Insights into organization

How do I create a distinctive performance culture?

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Article at a glance

Why is this important?

Performance culture is at the heart of competitive advantage in the twenty-first century. Thanks to globalization and the instant flow of information, competitors can soon mimic a successful strategy. What they cannot reproduce quickly, however, is a superior performance culture.

What do I need to know?

There are four key lessons: "hard" problem-solving rigor can and should be applied to the "soft stuff"; organizations should focus on only a few vital cultural themes; leaders have five basic levers they can use to influence culture; and the work of cultural change is less about doing different things than doing things differently.

How do I make it happen?

A three-step implementation process involves diagnosing the cultural opportunity and the root cause of interferences, designing cultural interventions, and managing an integrated program to deliver the desired impact.

What is it worth?

By adopting this approach, a large national bank turned around its culture and performance, improving revenue per FTE by 89 percent. A leading national insurer with a solid track record took its performance to a new level by using the "soft stuff," raising operating profit by 29 percent. A regional service company combatted performance and mindset issues to introduce a continuous improvement culture that has delivered dramatic gains in both staff engagement and financial results.

Business strategies are easy to copy

now that information, knowledge, people, skills, and money move freely and rapidly across the globe. In many markets, today's unique strategic weapon is tomorrow's universal entry ticket. So if strategy is no longer a reliable way to acquire a competitive edge over the long term, what can a company do to set itself apart from the pack? The answer is to develop a strong performance culture – something that competitors will be unable to replicate quickly. By adopting an approach that combines pragmatic business sense with problem-solving rigor and behavioral insight, companies can bring about a cultural shift that not only delivers better bottom-line results but also creates a more fulfilling working environment for employees at all levels.

Have you asked yourself lately . . .

- Is our company missing an "X-factor" in our strategy for beating the competition? How can we create something unique and difficult to copy?
- What is holding our people back from delivering at their full potential?
- Why do we seem to have sand in the gears when it comes to making decisions and getting things done?
- Why are so many of our people looking out for themselves and their careers rather than doing what is right for the company?

. . . If so, then you might want to continue reading.

Why is this important?

Performance culture is at the heart of competitive advantage in the twenty-first century. In the past, having a competitive edge meant having smarter strategies and superior assets. Though still necessary, these are no longer sufficient. Thanks to globalization and the instant, often cost-free exchange of information, competitors are able to mimic a successful strategy in a short space of time. What they cannot reproduce quickly, however, is a superior performance culture. As Herb Kelleher, former CEO of Southwest Airlines, notes, "Competitors can buy tangible assets, but they can't buy culture."[1]

Consider Toyota's production system, Southwest Airlines' low-cost air travel model, and General Electric's replication of its business model in dozens of industries. None of these is confidential; on the contrary, each has been exhaustively analyzed in a multitude of articles and case studies. Yet the performance culture of these organizations supports a competitive advantage that has proven extraordinarily hard to replicate.

While a strong performance culture – one where employees work to their full potential more often than not – can be a sustainable source of competitive advantage, the lack of it is a significant competitive *disadvantage* because it creates a barrier to implementing change of all kinds. Research indicates that 70 percent of change programs fail, and further analysis reveals that cultural factors are the cause of more than two-thirds of these failures. In fact, change efforts typically stumble on precisely the thing they are trying to transform: employee attitudes and management behavior.[2]

Lou Gerstner, retired CEO of IBM, sums up the problem: "Fixing culture is the most critical – and the most difficult – part of a corporate transformation."[3]

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[1] From a speech reported on nevblog.com on October 20 2006.

[2] The analysis of the percentage of change programs that fail and why was compiled from data provided in Michael Beer and Nitin Nohria, eds, *Breaking the Code of Change,* Harvard Business School Press, 2000; Kim S. Cameron and Robert E. Quinn, *Diagnosing and Changing Organizational Culture: Based on the competing values framework*, Addison-Wesley, 1999; Bruce Caldwell, "Missteps, miscues: Business re-engineering failures have cost corporations billions, and spending is still on the rise," *InformationWeek*, June 20 1994; State of re-engineering report (North America and Europe), CSC Index, 1994; Tracy Goss, Richard Pascale, and Anthony Athos, "The reinvention roller coaster: Risking the present for a powerful future," *Harvard Business Review*, November/December 1993; John P. Kotter and James L. Heskett, *Corporate Culture and Performance*, Free Press, 1992.

[3] Louis V. Gerstner, Jr, *Who Says Elephants Can't Dance?*, HarperCollins, 2002.

What do I need to know?

Companies wanting to improve their performance culture should be aware of four key insights:

"Hard" problem-solving rigor can and should be applied to the "soft stuff"

It is precisely because cultural issues are intangible that applying rigorous problem-solving and analysis is so valuable. Hard facts allow leaders to explore cultural issues effectively, probe the root causes, and prioritize remedial actions. These facts are typically gathered via surveys, interviews, and focus groups aimed at uncovering the underlying mindsets and behaviors that relate directly to business outcomes. (Perhaps surprisingly, most surveys of employee engagement do *not* do this.) These perception-based analyses are then validated with the relevant hard facts about how the organization works: actual performance distributions, incentive schemes, activity analyses, and so on.

Consider a retail bank that was seeking to improve its sales culture. By starting with the value driver in question – acquiring new customers – the bank quickly identified the problem: bankers were spending too little time with customers, despite instructions and incentives to the contrary. Investigation showed that time away from customers was driven by excess paperwork, and deeper analysis revealed that much of this time was self-imposed: the bankers actually preferred dealing with paper to dealing with people (Exhibit 1).

Exhibit 1

Analyzing why bankers don't spend more time with customers

Retail bank example
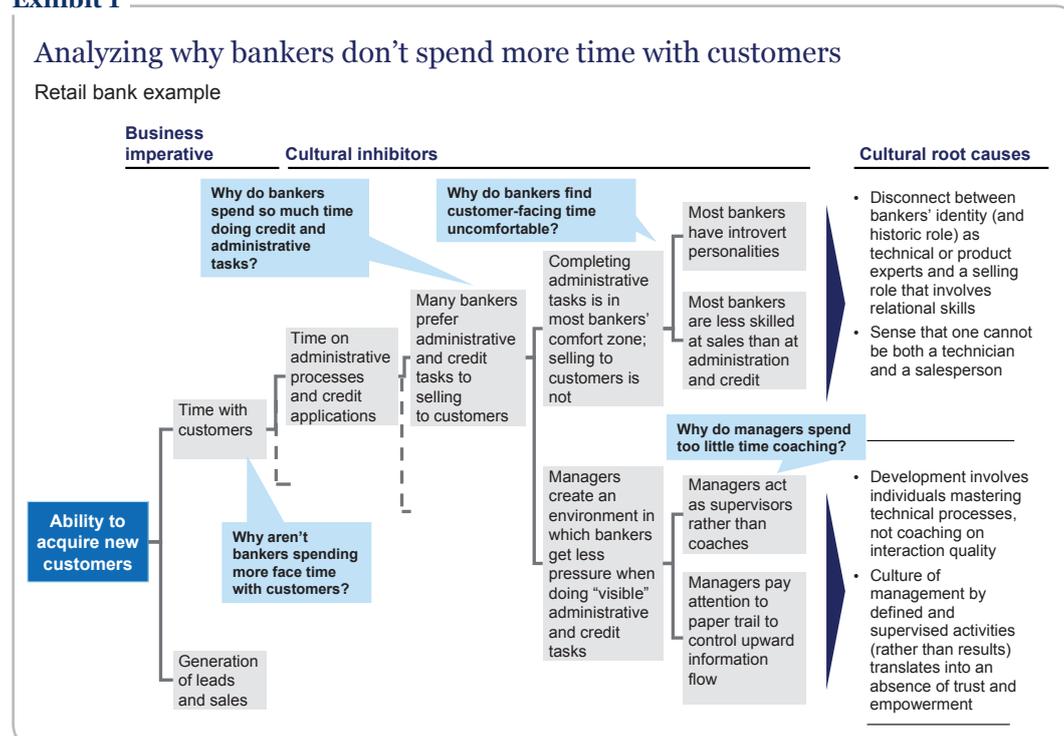
Having reached this deeper level of understanding, the team was able to tackle the root cause by helping employees become aware of and overcome this performance-limiting mindset.

Organizations should focus on a critical few cultural themes

When deciding how to change their culture to improve their performance, organizations should focus on the vital few shifts that make the greatest difference in achieving desired business outcomes. We have found that in a period of 12 to 18 months, it is possible to make a meaningful difference to no more than five cultural themes. Concentrating on a short list acknowledges that time and resources are constrained and allows everyone to focus on the desired end state.

At a global consumer goods company, the senior team chose to focus the first 18 months of its culture program on establishing a shared direction, creating trust, and developing a sense of personal accountability. Once these elements were sufficiently embedded, the team brought in themes related to collaboration, innovation, and people development for the second 18 months. Had the team attempted to tackle all six themes at once, its efforts would probably have become fragmented, reducing the eventual impact.

The CEO of Proctor & Gamble, Alan G. Lafley, made an interesting observation on this point: "Most human beings and most companies don't like to make choices. And they particularly don't like to make a few choices that they really have to live with . . . I want the manager… to think very consciously about what kind of culture is going to be a winner."[4]

Leaders have five main levers for influencing culture

Leaders seeking to make a meaningful difference to culture have five basic levers at their disposal:

Creating consistent role models. Employees need to see people they admire behaving in the new way. For this to happen, organizations need to transform the top team, take symbolic actions, and catalyze a cadre of "influence leaders." Consider the message that McDonald's founder Ray Kroc sent about cleanliness when he famously asked a manager to join him outside a restaurant to pick up litter in the parking lot.[5] Consider too how Goldman Sachs shone a spotlight on its "positive deviants" to bring their radically better ways of doing things into the mainstream.[6]

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[4] Rajat Gupta and Jim Wendler, "Leading change: An interview with the CEO of P&G," *The McKinsey Quarterly*, July 2005.

[5] Herminia Ibarra and Kent Lineback, *What's Your Story?*, Harvard Business School Press, 2005.

[6] Richard Tanner Pascale and Jerry Sternin, "Your company's secret change agents," *Harvard Business Review*, May 2005.

Establishing a purpose to believe in. Employees must be able to say, "I know what is expected of me, I agree with it, and I find it meaningful." Companies can establish this purpose by creating a powerful transformation story and adopting evocative language. At Apple, Steve Jobs' call to "put romance into computing" started a revolution in product design and innovation. A company can reinforce its purpose by embedding it in rituals like Wal-Mart's "10-feet rule," which tells staff: any time you are within 10 feet of a customer, look them in the eye, smile, and ask how you can help.[7] This is a simple and effective way to remind frontline staff of their commitment to customer service.

Building the required skills. Employees must be confident in their ability to behave in the way that the culture requires. A regional insurer implementing lean operations provides an example of best practice in skill building. Employees were trained in both technical skills (such as workload balancing, quality, and visual management) and related "soft" skills (such as giving honest and open feedback, taking initiative, and accepting accountability). The insurer adopted a "field and forum" approach that alternated classroom-style sessions with application, learning, and coaching in the field.

Putting in place reinforcing mechanisms. Employees must see that the processes, structures, systems, and incentives they encounter reinforce the desired change in culture. At General Electric, leaders are evaluated on a combination of business performance and "living our values." As CEO, Jack Welch underscored the importance of culture in his warning, "If you get results without living our values, I'm coming for you."[8]

"Making it personal" for a critical mass of employees. The impact of the above four levers can be amplified by taking one more step: helping a critical mass of employees to identify and shift the one or two personal behaviors that will have the biggest impact on the culture. British Airways employed this approach when it put almost 37,000 employees through "personal mastery" programs to improve collaboration, personal accountability, and customer service. While keeping largely the same technology, routes, and workforce, the company underwent a rapid transformation from a transport business to a service business.[9]

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[7] As reported by Adam Morgan, *The Pirate Inside*, John Wiley, 2004.

[8] Quoted in James Dunn, interview with Jack Welch, *Leadership Victoria*, Spring 2003.

[9] Mike Bruce, "Managing people first: Bringing the service concept to British Airways," *Industrial and Commercial Training*, March/April 1987.

The work of cultural change is less about doing different things than doing things differently
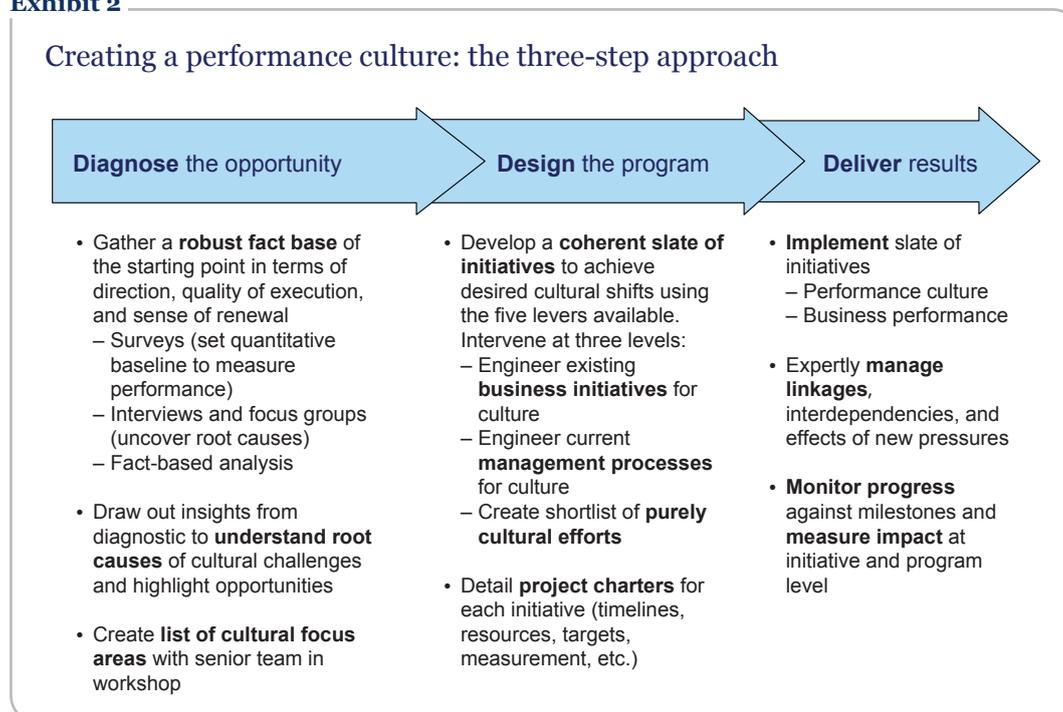
Employees in companies without a strong performance culture typically feel overloaded just with delivering today's results. When things are this pressured, how can they find the time and energy to pursue a cultural change program? That's a good question, but in effect it answers itself: *every* business initiative that touches employees – be it a customer service enhancement, a salesforce effectiveness drive, an IT upgrade, or a cost-cutting initiative – is a cultural intervention, intended or not. The same applies to management processes such as talent management, performance management, and business planning. By carefully engineering *existing* business initiatives and management processes to influence the culture as well as achieve their original objectives, the bulk of the work involved in cultural change can be done not by doing new things, but by doing old things in a different way.

A retail bank that wanted to create stronger relationships between its employees as well as between employees and customers engineered traditional sales stimulation initiatives by including peer coaching from high performers in other locations to build bonds across silos. End-of-day team meetings for branch sales staff were extended beyond a rundown of today's numbers to include stories of "moments of truth" in customer relationships. Coaching elements were incorporated into evaluations of branch managers, and salesforce incentives were expanded to link to behaviors as well as results. The entire sales stimulation program was wrapped up in a broader CEO message about collaborating for the customer.

How do I make it happen?

The work of creating a distinctive performance culture takes place in three steps: diagnosing the cultural opportunity and interferences; designing cultural interventions; and managing the program to deliver the desired impact (Exhibit 2).

Exhibit 2

Creating a performance culture: the three-step approach

Diagnose the opportunity	**Design** the program	**Deliver** results

• Gather a **robust fact base** of the starting point in terms of direction, quality of execution, and sense of renewal
  – Surveys (set quantitative baseline to measure performance)
  – Interviews and focus groups (uncover root causes)
  – Fact-based analysis
 	
• Draw out insights from diagnostic to **understand root causes** of cultural challenges and highlight opportunities
 	
• Create **list of cultural focus areas** with senior team in workshop
	• Develop a **coherent slate of initiatives** to achieve desired cultural shifts using the five levers available. Intervene at three levels:
	  – Engineer existing **business initiatives** for culture
	  – Engineer current **management processes** for culture
	  – Create shortlist of **purely cultural efforts**
	
	• Detail **project charters** for each initiative (timelines, resources, targets, measurement, etc.)
		• **Implement** slate of initiatives
		  – Performance culture
		  – Business performance
		
		• Expertly **manage linkages**, interdependencies, and effects of new pressures
		
		• **Monitor progress** against milestones and **measure impact** at initiative and program level

Step 1: Diagnosing the opportunity and "root cause" interferences

The objective in the diagnostic phase is to create a shared conviction within the leadership team about the vital shifts in culture that will unlock the greatest business value. The key questions to ask are: What are the cultural requirements of our business strategy? Where are we meeting these needs successfully? Where are we *not* meeting them, and what is stopping us?

Tools deployed during this step typically include surveys, interviews and focus groups, and fact-based analyses. The exact choice of tools will depend on the scope of the effort and the availability and quality of information, but all efforts will require a quantitative survey to establish a baseline and interviews to probe into underlying mindsets.

Once the analysis has been done, senior teams work together to answer the key questions rather than being handed answers by a working team. By "authoring" the answers, the teams unleash additional energy to drive the desired transformation. Moreover, the time they take in self-discovery and deep debate over key issues leads to insights about their own behaviors and mindsets, which could well be complicit in the culture that they need to transform.

As John Akehurst, former CEO of Woodside Petroleum and longtime Shell executive, told us, "It took a lot of effort for us to recognize that we as a management team and I as the chief executive were entirely responsible for the culture of the organization. And although we didn't like the feedback we were getting on how the culture was and how the people saw us as a group, we had to accept that if we wanted things to change, we had to change first."

By the end of step 1, which typically takes six to eight weeks to complete, the senior team will have engaged in a hard-hitting, fact-based, and emotionally charged debate culminating in a deep shared conviction about where the team must focus to create a superior performance culture.

Step 2: Designing cultural interventions

Step 2 is about creating a gameplan to achieve the desired shifts in performance culture. This gameplan contains three levels of intervention:

"Engineering" business initiatives for culture. First, the company screens its slate of major business initiatives to isolate those initiatives that touch a good part of the employee base, are highly visible, and put at stake a lot of business or symbolic value. It then adjusts these initiatives by using the five levers described above. Typically only a few high-priority initiatives are fully engineered for cultural change; the rest are simply tested and adjusted to ensure that easy wins are achieved and no mixed messages are sent culturally.

Adjusting major management processes to influence desired shifts. Here, the company screens processes such as talent management, performance management, and business planning to establish how far they help or hinder the development of the target culture. One common intervention is to link rewards and consequences with observable leadership behaviors as well as business outcomes achieved. Another is to change patterns of interaction: for example, if a company wants to improve collaboration, it can adjust business planning processes to include joint planning sessions and a freer, more expedient flow of information between areas.

Designing a shortlist of broad-based cultural interventions. These cross-cutting initiatives will vary according to a company's needs, but one standard ingredient is an interactive cascade across all levels of the organization of the change story (the what, why, who, and when of cultural change in the context of the business strategy). This is followed by a thoughtful two-way communications program geared to sober and substantive messaging.

By the end of the second step, which typically takes four to six weeks to complete, the company will have designed a coherent, mutually reinforcing, and ready-to-go implementation program of carefully sequenced cultural interventions.

Step 3: Manage the integrated program to deliver the desired impact

During this implementation phase, success will depend both on the delivery of individual interventions and on how well they are managed as an integrated program. This is no small task. Interventions must be continually monitored and adjusted in response to interdependencies, linkages, and the effects of natural change and new pressures during the lifetime of the program. In most cases, a dedicated program leader – usually a peer of senior management – is appointed to manage delivery. The program leader is supported by a small full-time team that includes communications, monitoring, and logistics expertise, plus troubleshooting capacity to deal with bottlenecks.

The nature and timing of step 3 is determined by the design created during step 2. Most large-scale performance culture programs run for 18 to 36 months, with an initial delivery stage lasting 12 to 18 months. Changes in performance culture and business results are often visible by the end of the first year. The full business impact should be apparent within three years.

What is it worth?

Companies adopting this approach to improving their performance culture have achieved substantial impact on both hard and soft measures.

A large national bank was seen as having higher risk, higher cost, and lower performance than its rivals. The CEO believed that a cultural shift would be the best way to achieve sustainable performance gains. By pursuing the approach described above for two years, the bank made impressive strides forward. In terms of employee perceptions, the sense of "living our values" rose from 20 to 85 percent, "openness and honesty" from 60 to 92 percent, "collaboration" from 34 to 64 percent, "productivity in meetings" from 61 to 91 percent, and a "can-do culture" from 58 to 81 percent. Overall employee satisfaction leaped from 45 to 80 percent.

Improvements in business performance followed. Revenue per FTE increased by 89 percent, NPAT per FTE was up 200 percent, and the bank overtook its peers in total return to shareholders and customer satisfaction. A leading financial newspaper reported that "The profit leap vindicates the CEO's unique plan of eschewing traditional growth strategies and recasting the culture of the bank to lift efficiency and earnings."

A leading national insurer had a solid track record of good financial performance and an above-average organizational culture. However, the incoming CEO felt the organization was operating at well below its potential in both respects.

By implementing a two-year performance culture program, he delivered improvements of 83 percent in alignment, 42 percent in motivation, and 22 percent in accountability. Business results were equally impressive: despite a deteriorating market environment, operating profit rose by 29 percent, ROE was up 58 percent, and costs fell by 11 percent.

A regional services company implementing a lean operations program realized after six months that cultural challenges were holding it back. After early improvements, performance was sliding in pilot areas and broader rollout plans were being met with staunch resistance from frontline staff.

So the company adopted a cultural change program to tackle the main barriers, with remarkable success: trust between frontline employees and management jumped from 56 to 89 percent, empowerment from 38 to 66 percent, and performance focus from 40 to 64 percent. Financial gains followed. After two years, the company had achieved reductions of 21 percent in cost per transaction, 70 percent in transactions outside service standards, and 30 percent in transactions outside quality standards. What was more, the front line was driving continuous improvement efforts in almost every area.

Most executives would agree that strengthening a company's performance culture helps improve its bottom line. Far fewer are aware of a tried and tested means to accomplish that goal. Such an approach does exist: it combines pragmatic business sense with problem-solving rigor and behavioral insight. Executed well, it not only delivers better bottom-line results but also provides a more fulfilling working environment for employees. In fact, for many executives, leading a cultural shift could be the most rewarding work of their career.

Insights into organization

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