

A blue background with a network diagram consisting of numerous small white circles connected by thin white lines, creating a complex web of connections.

The Freedom Report

An Empirical Analysis
of How Freedom Impacts
Business Performance

HOW Metrics™: New Metrics for a New Reality



IN THIS REPORT:

Freedom: The 21st Century Competitive Advantage	3
The <i>Freedom Index</i> : Measuring the Impact of Freedom	5
Values at the Core of 'Freedom From/Freedom To'	8
The Era of Freedom	9
Freeing the Enterprise	10
Methodology	11
Appendix	12

Please visit freedom.LRN.com
to explore the Freedom Report™
data and findings in more detail.

For the first time, the level of innovation, financial results, and long-term performance of companies that are animated by the proper balance of freedoms can be compared to those characterized by top-down, command-and-control management. The results are groundbreaking. Welcome to the *Freedom Index*.

Freedom: The 21st Century Competitive Advantage

The *Freedom Index* is the definitive new measure that shows how companies that get freedom right can navigate the existential threats and reap the new rewards presented by today's economy.

The greatest challenge of the modern economy is the inescapable dual need to grow a company and make it more resilient at the same time. Investing in the capacity to simultaneously survive and thrive is the central business imperative of the 21st Century.

Conventional methods of managing and governing organizations are too programmed and inflexible for today's world. They are inadequate to address strategic and operational complexity, the lightning speed of change, and the imperative to tap deeper levels of human innovation. Legacy controls, processes, and organizational designs have become an albatross around the neck of business. We have grown too reliant on structure and hierarchy.

At no point has the need to address such an imbalance been more urgent.

In response, LRN conducted a rigorous examination of large U.S. companies that sheds light on how they can meet this need. The central finding is that the best path to harmonizing resiliency and growth is charted by fulfilling a primal disposition and fundamental human right.

Freedom.

We studied the role of freedom in the corporate setting because we have long been fascinated by how individuals perform without conventional constraints and barriers. While strategists and organizational experts have explored the forces that drive success—analyzing innovation, corporate structures, and employee outcomes like “stack ranking”—far too little attention has been paid to the impact and implications of freedom.

The new imperative is less about reforming our business practices than returning to a moral framework for business. In fact, the forefather of modern economics,

Adam Smith, wasn't an economist but, rather, a moral philosopher. And he never used the word “capitalism.” He was in touch with something more fundamental. Smith's deeper appeal was to the concept of “natural liberties.” His treatise was rooted in the knowledge that sustainable growth is based on a foundation of freedom that should be systematized and scaled.

The very essence of business is *free* enterprise. Yet many companies shackle themselves with old mindsets and outmoded systems. This is especially debilitating in our hyper-connected and transparent era, in which the nature of our relationships affect decisions and behavior more than ever and in ways as never before. Whether it is the purchase of a new product, the willingness to go the extra mile for one's job, or the decision about a partner, individuals are increasingly considering the nature of relationships and the values that inform them.

This reality renders organizations as the sum total of their relationships. When relationships are overly regulated and constrained, employees under-contribute, customers seek alternatives, and partnerships crumble. In contrast, by creating freedom and catalyzing natural liberties in individuals, companies create significant achievement.

The analysis and evidence in this report reveal how the right kind of freedom creates differentiated competitive advantage. We call that ‘Freedom From/Freedom To.’ This is neither an abstract notion nor a semantic distinction. It is a profound idea, and it provides guidance toward innovation, operational effectiveness, and sustainable growth.

- **‘Freedom From’** is a necessary condition for success in life, society, and business. It speaks to the liberation of individuals from hierarchy, oppression, and stultifying rules. It is a key first step in creating the ability of individuals to achieve and fulfill their potential—whether they are establishing freedom from a tyrannical government or a top-down corporate management style. ‘Freedom From’ is about removing old structures and allowing multiple actors to make broad contributions.

But ‘Freedom From’ by itself is not sufficient; while liberating individuals, it doesn’t establish moral frameworks in which to operate. ‘Freedom From’ needs to be followed by a meaningful journey toward ‘Freedom To.’

- **‘Freedom To’** is a shared condition where we are capable of acting in the common interest. ‘Freedom To’ creates alignment toward shared objectives and mutually positive outcomes. It only occurs when strong missions and deeply ingrained shared values underpin relationships and inspire behaviors.

‘Freedom To’ goes beyond ‘Freedom From.’ More than the absence of constraint, it inspires individuals to contribute fully, to express themselves, to share values, and to extend trust.

In sum, freedom does not mean simply dissolving rules and limits. That would be anarchy. This is not about jettisoning obligations and responsibilities because they happen to be inconvenient. Appropriately calibrated rules—and the rule of law—create space for progress and innovation.

Getting this dynamic right requires understanding the operating environment of our times. The breakdown of traditional power structures all around us has left behind a vacuum as the old controls wither. We see it in the Middle East—where the Arab Spring was a manifestation of the powerful impulse—but also in the start-up culture, where young people flock to pursue ‘Freedom From’ conventional corporate trappings.

Freedom is on the rise in myriad ways. The interdependencies of today’s business, culture, and communications expose more of us to the freedom of others, inexorably increasing demand for more of the newfound freedom that we see others exercising. Our expectations for transparency, collaboration, participation, and the basic right of self-determination are consonant with the highest common denominator of global freedoms. And technology is proving to be a great liberator, powering new forms of interactivity and commerce that support the rise of freedom in our business and personal lives, which are rapidly fusing.

But how do we contend with—and benefit from—the abundance of newfound freedom?

Realizing freedom’s rewards requires an understanding of context. To create competitive advantage, businesses need to create space by carefully fostering ‘Freedom From’ and fill that space with ‘Freedom To.’ For example, they need to transition to flatter structures and release employees to experiment and take responsible risks. They can increase employees’ choices about what projects to work on and reward high performers with additional responsibilities in their areas of interest. They can give customers simple pricing structures and fully engage them in dialogue.

Our empirical analysis, below, demonstrates definitively that superior business performance is linked to businesses that embody the right ‘Freedom From/Freedom To’ dynamic. The *Freedom Index* offers deep diagnostic and explanatory power and reveals the “freedom fitness” of an organization. It is an answer to the urgent challenge of organizational leadership in the 21st Century.



High-freedom companies are at least 10 times more likely to achieve high financial performance.

The Freedom Index: Measuring the Impact of Freedom

To measure how freedom impacts business performance, LRN constructed the *Freedom Index* from a survey of executives at large U.S. corporations.¹ The *Freedom Index* assesses 'Freedom From/Freedom To' across four spheres of influence: employees, customers, supply chain partners, and community groups. It gauges the extent to which freedom animates relationships within and among those spheres.

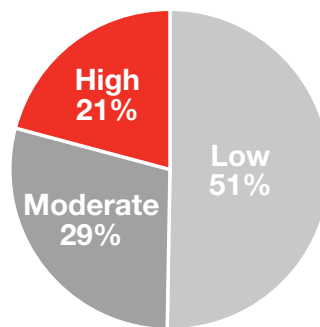
By elevating their score on the *Freedom Index*, companies can resolve the duality between resiliency and growth we

described at the outset, and achieve outlier performance through the power of 'Freedom From' and 'Freedom To.'

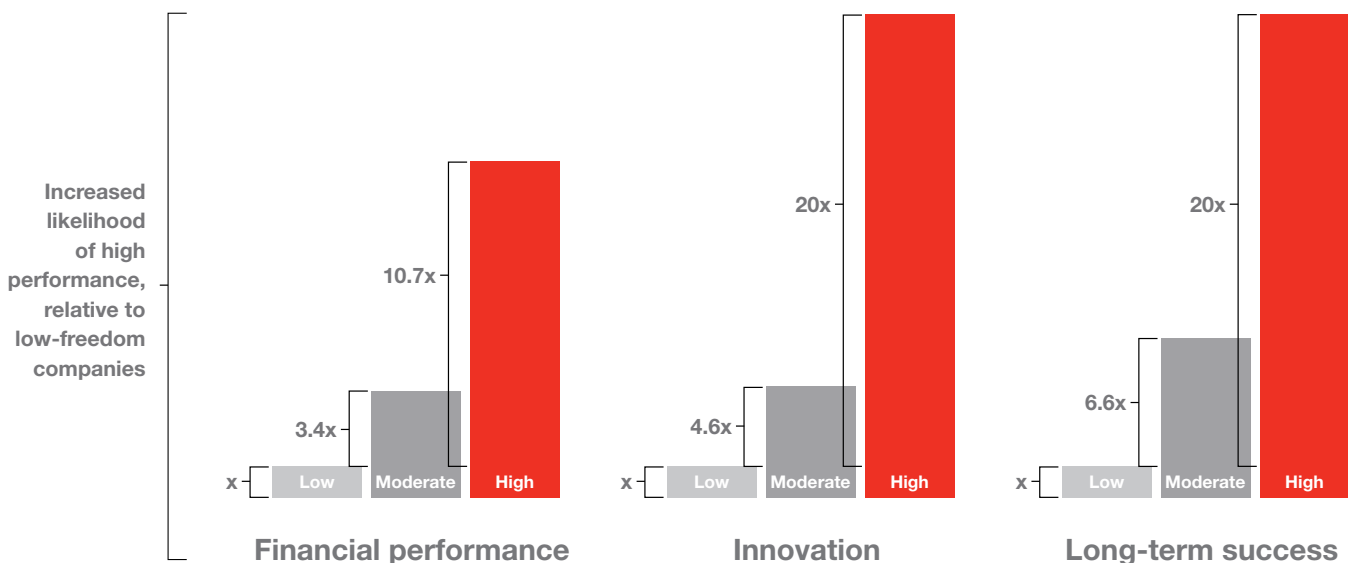
The index quantifies the impact of freedom on corporate performance in three areas—financial results, innovation, and long-term success. High-freedom companies—those that are fostering 'Freedom From/Freedom To'—quite simply outperform their lower freedom counterparts. For example, they are at least 10 times more likely to achieve high levels of financial performance.

But freedom doesn't come easily. We found that only 21 percent of companies demonstrate high 'Freedom From/Freedom To.' These companies are going flat, opening

Percentage of Companies With High, Moderate, and Low Levels of Freedom



Freedom Boosts Business Performance



¹ In November 2013, we received 834 responses to an online survey from professionals and executives at U.S. companies with greater than 1,000 employees or more than US\$ 1.5 billion in revenue.

Only 21 percent of companies have successfully developed 'Freedom From/Freedom To' in their overall stakeholder relationships.

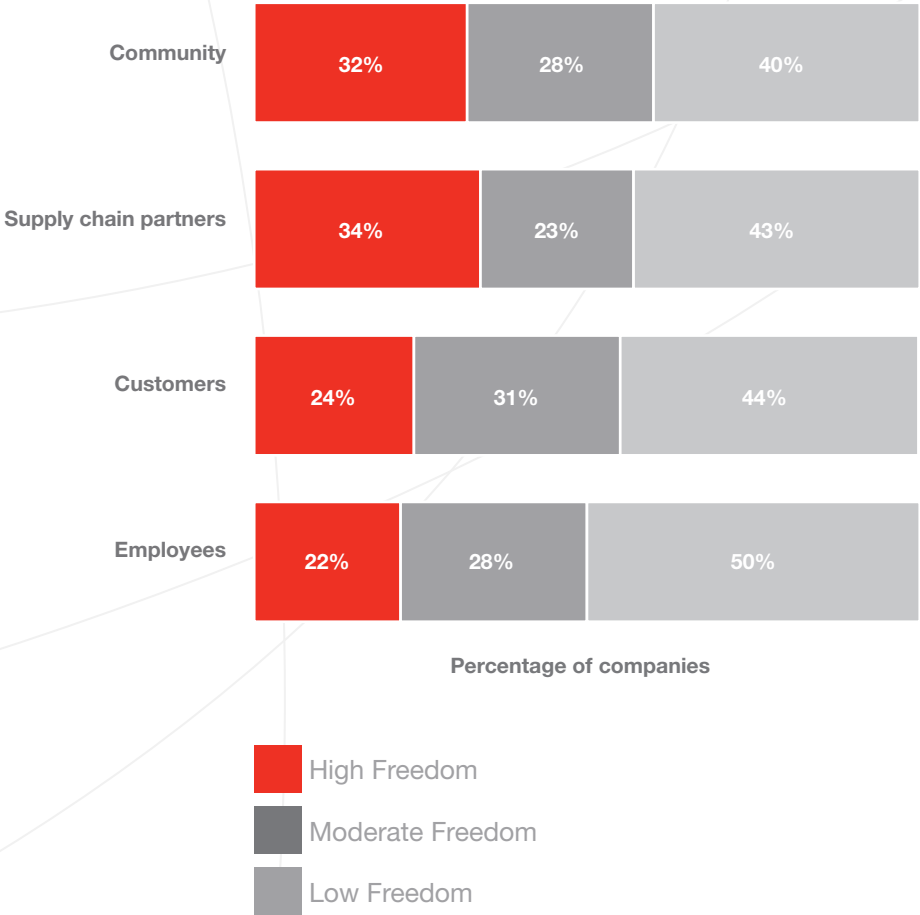
their workspaces, and deemphasizing titles. But it goes beyond that. They are deliberately addressing the need for innovation and global collaboration. They are intentionally undertaking journeys toward scaled, rigorous, values-based systems.

In striking contrast, more than 50 percent of companies fall in the low-freedom category. Companies find it particularly challenging to develop freedom in their relationships with employees and customers. This has an added impact, as the study indicates that low freedom in these two spheres diminishes a company's ability to build healthy relationships with supply chain partners and community groups.

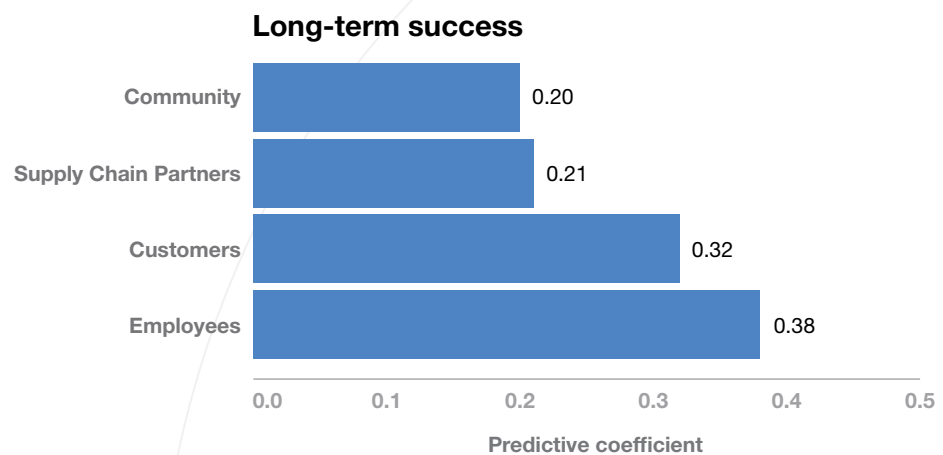
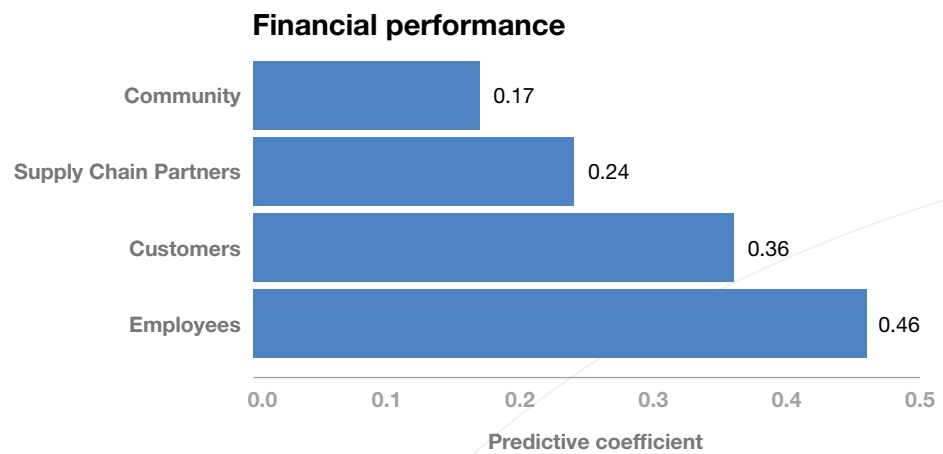
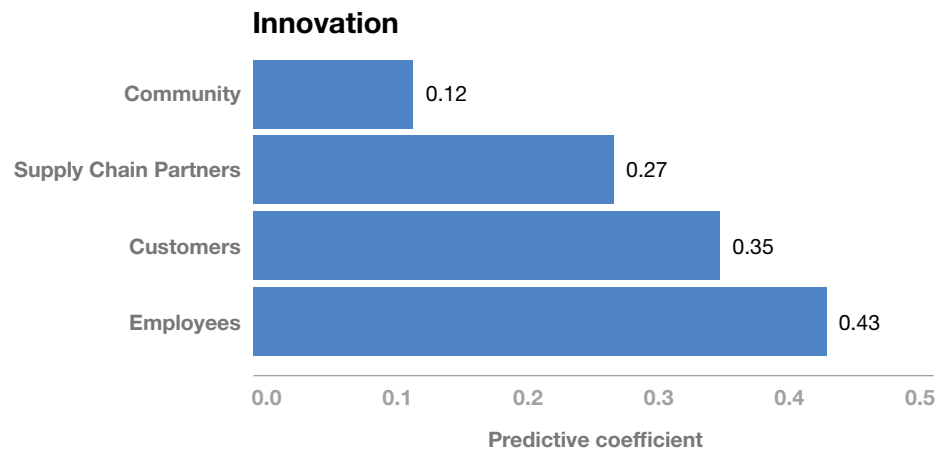
Although more difficult to achieve, freedom in relationships with employees and customers is what provides the greatest boost to business performance. That said, the study found that all relationships are influential. Companies scoring high in all areas are 20 times more likely to deliver innovation and long-term growth.

As the need for innovation, new ventures, and global collaboration gets stronger, companies are increasingly challenged to foster the right kind of freedom, which, in turn, catalyzes winning behaviors. Companies that simply continue to apply a command-and-control logic to stakeholder relationships risk shutting down critical "trade routes" to value creation.

Freedom is Lowest in Companies' Relationships With Employees and Customers



Freedom for Employees and Customers Provides the Biggest Performance Boost



The bar charts displayed here present standardized predictive coefficients obtained from a Structural Equation Modeling (SEM) analysis. The coefficients (on a 0–1 scale) quantify the impact of the four freedom domains on the business outcomes of interest. The higher the coefficient associated with any given domain, the higher the impact of freedom in that domain on the business outcome of interest.

Freedom matters across all of a company’s relationships: employees, customers, suppliers, and communities.

Values at the Core of ‘Freedom From/Freedom To’

In the *HOW Report*, published in 2012, LRN found that traditional approaches to governance, culture, and leadership underperform across multiple business outcomes when compared to those that scale values-based systems.² Organizations that scale such systems aspire to become self-governing, their purpose and values informing decision-making and guiding all company behavior and relationships. This brings all actors into alignment around a company’s mission and definition of significance. Leadership is distributed, and the company is focused on its long-term legacy and endurance. Values-based organizations are three times more likely to innovate and two times less likely to suffer misconduct than their more rules-bound counterparts.

The *Freedom Report* adds new dimension to the *HOW Report* research by showing how values help create freedom, a key pathway to true self-governance.

Both reports are built on the premise that there are two types of values: situational values and sustainable values. Relationships propelled by situational values are all about exploiting short-term opportunities—what we *can* and *cannot* do in a given situation. Sustainable values are human values. They are about what we *should* and *should not* do in all situations. Connecting us deeply and sustaining human relationships, they include integrity, honesty, truth, shared responsibility, and hope.

Rather than the “carrots and sticks” of control, sustainable values—when shared—inspire employees and others to collaborate. Individuals who are so inspired contribute their character and creativity to the enterprise, trusting that their peers are doing the same. Values-based leadership is also more effective than command-and-control approaches, because it keeps organizations agile and resilient. A handful of shared values is worth more than a thousand rules.

Indeed, the study found that human values such as integrity and respect are on average 3.7-times more influential in creating ‘Freedom From/Freedom To’ among stakeholders than are non-human values such as efficiency, profit-making, and risk-taking. Companies with ‘Freedom From/Freedom To’ are more oriented toward human values.

For example, emphasizing values such as integrity with employees is more likely to inspire high job performance than financial incentives; building a shared sense of respect into a company’s interactions with communities creates stronger relationships than obsessing about risk. Shared values are the most potent tool available to fulfill the promise of ‘Freedom To.’

Impact of Human Values on Freedom



Note: The Human Values Bonus is the added influence of human values, relative to non-human values, in bringing about freedom within a sphere of influence.

Human values are nearly 4 times more influential in shaping ‘Freedom From/Freedom To’ than other human attributes and interests.

The Era of Freedom

The *Freedom Index* also measures the health of a company’s relationships. As the study shows, too many companies are missing a rich vein of potential competitive advantage in the character and creativity of employees, the values and aspirations of customers, and the innovation and flexibility of supply chain partners. With relationships based on command-and-control, this potential remains largely untapped, leaving on the table vast opportunities to improve loyalty, engagement, collaboration, innovation, and growth.

Are suppliers on the other side of the world focusing on their own margins, or innovating for your mutual benefit? If a crisis breaks out, will your partners first call their attorneys, or will they call you to explore ways to solve the problem together? Are contracts stipulating behavior without the parties first agreeing on mutually aligned principles? Does the company stress values in selecting and governing relationships with specific partners?

Do employees merely follow orders, or are they inspired to do more? Do they feel bound by needlessly restrictive policies or trusted to take the kinds of risk that could lead to the next innovation?

In today’s economy, business interactions are no longer merely transactional. They have become personal. That is precisely why ‘Freedom From/Freedom To’ is such a critical component of getting relationships right and creating long-term economic value.

The discontinuity and instantaneity of the modern world leave business leaders with a choice: They can cling to the old logic of power, or they can harness freedom for competitive advantage by intentionally and rigorously scaling new levels of freedom.

This is not an abstraction. Freedom in the enterprise—whether a manufacturer, a hospital, a school, or an entire country—tracks the extent to which an organization relies on rules or principles (protocol or collaborative spirit, policies or shared values) to influence behavior. Businesses have always struggled with simplifying their processes and webs of regulations, yet they remain uncomfortable with the risks that might rise in the absence of strict rules and clear boundaries.

They can’t hold out forever. And they shouldn’t.



Companies need to apply 'Freedom From/Freedom To' to real initiatives and systematically assess freedom across stakeholder groups.

Freeing the Enterprise

Make no mistake: The era of freedom is a threat to business. It does not resemble anything that we have seen before, and the governance structures, organizational models, corporate cultures, and leadership styles that proved successful in the past need to adapt. 'Freedom From' is being manufactured in unexpected places, and arriving at every company's front door in unexpected ways. No organization can ignore the change that is coming—or, indeed, the change that is underway—any more than a Middle Eastern government could ignore the uprising sparked by the act of a single Tunisian fruit vendor in 2010.

Companies that deny this trend, that instead seek to impose more powerful controls and erect walls to keep freedom at bay, will find that their smartest minds, most loyal customers, and most valuable partners will drift away and seek freedom with others.

On the other extreme, a few enterprises have already started to devote energy and resources to fostering 'Freedom From/Freedom To' in relationships that matter. Some have the advantage of business models born of the era of freedom, but others are old-line companies reinventing themselves for the new age.

Most companies, of course, are caught in between, aware that change is in the air without yet fully recognizing its nature or understanding the change that the era demands. The only option for inspiring behaviors that underpin organizational resiliency and growth at the same time is removing unnecessary controls to foster 'Freedom From,' followed by embedding and scaling the human values that create 'Freedom To.' This report gives shape to that change and substance to how business leaders need to respond.



How to Start

- 1) Begin at the core.** ‘Freedom To,’ is most effective when a strong mission is complemented by the right set of sustainable human values, when an organization’s culture has embraced those values, when the right leaders step up to embody them.
- 2) Apply ‘Freedom From/Freedom To’ to real initiatives.** Bring a ‘Freedom From/Freedom To’ lens to the business challenges facing your organization. Use each opportunity to experiment with freedom and discover the optimal vehicles and mechanisms to bring it to life in your company. Be cautious about any dissonance between how you speak about your values and how you act on them. That means focusing on the decisions that you make and the work that you do across relationships with employees, customers, supply chain vendors, and community stakeholders.
- 3) Assess “Freedom From/Freedom To” with a particular stakeholder.** Review your interactions and relationships with each of your stakeholder groups.

Does your company alienate employees through rules and regulations? Are you asking customers to agree to terms and conditions that lack clarity or are dozens of pages long? Does it take six months to negotiate a contract with a supplier or a distributor? Are your conversations with community groups top-down, rather than two-way?

- 4) Be deliberate in pursuing and measuring your progress.** Use the ideas shared in this report, and focus on the areas where you can make the greatest improvement. Be disciplined and systematic in how you engage. Then come back and measure again.

Fostering ‘Freedom From/Freedom To’ is not easy. As with democratic movements, the march can be long and difficult. But the process is necessary, and it pays off in the end. Get it right, and you will begin to capture value that will endure through the age of freedom. In that light, the *Freedom Index* offers another vital contribution to leaders who would undertake the journey to elevate performance and behavior. Begin that journey now. Start measuring what matters—and not what used to matter.

Methodology

Seeking Freedom’s Impact

The goal of this study was to investigate the presence and impact of ‘Freedom From/Freedom To’ across four operational domains of interest in high-performing private-sector businesses. The sample used for this investigation was comprised of 834 white-collar professionals and executives at U.S. companies with greater than 1,000 employees or more than \$1.5 billion in revenue.

Respondents were asked to use a 5-point Likert scale (“Almost Always True” to “Almost Never True”) to rate the occurrence of ‘Freedom From/Freedom To’ across four domains of interest and assess some key markers of their companies’ organizational culture. Participants were also asked to rate key business outcome measures and to report the confidence level with which they rated the business outcomes. For the purpose of this study, composite business outcome measures were created combining ratings across key indicators of business performance and weighing them by the level of confidence reported by each respondent.

Within the same study, participants were also asked to select their company’s core values and rate the influence of such values on daily decisions and activities within their organizations.

To mitigate response bias, survey items were randomly presented to all participants. In addition, the final sample excluded respondents whose survey-taking behavior demonstrated low engagement or focus.

Assessing Freedom and the Relationship Between Freedom and Business Outcomes

The *Freedom Index* was created using Confirmatory Factor Analysis (CFA) which tested an overall ‘freedom’ scale model as well as the robustness of each of the four subscales. Scoring on the index was determined by the levels of participants’ responses on each of the 24 freedom markers.

The causal link between freedom and business performance was established using Structural Equation Modeling (SEM). An overall model of each of the four freedom domains, their relationship with types of values, overall value-orientation, mission, and trust, as well as the impact of these predictors on business outcomes was formulated and empirically tested using this advanced statistical technique. All statistical tests proved the robustness of the model.

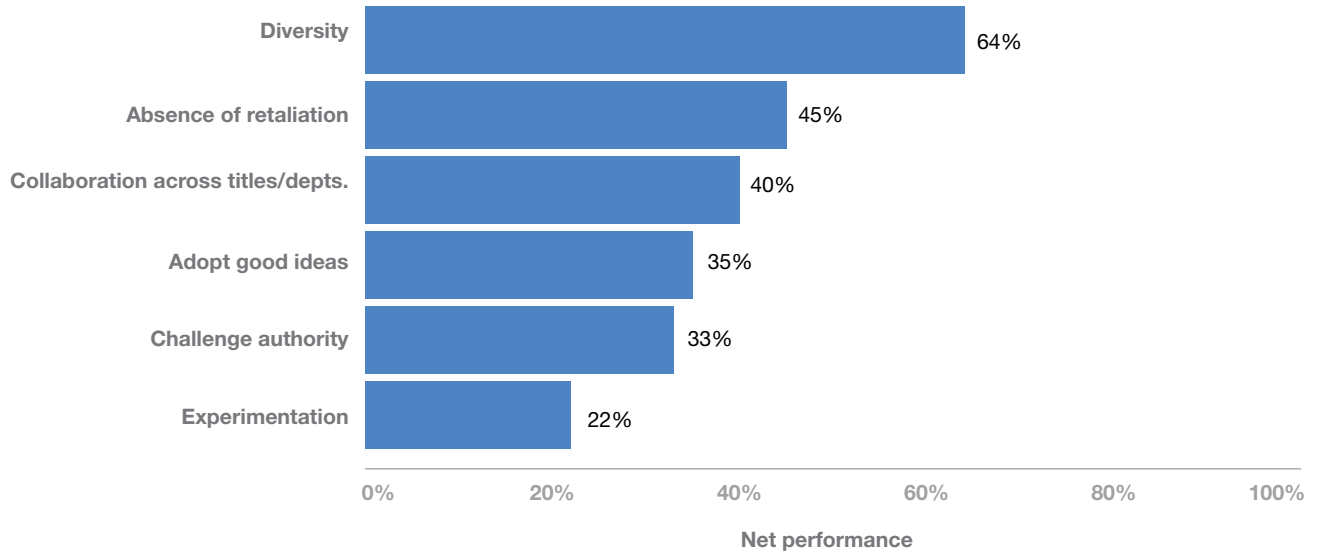
Appendix

Examples of ‘Freedom From/Freedom To’

Stakeholders	‘Freedom From’ means reducing:	‘Freedom To’ means increasing:
Employees	<ul style="list-style-type: none"> • Employee manuals, policies, processes and procedures • Employment contracts • Hierarchical decision-making and office culture • Little dialogue between departments • Needless approvals • Overly restrictive rules • Micromanagement 	<ul style="list-style-type: none"> • Flat organization • Principles-based approach to behavior • Culture based on shared values • Comfort speaking up with concerns • Employees have the autonomy to structure their work as they see fit • Employees are encouraged to try new ideas • Teams form organically for new initiatives, not based on seniority and department • Workforce diversity
Customers	<ul style="list-style-type: none"> • Lengthy terms and conditions and complicated pricing structures • Take-it-or-leave-it attitude toward customer choice 	<ul style="list-style-type: none"> • Giving customers a say in the product, product attributes, and services they receive • Brand values shared by the customer • Products and services promote customer well-being and values
Supply chain partners	<ul style="list-style-type: none"> • Arms-length contracts that take six months to negotiate • Strict oversight of partners’ compliance with legal obligations • Rigid requirements with no flexibility to change in local conditions or economic fluctuation 	<ul style="list-style-type: none"> • Collaboration on product and process innovation with shared rewards • Sharing strategic data and best practices • Common values complement contracts and enable flexibility in execution • Trust and support for partners’ compliance with legal obligations
Communities	<ul style="list-style-type: none"> • Little transparency beyond what’s required • Little interaction with the community beyond what’s required 	<ul style="list-style-type: none"> • Listening to the communities in which you operate • Investing in communities to improve social and economic conditions • Respect for the environment • Transparent about non-financial performance and environmental and social impact

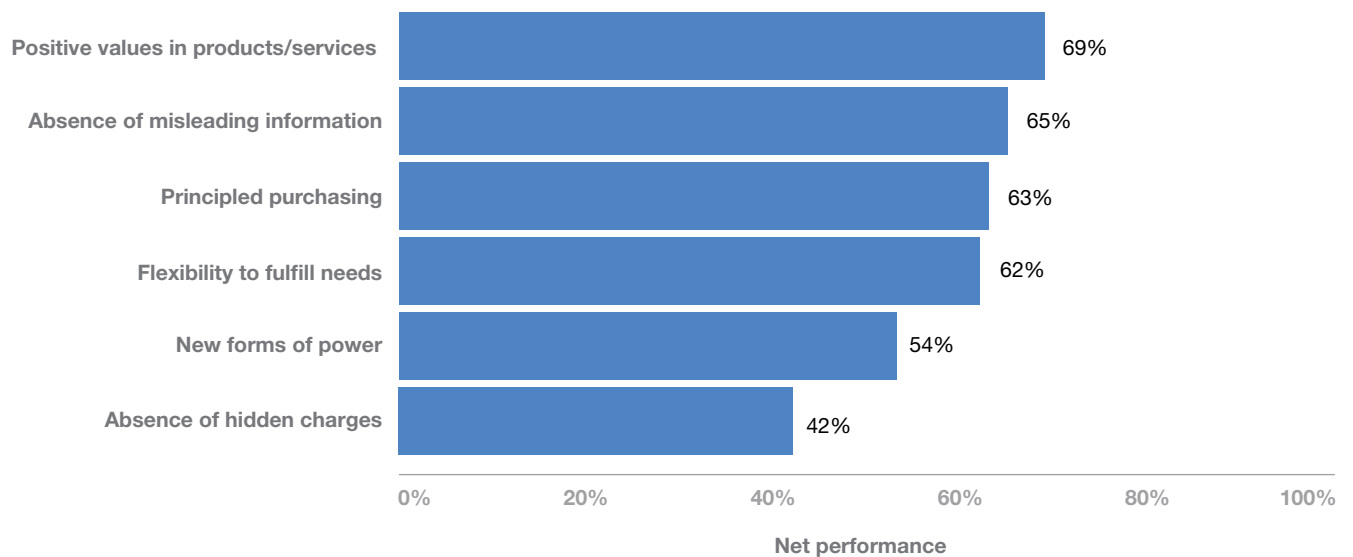
Freedom in the Workplace

Though workplaces are becoming more diverse, they are still struggling to free employees from outdated power structures and traditional hierarchies; not surprisingly, good ideas are still unlikely to be adopted.



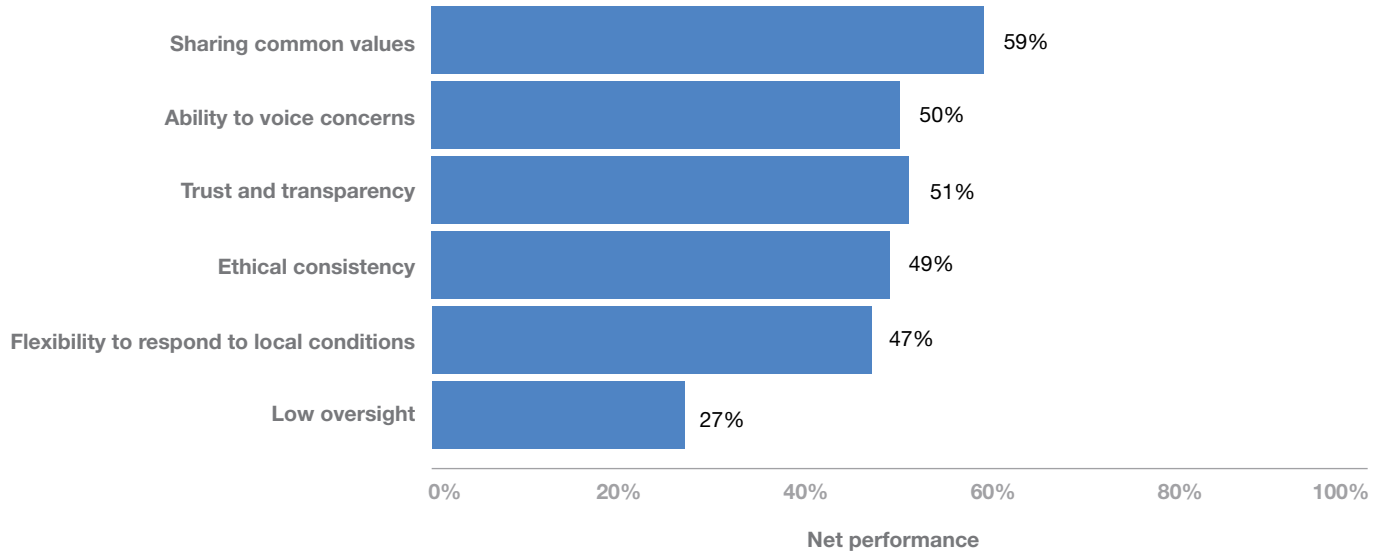
Freedom With Customers

Companies can boost their competitive advantage by providing product/service solutions that truly contribute to the lives of their customers. Companies can create 'Freedom From' hidden charges and misleading contractual conditions. They can create 'Freedom To' by giving individuals new ways to fulfill their highest needs and by enabling customers to make purchases aligned with their values. These conditions are likely to create new levels of loyalty.



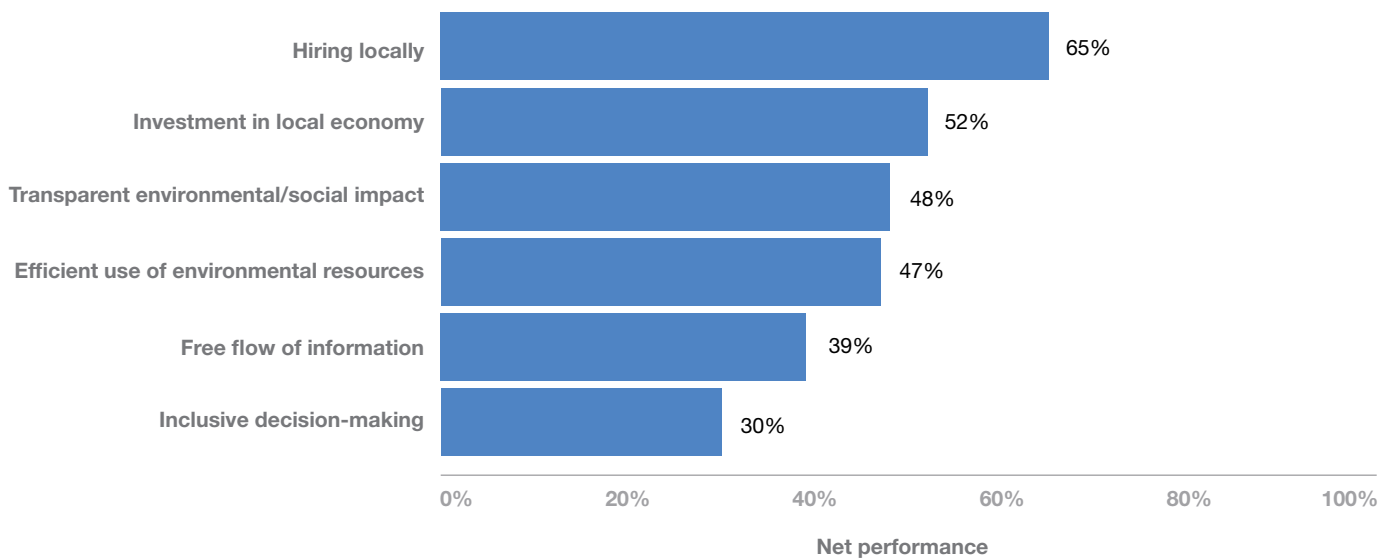
Freedom With Supply Chain

Trust remains low across the supply chain. Though companies are seeking out partners who share their values, they continue to manage their supply-chain relationships through traditional oversight.



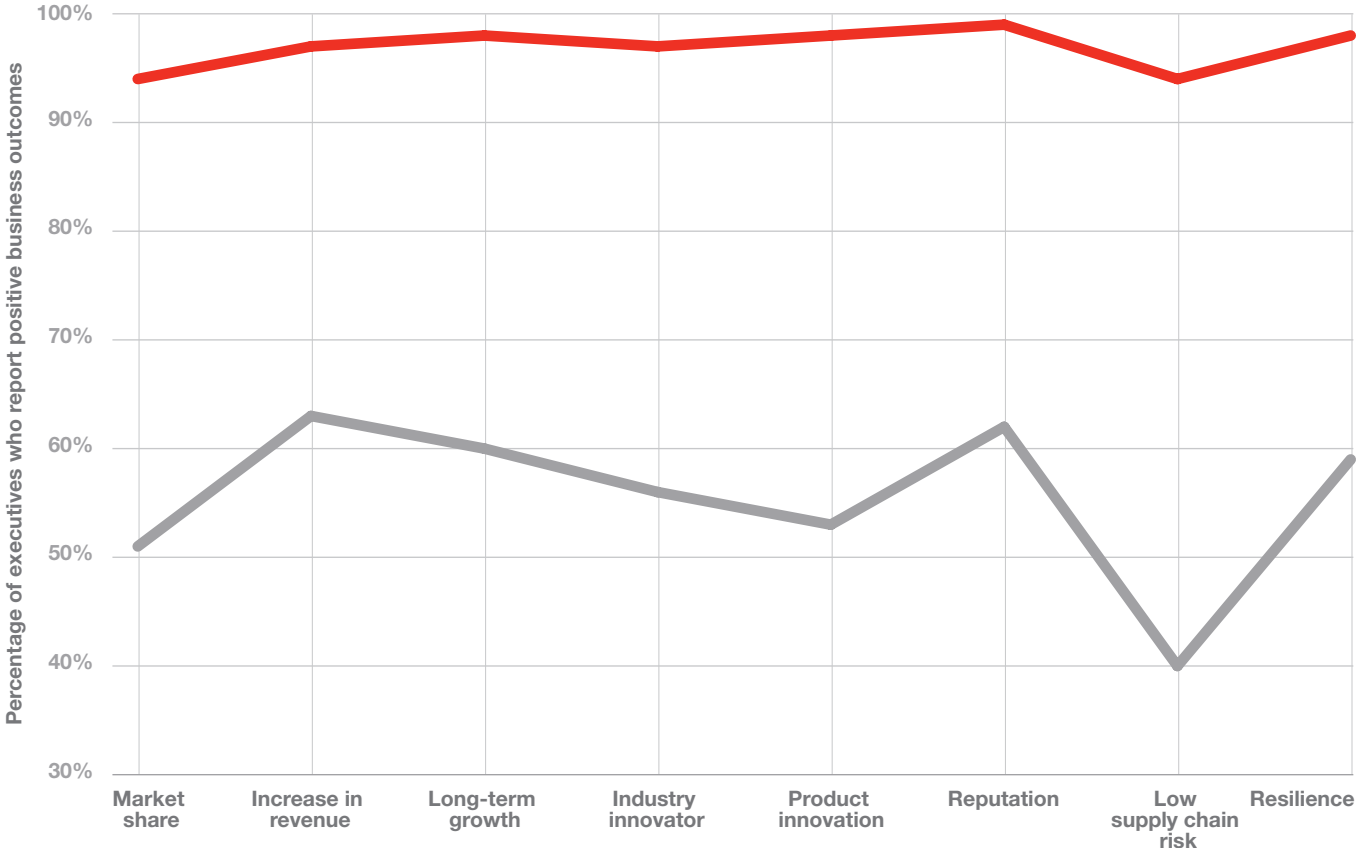
Freedom With the Local Community

As they seek to engage more with local communities, companies have a long way to go to establish genuine two-way relationships. In particular, true transparency and inclusive decision-making remain ongoing challenges.



Impact of Freedom on Business Outcomes

Companies that create freedom for employees, customers, partners, and stakeholders to contribute to shared goals outperform their competitors. Freedom enables superior business performance across a broad set of business outcomes, particularly in the areas of market share growth, product innovation, and minimization of supply chain risk.

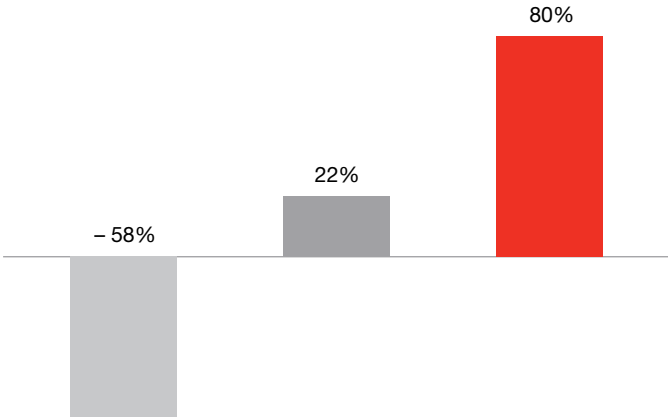


- High-freedom companies
- Low-freedom companies

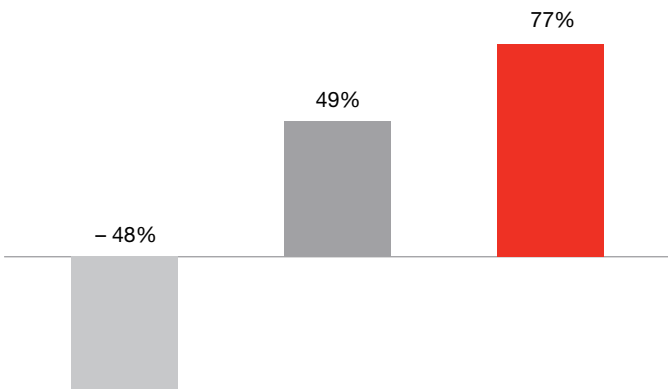
Mission, Values, and Trust Shape Freedom

Deeply embedded values, a strong sense of mission, and high trust are significantly more prevalent in high-freedom companies than in low-freedom companies. While low-freedom companies under-perform across all three domains, they especially fare poorly when it comes to articulating a strong mission and creating trust.

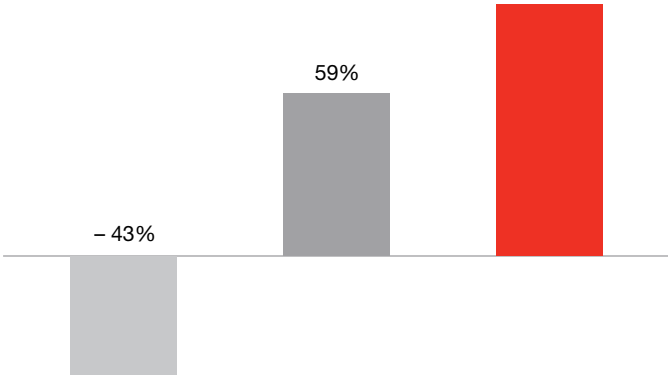
Trust (net performance)



Values-orientation (net performance)



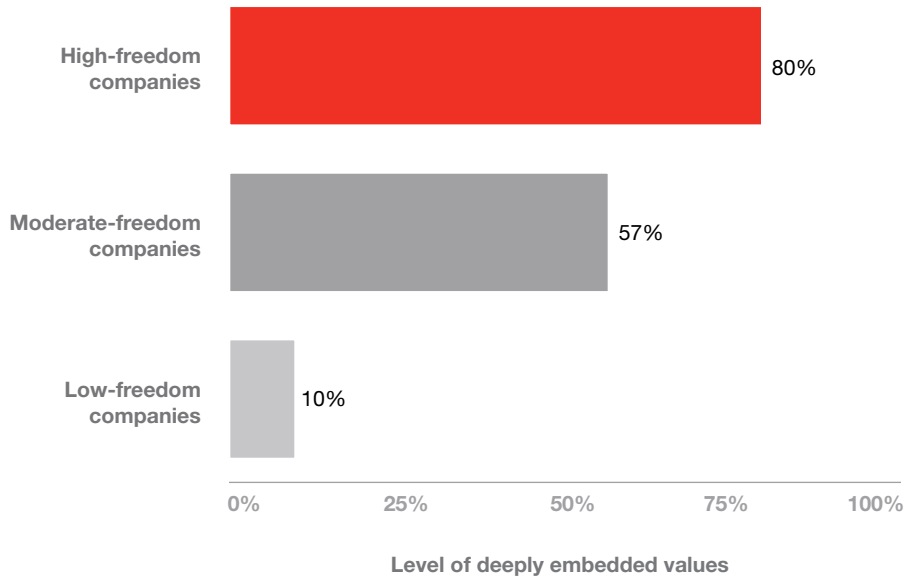
Mission (net performance)



- Low-freedom companies
- Moderate-freedom companies
- High-freedom companies

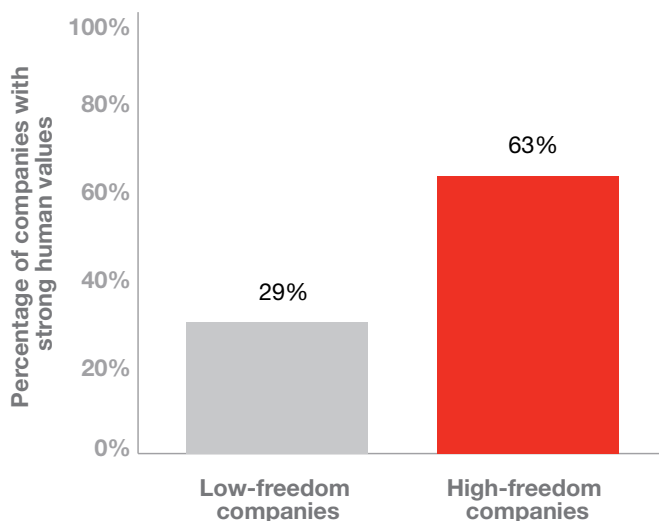
High-Freedom Companies Have Deeply Shared Values

High-freedom companies place significantly greater emphasis on values relative to low-freedom companies.



Focus on Human Values in Low- Versus High- Freedom Companies

High-freedom companies are characterized by a strong orientation toward human values. This is not a coincidence: Human values, more so than non-human values, boost a company's ability to achieve high freedom with employees, customers, supply chain partners, and the community.



About HOW Metrics™

HOW Metrics™ is a suite of cutting-edge assessment solutions that enables organizations to better understand the behaviors and forces that animate behavior across their ecosystems. 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 our 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 towards 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 brings together a cross-section of experts and practitioners, 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 what we call self-governance in a more deliberate and systematic way.

About LRN

Since 1994, LRN has helped over 20 million people at more than 700 companies working in over 100 countries simultaneously navigate complex legal and regulatory environments, foster ethical, winning cultures, and inspire principled performance in their operations. 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. LRN works with organizations in more than 100 countries and has offices in New York, Los Angeles, London, Mumbai, and Paris.

