The Performance Culture Imperative

By Carolyn Aiken, Scott Keller, and Michael Rennie

McKinsey&Company

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The idea in brief

CEOs tell us that culture is one of the most powerful levers for transforming performance – and one they struggle with. Lou Gerstner, retired CEO of IBM writes: "Fixing culture is the most critical – and the most difficult – part of a corporate transformation."

While most intuitively agree that performance culture investments should provide a strong return, few can say confidently that they are aware of a distinctive, proven approach to creating strong performance culture.

Such an approach does exist. This paper confirms the "case for culture" and describes in detail a set of basic beliefs on which successful culture-change programs can be built. It then sets out a three-part structure to deliver impact through a combination of pragmatic business sense, problem-solving rigor, and behavioral insight. Finally, it closes with a set of examples illustrating the magnitude and pace of impact that can be achieved.

The idea in practice

1. Make value creation paramount. Fundamental to the culture change success is a direct linkage to a company's business priorities. For example, a large multinational financial services company's strategy emphasized deepening customer relationships while leveraging the synergies its franchise model afforded. Culturally, this required engendering more relational, less transactional behavior both inside the organization and with customers.

2. Apply problem-solving rigor to the "soft stuff." It is precisely because culture issues are intangible that applying rigorous problem-solving and analysis is so valuable. Hard facts allow leadership to explore cultural issues effectively, probe the root causes and prioritize action. Consider a retail bank whose tireless process re-engineering efforts continually failed to increase time spent with customers. Only by understanding that a large part of the problem was self-imposed - many bankers were simply uncomfortable 'selling' - were they able to break through.

3. Shift the formal and informal environment to influence the culture. Leaders have four basic levers with which they can meaningfully influence behaviors: role modeling, a purpose to believe in, reinforcement systems, and the skills required for change. Pulling these levers has to start at the top. As John Akehurst, former CEO of Woodside Petroleum and longtime Shell executive, reflects, "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."

4. Make it personal for a critical mass of leaders. Letting the environment influence the culture takes time – typically five to seven years. Impact can happen in as little as 18 to 24 months when a critical mass of leaders also choose to shift the one or two individual behaviors that will have the biggest impact on the culture. British Airways is well known for employing this approach – putting it's 37,000 employees through personal development programs as part of their rapid transformation from a transportation to a customer service business with largely the same technology, routes, and workforce.

5. Employ a 3-step process to achieve impact. Performance culture can be shifted in three phases: diagnose the opportunity via fact-gathering, synthesis and prioritization; design the program by 'culturally engineering' a high-profile set of your business initiatives and pursuing a short-list of broad-based culture interventions; and deliver results by expertly managing the integrated program. Executed well, the impact can be huge. Consider cultural results at a multi-national bank where in a 2 years period the amount of employees agreeing 'we live our values' went from 20% to 85%, a critical enabler to the bank leapfrogging from last to first among its peers in customer satisfaction and profit per employee.

Strengthening performance culture requires an approach that combines rigor and discipline in problem-solving, deep insight into human behavior, and pragmatic business sense.

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Few would disagree with the notion that improving a company's performance culture helps increase its bottom line. But few can say confidently that they are aware of a distinctive, proven approach to creating strong performance culture.

Such an approach does exist. Strengthening performance culture – working with leadership, management, and the front line on the critical behaviors and underlying mindsets whose improvement will most enhance company performance – is the unavoidable challenge of the present. In what follows, we confirm the "case for culture" and describe in detail the basic beliefs on which successful culture-change programs are built. We then set out a three-part structure to deliver sustainable impact through a combination of pragmatic business sense, problem-solving rigor, and behavioral insight. Finally, we close with a set of examples illustrating the magnitude and pace of impact that can be achieved when one "engineers for culture."

This discussion draws on years of McKinsey & Company research into the rapid transformation of a company's performance culture, including interviews with more than 1,000 senior executives, 35 professors from 15 business and graduate schools, and over 100 of the world's foremost executive coaches, facilitators, and adult-learning practitioners. We also draw on insights from more than 500 historical and present-day cases.[1]

The primary goal of a performance culture change program is a comprehensive shift in companywide culture to enable superior business performance. However, the elements of the approach can be applied wherever impact can be increased by addressing cultural barriers to capturing value.

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1. This broad range of research has been conducted through a number of organizational-effectiveness efforts within the Firm.

1. The case for performance culture

CEOs tell us that culture is one of the most powerful levers for transforming performance – and one they struggle with. Harvey Golub, retired chairman and CEO of American Express, notes: "Strategy is straightforward and lends itself to facts and analysis, but people and culture are hard." Lou Gerstner, retired CEO of IBM writes: "Fixing culture is the most critical – and the most difficult – part of a corporate transformation."[2] Sam Palmisano, Gerstner's successor, confirms this perspective: "In the end, whether or not you have a values-driven culture is what makes you a winner or a loser."[3] Steve Ballmer, Microsoft's CEO, asserts that "there are three things core to my role as CEO that I can't delegate: Cheerleader telling the story, getting the culture right, getting the people right."

Why is this issue so prominent today? For many years, competitive advantage required smarter strategies and superior assets. Now, globalization and the instant, often costless availability of information have significantly undermined the value of these elements. Capital is readily available. Competitors can quickly mimic a successful strategy. What they cannot reproduce quickly is a superior performance culture.

Increasingly, standout companies have a performance culture advantage – a difference in the way their employees relate to their work. The way Toyota makes and markets automobiles, Southwest Airlines' low-cost air travel model, General Electric's replication of its business model in dozens of industries – none of these is secret. (Indeed, each is the topic of endless articles and case studies.) Yet the performance culture of these organizations supports a competitive advantage that has proven extraordinarily hard to replicate.

2. Basic beliefs about transforming performance culture

Business managers often cannot achieve the institution-altering impact they aspire to because cultural barriers impede successful implementation of strategies (Exhibit 1). HR managers often grow frustrated that when their results are limited because their culture programs are not linked well enough to the business objectives to gain traction.[4]

Here is where the secret to sustainable culture change lies: In marrying an understanding of a company's business challenges with practical insights into how to transform culture to improve performance – a rare combination – cultural transformation programs can be focused directly on the drivers that will have the most impact. Such an approach is grounded in four basic beliefs:

- Make value creation paramount
- Apply "hard" problem-solving rigor to the "soft stuff"
- Shift the formal and informal environment to influence the culture
- Make it personal for a critical mass of leaders.

Make value creation paramount

Most now accept that a positive ROI can be assigned to successful culture programs.[5] We have tested this assertion by creating initiatives in which a control group undertakes traditional performance improvement programs while a similar group supplements such efforts with performance culture work. In each case, after controlling for possible distortions, we demonstrated clear impact for the performance culture element of the interventions (Exhibit 2).

The key to ensuring a positive return is to connect the cultural transformation program to the company's highest-priority business initiatives. For example, a large multinational financial services company wanted to deepen customer relationships across its franchise model. This required moving from a product to a customer focus and from a siloed to a collaborative way of working. The cultural transformation required engendering more relational, less transactional behavior at the front line and inculcating into leaders and managers a mindset geared to helping other departments.

Some companies' business strategies are not clear enough for culture change to be optimal. In these cases, the key strategic questions should be answered before embarking on a culture program. For other companies, the performance culture is sufficiently troubled that a cultural intervention must come first. In such cases, the culture work flags failures of strategic coherence that can be worked on subsequently.

2. Louis V. Gerstner, *Who Says Elephants Can't Dance?* New York: Harper Collins, 2002.

3. Paul Hemp, Samuel J. Palmisano, and Thomas A Stewart, "Leading Change When Business is Good: The HBR Interview – Samuel J. Palmisano," *Harvard Business Review*, December 2004.

4. Data on the percentage of change programs that fail, and why, is compiled from Michael Beer and Nitin Nohria, eds. *Breaking the Code of Change,* Boston: Harvard Business School Press, 2000; Kim S. Cameron and Robert E. Quinn, *Diagnosing and Changing Organizational Culture: Based on the Competing Values Framework,* Reading, Mass.: Addison-Wesley, 1999; Bruce Caldwell, "Missteps, Miscues: Business Reengineering Failures Have Cost Corporations Billions, and Spending is Still on the Rise," *Information Week*, June 20, 1994: pp. 50-60; CSC Index,
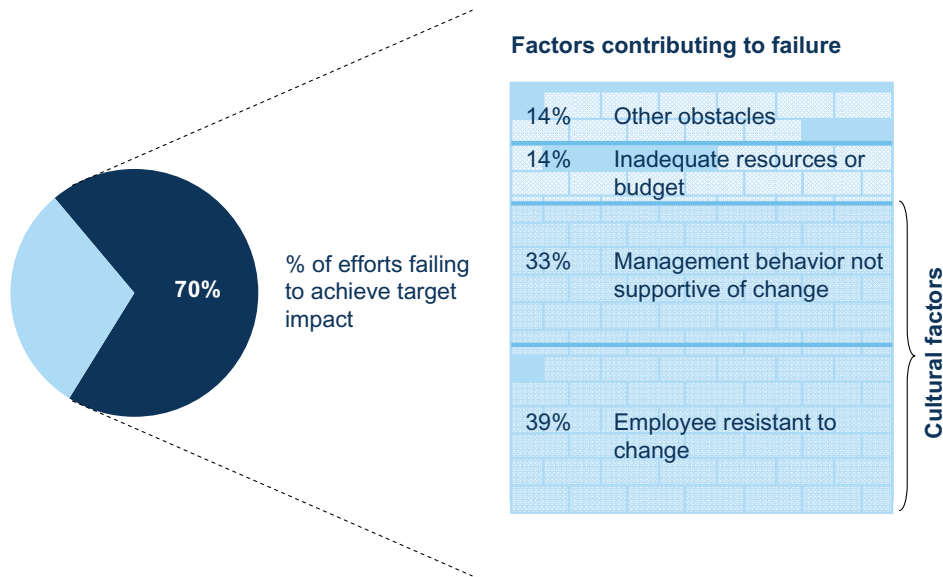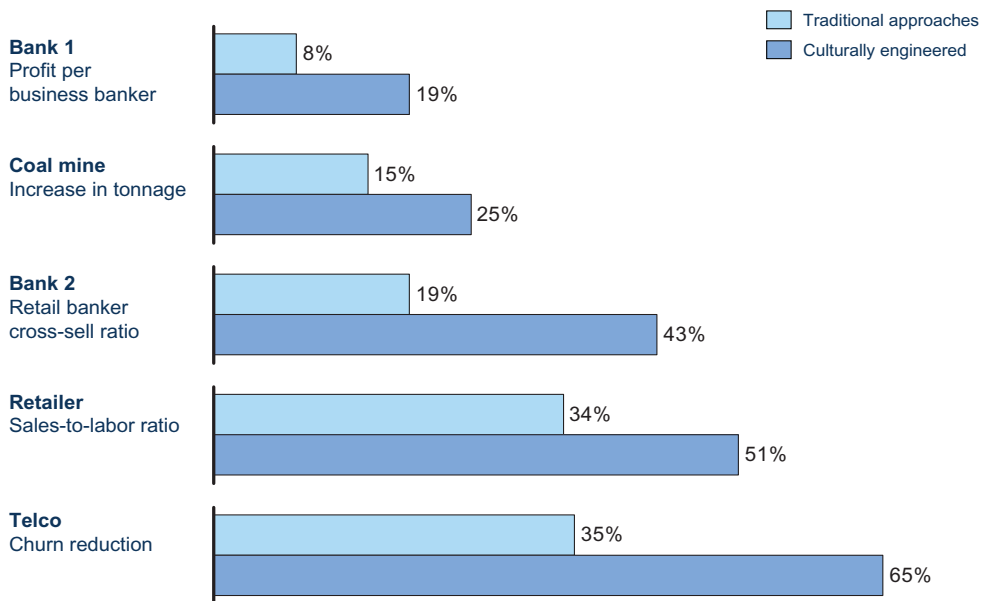
EXHIBIT 1

Barriers to organizational change

Factors contributing to failure

70%

% of efforts failing to achieve target impact

14%	Other obstacles
14%	Inadequate resources or budget
33%	Management behavior not supportive of change
39%	Employee resistant to change

Cultural factors

EXHIBIT 2

Business impact of performance culture interventions

☐ Traditional approaches
☐ Culturally engineered

Bank 1
Profit per business banker
- 8%
- 19%

Coal mine
Increase in tonnage
- 15%
- 25%

Bank 2
Retail banker cross-sell ratio
- 19%
- 43%

Retailer
Sales-to-labor ratio
- 34%
- 51%

Telco
Churn reduction
- 35%
- 65%

"State of Reengineering Report" (North America and Europe), Cambridge, MA: 1994; Tracy Goss, Richard Tanner Pascale, and Anthony G. Athos, "The Reinvention Roller Coaster: Risking the Present for a Powerful Future," *Harvard Business Review* 1998 vol. 71, no. 6, pp. 97-108; John P. Kotter and James L. Heskett, *Corporate Culture and Performance*, New York: Free Press, 1992.

5. Anthony J. Rucci, Steven P. Kirn, and Richard T. Quinn, "The Employee-Customer-Profit Chain at Sears," *Harvard Business Review*, 1998; J. W. Wiley, "Linking Survey Results to Customer Satisfaction and Business Performance," in A. Kraut, ed., *Organizational Surveys*, San Francisco: Jossey Bass, 2006; R.H. Johnson, A.M. Ryan, and M. Schmidt, "Employee Attitudes at Ford Motor Credit," presentation at SIOP Forum, 1994.

Apply problem-solving rigor to the "soft stuff"

It is precisely because performance culture issues are intangible that applying rigorous problem solving and analysis is so valuable. If a performance culture effort is to succeed, those few mindset shifts that will drive the biggest performance improvement must be identified. These shifts must then be embedded in the company's strategic and operational agenda, making them the focus of organizational attention. The analytics required to do this are:

• A shared language and model of thinking that will allow leadership to explore cultural issues effectively

• "Keep asking why" analyses, which help ensure the mindsets and capabilities that drive suboptimal behavior are identified

• A focus on the culture shifts that will most drive performance.

A shared language and model of thinking

This approach allows leadership to take performance culture from abstraction to hard fact. "What is a high-performance culture?" we ask members of the leadership team. "Does your view match that of your colleagues?" We invite the senior team to use its own experience when completing a simple exercise (we encourage you to complete it, too):

• Take a moment to recall a time you would describe as a peak work experience – a time you worked with others in an extremely productive and fulfilling way. Describe that peak experience:

_____
_____
_____
_____

• What was it about the way in which you worked together that enabled you and the team to achieve peak performance? What conditions were in place? What characterized the experience? What was there more or less of than usual? (Jot down as many descriptors as you can think of.)

_____
_____
_____
_____

We have performed this exercise with thousands of leaders across the globe. Their answers are remarkably similar. First, executives characterize the peak experience as an almost impossible goal that is tangible, that the whole team shares, and that is personally meaningful but beyond what any individual could achieve alone. There is clear and meaningful alignment.

Second, ideas of "trust," "constructive conflict," "respect," "communication," "sense of humor," and "support" are also commonplace – words that describe an egoless team executing in a mutually supportive fashion. The goal might be risky, but the environment is emotionally safe.

The third factor almost always present is renewal: "We hadn't done something quite like this before." "It was exciting: We were pushing the edge of our thinking." People do not experience peak performance while dealing with the mundane.

Meaningful alignment, supportive execution, and renewal. Once a senior team has discovered these elements of a high-performing environment, we ask how much more productive they were in this environment. They typically say two to five times more – a range that our research and experience confirm. We then ask what percentage of their organization currently works in such an environment: They usually say less than 10%. By this point, savvy managers are already doing the math: If five times more productivity can be unlocked from just 20% more employees, productivity will almost double.[6]

Keep asking why

Once the top team understands and agrees on these three elements of a high-performing culture, they are invited to consider their current performance culture. This dialogue is informed with concrete data obtained via surveys, interviews, fact-based analysis, and focus groups (discussed in detail later in this paper). The key principle of this investigation, which distinguishes a successful approach, is root-cause questioning that probes deeply enough to determine the mindsets and capabilities that actually power the behaviors that drive business performance.

Exhibit 3 displays what this "keep asking why" technique revealed at a retail bank seeking to improve sales-force effectiveness. Bankers were spending too little time with customers, despite having received

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6. If productivity with no peak-performance events is defined as 100%*1 = 1, peak performance, defined as 20% of the workforce operating at five times the productivity, yields total productivity of 80%*1 + 20%*5 = 1.8. Of course, the larger the percentage already at peak performance, the larger the additional percentage that needs to shift into peak performance to double productivity.

instructions and incentives to do so. When asked why this was so, they maintained that bureaucracy hindered them. However, further probing—keeping asking why!—revealed that much of the bureaucracy on which they were blaming their poor performance was self-imposed. They actually preferred dealing with paper to dealing with people. Once the group had reached this deeper level of understanding, they knew that making an impact required us to help employees become aware of and overcome this performance-limiting mindset.

Similarly, a telecommunications company was seeing little benefit from a stage-gate funding process it had introduced to foster an innovation pipeline. A broad-based survey determined that the process was sound but that it was being compromised by a culture of risk aversion. By continuing to ask questions, they uncovered a group tendency to "look for why ideas won't work" rather than to "find ways to make ideas work," and found individual mindsets such as "failure is a black mark" rather than "If I don't occasionally fail, I'm not pushing the envelope."

"Keep asking why" investigations reveal the underlying system that creates the culture. A multinational bank wanted to investigate why many years of emphasizing customer focus were having virtually no effect. They eventually found that managers had convinced themselves that they could not simultaneously achieve significant cost reduction and improve customer focus – a "mental dilemma," in psychological terms, in which we create an "either-or" choice that we cannot transcend. Managers were heard repeatedly saying, "The CEO tells us he wants both, but we can't do that – and you know he really wants cost reduction." It was also noteworthy the extent to which bureaucracy and internal competition meant managers were far more concerned with internal dynamics than with the customer experience. Finally, the continued push to focus on customers while the above dynamics remained in place had caused managers to become cynical.

This root-cause analysis allowed the company to design a transformation program that would address the either-or mindset, political behavior, internal competition, and

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EXHIBIT 3

Investigating performance culture root causes

EXAMPLE

Performance limitation

Causes of performance limitation

Cultural causes uncovered

Why do bankers spend so much time doing credit and administrative tasks?

Why do bankers find customer-facing time uncomfortable?

Why aren't bankers spending more face time with customers?

Why do managers spend too little time coaching?

Ability to acquire new customers

- Time with customers
- Generation of leads and sales

- Time on administrative process and credit applications

- Many bankers prefer administrative and credit tasks to selling to customers

- Completing administrative tasks is in most bankers' comfort zone; selling to customers is not
- Managers create an environment in which bankers get less pressure when doing "visible" administrative and credit tasks

- Most bankers have introvert personalities
- Most bankers are less skilled at sales, administration, and credit
- Managers act as supervisors rather than coaches
- Managers pay attention to "paper trail" to control upward information flow

- Disconnect between bankers' identity as technical/product experts (due to historical requirements) and the selling role that involves relational skills
- Sense that one cannot be both a technician and a salesperson

- Development involves individuals mastering technical processes, not coaching on interaction quality
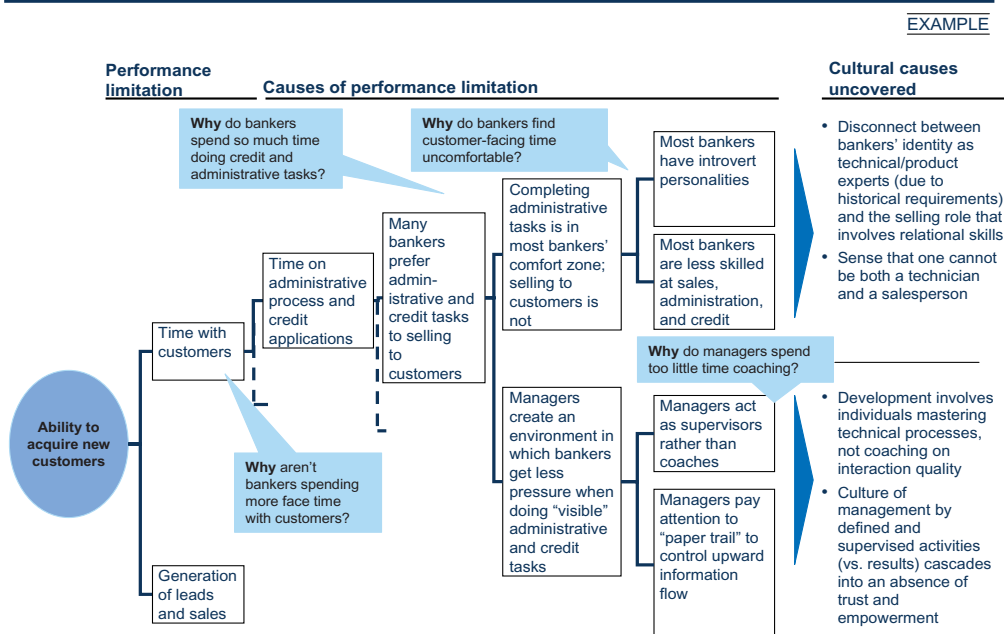- Culture of management by defined and supervised activities (vs. results) cascades into an absence of trust and empowerment

Evolution of performance culture at a multinational bank

Top 10 most-cited descriptors of 'what best describes your day-to-day experience at the bank'
(choosing from a list of 100 possible words)

Rank	Year 0	Year 1	Year 2	Year 3	Year 4
1.	cost reduction	cost reduction	cost reduction	cost reduction	**customer focus**
2.	shareholder value	profit	shareholder value	**customer focus**	cost reduction
3.	results orientation	shareholder value	accountability	shareholder value	accountability
4.	profit	results orientation	**customer focus**	accountability	continuous improvem't
5.	goals orientation	accountability	profit	continuous improvem't	achievement
6.	bureaucracy	continuous improvem't	results orientation	profit	profit
7.	hierarchical	**customer focus**	continuous improvem't	results orientation	results orientation
8.	short-term focus	bureaucracy	achievement	achievement	community involvm't
9.	control	achievement	bureaucracy	community involvm't	shareholder value
10.	risk averse	goals orientation	being the best	customer satisfaction	customer satisfaction

28. **customer focus**

Source: Client reported results (survey includes over 27,000 employee respondents spanning all levels of the organization)

bureaucracy without emphasizing the customer theme at all during the first year. Customer focus rose from the 28th "most experienced value" to the 7th in that time period. Four years later, it was the first. The impact was clear: In three years, the bank moved from last to first in its market on all customer experience metrics. During this same period, revenue per FTE increased 89%, far exceeding peer results (Exhibit 4).

Focus only on the shifts that matter

Once the root causes of suboptimal results are understood, the focus becomes the few, vital culture shifts that will have the most business impact. Organizations can meaningfully address only three to five cultural themes in each 12- to 18-month period. Emphasizing a short list allows everyone to focus on the desired end state and acknowledges that time and resources are constrained.

At IBM, for example, the themes (what are often called the "from-to's") were moving from arrogance to humility and learning, bureaucracy to agility, silos to "one IBM," and internal focus to customer focus. At BP, the goal was to shift from bureaucracy to entrepreneurialism, internal focus to market focus, finger-pointing to accountability, and performance to performance and sustainable growth. Exhibit 5 provides a more detailed example of a typical set of from-to shifts.

The CEO and top team generally use workshops to identify the cul-

tural themes the company will focus on. The process is inductive and requires significant consideration, discussion, and judgment, taking into account the culture required to support the business strategy, data on the state of the existing performance culture, and issues employees are passionate about. (We discuss this workshop process in more detail in the "how to" section of this paper.)

Shift the formal and informal environment to influence the culture

We have discussed the importance of achieving top-team alignment on the few, vital from-to culture shifts that will drive improved business performance. But chang-

ing the performance culture of an entire organization means altering the way thousands of employees behave daily.

A critical part of this transformation is making tangible changes to the formal and informal work environment. Consider how you, a manager, might be encouraged to champion an issue like performance culture. What if the people in the organization that you admired were also passionate about pursuing culture change work? What if you believed you could not achieve your business priorities to the level you aspire without a shift in performance culture? What if your next performance review depended partly on whether you had shifted the performance culture in your organization? And what if you felt thoroughly in command of the topic and effective approaches?

Research suggests these questions express the four elements that influence shifts in behavior: role modeling, a purpose to believe in, reinforcement systems, and the skills required for change (Exhibit 6).[7]
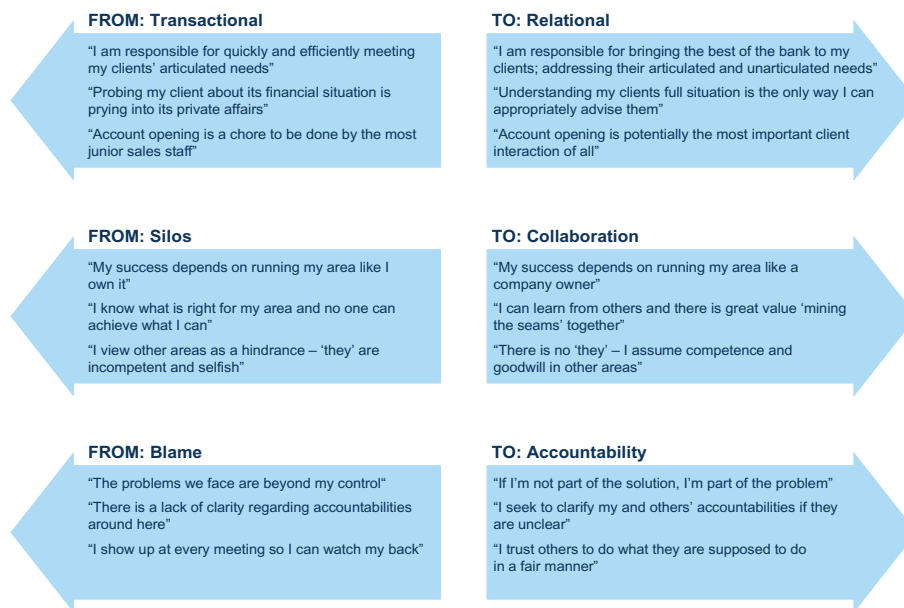
Consistent role models

Employees need to see the people they admire behaving in the new way. As a result, there is a premium on ensuring that respected people at every level demonstrate the desired mindsets and behaviors in their own daily activities. As Niall Fitzgerald, former CEO of Unilever, noted, "One of the things that leaders don't fully recognize is that when they speak or act they are speaking into an extraordinary amplification system. The slightest thing you say, the slightest gesture you make is picked up on by everybody in that system and, by and large, acted upon."

Heeding Fitzgerald's observation, it is important to start at the top. Senior team members, both individually and as a group, must be willing and able to live Gandhi's famous aphorism, "Be the change you want to see." Tools employed for this are 360-degree feedback, individual and collective development workshops, and follow-up coaching and embedding techniques. John Akehurst, former CEO of Woodside Petroleum and longtime


EXHIBIT 5

Example: Cultural 'from-to' themes

FROM: Transactional

"I am responsible for quickly and efficiently meeting my clients' articulated needs"

"Probing my client about its financial situation is prying into its private affairs"

"Account opening is a chore to be done by the most junior sales staff"

TO: Relational

"I am responsible for bringing the best of the bank to my clients; addressing their articulated and unarticulated needs"

"Understanding my clients full situation is the only way I can appropriately advise them"

"Account opening is potentially the most important client interaction of all"

FROM: Silos

"My success depends on running my area like I own it"

"I know what is right for my area and no one can achieve what I can"

"I view other areas as a hindrance – 'they' are incompetent and selfish"

TO: Collaboration

"My success depends on running my area like a company owner"

"I can learn from others and there is great value 'mining the seams' together"

"There is no 'they' – I assume competence and goodwill in other areas"

FROM: Blame

"The problems we face are beyond my control"

"There is a lack of clarity regarding accountabilities around here"

"I show up at every meeting so I can watch my back"

TO: Accountability

"If I'm not part of the solution, I'm part of the problem"

"I seek to clarify my and others' accountabilities if they are unclear"

"I trust others to do what they are supposed to do in a fair manner"

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7. Many of the concepts underpinning this section are significantly indebted to Emily Lawson and Colin Price, "The Psychology of Change Management," *The McKinsey Quarterly* 2003 Number 2, Special Edition: Organization.

Formal and informal elements of the employee work environment
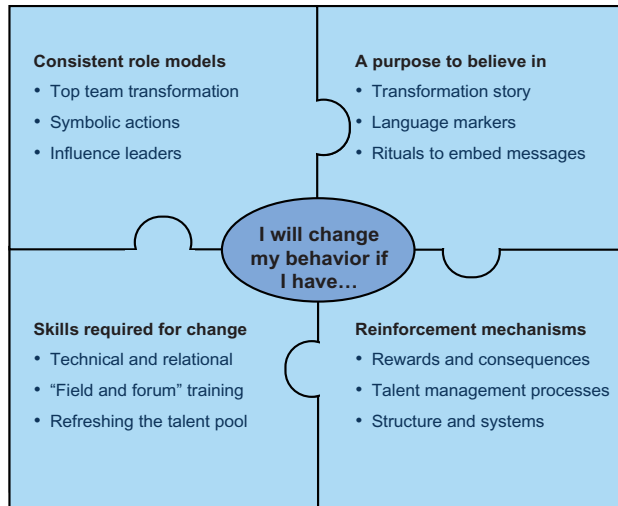
Shell executive, reflects, "It took a lot of effort for us to recognize that we as a management team and I as the chief executive were entirely responsible for the culture of the organization. And although we didn't like the feedback we were getting on how the culture was and how the people saw us as a group, we had to accept that if we wanted things to change, we had to change first."

Many culture programs fail because leaders feel the culture change is inapplicable to them. Leaders must understand how critical their smallest behaviors are. They should receive feedback on how they model the desired behaviors and how they must improve. At one company, the top team worked on themselves for nine months before doing any-

thing more broadly: The behavior shift required of them was so great that any earlier rollout would have failed. The team shifted its behaviors and people noticed the change. When they finally launched the broader program, transformation in the top team became a rallying cry for what was possible and expected. Over three years since, the organization resoundingly achieved its performance culture and business goals.

Senior leaders' acts have powerful symbolic value. They create stories of the new culture that travel from person to person. John Wilder, CEO of TXU, gave a large discretionary bonus to an employee who created significant value for the company through her personal endeavor.

"News of that raced through the whole organization and left people with little question that rewards would be based on contributions."[8] McDonald's founder Ray Kroc noticed trash littering the parking lot of one of his Chicago restaurants. He called the manager, and the two of them and Kroc's driver picked up the garbage together. Daniel R. DiMicco of Nucor Corp. flies economy class, forgoes an executive parking place, and makes a new pot of coffee if he takes the last cup. Hewlett-Packard founder Bill Hewlett once removed a lock on a supply-room door with a bolt-cutter to communicate the importance of trust.[9]

Start at the top, but do not stop there. Beyond senior management,

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8. Organization practice interview; used with permission.
9. These examples are recorded in Herminia Ibarra and Kent Lineback, *What's Your Story*, Boston: Harvard Business School Press, 2005.

seek to identify and turbo-charge a critical mass of influence leaders throughout the organization. Social-network analysis can be used to identify individuals with large personal networks (how many people can they reach?), and combine this with an estimate of their formal or informal authority (how much power do they have to influence others?) and their willingness to change and to lead (can they really become role models?). Reach out to this group and equip them with training and tools to create excitement among employees about the new behaviors. At one company, approximately 200 change champions were created in an organization of 10,000 people. They were trained on how to "be the change," and so inspire others. By each change leader influencing 20 to 30 colleagues, together they directly touched 40% to 60% of the organization.

A purpose to believe in: stories, language and ritual

Employees must be able to say, "I know what is expected of me, and I agree and find it meaningful." Management must develop and articulate a compelling message widely, repeatedly, and in a variety of forums.

We communicate meaning through stories. A transformation effort requires a "transformation story" that explains why we are undergoing this painful yet exhilarating change. And because most of us instinctively resist change, even when it is good for us, it is crucial to lead with a compelling story. If the leadership fails to take charge of the story, people will create their own. One company seeking a consistently positive customer experience across a dispersed network created a series of operating procedures that was quite valuable to local managers. However, the story circulated that HQ was eliminating managers' right to run their piece of the network, and the initiative was resisted.

Great transformation stories answer employees' central questions: Why do we have to change? Where are we going? How will we get there? When? But they also work at a more emotional level by revealing what the change means to the author and clarifying the "gives" ("What changes am I expected to make?") and "gets" ("What's in it for me?") for both the individual and the collective. A good story helps employees clearly see the objective they are working toward and understand how their efforts will benefit the entire organization, even while they go about the smaller tasks that constitute their daily work. Increasingly, technology can play an important role in helping companies identify what is on employee's minds. Take, for example, IBM's "ValuesJam," where more than 50,000 employees – including CEO Sam Palmisano – participated in an online discussion over a 72-hour period to provide input into the company's cultural direction.[10]

The most powerful stories are also made personal by the author. Andy Grove, the CEO of Intel, communicates the importance of bold decision making and staying on the cutting edge by describing his escape from Hungary during the Russian occupation and the determination he brought to creating a new life in America. Dave Roberts, CEO of Barclay's Personal Financial Services, draws parallels between his company's transformation and lessons from his personal hero, Monty Roberts, (the real-life "horse whisperer").[11] Steve Jobs at Apple captured employee hearts and minds with a call to "Put romance into computing." Corrado Passera, CEO of Banca Intesa, decided to write a short story for his employees –"a book written in human language." Lou Gerstner, former CEO of IBM, is remembered for emotional appeals such as "We are IBM, damn it, we can do this!"

The transformation story must tap into the place from which employees draw meaning. To understand this, one must put ones self in their shoes. "Ultimatum games" offer a compelling example of how people really think. Give a stranger $10. Tell him he must split the money with another stranger, however he wishes. If the offer is accepted, the money is split. If the offer is rejected, no one gets any money. Studies show that if the offer is a $7.50/$2.50 split, more than 95% will reject it, preferring to go home with nothing than to see someone "unfairly" receive three times as much as they do. People will apparently vote against their own self-interest if the situation violates other notions they have about the way the world should work.[12]

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10. Hemp et al., "Leading Change When Business is Good: The HBR Interview – Samuel J. Palmisano," *Harvard Business Review*, December 2004.

11. Those outside the English-speaking world may not be acquainted with the 1996 Nicholas Evans novel of this name, which was one of the bestselling novels in publishing history. See Barclays' CEO David Roberts, "Easy to Do Business With: The Way Ahead for PFS," April 2002, London, England: Barclays, Reg. # 1026167.

12. For a discussion of ultimatum games, see Terry Burnham and Jay Phelan, *Mean Genes*, New York: Perseus, 2000.

These other notions are more important sources of meaning in their lives than certain rational advantages. This is why compensation systems alone rarely have the behavior-change impact often envisioned. If a bank raises prices, for example, and ties a relatively small portion of employee compensation to the success of the price increase, employees who consider the new price unfair to customers are likely to sabotage the effort. When working with performance culture, one must take into account the acceptability of the whole picture to the people whose behavior must change. The transformation story must resonate with what matters to the people who hear it.

To have a sustained effect, a good transformation story must be continually invoked, both to remind everyone where the company is headed and to highlight places where the transformation is already under way successfully. This effect can be enhanced by creating a particular vocabulary of "language markers" that reminds people of the key elements of the story. At McKinsey & Company, the phrase "obligation to dissent" is a powerful reminder of our culture of meritocracy. Similarly, "Only McKinsey can do that" reinforces distinctiveness. At Wal-Mart, the "10-foot rule" reminds frontline employees of the customer service aspiration: Whenever you are within 10 feet of a customer you look them in the eye, smile, and ask how you can help. Language not used is just as powerful. One telecommunications company banned "they" in conver-

sation to remind employees to work as one organization. "No They" posters appeared everywhere, and even in casual conversation, people called attention to references to others as "them."

The skills required for change

Employees must be confident in their ability to behave in the way that leadership requests. What skill gaps related to culture might a company be struggling with? Both technical and, often more important, human and relational skills come into play. If customer service is a problem, employees may need new relational skills to help them identify customers' behavioral preferences. If the performance ethic is weak, skills related to conducting performance dialogues with honesty and compassion may be necessary. If a company is too inwardly focused, part of the issue is probably lack of skill in drawing insight from external perspectives. If empowerment is an issue, employees may need to build problem-solving skills to pinpoint improvement opportunities.

A midsize energy company realized that its competitive advantage relative to the majors would have to come from people who were more creative, nimble, and better at relationships. Although it had a good people development system, its use was inconsistent. They found that a "boss" ("let them sink or swim") rather than a "coach" mindset ("their success is my success") was interfering. Poor feedback skills were endemic: Managers either gave feedback with such blunt honesty that people were demotivated

or avoided conflict to the point that their management was ineffective.

As part of a comprehensive set of interventions, the company ran skill training focused on the idea of "tough love" to capture the idea that good feedback was honest but caring. Within two years, the view that the personnel review process was rigorous rose from 42% to 71%. The figures for the usefulness of personal development plans went from 30% to 78%; for 360-degree feedback, from 25% to 91%; and for informal coaching and feedback, from 36% to 79%. Given the myriad internal and external factors at play, it is impossible to link these directly to the business outcome. Nevertheless, the profitability of the company doubled over the same period.

There are many ways to remedy skill gaps – formal training, on-the-job development, assembling new talent, removing weaker players, and so forth. When thousands of employees must improve their skills, specialized mechanisms, such as train-the-trainer academies, and pull-driven approaches, such as peer-based coaching, self-evaluation tools, and self-selection into training programs, should be employed.

But teaching adults is not like teaching children. Capability-building work should adhere to important adult learning principles. The research is clear: After three months, adults recall just 10% of a lesson learned in a traditional classroom setting. If they have also seen a relevant example, retention jumps

to 32%. Given the opportunity to experience personally what they have learned drives retention to 65%. And if students know they must teach the material to others, retention is a full 100%. In the words of Confucius, "I hear and I forget. I see and I remember. I do and I understand."

These insights can be translated into a "learning journey" that contains cycles of action and reflection. Often referred to as a "field-and-forum" approach, it alternates intensive, classroom-style sessions with application, learning, and coaching in the field, and concludes by making employees part of a teaching relationship. An attractive byproduct of this model, of course, is its scalability.

Care should also be taken to ensure that the skill-building approaches themselves role-model the culture being created. If empowerment is the desired skill, the learning should be more self-directed. Where innovation is lacking, training formats should require creative responses from the students. And so on.

Reinforcement mechanisms

For change to stick, each individual must see how the processes, structures, systems, and incentives reinforce the requested change in behavior. Otherwise, the result is massive dissonance: Employees feel that what they are asked to do is not what is rewarded. The link between behavior and reward must visibly drive the organization's key human-capital systems. When an employee is promoted, for instance, a brief memo describing the characteristics that led to the promotion is a major cultural-signaling opportunity.

GE famously evaluates its employees both on what they achieve and how they achieve it – but the system only began to stick when Jack Welch started firing people who had met their business goals but not GE's values expectations. Dealing with cultural underperformers is essential. The higher up they are, the more important it is. We cannot tell you how often we have heard people say, "If the CEO is serious about this, why is Joe [a top team member] still here? He doesn't live the values at all." Successful CEOs confirm this time and again. As Corrado Passera, CEO of Banca Intesa, put it, "If necessary, you have to get rid of those individuals, even the talented ones, who quarrel and cannot work together."[13] "You've got to get rid of the managers the front line calls 'fat cats,'" implores TXU's John Wilder. "Nothing rallies the troops faster, because everyone knows who they are, so getting them out makes people realize that it's going to be different this time."

Simple, unexpected rewards can play a valuable role. When Continental Airlines was in the top five on-time airlines during its turnaround, it mailed a $65 check to every employee to emphasize the importance of customer service and professionalism. Nonfinancial incentives are also effective: FedEx gives its "Golden Falcon" award for service that leads a customer to write or call to express appreciation. And recognition by peers is a powerful, low-cost, often underutilized source of reinforcement. At one company, the top 50 meet for a day every quarter, finishing with a dinner at which they announce awards in four performance culture categories. The winning manager takes the trophy to his department for the next quarter. A small cash prize for members of the manager's team, plus dinner for the manager and a guest, spreads the story to people's homes, creating additional positive reinforcement. This peer recognition is almost as fiercely valued as the annual bonus round and costs almost nothing.

Talent-management processes are another important point of reinforcement. In explaining Southwest Airlines' culture of fun and teamwork, Herb Kelleher notes that, "What we are looking for, first and foremost, is a sense of humor. Then we are looking for people who have to excel to satisfy themselves and who work well in a collegial environment. We don't care that much about education and expertise, because we can train people to do whatever they have to do. We hire attitudes." Recruiting, selection, the induction process, the construction of career paths, on-the-job development, formal training, succession planning – all have the potential to be powerful influencers of the desired performance culture.

Structures and systems are also vital. BP reorganized into 90 performance units – from just three – to improve accountability. At IBM, an 11-member corporate committee promotes cooperation among its business units.

13. This and other Intesa quotations are from an interview conducted by McKinsey's Organization practice and published in Felix Brueck, Giancarlo Ghislanzoni, Rajat Gupta, Josep Isern, Gautam Kumra, Colin Price, Julie Shearn, Jack Welch, and Jim Wendler, "Voices on Transformation: Insights from Business Leaders on How to Manage Successful Change".

The most important thing to remember about the four levers for influencing culture is that the totemic 80/20 rule does not apply here, as the following thought experiment will show.

Suppose you were invited on Saturday to the opera and on Sunday to a football game. At the high point of the opera, you would remain utterly silent. At the high point of the football game, you would be on your feet yelling, waving your hands, and talking excitedly to your friends. You have not changed, but your context – and your behavior – has. The role modeling is different. The stories you have internalized about what going to the opera or a football game mean are different. And of course, the reinforcement mechanisms are quite different: If you were to shout during an opera, the usher would throw you out.

Organizations in a change phase are somewhere between the opera house and the football stadium – a confusing place to be. As a result, avoiding mixed signals is crucial. A story that suggests a company is a football stadium will do no good if the evaluation system communicates that the company is still an opera house and if the role modeling sends both signals. If a company wants football behaviors, as many cues as possible should communicate that employees are in a football stadium. 80/20 is not enough.

A final point: Determining how best to shift the work environment must be a dynamic and unfolding process, because not all important elements of the old culture may be immediately obvious. During a culture program at a global services partnership wanting to shift to a more entrepreneurial culture, complaints were heard such as, "I like all this stuff we are doing, but I don't really feel like a partner around here – I feel like a salaried employee. If I want to give flowers to my assistant for working to midnight, I need three signatures in our expense-reporting system. If I want to meet a client for business development in another city I also need three signatures. I'm not trusted as a partner." It had never occurred to anyone that the expense system was sending powerful behavioral cues inconsistent with the desired culture. The company must regularly review its entire reinforcement program and revise it as necessary.

Make it personal for a critical mass of leaders

Once the company has put in place consistent role models, a purpose to believe in, the skills required for change, and reinforcement systems, it will have created a new environment for its employees. Given enough time to internalize these changes and messages, the company's employees will alter their behavior as much as if they had moved from an opera house to a football stadium. Unfortunately, even with all this in place, change might take five to seven years in a large organization – time companies don't usually have, particularly given that the average CEO tenure has decreased from more than seven years in 1995 to just over four in 2006.

Thankfully, we have learned that the change period can be accelerated to two to three years, because it is not organizations that change, but people. Regardless of environment, all individuals reserve the right to choose their behavior. Change can be accelerated insofar as creating the performance culture is a personal choice for as many in the organization as possible. This can be done by drawing on adult learning theories of sustained personal change, as noted above.[14] These theories suggest that there are three steps to adopting a new mindset and related behavior.

The first step is insight. People typically begin without understanding the mindsets that drive suboptimal behavior. At one company, we asked employees to track how much time they spent negotiating others' egos at work – i.e., positioning issues in meetings, avoiding stepping on others' turf, making people feel someone else's idea was theirs, and so forth. Most said 20% to 30%. Then we asked them how much time others spent managing their egos – a question usually met with silence. This is the first challenge of change: We rarely have insight into those of our actions that are complicit with the "from" culture or into why, even though we are well intentioned and hardworking, we persist in these actions. In adult learning parlance, this is about moving from being unconsciously unskilled (we don't know what we don't know) to consciously unskilled (we know what we don't

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14. For a discussion of the four stages of growth, see The Orange Book of Change, pp. 59-61, published to the Web by the Canadian group "Engineers without Borders" at www.ewb.ca/en/whatyoucando/chapterresources/manual.html. Also available in book form: Diederik Aerts, Serge Gutwirth, Sonja Smets, and Luk Van Langenhove, eds., *Science, Technology and Social Change : The Orange Book of `Einstein Meets Magritte'*, Canada: Springer 1999; See also the adult-education research conducted by Elyssebeth Leigh of the University of Technology, Sydney (UTS).

know) – a shift grounded in the recognition that there is an important lesson we need to learn.

The second step is choice. Now that we understand the mindsets that drive performance-limiting behaviors, we must be committed to changing them. A process should be orchestrated that encourages employees to focus on the one or two personal shifts each can make to contribute most to leading change in the desired culture. This is often referred to as their leadership frontier. When every leader in the organization works on the one or two things that he or she can do to help create the desired performance culture, the cumulative effect is dramatic. Now we are moving from consciously unskilled to consciously skilled: We can do it as long as we remind ourselves to do so.

The third step is practice. We discover our leadership frontier and commit to changing our behavior. Each time we think and behave in a new, more effective way, we are slowly shifting mindsets by breaking down old "habit pathways" in the brain. The science of neuroplasticity has recently confirmed both that we can change these patterns and that doing so requires an extraordinary amount of practice.[15] This practice is contingent on feedback – support when we show evidence of new behavior, challenge when we fall back. This final stage takes us from consciously skilled to unconsciously skilled: We can do it without thinking.

To help individuals through these growth steps, a culture-focused personal development program can be created that employs the field-and-forum approach mentioned above, along with tailored 360-degree feedback, workshops, and individual and team coaching techniques. The coaching encourages insight, allowing participants to let go of old, limiting ways of thinking and adopt new, performance-enhancing ones. This shift can be encouraged by ensuring there is a supportive environment in the room. Senior executives speak (role modeling), and participants share personal stories and reasons to change (a purpose to believe in). They come to understand that when they return to their work, they will be evaluated, rewarded, and promoted based on new culture behaviors (reinforcing mechanisms). The coaching helps them gain new skills that will allow them to push forward on their particular leadership frontier (skills required for change).

Employees are then encouraged to take the next step to become consciously skilled. They are given the space and motivation to practice new ways of thinking and behaving, and the feedback necessary to embed these new ways. One-on-one coaching, action-learning assignments, buddy systems, follow-up sessions, team charters, and formal monitoring are all part of these embedding activities. This is the field-and-forum approach in action. As employees master new mindsets and behaviors, they become unconsciously skilled, putting them in a position to mentor others.

Exhibit 7 illustrates the process by which each employee progresses through the stages of growth.

Thousands of personal development programs of this type have been conducted worldwide. Universally, participants are deeply enthusiastic, describing these programs as "inspirational," "the best investment of time I have ever made," "life changing," and "the most valuable program I have ever been part of."

The fundamental feature of these personal development programs is that they help people uncover the underlying mindsets that drive behavior. Consider mentoring, a key element in building organizational leadership capacity. When we ask people how they want to be remembered, most say "as a good colleague who made a difference to her/his colleagues' lives." Then we ask how many in the company would actually say that about them if they left today. Most people promptly come face to face with the fact that their legacy thus far is not what they would like it to be. A review of their 360-degree feedback aids in their self-awareness. This sets up a creative tension that can be worked with.

All the key performance culture from-to themes can be treated in this manner during what is typically a two-day workshop focused on exploring the individual behaviors and underlying mindsets that impede business performance. Leaders explore the drivers of their behavior through a series of exercises. These differ by organization and by individual. But we have found five recurring mindsets that underpin the from-to shifts in most companies.

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15. See Jeffrey M. Schwartz and Sharon Begley, *The Mind and the Brain: Neuroplasticity and the Power of Mental Force* New York: HarperCollins, 2002, for a discussion of the neuroscience involved in rewiring brain connections.

Stages of adult learning and the personal development journey
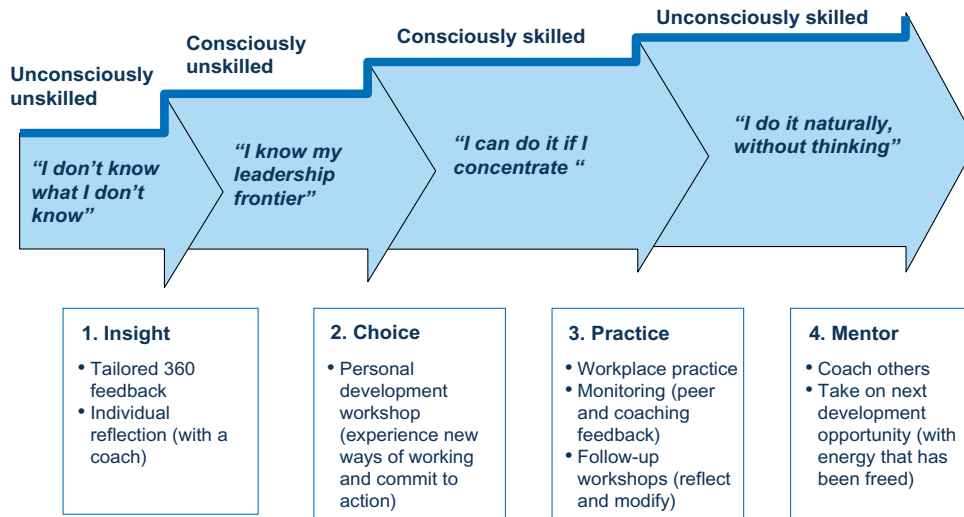
Adapted from: Bond et al, 1995, 1997, Elisabeth Leigh, Adult Education, UTS Sydney

- **Learning orientation.** This mindset emphasizes that no matter how good we are, we can always improve. It is vital for leaders who must role-model not only the new behaviors desired but also the process of change. People must see how, not just what, to change. We often cite Tiger Woods's reaction to his astonishing, 18-below-par victory in the Masters tournament in 1997: He chose to rebuild his swing. As he practiced many of its 270 elements, he endured a period of awkward performance. The press deemed him a one-Masters wonder. Four years later, he won the world's four major golf tournaments in one year, an unprecedented accomplishment. Few senior executives are willing to suggest they are less in need of learning than Tiger Woods.

- **I can make a difference** – I am an owner. This mindset is about feeling the "locus of control" within rather than outside you. It underpins the habit of proactivity. Its absence creates the feeling that "these things are happening to me" and "they are not my fault," and so leads to a tendency to "fix the blame, not the problem."[16] Its presence leads to a sense of personal accountability and a belief that we can positively influence our individual, team, and organization experience. It redirects into business improvement energies that would otherwise go into covering up and justification.

- **People matter as much as task.** Daniel Goleman's work in the 1990s provided empirical evidence that one gets the job done by working explicitly with and through people. Goleman analyzed the difference between good and high performers for thousands of positions in hundreds of companies. He found that 90% of the difference related to "emotional intelligence" – EQ rather than IQ. He performed further studies at PepsiCo that suggested that, in similar bottling plants, teams with the highest EQ rating

16. Stephen Covey, *The 7 Habits of Highly Effective People: Powerful Lessons in Personal Change,* New York: Free Press, 1990.

17. Daniel Goleman, *Emotional Intelligence: Why It Can Matter More Than IQ,* 10th anniversary edition, New York: Bantam, 2005.

18. Danah Zohar, *Rewiring the Corporate Brain: Using the New Science to Rethink How We Structure and Lead Organizations,* San Francisco: Berrett-Koehler, 1997.

performed 20% above the norm, while those with the lowest performed 20% below. Most important, Goleman found that EQ is learnable, particularly as we become aware of the way in which humans are "wired for emotion."[17] Employees with an EQ mindset consider themselves coaches/developers and view the success of their people as their own success.

- **High energy through authentic purpose.** Research by a number of leading thinkers, such as Danah Zohar, has shown that inspirational leadership is less about charisma and cheerleading and more about fully engaging in one's own purpose and helping others connect with theirs. Meaning is the largest source of energy in organizations. People will achieve the most extraordinary feats if their purpose is meaningful to them. Of course, the reverse is also true: People who have woken up and thought, "Why am I doing this?" know how hard it can be to stay motivated without meaning.[18] Leaders who can harness a sense of meaning tap the greatest source of personal and organizational energy.

- **The genius of "and."** Should we focus on the short or the long term? Growth or profit? Cost or quality? People or task? Leaders must break the either-or dichotomy to deliver both simultaneously. Peter Senge's famous book, The Fifth Discipline, popularized the importance of systems thinking in leadership.

Understanding the systemic interrelationships that shape behavior allows leaders to find "and" solutions by acting with, rather than against, the organic processes of their organizations. In Leadership without Easy Answers, Ron Heifetz stresses the importance of a leader seeing the full context for change. He uses the metaphor of being simultaneously "on the balcony and in the dance," a position of "reflective action" from which the leader can seek "and" solutions by observing patterns in the workplace while being in the midst of the action.[19]

When leaders contextualize behaviors within these five mindsets, they gain a number of insights into driving superior business results. These insights, buttressed as always by a field-and-forum process, can drive dramatic shifts in leadership behavior – and similarly dramatic shifts in performance culture.

Making it personal for leaders in this way is fundamental. Catalyzing rapid shifts in performance culture requires a company to pull off this feat for a critical mass of leaders in a reasonably short time. Changes in behavior across an organization follow S-curves: Progress is initially slow but takes off once a critical mass is reached. At this point, informal effects begin to cascade through the organization. New ways of thinking and behaving become self-supporting. Change begins to feel inevitable. If a change program does not reach a critical mass within about 12 months, however, the majority that remains unaffected by

the program effectively overwhelms those who have, and momentum is lost. This can leave the organization worse off culturally than before, as increased frustration and cynicism fuel resistance to future change.

There is no rule for what constitutes critical mass. However, epidemiological studies in the social sciences (essentially, how ideas and patterns of behavior spread in a social network) indicate that 30% of a population is a good rule of thumb.[20]

Outside-in approaches can shift all facets of the employee environment for the desired impact. Alone, however, they simply take too long. Working directly with personal mindsets to change behavior in a critical mass of leaders is an essential "and" to achieve rapid shifts in performance culture in 18 to 24 months. The impact of this approach has been experienced at companies worldwide – at a global bank, an American industrial company, a Chinese state-owned enterprise, and an African mine, among others.

3. How to manage a performance culture effort

What does performance culture work look like on the ground? A typical performance culture program has three phases: diagnose the opportunity; design the program; and deliver results (Exhibit 8). Two points are worth making before we explain each of these elements.

19. Ronald Heifetz, *Leadership Without Easy Answers*, MA: Belknap Press, 1998.

20. See P. M. Chaikin and T. C. Lubensky, *Principles of Condensed Matter Physics*, Cambridge: Cambridge University Press, 2000: "Physical percolation theory applied to organizations shows that once a critical threshold of 30% is reached, individual clusters of catalytic people unite to form an organization-wide network of catalytic people." Also, D.G. Acona, P.S. Goodman, B.S. Lawrence, and M.L. Tushman, "Time: A New Research Lens," *Academy of Management Review*, 2001: "As the percentage of participants change to 30%, the force attracting more people to become involved accelerates." We do not attempt to provide a complete treatment of how change cascades from the top team to the front line in multi-thousand-person organizations.

Approach to transforming performance culture

	Diagnose the opportunity 6-8 weeks	Design the program 3-6 weeks	Deliver results 18 – 36 months

Activities	• Gather robust fact base on current state
	  – Surveys
	  – Interviews and focus groups
	  – Fact-based analysis
	• Co-create from-to list with senior team in mirror workshop session
		• Co-create a coherent slate of initiatives using "heat map"
		  – Existing business initiatives "engineered" for culture
		  – Shortlist of broad-based culture initiatives
			• Expertly manage linkages, interdependencies, and effects of new pressures
			• Monitor initiative and program-level impact

Outcomes	• Shared language and mental model re: culture
	• Root causes of culture challenges and opportunities identified
	• Meaningful alignment on the vital culture shifts that will have the most impact on business performance
		• Robust initiative slate interlinked and sequenced for maximum impact
		• Detailed project charters for each initiative (timelines, resources, targets, measurement, etc…)
		• Full ownership of initiative implementation by client leaders
			• Desired improvements in
			  – Performance culture
			  – Business performance
			• Ongoing ability to adjust performance culture to excel under changing market conditions

First, unlike some of the work that senior teams engage in where teams lower down in the organization determine answers and report them, culture work requires that senior teams discover and choose the solution themselves. They must make it personal. And in many ways the same is true throughout the organization.

The rational manager believes, "If I tell them what to do, they will do it." He is routinely disappointed. In a famous experiment, researchers ran a lottery in which half the participants chose their own number.[21] The researchers assigned the remaining numbers randomly to the other half. Just before the drawing, the researchers offered to buy back the tickets from their holders. Those who chose their own lottery number demanded fives times as much money as the others. While irrational (those who chose their number had no more chance of winning), the result reveals an important truth about human nature: When we choose for ourselves, we are far more committed to the outcome. This suggests that investing additional effort to achieve the level of commitment that comes when people create their "own" answer yields a large ROI. When working on culture, one should constantly finding ways for leaders and employees to "write their own lottery ticket" in all aspects of diagnosing, designing, and delivering the program.

Second, the lesson of positive psychology should be heeded that people are far more likely to change their behavior if the shift is couched in positive terms. Many business leaders are trained to identify and solve problems. But problem solving, with its focus on what's wrong, misses the full impact even while enabling teams to get things done. Consider this example: Two bowling teams were recorded on video over a number of games. Each team received a video to study. One team's video showed only those occasions when it made mistakes. The other's showed only those occasions when it performed well. The team that studied its successes improved its score twice as much as the other team.[22]

Studies of heart disease patients reinforce this insight: 90 out of 100 bypass patients, warned that failing to embrace diet and exercise will probably kill them, return to their old habits within two years. Only 23 of 100 do so when doctors describe better diet and exercise as ways to get more of what they want out of life.[23]

21. The lottery example is taken from Terry Burnham and Jay Phelan, *Mean Genes* New York: Perseus, 2000.

22. See Bernard J. Mohr and Jane Magruder Watkins, *The Essentials of Appreciative Inquiry,* New York: Pegasus 2002.

EXHIBIT 9

Organizational performance profile (OPP) survey   *EXAMPLE: HIGH-LEVEL OUTPUT*

		Poor	Average	Good	Excellent	Observations
Alignment	Direction					• Company vision is well understood and accepted but is not translated to operational targets and action plans
	Leadership					• Need for strengthened management capabilities
	Environment and values					• Hierarchical environment stifling individual initiative and risk taking
Execution	Accountability					• Slow, collective decision making; low accountability for meeting targets
	Coordination and control					• Strong culture of measurement and control
	Capability					• Experienced staff with low turnover, difficulty to attract and retain younger talent
	Motivation					• Average levels of motivation, driven by historical success
Renewal	External orientation					• Low external orientation (failure to detect and act on new trends/formats)
	Innovation					• New product/category introductions slow, unsuccessful; high average age

Instead of framing a diagnosis negatively ("What are we doing wrong?"), one can ask, "When do things work well? What environment made this possible? What needs to change for this to happen more of the time?" The first set of questions invokes blame and creates fatigue and resistance; the second – often referred to as "appreciative inquiry" – is much more involving, engages people's passion and experience, and highlights their success.[24] This set of questions uses the positive language of the peak-performance exercise described earlier. When people ask themselves these questions, they are moving toward peak performance.

Diagnosing the opportunity

The objective in the diagnostic phase is to create a shared conviction within the leadership team about the vital shifts in mindset and behavior that will unlock the most business value. This is typically a six- to eight-week endeavor.

This phase determines where the culture program should focus using an "appreciative inquiry" lens: "What enables peak performance?" and "How can we get more of this?" These two questions are answered by examining diagnostic results from a robust set of tools – surveys, interview and focus group techniques, fact-based analyses – within the "meaningful alignment, supportive execution, and renewal" framework.

Surveys

Most culture surveys focus on employee satisfaction, or the extent to which a set of behaviors is exhibited in the organization (e.g., "I am satisfied with my job" or "I get good coaching"). This is necessary, but not sufficient. The best surveys will identify the diagnostic outcomes that characterize high-performing cultures, their underlying mindsets, and the behaviors these mindsets generate. As such, they provide rich insight into cultural root causes, as well as a quantitative baseline against which progress can be measured. Surveys should also provide comparability with data from a large sample of other organizations. Exhibit 9 provides an example of one such survey that fulfills these requirements: The Organization Performance Profile (OPP).

In some organizations it is simply not viable to conduct an extensive survey due to 'survey fatigue' and/or logistical and systems considerations. In these cases it is still important to get a broad-based 'read' on the current culture. For

23 For a discussion of patients' responses to different kinds of medical advice, see Alan Deutschman, "Change or Die," *Fast Company,* May 2005, from which this example is taken.

24 The original theory of appreciative inquiry was first articulated in "Appreciative Inquiry into Organizational Life," by David L. Cooperrider and Suresh Srivastva, two professors at the Weatherhead School of Management, published in W. A. Pasmore and R.W. Woodman, *Research in Organization Change and Development,* vol. 1, pp. 129-169, Greenwich, Conn.: JAI Press, 1987. Since then, AI, as it is called, has revolutionized the field of organizational development. Its primary contribution is the notion of creating change by focusing on what is working rather than what is not working, which had been the traditional model. A more recent treatment can be found in David L. Cooperrider and Diana Whitney, *Appreciative Inquiry: A Positive Revolution in Change,* San Francisco: Berrett-Koehler, 2005.

these purposes simple tools can be employed such as a short values survey, which can be completed in less than 10 minutes. A typical values survey asks employees to identify the most common descriptors of their day-to-day organizational experience. When, as is often the case in poor performance cultures, 90% of the employees choose words like "politics," "risk aversion," or "bureaucracy" as their top 10 descriptors, a very interesting dialogue ensues with the senior team.[25]

Interviews and focus groups

Interviews help probe survey insights more deeply for root causes. A number of powerful techniques can be employed to get beneath the surface: storytelling, role playing, soliciting concrete examples, presenting hypothetical situations, and making provocative statements to elicit instructive reactions. Typical company-culture questions include: What does it take to be successful at this company? Who exemplifies this and why? What don't people talk about here? How would the CEO answer that question? An important difference from a traditional interview is the emphasis placed on open questions, and on simply listening – for what is mentioned and not mentioned, for the feeling beneath the thought, for what is implied by the stories told, and for the language the interviewee uses. Done well, both interviewee and interviewer come away with a better understanding of the culture, making the interviews themselves a powerful cultural intervention.

Closer to the front line, focus groups can be a powerful technique to probe root causes. The focus-group format is more scalable than one-on-one interviews and allows the observation of group dynamics in the organization. To move discussions beyond the obvious, a number of techniques can be employed, such as individual reflection, paired discussion, role playing, and identifying and discussing visual metaphors.[26]

To cut quickly to critical issues, a "card sort" technique can be also be employed in interviews and focus groups. This technique assigns as many as 50 concepts to individual note cards and invites participants to divide the cards into three groups: vital, interesting, and not important. The conversation that follows can then explore in depth the areas considered critical. Analyzing each participant's choices also helps establish overall group priorities and areas of misalignment.

Fact-based analysis

Survey, interview, and focus group information is by definition employee-opinion-based. "Perception is reality" is certainly true from the employee perspective, but validating perceptions with facts is critical to moving from diagnosis to action. A financial services organization, for example, found a strong, demotivating sense that pay did not vary with performance. Analysis showed, however, that this was a misperception. Rather than recommending a revamp of the compensation system, the company quickly concluded that what was necessary was a communications program making the pay-performance link clearer. In general, teams working on companywide performance culture programs will find it useful to validate perceptions of employee turnover, compensation systems, performance rating distributions, how executives spend their time, reasons for dismissal, actions taken on "C-players," spending authority, organizational layers, and the size of spans of control.

The diagnostic tools used will depend on the scope of the effort and the availability and quality of information. Even the most stripped-down diagnostic should include some sort of quantitative survey to establish a baseline. Interviews to probe more deeply into underlying mindsets are also essential.

The outcome of the diagnostic is clarity about the culture shifts that will have the most impact on business performance. From these, from-to lists are constructed and prioritized.

We recall, however, the importance of having the senior team "write their own lottery ticket." Providing the solution rather than helping the team discover it themselves robs them of a significant portion of the energy required to transform the answer into real culture and business impact. One must also remember that the senior team is complicit in the culture they need to transform. To respond to these realities, an approach should be pursued that involves sharing data and generating insight and alignment that enables self-discovery through deep debate. This approach is exemplified in

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25 Employees are asked to choose, from a list of 100, the 10 words or phrases that most describe their day-to-day experience, the 10 that describe it least, and the 10 they would most like to represent their day-to-day experience – critical input for setting the cultural direction of the company. The list of 100 words and phrases includes both performance-enhancing descriptors (e.g., shareholder value, efficiency, profit focus, results orientation, accountability) and performance-limiting descriptors (e.g., silos, bureaucracy, risk aversion, hierarchy, politics).

what is typically referred to as the "Hold Up the Mirror" workshop.

A typical Mirror workshop agenda resembles that of a traditional workshop: An introduction is followed by a plenary on peak performance, a discussion to identify from-to's, and brainstorming on how to make the shift. What distinguishes this workshop is a range of techniques that facilitate greater openness and ownership of the results by participants:

- "Pull, listen, and ask" facilitation, as opposed to "push" and telling. The facilitators role is restricted to getting the right fact base into the room, teeing up the right questions, and guiding the discussion that follows in an unobtrusive fashion, always with a bias toward "appreciative inquiry"

- A combination of individual reflection exercises, small-group work, and facilitated, groupwide discussion that ensures that everyone forms and shares points of view

- Limited or no use of PowerPoint. Slides are better shared in a "gallery" format on large posters. This allows team members to engage with the information in a self-directed manner and encourages them to form their own conclusions, which can then be discussed in the larger group

- Use of pre-workshop polling and/or electronic dialogue technology in the session to enable everyone in the group to express their opinion anonymously. People's unfiltered views emerge,

ensuring that genuine discussion can be focused only on areas of misalignment

- A "no tables in the room" format. The team sits in a semicircle around an easel with flip charts. This facilitates sharing in pairs and small groups, and ensures that participants remain focused on the discussion. Blackberry use and tending to other business becomes much more visible – and unacceptable.

One measure of whether one is getting this right is that the "voice time" of the senior team itself should stay at or above 80%. This does not mean those supporting the team are merely facilitators: They must have a perspective on the answer in order to ask the right questions and guide the discussion. But they should also have the humility to let go of their ingoing answer as better answers emerge from the group process.

At the end of the Mirror workshop, the team will have engaged in a hard-hitting, fact-based, emotionally charged debate that will result in deep, shared conviction about where the team must focus to create a superior performance culture.

Designing the intervention program

Emerging from the diagnostic phase, the leadership team knows where the company is and where it needs to go. In the design phase, initiatives are developed to take the company sustainably from-to. This process typically requires three to six weeks.

In keeping with the basic beliefs, an initiative slate must be designed that will significantly shift the environment to influence the desired change, and that will make the change personal for a critical mass of employees. Exhibit 10 depicts the best way to visualize this process. From-to culture theme appears as column headings. The rows are the four conditions necessary for change, along with a row for "making it personal." If all the initiatives are well chosen and no white space is visible, the program is robust. As the exhibit suggests, heat-map color coding can also be used to identify how far each of the five horizontal elements will drive each culture theme, focusing conversation on where the effort should be strengthened.
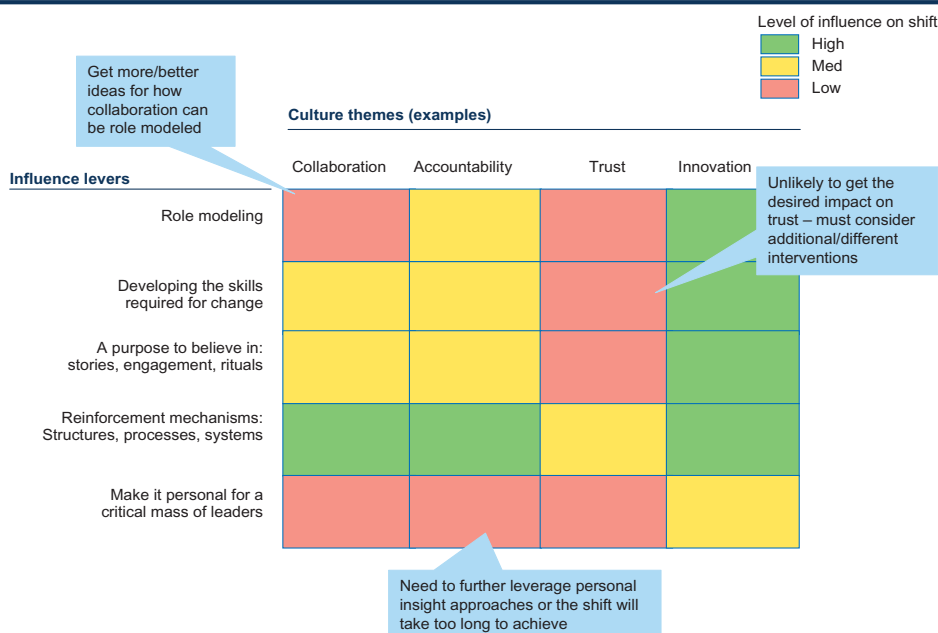
The main challenge in completing this type of grid is not to overwhelm the organization with new initiatives. It is a curiosity of companies in need of culture change that everyone already has too much to do. This is usually the result of a lack of planning and a tendency to launch initiative after initiative to fix what's wrong without understanding root causes. Designing a brand-new culture initiative for each of 25 cells is not going to help. Anything more than a handful of new initiatives will create unnecessary difficulties for the organization.

This challenge can be addressed by exploiting existing business initiatives as much as possible (which helps the culture change penetrate deep into the organization) and by supplementing them with cross-cutting performance culture initiatives

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26 One technique to move focus group discussions beyond the obvious is to have focus group participants choose, from a set of 150 cards laid out on the table, those images that represent their current and desired experience at the company. In frontline applications, we tailor the question to the specific business challenge at hand (e.g., "Which images represent what it's like to sell to customers …to provide service?" and so on). This creates a much more emotional or visceral conversation than what results if we simply ask people, "What's it like to work around here?" We often build the images that represent employees' desired experiences into the communications program, which will cascade through the organization once the change program has been designed, to reinforce the connection between the change program's themes and employees' passions.

EXHIBIT 10

Robustness test for performance culture program design

Level of influence on shift
- High
- Med
- Low

Culture themes (examples)

Get more/better ideas for how collaboration can be role modeled

Influence levers

	Collaboration	Accountability	Trust	Innovation
Role modeling				
Developing the skills required for change				
A purpose to believe in: stories, engagement, rituals				
Reinforcement mechanisms: Structures, processes, systems				
Make it personal for a critical mass of leaders				

Unlikely to get the desired impact on trust – must consider additional/different interventions

Need to further leverage personal insight approaches or the shift will take too long to achieve

that focus on ensuring that a critical mass is reached quickly.

Let existing business initiatives do the bulk of the work for you

Leveraging existing or proposed business initiatives as a delivery mechanism for culture change involves "engineering" existing initiatives for culture. Every initiative that touches employees is a culture intervention, intended or not. Those business initiatives that touch a good part of the employee base, that are highly visible, and that put a lot of business and/or symbolic value at stake are prime candidates for engineering, which will make them the key initiatives driving the desired from-to shifts.

One organization, for example, was pursuing a lean approach to operations. By linking elements of the lean program to the cultural theme of empowerment, they were able to intensify the impact of the initiative while tying it to an important cultural idea. Communications grounded the effort in the part of the company's overall transformation story that emphasized empowerment. Kaizen events were expanded from operational issues to include culture issues such as increasing trust between the front line and management. Training programs included relational as well as technical upskilling, and opportunities for employees to reflect on the extent to which their work was meaningful and whether they approached it believing that they could make a difference. [27] Adjustments of this kind help employees experience personally the extent to which a cultural improvement drives business performance.

Pursue a short list of broad-based culture initiatives

Engineering existing business initiatives for culture does not add much work and is therefore a high-leverage mechanism, particularly in 'making it real' for the frontline workforce and proving up the bottom-line impact of the program. In addition, a short list of organization-wide initiatives should be pursued to ensure that a critical mass of employees experiences a significant shift in their work environment, and personally engages with and contributes to the desired culture changes. These cross-cutting initiatives will of course be

27 *Kaizen* events refer to any action in which the output is intended to improve a process. The usual process involves gathering the owners of a process, mapping the process and identifying improvements, and then soliciting buy-in from related parties. The majority of lean transformation programs include the creation of *Kaizen* events as a central tool for continuous improvement.

28 The interactive cascade approach is supported by Chris Argyris' research on "double-loop learning" and Noel Tichy's idea of the "teachable point of view." Argyris's theory of double-loop learning addresses whether an error in a system requires the actors in the system to modify the underlying norms, policies, and objectives of the system (double-loop learning) or merely to correct the error within the parameters of

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EXHIBIT 11

Example: Leadership behavior 'gold standard'

Leadership Standard

Results orientation
- I know what's expected of me and my team
- I share objectives with my team and encourage them to meet those objectives
- I make quality decisions in a timely manner
- I focus on the most important issues, establishing priorities

Trust
- I do what I say I'll do
- I say what I think and feel
- I confront conflict constructively
- I care about the development of others

Accountability
- I assume responsibility for problems and focus on solutions
- I admit mistakes and turn them into learning opportunities
- I know and control my emotions
- I hold others accountable

Collaboration
- I put company above personal/ department interests
- I ask for help and offer help to others
- I treat other people's time and opinions with respect
- I "get out of the way" to let others get the job done

Innovation
- I question the status quo and provoke new thinking
- I propose and implement new ways of working
- I'm committed to my personal growth and transformation
- I take calculated risks and empower others to do so as well

Passion
- I'm proud of working for this company
- I do my best and encourage others to do so
- I'm willing to go the extra mile when necessary
- I keep a sustainable balance between my passions inside and outside of work

specific to the company's needs, but the three most commonly deployed are:

- **Cascading the transformation story.** We have already discussed the well-crafted transformation story. Here we focus on the process, which begins with the CEO writing down his or her own story about the "why and how" of the organization's transformation and then "teaching" it to his or her direct reports. The process includes a discussion about why the leader is personally committed to the transformation and how senior leadership is beginning to think and behave differently. Senior leaders then ask questions and discuss what transformation means for them and for their

areas. Once they fully understand the story, senior leaders write their own personal version that will be meaningful for their reports. They then "teach" those stories to their reports – an act that also solidifies leaders' conviction. Those who hear the story tailor it to their areas, and the process cascades throughout the organization. Once again, everyone gets a chance to "write their own lottery ticket."[28]

- **Personal development programs.** The cornerstone of this process is the creation of a "gold standard" that translates company values and cultural "to" themes into definable behaviors (Exhibit 11). By way of a 360-degree feedback process tailored to this gold

standard, employees determine their leadership frontier – the one or two individual behaviors through which they can have the biggest impact on performance. This then feeds into a personal development program, which typically involves attending personal development workshops that prompt employees to choose new, more productive ways of thinking and behaving. These choices are practiced in the workplace through field-and-forum and supported by a number of embedding mechanisms to ensure sustainability, such as one-on-one coaching, action-learning assignments, and formal monitoring.

Personal development programs are typically deployed to at least

the existing system (single-loop learning). See Chris Argyris, "Looking Backward and Inward in Order to Contribute to the Future," in Arthur G. Bedeian, ed., Management Laureates: A Collection of Autobiographical Essays, Greenwich, Conn.: JAI Press, 1992, pp. 41-64.

Noel Tichy's theory of leadership suggests that the ability to develop leadership in others is based on three requirements: a teachable point of view, a story for your organization, and a well-defined methodology for teaching and coaching. A teachable point of view articulates a defining position for the organization that is transmissible to others. See Noel M. Tichy, The Cycle of Leadership: How Great Leaders Teach Their Companies to Win, New York: Collins, 2004.

a critical mass of the organization's leadership. In some cases, such as British Airways' successful operational transformation from transportation to customer service business (with largely the same technology, routes, and workforce), companies decide to put virtually their entire workforce through personal development programs of this nature.[29]

• **Linking performance and rewards.** This initiative ensures timely, objective, differentiated performance feedback and meaningful consequences – positive and negative – for both "what and how." Individuals are plotted on a nine-box performance assessment matrix based on their business results and leadership behaviors against the objectives set in performance contracts. Each cell of the matrix carries clear implications for reward and placement. We have found that fewer than nine boxes offers too little differentiation, demotivating high performers and putting insufficient pressure on low performers. Greater than nine introduces an unnecessary level of complexity. A process is created to ensure individual performance, assessed via candid, fact-based discussions and follow-up feedback sessions. Our approach essentially confirms the soundness of the model first developed by McKinsey & Company and GE to monitor performance and behavior.

Taken together, this slate of cross-cutting initiatives, along with the culturally engineered business initiatives already discussed, should achieve the desired culture shifts.

Some final thoughts for the design phase: Every initiative must complement every other initiative, so as not to send mixed signals. But of course not all initiatives can or should be simultaneous. So the cultural interventions are sequenced as a journey, in which each initiative is consistent with those that have gone before and reinforces them as it extends them.

The idea of organizational energy becomes important here. Change requires energy. Doing too much can be overwhelming, whereas not doing enough can give people the impression that nothing is happening. The challenge is to sequence the initiatives in a way that builds sufficient energy to drive and sustain the journey.

Typically, participants experience the overall change story first and then take the opportunity to personalize it. Once this has happened, the 360-degree feedback process and the mindset workshop, in which they will build capabilities that enable them to "be the change they want to see," will be properly contextualized and can be fully absorbed. Then, back in the workplace, they begin to experience changes in their environment: Performance contracts – complete with performance dialogues and published standards for performance and behavior – begin to appear. Evaluations become more objective – and more serious. Communication reinforces the change story. Individual and team coaching provides the space and opportunity to practice new skills, and the company begins to implement business initiatives in ways that reinforce the cultural messages sent.

By the end of the second phase of the effort, the team has designed and sequenced both the business initiatives engineered for culture and a few purely performance- culture-focused, cross-cutting initiatives aimed at the critical mass.

Each initiative will have a rigorous project charter, timelines, milestones, resourcing, agreed-on measurement mechanisms, and so on. Each will be fully owned by an implementation leader, who will have been deeply involved in co-creating the initiative plan in the same way the senior team co-created the from-to's during the diagnostic phase. The initiatives are sequenced in a coherent, mutually reinforcing implementation program designed to shift a critical mass of employees over the next 12 to 18 months. The program is now ready for rollout.

Delivering results

The exact nature and timing of the third phase is determined by the design created during the previous phase. Most large-scale culture programs run for 18 to 36 months, with a 12- to 18-month initial delivery stage. Meaningful performance culture results and emerging business results are often visible by the end of the first year. Full business impact run-rates are apparent within three years.

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29 See, Mike Bruce, Projects Manager, British Airways, Senior Development, "Managing People First: Bringing the Service Concept to British Airways," Industrial and Commercial Training, March/April 1987, 21-28.

EXHIBIT 12

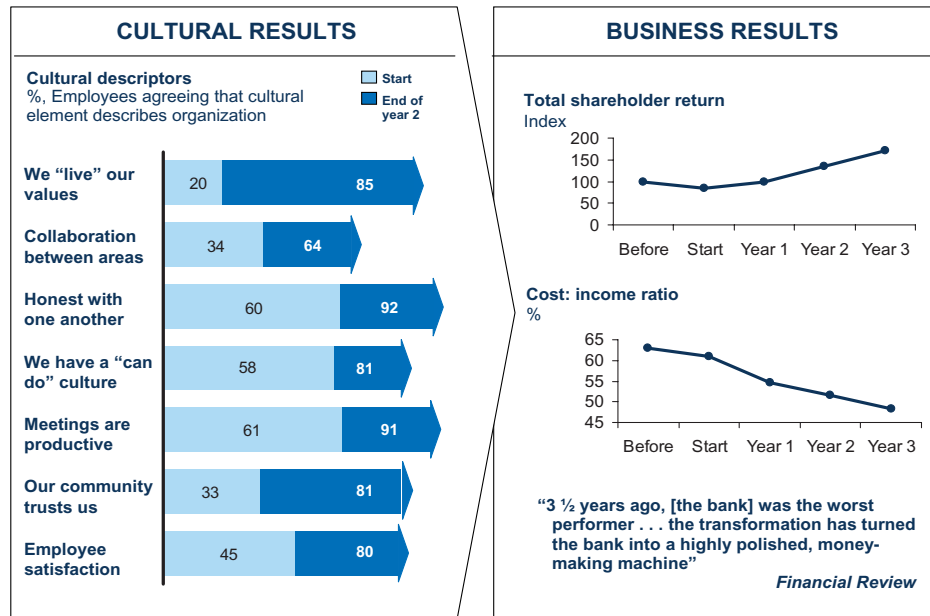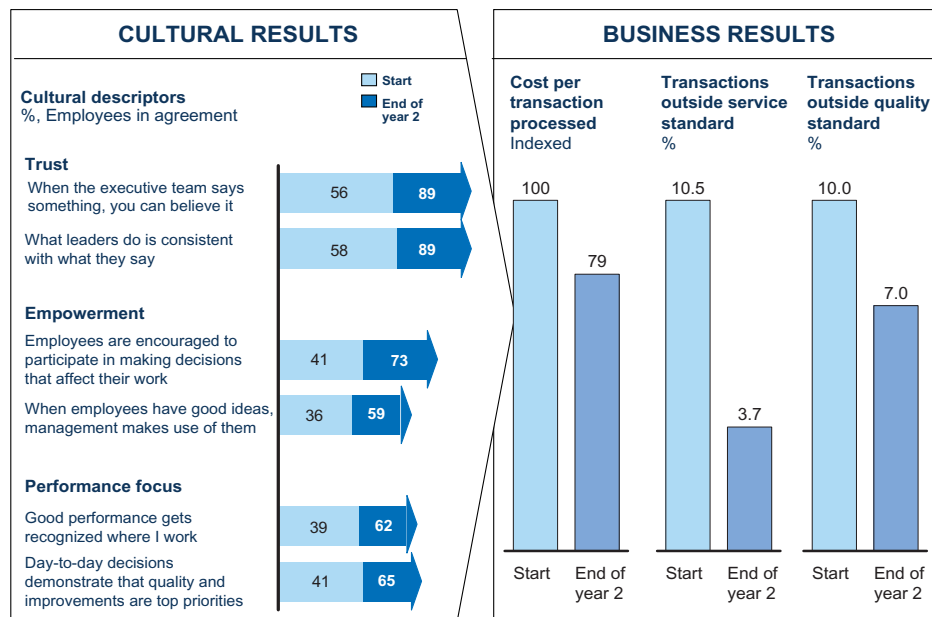## Performance culture impact in a retail bank turnaround

CULTURAL RESULTS

Cultural descriptors
%, Employees agreeing that cultural element describes organization

☐ Start
■ End of year 2

Descriptor	Start	End of year 2
We "live" our values	20	85
Collaboration between areas	34	64
Honest with one another	60	92
We have a "can do" culture	58	81
Meetings are productive	61	91
Our community trusts us	33	81
Employee satisfaction	45	80

BUSINESS RESULTS

Total shareholder return
Index

Cost: income ratio
%

"3 ½ years ago, [the bank] was the worst performer . . . the transformation has turned the bank into a highly polished, money-making machine"

Financial Review

Source: Company data

EXHIBIT 13

Performance culture impact in insurance operations

CULTURAL RESULTS

Cultural descriptors
%, Employees in agreement

☐ Start
■ End of year 2

Trust

Descriptor	Start	End of year 2
When the executive team says something, you can believe it	56	89
What leaders do is consistent with what they say	58	89

Empowerment

Descriptor	Start	End of year 2
Employees are encouraged to participate in making decisions that affect their work	41	73
When employees have good ideas, management makes use of them	36	59

Performance focus

Descriptor	Start	End of year 2
Good performance gets recognized where I work	39	62
Day-to-day decisions demonstrate that quality and improvements are top priorities	41	65

BUSINESS RESULTS

	Start	End of year 2
Cost per transaction processed (Indexed)	100	79
Transactions outside service standard (%)	10.5	3.7
Transactions outside quality standard (%)	10.0	7.0

Source: Company data

During this time, success depends both on delivery of the individual initiatives and how well they are managed as an integrated program. This is no small task – initiatives must be continually monitored and adjusted based on interdependencies, linkages, and the effects of natural change and new pressures during the lifetime of the program. A dedicated program leader – usually a peer to senior management – is typically appointed to manage the program during the delivery period and is supported by a small, full-time team that includes communications, monitoring and logistics, and the troubleshooting capacity to deal with bottlenecks.

Exhibits 12 and 13 show examples of the impact this approach has had on a retail bank turnaround and a culture change in the context of a lean transformation at an insurance company.

Strong performance cultures – those characterized by meaningful alignment, supportive execution, and renewal – not only deliver better bottom-line performance, but also provide highly fulfilling environments for employees to work in. The organizational barriers to everyone working at their full potential are minimized and a corps de esprit is created that is contagious. Helping lead an organization achieve these outcomes can be the most rewarding work of one's career.