



Prepared by:
Phil Clothier, CEO of
Barrett Values Centre

The Cost of Fear: How much do limiting values cost an organization?

All organizations operate with a set of conscious and unconscious values. Some of the values will be positive, such as open communication, trust, honesty, integrity and customer satisfaction. If these values are fully accepted and practiced daily, over time they will become an integral part of the culture of the organization and a positive asset.

It is also possible for organizations to operate from negative or potentially limiting values. Examples of these values include bureaucracy, manipulation, empire building, and information hoarding. Another way to describe potentially limiting values is to use the term fear-based values. Fear-based values are so called because the behaviors associated with these values are either based in fear or create fear, usually both. Most organizations, depending on the health of the culture, will operate from a mix of positive and potentially limiting values.

"So we have a poor culture and unhappy people, but that doesn't cost us money, does it?"

Quotation from a Chief Financial Officer

The energy associated with maintaining fear-based values is energy that is not available for useful work. Our research has shown that fear-based values can dramatically reduce the profitability of an organization, and in a worst-case scenario, force the business into bankruptcy.

For example, internal competition, a fear-based value, is rooted in fears concerning self-esteem. In this circumstance, people compete rather than collaborate because they are more focused on self-interest than the common good. People who practice internal competition see life as a zero-sum game with winners and losers. They must win at all costs. Empire building and information hoarding are motivated by similar self-interest needs. Hierarchy is rooted in fears concerning status and trust. Bureaucracy is rooted in fears concerning order and control.

In hierarchical structures, the underlying fear is "people cannot be trusted" and therefore they must be supervised very closely. The more loyal and trusted one is within the organization, the more status one gets in the



The Cost of Fear

hierarchy. Another example of fear-based behavior is those who seek self-esteem through status and want to look good in the eyes of their superiors. They will be concerned about their image. They will blame others when things go wrong, and they will manipulate the system to finish up on top.

In bureaucracy, the underlying fear is “things will fall apart if order is not maintained” and “people will cheat the system if there are no controls.” Therefore, actions must be checked and double-checked. Bureaucracy and hierarchy feed off each other by giving people power over others. Power seeking leads to empire building – another fear-driven approach to achieving self-esteem consciousness.

All these activities that stem from fear create cultural entropy. The energy involved in “doing” internal competition, bureaucracy, hierarchy, empire building, image, blame and information hoarding is not available for useful work. The effort and time that goes into supporting these potentially limiting values results in a loss in productivity, efficiency and missed opportunities.

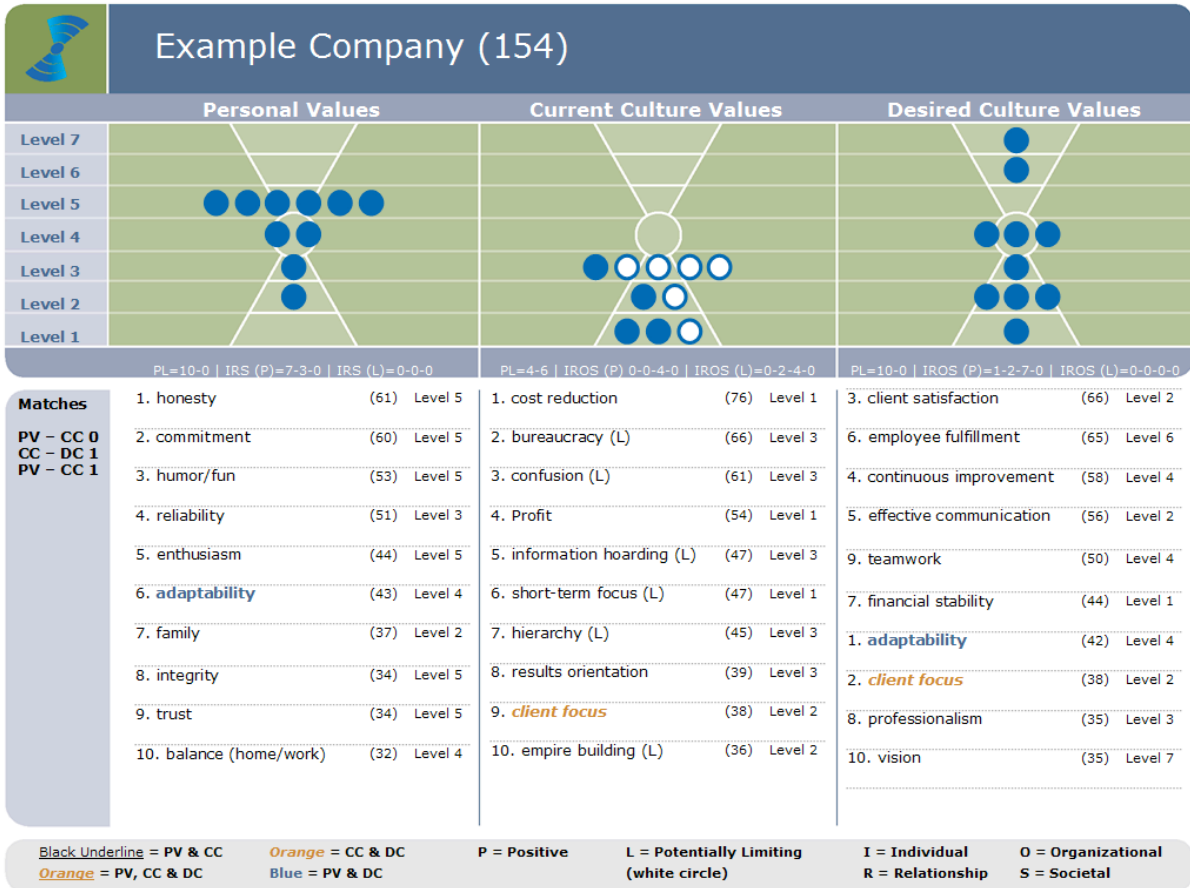
This is the basis for the “cost of fear” calculation. After we have completed a values assessment, and we know what potentially limiting values are showing up in the culture, we ask groups of employees at different levels of the organization to estimate the percentage impact of each of the potentially limiting values on lost productivity and lost opportunity. Employees must give real examples to back up their estimates. We aggregate the results by staff level and then multiply the average percentage impacts of each potentially limiting value on lost productivity by the total employee costs (salary plus benefits). We multiply the average percentage of lost opportunity by total sales. We add the results of these two calculations together to find out the financial impact of the cultural entropy on the organization.

The following example shows the personal, current and desired culture of 154 employees at a real company (name withheld). The assessment of the management team produced a similar set of values.

POTENTIALLY LIMITING VALUE	ANNUAL COST
Bureaucracy	\$2,519,465
Confusion	\$4,450,090
Empire Building	\$2,470,554
Information Hoarding	\$2,287,663
Hierarchical	\$874,058
Long Hours	\$263,072
Short Term Focus	\$4,873,145
Other elements	\$1,246,140
Total	\$18,984,190



The Cost of Fear



This organization had an annual income of \$48 million and a staff salary bill of \$9 million. They reported a loss of \$0.7m in the year in question. According to this calculation, the cost of their seven potentially limiting or fear-based values was in the region of \$18 million.

The “cost of fear” calculation gave this organization some hard financial numbers on which to justify the need for a cultural change. Even if the estimates were only 20% correct, the savings from eliminating the cost of fear would have been \$3.6m, sufficient in this case to turn a company loss into a significant company profit.

We are the first to admit that the results are not scientific. They do, however, provide an estimate of the monetary impact of the potentially limiting values on human performance. We have found that reducing the level of cultural entropy by 10 points – from 30% to 20%, can have a significant positive effect on the bottom line results.