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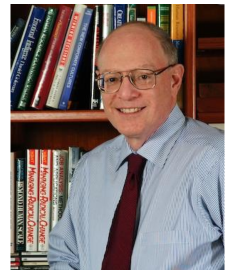

SAVING THE COMPANY: A NEW STRATEGY FOR LEADERS IN THE AGE OF RADICAL CHANGE

By Jerome Want

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On a single day, December 6, 2011, three business failures were highlighted in the media:

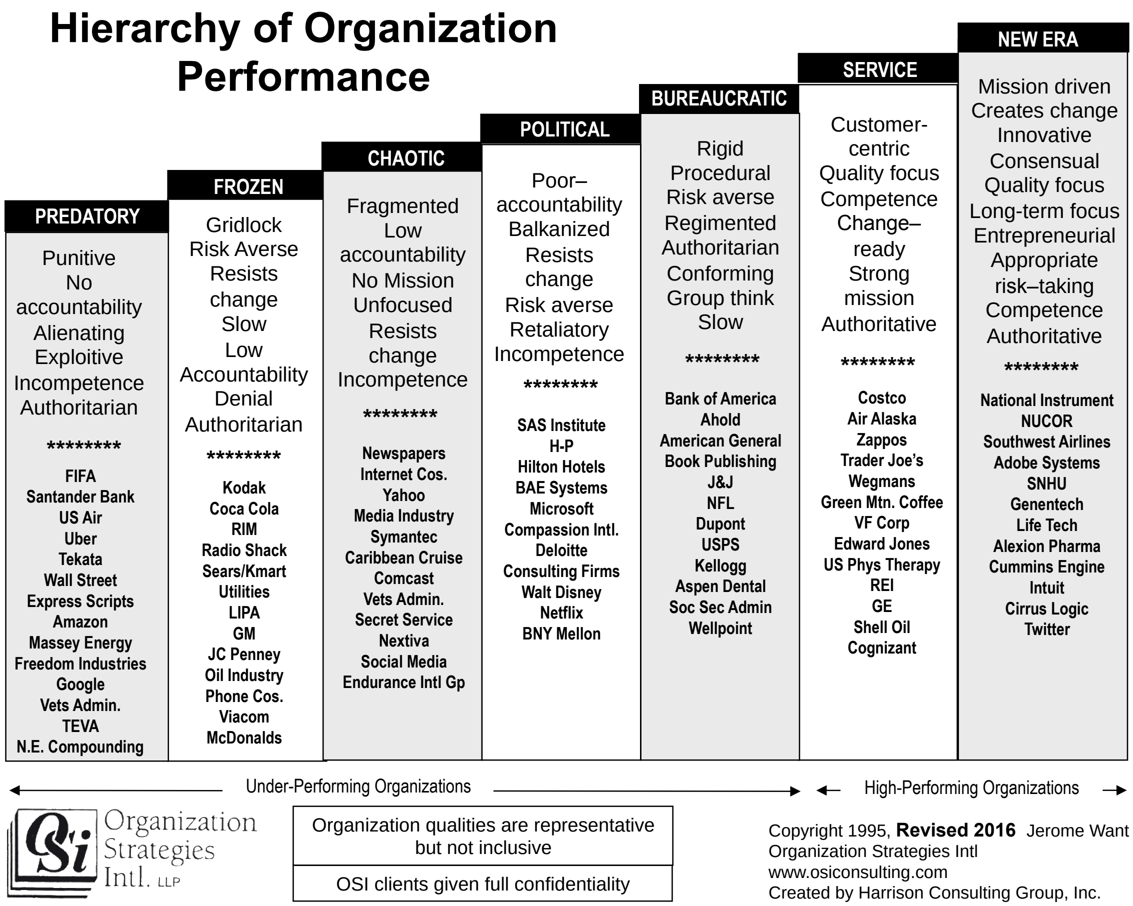
• Bank of America agreed to pay $300M in fines for the mortgage securities fraud committed by Merrill Lynch in the 2008 collapse of the financial services industry (BofA had acquired Merrill Lynch after 2008). It was levied a comparable fine for the mortgage fraud committed by its Country Wide Mortgage unit.

• Alpha Resources, which had acquired Massey Energy, agreed to pay $210M in fines and restitution for Massey's "willful and aggressive disregard for safety in order to increase production" at Massey's Upper Big Branch, West Virginia coal mine, where twenty-nine miners had died in the 2010 explosion. Massey disregarded over 1,300 safety violations and warnings over a five year. The fine was the largest in the history of the industry.

• It was determined that the Board of MF Global, the failed investment bank led by former Goldman Sachs CEO, John Corzine (also the former Governor and Senator from New Jersey), had ignored repeated warnings of its risk manager, Richard Roseman, that it was taking on too much, unwarranted risk in the sovereign debt of Portugal, Italy, Ireland, Greece and Spain (known as the PIGS in financial circles). To cover those failing investments, MF Global management covered their losses by appropriating an estimated $1.2B in monies from private investor accounts to cover those losses, which was a violation of Security Exchange Commission laws. Roseman had been brought into MF Global, as its risk manager in 2008, after the firm had already lost $140M in bad investments. He was hired specifically so that the firm could avoid incurring such unwarranted losses and risk taking.

The fact that corporate leaders fail to learn from events, even within their own industries, was exemplified by similar failures in judgment. In 2012. BP was fined a record $4.5B ($1.26 in criminal fines) for a culture that was hell-bent on making money at **any** cost while HSBC was fined a record $1.29B (also a record) for money laundering based on a culture that lacked a moral compass and executive oversight.

Each of these business failings and huge financial losses for each (not to exclude the loss of human life at Massey Energy and on the BP oil rig) **was the direct product of failed corporate culture.** Significantly, failed corporate culture implies much more–as it is a much broader issue than corrupt business practices, greed, or negligence. As will be discussed in this article, **it reflects failures in performance, accountability, competence, decision-making and a**



(Chart updated since original article publication.)

number of other key business factors that impact business performance in ways that do not make headlines.

<u>What is Corporate Culture?</u>

Few terms in the business lexicon are more ignored or misunderstood than Corporate Culture. Employees, managers, customers, senior decision makers and even politicians, talk about it, but they rarely understand what it really means beyond the usual vague generalities. Moreover, they are rarely able to initiate meaningful culture change within their own organizations.

While coaching a newly formed team of internal change agents for a high-tech manufacturing company, I probed the participants' thoughts and attitudes on their company's culture. Not surprisingly, their perceptions and experiences were widely divergent despite the fact that they worked within the same company. Finally, one team member volunteered that the company's culture was "...like a black hole. Any new initiatives we try to introduce just seem to be sucked up into it, like matter being sucked into a black hole." This vivid description of the company's culture seemed to galvanize that change team. It gave them a common starting point for launching their company's own culture change process. For too many of today's business enterprises, corporate culture drains too many resources, innovative ideas and new strategies as well as employee initiative and commitment. Ultimately, **too few companies actually do anything about their corporate cultures-performance.**

Common Misconceptions About Corporate Culture

We need to come to grips with the term "culture"–what it means (and does not mean); how it impacts people and business performance; and its implications for the very survival of companies and entire industries in the age of radical change. Even among my colleagues in the consulting world, culture is something we can infer, talk about and criticize. Yet few of us are able to describe it much less how it impacts business success and failure–i.e. performance.

Academics tend to speak of corporate culture in psychological and sociological/anthropological terms. In fact, the term *culture* was first used by anthropologists to refer to the behaviors, qualities and unique characteristics of any particular human group. More recently, the media, the legal profession and regulatory agencies have come to see and refer to culture in more narrow terms of legal and ethical misconduct. As a result, the term "corporate culture" has come to connote something **negative** in the minds of many in the business world. Others feel that it refers to the "soft, touchy, feely" issues such as worker contentment, a pleasant work climate or lavish prerequisites for management. However, those qualities actually refer to "work climate", which is just one component of a company's culture. When former Corning CEO Roger Ackerman decided to undertake the culture change process, he would not allow the term "corporate culture" to be used. Instead, he insisted that the term "Operational Environment" be used in its place (which seems to carry a different meaning related to the operations of the business).

<u>Corporate Culture Defined</u>

When I lead conferences on culture, I ask participants to define corporate culture, and ually work hard to provide a on. Almost always, their responses are vague, varied and generally reflect a true lack of understanding. Many of their definitions actually describe fragmented components of culture such as "how people are treated." Frequently I am given the "HR" response about prerequisites, pay incentives and work climate. Many respond by saying, "How we do things." That is when I ask how that is different from operations and then I get blank stares Most lack a comprehensive understanding of culture, something that is too often reflected in the diminished and fragmented functioning of most companies and at the same time, ignores a critical component–**performance.**

Many senior executives seem to be no more articulate or informed than their subordinates, though they at least do know what they want culture to **not** do–hinder the bottom line. In reality, a company's culture has **everything** to do with bottom-line performance (as will be revealed later in the article). My own definition is as follows: **Corporate Culture is the collective belief systems that people within an organization have about their ability to ethically compete in the marketplace <u>and</u> how they act on those belief systems to bring valued-added products and services to the marketplace in return for financial reward and business success**. The key word in that definition is **"and,"** as belief systems without action simply become empty slogans, which abound in the corporate world. As a result, most companies fail in their attempts to change their badly underperforming cultures. As I have defined it, corporate culture is revealed through the attitudes, belief systems, dreams, behaviors, values, rites and rituals of the company and most especially, **through the performance and accountability of its employees and management**. (Want, J, *Corporate Culture: Illuminating the Black Hole,* St Martin's Press, NY, 2006).

Shortly after his retirement, Lou Gerstner, the legendary CEO who saved IBM, was interviewed on the Charlie Rose Show (PBS, United States). Mr. Rose asked him: "if you could tell CEOs what the single most important thing they could do to ensure the long-term success of their companies, what would it be?" Mr. Gerstner shot back, **"CEOs have to realize that corporate culture is not one thing they do [in leading the company], it is everything they do."** That may well be one of the most enlightened statements on the subject of business culture that has ever been rendered. Indeed, Gerstner de-emphasized the constant musical chairs of restructuring that has become so endemic to the business world. Instead, Gerstner focused on a new strategy for the business in response to changing conditions in the marketplace. To do that, he set about rebuilding the company's technology-minded and very bureaucratic culture to support its new strategy so that it could create change -- not just react to it. Once again, IBM became an industry leader. Mr. Gerstner's initiatives included putting people and resources together while breaking down the many silos that kept IBM from going to market and serving customers in a manner that had previously made it a world-class company. Lou Gerstner demanded collaboration and sharing in a culture that previously denied such qualities.

<u>Components and Characteristics of Corporate Culture</u>

When helping groups to understand culture as it applies to their own organizations, I challenge them to move beyond the usual one-dimensional descriptors of culture such as perks and incentives to develop a more holistic and performance-oriented understanding within the context of business functioning. These characteristics include:

•Mission and Strategy
•Management and Leadership iveness

ion Making and Communications
•Organization Design, Structure and Work Climate
•Organizational Behaviors and Values
•Knowledge, Competence and Innovation
•Performance, Accountability and Risk Taking
•Change Readiness and Management

Many newer, high-tech companies feel that culture building is about providing free lunch, recreational facilities, concierge service and a veritable country-club environment for its employees. SAS created such a work climate for its employees and at Yahoo, Marissa Mayer ordered free meals for employees when she became its CEO. Nevertheless, many high-technology companies also have chaotic, and at times, underperforming cultures, that contribute little to long-term success and commitment. At the same time, Nucor, an innovative, world-class steel manufacturing company, has long demonstrated that it maintains a high-performing, ethical culture. Importantly, its work climate can be described as anything but a country club atmosphere. In addition, compensation is not fixed or guaranteed, but linked to the performance of the overall company. Despite this, employee turnover at Nucor is extremely low (Nucor has no union) and it remains the industry leader.

Corporate Culture and Performance–Bottom Line Performance

Since corporate culture has been such an unimportant issue for many in the business world, it is not surprising that it rarely figures into a company's business strategy. Too many corporate leaders and planners think that by writing a new business plan, the company will automatically fulfill the goals of that plan. Nevertheless, "an overwhelming majority of business plans fail," according to McGill University Professor Henry Mintzberg (*The Rise and Fall of Strategic Management*, Free Press, 1994). That is because they fail to take a good hard look at their culture to determine if it will support the new strategy. The entire telecom industry is an example. In this case, the post-divestiture Baby Bells, along with AT&T, GTE and Contel, were eventually consolidated into three companies to sustain profitability. This, in large part, because they failed to change their bureaucratic cultures, which were designed for the previous, heavily regulated era. Similar forces are shaping the cellular industry as companies like Research in Motion and Sprint will disappear because they have failed to create the customer service organizations that consumers demand.

Too few leaders understand the direct link between culture and the bottom line.

Numerous studies have demonstrated that culture does impact financial performance. In one of the better known studies, John Kotter and James Heskitt of the Harvard Business School (*Corporate Culture and Performance*, Free Press, 1992) found that companies with high-performing cultures significantly out-performed those with underperforming cultures:

• Increased revenue average of 682 percent vs. 166 percent

• Expanded work forces by 282 percent vs. 36 percent

• Stock price growth by 901 percent vs. 74 percent

• Net income growth of 756 percent vs. 1 percent

In an **open-ended bench marking study** conducted by the author's firm, Organization Strategies Intl., companies with high-performing cultures had an average of 9.4 profitable quarters out of 12 consecutive quarters vs. only 5.7/12 profitable quarters for companies with underperforming

;. No company can achieve a ed high level of performance without a high-performing business culture.

A direct link between business failure and the failure of a company's culture can be seen in such companies as Arthur Andersen, K-mart, Wang Labs, Columbia-HCA, Polaroid, Kodak and Hostess. Whether it be in insurance, investment banking or commercial banking, the financial services industry has steadfastly refused to come to grips with the need to define, implement and sustain ethical, high performing cultures. As a result, former industry leading companies such as Merrill Lynch, Country Wide and AIG have demonstrated that no company is too big to fail. In these and many other companies, management and their boards have remained ignorant of the direct link between cultures and their ability to compete and even survive. Culture even impacts mergers. Ernst & Young found that 70 percent of all mergers failed outright or failed to meet their principal objectives as a direct result of failed culture. A few of the more prominent mergers that went awry as a result of failed cultures include AOL→Time Warner; Daimler Benz→Chrysler; Bank of America→Country Wide; Sprint→Nextel and Quaker Oates→Snapple. All failed because of failed cultures.

In the 1980s, the Shell Oil company asked its Director of Planning, Arie De Gues, to conduct a study to determine how long the company might expect to remain in business. He determined that the typical successful company had an average life expectancy of just forty to fifty years. De Gues also learned that a full third of all fortune 500 companies that existed in 1970, no longer existed in 1977. That means that such industry leading companies as Microsoft, Cisco Systems and Intel may already be half way through their life cycles. **What does that imply for less successful companies in the current period of radical change?**

The Hierarchy of Organization Performance (Corporate Cultures)

Culture is widely seen as being mystifying, vague, subjective, and un-measurable. Nothing could be further from the truth. I have found that companies fall into one of seven, understandable categories on the **Hierarchy of Organization Performance** (See Inset).

UNDERPERFORMING CULTURES:
(Listed characteristics are not inclusive)

Predatory- Punitive, retaliatory, alienating, exploitive and lacking a motivating, strategic mission. They have high turnover of talent and are short-lived.

Frozen- Gridlock, fear, denial and authoritarian. Because they are inflexible & "run things they way we have always have," they do not respond to change and are usually the subject of takeovers. Management feels the need to control.

Chaotic- Fragmented, unfocused and lacking a meaningful mission. New business plans and internal initiatives quickly fail. It is distinguished from Frozen Cultures by its constant activity.

Political- Internal politics seem to take precedence over performance. Political schisms lead to defections and takeovers.

Bureaucratic- Procedural, slow, rigid, authoritarian, regimented and conformist. Rules, regulations, hierarchy and procedures dominate decision-making and action-taking to maintain fairness for employees or customers. I like to say that **bureaucracy is a state of mind–not just size and structure.**

HIGH PERFORMING CULTURES
(Listed characteristics are not inclusive)

Service- Customer centric, quality-oriented, authoritative, consistent and responsive to change. Serving the customer is the focus of the company's mission and strategy. Good companies learn from their customers esult, they are long-lived. *Nevertheless, just because a company may be in a service industry does not qualify it as a successful, service company*.

New Era- Create change, innovate, consensual, quality-focused, entrepreneurial. *New Era companies do not just create new products–they create new markets and industries by creating change.* They are known for throwing out the rule book of conventional business practices. As a result, they have inherent advantages over their competitors. They are also long-lived and more profitable. New Era companies can also be a bit chaotic. Bureaucratic-minded employees have trouble adjusting to the culture.

To be sure, many companies have overlapping cultures, but they all have a primary culture and a back-up culture. Companies with high-performing cultures can fail, just as others do, as a result of maturity and the succession of the management that does not fit the culture. Rapid growth and the inability to manage new success are also contributors. Some underperforming cultures can become high-performing with the right change strategies and processes, though the task is difficult.

A Blueprint for Culture Building

Culture building is a difficult process. Nevertheless, it can prove successful if it includes the implementation of meaningful goals, strategies and processes. The first step in any culture building process is to establish clear and meaningful goals.

Setting Goals. Goals setting is critical if the culture change process is to succeed. Preferably, a broad consensus should be achieved for establishing goals for a new culture –not set just by leadership.

Instituting High Standards for Ethical Conduct. In a 2005 Roper poll, Americans were asked to rank institutions by their ethical conduct. The corporate world and its leaders were ranked last, behind the media and government. \

Creating a Change-Ready Culture. In the age of radical change, the ability to respond effectively to change (if not to create change) will be the critical factor for surviving, not just thriving. Only those companies with high-performing, change-ready cultures will withstand the impact of radical change.

Building Flexibility into the Culture. Frozen and bureaucratic cultures need to make this a primary goal if they are to respond effectively to radically changing business conditions. Without appropriate risk-taking and innovation, the company is not likely to survive as competitors will pass it bye. The best ideas are driven from the bottom up.

Identify Alternative Critical Success Factors for Managers. Despite the improvements in people assessment, I have found that most companies still evaluate performance based on 1970s standards. The traditional manager who gives orders, supervises people and evaluates performance by herself is a thing of the past. These command-and-control managers do not motivate employees or earn their trust and commitment. According to Jim Coblin, former Vice President of Human Resources at Nucor Steel, successful managers in Nucor provide resources to their employees while trusting them to make decisions and take quick action to solve probl3ems on their own. "People at Nucor don't worry about bosses thinking for them."

Keep Innovative People and Their Ideas at Home. A major debate has arisen over the out-sourcing and off-shoring of jobs. The

started over the outsourcing of jobs to ies that would provide the same services, but that did not have the overhead of the originating company. This was accomplished by reducing the salaries of their own workers while reducing or eliminating many benefits. The debate became noisier with the off-shoring of production jobs, then call center jobs, and now high level knowledge-based jobs–especially in technology and accounting–to Asia. This was highlighted in 2005, when Microsoft off-shored 80 software architect jobs to Asia in order to cut costs. Apple has also come under fire, recently, for the labor practices of its over-seas subcontractors that make products that were originally made in the US.

Boards need to ask if cost savings should be the ultimate, and in many cases, the only criterion for moving talent overseas. More importantly, they need to consider the consequences to a company's culture by moving jobs off shore. **To quote Herb Kelleher, founder of Southwest Airlines, "Culture is one of the most precious things a company has, so you must work harder on it than anything else."** **Unfortunately, I have found that too many CEOs fall into one of three categories when it comes to corporate culture:**

I don't know,
I don't know how, and
I don't care.

Working with the first two, and their companies, can be a rewarding experience.

Identify New Qualities That Can be Embedded in the Culture. Think outside the box and do not be afraid to jettison the comfortable and familiar. This includes changing people's values, behaviors and belief systems.

Create an Open, Democratic Culture. Democracy should not stop at the company's front door. Companies that encourage people to express their ideas and opinions usually out-perform their competitors.

Remember, it is ultimately about the customer. Customer-centric companies are more profitable and last longer through the loyalty of their customers.

Overcoming Barriers to the Change Process

Critical to the culture change process is the identification of potential barriers. It cannot be assumed that all parties will support or accept the change process. Typical barriers include:

The Wrong Sponsorship. Sponsorship from the very top is essential. Without it, the change process will fail. Richard Teerlink, the former CEO of Harley-Davidson and the pioneer of the culture-change process at that company, knew that he had to gain the buy-in of his board if the company was to change its culture.

"We have no time; the company is in trouble" and
"We have no need; the company is doing fine" are all-too common excuses, not valid reasons.

Excluding People from the Change Process. If the culture-building process is not a product of everyone's input-then the process will fail. Organization-wide buy-in is critical for success.

Incremental Responses to Change. With the speed and shock of radical change, taking incremental steps to change the culture will fail.

"I don't give a damn about the culture." People who display this attitude must be bypassed.

Processes for Changing the Culture Include:

Develop a systematic change plan. The lack of a systematic plan leads only to
on.

y **Change Leaders.** Not just the usual project leaders, but the people who have new ideas and who may have been identified as being squeaky wheels.

Build a broad consensus for change. Consensus building is both a concept and a specific intervention process that is built from the bottom up. It holds everyone's feet to the fire. Involving all stakeholders will help ensure success.

Eliminate bias from the process. This is a major threat to changing the culture. Sacred cows must be ignored and consensus building is a tool that will help overcome bias.

Individualize change strategies. No two organizations are the same, even within the same industry. Individualize around the unique needs of the company and its customers.

Avoid the usual fads, fix-its and magic Bullets

Too many corporate leaders are all-too willing to accept the usual fads, fix-its and magic bullets. Downsizing, restructuring, business process engineering (BPR), PR initiatives, crisis management, right-sizing and various go-for-growth strategies have all failed and will never compensate for a company's failing culture. In addition, too many companies retain outside assistance based on **celebrity** and cachet rather than on true qualifications and sound processes.

Gordon Bethune, former CEO of Continental Airlines (and who succeeded the disastrous leadership of Frank Lorenzo) liked to say that "whatever problems you run into in a business are all people problems...people are at the root of all business problems." I like to say that people–**cultures**-are the **best** resource for solving those problems.