



A Perspective on Organizational Culture



Contents

- **Organizational Culture — what it is and why we should care**
- What we believe to be true about culture
- Our culture methodology
- Client examples

Culture matters – it can make or break your company

“Everything I do is a reinforcement, or not, of what we want to have happen culturally. ... You cannot delegate culture.”

Steve Ballmer, Microsoft CEO

“If you get the culture right, most of the other stuff will just take care of itself.”

Tony Hsieh, Founder and CEO of Zappos.com

“If you don’t maintain Southwest’s culture, you don’t have anything special.”

Colleen Barrett, former President
Southwest Airlines

“Fixing the culture is the most critical – and most difficult – part of a corporate transformation.”

Lou Gerstner, retired CEO of IBM

Sources: Steve Ballmer speech at Stanford Business School, March 15, 2007 (www.youtube.com/watch?v=W-BdCpZjZxU); IBS CDC case, “Designing an Organizational Culture: Tony Hsieh Wrapping Zappos’ Organisational Culture?”, (<http://www.ibscdc.org>); Adolf Haasen and Gordon F. Shea, *New Corporate Cultures that Motivate*, Westport, CT: Praeger, 2003; Willie Pietersen, *Reinventing Strategy*, New York: John Wiley and Sons, 2001

Studies show that culture correlates with high performance

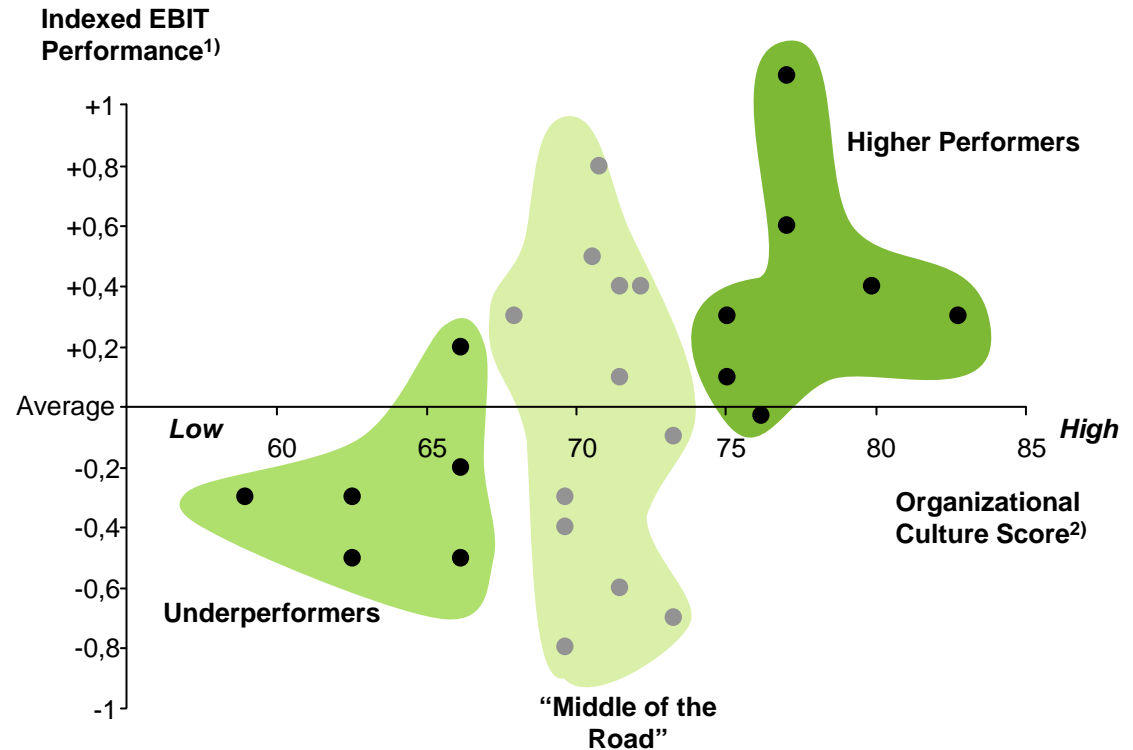
Culture and Business Performance

Culture is a potential “asset” of all organizations. It develops whether intended or unintended, actively directed, or left to happenstance.

- At its best, culture can be an asset that enables, energizes, and enhances human behavior — and when wisely utilized, it can accelerate and sustain business results
- At its worst, culture can be a drag on productivity and emotional commitment. It can lead to underperformance and undermine long-term success
- In either case, an organization’s culture can be consciously steered and influenced to either enhance the impact it has on performance or reduce the resistance it can have on behavioral change

Relation Between Results of an Organizational Culture Analysis and Company Peer Performance

– 26 Companies –

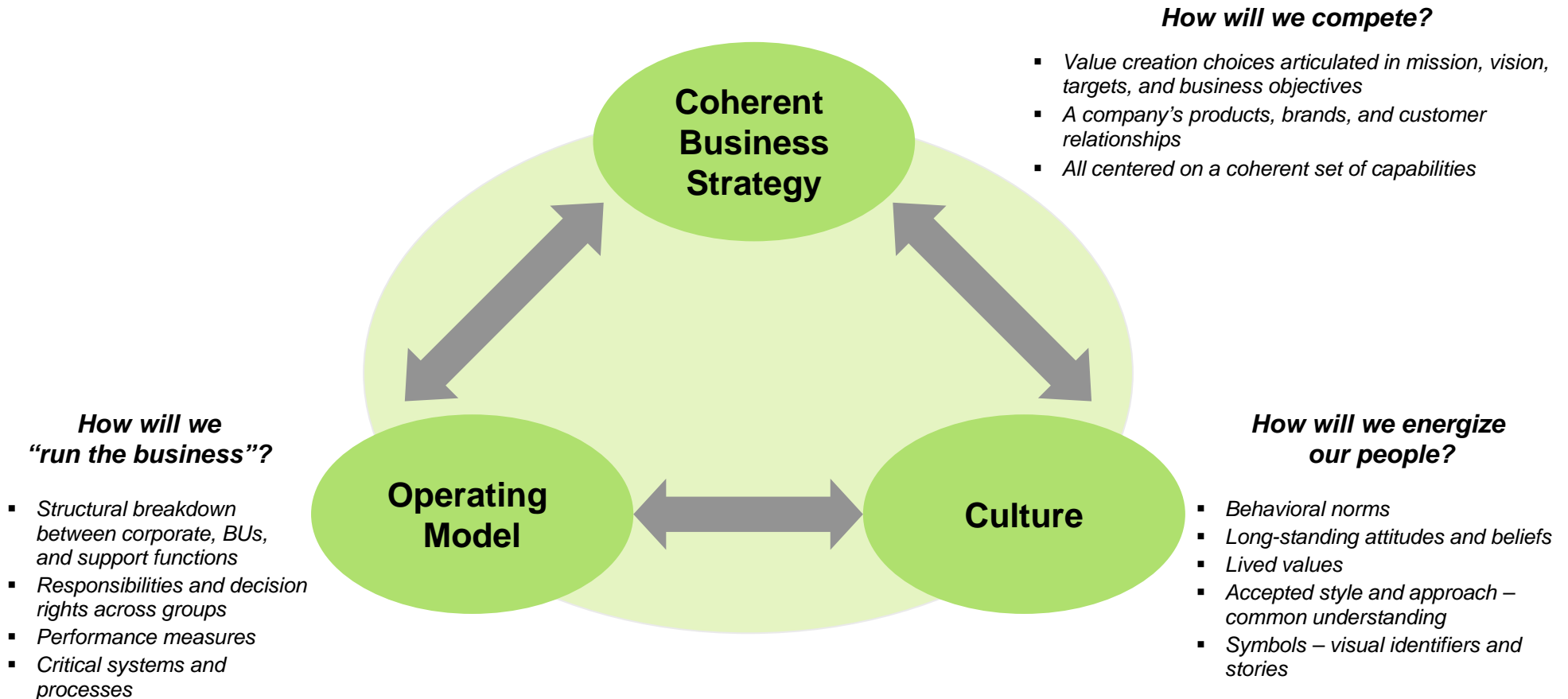


1) Company Performance relative to EuroStoxx Sectorindex. Result >0 means outperformance. Considered time interval: 10 years

2) Results of an analysis of company values performance, recently researched jointly by Bertelsmann foundation and Booz & Company

Culture is as critical as strategy and operating model – and all three must be in sync

How a Company Wins in the Market



So what is this fuzzy “culture thing,” really?

Booz & Company Definition of Culture



There are three basic situations when culture needs to be addressed

The Appropriate “Interventions” Differ When ...

Culture “lags” market realities

- Situations where some elements of an established culture have not kept pace with changes in business priorities
- Some (but not all) elements of the culture are hindering company’s performance.
- You need to work “with and within” your existing culture to change the “critical few” behaviors.

Culture is “THE PROBLEM”

- When your culture has become completely inappropriate for your strategic challenge or out of sync with your operating model, you need to consider replacing or drastically overhauling it
- This invariably requires the “help” of a major marketplace upheaval that serves as a catalyst
- However, even here elements of the “old culture” can be utilized to accelerate key behavior changes

Culture can be “THE KEY” to competitive advantage

- Culture can become a “secret weapon” that makes extraordinary things happen. We see this phenomenon in most peak-performing enterprises
- In those cases, the goal is not to change culture but rather to understand, activate and utilize culture by capitalizing on its perhaps latent emotional power

Getting at culture is hard – and many traps must be avoided

Typical Culture Traps and Realities

The trap: “*The devil made me do it*”

where culture becomes the primary, all-purpose excuse for performance shortfalls

- “Our process culture makes us unresponsive and inhibits innovation”
- “Our engineering culture makes us over-analyze everything”
- “Our bureaucratic culture derails decisions and slows execution”

The reality: Culture is rarely the only “villain,” though it is often a “partial conspirator”

The trap: “*Culture is the soft side of organization*”

where culture change becomes mostly about persuading people to change attitudes and beliefs

- “It’s all about how people feel and how to change those feelings”
- “Compelling and consistent communication will change individual values, beliefs, and actions”
- “Cultural efforts are the province of HR”

The reality: You cannot delegate cultural interventions to HR

The trap: “*Blame the leader*”

where the Board assumes that replacing and getting the right top leader can make everything happen

- “We have to change the CEO”
- “Bringing in an outsider to shake things up is the only plan”
- “Culture is the primary job of the CEO”

The reality: It takes a lot more than a clairvoyant CEO

The trap: “*Black cloud to white cloud*”

where changing the culture is viewed as an “all or nothing” game

- “Our culture will take at least 5 years to change”
- “We need a major crisis to make that happen”
- “Nothing significant can change until we change the culture (completely)”

The reality: Most situations cannot wait 5 or more years for results; key changes must often happen sooner

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We believe there are six imperatives when addressing culture

1. **The existing culture can be a powerful source of energy and influence for behavior change.** Culture is rarely “all bad,” and using elements of the existing culture can help accelerate the change
2. **If you don’t have to overhaul or replace a culture, don’t!** A deeply imbedded culture does not change very much, very fast. Moreover, a major culture replacement requires extensive programs and structural redesign. Major culture overhaul or replacement efforts are hard to do and often fail. So, only attempt a major overhaul if really necessary; for example, in the face of a major “dislocation” event or crisis. But in most cases you don’t need — and certainly don’t want to incur the risks of — a major overhaul of your culture
3. **Start with changing behaviors, not mindsets.** It is much easier to “act your way into new thinking” than to “think your way into new actions.” Recurring and consistent performance results from behavior change will lead to lasting changes in the way people feel, think, and believe in the long run
4. **Focus on changing only the few critical behaviors at different levels within key populations.** This is less disruptive than attempting wholesale change — and certainly more manageable and sustainable over time
5. **Use viral (i.e., cross-organizational) methods to motivate behavior change, not just formal top-down programmatic methods.** Storytelling and a shared common language can be powerful. Peer-to-peer and cross-organizational interactions (networks, communities) can enable and accelerate formal change methods
6. **Mobilize both rational and emotional forces to reinforce the new behavior patterns and achieve lasting change.** Rational guidelines and positive emotional support both matter. Psychological evidence here is compelling. Both the rational and the emotional elements need to “jump together” to yield sustainable change

1) The existing culture can be a powerful source of energy and influence for behavior change

- An existing culture is usually a product of good intentions and is rarely “all bad”
 - In our experience, many senior executives intuitively understand that culture matters; few understand its true power
 - Understanding “the good” about an existing culture can be a powerful accelerator of change and/or performance
- When you are about to embark on a major change or transformation effort, think first about the potential strengths in your culture today that may help you in your endeavor
 - For example, a culture rooted in a deep commitment to customer service could be leveraged during a company’s efforts to improve customer retention rates by 5 percent
- Using such cultural strengths can often have a positive effect much more quickly than programmatic change
 - For example, informal networks such as communities of common interest offer useful options for quickly spreading new behaviors

“Always think first of culture as your source of strength”¹

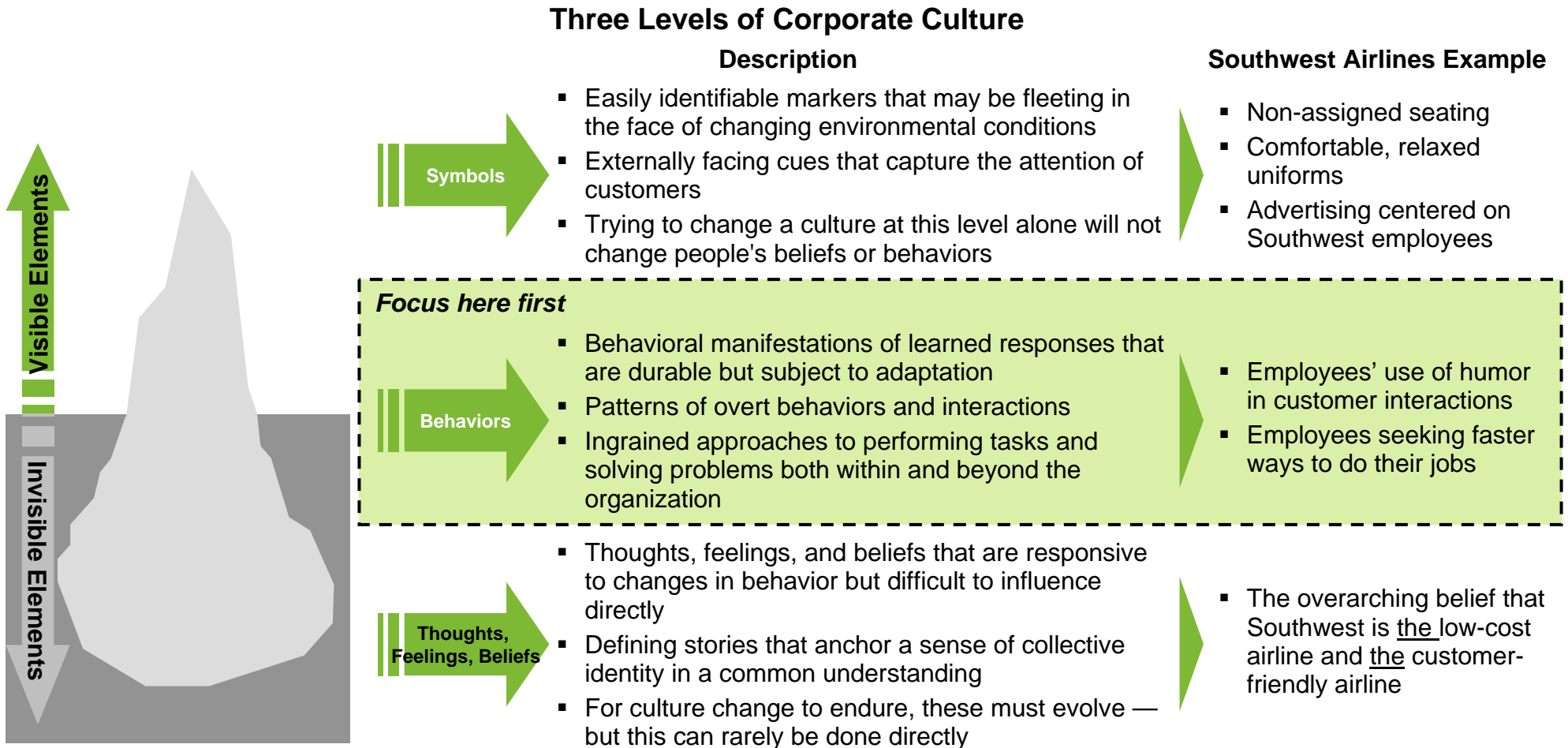
Edgar Schein, MIT Professor
and Expert on Organizational Culture

1: Edgar H. Schein, *The Corporate Culture Survival Guide*, San Francisco: Jossey-Bass, 1999

2) If you don't have to overhaul or replace a culture, don't

- Changing an institutional culture successfully is difficult and complex, because a deeply imbedded culture tends to evolve only slowly, if at all, and changes to ingrained attitudes and beliefs are often strongly resisted
 - It is analogous to ethnic or religious cultures that change over time only as repeated behavior changes lead to results that cause deep-seated beliefs to evolve
- Research suggests that between 66% and 75% of organizational culture change efforts fail
 - Atari's attempt to shift its product development group from a team culture (where teamwork and group ideas were paramount) to a performance culture (where individual performance was rewarded) hampered innovation and performance
 - When Carly Fiorina initiated cost-cutting measures, acquisitions, and culture initiatives at HP, she ran up against HP's existing culture (known as "the HP Way"), and this deeply ingrained culture impeded Fiorina's initiatives
 - Prior to Aetna's successful turnaround between 2001 and 2005 (under John Rowe and Ron Williams), three previous programmatic efforts over the preceding decade were derailed by the so-called "Aetna-nice" culture
- Thus, complete culture changes should only be undertaken when absolutely essential and must be relevant in the context of improving overall business performance and consistent with strategic imperatives
 - When GM faced bankruptcy it had to change substantially — changes in strategy, operating model, and cost structures had to be accompanied by culture change initiatives
 - BP is likely to rigorously evaluate all aspects of its operations — including a culture that might have downplayed the risks of offshore oil exploration — as it continues to respond and recover from the Gulf oil spill
- Situations where the culture doesn't need a full overhaul — but needs to evolve and adapt only in certain areas — occur much more frequently

3) Start with changing behaviors, not mindsets – it's faster and more lasting



4) Focus only on a few critical behaviors at different levels within key populations

- In most cases, you don't need to worry about the entire culture in your organization
 - Focus on those cultural elements that are most relevant to the specific performance improvement behaviors with which you are concerned
- Not all employees in your organization are likely to be in a position to influence the relevant cultural themes
 - You must first identify which groups of individuals are “carriers” of the cultural themes
 - These themes are reflected in the behaviors, thoughts, feelings, and beliefs of the “carrier” group
- Thinking, feeling, and believing are hard to change but ultimately need to change
- Behaviors are also hard to change but a bit easier than the other three because
 - You can use formal and informal mechanisms to “make” people behave differently even before they “believe”
 - In doing so, people act their way to a new mindset (as opposed to the other way around)
- Culture, in its essence, is individual — it is the sum of how all individuals think, feel, and behave
 - Therefore, whenever we deal with culture, we have to break down culture to the person level
 - Once you define who needs to adopt what kind of new behaviors, you can start to build a plan

“(Culture) is almost like having a teenager ... you have to pick your battles.”¹

Carol Bartz, Yahoo! CEO

1: Carol Bartz discussion at the University of Washington, <http://vimeo.com/13136019>

5) Use viral methods to create and reinforce behavior change

Leading people to change their behaviors is in part difficult because change causes anxiety ...

- Most people experience measurable, chemical reactions in the brain when asked to change the way they behave
 - This is similar to any type of “threat and reward” response
 - The threat response is taxing and often leads to primal responses, making people resistant to change
- Behavior change is created by focusing people’s attention on an ongoing basis on solutions requiring new behavior sets
- The more frequently and closely people’s attention is focused on a particular behavior, the higher the likelihood the behavior change will stick

... but behavior change can be made easier when viral approaches (e.g., social networks) are used

- Changes in behavior are best achieved by tapping into informal social networks of influence
- A small, carefully chosen set of change “champions” spreads new behaviors from person to person through social contacts
 - Behaviors are diffused through stories, role-modeling, and informal contacts
 - Leadership is distributed and exercised constantly by all people who role-model the changes
 - New behaviors begin to cascade through networks horizontally (as well as vertically)
 - Changes spread in a network until a tipping point is reached and the new behaviors are the norm
- Social networks are also often used in non-business settings to impart lasting change; examples include social action, political lobbying, and support groups

Sources: Leandro Herrero, L. (2008). “Viral Change: The alternative to slow, painful and unsuccessful management of change in organizations.”; David Rock, “Managing with the Brain in Mind,” 2009; David Rock, and Jeffery Schwartz, “The Neuroscience of Leadership,” 2006; Rock and Schwartz, “Why Neuroscience Matters to Executives”; Booz & Company analysis

6) Mobilize rational and emotional forces to reinforce the new behavior patterns and to achieve lasting change

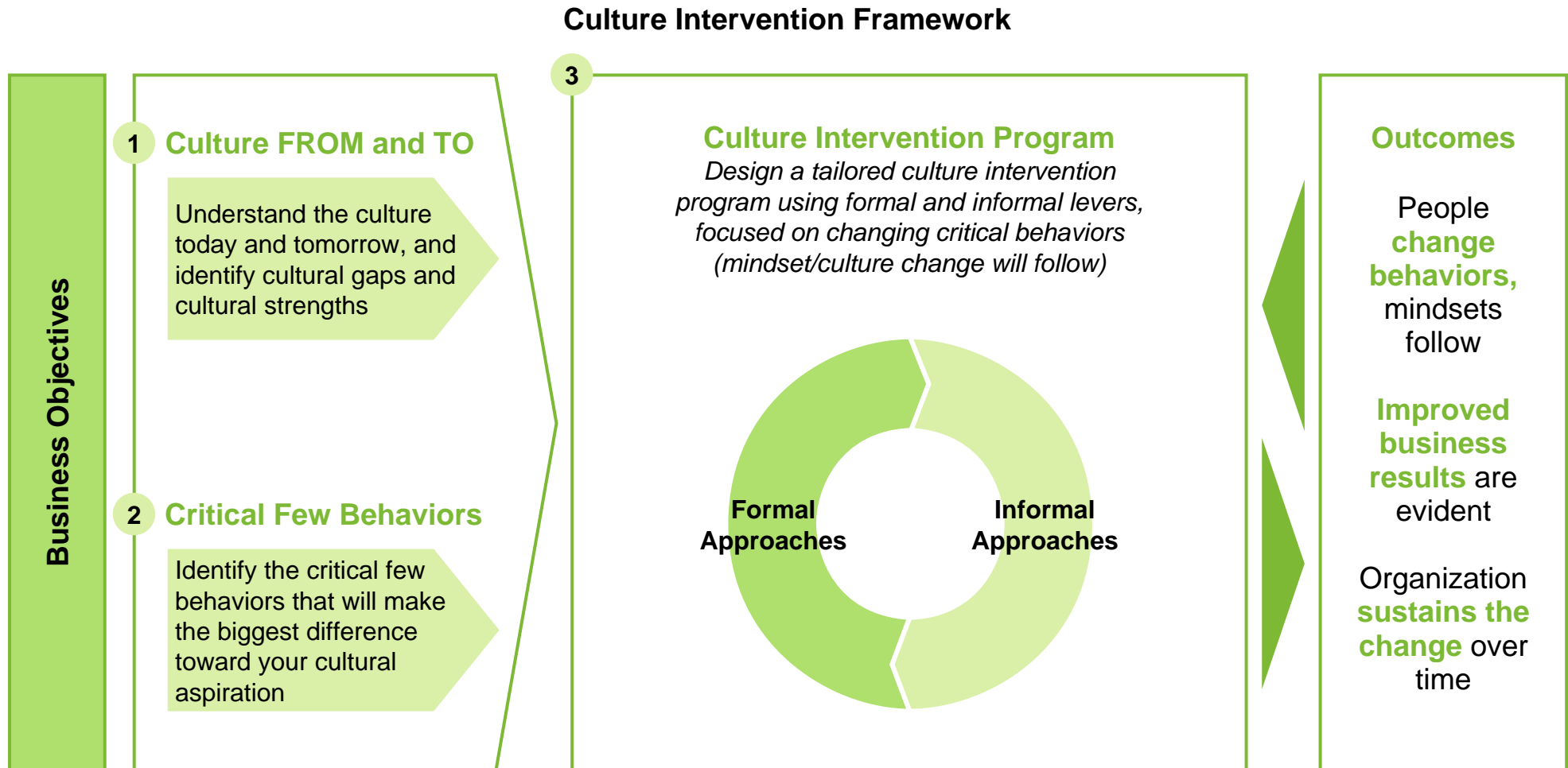
Formula for Reinforcing Behavior Change



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- Organizational Culture — what it is and why we should care
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- Client examples

We favor a rigorous culture intervention framework



Understand the existing culture and articulate the aspiration

- Understand the existing culture at a deep enough level — make sure you are not blindsided by superficial symbols of culture that may lead you down the wrong path
 - What are the strong attributes? What are the weak attributes?
 - Why is the culture the way it is today? How did it get there? What forces are re-enforcing it?
 - In which ways does the culture fit with the company's strategy or operating model? In which ways does it not fit?
- Articulate the future cultural aspiration in a visionary, compelling, and positive way
 - Defining the future aspiration requires deliberate choices — you cannot just “pick all the positive attributes” because they will often be mutually exclusive (e.g., a company competing on cost efficiency may not simultaneously be able to aspire to a high-end customer service culture)
 - Senior leadership must visibly lead and represent the articulation of the cultural aspiration; however, leadership behaviors down the line must demonstrate key changes.
- Based on the understanding of the existing culture and the cultural aspiration, we can then formulate the cultural themes that need to be addressed to make the aspiration a reality
- Working with the cultural strengths of the existing culture will accelerate the endeavor

Clients often articulate the culture aspiration in the context of a broader change agenda

CLIENT EXAMPLE

Client Example of a FROM – TO Articulation

FROM

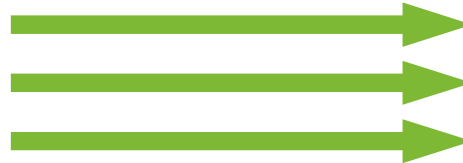
“Portfolio Manager”/High Growth

TO

“Strategic Manager”/Return Optimization

Structure

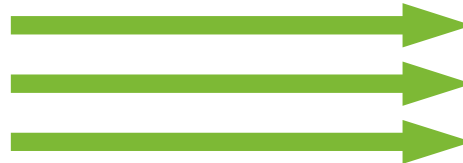
Independent Businesses
Centralized Control Points
Multi-layered management



Interdependent
More Local Empowerment and Accountability
Delayed

Process

Complex Solutions
Unbounded Procurement
Correcting and Reconciling Errors



Streamlined Services
Demand Management; “Good Enough”
Reducing Defects

Culture

Siloed thinking
Revenue/Top Line Focus
“Get What I Want”



Enterprise-Wide Perspective
Profitability/Bottom Line Focus
“Get What I Need” (Trade-Off Mindset)

We then identify the critical few behaviors and key influencers

- First, we determine the few behaviors that matter most for each cultural theme
 - Where are the critical populations? (e.g., geographic, line of business, major functions, leadership levels)
 - What are the strategic/performance imperatives in each? (analytically and experientially sound)
 - What specific behaviors need to change (From – To)?
 - What specific behaviors need to be reinforced?
 - How can key behavior changes be tracked?
- Second, we identify and enlist the help of key influencers
 - Who are the “culture carriers,” “pride-builders,” and other “nodes” of influence in critical populations?
 - What do these individuals do “differently” (that other “good managers” do not do) that influences positive behaviors?
 - How can you enlist small groups of them as sources of positive influence and energy?
 - How can these small groups of positive influencers counteract the “negative influencers”?
 - How can their insight and capability be spread across and throughout the organization?

Critical behaviors typically fall into one of five categories

Relationships

- Involves how employees relate to each other
- Encompasses behaviors such as:
 - Methods for working across business units
 - Collaborating in ad hoc and permanent teams

Decision Making

- Involves the “ground rules” (formal and informal) for how decisions are made and who makes them
- Encompasses behaviors such as:
 - Setting the tone for authoritarian vs. consensus-based decision making
 - Establishing approval norms

Work Execution

- Involves how employees act in performing daily tasks on the job
- Encompasses behaviors such as:
 - Looking for continuous improvement
 - Completing tasks on time
 - Honoring firm rules and guidelines

Information sharing

- Involves how information is shared, both among peers and hierarchically
- Encompasses behaviors such as:
 - Stopping for casual hallway chats to discuss company news or share ideas
 - Providing direct vs. indirect feedback to peers

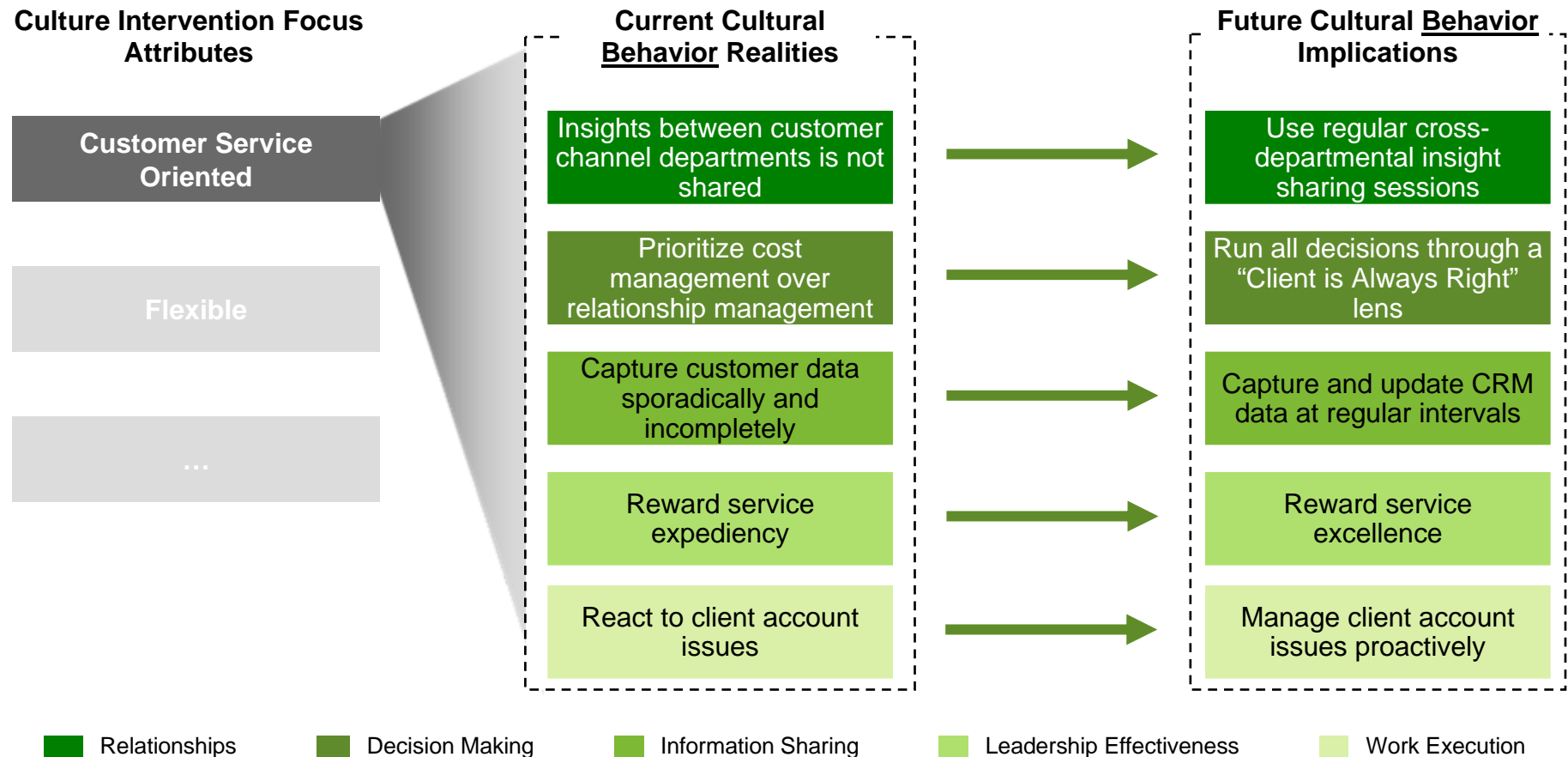
Leadership Effectiveness

- Involves the ways that managers achieve optimal performance from teams
- Encompasses behaviors such as:
 - Setting the standards/norms for accountability
 - Motivating peak performance
 - Using mistakes as teaching moments

Cultural aspirations must translate into behavioral specifics

Within each relevant culture theme, we will break down the existing culture and aspiration into specific behaviors

EXAMPLE



After we understand the aspiration, culture themes to address, and the implicit behaviors, we can tailor an intervention program

- A specific culture intervention program must be developed — the program typically includes a balanced mix of both formal and informal mechanisms
 - Interventions work best when incorporated into the “real” day-to-day work of the organization
 - The interventions selected must address the specific behaviors that the organization wants to alter
 - Interventions should be balanced and address both the rational and emotional side of the changes being undertaken
 - All intervention mechanisms (formal and informal) should be reinforcing and consistent
 - The program should occur at various levels of the organization simultaneously and ensure cross-organizational energy and support (e.g., it is vital that more junior-level employees see senior executives role-modeling the behavior types that they are being asked to perform)
- Develop “pilot tests” to refine the mechanisms and ensure that both behaviors and performance results change as intended
 - Determine how to track early behavior changes using both metrics and informal observations
 - Modify mechanisms as necessary to reflect the early learnings
 - Compare with actual performance results when available

To influence the critical behaviors, we utilize a reinforcing mix of both formal and informal elements

Formal Elements		Informal Elements	
Vision, values, and strategy	Signal organization's core commitments and aligns actions with a common view of the future	Tone set by senior leaders	Establishes a "drum beat" and shapes perceptions about espoused behavioral priorities
Capability system	Defines core knowledge, tools, and processes and the corresponding behaviors crucial for execution	Behavior change proof points	Provide evidence that change is possible and/or gaining traction in the organization
Reporting structures	Enable and constrain particular ways of working within the "lines and boxes"	Meaningful manager-employee connections	Foster personal, credible relationships that can align cultural perceptions up and down the organization
Decision rights	Shape feelings of accountability and ownership and perceptions of organizational cohesion and bureaucracy	Knowledge transfer	Transmit key culture messages within and beyond silos, spreading perceptions across the organization
Business processes and metrics	Determine the operating behaviors and outcomes that are most important and should be attended to	Informal networks	Sustain flows of trust, energy, and information that strongly shape cultural beliefs and behaviors
Recruitment and selection programs	Conveys aspects of organization's "personality" and signals individual attributes that are valued	Peer-to-peer interactions	Influence perceptions and behaviors through informal dialogue and collaboration
Training and LD/OD programs	Imparts skills and ideas that enable behaviors and helps determine feelings of reciprocal commitment	Communities of common interest	Reinforce common identity and interests and shape members' perceptions about the larger culture
Performance management	Communicates what is valued in terms of individual contributions, exerting a strong influence on behavior	Pride builder initiatives	Engage front-line leaders in efforts to define, support, and drive cultural priorities/key behaviors
Compensation	Reinforces behaviors that are rewarded and shapes perceptions of fairness and levels of commitment	"Culture Carriers" and change agents	Signal behaviors and ways of working that the organization values and help spread them locally
Internal communications	Call attention to events, priorities, etc., sending key messages through content and delivery choices	Artifacts	Basic layout, resources, and aesthetics that subtly communicate the values of an organization
Policies	Operating "do's and don'ts" that formally guide how people are expected to operate		

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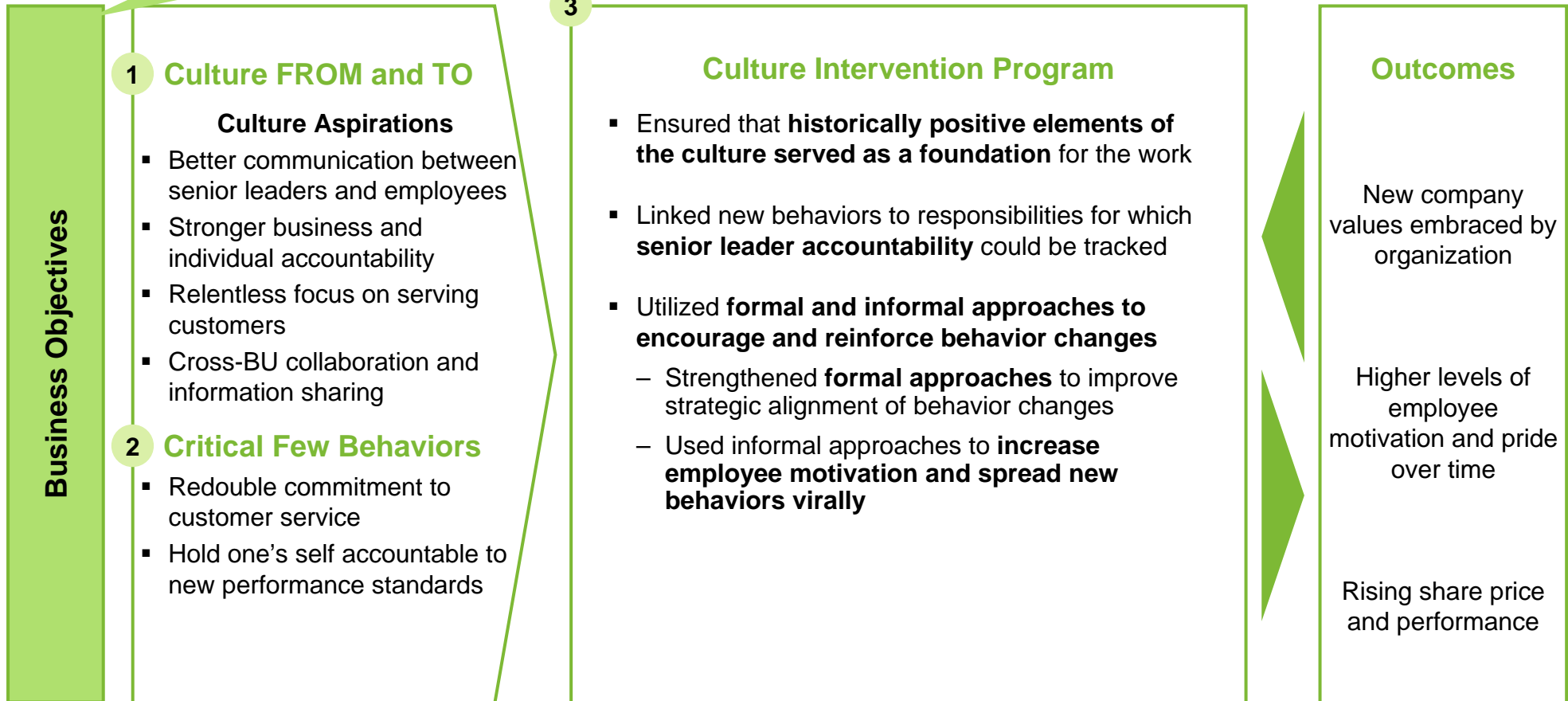
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A large insurance company's culture intervention made wide use of formal and informal approaches

CASE EXAMPLE

- New customer-focused strategy
- Leaner operating model
- More rigorous management system

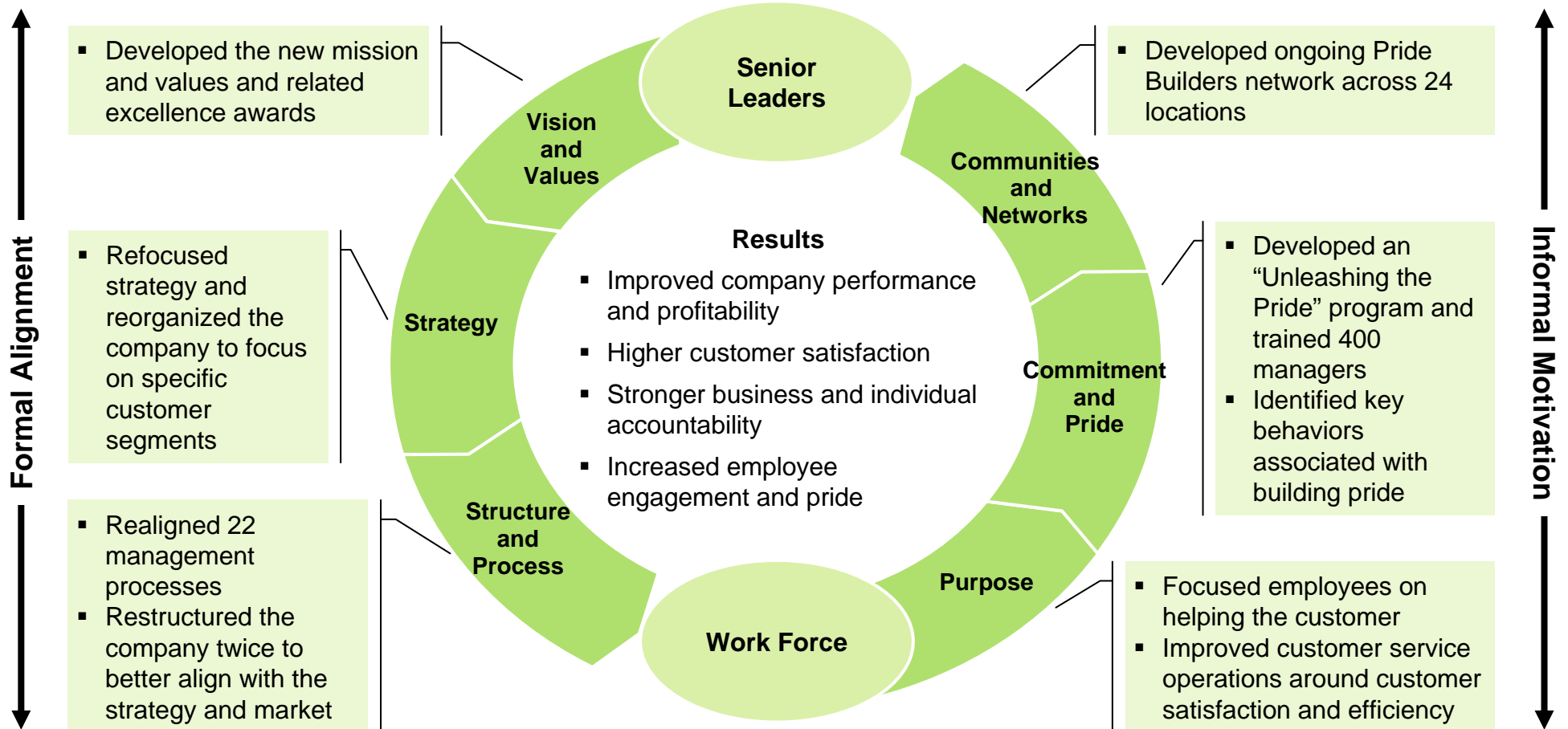
Culture Intervention: Insurance Company



A balance between the formal and informal helped the company reinforce desired behavior changes to achieve results

CASE EXAMPLE

Select Formal and Informal Approaches Utilized



We helped an industrials company change deal-making behaviors as a part of a larger process improvement initiative

CASE EXAMPLE

- Refined process for making go/no-go decisions on large capital projects
- Cost competitiveness amidst increasing industry consolidation

Culture Intervention: Industrials Company

Business Objectives

1 Culture FROM and TO

Culture Aspirations

- Ability to leverage cross-organizational perspectives in solving difficult problems
- Create an environment of open dialogue
- Commitment to sharing information more effectively

2 Critical Few Behaviors

- Discuss deal risks openly
- Proactively and consistently draw on learning from past deals
- Have “master deal-makers” take the time to teach the next generation

3

Culture Intervention Program

- Held up-front visioning sessions to **identify behaviors** to improve deal making
- **Analyzed deal-making exemplars** to identify critical behaviors
- **Leveraged the existing culture** to cast the performance aspiration as a win-win situation
 - Highlighted customer benefits of new process to draw on culture of *customer centricity*
 - Leveraged sales force pride in their day-to-day work by elevating their visibility to senior leaders in the decision-making process
- Developed new processes, tools, and role modeling workshops to **influence newly desired behaviors**

Outcomes

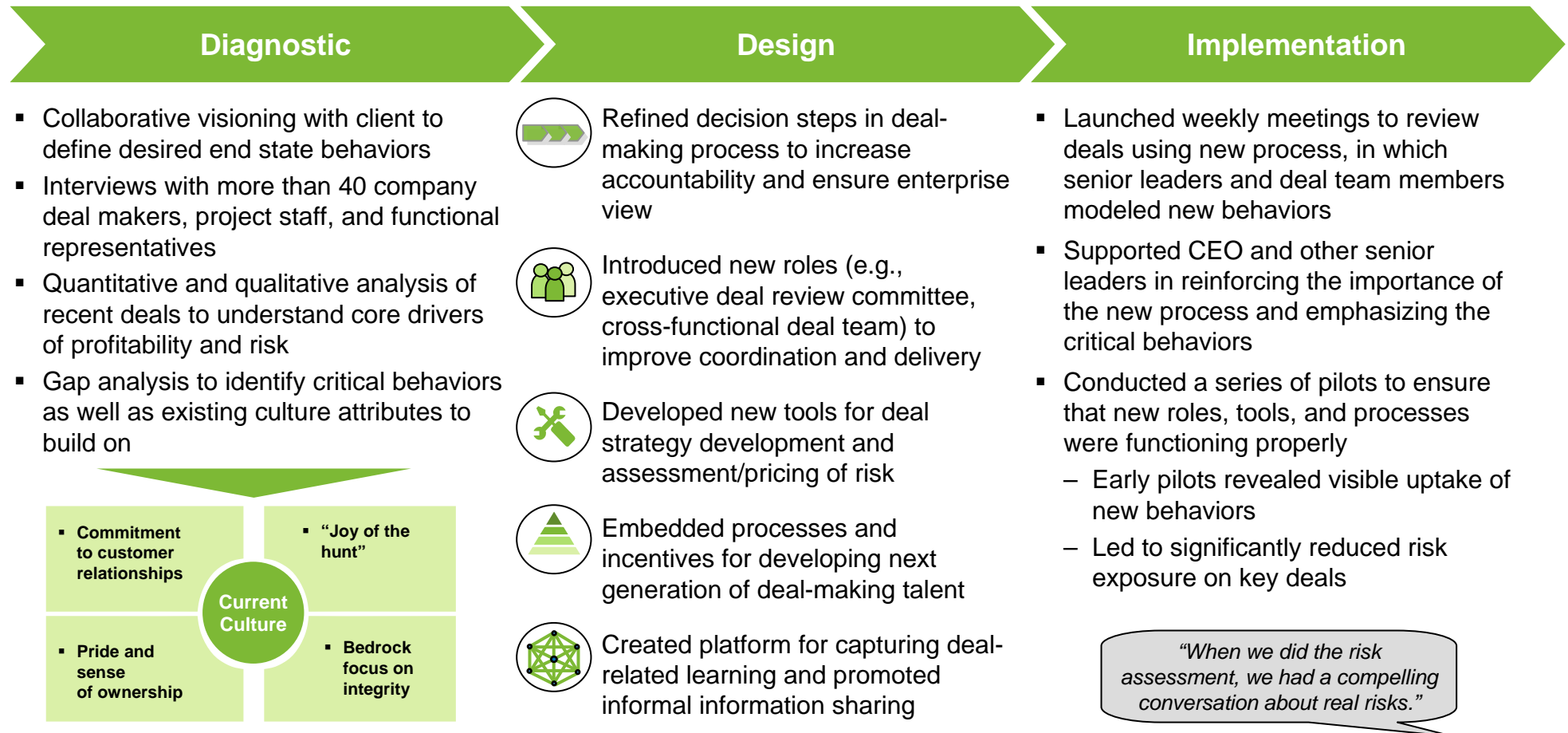
Significantly improved project pipeline due to increased competitiveness despite recessionary challenges

Increased overall company focus on the criticality of the deal-making process

The approach focused on influencing behavior change from diagnosis through to execution

CASE EXAMPLE

Intervention Approach



An international telecom company addressed its culture using viral approaches as it dealt with deregulation

CASE EXAMPLE

- Transform from a regulated utility to a lean and competitive company
- Move from regional business model to a customer segment-based model

Culture Intervention: Telecom Company

Business Objectives

1 Culture FROM and TO

Culture Aspirations

- Become a “sales and service” company
- Use existing resources to support lasting behavior change
- Integrate process improvement initiatives into broader culture change effort

2 Critical Few Behaviors

- Probe for unmet customer needs
- Involve other company resources at the right time to provide better solutions
- Use expertise to guide customer

3

Culture Intervention Program

- Targeted managers who exemplified **motivational frontline management** and developed scalable process for program growth
- Integrate process improvement initiatives into broader culture change effort
- **Adopted viral approach at all levels of the organization** to counter the notion that change was just another “corporate flavor of the month”
- Created “**Frontline Pride Community**” to build the motivational skills of frontline managers

Outcomes

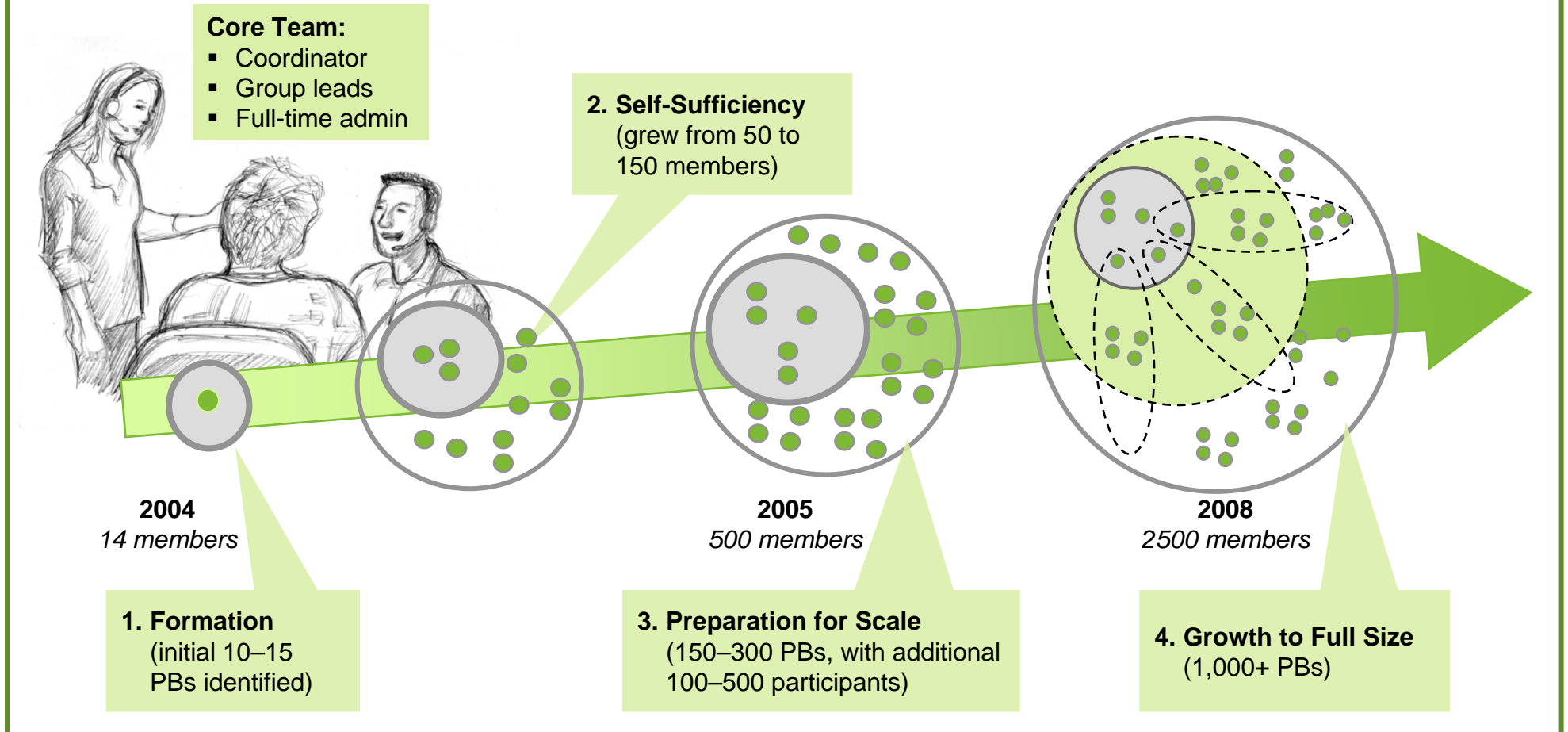
Distinct performance improvements (e.g., customer satisfaction with rose from 38% to 52%)

Personal experiences with Pride Builders was mentioned in CEO's letter to shareholders

Culture initiatives were spread virally using a network/community methodology

CASE EXAMPLE

Example: Growing a Pride Builder Community of Practice



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