2016

The HOW Report®

A Global, Empirical Analysis of How Governance, Culture and Leadership Impact Performance

HOW Metrics®: New Metrics for a New Reality – Rethinking the Source of Resiliency, Innovation, and Growth

LRN® *Inspiring Principled Performance®*

Contents

3 A Message from Dov Seidman
5 A Reshaped Organization for a Reshaped World
6 The Three Archetypes of Governance, Culture, and Leadership
8 The Governance, Culture, and Leadership Framework℠
10 The HOW Report® | 2016 Major Findings
12 The Self-Governing Organization: A Human Operating System℠
14 The Essential Roles of Character and Trust
16 Why Self-Governing Organizations Win
18 Strengthening Character to Build Critical Capacities
20 The Key to Innovation: Trust
22 Beyond Employee Engagement: Inspired Employees
24 From Disconnected to Super-Engaged
26 The Role of Leaders: Shaping Self-Governing Organizations
28 Dissecting the Leadership Disconnect
30 The Journey to Self-Governance
32 Methodology
34 Appendices
36 Demographic Information

Please visit **LRN.com/HowMetrics** to learn more.

> “We can’t solve problems by using the same kind of thinking we used when we created them.”
>
> Albert Einstein

“The world is not just rapidly changing; it is being dramatically reshaped – it operates differently.”

A Message from Dov Seidman

We launched the first edition of The HOW Report® in 2012 to test an idea that, at the time, we knew to be philosophically true but hadn't yet been rigorously and empirically validated at scale: that values-inspired organizations do, in fact, outperform. We were convinced that a shift had taken place in business and the traditional ingredients of performance — such as a supportive board of directors, a strong executive team, clearly articulated corporate strategies, differentiated product or service portfolios, elaborate control processes, and highly refined incentive structures — were no longer sufficient for business success. Not only did we prove that you can *outbehave* the competition, we also demonstrated that organizations with one form of governance, culture, and leadership stood out above the rest. Self-Governing Organizations are purpose-inspired, values-based, led with moral authority — and outperform all the others.

The world is not just rapidly changing, it is being dramatically reshaped — it operates differently. We've gone from an Industrial Economy (where we hired hands), to a Knowledge Economy (where we hired heads), to what is now a Human Economy (where we hire hearts). When machines can out-process, outperform, and even outthink us, it is the things machines cannot do — the things that come from the heart — that are uniquely valuable and can never be automated or commoditized.

But it is one thing to proclaim human values, yet another to scale them. To do anything at scale we need a system. When Microsoft Word was challenging WordPerfect, the genius of Bill Gates was to build the Windows Operating System so that applications like Word, Excel, PowerPoint, and Outlook could work together. By analogy, in the Human Economy the applications we need are elevated behaviors — courage, compassion, and creativity — and businesses must build an operating system that can run them. We call this a Human Operating System.

A Human Operating System℠ is one in which strong moral character lies at the core. It is a system in which governance that maximizes short-term, commercial interests and only measures how much business gets done is replaced with governance that embraces responsibility to society, long-term goals, and also measures *how* business gets done. It is a system in which a culture of carrots and sticks, applied against rules and policies that drive what people can and can't do, is replaced with a culture of shared values and principles that guide what people should and should not do. It is a system in which top-down, formal authority gives way to leaders who create context for long-term thinking, trust people with the truth, and make themselves small so that others can do big things.

Over the past four years, we have continued to deepen our understanding of what makes Self-Governing Organizations so effective and how to best measure behavior within organizations. These new insights serve as the backbone of the 2016 edition of this report, which I am pleased to introduce here.

We continue to be inspired by the potential these ideas have to meet the unique challenges and opportunities of our reshaped world, and it is our sincere hope that the 2016 edition of The HOW Report® will help leaders take more certain and powerful steps on their respective journeys towards success and significance.

Dov Seidman
Founder and CEO, LRN
Author, *How: Why HOW We Do Anything Means Everything*

The **2016** edition of **The HOW Report®** is based on comprehensive data collected from more than **16,000 employees** in **17 countries.** It offers a unique view of organizational and individual behavior and how they impact performance.

A Reshaped Organization for a Reshaped World

Our world has been profoundly reshaped in recent years, driven by technological advances that outpace all comprehension. Today's world is one of no distance. Every actor in the global economy — from individual to multinational corporation to government — is more connected than ever, capable of making decisions and taking actions that could affect people and events around the globe. It is a world in which the moral imagination is activated — where a single employee can threaten a century-old brand's reputation in the time it takes to compose a social media post and where a management team will inevitably be challenged to articulate its point of view on the issues of the day. It is one in which the next crisis hasn't even been imagined, and organizations will be required to rethink fundamentals such as the nature of capitalism and the relationship of their organization to society and to the natural world.

This constantly shifting landscape represents peril and opportunity in equal measure, creating a set of 21st century challenges for leaders and their organizations. Is their approach to governance fit for an ever-flattening world? Is their organizational culture suited for unprecedented levels of transparency? Is management capable of inspiring an overtaxed workforce to contribute their full character and creativity? Are they prepared for a world where competitive advantage will be defined not only by skills and knowledge but by heart and character?

Put more directly: are the worldviews, frameworks, and tools that leaders use to chart their course sufficient to compete, today and tomorrow?

At LRN, we believe the answer to all these questions is "No." Our conclusion is supported by results from one of the most ambitious, long-term research projects in the fields of organizational effectiveness, behavior, and leadership. That same research — the latest edition of which is described in this report — suggests a clear road map for how organizations can simultaneously build resilience and deliver growth in today's global economy. In fact, four years ago, in our first edition of The HOW Report, we identified three organizational archetypes and hypothesized that one would outperform and that its prevalence would grow in a reshaped world (see Fig. 1). That's exactly what we have found in our latest round of research. Worldwide, the prevalence of this ideal archetype — which we refer to as Self-Governance — increased to 8% from 3% in our initial research of 2012 (see Fig. 2).

So what do Self-Governing Organizations look like? And what must leaders do to build and nurture them? That is the subject of this report.

Today's opportunities and challenges increasingly require a different, and decidedly more human, set of capacities. We are entering an era of elevated behavior, in which every message and interaction is recognized to be a manifestation of what we believe and what we value. Against this daunting but exciting backdrop, companies cannot win without inspiring foundational qualities of passion, courage, resilience, and empathy. Fostering an environment in which individuals naturally think and act with the greater good in mind is not only the responsibility of management, it's a paramount obligation.

Over the past two decades, LRN has designed a road map for leaders who are seeking to meet this obligation. Our work is based on a philosophy that we call HOW® and the idea that competitive advantage lies not in what you do, but how you do it. This philosophy compels us to bring our focus on what individuals and organizations *should* do and not just on what they *can* do. Building on the HOW® philosophy, we have created a comprehensive set of frameworks for understanding organizations, which we have tested with hundreds of partners and clients around the world. These frameworks, in turn, have enabled us to develop an array of analytical tools for measuring behavior and its impact on performance and to pave a path toward change and progress.

LRN's work finds that three systems bear upon and animate individual and organizational behavior: Governance, Culture, and Leadership. Governance refers to formal structures, rules, and policies. Culture refers to how things really work around an organization – norms, traditions, habits, and mindsets. Leadership refers to how power works within an organization, how leaders behave, the source of authority, and how it is exercised. Through this "GCL" lens we have identified and described three dominant archetypes and assessed the impact of each on organizational performance.

The Three Archetypes of Governance, Culture, and Leadership

Blind Obedience

Power-based, task-driven organizations that operate through command-and-control-based principles and policing, and which place little emphasis on building enduring relationships among colleagues, with customers, or within society. Employees are coerced to do as they are told under the threat of punishment or adverse consequences. Such organizations focus on short-term goals.

Informed Acquiescence

Rules-based, process-driven organizations that operate through hierarchy, policy, and 20th century "good management" practices. Employees are motivated by performance-based rewards and expected to fulfill the expectations of their roles. Long-term goals are identified but are often set aside in favor of short-term success.

Self-Governance

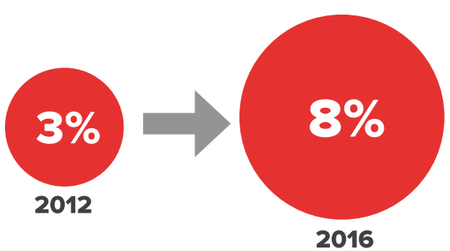
Purpose-inspired, values-based organizations that are led with moral authority and operate with a set of core principles and social imperatives. Employees are inspired by a desire for significance and encouraged to act as leaders regardless of role. Such organizations are focused on long-term legacy and sustainable performance.

> "We identified **three organizational archetypes** and hypothesized that one would outperform and that its prevalence would grow in a reshaped world."

Fig. 1

Self-Governance Is Increasing

Percentage of organizations manifesting Self-Governance



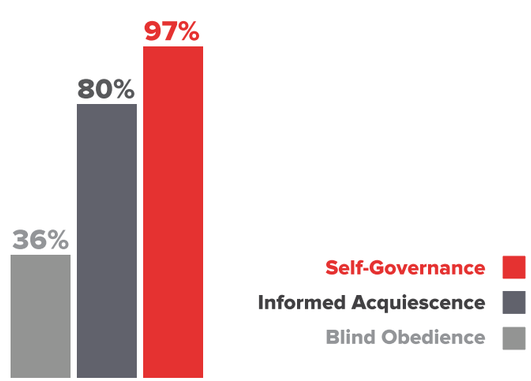
	2012	2016
Self-Governance	3%	8%
Informed Acquiescence	54%	62%
Blind Obedience	43%	30%

Organizations are classified by employee behavior. For a detailed discussion of our methodology, see page 32.

Fig. 2

Self-Governing Organizations Outperform

Percentage of organizations delivering high performance, by archetype

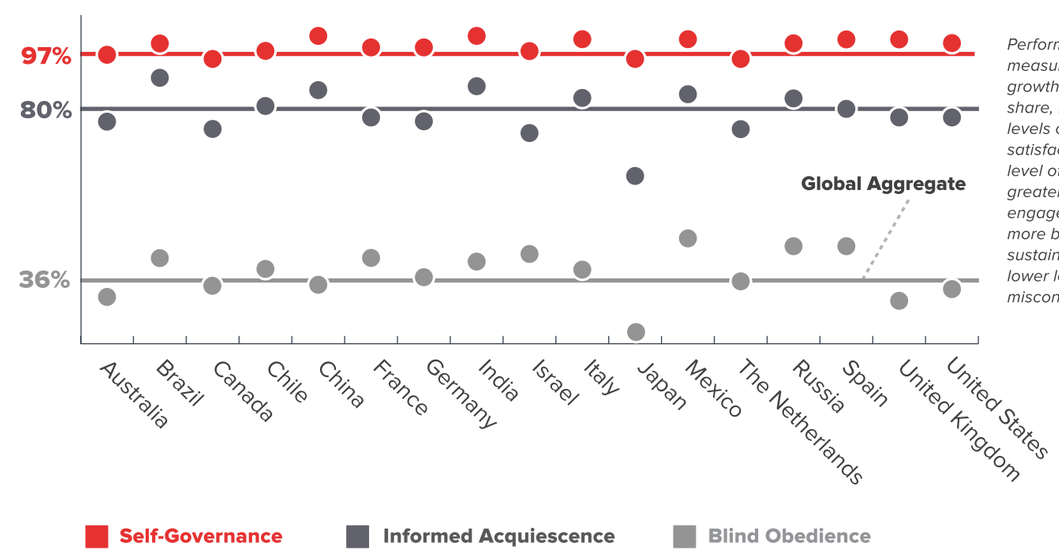


Performance is measured by: growth in market share, higher levels of customer satisfaction and innovation, greater employee engagement, and greater business sustainability. See figure 8 for additional details.

Fig. 3

Findings Hold Around the World

Percentage of organizations delivering high performance by country, across archetypes



Performance is measured by: growth in market share, higher levels of customer satisfaction, higher level of innovation, greater employee engagement, more business sustainability, and lower levels of misconduct.

The Governance, Culture, and Leadership Framework℠

To analyze, assess, and affect organizations, LRN uses a framework that has proven effective around the world. The horizontal axis of this market-tested framework characterizes organizations as one of three archetypes: Self-Governance, Informed Acquiescence, or Blind Obedience. The vertical axis delineates twenty-two dimensions that describe organizational and individual behaviors.

	DIMENSIONS OF CULTURE	ANARCHY	BLIND OBEDIENCE	INFORMED ACQUIESCENCE	SELF-GOVERNANCE
HOW WE KNOW	Use of Information		Hoarding	Need-to-Know Basis	Transparent
HOW WE BEHAVE	Organizational Structure		Silos and Fiefdoms	Division of Expertise and Functions	Integration with High Trust
	Source of Behavior		Autocratic Leadership	Rules Based	Values and Principle Based
	Reason for Behavior		Coercive	Motivated by Individual Self-Interest	Inspired for Greater Good
	Responsibility for Own and Others' Behavior		Central Policing Authority	Individual Organizational Units	Universal Vigilance
	Source of Authority (Who Gets to Decide)		Power Figure — Arbitrary	Power Figure — Consistent with Rules	Individual — Values Based
	Magnitude of Authority		Authority without Recourse	Top-Down Decision-Making	Empowerment and Individual Accountability
	Source of Regulation		Externally Imposed	Voluntarily Adhered to Internal and External	Act on Shared Beliefs
HOW WE RELATE	Roles and Types of Skills		Follower and Worker	Manager	Leader
	Personnel Development		Rote Learning	Training	Education
	Level of Trust		Heavy Inspection and Limited Delegation	Checks and Balances, Contracts	High Trust and Verify
	Rules versus Values		Minimal Adherence — Loopholes	Compliance with Requirements	Guided by What Is Right to Do
	Nature of Relationships (Employees)		Suspicion and Penalty Based	Honorable Work — Pay and Reward	Social Contract — Committed to Growth
	Nature of Relationships (Customers)		Suspicion and Close Monitoring	Price It Fairly and Get Paid in Return	Add Value Beyond Expectation
	Nature of Relationships (Suppliers/Third Parties)		Arm's Length — Transactional	Contractual, Fair, Impartial with Continuity	Mutual Collaboration — Make Each Other Better
HOW WE RECOGNIZE	Rewards and Recognition		Conformity and/or Obedience	Rewards for Personal and Organizational Success	Satisfaction in Achieving Mission and Significance
	Penalties and Discipline		Supervisor Determined — Fear	Established Structures and Procedures	Guilt from Self — Peer Pressure and Sanctions
HOW WE PURSUE	Time Orientation		Short Term	Short-Term and Long-Term Goals	Driven by Legacy and Endurance for the Enterprise
	Mission and Purpose for Existence		Survival — Coerced to Participate	Success-Oriented — Reward for Achievement	Mission, Promise, and Significance
	Determination and Definition of Significance		Significance Not a Concern, Human Doing	Journey of Success	Journey of Significance
	Attention to Regulatory and Legal Requirements		Emphasis on Enforcement	Controlled by Rewards and Penalties	Proactive and Preventive
	Attention to Market and Public Dynamics		Superficial Attention — Game the System	Highly Responsive and Reactionary	Lead and Transcend the Markets

The HOW Report® | 2016 Major Findings

For this report, as in previous years, we used our proprietary analytical methods to measure the work environment, behaviors, and performance of a broad sampling of for-profit, not-for-profit, and governmental organizations across the globe. In total, our assessment is based on comprehensive data collected from more than 16,000 people from organizations on five continents.

1

Self-Governing Organizations are increasing in number.

Over the past three years, the percentage of Self-Governing Organizations has more than doubled, from 3% to 8%. Increases occurred in all regions examined. Moreover, Blind Obedience is in decline, dropping from 43% to 30%. Informed Acquiescence remains the most prevalent organizational archetype at 62%.

2

Self-Governing Organizations outperform across a broad spectrum of key outcomes.

In Self-Governing Organizations, 97% of employees report high performance, versus 80% and 36% of employees in institutions characterized as Informed Acquiescence and Blind Obedience, respectively. This trend holds across financial performance, competitive positioning, levels of innovation, customer satisfaction, risk of misconduct, and brand reputation, among other critical outcomes. Performance is generated by strong character and high trust.

3

Managers who emphasize shaping character and fostering freedom are more effective leaders.

When managers emphasize shaping character and fostering freedom, 96% of employees score them effective leaders — versus 52% when they do not. These managers are also more than three times as likely to deliver high business performance, scoring 85% versus 25% for their peers.

4

There is a deep divide between the experience of working in the C-Suite and operating elsewhere within an organization.

On average, the levels of trust, collaboration, and information-sharing among senior managers and executives are 20 percentage points higher than they are among employees in other levels of an organization. The gap in the experience of the C-Suite and other employees intensifies as individuals work further away from the C-Suite.

5

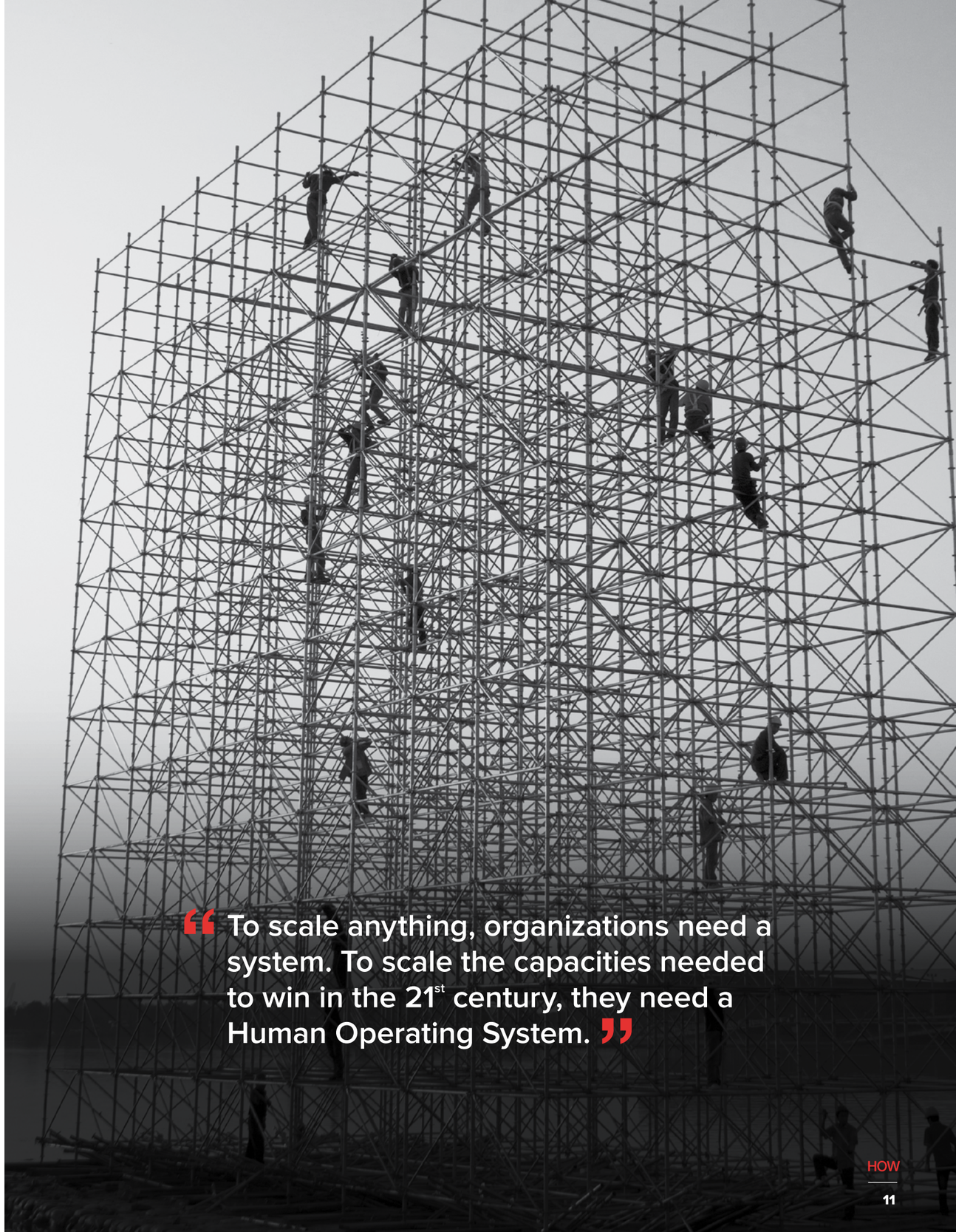
The key enabler of innovation is trust.

High trust organizations experience eleven times greater innovation than low-trust organizations. Trust fuels vulnerability and risk-taking in a way that innovation programs alone cannot.

6

Inspiration has a differential impact on business performance beyond employee engagement.

Inspiration — identified when employees are authentically dedicated, deeply accountable, and fully responsible for their organization — is 27% more predictive of high performance than employee engagement. Inspired employees do not simply recommend their company or exert discretionary effort. Rather, faced with ethical dilemmas, they reason and act from a set of shared values. They meet challenges with creativity and fidelity to purpose while forging sustainable paths to growth with humility, grit, and hope.



> “To scale anything, organizations need a system. To scale the capacities needed to win in the 21st century, they need a Human Operating System.”

The Self-Governing Organization:
A Human Operating System℠

To scale anything, organizations need a system. To scale the capacities needed to win in the 21st century, they need a Human Operating System, that is, an approach to Governance, Culture, and Leadership that prepares companies to thrive in the Human Economy.

In Self-Governing Organizations, strong character and high trust animate elevated behaviors. People look to purpose and values to guide them, are conscious of their impact on others, and act deliberately to do what is right. Short-term or personal concerns are secondary to long-term, organizational aspirations and the needs of customers and society.

Only in Self-Governing Organizations are people consistently inspired to ask tough questions, share resources, and admit mistakes. Resisting temptations to abuse status and holding others accountable to keep them from doing so are standard operating procedures. As a result, employees pursue the biggest challenges, take the boldest risks, and fortify an organization to be resilient over the long term.

The 2016 edition of The HOW Report® demonstrates that all of this can and does happen because Self-Governing Organizations put character and trust at the core of how they operate.

Character

Character — the aggregate of employees' beliefs, attitudes, and actions — is a function of three elements. Self-Governing Organizations are distinguished by the high degree to which these particular elements inform and inspire the majority of employees.

Values
The deepest beliefs that guide and inspire how we relate to and treat others based on shared principles (not interests) that sustain human relationships (e.g., respect, truth, humility, and integrity).

Significance
Pursuing a purpose-inspired mission, having a positive impact on the world, doing the right thing, and emphasizing long-term over short-term success.

Consciousness
Mindfulness and concern for others and the world; acting with empathy, compassion, and caring, and embracing our interdependence.

Trust

Trust is a catalyst that enhances performance, binds people together, and shapes the way they relate to each other. Self-Governing Organizations are characterized by the degree to which employees embrace vulnerability and extend trust to each other.

Behavior

Behavior is animated by the character of an organization and the presence or absence of trust. Self-Governing Organizations are differentiated by the presence of five key enabling behaviors.

Taking Risk
Exploring new ideas or methods — and being willing to fail along the way — to advance the organization and grow personally.

Celebrating
Recognizing and praising others for doing the right thing, and for their character, behaviors, accomplishments, and efforts to make the organization better.

Collaborating
Supporting, coaching, and partnering with others while being open to help and ideas and, if necessary, compromise.

Sharing Information
Communicating transparently, engaging in dialogue, sharing the truth (even when it's difficult), and making job, organizational performance, and other information broadly and readily available.

Speaking Out
Giving honest feedback, challenging majority opinions, and calling out misconduct or actions inconsistent with the organization's values.

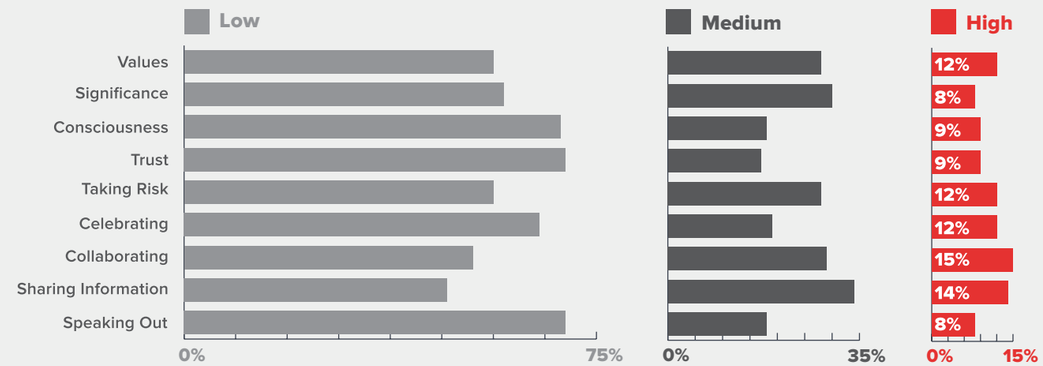
HOW Indices℠

The 20th century adage that "you manage what you measure" remains as valid as ever, and in a hyper-transparent, interdependent world, the choice of what you measure matters more than ever before. LRN has developed a set of indices to help organizations translate traditionally intangible notions into tangible — and therefore — actionable ones. Organizations that make the choice to bring a deliberate focus to HOW they do what they do will be the ones that outperform.

Fig. 4

Most Organizations Score Low on HOW Indices

Percentage of organizations scoring low, medium, and high on the HOW Indices. Organizations are classified as self-governing when they score high across all HOW Indices.

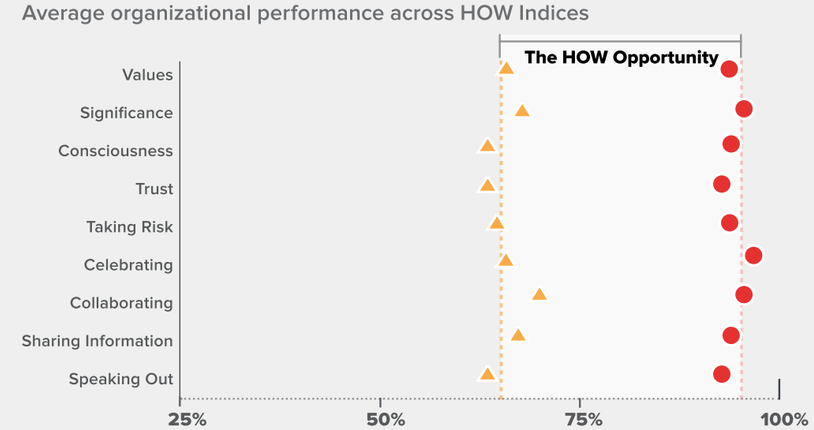


For a detailed discussion of the HOW Indices, see page 32.

Fig. 5

The HOW Opportunity Across Indices

Average organizational performance across HOW Indices



The HOW Opportunity = Performance improvement resulting from a deliberate focus on character, trust, and behavior.

● **Self-Governance**

▲ **Average Company**

Average performance on an index of 0 to 100 for organizations categorized as self-governing versus all other organizations.

The Essential Roles of Character and Trust

Too often organizations come to believe that they can change simple behaviors without taking on the deeper challenges of strengthening character and cultivating trust. Figures 6 and 7 show a critically important dynamic that explains how Self-Governing Organizations outperform. Our data demonstrate that strong, moral character and high trust have a crucial and cascading effect on behavior and, by extension, performance. Character and trust form a core that has an impact on business performance 3.9 times greater than the impact of behaviors alone. Self-Governing Organizations demonstrate significantly higher levels of values, significance, consciousness, and trust — forming a "hotter" core through which to animate behavior and heighten performance.

Fig. 6

Character and Trust Are Fundamental Enablers

Strong character and high trust have 3.9 times the impact on performance outcomes as the key behaviors.

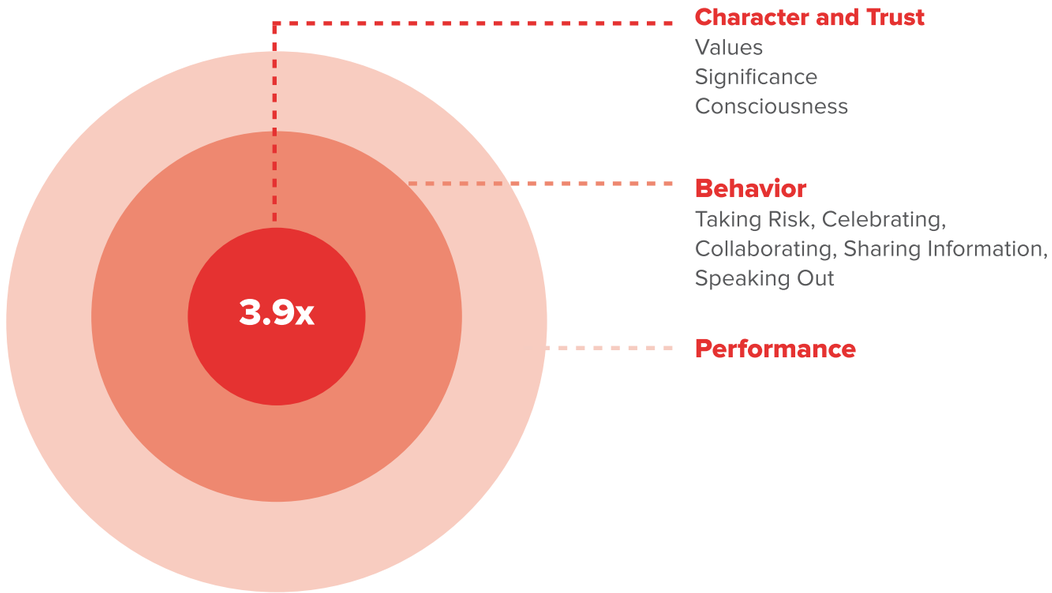


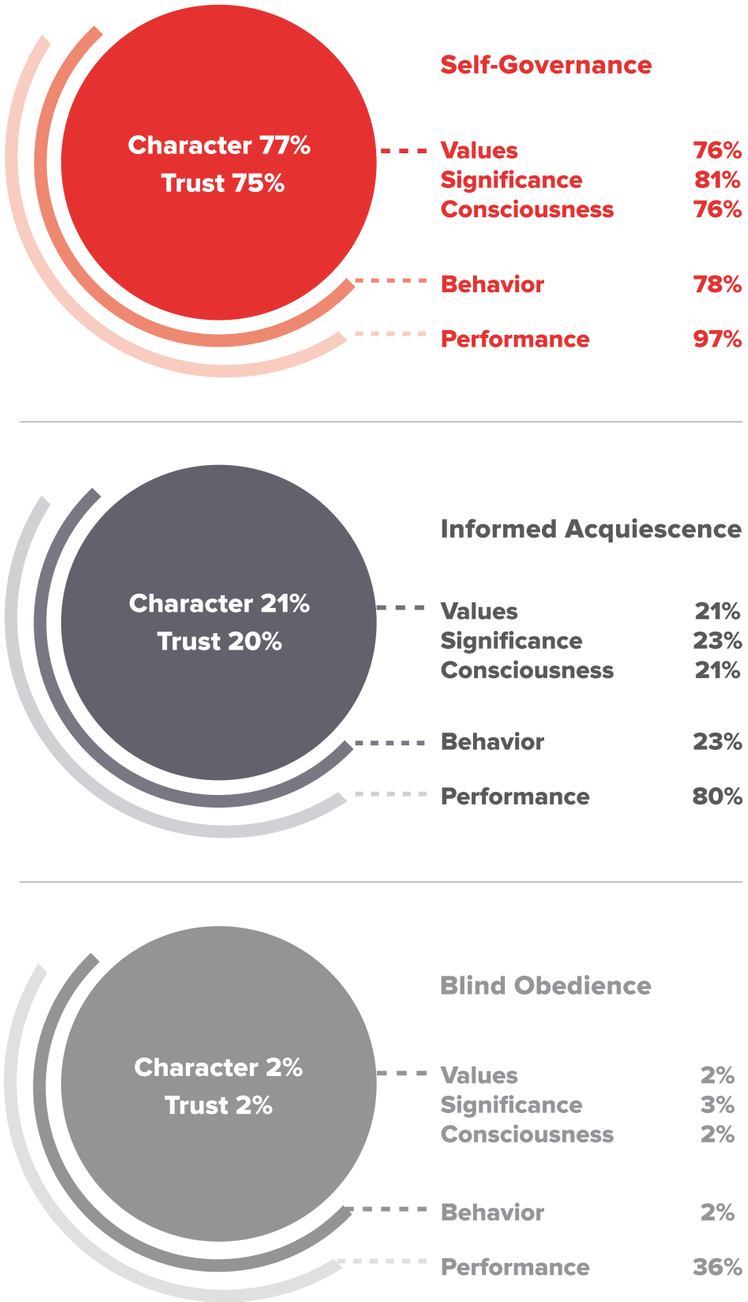
Fig. 7

Self-Governing Organizations Build a Stronger Core

Percentage of organizations scoring high for character, trust, and behavior across archetype

When the core of an organization (character and trust) is weak, as in Blind Obedience and Informed Acquiescence, the prevalence of key behaviors is low and so is performance. But when the core is strong, as in Self-Governing Organizations, employees *outbehave* and as a result outperform the competition.

Organizations are classified by employee behavior. For a detailed discussion of our methodology, see page 32.



Why Self-Governing Organizations Win

Self-Governing Organizations attract people who are inspired to contribute their full character and creativity in pursuit of a shared purpose, and give them the *Freedom To* actualize their full potential. As a result, these organizations outperform by all meaningful measures (see Fig. 8).

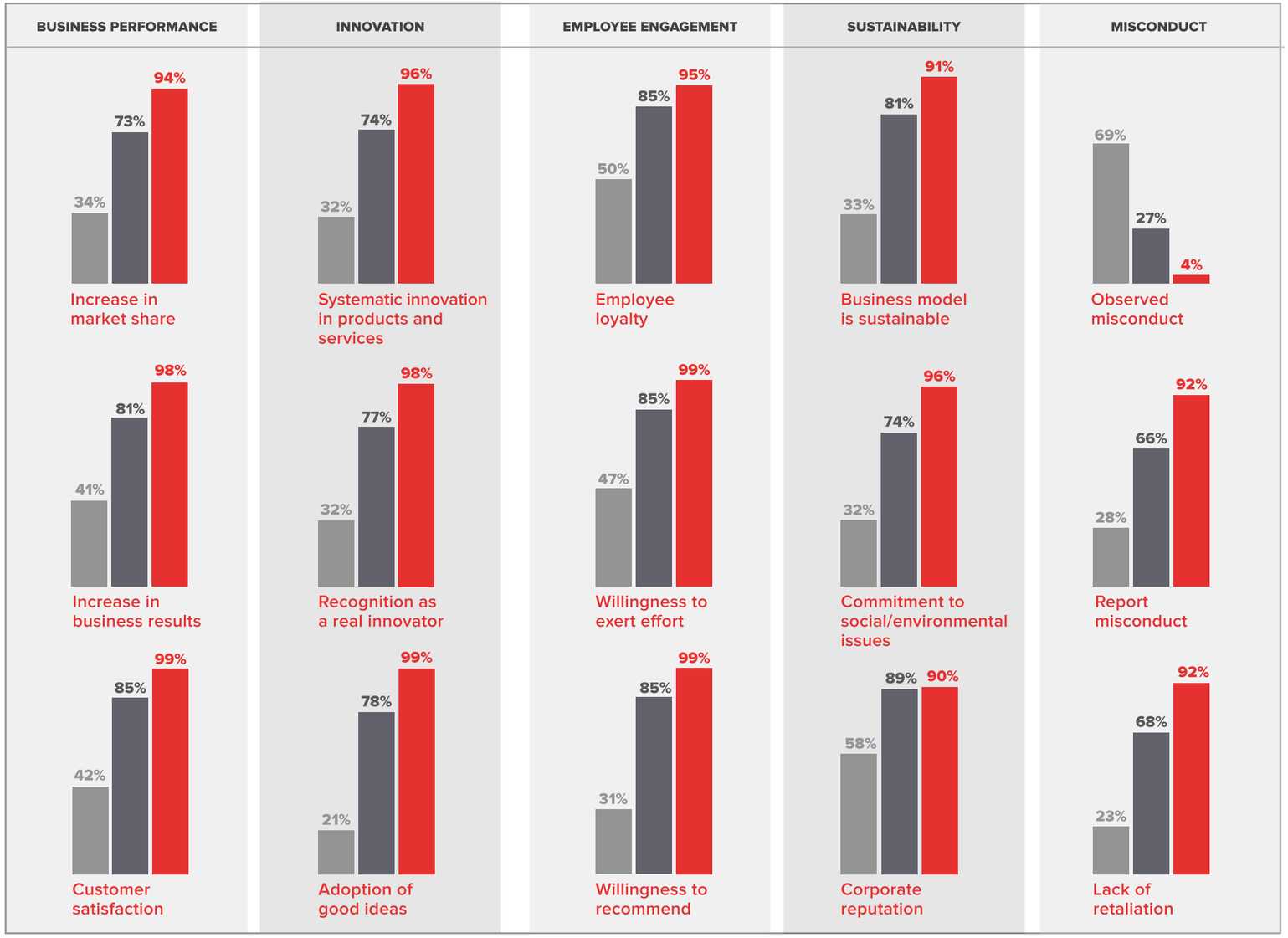
Employees at Self-Governing Organizations operate with less oversight and more agility. They make longer commitments to their organizations. Working collaboratively and transparently, they enable better and more efficient decision making. Embracing accountability and responsibility, they raise concerns and report misconduct. And they engender trust, which allows for the kind of risk-taking and experimentation that spurs innovation.

Ultimately, Self-Governing Organizations create both more *Freedom From* control, hierarchy, and micromanagement, as well as more *Freedom To* disrupt, speak out, and to pursue one's aspirations. Today, information technology and new models of management are creating unprecedented levels of *Freedom From*. Yet, to master *Freedom To*, organizations must foster deep commitment to shared values and purpose, and develop the elevated behaviors (e.g., collaborating, sharing information, speaking out) to effectively resolve tensions between individual and organizational goals.

Fig. 8

Self-Governing Organizations Outperform

Percentage of organizations scoring high, by archetype



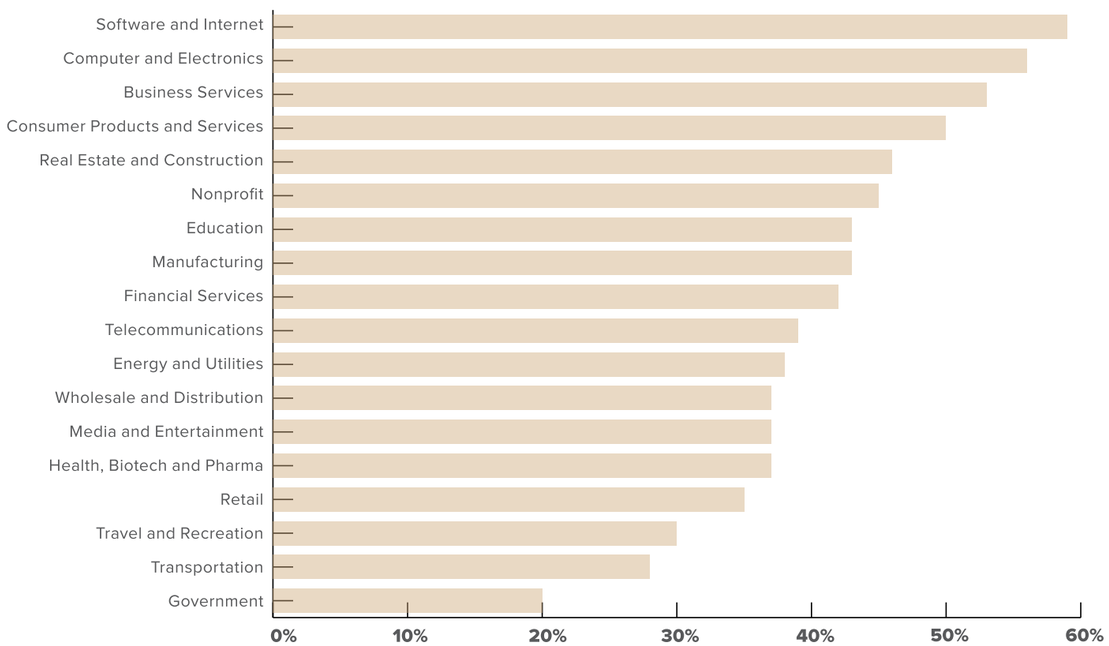
Strengthening Character to Build Critical Capacities

The capacities that will most help an organization to excel — the ability to think for the long term, to foster resilience across operations and within individual employees, to make effective, rapid, and aligned decisions at all levels — require a commitment by an organization to embrace the unique ethic of journeying. This implies keeping an eye on the long-term goals, moving forward even when the path takes a sharp turn, and measuring progress consistently along the way. Our study shows that only organizations with strong character — sustainable values, a purpose-inspired mission, and high consciousness of others — have the fortitude to take the leap, to embark on the journey, and to sustain their energy. These organizations dramatically outperform in terms of long-term orientation, resilience, and decision making (see Fig. 10).

Fig. 9

Strength of Character Varies Across Industries

Percentage of high-scoring organizations

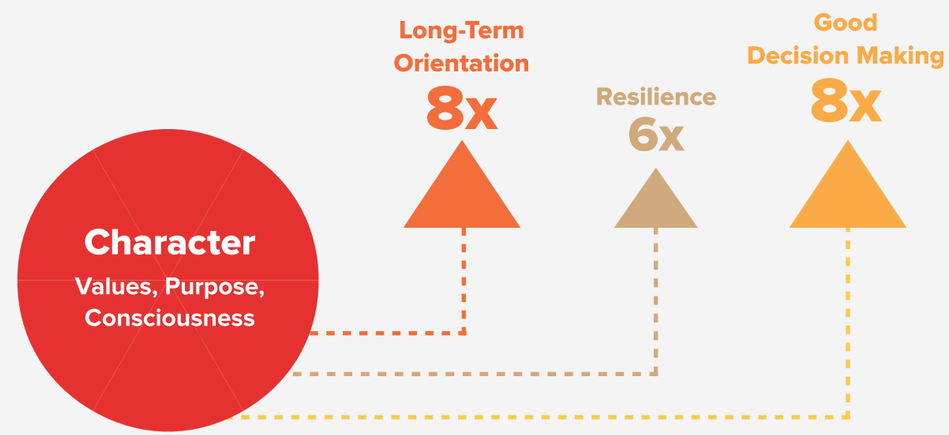


Character is a function of three factors: values, significance, and consciousness.
For a detailed discussion of our methodology, see page 32.

Fig. 10

The Strengths of Character

Impact of Character on Long-Term Orientation, Resilience, and Good Decision Making



Numbers in graph indicates the difference in performance between organizations scoring high and low in character.

Long-Term Orientation
The extent to which an organization is animated by long-term rather than only short-term goals.

Resilience
The extent to which an organization can respond effectively to unexpected and dramatic changes.

Good Decision Making
The extent to which an organization makes effective, rapid, and aligned decisions at all levels.

The Key to Innovation: Trust

Businesses, organizations, and governments around the world are constantly launching innovation programs — and yet innovation remains the most elusive of achievements. The reason for this is as clear cut as it is profound: a dearth of trust.

High trust allows for risk-taking, which fosters innovation, which is the key driver of performance. We call this dynamic: T.R.I.P.®

Aristotle long ago taught us that trust manifests when you give it away — that is, when you relinquish to others the power to let you down. Most companies today focus on conditional trust — deciding who is trustworthy and deserving of opportunity — rather than the extension of trust across the organization.

Our research shows that employees who work in high-trust environments are thirty-two times more likely to take risks that might benefit the company, eleven times more likely to see higher levels of innovation relative to their competition, and six times more likely to achieve higher levels of performance compared with others in their industry.

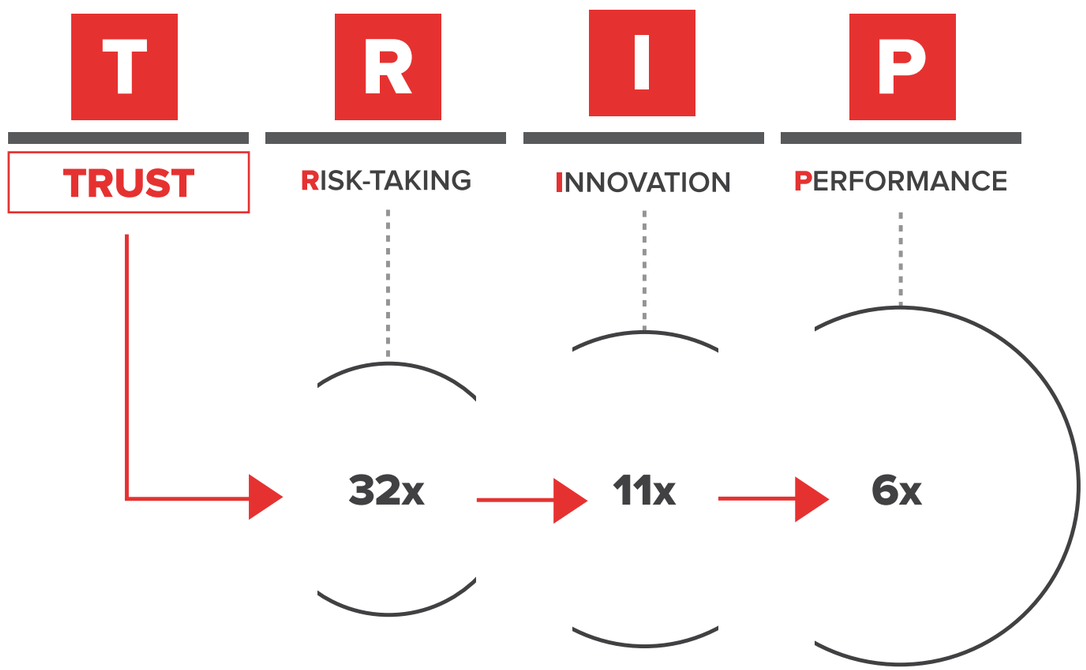


Fig. 11

Most Organizations Score Low on Trust

Percentage of organizations

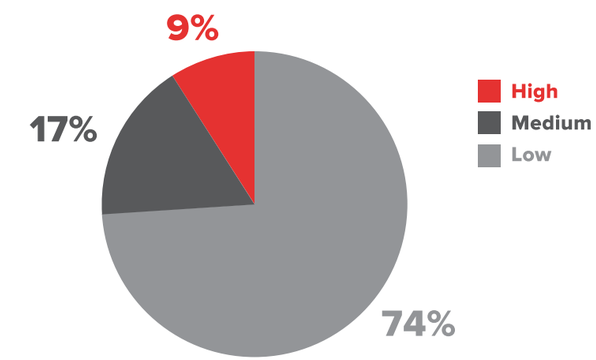
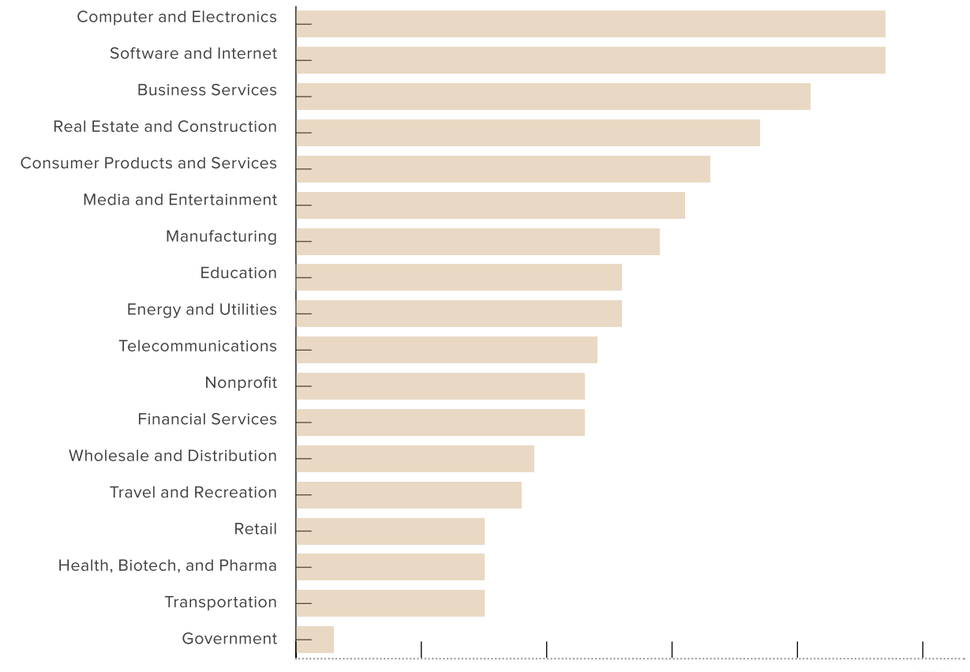


Fig. 12

Level of Trust Varies Across Industries

Percentage of high-scoring organizations



For a detailed discussion of our methodology, see page 32.

Beyond Employee Engagement: Inspired Employees

People who work in Self-Governing Organizations are far more engaged than those in other organizations — 99% would recommend working for their employer, versus 85% and 31% at Informed Acquiescence and Blind Obedience Organizations, respectively. We have learned that attracting and developing employees who are fully "inspired" is more important than engagement. Indeed, companies that only measure employee engagement are focusing on the wrong metric. Our study shows that the presence of fully inspired employees is a better predictor of performance.

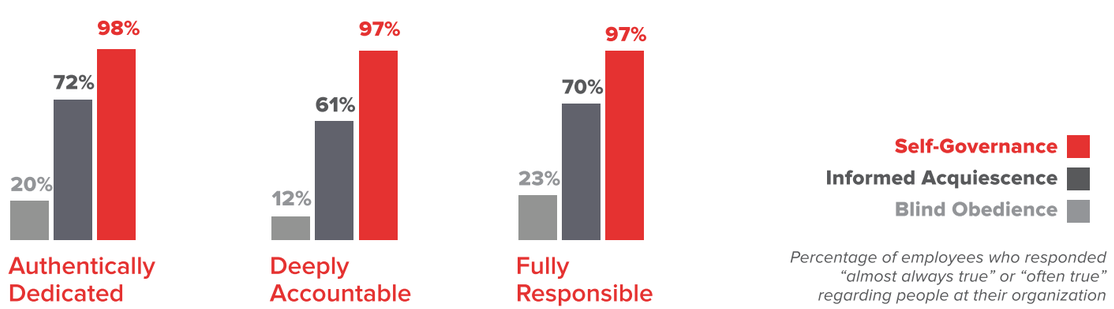
Inspired employees demonstrate three key characteristics. They are *authentically dedicated* (e.g., proud of their organization for how it acts in the world and therefore self-driven), *deeply accountable* (e.g., seizing authority, meeting obligations), and *fully responsible* (e.g., leaning in, stretching themselves, and helping others).

The reason for this disparity is the different kind of relationships between engaged and inspired employees and their organizations. Engagement is superficial, contingent, and transactional, only as strong as the short-term performance of the organization and career trajectory of the employee. Eventually, that transaction — externally driven by rewards, perks, and other incentives — will expire. Inspiration — which is fueled internally by deeply held beliefs and the connection of those beliefs to work — is enduring and profound. It is the difference between renting and buying. Engaged employees don't necessarily think like owners, whereas inspired employees always do.

In a hyper-transparent and interconnected world that demands split-second decision making and ever-present adaptability, the characteristics of inspired employees – authentically dedicated, deeply accountable, and fully responsible – are the far more advantageous ones. Our study shows that employees in Self-Governing Organizations are far more likely to demonstrate these characteristics than people who work in other types of institutions (see Fig. 13).

Fig. 13
Characteristics of Inspired Employees

Percentage of employees manifesting characteristic, by archetype



Percentage of employees who responded "almost always true" or "often true" regarding people at their organization

Fig. 14
Inspiration Outperforms Engagement

The differential impact of Inspiration on performance

Inspiration is 27% more predictive of performance than employee engagement (regression weights of 0.47 versus 0.37, respectively). When employees are authentically dedicated, deeply accountable, and fully responsible, they contribute in an enduring and consequential way.

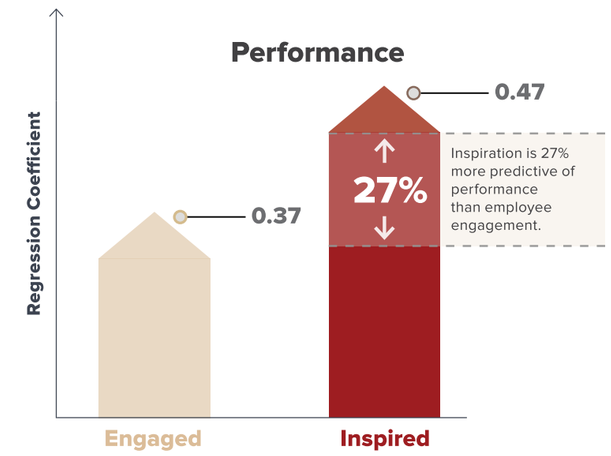
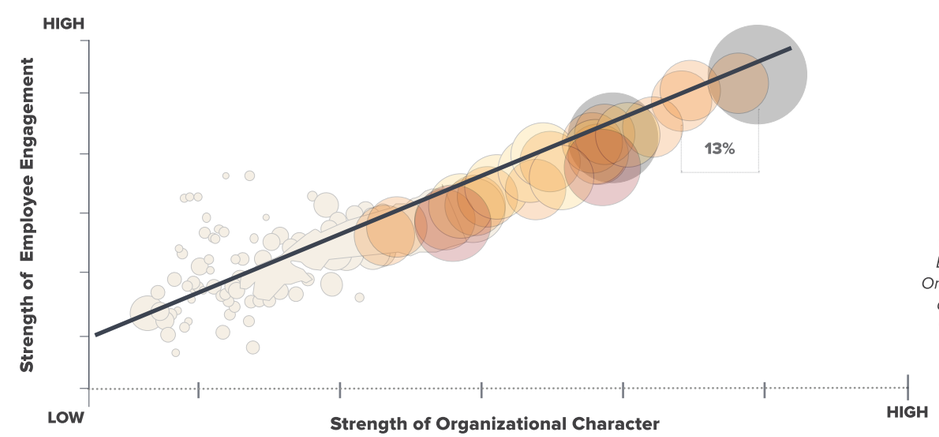


Fig. 15
Character Generates Engagement

Employee Engagement by strength of Organizational Character



A composite measure of employee engagement was created by combining the three markers below. Only 13% of organizations exhibit the highest levels of Employee Engagement and Organizational Character. For a detailed discussion of our methodology, see page 32.

Markers Used to Measure Employee Engagement

1. If I have my way, I will be working for my organization 12 months from now.
2. I am willing to recommend my organization to a friend as a place to work.
3. I am willing to put in a great deal of effort beyond what is normally expected in order to help my organization be successful.

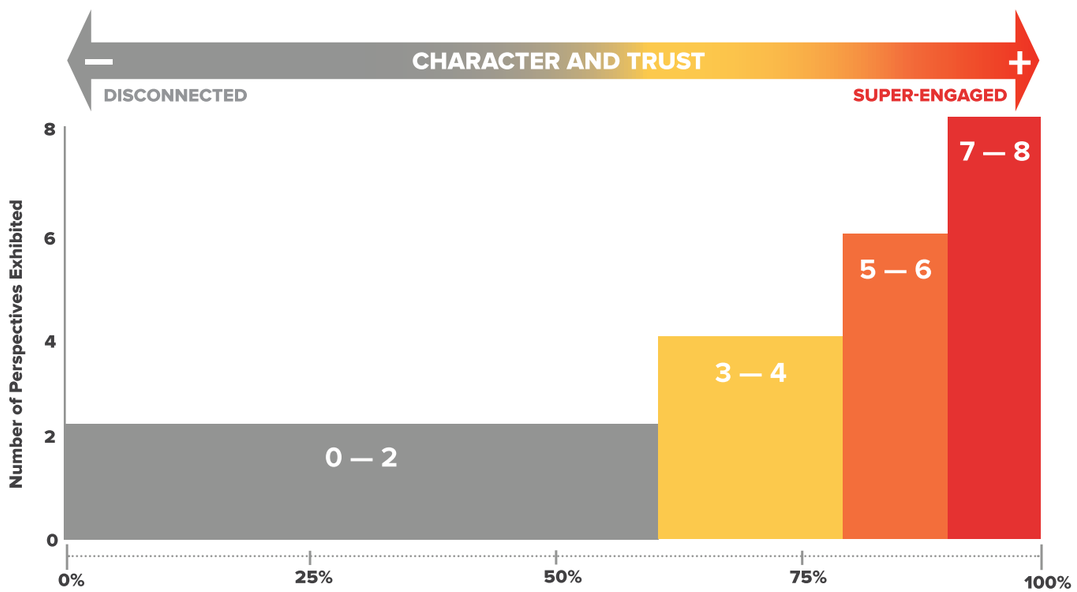
From Disconnected to Super-Engaged

Strong character and high trust in an organization inevitably give rise to a super-engaged group of employees — people with pride in the organization, who are willing to put forth discretionary efforts on the organization's behalf, are committed to staying for the long haul, and are excited to bring recruits into the fold. Such employees are super-engaged, exhibiting all or nearly all of the eight traits and precursors of employee engagement (see Fig. 16). In contrast, disconnected employees tend to reside in organizations that have a weak core — a feeble values orientation, limited or no purpose, and very little consciousness or awareness of interdependence. In these organizations, not only do employees lack a sense of direction and pride, they rarely experience meaningful personal and professional growth or work relationships infused with a shared sense of purpose.

Fig. 16

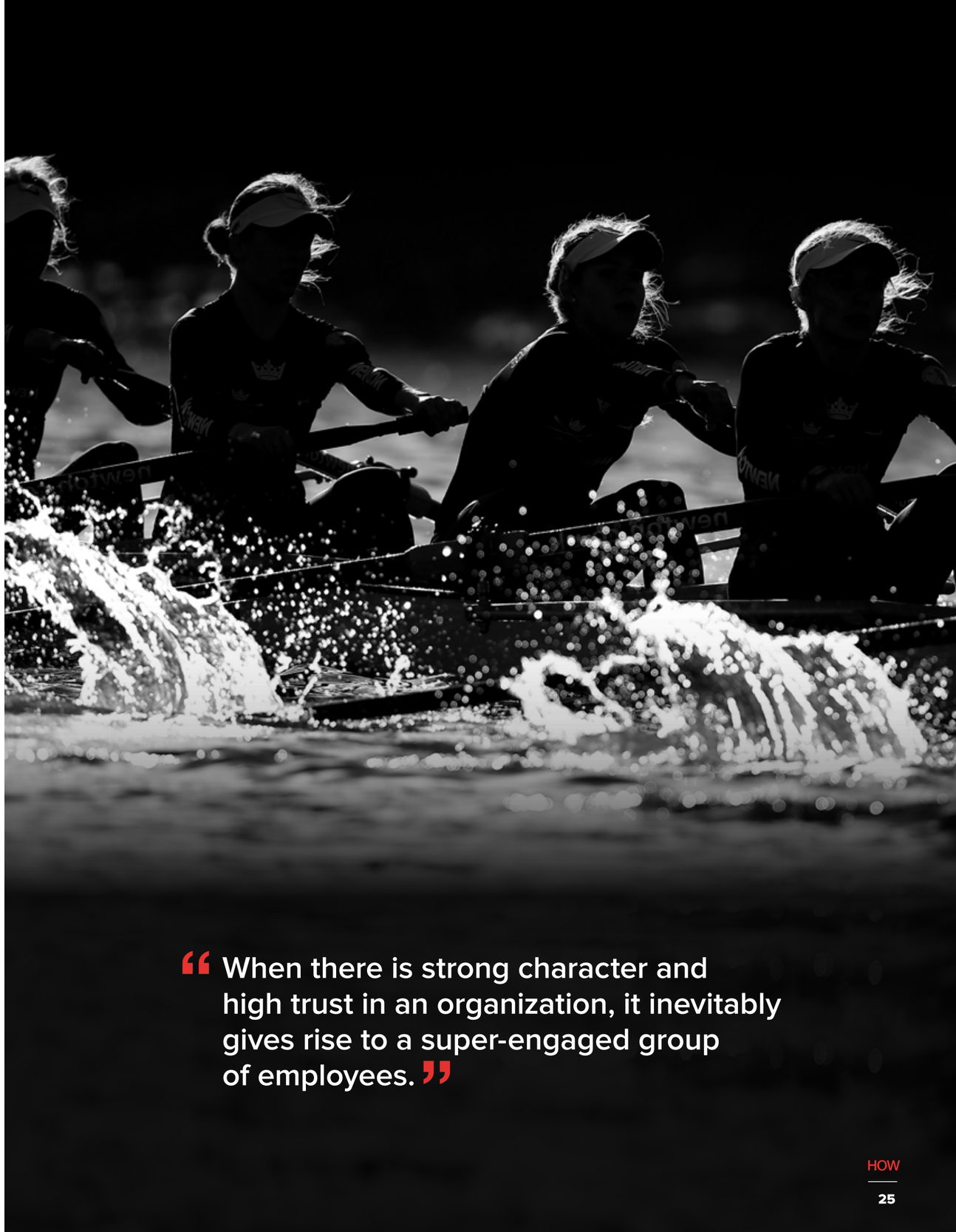
Finding the Source of Engagement

Percentage of employees by number of engagement traits



Super-Engaged Employees Share the Following Eight Perspectives

1. Managers offer praise and recognition to their employees for a job well done.
2. My manager provides me with specific and timely feedback.
3. I have access to the information I need to perform my job effectively.
4. People from different departments support each other's work.
5. Senior management is animated by a clear vision and mission.
6. If I have my way, I will be working for my organization 12 months from now.
7. I am willing to recommend my organization as a place to work.
8. I am willing to put in a great deal of effort beyond what is normally expected in order to help my organization be successful.



> "When there is strong character and high trust in an organization, it inevitably gives rise to a super-engaged group of employees."

The Role of Leaders: Shaping Self-Governing Organizations

For all the differences across the three organizational archetypes, they share one fundamental characteristic: their Governance and Culture are a reflection of their Leadership. At its core, leadership is about getting people to act and to join. There are only three ways to do this: coercion, motivation, and inspiration. Coercion and motivation come from without and happen *to* you. Inspiration comes from within and happens *in* you.

Generations of managers have developed the practices and habits to effectively manage through coercion and motivation. The Human Economy, however, demands inspirational leadership. Formal authority is decaying and dissipating while moral authority is gaining potency and currency.

Inspirational leaders create the context for long-term thinking. They pause and carve out space for others to take a step away from the pressures of the day-to-day and to connect and re-connect with their purpose and values. They create environments in which people feel free to lean in, and they make themselves small so that others can do big things.

Through our work with leadership teams and from the findings of the 2016 edition of The HOW Report®, LRN has learned that great leaders in our reshaped world demonstrate the following critical qualities:

Scaling Values
Instilling a deep commitment to values and to a set of standards to which people at all levels of the organization hold themselves accountable.

Pursuing Significance
Enlisting all employees in a commitment to a shared purpose-inspired mission that speaks to them as individuals, ignites their passion, and unifies them in a meaningful endeavor.

Heightening Consciousness
Building healthy, sustainable interdependency and connectedness among employees, partners, and stakeholders, extending it to customers and society at large.

Fostering Freedom
Creating space by carefully promoting *Freedom From* traditional constraints like hierarchy, and filling that space with carefully nurtured *Freedom To* express oneself, experiment, and exercise leadership.

In this study, we found that when managers emphasize these four qualities, 96% of employees score them effective leaders versus 52% when they do not. These managers are more than three times as likely to deliver high performance, scoring 85% versus 25% for their peers.

Given the overall outperformance of Self-Governing Organizations, LRN hypothesized that employees at such institutions would experience their leaders as demonstrating those qualities to a greater extent than would those in Blind Obedience or Informed Acquiescence Organizations. Here the results confirmed our hypothesis (see Fig. 17). Self-Governing Organizations have a disproportionate share of leaders that exhibit all four of these qualities. The presence of inspirational leadership becomes sparser as organization size increases (see Fig. 18).

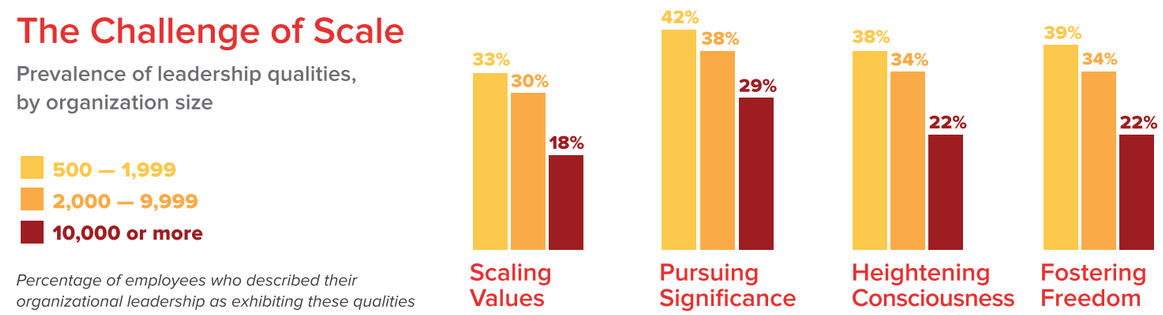
Fig. 17
Four Qualities of Inspirational Leaders

Prevalence of leadership qualities, by archetypes

Percentage of employees who described their organization's leadership as exhibiting these qualities.

Fig. 18
The Challenge of Scale

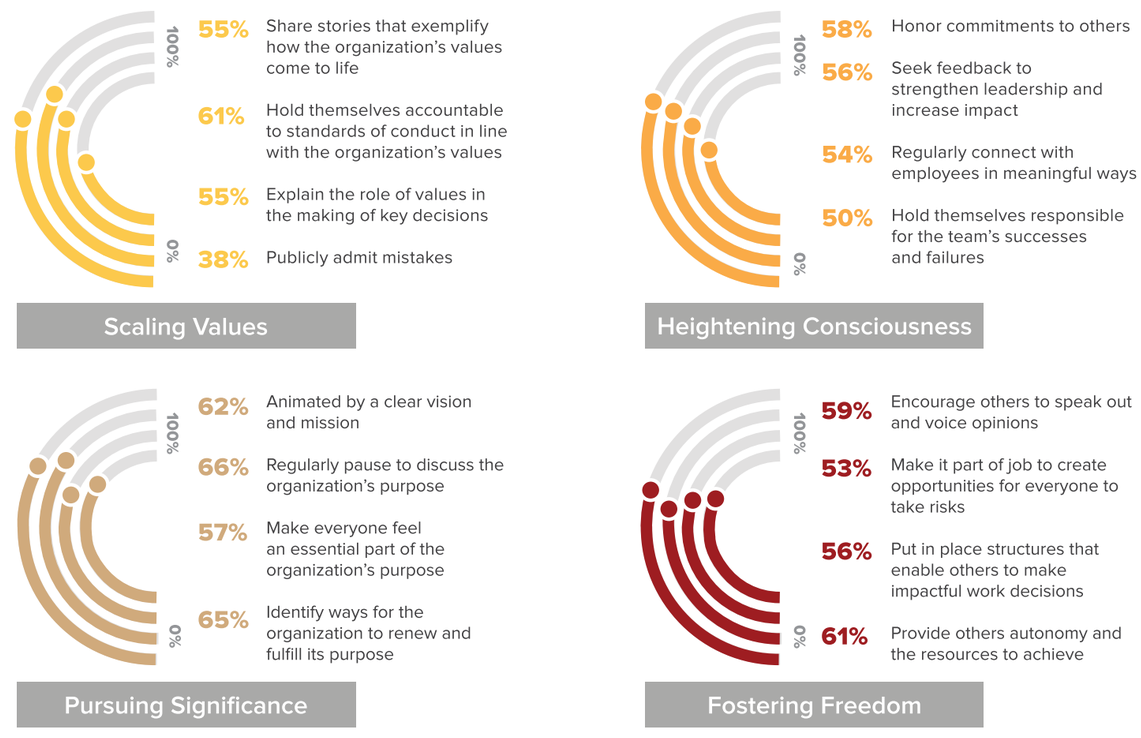
Prevalence of leadership qualities, by organization size



Percentage of employees who described their organizational leadership as exhibiting these qualities

Fig. 19
Understanding Inspirational Leadership

Prevalence of key behaviors among senior management



Percentage of employees who described their organizational leadership as exhibiting these behavior

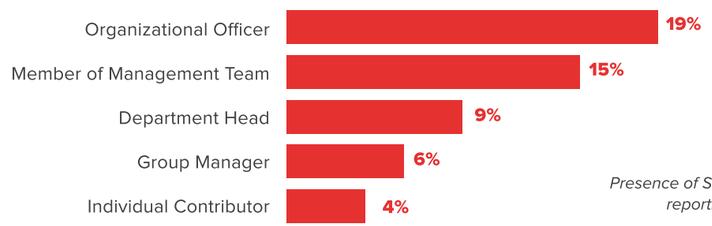
Dissecting the Leadership Disconnect

Figures 20 and 21 illustrate two different manifestations of the same problem. Many CEOs are reasonably successful at creating Self-Governance within their leadership — that is, people they've hired and with whom they work closely. But our research finds that they and their teams generally fail to scale these same dynamics across their organizations, with the challenge intensifying as employees work further away from the C-Suite.

Fig. 20

Diminishing Levels of Self-Governance

Prevalence of Self-Governance at the C-Suite and at other levels of the organization

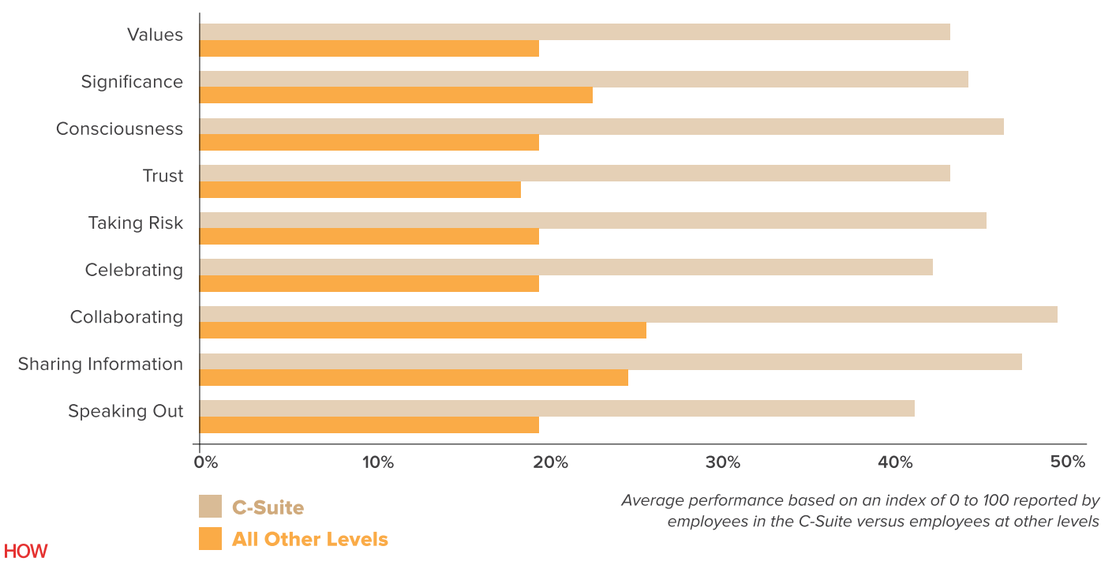


Presence of Self-Governance based on reporting of employee behavior

Fig. 21

The C-Suite Divide

Average performance across HOW Indices in the C-Suite versus other levels of the organization

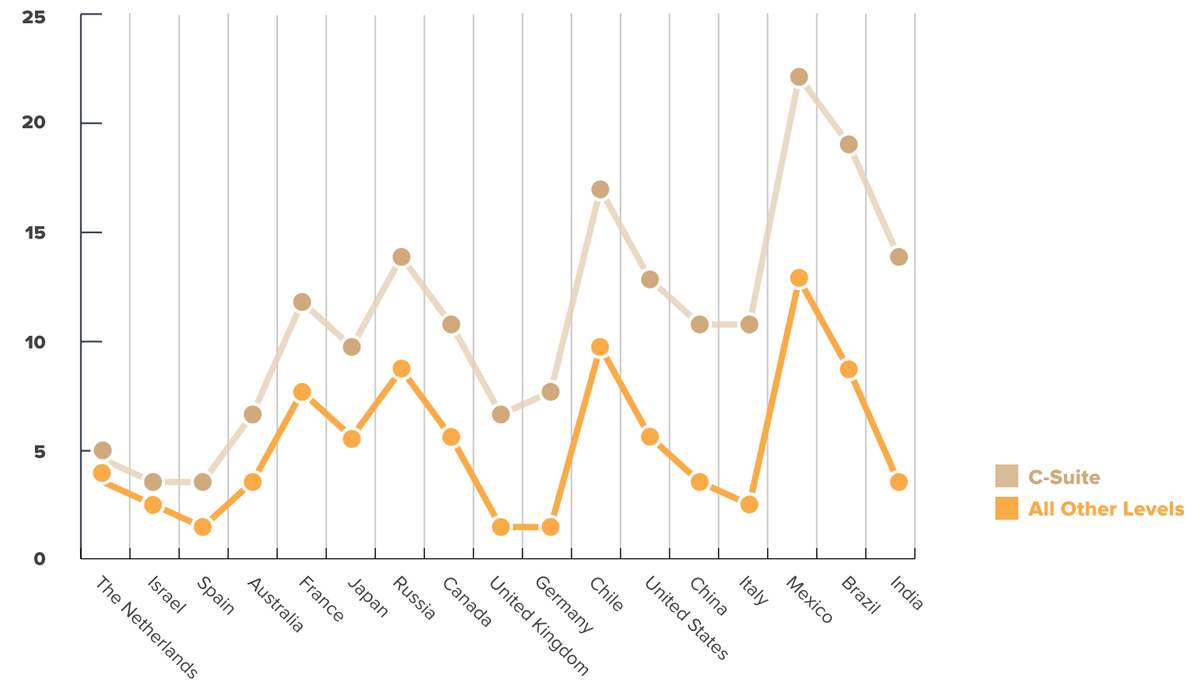


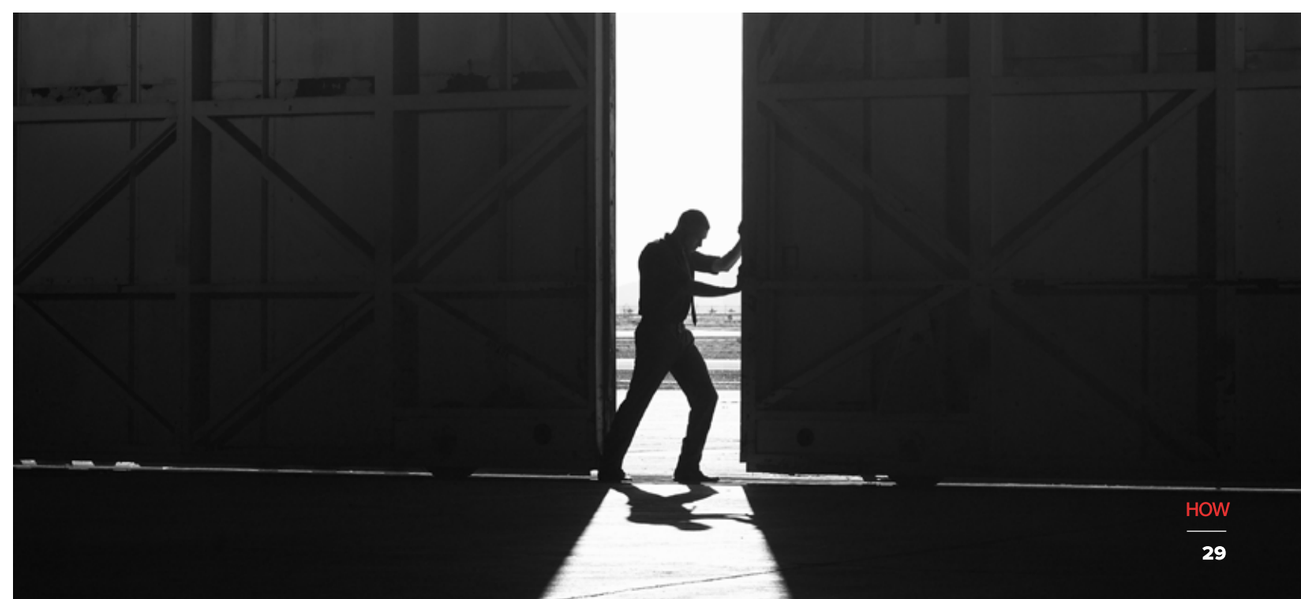
Average performance based on an index of 0 to 100 reported by employees in the C-Suite versus employees at other levels

Fig. 22

Tracking the Gap

Difference in Self-Governance between the C-Suite and other levels of the organization, across countries





The Journey to Self-Governance

The rewards that accrue to Self-Governing Organizations are measurable and many, but these organizations do not come into being on their own and in an ad hoc way. Management cannot simply decree Self-Governance into being. New thinking must be catalyzed. Inspirational leadership capacities must be built. Culture must be shaped and nurtured. Very different types of practices and systems must be designed, put into practice, and embraced.

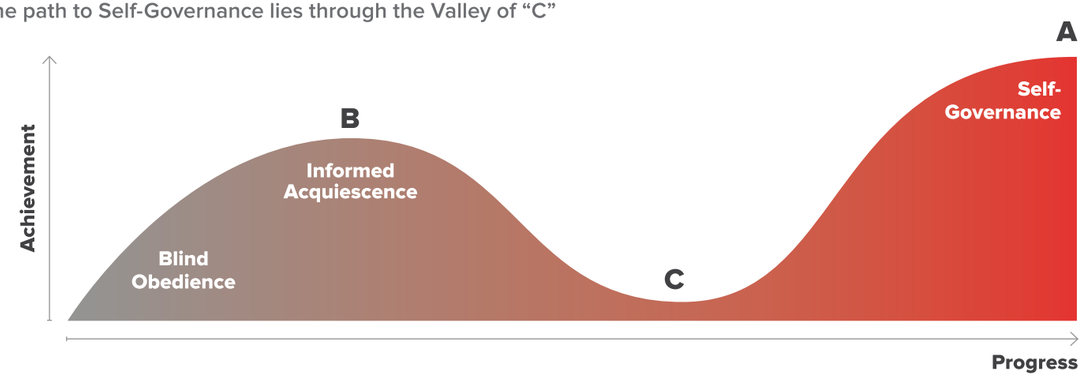
This type of internal change cannot be driven programmatically and as a stand-alone initiative, but rather requires a willful decision to embark on a journey. To be on a journey means to focus on the way, not just the destination; on HOW, not what. Journeys are by their nature curvilinear, up and down, often involving a step back to take two forward. They have highs and lows and require more effort for the climb than the descent. As depicted below, it is necessary to move beyond our basic understanding of what worked in the past (B) and accept uncertainty and confusion (C) to gain a deeper understanding of what it will take to achieve long-term success and significance in the reshaped world of the 21st century (A).

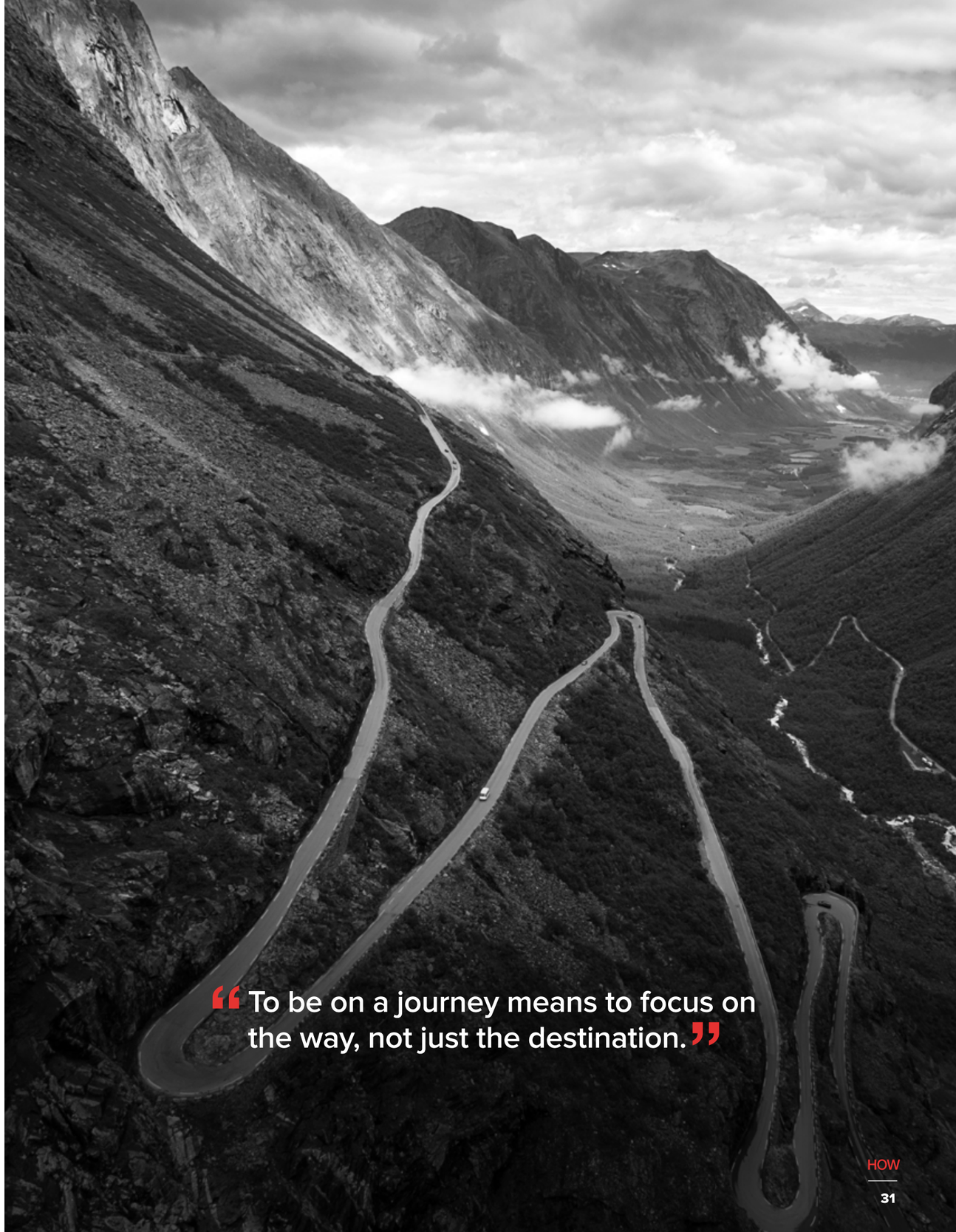
The journey to Self-Governance starts with complete commitment from a leadership team, requires continual experimentation at the operational unit level, demands a willingness to consistently hold all colleagues accountable, and an openness to new structural and decision-making frameworks. It requires the capacity to pause in stride – to reconnect, reflect, rethink, and reimagine. And, ultimately, it requires robust, empirical assessment to test organizational understanding, identify gaps between perception and reality, and to chart a meaningful path forward towards progress.

And thus, the journey begins.

The Valley of "C"

The path to Self-Governance lies through the Valley of "C"





Methodology

The theoretical constructs in this study were developed by Dov Seidman in his book, *How: Why HOW We Do Anything Means Everything* and tested in our work with organizations.

A total of 16,000 full-time employees in 17 countries across all major industries and occupations rated 69 behavior markers on the following:

Five-Point Likert Scale:

Almost Always True
Often True
Sometimes True
Often Not True
Almost Never True

Performance indicators were measured on the following:

Five-Point Likert Scale:

Strongly Agree
Agree
Neither Agree nor Disagree
Disagree
Strongly Disagree

The respondents were asked to answer each of the behavior marker and performance indicator questions based upon their personal observations and direct experiences of their work environment. The behavioral concept of "wisdom of the crowd" was applied for analytical purposes, such that even though respondents' answers might vary, we could rely on the breadth of the sample to gain a reliable view of a population's behavior. The experience data were analyzed by key demographic groups (position, industry, country, occupation, etc.). The sample design ensured sufficient observations for central tendencies to emerge within each of these subgroups.

To minimize bias, survey items were randomly presented, and our final sample excluded anyone whose survey-taking behavior demonstrated low engagement.

We created ten composite indices to describe various dimensions of Organizational Character and Organizational Behavior, the accuracy of which was validated using a Confirmatory Factor Analysis and reliability statistical testing. These indices were then used to assign participants based on their responses to one of three organizational archetypes: Self-Governance, Informed Acquiescence, and Blind Obedience.

A respondent who scored high across all ten indices was assigned to the Self-Governance archetype; a Blind Obedience assignment was characterized by a low score across all ten indices; and an Informed Acquiescence assignment was given to the remaining respondents. We also created an index to measure Inspiration, a quality deemed essential among employees of Self-Governing Organizations. The index aggregated eight independent markers intended to reflect the attitude and affect of inspired employees. The Inspiration Composite was used to cross-validate the scoring approach for the archetypes. Correlation analyses showed absolute values in the excess of 0.8 between Inspiration and Self-Governance and Inspiration and Blind Obedience.

Finally, the relationship between Governance, Culture, and Leadership and Business Performance was established using Structural Equation Modeling (SEM). All statistical tests proved the model's robustness and reliability.

Additional Methodological Notes

Figure 4 shows the percentage of organizations scoring high, medium, or low on the HOW Indices. The HOW Indices are the instrument gauges of LRN's Governance, Culture, and Leadership Assessment. Each index represents a composite measure of specific behaviors that provide deep insight into how Governance, Culture, and Leadership translate into real performance outcomes. Organizations are categorized as high if they scored "Almost Always True" on at least 75% of the behavior markers associated with that index. Organizations scoring "Almost Always True" on 25% to 75% of the markers are categorized as medium with the remainder categorized as low.

Figure 7 shows the relationship between character, trust, behavior, and performance across archetype. Percentages reflect the share of organizations categorized in the archetype that score "Almost Always True" on the relevant markers.

Figure 8 shows outcome scores by archetype. Percentages reflect the proportion of respondents scoring each performance indicator "Agree" or "Strongly Agree," with the exception of Observed Misconduct. The Observed Misconduct score reflects the percentage of employees that responded "Strongly Disagree," "Disagree," or "Neither Agree nor Disagree." The inclusion of the neutral answer choice accounts for participants' reluctance to attribute misconduct to their peers.

In the 2012 HOW Report, LRN measured Observed Misconduct using the performance indicator "I have observed employee misconduct or unethical behavior in the past 12 months." In the 2016 HOW Report, the performance indicator for Observed Misconduct was changed to "People at my organization do not engage in misconduct or unethical behavior" to avoid response bias that occurs in negatively-framed questions, as well as in questions that ask about personal (as opposed to group) behavior. Despite the difference in metrics used, the pattern of out-performance among Self-Governing Organizations remains consistent. Figures 9 and 12 show scores by industry for character and trust, respectively. Net percentage of organizations scoring high is calculated as the percentage of organizations scoring Almost Always True and Often True minus the percentage of organizations scoring Often Not True and Almost Never True for each industry.

Figure 15 shows the relationship between strength of character and employee engagement. Each circle reflects a group of respondents who have scored their organization a specific level on the Character axis. Placement of the circle on the Employee Engagement axis reflects the average employee engagement rating for those organizations.

Appendix A
A Message From Ed Lawler

Groundbreaking management philosophies such as HOW® are often embraced because they speak to what we believe to be right, and how we experience behavioral dynamics at work. Rare however, are efforts to validate them using empirical analyses that clearly tie them to corporate performance. LRN's HOW Report study was conducted to do just this.

The results of the 2016 edition of The HOW Report® provide those interested in shaping corporate culture and improving performance outcomes with a set of insights that both confirm that a values-based transformation is possible, and provide a path to achieve it.

The methodology for the latest iteration of The HOW Report was as follows. The study was designed according to statistical requirements that ensure accuracy. The statements, descriptions, and associated questions employed in the survey instrument were designed by industry experts specializing in organizational behavior, behavioral economics, ethics and compliance, and workplace dynamics.

The survey was tested to ensure clear and consistent interpretation by the respondents. To ensure data quality, incomplete surveys and/or response records that indicated atypical response patterns were excluded from the analyses. Once it was established that the survey instrument was effective in obtaining needed information, the data were analyzed.

The large sample size provides a high statistical confidence level, and the ability to analyze subgroups of data and conduct granular analyses. Complex, multivariate analyses were used throughout the study. Factor analysis was used to verify that the statements meant to capture employee experience at work were meaningful. Structural equation modeling was applied to ascertain the links between components of organizational culture and performance outcomes. Lastly, analysis of variance was used to test the hypothesized differences among demographic sub-groups. The HOW Report describes in full the findings of the analyses that were conducted.

Based on my review of the study, the core HOW hypotheses about collective organizational behavior and the impact of Governance, Culture, and Leadership on organizational performance are supported by the results. I think that readers will find the latest edition of The HOW Report both informative and compelling.

Ed Lawler
Director, Center for Effective Organizations
University of Southern California

Appendix B
A Message From Warren Cormier

It was a privilege to be part of the journey that led to the 2012 edition of The HOW Report®. The first empirical analysis of the HOW® philosophy demonstrated that Self-Governing Organizations outperform and that the individual and collective behaviors that drive an institution forward can be measured and acted upon as a deliberate strategy.

Similarly, it's been deeply meaningful to be one of the independent experts who contributed to the more recent study. The 2016 edition of The HOW Report® successfully replicates the key findings and insights of the first report, providing further evidence of the accuracy of the analysis that was offered in 2012.

The 2016 HOW Report has also found that the trend towards Self-Governance is growing across the globe. Importantly, it also sheds additional light on the complex behavioral dynamics at the core of an organization.

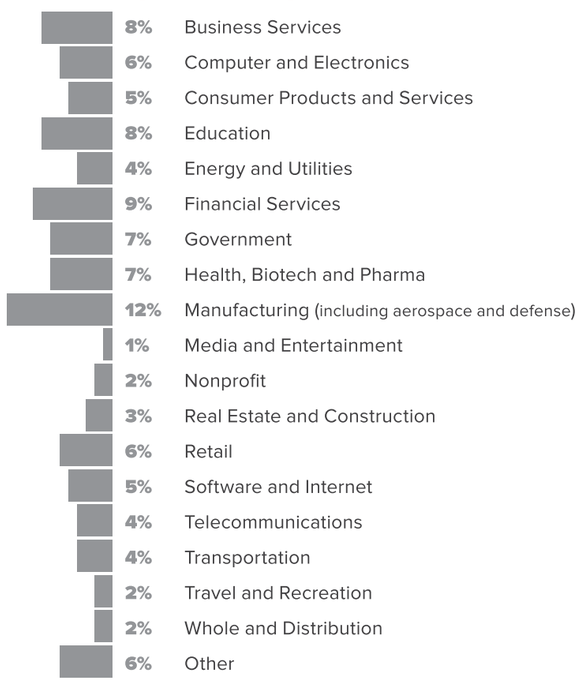
The 2016 HOW Report was carried out with the utmost methodological rigor. The study investigated thousands of organizations, relied on measures developed by organizational experts, and used the most stringent statistical tests. Importantly, the findings presented in the 2016 HOW Report were independently validated by The Center for Effective Organizations at the University of Southern California.

The insights of the 2016 HOW Report are an invaluable contribution to our collective understanding of how Governance, Culture, and Leadership shape corporate performance, and offer a path forward for organizations and leaders around the world.

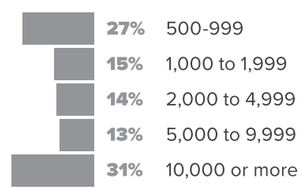
Warren Cormier
President, Boston Research Group

Appendix C
Demographic Information

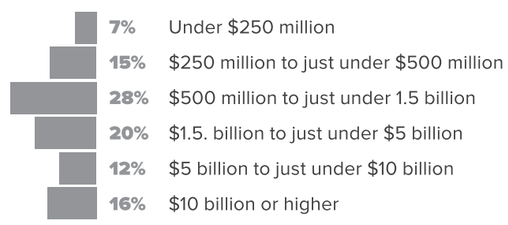
Respondants by Industry



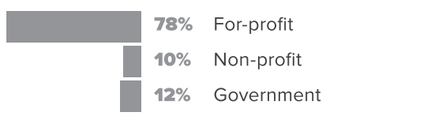
Respondants by Company Size



Respondants by Revenue

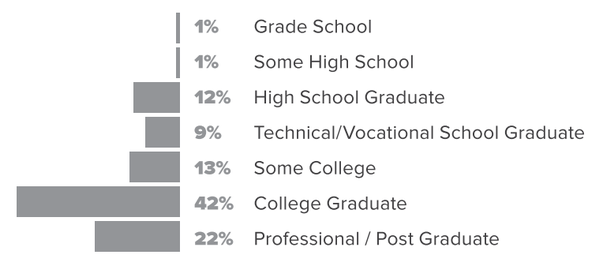


Respondants by Employee Sector



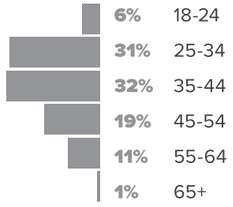
Respondants by Years of Service

Respondants by Education Level



Respondants by Gender

Respondants by Age



Respondants by Job Title

About HOW Metrics®

HOW Metrics® is a suite of cutting-edge assessment solutions that enables organizations to better understand behaviors and forces that animate behavior across their systems. The 20th century adage that "you manage what you measure" remains as valid as ever, and in a globally interdependent world, the choice of what you measure matters more than ever before. HOW Metrics helps leaders rethink the fundamentals of how they lead, govern, and operate companies and institutions.

Through HOW Metrics, LRN provides deep insights into organizational performance with a focus on employee and stakeholder behavior. LRN has helped organizations across industry sectors benchmark effectiveness, define new corporate priorities, assess program impact, and catalyze action toward principled performance. LRN's assessment solutions are based on tested methodologies developed by a team of leading practitioners. They include a comprehensive set of qualitative and quantitative research methodologies.

In addition, LRN provides a full suite of strategic advice, program support, and education solutions to help organizations become more values-based and human-oriented. Our approach combines a cross-section of experts and practitioners with proprietary frameworks and analytics — and tested processes and approaches — all based on the idea that organizations can outperform by focusing on how they behave. LRN emphasizes rigorous measurement, rapid learning, and deep collaboration to help its partners journey to Self-Governance in a more deliberate and systematic way.

About LRN

Since 1994, LRN has helped more than 20 million people at 700-plus companies worldwide simultaneously navigate complex legal and regulatory environments, meet their compliance obligations, and foster ethical cultures. LRN's combination of practical tools, education, and strategic advice helps companies translate their values into concrete corporate practices and leadership behaviors that create sustainable competitive advantage. In partnership with LRN, companies need not choose between living principles and maximizing profits, or between enhancing reputation and growing revenue: all are a product of principled performance. As a global company, LRN works with organizations in more than 100 countries. For more information, visit **www.LRN.com**, or find us on Twitter **@LRN**.