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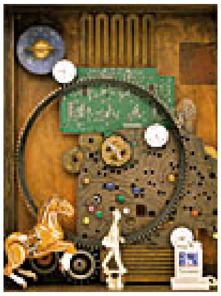
Corporate Culture



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Better Living Through Culture

Corporate culture is gaining recognition as an untapped asset for managers and companies alike. The right corporate biology--the optimal balance of people and culture--can mean the difference between success and failure.

by Louis A. Musante

Lou Gerstner, IBM's enigmatic CEO, tries to do two things every day: go to church and meet with a customer. I'm not a proponent of mixing church and state, but Gerstner's success in changing the culture of a company the size of IBM could almost be considered a miracle. Certainly, it was a job nobody else wanted. Since the days of chairman Tom Watson, IBM had been known as a strong culture, with white shirts and company songs, with service excellence and a blue-chip image. But in the late 1970s and early '80s, the company's luster began to fade. IBM had become too rigid and internally focused. The strength of its culture had, in fact, made it too inflexible to change. The company took its eye off the customer and lost its ability to adapt.

Corporate culture is moving into the limelight and proving to be an untapped asset for employees and businesses alike. It's a concept that top executives must really "get" to survive. Research makes it clear that even during an economic downturn, companies with strong and adaptive cultures perform significantly better financially than those with weak or poorly defined cultures. The right corporate biology--the optimal combination of people and culture--can mean the difference between remarkable financial success and failure. And as technology becomes increasingly plug-and-play, corporate culture will assume an even bigger role than IT systems will play in the war for customers.

Although we live in a time of unprecedented technology usage--propelled by the power of Web software and advances in enterprise resource planning, customer-relationship management, E-business, collaboration, and enterprise messaging--success in business is even more dependent on employing and motivating the best people than it is on having the best Web site, the biggest databases, or the fastest processors. The best technology is no longer enough.

Many CIOs regard IT as the key change agent in cultural transformations, but this perspective is skewed. Cultural transformation is driven by people--leaders at all levels of the company. IT can serve as a catalyst for change and provide a template for implementing that change. But, too often, the existing culture is forced to adopt a new technology platform without sufficient regard for existing user patterns and processes. In such cases, technology becomes a stick, rather than a carrot.

Consider the spotty success of collaboration, CRM, and reengineering efforts during the 1990s. In many instances where these initiatives failed to achieve their promise, culture was given scant attention. On a more personal level, embracing the emerging science of corporate culture can be a CIO's passage to a more senior leadership role in forward-thinking companies. At a minimum, culture-savvy CIOs add value to their companies, even in times when investment in technology is curtailed. Culture can be what keeps CIOs at the CEO's table.

But the culture issue is still a tough sell. In an *InformationWeek* poll of 250 IT executives conducted in September, 60% of respondents said that it's somewhat or very difficult to change their companies' cultures or to encourage knowledge sharing and collaboration instead of knowledge hoarding.

The key to successful information sharing is to change the culture into one that supports collaboration as a better way of doing things. Trust takes time, but if employees make a direct what's-in-it-for-me connection, they may be more likely to give information sharing and collaboration a try. This trust can build from and extend the existing communication channels--both formal and informal--that already are in place.

Look at the cultures of PricewaterhouseCoopers and Lotus/IBM and you start to see many ways to build collaboration systems that work. Both companies have implemented successful knowledge-management and collaboration strategies, but their cultural approaches are very different.

Lotus, though now part of IBM, has maintained the casual, entrepreneurial culture central to so many successful IT companies. At Lotus, teams are a valuable part of the culture, especially ad hoc groups that form around specific problems or software projects. Lotus doesn't have a chief knowledge officer or a rigid structure with rules for constructing and culling databases. Things just happen.

Compare this with PricewaterhouseCoopers' strategy for rolling out its knowledge-sharing and collaboration plans. Continuing its established cultural traits and rigid management structure, the company appointed a chief knowledge officer and a sizable staff, as well as a knowledge officer and a rules base for each business unit.

Collaboration and culture do mix

A recent study by the American Productivity and Quality Center, a Houston benchmarking group, revealed the following observations about the culture practices of companies deemed successful in knowledge sharing and collaboration:

- Attitudes toward sharing information are tightly linked to the existing culture--that is, the pre-existing core values of the company and the informal networks that people use in their daily work lives. "If you can't share inside your company," the study found, "it is probably harder to share with the outside."
- Successful companies piggyback information sharing and collaboration onto key business initiatives, as FedEx did with its "Absolutely, Positively, Next Day" delivery promise, Ford did with its "Quality Is Job One" focus, and IBM did when it rolled out "eBusiness Solutions."

- They actively involve appropriate senior management.

- They promote collaboration from a people perspective, rather than from a technology perspective.

- They overcommunicate. Most major change initiatives aren't communicated well and, as a result, aren't fully embraced by senior management.

Most CXOs, when asked to define their company's culture, answer in terms of open offices or casual dress codes. They haven't really thought about their culture at all. Edgar Schein, a professor at the MIT Sloan School of Management, says the only thing of real importance that leaders do is to create and manage culture. But even leaders aware of the power of culture to affect the bottom line often can't define it with any confidence. And if culture can't be defined, it can't be measured or managed. It's even rarer for executives to consider benchmarking culture against more successful rivals, though it can be done.

Culture is becoming as important an element as customer focus in achieving the balanced-scorecard strategic-management approach used by many companies. Employee loyalty drives customer loyalty, which correlates directly to the fruits of business success, sustainable competitive advantage, and stakeholder value. Just as intellectual property is making its way to the top of management's must-have list, culture management is finally emerging from academic journals into mainstream management literature. One could even argue that culture is the ultimate form of intellectual property.

Although companies such as IBM and Wal-Mart have for decades understood the value of managing culture, most companies have not. When it comes to a sustainable competitive advantage, a company's culture is one of the most difficult things for competitors to copy. Think about General Electric or Toyota and how companies have benchmarked and studied their internal processes for years but are hard-pressed to duplicate their performance.

As logical as it may sound to consider corporate culture as a competitive asset, most still will think: "I'm so busy, why should I spend time on culture?" But there's hard, scientific evidence of the financial rewards for advancing our knowledge of how to measure and manage a company's culture. The work of John Kotter and James Heskett at Harvard produced four major findings, highlighted in their book *Corporate Culture and Performance* (Free Press, 1992). These are:

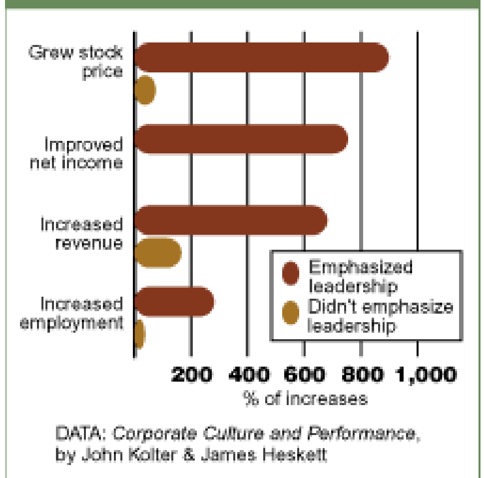
- Corporate culture can have significant impact on long-term financial performance.

- Culture probably will become an even more important factor in determining corporate success or failure in the future.

- Cultures that inhibit long-term financial strength are common and develop easily, even in companies full of reasonable and bright people.

- Corporate culture can be managed and changed.

Kotter and Heskett found that businesses whose cultures addressed all the key stakeholders--customers, stockholders, and employees--and emphasized leadership from managers at all levels outperformed companies without those cultural traits by a significant margin.



Over an 11-year period, businesses that emphasized leadership increased key financial metrics more than those that didn't

Perhaps the biggest contribution from Kotter and Heskett's work is their findings on adaptability. Their basic logic is very clear: Only cultures that can help companies anticipate and adapt to change will be associated with superior performance over long periods. Nonadaptive cultures were found to be complex, bureaucratic, usually risk-averse, and low on creativity. Motivation is low and information flows slowly in such command-and-control cultures.

The formula sounds simple: Create a strong and adaptive culture and it's off to the bank. However, in reality, no one-size-fits-all formula works; every company must find a unique cultural model that fits the needs of all its stakeholders.

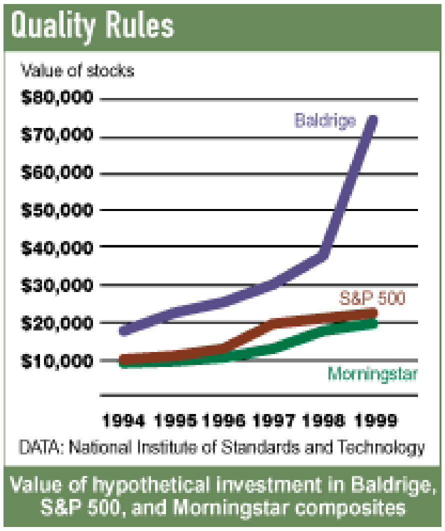
Culture consists of infinite variables, and the environment from which it grows changes on a daily basis.

Flower power
Culture is often referred to as the personality of a company. It's also sometimes described as what people do when the boss isn't around. Some say it's the values, beliefs, and practices of a business. To some extent, this very lack of a generally accepted definition has slowed the adoption of culture as a management and leadership tool.

Another reason understanding culture is so elusive, as Schein points out, is that it's both visible and invisible. But it's the invisible elements--the values, beliefs, and practices of culture--that contain the power to directly influence economic performance and effectiveness.

The analogy of a flower may help leaders better understand culture and why it merits their attention. Like noted motivational speaker Stephen Covey, we recommend that leaders start with the end in mind. Most leaders want their companies to produce two things: stakeholder value and sustainable competitive advantage. To achieve these, a company needs to have loyal and satisfied customers, which is the result of having loyal and satisfied employees.

The correlation between employee and customer loyalty on the one hand and financial performance on the other has been well-established by research at a number of consulting firms, including Bain, Maritz, Gordon Black, and Burke Market Research. Another example of the link between customer-centric companies, with high levels of loyal customers, and improved bottom-line results can be seen by comparing past winners of the Malcolm Baldrige National Quality Award against companies in the S&P 500 and Morningstar composites over time.



Value of hypothetical investment in Baldrige, S&P 500, and Morningstar composites

There's a general misconception that most companies that have won the Baldrige award go downhill afterward, but the financial numbers tell a different story. The stock prices of Baldrige winners outpaced the performance of companies in both the S&P 500 and the Morningstar composite by 2-to-1 from 1994 through 1998, and more than tripled the S&P performance in 1999, the last year for which data is available (see chart, p. 74). Baldrige winners have come from a wide cross-section of service and manufacturing industries, and are made up of large and small companies, including 3M Medical, AT&T Universal Card, Eastman Chemical, and Granite Rock.

Total Quality Management and Six Sigma are well-known quality-improvement programs used by companies such as Hewlett-Packard, GE, and Motorola to create processes and templates for developing manufacturing and process excellence. They can be viewed as very focused culture models.

There are dozens of culture models in academic literature, too. Using the flower analogy, culture can be considered the loam and the nutrients from which employees grow and mature. If our flower isn't blooming, we don't run out and begin to analyze what's wrong with the buds or the stalk. First, we test the soil to see whether it has enough water (communications) and the right balance of nutrients.

The organic model of corporate culture used by Echo Strategies in our CultureScan benchmarking and assessment process defines the traits and attributes of a healthy and adaptable culture. The foundation consists of four metadomains based on how companies think, organize, act, and grow. Each of these metadomains is further defined by four key cultural attributes, 16 in all, that provide a working definition of the culture of a company.

Sixteen attributes that boost company and shareholder value

Here's how these four traits can be considered: First, how does your company think? Thinking encompasses a clear mission, a strategy, a level of trust in the company's core values, and a leadership style. Executives can get a perspective of the level of trust in their company by measuring factors such as the level of respect demonstrated for individuals, keeping commitments and deadlines, and fairness in promotions and other recognition.

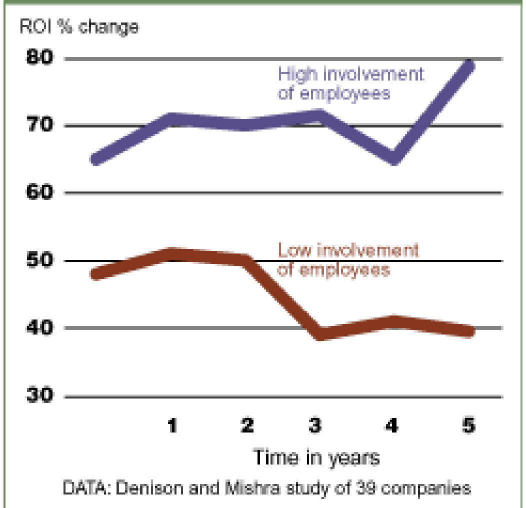
The CultureScan model defines how a company organizes around planning, involvement and teaming, recognition, and communication. Most companies fall short on communication. It's hard to overcommunicate with stakeholders.

The other two main modules in the CultureScan model are how companies act and grow. Actions are rooted in the level of consistency in getting things done, the focus on customers and employees, and accountability. Growth is manifested in the company's adaptability, innovativeness, learning methods, and process-centricity.

Each of these 16 attributes has associated with it a series of indexes and questions used to profile and score a company's "culture quotient." The company can then be benchmarked against others that have used the CultureScan process.

Another important factor is cultural balance. This refers to the delicate, hard-to-achieve, yet necessary equilibrium between internal and external focus, and between consistency and flexibility. A company can be too focused on its customers at the expense of its employees, or too rigid at the expense of adaptability and innovation. Finding the right cultural formula for a company is like striking the right balance between the Chinese concepts of yin and yang. You have to keep working at the right formula until it's achieved.

The Dividends Of Inclusion



Companies that involve employees in decision-making processes have superior financial results

Work at the University of Michigan Business School and at Penn State has established compelling evidence of the link between corporate culture and effectiveness. Michigan's Daniel Denison, in his book *Corporate Culture and Effectiveness* (John Wiley, 1990), tested the correlations between selected cultural traits of executives and the financial performance of their companies, using two key measures: return on sales and return on investment. Studied over time and across 39 businesses from 20 industry sectors, these financial elements--along with the four key cultural traits--provide strong evidence that culture is worth taking seriously.

The 39 companies studied were segmented into two groups: those whose employees scored above average on measures of their involvement in decision-making and teamwork, and those whose employees scored below average. The financial ratios of the two groups were then plotted over time. The results are dramatic, showing a 100% difference at the five-year mark.

All this data supports the theory that whether companies are planning new technology rollouts or looking at ways to retrench, whether the economy grows stronger in coming months or weakens further, CIOs who take time to assess and strengthen their corporate biology will find that change comes more quickly and smoothly throughout their company. Those who succeed in building adaptive cultures will find themselves more welcome than ever across the table from their CEOs. ◆

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