

How 'Keystone Habits' Transformed a Corporation

This is an excerpt from [The Power of Habit: Why We Do What We Do in Life and Business](#), on sale [February 27th, 2012](#).

On a blustery October day in 1987, a herd of prominent Wall Street investors and stock analysts gathered in the ballroom of a posh Manhattan hotel. They were there to meet the new CEO of the Aluminum Company of America -- or Alcoa, as it was known -- a corporation that, for nearly a century, had manufactured everything from the foil that wraps Hershey's Kisses and the metal in Coca Cola cans to the bolts that hold satellites together.

A few minutes before noon, the new chief executive, Paul O'Neill, took the stage. He looked dignified, solid, confident. Like a chief executive.

Then he opened his mouth.

"I want to talk to you about worker safety," he said. "Every year, numerous Alcoa workers are injured so badly that they miss a day of work.

"I intend to make Alcoa the safest company in America. I intend to go for zero injuries."

The audience was confused. Usually, new CEOs talked about profit margins, new markets and 'synergy' or 'co-opetition.' But O'Neill hadn't said anything about profits. He didn't mention any business buzzwords.

Eventually, someone raised a hand and asked about inventories in the aerospace division. Another asked about the company's capital ratios.

"I'm not certain you heard me," O'Neill said. "If you want to understand how Alcoa is doing, you need to look at our workplace safety figures." Profits, he said, didn't matter as much as safety.

The investors in the room almost stampeded out the doors when the presentation ended. One jogged to the lobby, found a pay phone, and called his 20 largest clients.

"I said, 'The board put a crazy hippie in charge and he's going to kill the company,'" that investor told me. "I ordered them to sell their stock immediately, before everyone else in the room started calling their clients and telling them the same thing.

"It was literally the worst piece of advice I gave in my entire career," he said.

Within a year of O'Neill's speech, Alcoa's profits would hit a record high. By the time O'Neill retired in 2000 to become Treasury Secretary, the company's annual net income was five times larger than before he arrived, and its market capitalization had risen by \$27 billion. Someone

who invested a million dollars in Alcoa on the day O'Neill was hired would have earned another million dollars in dividends while he headed the company, and the value of their stock would be five times bigger when he left.

What's more, all that growth occurred while Alcoa became one of the safest companies in the world.

I learned about O'Neill's history when I was writing my book, *The Power of Habit*, which explores the science of habit formation. I was interested in Alcoa's story because people had told it was an example of a certain kind of habit -- a "Keystone Habit" -- and its power to transform lives and organizations.

So how did O'Neill make one of the largest, stodgiest, and most potentially dangerous companies into a profit machine and a bastion of safety?

By attacking one habit and then watching the changes ripple through the organization. By targeting Alcoa's keystone habit.

"I knew I had to transform Alcoa," O'Neill told me. "But you can't order people to change."

"That's not how the brain works. So I decided I was going to start by focusing on one thing. If I could start disrupting the habits around one thing, it would spread throughout the entire company."

O'Neill's success at Alcoa is just one example of a keystone habit, a pattern that has the power to start a chain reaction, changing other habits as it moves through an organization. Keystone habits, I found in writing my book, can influence how people work, eat, play, live, spend, and communicate.

Keystone habits explain how Michael Phelps became an Olympic champion and why some college students outperform their peers. They describe why some people, after years of trying, suddenly lose 40 pounds while becoming more productive at work and still getting home in time for dinner with their kids. And keystone habits explain how Alcoa became one of the best performing stocks in the Dow Jones index, while also becoming one of the safest places on earth.

For instance, consider one event about six months into O'Neill's tenure, when he got a telephone call in the middle of the night. A plant manager in Arizona was on the line, panicked, talking about how a piece of machinery had stopped operating and one of the workers -- a young man who had joined the company a few weeks earlier, eager for the job because it offered health care for his pregnant wife -- had tried a repair. He had jumped over a yellow safety wall surrounding the press and walked across the pit. There was a piece of aluminum jammed into the hinge on a swinging six-foot arm. The young man pulled on the aluminum scrap, removing it. The machine was fixed. Behind him, the arm restarted its arc, swinging toward his head. When it hit, the arm crushed his skull. He was killed instantly.

Fourteen hours later, O'Neill ordered all the plant's executives into an emergency meeting. For much of the day, they painstakingly re-created the accident with diagrams and by watching videotapes again and again. They identified dozens of errors that had contributed to the death, including two managers who had seen the man jump over the barrier but failed to stop him, a training program that hadn't emphasized to the man that he wouldn't be blamed for a breakdown, lack of instructions that he should find a manager before attempting a repair, and the absence of sensors to automatically shut down the machine when someone stepped into the pit.

"We killed this man," a grim-faced O'Neill told the group. "It's my failure of leadership. I caused his death. And it's the failure of all of you in the chain of command."

The executives in the room were taken aback. Sure, a tragic accident had occurred, but tragic accidents were part of life at Alcoa.

Within a week of that meeting, however, all the safety railings at Alcoa's plants were repainted bright yellow, and new policies were written up. Employees were told not to be afraid to suggest proactive maintenance. And O'Neill sent a note to every worker telling them call him at home if managers didn't follow up on their safety suggestions.

"Workers started calling, but they didn't want to talk about accidents," O'Neill told me. "They wanted to talk about all these other great ideas."

The Alcoa plant that manufactured aluminum siding for houses, for instance, had been struggling for years because executives would try to anticipate popular colors and inevitably guess wrong. One day, a low-level employee made a suggestion that quickly worked its way to the general manager: If they grouped all the painting machines together, they could switch out the pigments faster and become more nimble in responding to shifts in customer demand.

Within a year, profits on aluminum siding doubled. "It turns out this guy had been suggesting this painting idea for a decade, but hadn't told anyone in management," an Alcoa executive told me. "Then he figures, since we keep on asking for safety recommendations, why not tell them about this other idea? It was like he gave us the winning lottery numbers."

Establishing an organizational habit of suggesting safety improvements had created other habits, as well: recommending business improvements that otherwise would have remained out of sight. By shifting worker safety habits, O'Neill had created patterns of better communication. A chain reaction started that lifted profits.

O'Neill left Alcoa in 2000, but the legacy of his keystone habit lives on. In 2010, 82 percent of Alcoa locations didn't lose one employee day due to injury, close to an all-time high. On average, workers are more likely to get injured at a software company, animating cartoons for movie studios, or doing taxes as an accountant than handling molten aluminum at Alcoa.

"When I was made a plant manager," one current Alcoa executive named said Jeff Shockey told me, "the first day I pulled into the parking lot I saw all these parking spaces near the front doors

with people's titles on them. The head guy for this or that. People who were important got the best parking spots.

"The first thing I did was tell a maintenance manager to paint over all the titles. I wanted whoever got to work earliest to get the best spot. Everyone understood the message: Every person matters. It was an extension of what Paul was doing around worker safety. It electrified the plant. Pretty soon, everyone was getting to work earlier each day."

Charles Duhigg is a reporter for The New York Times, based in New York, and the author of the book, [The Power of Habit: Why We Do What We Do in Life and Business](#), on sale now.