

Culture Change: Calling on Philosophers and Engineers

by Vinay Couto, Nikos Mourkogiannis, and Gary Neilson

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By blending the poetic with the quotidian, organizational strategies and cultures can find common ground.

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A winning strategy does not a winner make. Companies around the world are coming to the realization that the right strategy is crucial but not always sufficient. And when great strategies fail, leaders often instinctively know the reason. Their next question is, How do we fix our culture?

Easier asked than accomplished. To change a corporate culture means to change the attitudes, values, and habits that persist under the surface, adding up to a tacit consensus about “what’s OK and what’s not OK to do in this company.” When a new strategy doesn’t succeed, the culture is indeed often the cause, but not because the old culture is “wrong.” Rather, some aspect of the new strategy has unintentionally contradicted (or seemed to contradict) the generally accepted behavior. For example, some automobile companies, copying Toyota’s example, have tried to institute new product development methods where engineers talk openly about common design problems. But this contradicted a cultural rule: Do not name a problem without offering a solution.

A manager who seeks to change a culture must ask two questions before taking action. The first is the province of philosophers: Why must the organization make this change? In other words, what are the new goals — tactical, strategic, and cultural — we are taking on?

The second question is the province of engineers: What kinds of means and mechanisms must the company set into place to help realize this change? In other words, what can we design and implement to give our new goals the legitimacy they need?

The philosopher’s work might be called purpose; it involves deliberately choosing an identity that resonates with both the corporate goals and the human condition. The engineer’s domain could be called the organizational DNA; like the work of genetic engineering, it establishes the structural parameters that shape the growth and evolution of the enterprise.

Without the philosopher, the engineer’s work has no anchor and no clear sense of direction. Without the engineer, the philosopher’s new concept is just another form of preaching, and it won’t change anyone’s actual behavior. If the purpose and DNA don’t fit together well, and therefore confuse people, they can set back a strategy completely; that’s why a leader needs to ensure that they are aligned.

1. Establishing Purpose

Suppose, then, that you are the CEO of a company that has embarked on a new strategy. Perhaps your operations have been confined within one region until now, and you see that you must expand to a global presence.

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Or perhaps your most established line of business is threatened by new competition.

Many books on change will tell you to start by declaring a grand vision — or, as Jerry Porras and Jim Collins put it famously in their book *Built to Last* (HarperBusiness, 1994), a “big hairy audacious goal” — but experience shows us that some big hairy audacious goals are more effective than others.

For companies in the 21st century, only four types of broad goals resonate with employees, shareholders, and customers:

- To make new discoveries and bring them to the world first
- To create excellent products and services, intrinsically best by any important standard
- To serve customers, employees, or other stakeholders altruistically in a way that creates the greatest happiness for the most people
- To heroically master one's destiny and thereby demonstrate superiority over competitors, the business environment, and destiny itself

These four goals, or purposes — discovery, excellence, altruism, and heroism — represent four sets of cultural ideals. Although companies don't need to choose one of these purposes to succeed in the short term, any long-standing corporate success requires adopting a deliberate purpose beyond simply making money. These four resonate with personal aspirations and values, inspiring brand loyalty among customers, adding credibility and coherence for investors, and prompting employees to go the extra mile.

2. Aligning Organizational DNA

Having chosen and articulated discovery, excellence, altruism, or heroism as your purpose, it is still necessary to make the changes that will recast peoples' behavior. That is the work of the engineer.

Values and behaviors can change over time because they are guided by at least four elements of an organization's design. Like the basic proteins of our own DNA, these four elements serve as the “building blocks” of an organization's DNA; in different combinations, these elements can produce very different organizational cultures:

- **Structure.** The hierarchical chains that determine lines of reporting authority and answer the question, Who is your boss?
- **Decision rights.** The formal rules about who is allowed to make and execute particular choices.
- **Information flow.** The patterns of connection among people who communicate regularly.
- **Motivators.** The incentives, rewards, and risks that people associate with behavior.

If you examine the symptoms of a dysfunctional culture (for example, second-guessed decisions, hoarded information, or frustrated employees), you'll discover that the root causes of this dysfunction can all be traced back to misalignments among these four organizational elements. These collectively determine how the organization looks and acts each day as the individuals within it make countless trade-offs and judgment calls.

As you might guess, companies have different purposes and each works best with an organizational DNA design that is aligned with that purpose. For example,

	Discovery	Excellence	Altruism	Heroism
Structure	<p>These companies are most effective when organized by launch; each new product or service develops its own organizational domain. IBM, Hewlett-Packard, and Merck have all been structured this way.</p>	<p>These are often small-scale, atelier-style organizations, like Berkshire Hathaway, or are set up around project teams like many professional services companies. Even when they grow larger, they retain the characteristics of small organizations, such as attention to detail.</p>	<p>These companies benefit from sophisticated structures for operationalizing customer knowledge; they may replicate a small company model in branches (hotels, shops). They may also have departments focused on customer segments, as in divisions of a hotel chain with several price points.</p>	<p>A strong, centralized, and disciplined formal structure is required. This framework may be balanced by strong individuals within the organization. The structure should be functional or product-focused to reap economies of scale.</p>
Decision Rights	<p>Decisions about where to invest and what innovation targets to aim for are more effective when centralized. Decisions about how to achieve these goals are delegated. The Sony Walkman was developed in this manner.</p>	<p>Decisions are delegated to the professionals who share the conception of excellence. One extreme case is Toyota, where any shop-floor employee can stop the assembly line if a significant problem with quality is observed.</p>	<p>Decision rights should be decentralized to customer-facing staff (albeit with clear guidance about their limits). At Nordstrom, every salesperson is empowered to take any action necessary to satisfy customers. At Tesco, a stock clerk can discard food that he or she would not personally buy.</p>	<p>Decision rights should be granted primarily to key individuals who have the power to make the system work. There will often be decision rights embedded in strong processes (such as a financial review).</p>
Information Flows	<p>Well-designed informal and formal networks (face to face, e-mail, and telephone) keep everyone up to date about events, fashions, and trends relevant to the company and its innovations. These networks should be allowed to extend beyond the organization, so that employees are kept in touch with new ideas. One problem can be limiting the flow to avoid distraction.</p>	<p>The most important information at these companies is the knowledge of quality standards, which may be captured in formal codes, such as a house style book at a newspaper, or passed on through apprenticeship and discussion, as at many professional services firms and at Toyota with its famous <i>shusa</i> (master teacher) approach to training engineers.</p>	<p>Sophisticated information systems are used by large altruistic organizations to replicate the personal customer knowledge of the small businessperson. Tesco's Clubcard, which it uses to segment its market, has been a key ingredient of its success.</p>	<p>Information should be allowed to flow quickly up and down the hierarchy to enable the centralized power structure to operate effectively. Measurements should be used extensively to monitor performance at every level.</p>
Motivators	<p>The opportunity to create something new. The innovator whose ideas are always killed will quickly lose heart. The opportunity to learn new skills and knowledge and the ability to be recognized through publications and patents are also important.</p>	<p>The opportunity to do great work and to be recognized for it; as Warren Buffett put it, "the thrill of outstanding performance." The original designers of the Macintosh at Apple arranged to have their signatures inscribed on the mold for every computer housing.</p>	<p>Customer gratitude. Seeing the benefits that people get from using their product or service and establishing long-term relationships with those who are served are the reward.</p>	<p>Winning. The opportunity to be seen as a leader in the field, to beat the competition, to be number one.</p>

discovery, excellence, altruism, and heroism are each strong motivators of people; but in misaligned companies, the formal incentives undermine those motivations. A company predisposed to excellence will lose essential people when it tries to give everyone similar compensation, regardless of performance.

Although we have not yet conducted extensive research in this field or made a full analysis of such complementary factors as organizational size, some patterns are already clear. The table on the previous page describes organizational designs that seem to be most effective for each of the four purposes.

3. Living by New Rules

If structure, decision rights, information, and motivators are integrated and aligned with a company's purpose and strategy, the organization will function effectively. If these levers are out of synch or, worse, working at cross purposes, they will impede execution and thwart the company's long-term competitive success.

Of course, without the commitment and follow-through of the senior leadership team, there is no hope of true and lasting culture change. Leaders are the only ones able to declare a "new day" and to make it stick. In establishing purpose and realigning the fundamental levers of the organization, senior managers need to "walk the talk," and not just for a week or a month...but for three to five years. That's the time frame in which significant culture change transpires.

Giving speeches and modeling behaviors in public is one thing, but leaders need to also take this message to their employees on a more personal basis. Town hall meetings, site visits, and performance reviews, for example, are all good face-to-face opportunities to communi-

cate and spread a strong performance culture. If accountability was a problem before, call attention to specific instances in which it was exercised (and when it was not exercised). If customer focus is important, send the top team on key account calls. If the appraisal process does not single out those who best represent the purpose and culture of the enterprise, change it. Critically, management from the top down needs to live the new rules and tap into the hearts and minds of their employees by instilling in them a sense of shared purpose. Only then is culture change really possible. Only then can it unlock lasting competitive advantage. +

Resources

Nikos Mourkogiannis, *Purpose: The Starting Point of Great Companies* (Palgrave Macmillan, 2006): The book on which this article is partly based explores the notion of purpose in business. www.purposethebook.com

Gary L. Neilson and Bruce A. Pasternack, *Results: Keep What's Good, Fix What's Wrong, and Unlock Great Performance* (Crown Business, 2005): In addition to the "building blocks" of this article, this book describes seven principal organization types and their characteristics. www.randomhouse.com/catalog/display.pperl?isbn=9781400098392

Gary L. Neilson, Bruce A. Pasternack, and Karen Van Nuys, "The Passive-Aggressive Organization," *Harvard Business Review*, October 2005: This article examines one of the more dysfunctional examples of the seven organization types: the passive-aggressive organization. <http://custom.hbsp.com/b01/en/implicit/custom.jhtml?pr=BAHAMR0510E2005092707>

The Organizational DNA Web site: Booz Allen Hamilton has developed an online assessment tool, the *OrgDNA Profiler*[®], that allows individuals to diagnose their organization's execution culture. www.orgdna.com/

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