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DEVELOPING A CORPORATE CULTURE FOR THE MAXIMUM  
BALANCE BETWEEN THE UTILIZATION OF HUMAN RESOURCES  
AND EMPLOYEE FULFILLMENT IN THE UNITED STATES

*Richard Lidstad\**

ON APRIL 20, 1938, Winston Churchill spoke to the Canada Club in London, England, and marveled about the relationship between the United States and Canada: "That long frontier from the Atlantic to the Pacific oceans guarded only by neighborly respect and honorable obligations is an example to every country and a pattern for the future of the world." I think Churchill's comments fit this conference equally well as we gather from across our neighborly border to exchange ideas.

The timing of tonight's session calls to mind another quotation. It is a tongue-in-cheek definition of an optimist. An optimist is "any speaker who looks out over an audience like this one, and sees heads bowed and eyes closed and thinks they are praying." That quip might be especially valid at a meeting that begins after dinner on Friday night. I have to tell you, I have not had too many occasions like this one. On an ordinary Friday night, you and I would probably be out of gas by now coasting toward bedtime. However, tonight we meet to discuss a topic that I think is somewhat energizing because it is important and because it is very much in the minds of nearly everybody working for companies today.

At this point, a caveat about me. I am speaking entirely from a 3M perspective. I joined 3M in 1958. That means that I am nearing forty years with the company. I know a lot about my company and I know a little bit about a few other companies with whom I rub shoulders. Beyond that I do not have any expertise at all.

While 3M has been successful over a long time, it is important to note, however, that previous success only *indicates* future potential. Further, previous success *does not* guarantee continued accomplishment. The evidence of that is all around us, no matter how esteemed the company.

In the 3M context, we understand that going forward successfully demands even more innovation and productivity than it took to get us where we are. I think we are known as one of the most innovative companies in the world. That is because in this ever-more competitive world, that Darwinian code, "survival of the fittest," certainly applies. To remain successful, businesses have no choice but to adapt to change

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that is relentless, change that is continuous, and change that seems to be accelerating. Dinosaur is a word that describes companies that *cannot* or *will not adapt*. Any first-grader can tell you "extinct" is the word for dinosaur. All this is why we gather to discuss how we can help keep our companies and our people interested and productive while going through not just evolution, but in some cases revolution.

It is safe to say that we are going through a significant change at 3M in the first half of this year. Some call it revolution. I do not share that conviction, but everybody, I think, has perhaps a different definition about that issue. We are spinning off a new company. In fact, it was named on Tuesday of this week. It is called Imation. That is a combination of the word image and innovation. And it will begin life midway as a Fortune 500 firm with sales of about \$2.3 billion.

This new company will be composed of two 3M businesses. The first is data products, which means things like computer diskettes, cartridges, and tapes. The second is imaging systems, which includes printing plates and proofing materials, medical imaging systems, and photographic and x-ray films. We have determined that these businesses and the markets they serve are different enough that a different structure, a very focused, fast-paced, lean structure is required to compete successfully. At the same time and in the same announcement, we began exiting the videotape business that we invented forty years ago. After years of trying, we have concluded there is no possible way that we can achieve the 3M kind of financial results in these businesses . . . not now or in the future. But I might just say as an aside, that was a terribly difficult decision. When you invent products, there is an ownership that probably does not exist around any other kind of product, and it is extremely difficult to give up and acknowledge that you cannot make it. But we have made that decision.

In the course of these two moves, the spin-off of Imation and the exiting of our videotape business, 3M worldwide employment will be reduced from about 85,000 to 69,000 over the period of probably a year and a half. This attrition will occur in two categories. About 11,000 employees will move to our new spin-off company, and about 5,000 jobs will be eliminated, primarily through natural attrition and early-retirement programs being offered to various units. We expect that involuntary separation from the company will number in the hundreds, hopefully, the low hundreds. In fact, we would like to get that number as close to zero as possible. I am hopeful that we can accomplish that in the United States and Canada.

I mention this because in times of fundamental change, it is even more important to maintain, and even enhance, a climate that encourages innovation and productivity while achieving employee satisfaction. Margaret Kerr called our attention to the fact that that might be dissidence. We do not think so at 3M. It is a big order, we think one that

can be filled with true concern and hard work.

In my remarks tonight, I want to get beyond the kind of change I just described and into the fundamental principles that guide our response, not only to change like this, but also to every aspect of operating our company. If you wish, later on, perhaps we can talk about change and reorganization.

I would like to cover three points tonight. First, 3M's vision, values, and human resources principles, which is our road map to the future. Second, I will explain how we implement those principles. And, finally, I will weave in some anecdotal examples as the proof of the pudding.

Before beginning, however, I would like to say something about 3M's special relationship with Canada. 3M is more than a U.S. company. We are also 3M Canada with headquarters in London, Ontario. In addition, we are located in sixty other countries around the world. Our special relationship with Canada is evident at our global headquarters in St. Paul where three of our top ten officers are Canadian-born: our board chairman and CEO, Desi DeSimone, our chief scientist, Dr. Bill Coyne, and our head of marketing and public affairs, Marc Adam. That is thirty percent of our senior management, which is a pretty solid Canadian presence.

3M operates on the basis of corporate vision and values. That is supported by four human resources principles. Our vision is really simple. We want to be the most innovative company in the world. The second piece of that is to be the preferred supplier in the markets we serve. The thing I like about that vision is it is simple enough that our employees can remember it and it is a challenge to live up to. It is a challenge to be able to claim that we have a right to being the most innovative company in the world.

That vision is supported by our four corporate values. They are: commitment to satisfying our customers with superior quality and value; providing investors with an attractive return through sustained, high-quality growth; respect for our social and physical environment; and, being a company of which our employees are proud to be a part. I would like to address each one of those in more detail.

Commitment to satisfying our customers means that we want to provide the highest quality products and services consistent with our customers' requirements and preferences. The idea of customer preference driving everything we do has really come to the forefront in the last five years. That is what we talk about in our vision of being the preferred supplier in the markets we serve.

The second aspect is making every transaction a satisfying experience for our customers. The idea here is speaking to as many of our employees as we can about whatever the transaction is, whether it is answering a letter, answering a phone call, a personal contact — that it

be a satisfying experience for that customer.

And, finally, finding innovative ways to make life easier and better for our customers. Last year at this conference our executive vice president and vice chair, Ron Mitsch, talked to you about innovation. For those of you who were there, you may remember that.

By providing investors with an attractive return, our second value, we mean our four financial goals which are pretty well public knowledge and have been stated for a number of years. It is really what the market holds us to, I think: growth in earnings per share averaging ten percent a year or better; return on capital employed of twenty-seven percent or better; return on stockholders' equity of between twenty and twenty-five percent and then; finally, at least thirty percent of sales each year from products that were developed in the last four years.

Our third value is respecting the social and physical environment. By that we mean complying with laws and meeting or exceeding regulations; keeping customers, employees, investors, and the public — in other words, our constituents — informed about our operations; developing products and processes that have a minimal impact on the environment, staying attuned to the changing needs and preferences of our customers, our employees, and society in general. Sometimes that is called living in harmony with both our social and physical environment. And then, finally, uncompromising honesty and integrity in every aspect of our operations.

The fourth value being a company of which employees are proud to be a part, we mean four things: respecting the dignity and worth of individuals; encouraging individual initiative and innovation in an atmosphere which is characterized by flexibility, cooperation, and trust; challenging individual capabilities, and valuing human diversity and providing equal opportunity for development.

Those last four make up what we call our human resources principles. The four values I just covered were really articulated for the first time four years ago, although the human resources principles have been in existence for about twenty years.

The interesting thing, having served on the team that developed these values, is that we were not attempting to say something new. What we were really trying to do is capture the essence of the company. We wanted our employees to think that makes sense, and that is, by and large, the reaction we got.

Before telling you more about our HR principles, I want to emphasize that these words become meaningful only when followed by action. In this respect our corporate values and human resources principles are like the Ten Commandments. Recitation counts for nothing, implementation is everything. We think, though, when implemented the human resources principles really do increase employee satisfaction. Further, these principles really do put dollars, franks, marks, and yen

in the bank for 3M. They make 3M a company of which employees are proud to be a part.

So, once again, let me repeat, the four human resources principles are respecting the dignity and worth of individuals; encouraging the initiative of each employee; challenging individual capabilities; and providing equal opportunity.

The first principle, respecting the dignity and worth, means providing a fair, challenging, and cooperative work environment. It means, practically speaking, that we have to bend the organization to fit the individual instead of forcing the person to fit the structure. The more productive and effective the employee, the more we end up trying to shape the organization to produce that productivity and satisfy the employee. A couple of examples: we offer dual-ladder promotional opportunities for scientists. On the one hand, a scientist at 3M can remain at the bench, rising on ability and results to the rank of corporate scientist, which is roughly the equivalent of division vice-president at 3M. On the other hand, and with the appropriate skills, that same scientist also could choose to move into technical management, even general management. (We even have a patent attorney who began his 3M life in the laboratory.) Many of our scientists spend a portion of their careers on either rung of that dual ladder, and we have other areas that offer similar kinds of opportunities. An example that comes to mind would be our customer service reps where it used to be in order to advance, you had to move into field sales. Today we have a career path in our logistics organization all the way to senior management for customer service kinds of people.

The second principle involves encouraging the initiative of each employee. What that really means is providing direction and freedom to work creatively. It requires managers who are enablers, managers who make it possible for employees to succeed. That means that you would also have to make it possible for employees to fail. A lot of managers have great difficulty with that. They keep wanting to prop people up and prevent them from failing, with good intentions. But, in fact, failure is one of the very best teachers. People often learn more by failing than they do by succeeding. At 3M, enabling means giving teams their head to proceed with minimum supervision. It also means allowing our scientists and technicians to spend fifteen percent of their time on projects or ideas of their own choosing, not the company's choosing. Recently a scientist used his fifteen percent time to develop a new mouse pad for personal computers. This product, which is called the 3M Brand Precise Mousing Surface, allows users to control cursor placement without the slip and slide that you get on a typical fabric mouse pad. It uses 3M's unique microreplication technology to create a high-traction surface on thin plastic. It is kind of the computer mousing equivalent of what four-wheel drive does on ice and snow.

Our Genesis program is a court of last resort for scientists looking for start-up money. If they cannot get the money elsewhere, they can petition 3M for seed money to jump start their "orphan ideas." A lot of the fifteen percent ideas wind up as Genesis grants.

We have a similar thing called an Alpha grant; only this is for non-technical employees who have their own ideas to implement. One such Alpha grant provided seed money to create an employee newspaper that is partially funded with paid advertisements. This publication, the *Stemwinder*, produced weekly for 12,000 employees in the St. Paul area, it is very popular with both readers and advertisers alike.

The third principle is to challenge individual capabilities. That emphasizes giving employees the widest possible latitude to pursue their own desires as well as meeting 3M-imposed job requirements. The idea is to give employees a road map of where to go and leave them free to choose the route. Our boss, Desi DeSimone, has a popular way of saying it. He says, "you know, I am only concerned if you are going in the right direction: north, south, east, west. Whether or not we have to zig and zag a little bit to get there is not of consequence." There is an old aphorism that says, "It is better to ask forgiveness than to seek permission." Now, think about that for a little bit. There have been so many great practitioners of that approach in 3M. It gives managers who are control-minded fits, but it is the way we encourage innovation. That is 180 degrees out of that old phrase by Henry Ward Beecher which said, "To err is human; to forgive is not company policy." Do you remember that one?

Just a comment about innovation. It is perilous to challenge innovative individuals to action because you really cut loose the spirit that inspired pioneers to push back the frontier. We are talking about risk taking, lots of risk taking. When you encourage challenge, even the timid become more venturesome and will really start challenging the barriers that get in their way. The key here is to create a climate where failure is regarded not as an occasion for punishment, but as a learning experience. That is important because risk takers fail far more often than those who are risk averse. This is because risk takers play to win, whereas the risk averse play not to lose. That is a really important distinction.

As an aside from that, when I was a division general manager in the early '80s, we had a project that I thought was a wonderful opportunity. In a bit of enthusiasm, I stood up in front of our corporate management committee and said, this project is not only going to be successful, but it is going to be hugely successful. In fact, my prediction is that in three years, we will have a fifty million dollar business here. I was convinced of that at the time, and I think I was quite compelling in my argument.

About six months later we discovered that there were some funda-

mental technology issues that would not allow us to be successful or to even produce the product. Consequently, I had to go back to my boss and say, oops, I was wrong. We really do not have a business potential here, we have to shut it down. I walked into his office with great fear and trepidation figuring that I could very well get my walking papers. I can remember he said, how much is this going to cost us, Dick? And I said, well, I think it is going to cost about five million dollars. And we are going to get nothing for that, right? I said, yeah, except some experience. He said, well, five million dollars, you know, that is about the cost of a good-sized laboratory project. We only succeed in about one out of five of those. Why don't we just chock it up to a laboratory project that did not make it? And with that, he gave me a pat on the back and sent me out the door. I will tell you, I was ten feet tall walking out of there.

Now, what kind of attitude do you think that gave me the next time we had an opportunity? I redoubled my efforts to be right, but did not shy away from taking the risk. That is part of creating the climate. For wisdom in such matters as risk taking, I suppose you could turn to Confucius who said, "Our greatest glory is not in never falling, but in rising every time we fall." Or perhaps if you want to be more contemporary, you could listen to the eminent Wayne Gretzky, of the Los Angeles Kings: "You miss one hundred percent of the shots you never take." But our own philosophy was set early on in the company's existence. To this day, nobody has expressed the idea better than our first president and chairman, William McKnight, who is the architect of 3M's success. He is the guy who put the "Scotch" in Scotch tape.

In 1948 McKnight wrote a letter to a division manager that you will see posted on the walls of offices and hallways all around 3M. He wrote: "Mistakes will be made, but if a person is essentially right, the mistakes he or she makes are not nearly as serious in the long run as the mistakes management will make if it is dictatorial and undertakes to tell those under its authority exactly how they must do their job." That is kind of the forerunning management philosophy that is driving the climate of innovation and risk taking. Empowered people will not do everything the way you want them to, and that requires a bit of patience, lip biting, and hand wringing. But longer term, the organization benefits greatly by the way people grow happily in their jobs. It is also possible to achieve some productivity gains by increasing the span of control or the span of responsibility because control is only one of the things that differentiates managers from leaders. For example, the number of senior executives at 3M has decreased from 136 just four years ago to 102 today. Every once in a while I ask how far in that direction we are going. I do not know what the answer is, but my guess is if you look at us five years from now, it will be more like eighty. Empowerment is the reason for these increases in span of responsibility.

I think, however, it is important to say that if you are going to “talk the talk” of empowerment, creativity, and risk taking, you have to “walk that walk” as well. Otherwise, you risk turning your best people into people who spread the contagious cynicism about “being empowered to do precisely what I was told to do.” You cannot afford to let that happen.

Another example of 3M’s creativity is our Pollution Prevention Pays Program, 3P for short. It is an example of how 3M seeks to challenge individual capabilities and the very good business reasons behind it. The goal of the 3P Program is to eliminate pollution sources before the cleanup problems occur. The program is driven both from top-down and from bottom-up. From top-down, 3M sets the direction and the goals and provides funding. From the bottom-up, employees strive to design processes that eliminate pollution sources. How they do this cannot be dictated from above. Only employees at the working level know and understand the nitty-gritty of products and processes. Only they are equipped to tweak out pollution sources. Much of our pollution prevention work involves development of solvent-free manufacturing processes for our products, including our popular Scotch Brand Magic Transparent Tape. This is not just corporate horn tooting or environmental flag waving. The results here flow straight through to the bottom line. Since the 3P Program was established twenty-one years ago, we have eliminated discharge into the environment of 1.8 million pounds of air, water, and solid-waste pollution and have achieved total savings of \$750 million. That does not sound like a lot of money in our context, but that \$750 million represents first-year savings from each program. The cumulative savings for all of these efforts over twenty-one years are much greater than that. This pollution prevention pays idea, the idea that you invest money in reducing pollution which will eventually cost less in the manufacturing process, I think was laughed at to begin with. Today it is a fundamental part of our manufacturing strategy. Today we look on pollution prevention as a way to control costs, become a quicker company and, therefore, a more competitive company. That makes us a lower-cost producer because pollution prevention really does pay since pollution costs money.

The fourth principle is to provide equal opportunity. This means being comfortable with diversity, evaluating performance objectively, and rewarding performance equitably. Both our customers and work force are becoming more diverse. By the turn of the century, there will be even greater diversity in business. We have to learn not only to respect, but to value the differences that exist in our work force and our marketplace and to use them to competitive advantage. And by diversity here, I am not just talking about race, gender, and age, the typical Title VII things. I am talking about cultural diversity in the global workplace which can be a huge problem, or a huge advantage. If we

accept that differences are not only good and sameness is dull and non-competitive, then it is easy to see that diversity, in fact, can be a competitive advantage. When you put a group of people together with diverse viewpoints, you get new ideas. This is repeated every day at 3M.

Understanding diversity is critically important when people are working in teams toward common goals. The current need is for people who can think outside their own disciplines and work with others to find the best solution to problems. But they have got to accept and respect the people they are working with first. That includes getting polar opposites on the Meyer-Briggs indicator together to meld their abilities. But the bottom line for diversity is really our first human resources principle, and that is respect for the individual. All the efforts we have spent on diversity, equal employment opportunity, and affirmative action over the years have really boiled down to an understanding that all we are really talking about is respect for the individual — that drives everything else.

Reward, obviously, means salary and benefits. However, salary and benefits are not the essence of employee satisfaction. I am one of those human resources professionals — I can call myself a professional now because I have been around longer, about two, three years — but I am one of those who debunks the idea that financial incentives really work at all. I think the recognition side of financial incentives has great benefit, but I do not think the money itself does a whole lot. We are really talking about Maslow and the idea of self-actualization that he talked about so many years ago. What we are really talking about is recognition rather than rewards. That takes a lot of form. We have got all kinds of societies that are prestigious, a formal recognition program. However, our employees keep telling us what is really important is a pat on the back, or recognition of a specific accomplishment, and the simple word “thanks.”

I want to talk a little bit about productivity and its relationship to 3M culture by going back to William McKnight, the founder of 3M, and another man by the name of Dick Drew who invented masking and cellophane tape. Drew's first invention was masking tape, which he created *in spite of* his boss, William McKnight, who was a real giant. I mean, ignoring McKnight was like ignoring God. McKnight told Drew to quit working on masking tape and to get back to working on sandpaper, which was our first product. Dick Drew, however, just would not do it. He continued working on masking tape pursuing his beliefs in the face of any kind of obstacle. And McKnight let him do it. Even though publicly he was saying stop, behind the scenes he was kind of acknowledging that it was going on. What happened is the creation of masking tape and later, cellophane tape. The relationship between Drew and McKnight ended up being a synergism. Together their value was greater than the sum of their individual contributions. Over the years,

we have had lots of those kinds of situations.

Let me give you one other example. A man by the name of Lew Lehr was working in one of our tape laboratories in the '50s. We got a proposal from a customer suggesting that we make a surgical drape for operating rooms that had adhesive on it. Lew and another technician decided that they would develop that kind of product. It did not go very well. In fact, they did not sell much of it at all.

Finally, a senior vice president said, get rid of that. It is a lousy idea which is not going to work. In Lew Lehr's own words, let me quote, "As obedient employees, my partner and I readily promised to kill the surgical drape project just as soon as the inventory was gone. However, in the spirit of Dick Drew, I just did not get around to telling the factory to stop making the stuff until we had an even larger inventory. And you know what? The inventory never quite got low enough to call off the project. It was inevitable that we were going to get caught, however. But by that time, key accounts were demanding the product and that we stay in business."

Now, the end of that story is that surgical drape is still being sold as part of a large line of health care products. Lehr rose in management and became head of that health care business, and eventually retired as chairman and CEO of 3M. That is just another example, and, of course, there are others like that, the most recent and the most well-known being the story about Post-it Notes and how they were developed the same way.

I can remember when Post-it Notes were rejected for the third time by senior management. However, somebody got the bright idea of going to the user, in this case, the executive secretaries of the executives of 3M. They sent executive secretaries Post-it Notes and just said why not try these? They were so excited about the Post-it Notes that the executive secretaries went to their bosses and said this is a great product. That, ultimately, is how the product got accepted by management.

I can summarize everything I have said in three active verbs. They are encourage, reward, and recognize. Further, it is important to push people to stretch beyond their limits, even at the risk of failure, and to treat mistakes not as failure, but as learning experiences.

The U.S. Government published an interesting report about a year ago. It was called *The Road to 2012: Looking Toward the Next Two Decades*. I will conclude with two observations from this report. "Innovation is not found in the middle of the status quo. Innovation always starts at the edge. And out there on the edge, the landscape is uncertain and unstable. The edge is rife with risks. But the edge is also home to the beginning of the future."

Human resources professionals can contribute most to create and maintain a climate in which people can flourish. In fact, I would esti-

mate that fifty percent of my department time is spent trying to maintain the climate and the relationship that exists between 3M and its employees. This kind of climate does not just happen. Trust is the essential ingredient. Trust must be earned by fair treatment, respect for the individual, and honesty.

Our role is to help make it practical for people to take steps toward the edge, out there at the beginning of the future. I can think of no place better to end than with this beginning.

