

A DISCUSSION WITH LUCK COMPANIES EXECUTIVE MARK FERNANDES, CHIEF LEADERSHIP OFFICER

Company: Luck Companies
Leading mid-Atlantic (USA) supplier of high quality crushed stone, sand, gravel, architectural stone, clay tennis courts, and high-end real estate construction.

Respondent: Mark Fernandes, Chief Leadership Officer
Strategic direction for the enterprise mission and thought leader for development of the Values Based Leadership (VBL) ideology and model.

Interviewer: Jeffrey S. Harrison

BACKGROUND

Background: Andrew C. Wicks (Darden School, University of Virginia) and Jeffrey S. Harrison (Robins School of Business, University of Richmond) asked seven executives from six major companies engaged in a variety of industries to read and then respond to an academic article they had published on measuring performance from a stakeholder perspective. The Harrison and Wicks paper is called “Stakeholder Theory, Value and Firm Performance.” It was published in *Business Ethics Quarterly* in January 2013. The authors started the discussions with a list of questions, but then also asked follow-up questions and allowed executives to expand on topics in which they were particularly interested.

What follows is the transcript of one of the interviews in its complete form. Andrew and Jeffrey lightly edited the interviews and eliminated things not pertinent to the study (such as pleasantries) and they also allowed the interviewees to make clarifications prior to publication. The most interesting statements are in bold.

A related paper also included in this repository is called “A practitioner critique of a conceptual paper on measuring value and performance.” That paper includes a more detailed examination and evaluation of what they found across all the interviews.

OVERALL REACTIONS TO THE PAPER

Harrison: What are your initial reactions to the paper?

Fernandes: **We're a company that has lived by the principle of reciprocity for years. Ninety years ago Charlie's (Luck) granddad bought his first quarry. It had six people. It's this document. He started the company on the philosophy - now remember, this is back during the era of the great man theory of leadership, command and control... Well, his idea was - listen to what he said - "If I do right by my people they'll do right by me."**

That was how this whole company started. His son, Charles the third, who's still alive today, has the same values and beliefs. It got passed through generations. That's a good thing about family businesses. He worked with the old David Martin, the original Martin Agency guy, and coined the tagline, "We Care."

Harrison: Excellent.

Fernandes: All about the people. Charlie comes along, my boss, my bud. He's a couple of years older than me. We talk about this on national stages everywhere. Personally, he struggles with this idea of being a silver spoon kid. He knows what he was given. He was raised to believe, "to those who much is given, much is expected."

Harrison: That's not all bad.

Fernandes: He said, "I'm going **to make it my life's goal to help other people live their wildest dream.** Charlie stood up in front of the company and he said, "From this point forward, how we do what we do is more important than what we do."

He said, "Our whole mission around here is going to be ensuring the success of others. That means each other. That means our customers. Listen to this. That was how we started our values journey. We were making a pile of money at the time, but we were really dysfunctional. We got called out on being dysfunctional by a guy who knew Charlie's granddad.

Harrison: What do you mean by dysfunctional?

Fernandes: We grew too fast. We went from 300 to 1,200 associates in a very short amount of time. This company was built on papa's "We care." He knew every single person in the company, and he knew their families. He had a small officer group that he had hand selected. We had doubled the size of

the leadership team, brought people in from the outside. We had no processes in place to consider what they believed in or what they valued. There was no mission statement. **We grew the company like crazy. We were making money like mad, but we couldn't stand each other. It wasn't that anybody was bad. There was just not a shared vision, and there weren't shared beliefs about people and life. That's how we started the journey.**

Then we went into the financial meltdown of 2008 or 2009. Charlie almost died. He got sick. We had to do things. He's the nicest guy in the world, a big Care Bear. He's my opposite. I'm a recovering jerk, just so you'll know. All of the turmoil in the company got into his head. He got a virus. He almost died.

He called me up. I remember I hadn't talked to him for three months. He was out for four months, and our sales were phew. He says, "Hey, man, I'm getting better. I need to see you." I was the company president at the time for the Charles Luck division and Har-Tru. I was running several businesses.

He came back and just had this little slip of paper. He was only working an hour a day. **On the slip of paper it said, "We will positively impact lives around the world through values based leadership." I said, "What's this, Charlie." He said, "You know, Mark, it's my time." He said, "Mama also raised us to believe that to those who much is given much is expected. The values journey meant so much for us. We need it now more than ever in this financial crisis that we're in."**

He said, "This is what I want to do with my life." **I looked at him and I said, "What's values based leadership?" He said, "I don't know, that's what you're going to figure out."**

Then I said, "Charlie, the world? We're in Goochland. It's a long way to Richmond from here." He said, "I don't care."

So then I personally spent the last five years in this in studying human beings, behavioral science, and studying leadership. Partners include HayGroup, Catepillar, Kouzes and Posner to name a few. We have done work with and/or spent time with Harvard, Ken Blanchard, and Bill George national and international.

We emerged pretty quickly with this idea of human potential, that it's a real thing. It's largely untapped in most human beings. They're not in this state. People don't think about this.

What we said is we're going to bet the farm on an idea that doing good, positively impacting the lives of our associates, customers, and communities, is the best path to doing well, making money. So, we wrote this mission statement that said we will ignite human potential through values based leadership and positively impact lives around the world.

We are betting the farm on stakeholder theory, betting the farm on it. Now I'm working with Jonathan Whitaker (at University of Richmond). Because Whitaker and my buddy, Richard Coughlan (also at University of Richmond), and I are thinking that we've got to figure out an ROI on this thing. Charlie and I said it's simple math. When people are on tilt, when they're not whole, how do they treat customers? How do they treat everyone? It's pretty simple math. When they're straight and beautiful, Maslow's theory - when they're fulfilled...

Harrison: Right.

Fernandes: And, we think it's in all parts of their life. So, we feel like they have to be able to bring home to work and work home. Which is something I want, too. We think it's both. It's the whole person. Work and life are integrated now with all this stuff.

So we really believe that first the leader... It's (Steve) Covey's classic, "Find your voice, then help other people find theirs." That's all we do. And we have processes, and measures, and models...

IS YOUR FIRM MEASURING PERFORMANCE MORE BROADLY?

Harrison: How do you measure success?

Fernandes: First of all, you have to believe that you can measure culture, which I do.

Harrison: Alright.

Fernandes: **I believe you can measure this stuff. I don't know that it's an exact science, and I think that you also have to look at the data that you're given and think about it logically, too. It's pretty simple. We sell, strategically, a little, gray, dusty rock. It's the same little, gray, dusty rock that our competitors have.**

Harrison: Right.

Fernandes: **It's the same. You can't differentiate the rock but so much. So, we said, "Let's bet on values." We want high potential. Then, what we**

said was we need to identify and develop **Values Based Leadership, which we define as leaders who live, work, and lead in alignment with their own personal core values, principles, beliefs, and purpose to in turn ignite the potential in those around them. Because that, my friend, is what brings so much of this to life.** That's how you satisfy people's interest. That's what we're interested in. So, we want our leaders to be living, working, leading authentically to who they are on the inside...their personal core values, because that's when they're going to be the best version. That's wholeness. That's fulfillment.

Harrison: Is there any way to measure that?

Fernandes: Yes. **We want them to live, work, and lead in alignment with their core values, principles, beliefs, and purpose to in turn ignite the potential in those around them.** Alright, then what do you do? You say okay, what is it about a human being that is going to make sure that they can do that? Well, you've got two things. You've got competencies - knowledge, skill, and ability.

Harrison: Okay.

Fernandes: What competencies does the values based leader need, and then what values, beliefs, purpose? This is kind of their soul. So, you've got their knowledge, skill, and ability, and you've got their soul.

Harrison: Alright.

Fernandes: Okay. What do we do? **We have now identified five competencies with 15 attributes that we say make up a good values based leader. We have a mission and values and beliefs.**

Harrison: And what are the 15 attributes? Is it 15 under each of the five?

Fernandes: No. Three under each of the five.

Harrison: Right. So, just give me an example.

Fernandes: If someone is highly self-managed, that's one of our five things.

Harrison: Alright.

Fernandes: They're highly self-managed. What that means is underneath that they have this deep knowledge of who they are, where they are, what's going on around them, and the ability to understand that about somebody else. That would be an attribute under highly self-managed, because we think being highly self-managed is required to ignite potential in others. EI is an

attribute - emotional intelligence - of a values based leader, which you can measure...

Harrison: I'm very familiar with that.

Fernandes: Okay. Then, what do we do? **Every year we have a 360 assessment that all officers do. We get about 14 people - you're encouraged to include your spouse if you're smart - to say, "How am I walking against the competencies? How am I doing? Am I showing up in alignment?"**

This is every year. Everything from a front line supervisor to the C suite, they get a 360 based on the competencies that we believe make up a values based leader. We use Hay Group for our associate engagement survey.

We get an associate engagement survey that says what impact I am having on my associates. Because that's what this will tell you.

Harrison: So, Hay Group comes in and interviews the associates?

Fernandes: It's an assessment.

Harrison: In the absence of the person? I mean is it done in front of the person who's being evaluated?

Fernandes: No, that's another thing we do. That's 9-box. That's an all-during-the-year thing. This is an anonymous assessment.

Harrison: So, they survey?

Fernandes: It has to be voluntary. But, one of the reasons we speak on the global stage for Hay Group is **98% of our associates fill it out, which is crazy.**

Harrison: They fill it out on other people.

Fernandes: They fill it out on their boss and on the company.

Harrison: Okay.

Fernandes: It's all about, "Are we living this?"

Harrison: Sounds fantastic.

Fernandes: Every year. **Then, the third thing is our performance reviews - APR's. This is the actual performance outputs that are required for the**

leader - making money, as an example. If it's HR it's whatever. If it's finance... So, these are your hard core KPIs.

Harrison: Alright.

Fernandes: Every year. **And, by the way, the values are part of the 360, and the competencies.**

Harrison: Are these in the annual performance reviews - are those largely financially based?

Fernandes: No.

Harrison: Okay.

Fernandes: I own leadership development and succession planning. For instance, we will set specific metrics for how many people should be in the executive training program and how many people should be in the high potential.

Harrison: Excellent.

Fernandes: **We have many more nonfinancial measures than we do financial.**

Harrison: Excellent.

Fernandes: Way more. Safety, human, brand, so we have very specific brand for our work externally on Values Based Leadership.

Harrison: How do you measure that? Do you use external people?

Fernandes: Yes. **We track our clout score. We track our community. It's how many people are in our community; for example, we have 210 million people in our Twitter and LinkedIn platforms. We launched an app that in the last year has been downloaded in 110 countries. We want to know. Because that's our idea of impacting the world. How many people even know we're out there? We're all for measuring our mission in all different ways - through brand, through safety, through HR, through behavior, through values.**

Harrison: Fantastic.

Fernandes: Financial is way down there. Remember, doing good to do well.

Harrison: Yes, but I assume you're doing well, too.

Fernandes: For 90 years, we are still here!

Alright. **So then, ultimately, all of our formal leaders from front line supervisors to C suite have a Values Based Leadership index. The three measures divided by three. So, they're all turned into a 0- to 100% metric. My bonus, our succession, our world is based on this...which tells you 66% is how I do what I do, and 33% is what I do and the outcome of it.**

Harrison: This takes a lot of time.

Fernandes: Tons. We have a Chief Leadership Officer. Who do you know that has that? There's a commitment.

Harrison: How do you feel about the tradeoff between spending all this time doing this versus just going out and selling more of those dusty rocks?

Fernandes: For exactly what we believe. I have a team of seven, including me. This is all we do.

Harrison: **And that's expensive.**

Fernandes: **Very expensive. We're not a big company. We estimate that we spend two to four million a year plus telling the story to the world. Because look what happens. What people don't understand is it's kind of the Google trick. I get more than I give. I spend 65% of my time outside the company. We believe the ultimate payoff is exponentially greater than if we were all spending our time selling dusty rocks. Because this would put us in the same place as everybody else, right?**

Harrison: Right.

Fernandes: **One of our big benefits is engagement. Do you know what that is?**

Harrison: Absolutely.

Fernandes: **...associate engagement. Global average people would say 25%, 30%. Gallup just reported 70% of the workforce is disengaged globally. Our number for engagement is 89%.**

Harrison: That's amazing.

Fernandes: So that's the payoff.

ARE FIRMS MOVING IN THE DIRECTION THE PAPER DESCRIBES?

Harrison: Do you think that other companies are doing this?

Fernandes: **A small number but it's growing. But, I'll tell you what - they are really interested. That's why I'm really optimistic. We have a leadership crisis right now everywhere. Everyone knows it. Because we've finally realized how miserable associates are. We know that climate is a 30% dimension of performance, the single highest one. When you think of price, cost, mix, all that stuff - as much as 30% of how companies perform is based on climate - what it feels like to work here. And 70% of climate can be attributed to one thing - the leader. We're betting on the leader to develop a type of climate to light our folks up so that they have more good days than bad days. Then, the math is easy. How do they treat clients? And we just had the best safety record in the history of our company.**

Harrison: That's wonderful.

Fernandes: It is unheard of in the industry how good our incident rate was. Unheard of. We just won an award for it nationally.

Harrison: That's an outcome measure itself.

Fernandes: For our customer stakeholders.

Harrison: It sounds like when you talk about being engaged with the company, it is similar to what we call utility through affiliation.

Fernandes: That's it, yes. There's the feeling. What we say, affiliation, what's it about... **Love them to death, give them something to believe in, and spend every waking minute obsessing about them becoming everything they're capable of becoming. That's how you get a stakeholder head and heart.**

HOW WOULD YOU HAVE WRITTEN THE ARTICLE DIFFERENTLY?

Harrison: What did we miss?

Fernandes: **I was wondering about the outside-the-work piece.**

Harrison: We're missing that.

Fernandes: **I just don't think that you can ignore that. I think you're going to start seeing more about the need to allow people to bring home to**

work also. Because there are a lot of head and heart things that go on. They don't disappear. We're always worried about people bringing work home. Well, it's also they bring home to work.

Harrison: Yeah.

Fernandes: And, do you allow that to be part of the conversation, or do you go leave that at home?

Harrison: Is that what you would've done differently in the paper? You would've included that outside dimension?

Fernandes: I don't know. I'm one iteration into this thing and one conversation with you.

Harrison: That's okay.

Fernandes: I think it matters. When I think about affiliation I think about being conscious, considerate, and caring about all your associates' lives.

And, people are having all these issues with Gen Y. We can't hire all the ones that want to come into the company. We say it's about meeting them where they are. In their digital worlds, what's important to them personally and professionally.

Harrison: It's a holistic approach.

Fernandes: **It's a holistic approach. We have passion. It's deeply held beliefs for us - people, human beings, and the impact of leaders.** And, we will spend every waking minute talking to folks like you who are going to help us. Where you can help? **You've got to help us figure out how to measure it even more.**

For us, the math is simple. You know, when Kouzes talked about engagement in the leadership challenge, he attributed engagement to one thing - how the leader behaves. Think, emote, and act is behavior. So, how they think, the emotions they put out, and how they act.

Kouzes and others have been writing about this stuff 45 years. They say commitment, engagement, all the things are based on one thing - how the leader behaves.

All of our competencies, values, beliefs, we have identified behaviors. That's what people miss when they put their values on the wall. It's like commitment, what does that mean?

Harrison: Right.

Fernandes: Not only what it means, what are the behaviors - because values drive behaviors. So, if it's behaviors, well, let's figure out what the leaders value and believe. We're measuring behaviors, and the only way you can do that is get 360s, nine-boxes, feedback loops going, "How am I behaving, and does it look like the ones that we say will ignite the potential in others?"

So, is it subjective? I don't know. You just get a lot of people saying, "Well, Mark, you're still a jerk. But, you're a little less of one." That's what I'm shooting for.

Harrison: Humility, too.

Fernandes: Very important. So, what you're really measuring is behaviors, and then the impact that my behaviors are having on you.

Harrison: That's fantastic.

Fernandes: **We're talking about stakeholder theory, and what I'm interested in is does stakeholder theory actually validate or give corporate responsibility teeth or actually help it matter versus it just being a sustainability report that I do every year?**

Harrison: Well, that's a great question. The way that a lot of us see this is that a company that takes care of its employees, is good to the community and gives back and takes care of their suppliers, provides an excellent safe product to its customers is socially responsible. We believe more that you should be good within your own realm, within your own area of action.

Ed Freeman's classic work - he's considered the father of stakeholder theory because of his 1984 book - Ed's classic book was not about CSR. It was about how to manage firms. The name of the book is, "Strategic Management: a Stakeholder Approach" and it's about strategic management. It's about how to effectively run organizations so that you can produce maximum joint value, where value is created with stakeholders, you know, customers get value, suppliers get value, and employees get value and it's not all financial and it's not all the product.

Fernandes: But they also receive value - it's reciprocal.

Harrison: They produce it and they receive it. It's the joint creation of value, and that's what stakeholder theory is all about.

Fernandes: That's different than CSR.

Harrison: CSR is all about the environment and being sustainable and you know, doing good, but it's not so much about being a productive business. Stakeholder theory is about being the most productive business creating the most possible value for stakeholders. That's what stakeholder theory is.

Fernandes: All stakeholders.

Harrison: All stakeholders that are relevant to the firm. So you get some people who may claim to be a stakeholder, but the reality is they have nothing to do with the firm or the value it creates. And you can't spend a lot of time paying attention to those people, because if you do you're distracting yourself from your core - the stakeholders that matter most.

Fernandes: Fascinating statement. Now that's way different than CSR.

Harrison: That's right. So you get some pressure group and they're out there and they want you to do something, but they're not contributing anything to the firm; they're not contributing to value. Stakeholder theory would say, give them a voice, listen to them; but don't necessarily give them high priority because they're not engaged. Their only interest in you is in pressuring you to do something, some political reason or some socially acceptable politically correct thing that they want you to do.

You can look at it and see if it makes sense for your organization, but don't give in to it, because they're not a part of the productive capacity of the value creating system of the firm. They're just a critic on the outside, so again, stakeholder theory would say respect them, listen to them, but don't necessarily spend a lot of time trying to satisfy whatever it is that they're asking you to do, unless it makes sense for your firm and your core stakeholders.