

PEAK LEADERSHIP

Chip Conley

Why don't we *practice* business? I've come to realize that—unlike physicians in medicine or attorneys at law—we don't think of ourselves, of leaders in business, as running a practice. And, unlike sports, the arts, or religion, we don't practice our craft. We just do it . . . quite often, rather unconsciously.

For nearly two dozen years, I was CEO of a San Francisco-based boutique hotel company that grew to 3,500 employees. A decade ago, in the midst of the dot-com bust, I began to develop a set of principles—based on Abraham Maslow's iconic hierarchy of needs (Figure 1)—as an alternative operating manual for business, and shared the work in my book *Peak: How Great Companies Get Their Mojo from Maslow*. A seminal thought leader in the human potential movement, Maslow believed that we are driven not only by our more obvious needs in life, but by the need to fulfill our highest potential. He famously said, "What a man can be, he must be. This need we call self-actualization . . . man's desire for self-fulfillment . . . to become everything one is capable of becoming."

Reinterpreting his well-known theory helped me see that all stakeholders associated with a company have their own hierarchy of needs based on what I call the Transformation Pyramid (Figure 2). One of my revelations in using Maslow's work was that loyalty and differentiation are created for your key stakeholders higher up the pyramid, while what's at the bottom of the pyramid is a commodity. For example, the higher needs of employees tend to be the

self-actualizing effect of creating meaning in the work they do and at the organization where they work. And the transformational need for customers is to have their "unrecognized needs" met such that the company may know them better than they know themselves. There's even a pyramid that helps one understand the self-actualizing needs of investors.

Relationship Truths

At the core of the PEAK model is the Joie de Vivre Heart, which comes from the theory of the service profit chain. If you create a unique corporate culture, it tends to drive employee happiness that enhances customer loyalty that grows market share and leads to sustained profitability. This virtuous circle helps connect the three pyramids and develop a business model that helped my company triple in size during the worst of times. And I've found all kinds of other well-known companies, from Apple to Harley-Davidson, that have used Maslow's theory in running their business.

Once again we're in a downturn, but this time I've looked at how effective leaders use the principles of PEAK in everyday leadership practices to drive organizational performance. But business principles are only as good as the practices that back them up. Thus, recently, I've further developed PEAK into a set of PEAK Leadership practices that can assist any leader or leadership team to move their organization from mediocrity to excellence based on well-known theories of human motivation and behavior.

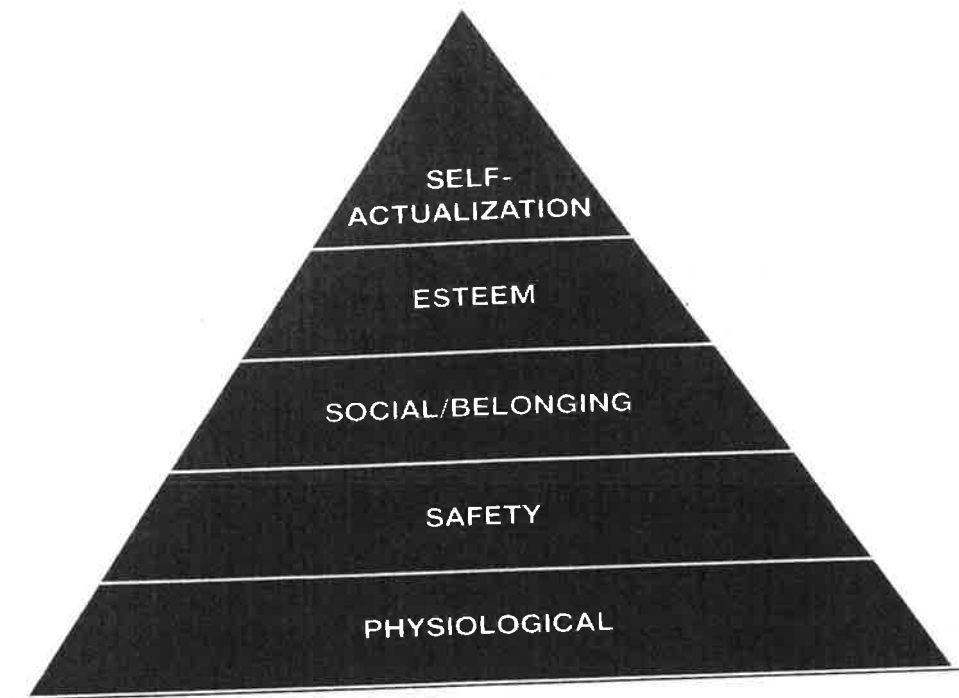


FIGURE 1. MASLOW'S HIERARCHY OF NEEDS PYRAMID

When a company embeds these principles and practices into how it grows its leaders, the end result is PEAK performance: a phenomenon of sustained growth—both for the organization and for those within the organization. Abe Maslow coined the expression “peak experiences” to define those moments when people feel they are in the right place at the right time, doing or being what’s just right for them. Great companies create the conditions for peak experiences to occur more frequently for their stakeholders, whether that is their employees, their customers, or their investors.

Seven Key Practices

What is unique about these practices is the way they build upon one another and the way the skills and habits that back them up help the PEAK principles come to life in an organization. While each practice can stand alone, combining them allows a PEAK leader to unlock the human potential that’s stored in every organization or team so that PEAK performance is more likely. More than foundational beliefs, they represent a new way of doing business.

Practice 1: Embody an inherently positive view of human nature.

The principles of PEAK have their roots in humanistic psychology and a basic belief that human beings are meant to “be all that they can be.” So, it’s not surprising that the fundamental first practice is assuring that a PEAK leader believes that humans—at their very core—gravitate to goodness when the right conditions exist for them to flourish.

Creating what Maslow called “psycho-hygiene” in a company means focusing on people’s best qualities and believing in what’s been known for half a century in business as a “Theory Y” perspective on management (as opposed to “Theory X,” a distinction articulated by Douglas McGregor). With Theory X, management assumes employees are inherently lazy and will avoid work if they can. As a result of this, management believes that workers need to be closely supervised under a comprehensive system of controls. With Theory Y, management assumes employees may be ambitious and self-motivated. They believe the satisfaction of doing a good job is a strong motivation and seek to create the conditions for employees to develop their own strengths

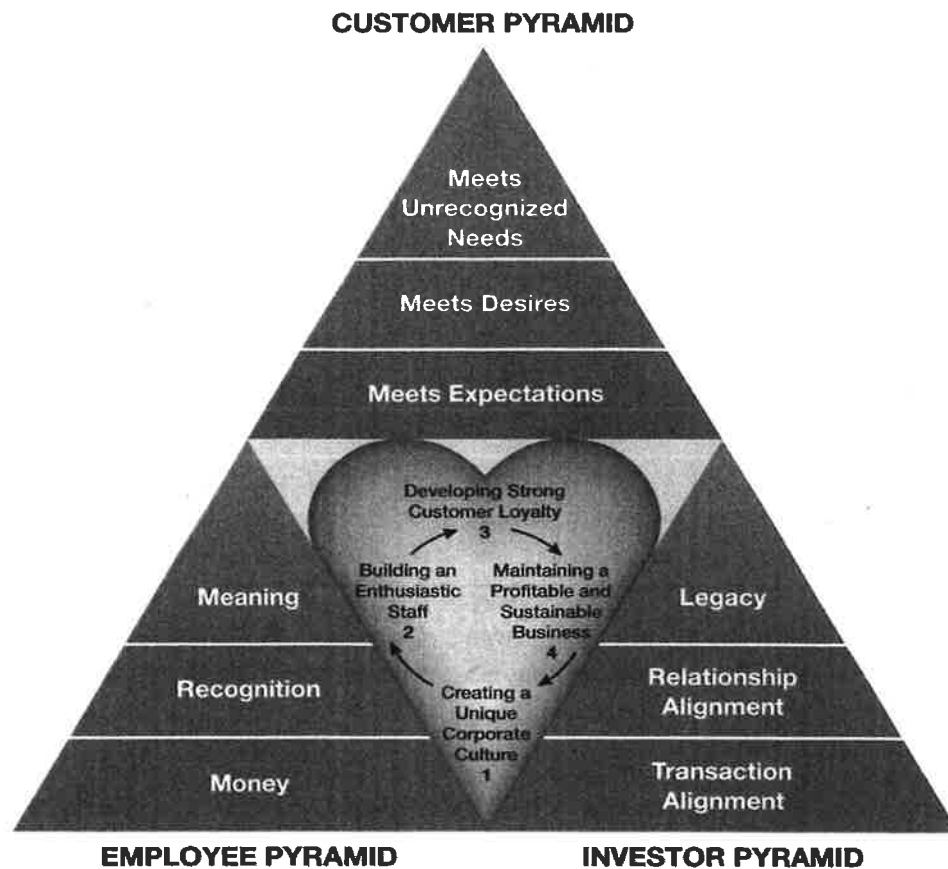


FIGURE 2. TRANSFORMATION PYRAMID

to be successful. While this latter theory may feel intuitively right to many of us, is your organization still structured in a Theory X style of business?

Practice 2: Create the conditions for people to live their callings.

Great leaders understand there are only three relationships you can have with your work: a job, a career, or a calling. A job tends to deplete you and a calling energizes you. Most employees live in the bartering world of work. The company provides a compensation package and recognition, and in return the employees give time and energy. Yet those that are living their calling have moved from external to internal motivation. And these employees are not exclusively focused on the specific collection of tasks they perform; instead they are more focused on the impact or purpose of what they do. The best hospitals have more nurses living their calling. The best airlines

(such as Southwest) have the happiest flight attendants. What are you doing to help your people find their sense of calling in what they do?

Practice 3: Promote and measure the value of intangibles.

In business, we are taught that leadership is all about managing what you can measure, but what's most easily measurable is the tangible in life. Yet is it the tangible or the intangible in business and life that creates value? In business, the metrics that track the tangible are well known: your profitability, assets and liabilities, cost structure, market share. Yet in reality, these tangible metrics are the result of a series of intangibles that drive excellence: brand loyalty and reputation, employee engagement, customer evangelism, the ability to innovate. Great leaders nurture, value, and evolve corporate culture—one of the most valuable intangibles—as a key differentiator

for their company. These intangibles are the inputs that drive the tangible output that most companies use to evaluate their performance. In the 21st century, great leaders are learning how to measure and benchmark these intangibles so that they're not out of sight and thus out of mind. Which intangibles are most valuable to your business—and how are you measuring them?

Practice 4: Move fluidly between being a “transactional” and a “transformational leader.”

Author James McGregor Burns once wrote, “Transformational leaders look for the personal motives in followers, seek to satisfy higher needs, and engage the full person of the follower.” Yet most management decisions require only transactional thinking because the goal is purely to optimize existing resources. A great leader is able to move fluidly between addressing the foundational needs that people have and helping them see beyond the short term so that they can be motivated by a compelling vision that helps them transcend their momentary challenges. How much of your time is stuck in the trenches as a transactional leader instead of focusing on how to create transformation?

Practice 5: Calibrate the balance between “conscious” and “capitalism.”

Business has quite often been seen as a zero-sum game. One person's win is another person's loss. Taken to the global level, some believe that capitalism's short-term gains are often to the long-term detriment of the environment and of certain communities. And at this crossroads, in an increasingly transparent world, this is why great leaders have to think more broadly about the impact of their decisions, not just on the bottom line, but on their broader stakeholders. In many ways, Wal-Mart took this step when it saw its stock price flatline even with sizable revenue and net income growth. Yet for socially conscious business leaders, cash flow is the blood that keeps the organization alive. Make sure the basic survival needs of your company are met. How do you balance the priorities of the broader community with the financial needs of your company?

Moving from external to internal motivation...

Practice 6: Focus on your customers' highest needs.

Henry Ford once pointed out, “If I asked my customers what they wanted, they would have said a faster horse.” PEAK leaders and companies understand what the customer wants even before the customer has articulated it and they realize that customer innovation requires a certain amount of mind reading and cultural anthropology. By doing this well (with Apple being the best example in the world), you create a movement and evangelists and reduce your need to spend money on traditional marketing. Are your customer satisfaction surveys just asking the obvious questions that will track people's expectations and desires, but not their unrecognized needs? How can you read your customers' minds?

Practice 7: Lead to PEAK

Just as a Sherpa does in the Himalayas, great leaders meet their people where they are on the slope and help them to see the natural path to the peak. They recognize the value of loyalty and mentoring as a means of building sustainable success in business. PEAK leaders champion personal development in tandem with corporate development, knowing that there's a synergistic effect of having a self-actualized individual in the workplace. This can be seen at companies like Google, with its well-known employee education programs such as “Search Inside Yourself,” an introduction to mindfulness practices. And, most important, they embody authentic leadership by being, not just by doing. How are you incubating a collection of great leaders?

Conscious people pay attention. It's true of spiritual leaders. It's true of business leaders. PEAK leaders pay

attention to the higher needs while not neglecting the basic needs that provide a foundation for their organization. Leadership is all about making conscious choices and knowing that the higher you are in a company, the more magnified your decisions and behavior will be throughout the organization.

The seven practices that define PEAK leaders can be summarized as follows:

PEAK leaders believe . . .

- Humans are basically good (Practice 1).
- Work is a powerful means for a person to live a calling (Practice 2).
- What is most valuable in life and business is often elusive (Practice 3).
- Elusive intangibles are found higher up on the hierarchy of needs pyramid and PEAK leaders lead from that transformational place (Practice 4).
- In the interdependent and transparent world we live in, PEAK leaders recognize that they have to be conscious of higher needs beyond their organization (Practice 5).
- You must focus on your customers' highest needs (Practice 6).
- PEAK leaders develop loyalty with their stakeholders by operating as role models all the time (Practice 7).

Operating as a role model all the time? That's quite a standard to live up to. I will finish with a story that relates to leaders as the emotional thermostats (or role models) of their organizations.

Oddly, during these past two downturns, I've turned to psychology books rather than business books as my guides on how to lead. Last downturn it was Maslow. This downturn it was Viktor Frankl and his landmark book, *Man's Search for Meaning*. In 2008, I was plagued not just by my company's existential crisis, but by my own as well. Before I get into detail, here's a quick reminder of Frankl. He was a Jewish psychologist in Vienna who, in the 1930s, proposed a new theory, Logotherapy, which suggested that meaning was the

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core motivation for humans. And then he ended up in a concentration camp and witnessed his theory in practice. His book tells the story of how—even in the worst of circumstances—meaning can be a fuel for life.

Of course, my challenges cannot be compared to Frankl's ordeal, but when I found myself going through all kinds of challenges in my personal and business life, I did feel like I was confined to a mental prison. With my more than 3,000 employees having some awareness of my downward tailspin, capped off by a broken ankle and a flatline experience, I was inspired to turn Viktor Frankl's poignant book into an equation. Why? Math is all about relationships, usually the relationship of numbers with each other. To me, it felt like a collection of ingredients inside me were influencing my "internal weather"—and if I could master these ingredients, maybe I could influence my emotions in a positive direction. Putting this in the form of math created a concise solution that I could use as a mantra, even on my worst days.

This first equation, $\text{Despair} = \text{Suffering} - \text{Meaning}$, may have saved my life as it helped me stop focusing on the constant of suffering and focus instead on the variable of meaning. I would end each day with a formal practice of "What did I learn today and how can I translate that into wisdom?" I would even do an emotional inventory once a week, asking, "If this is emotional boot camp, what emotional muscles am I working out that will serve me later?" Courage. Humility. Vulnerability. Resilience. I would write these emotions down and then imagine how they would help me to be a more emotionally intelligent leader.

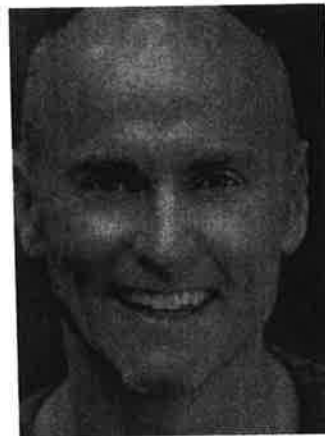
Organizations are Petri dishes.

It was at our annual management retreat late in 2008 that I could see my top 80 leaders were afflicted with suffering. They imagined how our industry, hospitality, was going to be pummeled by the recession and what effect that might have on their own sense of safety and security. I threw away my cheerleading speech and introduced a little of what Abe Maslow used to call “psycho-hygiene” (the ability to help people feel a catharsis that cleans them up emotionally in the midst of a crisis). I introduced my equation and asked how we would use this downturn to explore meaning in 2009. The ensuing conversation was painful, inspiring, and engaging, and reminded me how vulnerability can be a huge asset when it helps people let down their guard and be themselves. After this discussion, the next thing I knew, my execs were asking me for equations for happiness, anxiety, and even envy. And that’s when I knew we could start teaching emotional intelligence, in this equation form, in our Joie de Vivre University courses. It was true in the 1930s and it’s true again now. When the external world is full of chaos, we look for internal logic, and these emotional equations were a form of understanding the mystery of what fuels us . . . our emotions.

Conclusion

In sum, I spent nearly two dozen years as CEO of the company I founded, and I came to realize that CEO also stands for chief emotions officer. Organizations are Petri dishes. And emotions are contagious. Enlightened companies often talk about the “ecological footprint” that they have on the world. What if we started to consider the “emotional fist print” (from what feels

like a punch in the face) that a company or leader can have on an employee, especially in a recession, and the collateral damage it can have on that employee’s family. Great leaders understand that the most neglected fact in business is that we’re all human. So to better understand the humans that you work with, consider breaking open a psychology book and reacquainting yourself with what motivates and enlivens your employees, vendors, customers, and investors.



Chip Conley is the New York Times best-selling author of “Peak” and “Emotional Equations.” A prolific boutique hotelier who oversaw the conception, creation, and management of more than 50 unique properties, he founded Joie de Vivre Hospitality (JDV) at age 26 and ran the business as CEO for two decades, growing it into the second-largest boutique hotel company in America. After surviving two “once-in-a-lifetime” economic downturns, he is now the leading voice at the intersection of business and psychology, and in finding meaning at work. Conley contributes regularly to the Huffington Post and also writes his own blog at www.chipconley.com.