A company's key to success is in its heart and soul.

Building a winning culture

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Why has Dell been able to outperform its competition consistently over the past decade? Strategy, certainly. Operational discipline, without a doubt. Talented people, of course. But when asked in an interview with *Harvard Business Review* what best explains the company's spectacular success over the years, Dell founder Michael Dell and CEO Kevin Rollins focused on something else.

"While Dell does have a superior business model," said Rollins, "the key to our success is years and years of DNA development that is not replicable outside the company."

Added Michael Dell, "Culture plays a huge role."

They're hardly alone in their belief that culture is at the heart of competitive advantage, particularly when it comes to sustaining high performance. Bain & Company research found that nearly 70% of business leaders agree: Culture provides the greatest source of competitive advantage. In fact, more than 80% believe an organization that lacks a high-performance culture is doomed to mediocrity. (See Figure 1.)

At a time when enterprises can stretch around the globe, culture is the glue that holds a complex organization together. It inspires loyalty in employees and makes them want to be a part of a team. It motivates people to do the right thing, not just the easy thing. At companies with winning cultures, people not only know what they should do, they know *why* they should do it.

Yet, while business leaders recognize culture's crucial role, our research also indicates that fewer than 10% of companies succeed in building a winning culture. According to a Bain survey of 365 companies in Europe, Asia and North America, even those firms that manage to foster high-performance cultures often find them hard to sustain.

The best companies succeed, we found, on two dimensions simultaneously. First, every winning culture has a *unique personality and soul* that cannot be invented or imposed. Based on shared values and heritage, the company's character needs to be discovered from within.

Second, winning cultures usually embody *six high-performance behaviors* that are common to all high performers—but *only* to high performers. (See Figure 2, on page 2.)

Neither element is enough by itself to sustain a winning culture. A company can have a strong personality and soul, but still underperform if it lacks the values and behaviors that motivate people in the organization to do the right things. Similarly, high-performance behaviors pursued independently can shift an organization into permanent overdrive and sever the connection that employees feel with the enterprise. It's the combination of both elements that produces a winning culture.

A distinctive personality

The personality of an organization is often taken for granted. Often the values of the founder are instilled in the organization and shape its culture going forward. "We try harder" at Avis, or "Always low prices. Always," at Wal-Mart are foundational values that have become ingrained into the very fiber of each

Figure 1:
Starting point

68%
Leaders who believe their culture is a source of competitive advantage

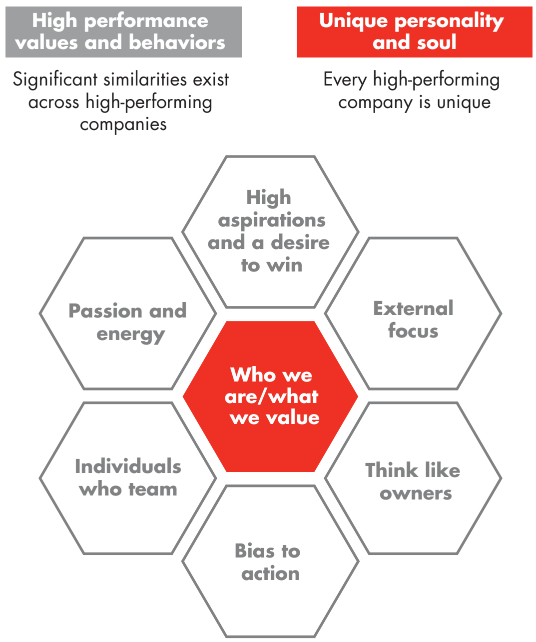
76%
Believe it is changeable and 65% believe they need to change it

81%
Believe that an organization that lacks a high-performance culture is doomed to mediocrity

10%
But fewer than 10% succeed in building one

Source: Bain Survey
n = 365 companies in Europe, Asia and North America

Figure 2: Winning cultures combine two key elements



business, informing day-to-day decisions and behaviors. Procter & Gamble, likewise, has managed to place the consumer at the heart of the company's culture, which keeps employees focused on "touching lives, improving life" in every market in which they participate.

Traditions also count. Rituals, heroes and language give a company its unique feel. One of SC Johnson's defining moments, for instance, came during a 1927 Christmas Eve speech by H.F. Johnson Sr., who introduced a profit-sharing plan, a 40-hour work week and a pension plan—unusual benefits in those days. "The goodwill of the people is the only enduring thing in any business," Johnson said. Eighty years later, his words still hold meaning in an organization that proudly calls itself "a family company."

A distinct personality can help a company attract people who, in turn, embrace its culture. The strongest cultures bind people together across both hierarchy and geography, guiding them to make the right decisions and advance the business without explicit direction. One Southwest Airlines employee captured that notion well when he said, "We all work hard, but to do anything else would be like letting your family down."

To turn commitment into strong performance, a company's personality needs to be complemented by behaviors that motivate employees to excel over and over again. Bain research has identified key behaviors that most winning cultures share. First, they aim high, so that employees remain fundamentally dissatisfied with the status quo. Energy gets focused externally on customers and competitors, rather than internally on issues of politics or "turf." Employees think and act like owners, taking personal responsibility for overall business performance, not just their slice of it. They also exhibit a clear bias to action, with little patience for bureaucratic debate. People in winning cultures are team players who display high levels of passion and commitment, which usually includes hard work. (See sidebar, "Key attributes of winning cultures" on page 9.)

Of course, the actual expression of these attributes within a company will vary. A consumer products company, for example, may focus on the customer by blanketing the offices with lifestyle posters featuring its particular target customers. A professional services firm might send out a weekly communication with updates about important clients. The true test of a winning culture is whether the expectations of high performance—and the desire to win—are understood and widely shared.

Leading cultural change

Our research indicates that more leaders fail than succeed at creating a winning culture. That's because transforming a culture requires influencing people's deepest beliefs and most habitual behaviors. One company's culture may be so sharp in its focus on cost efficiencies that it stifles a more customer-centric approach to new-product development. Another may be built on a reward system that reinforces corporate silos when, instead, collaboration across departments is the best way to boost results.

Of course, changing cultures is no easy task. Companies, like the people in them, actively resist change. The challenge is to "unfreeze" established behaviors and create the motivation to change so that employees can learn new behaviors, and then "refreeze" those behaviors over time. That's why a crisis—which focuses attention on survival and breaks down resistance—can be such a potent catalyst for cultural change. Similarly, the shake-up that comes from new competitors, new technologies or new regulations can present an opportunity to break down old, unproductive habits and instill the kinds of behaviors necessary to get to the next level of performance.

Compelled by such necessities, companies *can* change their cultures, provided leaders understand that change must start at the top.

Successful cultural change results from having a clear idea about what type of culture the business needs, identifying the specific attributes that go along with it, and then focusing on managing the drivers that shape and influence culture rather than trying to manage culture itself. In our experience, building a winning culture requires five key steps:

1. **Set expectations** about the necessity for change, the type of new culture required and how it will result in success. The organization needs to know what is unique in its heritage and which performance attributes are missing.

2. **Align the leadership team** around a common vision and required behaviors. While many factors influence culture, the single most important is leadership—what leaders do and say, in that order, consistently over time.

3. **Focus the organization on delivering the business agenda.** A culture of accountability is best achieved by holding people accountable for actual delivery, rather than spending energy on a formal "culture change" program. Culture is a means to an end, not an end in itself.

4. **Manage the culture by managing the drivers of culture.** Encourage the leadership team to "walk the talk;" clarify roles and accountabilities for key jobs; replace people where necessary; add performance metrics or incentives; and change the performance management or recruiting processes.

5. **Communicate and celebrate.** Culture change can be a long journey—and one that requires tireless leadership. Consistent, sustained communication of the required behaviors is critical. It's important to celebrate victories—large and small—but never to declare victory outright.

Winning cultures are best measured through the day-to-day activities of the frontline: the ownership of continuous improvement by lead operators on the factory floor; the pride of the deli team merchandising the best quality at the lowest prices; the responsiveness of a bank manager to a customer's complaint. The frontline is where sustained cultural

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change can have the greatest impact on a company's performance. It takes strong leadership at every level of an organization, determination and a willingness to make culture a top priority. The elements behind a winning culture can be managed by using some practical guidelines. And the payoff is high. As Lou Gerstner, the former chairman of IBM put it: "Culture isn't just one aspect of the game—it *is* the game."

The vine and the trellis: Building a culture of service and results at St.George Bank

Australia's St.George Bank provides a clear example of how to build a winning culture. When Gail Kelly became St.George's CEO in 2002, she recognized immediately that the Sydney-based bank had much more potential than was reflected in its stock price. The new strategy, Kelly quickly decided, was to create a strong focus on delivering excellent service to customers. That would require preserving the bank's friendly, outgoing culture while introducing a new, more rigorous set of performance-minded values. It would take firm, decisive leadership, new levels of accountability and a vision dynamic enough to excite all 8,500 of the bank's employees. The key to achieving the change, Kelly knew, was building a stronger culture by "working with the grain" of the existing one.

Because St.George is smaller than Australia's Big Four banks, it had long been the focus of takeover speculation. But Kelly was convinced the bank could perform better than its peers and thrive on its own. St.George had one key element of a high-performance culture: a strong and enduring heritage of taking care of its customers.

"That was very different from many of the major banks, where they have traditionally devoted lots of lip service to the customer experience," Kelly said. "At St.George, the passion was real."

Setting expectations

What St.George's culture lacked, Kelly discovered, were the performance attributes that systematically drive better results. An early culture audit showed that, while St.George excelled when it came to customers, its managers weren't used to being held accountable for delivery. They lagged in boldness and firm decision making. "Decisions were taking too long to make, there was too much searching for consensus and there was a lack of urgency," Kelly said.

Worse in Kelly's mind was a shortage of initiative and a lack of courage to profit from the bank's superior customer relationships. Despite close ties to its clients, St.George trailed its larger rivals when it came to winning a bigger "share of wallet." Employees in the branches were uncomfortable offering additional products to loyal customers or asking them for referrals. Even some senior executives balked at a branding exercise that put emphasis on the attribute of winning. Their concern: If someone wins, someone else loses.

"I almost fell off my chair," Kelly said.

Job No. 1, she realized, was defining a strategy that promoted a new understanding of customer service and a commitment to deliver it. A stronger, more proactive bank would add value to people's lives by figuring out products they wanted and providing them with better service and more flexibility than the competition.

Aligning the team

Kelly knew that a crucial step to create a winning culture was to build a cohesive management team. Without a tightly knit group of managers adopting the new cultural attributes and "living" them in their day-to-day actions, the values of the bank could not take root throughout the organization.

She discovered that the team as it existed was organized into discrete silos, with little incentive to cooperate and build additional revenue from one another's customer relationships. She also found a couple of high-level "cultural terrorists" who had to be moved out of the organization in order for the new culture to take hold.

In forming her own team Kelly chose four executives from within the organization and four from outside, reinforcing the message that she respected St.George's heritage but that she expected the company to create something new. The new team jointly defined the cultural attributes they all wanted to see in the bank. Then Kelly let the executives loose to drive that message into the organization with a single voice. The group's energy quickly began to attract attention. The Australian financial press referred to the new team as "The Kelly Gang," an ironic reference to Australian folk hero Ned Kelly, who ran a gang of Robin Hood–style bank robbers.

Delivering the business agenda

Kelly's next step in building a high-performance culture was to demand accountability and create the organizational framework to support it. The process began at the top. She assigned one of the newly hired executives, Peter Clare, to come up with a new set of metrics and tracking measures—many of them focused on customer service and customer loyalty—to assure a new level of rigor at St.George.

At St.George's business-banking division, Greg Bartlett, the division leader, asked his staff to make double-digit improvements in year-over-year profits and operating income. In return, he extended a new degree of trust to managers who were held accountable for running a profit center and making decisions as if it were an independent business, not merely an appendage of a larger organization.

Scorecards became an integral part of the evaluation process at the bank, and metrics that tracked customer service and advocacy became at least 15% of each employee's score—including Kelly's. Managers were required to come up with explicit customer-service strategies to shift the culture's focus away from creating discrete financial products and toward service strategies and cross-selling. In Bartlett's organization, especially, it was important to make customers feel valued. He placed key managers in the profit centers so St.George could approach important customers as a unified team, and he got to know most of the bank's larger business customers personally.

Managing the drivers of culture

Accountability, of course, began at the top.

"My style of leadership is to have strong, accountable executives around me aligned in values and not frightened to say what they think," said Kelly. "They have to be transparent, consistent and honest with energy to get up and go."

Energy is Kelly's personal signature and crucial to her effort at cultural transformation. She relentlessly communicates and celebrates the new ideal with big gestures that model new behavior. When Kelly talks about how St.George had to change, she does so with a clear and gentle analogy: a vine and a trellis. St.George's passion for the business and its care for its customers was "a fantastically growing vine" she told employees wherever they gathered. The trouble was, she said, the bank lacked a firm trellis—the framework of management, discipline and strategy to keep the vine growing in the right direction. Bigger banks had a rigid trellis but little vine—ultimately a weaker position, she said. The key was to build a trellis to help the vine grow in the right areas and with the right support.

Communicating results

Kelly communicates her customer-centric message directly to customers by getting out and talking to them. She makes a habit of calling a dozen or so customers each week, holding lunches with St.George clients and visiting bank branches regularly to shake hands and hear concerns. At customer functions, Kelly can often be seen with a notebook in hand, working the room and scribbling down issues that end up in communiqués to the appropriate business leaders urging that problems be addressed quickly. Positive feedback is delivered the same way.

She expects other executives to have closer contact with the frontline as well. Bartlett and David Gall, head of the company's retail bank, frequently visit customers and twice a year, 100 of the most senior managers attend what's called "The Listening Post." They sit in the customer-service center, listen to calls and debrief afterward.

These gestures certainly make for good PR. But they also send a powerful message that the CEO and her team are serious about change. "I'm trying to show by my behavior that I am tackling these issues," Kelly said.

Kelly is as solicitous with employees as she is with customers. She encourages employee emails and answers them personally. Her messages often include personal details about her vacations or children, and employees respond in the same spirit. Senior managers get calls on their birthdays, building camaraderie. And staff is encouraged to bring "all of themselves" to work so that they connect at more levels with colleagues and customers.

Kelly also makes it a point to celebrate achievement whenever it's appropriate. She has championed a traditional peer-based recognition system called the "Star Awards," which, in the past, sometimes celebrated seemingly unprofitable behavior. Kelly kept the awards, but now "they reward the kinds of customer focus we want to encourage," she said.

None of these wins translates to a new culture overnight, but the results show that St.George is clearly pointed in a new direction. "We talk about it as a journey," Kelly said. "Not a 100-meter dash, not a marathon." Kelly and her team have consistently delivered double-digit earnings growth over the last four years, and the stock recently hit a new high. The transformation has improved staff and customer advocacy levels and delivered outstanding returns for shareholders. (See Figure 3.)

Discipline and accountability: High expectations at ABB

Not all cultural transformations are as orderly as St.George's. At the Swiss engineering giant ABB, a sharp decline in financial performance in 2002 provided the catalyst for something closer to a cultural revolution.

Figure 3: St.George Bank has outperformed the market

"We have great products but anyone can copy those; what they can't copy is our culture, our customer service."

During the 1990s, ABB grew quickly. But expansions into Asia and Eastern Europe—coupled with numerous acquisitions, some of which exposed ABB to years of asbestos litigation—eventually created serious operational difficulties for the company. In 2002, after two CEO changes and with only two months of cash left, ABB's board convinced its chairman, a low-key, no-nonsense turnaround specialist named Jürgen Dormann, to step into the CEO role and rebuild ABB.

The first step of building a winning culture—setting expectations—became an early focus for Dormann. From day one, he worked to become a convincing role model for a new culture of discipline and accountability that would focus on analytical rigor and steady growth in two core businesses: power systems and automation technologies. While he shed countless acquisitions and trimmed seven major divisions, he also began programs to drive accountability down through the organization. One cost program, called "Step Change," encouraged employees at all levels to root out and eliminate inefficiencies. Another, called "The Group Strategy Program," focused the entire management team around building the core businesses and striving for sustainable growth. With his Friday emails, Dormann reminded the company's 100,000 employees of ABB's priorities and how it was progressing.

After spending two years stabilizing the company, Dormann replaced himself as CEO with Fred Kindle, an outsider who studied the company with Dormann for four months before taking over his role. Then he began solidifying a culture that valued profitability over rapid expansion. "At the end of the day," Kindle said, "our aspiration—my aspiration—must be to generate profitable growth, and not growth for growth's sake."

A rally cry: Aligning the elements of Rotech's organization

Dramatically shifting corporate culture can be a long, tough slog. But sometimes a company is ripe for cultural change. In the case of Rotech Healthcare, a Florida-based supplier of respiratory and other home healthcare services, frontline employees were hungry for a new culture—and the management team moved quickly to capitalize on the opportunity.

Rotech's new leaders were brought in to run a company with high costs and poor performance. The critical first step was to become more efficient. But after cleaning up back-end processes, the company's revenues continued to decline in an industry that was growing 5% annually. Rotech's employees were so focused on operations, they had lost sight of what mattered most to the physicians and patients who were their customers: high-quality service.

But Rotech's employees were ready for a more meaningful connection with their customers. First, company leaders aligned the entire organization around Rotech's business priorities. They identified best practices in all the areas where employees "touched" customers and made those behaviors standard procedure. Then the COO, Michael Dobbs, instituted a comprehensive customer-service training program for existing employees and focused recruiting efforts on attracting service-oriented candidates. Dobbs and his team reworked job descriptions and tied incentive programs to customer-related metrics such as customer satisfaction surveys. "We Care about Patient Care," the new slogan coined by CEO Philip Carter, became the company's rallying cry.

The change in focus from operations to service began to show up on the frontline. The old culture emphasized productivity, prompting drivers to move quickly from one stop to the next. Some drivers had not routinely paused to engage older customers in conversation. Rotech adjusted its productivity targets accordingly, providing extra time for each delivery specifically for customer service. Drivers soon began to spend extra time chatting with the customers. Those stronger relationships helped to identify opportunities for Rotech to provide additional clinical services, such as beds and wheelchairs.

By visiting branches regularly and creating tip sheets on better customer-service techniques, Rotech's leaders evangelized the effort and celebrated its successes—another critical step in building a winning culture. The early results are encouraging. In May 2006, one year after embarking on the culture change and new growth strategy, Rotech reported 16% growth in its key products.

No culture is forever, of course. Change requires commitment on the part of a company's senior leadership, and the job is never really finished. But the payoff is substantial. Little else in this age of globalization provides a company with an edge that competitors can't simply copy or buy. Culture—the force that determines how people behave when no one is looking—is one such competitive advantage. When people want to do things right, and want to do the right thing, companies have an invaluable edge.

Key attributes of winning cultures

While the five steps described in this article map the journey to creating a winning culture, the emergence of some key attributes will signal that you've arrived at your destination. Our analysis of 200 companies—combined with case studies of three dozen high performers—confirmed our findings and helped sharpen our focus on the common elements of winning cultures:

- **High aspirations and a desire to win:** For employees in high-performance cultures, good is never good enough. They are always pushing to go farther, better, faster. It's not just about short-term financial performance. It's about building something truly special and lasting.

- **External focus:** Companies with high-performance cultures focus their energies externally on delighting customers, beating competitors and caring for communities. They don't get caught up in internal politics or navel-gazing.

- **A "think like owners" attitude:** A hallmark of a high-performance culture is that employees take personal responsibility for overall business performance. They strive to do the right thing for the business, putting aside issues of personality or territory.

- **Bias to action:** High-performance cultures are impatient to get things done. They are doers, not talkers, keeping an eye on where the value is to ensure their actions will enhance the business.

- **Individuals who team:** Winning cultures encourage people to be themselves and help individuals develop to their full potential. They also recognize the importance of teamwork, being open to other people's ideas and debating issues collaboratively.

- **Passion and energy:** Everyone in a high-performance culture gives 110%, striving to go beyond adequate to exceptional in the areas that really matter and bringing an infectious enthusiasm to everything they do.

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