opened up as well. He said he was just as concerned; rather than wishing to undermine her, he had been trying to protect himself.

Now they recognized that their success depended on each other. They didn't have to trust each other completely, but they did have to reach out to each other with a problem before escalating it to headquarters.

As Lauren and Majid talked more frequently, they found new ways to collaborate on expanding the business in their region. Each began to regard the other as someone to rely on. Instead of believing deceptive messages that they were at risk of being marginalized, the two of them now put forth a message: *Together, we know how to grow the enterprise.*

Your ability to act as a transformative leader — a catalyst for farsighted action in the organization around you — depends on your continued practice with relabeling and reframing deceptive organizational messages. When you relabel them, identifying them as problems rather than accepting them, you are no longer bound by forces you cannot see. When you reframe them, crafting new messages that take you in the right direction, you trigger higher-level patterns of behavior in the mind, reinforced by similar habits in the brain. Eventually, the messages that people ruminate on in your company — as individuals and as a group — are no longer nearly as deceptive. People understand those messages as not just a way of perceiving reality, but a choice to perceive reality in a more accurate and constructive manner. +

**strategy+business** magazine
is published by certain member firms
of the PwC network.
To subscribe, visit strategy-business.com
or call 1-855-869-4862.

- strategy-business.com
- facebook.com/strategybusiness
- linkedin.com/company/strategy-business
- twitter.com/stratandbiz



pwc | strategy&