

Creating a High-Performance Culture: Leadership Roles and Responsibilities

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As the leaders of professional services organizations examine and re-think their business models in light of an uncertain economy and a continually shifting marketplace, all components of their paradigm should be scrutinized for appropriateness, fit, and improvement potential. A key contributor (although often overlooked) to organization performance is its culture. The greater the degree of change required, the more befitting it is to re-look at the existing culture to predict whether it will be a catalyst in moving ahead or whether it will act as an impediment, staunchly defending the status quo.

The Financial Importance of Organization Culture

There is a strong justification for considering organization culture as a primary lever of performance. *Table 1* presents the key findings from a study comparing the financial success of high-performance cultures vs. the rest (Kotter and Heskett, 1992). The results are dramatic. "The 'nonhigh performers' increased net income just one percent over an 11-year period compared to 756 percent improvement for the organizations identified as having high-performance cultures." Major differences appeared as well when comparing the other factors of revenue growth, workforce expansion, and stock-price growth. The performance potential of organization culture cannot be ignored.

Table 1

Corporate Culture's Impact on Long-Term Economic Performance*

High-Performance Cultures		The Rest
+ 682%	Revenue	+ 166%
+ 282%	Workforce expansion	+ 36%
+ 901%	Stock-price growth	+ 74%
+ 756%	Net income	+ 1%

*Over 11-year time frame.

(Source: Kotter and Heskett)

The Problem with Mergers, Acquisitions, and Alliances

In this age of exponential growth in mergers, acquisitions, and alliances, the need for considering organization culture in the decisions made in the boardroom is becoming paramount. Nonconsulting IT companies across the spectrum are seeking to build up their consulting operations, and M&As are

seen as one of the top options. Issues such as changing laws, concerns over conflict of interest (audit vs. consulting), and the e-flu have the leaders of high-tech professional services organizations considering any and all options (including M&As) to improve business viability.

But before buying or combining, consider these findings from another study: "55 to 77 percent of such deals (mergers and acquisitions) failed to deliver the organizational and/or financial results that were intended, and more than 50 percent of those failures are attributable to serious cultural incompatibility" (Healy, Krishna, and Ruback, 1992). Specifically talking about professional services firms, David Maister (1997) states that "Mergers *can* be successful—it's just that few of them *have been*."

Sobering information. The first point is that one should seriously question the payoff from combining two or more distinct organizations. "Does the potential value far outweigh the cost, hassle, and risk of the venture?" Management thought leader Gary Hamel (2000) espouses that mergers and acquisitions are just desperate actions intended to cover up the mistakes of poor management. If two dinosaurs mate, all you end up with is a really big dinosaur.

Nevertheless, if one decides to move along this joining path, then this research points out the need to strongly consider the cultural fit before taking action. No prudent businessperson would consider a takeover or major partnership without first undergoing due diligence. The evidence makes a strong case for organizations to undergo a *cultural* due diligence as part of the examination process (Healy, Krishna, and Ruback, 1992).

Definition of Organization Culture

Well so far, we've hopefully established the financial impact of organization culture and its growing business importance. But just what is organization culture?

A pattern of shared, basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (Schein, 1992).

Or more simply put...

The way we do things around here (Burke and Litwin, 1989).

These definitions make more sense when we look at some of the key characteristics of organization culture.

Characteristics of Organization Culture

Organization culture is created when the early leaders of the organization, usually the founders, make decisions and take action (by skill, dumb luck, or a combination of the two) based on their personal views of the world. If these actions work, the leaders continue to apply their specific models of thinking, decision making, and actions to other issues, and if success continues, a culture embodying these predictable patterns is gradually formed over time.

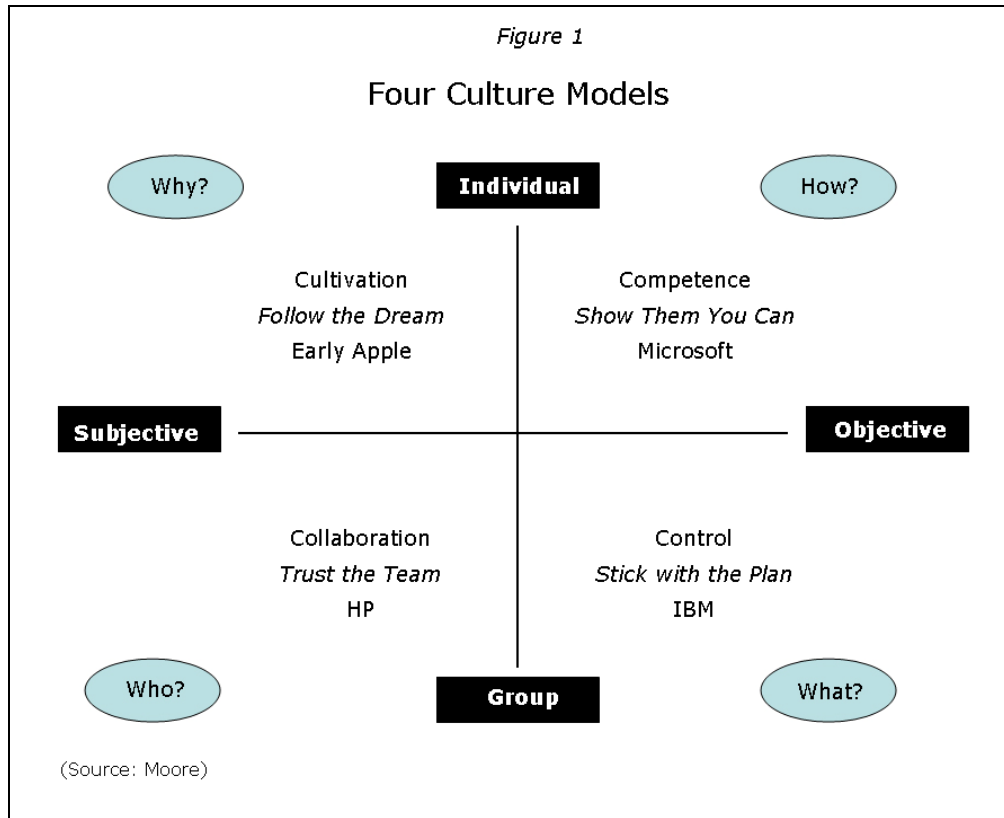
As the culture matures, members of the organization begin to implicitly share a set of common values and to explicitly share a set of accepted behaviors. If the organization proves to be very successful, then stories, and sometimes myths, form around the founder or founders. Recounting these heroic tales further inculcate the organization with the powerful examples of success achieved by thinking and acting in the "correct way." So the culture of the organization defines the norms (and thus the acceptable boundaries) of individual and team behavior. Over time, as long as success continues, the culture becomes highly ingrained to the point of becoming invisible to the members of the organization. That is why it is so difficult for group members to talk about their culture, because it operates at a level below our normal consciousness.

Of course, all organizations have subcultures, such as functions where the credos and behaviors, say, of the consulting group might be (and almost always are) different from the ones of the people in accounting. Furthermore, location has an impact on culture. The Latin American group probably will have elements of its culture quite different from those located in the Asia Pacific. However, an organization with a strong culture will share certain elements across all aspects of the organization. This can be a very helpful factor, as it serves as an organizational shorthand, and many actions and reactions can be implemented swiftly, as there is no need for debate because everyone who has been around for a while "knows" the correct things to do (or at least the range of acceptable alternatives).

However, culture abhors change and will dramatically resist any idea that falls outside its framework of acceptable behavior. By its nature, it tries to preserve the tried and true. This makes perfect sense in an organization with a history of achievement. Why rock the boat when there is already a proven approach to success? As long as the culture aligns with and supports an appropriate strategy, the stronger the culture, the more effective the organization. In this scenario, it is the leader's role to reinforce the existing culture by modeling, encouraging, and rewarding "sanctioned" behavior. As Edgar Schein (1992) puts it, "Leadership and culture are two sides of the same coin. Leaders create and change cultures, while managers live within them."

The Four Culture Models

Although cultural characteristics vary from organization to organization, all organizations have central tendencies that allow them to be categorized into one of the four culture models*, displayed in *Figure 1* (Moore, 2000).



For example, an organization with a Competence culture has more regard for individual contribution than group success and believes more in quantitative hard facts and numbers than qualitative feelings or concepts. These organizations are highly competitive, achievement-driven outfits that play to win. Organizations in this cultural quadrant love rankings, benchmarking, and best practices, and they are constantly asking the question, "How?" At its best, organizations that are in this category succeed through the efforts of their smart, hard-working, goal-driven people. Microsoft is an excellent example of a Competence culture in the high-technology industry.

Moving down to the Control model, organizations in this quadrant emphasize building and following plans accompanied by the systems, processes, and procedures to make them work. These organizations ask the question, "What?" and are strong believers in the concept of continuous improvement. At their best, organizations in this quadrant succeed by overwhelming competitors through the width and breadth of their plans and their strong implementation capabilities. IBM exemplifies this type of culture.

Looking to the left, one finds the Collaboration model, a team-focused culture that asks the question, "Who?" This is the model that most closely fits what David Maister (1993) calls the "one-firm firm" and a particular type of culture that has proven itself to be very successful in professional services organizations. At their best, organizations in this quadrant win out by their in-depth knowledge of customers and other stakeholders and their ability to create and nurture strong relationships. HP is a prime example of this type of culture model.

Finally, the Cultivation culture model exemplifies the lone individual, the innovator (and often a maverick), who believes in his dream, no matter what the establishment says or the experts publish. This organization often is led by a charismatic, sometimes brilliant individual who believes a good idea can conquer the world. At their best, these dreamers deliver dramatic innovation that disrupts the current order. They win by totally changing the game. Many high-tech start-ups fit into this category, with the early Apple being a very good example.

Nice...but So What?

Well, this is all nice, but what is the significance, you may be asking. The answer is that the top executives of organizations looking to leverage the power of culture have to choose one, and only one, of the four models as their cultural paradigm. An analogy may help. Strategy experts have been preaching the virtues of core competencies for several years. At its basic level, the thinking is that an organization must be adequate in many things but can only truly excel in one area. In an attempt to differentiate itself from the competition, the organization should focus on this core element and minimize efforts on, or outsource, the rest. This, of course, follows along the lines of the old saying, "Jack of all trades, master of none." It has been proven over and over again that you can't be all things to all people.

The thought process is the same when it comes to culture. The strongest cultures are those in which behaviors are the most consistent, and this consistency is most easily obtained when the leaders of the organization *consciously* model and communicate and reward a few select actions that exemplify their chosen culture model.

The Dark Side

There is a darker side to culture, as it can blind people to facts that don't match its assumptions, and even the smart, experienced, and successful executives of professional services organizations fall prey. The culture acts as a filter that sifts out information that doesn't fit the organization's view of the world. Or if information does make it through the screen, it is either distorted to fit within the existing framework of reality, or it is heartily denied as being insignificant, flat wrong, or just plain crazy. Obviously, this cultural sieve can be a significant detriment in a business world traveling at e-speed, where completeness and accuracy of data is a contributor to competitive advantage.

Common sense, rational thought, and experience are no longer virtues when they are based on a flawed reality.

Returning to our four culture models, lets us look at what can happen when the same factors that were once strengths turn into liabilities.

The Competence culture model, at its worst, takes its eye off the marketplace and contends internally against peers while ignoring the real competitors. The Control model has the potential to get caught up in its penchant for rules and regulations and turn from a thoughtful, detail-focused approach to a rule-bound, slow-moving bureaucracy. The Collaboration model is vulnerable to turning into a club, where it is whom you know that leads to success and not contribution. Finally, the Cultivation model runs the risk of becoming a cult in which reality is replaced by misplaced devotion.

Interestingly, no matter which type of culture model an organization possesses, the three warning signs for cultures out of control are the same (Kotter and Heskett, 1992):

1. Managers appear arrogant.
2. While often decreeing just the opposite, managers in unhealthy cultures tend not to highly value *all* constituencies.
3. Managers actively resist acts of "leadership"* and often are hostile toward any attempts of significant change.

In these organizations, the underlying culprit of this resulting elitism has almost always been a lack of strong competition and long-term success. In these cases, leadership has not been needed, and a strong managerial orientation has taken place—one that places a high value on stability and order. These are the organizations most susceptible to nimble, outside challengers because they never see (acknowledge) the new competition until it is too late.

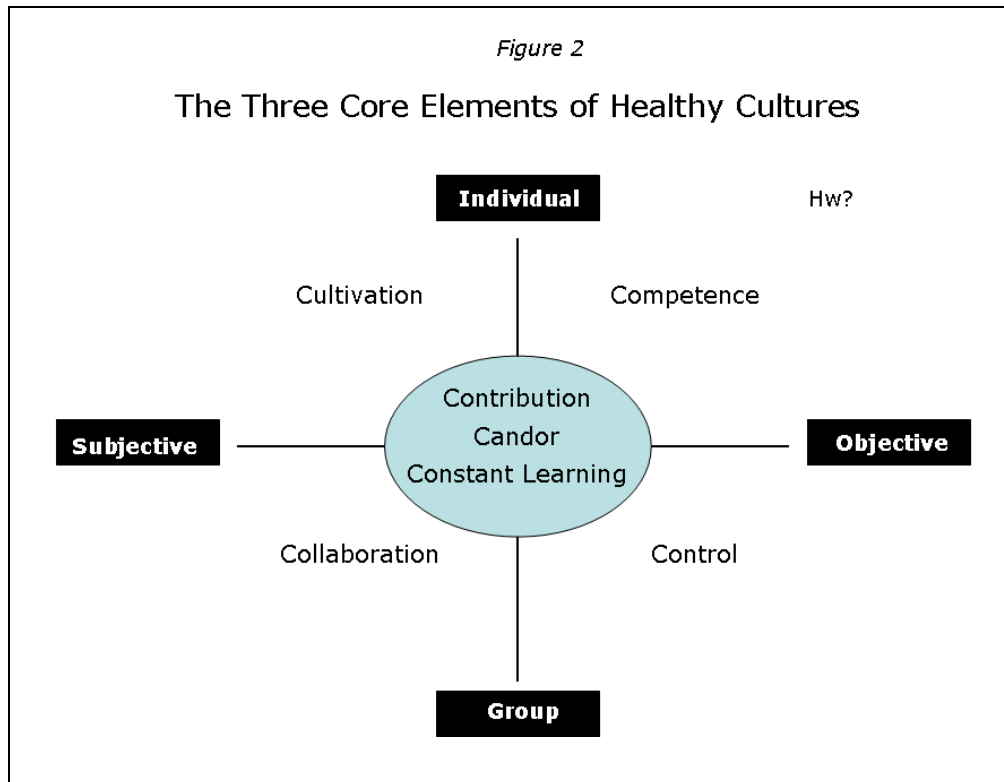
Creating Healthy Cultures

Earlier, the benefits of a strong culture were demonstrated, but only as long as the culture was supportive of the strategy and appropriate for today's marketplace. But we also know that the stronger the culture, the more resilient it is to change, and professional services firms are no different from other organizations in this respect. (Maister, 1997).

So the very things that made the organization strong and prosperous today may be the exact elements that block success tomorrow. The more successful we are, the more the culture of the organization will resist any and all changes. So what can one do to sustain performance?

The challenge, and the paradox, lie in conceptualizing and creating a culture in which *perpetual change* is one of the *stable elements* (Schein, 1992). Accomplishing this allows the culture to maintain its strength while constantly adapting to shifts in the environment.

There are three core elements of cultures that are both adaptable across culture models and sustainable over time (Alexander, 1999). The three components are contribution, candor, and constant learning. Together, they embrace change and allow each culture model to excel in its unique area of strength (see *Figure 2*).



Contribution refers to the actual value added by either the individual or the group or groups within which people operate. Contribution is a part of a culture when (1) results are valued more than hard work, (2) performance is more important than political connections in getting recognized and rewarded, (3) individuals are expected to take personal responsibility for their actions, and (4) there is a tolerance of unusual styles of behavior of the people who do good work.

Candor has been identified as a critical requirement for overcoming an organization's defensive barriers (Argyris and Schön, 1996). Candor is a part of a culture when (1) people are frank, even when ideas directly confront those of superiors, (2) people challenge the unsupported talk and actions of others, (3) people routinely stop to reflect about what they are doing and why, and (4) exemplary performers are regularly observed and analyzed to fuel improvement efforts.

Constant learning has special significance in making a culture amenable to change, because in order to constantly learn, an organization must actively listen, understand, and align with the issues and the feelings of all stakeholders. Organizations with this element built-in are open to ongoing change because they see meeting stakeholder needs as an element of the culture. Constant learning is a part of a culture when (1) continuous improvement is valued, (2) innovation is prized, (3) appropriate knowledge-management systems are in place, and (4) quality failure is acceptable.

Leadership Action

OK, now the tough part. We now know the importance of organization culture, what it is, its key characteristics, the four different models, the dark side, and the three core elements. But how do we change our culture if we need to (which is about all of us)? Studying major organization change discloses a few common steps that successful leaders have implemented:

(1) Accept the difficulty of the task. Research looking at attempted culture change showed that in 22 cases of attempted cultural change, even the managers themselves (who tended to declare victory based on the slimmest of evidence) admitted that they had failed in 16 of the cases (Wilkins, 1989). Resources, focus, and tenacity are called for.

(2) Do your homework. As noted earlier, organizations almost always get in trouble when they quit listening to one or more groups of stakeholders. For the organization to even be *willing* to consider change, it needs a great deal of credible information that it cannot refute. Internally, conduct a culture audit. Externally, do market research. People can naysay each other, but it is hard to ignore the voice of the customer.

(3) Establish a sense of crisis. Here, successful leaders demonstrate that if change doesn't occur, and occur soon, some or all of the existing values of the current culture are at risk. Remember, the more successful the organization has been in the past, the more challenging this assignment is.

(4) Create a new direction. Culture change is appropriate only as a part of a larger organization change. Therefore, the new organization direction, first of all, must be based on a business strategy that is appropriate to the cold, hard reality of the new marketplace. If successful, this can move the organization out of crisis for the near future. Simultaneously, to build a sustainable culture for the future (and avoid other crises), implementation of the new strategy needs to incorporate the behaviors associated with the three core elements of contribution, candor, and constant learning.

(5) Align support systems. The new direction means that people are going to have to behave in different (sometimes radically different) ways than they have before. To overcome inertia, all support systems must be changed to expect, encourage, and reward the new behaviors while strongly discouraging operating in business-as-usual mode. The emphasis should be

on the creation and nurturing of the elements of contribution, candor, and constant learning. These three should become the central tenets of the new alignment. (By the way, this must be thought through and be ready for implementation *before* the crisis and the change are announced.)

(6) Inform and involve...inform and involve.... This is the mantra of the leaders, as they tell and explain and preach the new gospel of the new organization, including the rationale and how the change will positively impact all stakeholders. Furthermore, smart leaders involve as many people as possible in the process to get them to take personal ownership of the change.

Organization culture is a major contributor to organization success or failure. By its very nature, it can prove to be resilient to needed change. However, well-informed leaders of professional services organizations with the will to change can help create effective cultures that are strong, adaptive, and sustainable over time. The results of these high-performance cultures are both excellent stakeholder value and exceptional financial performance.

* *Note:* Much of the information regarding the four culture models is adapted from Geoffrey Moore's excellent book, *Living on the Fault Line*. I heartily borrowed from his work because it is logical, practical, and also focused toward the high-tech industry from which many of our readers participate.

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