

Culture as Competitive Advantage

BY PAUL MEEHAN,
ORIT GADIESH, AND
SHINTARO HORI

What do people at your company do when no one is watching? Are they motivated to act like owners? Do they know how to innovate and advance the business without being explicitly told what to do?

Every leader wants to be able to answer these questions with an unqualified yes, but in reality many cannot. The problem is that too many companies lack confidence in the ties that bind their enterprise together. In a recent Bain & Company survey, more than one-third of executives worldwide did not agree with the statement, "Our stated values effectively drive frontline actions, even when no one is looking." Many others share these concerns.

For a relative handful of world-class performers, however, the picture looks different. These companies inspire loyalty from employees, who want to stay and be part of a team. They generate commitment to go the extra mile, to do the right thing rather than just the easy thing. At these companies, people not only know *what* they should do, they know *why* they should do it.

How do these standouts ensure that everyone acts in the best interests of the company, even when no one is watching? The answer: culture. At a time when it is commonplace for enterprises to stretch around the globe, culture provides the glue that creates trust and a sense of shared purpose. Bain surveys indicate that business leaders fully recognize the role that culture plays in focusing and engaging a company's employees. Yet our research also indicates that fewer than 15 percent of companies succeed in building high-performance cultures.

It's tempting to imagine that all high-performance cultures look alike. They don't, and that is part of their power. To be effective, a high-performance culture must be tailored

For bulk reprints of this article, please call 201-748-8771.

to the business that the company is in. Contrast Intel's data-driven culture of manufacturing excellence and zeal for innovation with the mutual fund firm Vanguard's focus on keeping overhead and marketing costs low and passing the savings on to investors. A high-performance culture is as unique as a fingerprint—and the one thing about a business that rivals can't copy. Among executives at companies identified as high performers for a recent Bain survey, 54 percent said "culture" was one of their strongest attributes, second only to "vision and priorities." This pairing is no coincidence. A strong culture is the emotional path by which a company's vision and priorities spread from top to bottom. Herb Kelleher, founder and chairman of Southwest Airlines, puts it this way: "Everything [in our strategy] our competitors could copy tomorrow. But they can't copy the culture—and they know it."

A company's culture is essentially the organization's soul, shaped through success and setback. A firm's heritage certainly plays an important part. But culture can also be molded and actively managed—in fact, one crucial job of a company's leaders is to do just that. The high performers continuously reinforce a shared set of practices and beliefs. They also use the events that require a company to evolve—an acquisition, a structural or regulatory shift, a change in strategic direction—to shape the culture and harness it to what the company wants to achieve.

This is no easy task. Most company cultures naturally resist change. But the elements that make up a high-performance culture can be directed and managed using some practical guidelines. It takes time, determination, and a willingness to make culture a top priority. The requirements are high, but so is the payoff. As Lou Gerstner,

former chairman and CEO of IBM, said, "Culture isn't just one aspect of the game, it is the game."

Defining a High-Performance Culture

A company's culture is a mixture of values, beliefs, and behaviors. A sliver of it appears in visible artifacts, such as a mission statement. Clues also exist in the ways people act every day on the job. How much time does the CEO spend with customers? How many bottom-up ideas get implemented and celebrated? Will the CEO waiting in line with other customers get served first? If he sees litter on the plant floor, will the CEO pick it up himself?

One characteristic that distinguishes high-performance cultures is that people inside them can recognize and often articulate the company's authentic core—the unique soul and personality that define a company's character. An authentic core that's widely recognized creates an emotional bond between a firm and its employees. One Southwest Airlines employee captured it well when he said, "We all work hard, but to do anything else would be like letting your family down."

An authentic core provides a necessary ingredient for great teamwork and esprit, but it isn't enough to foster high performance. You can have an authentic core and still lose your way. To turn commitment into strong performance, a company's core needs to be complemented by a set of values and behaviors that motivate people in the organization to do the right things.

Through our work helping companies transform their businesses, we began to notice two important patterns.



Paul Meehan is a partner with Bain & Company in Sydney, and a co-leader of Bain's Organization practice in Asia. He has worked with companies in the retail, consumer products, health care, and financial services industries. His recent work has focused on corporate transformations.

First, cultural change is often a powerful and essential catalyst for companies seeking to reach their full potential. Second, while each company has developed its own shared values and way of doing things, tailored to its business situation, the high-performance cultures we encountered tended to have elements in common.

Six Attributes of High-Performance Culture

We examined the link between financial outperformance and high-performance culture at 200 companies, and combined this analysis with case studies of three dozen high performers. The research confirmed our experience, and sharpened the common elements to six key attributes.

1. Know what winning looks like.

Many companies engender a desire to win, but people in high-performance organizations know what winning looks like, and they know how to get there. They won't accept doing the same thing this year as they did last year. They set high standards and the performance bar keeps going up. The standard Jack Welch set years ago for General Electric—No. 1, No. 2 or fix, close, or sell—distilled the cultural aspiration for a generation at GE. At Samsung, being a strong No. 2 will not satisfy employees. They aspire to be No. 1 in every aspect.

But winning in a high-performance culture is rarely focused solely, or even primarily, on financial success. Short-term financial victories please the markets, but a culture that measures success in those terms alone rarely builds long-term value or creates passion for results. At high performers, winning is about exceeding

goals on quality, cost, or customer satisfaction—objectives that lead to profit but are more real for people on the front line. That's important, because the desire to win is more powerful when people throughout the company are passionate about their role in making it happen.



Orit Gadiesh is chairman of Bain & Company. She has worked with CEOs and senior executives to develop and implement global strategy, structure and manage corporate portfolios, execute turn-arounds, and improve organizational effectiveness. A frequent contributor to business publications, her work has appeared in Harvard Business Review, the Wall Street Journal, and the Financial Times, among other publications. She divides her time on client work primarily between North America and Europe.

Consider Toyota, known for its principle of continuous improvement and the quality of its products. This principle is so deeply woven into Toyota's culture that the impetus for continuous improvement often comes from workers on the assembly lines. The company aspires to high goals: 15 percent global market share, 30 percent cost reduction over three years, and shortening the cycle for developing new products from 20 months to 12. By creating a clear picture of how Toyota wins and placing it at the center of its culture, the company makes sure that evolution and innovation are pursued and celebrated not just in the design lab but also on the factory floor and in the sales department.

2. Look out the window.

Companies with high-performance cultures don't get overly distracted by looking inward. They focus instead on what's outside the company: customers, competitors, and communities. Enterprise Rent-A-Car, for example, has grown to be one of the largest car-rental agencies in the United States in large part by instilling the conviction among employees that attention to customers' needs leads to success. That focus is reinforced through the company's use of clear and simple customer-advocacy metrics. One of these is the "Enterprise Service Quality index" (ESQi), which measures customer satisfaction with each rental on a five-point scale. Rental branches' ESQi scores are a key variable in determining

promotions for branch managers and employees. So they're watched closely, and branch employees learn to take personal responsibility for turning customers into enthusiastic promoters of Enterprise.

When it comes to ordinary day-to-day operations, the company says, ESQi is "one of many ways in which we remind ourselves to put customer needs first." As company founder Jack Taylor said, "Put customers and employees first, and profit will take care of itself." Enterprise leaders have taught that philosophy to managers and employees throughout the organization.

Performance cultures have external radar that extends beyond their customers. The competition, for example, is never taken for granted or ignored. High performers are keenly aware of their competitors' capabilities so that they can shape their own to best advantage. High-performance cultures are also attentive to another external constituency: the communities in which they operate. One paragraph of what Johnson & Johnson calls "Our Credo" begins, "We are responsible to the communities in which we live and work and to the world community as well"—a principle that guided the company during its legendary response to the Tylenol crisis of the 1980s and again through the Procrit counterfeiting crisis in 2003. A strong community focus provides more than just good PR. It builds goodwill both inside and outside the company.

3. Think and act like owners.

A hallmark of a high-performance culture is that employees take personal responsibility for business perfor-

mance. Often, they *are* owners. Like many high performers, for instance, U.K. retailer ASDA has an extensive employee share-ownership plan, the largest of its kind in Britain. Roughly 92,000 "associates," as the company calls its employees, own options in parent Wal-Mart.

Having a stake helps, of course, but more important than ownership is the extent to which employees think and act like owners. Consider the decisions made by Enterprise Rent-A-Car branch managers in the aftermath of the 9/11 terrorist attacks. Stranded travelers desperately sought cars to return to their homes. Enterprise ordinarily doesn't rent one-way; its neighborhood branch system lacks the logistics and operations to track and retrieve one-way rentals. But many branch managers quickly decided to give customers the cars anyway and worry about how to get them back later. It wasn't until three days afterward that Enterprise headquarters issued a policy allowing one-way rentals and waiving drop-off fees. "There will be losses," said CEO Andrew C. Taylor, who stayed in touch with employees via e-mail during the crisis. "But right now we're just concerned about taking care of our customers." His managers, as it happened, were way ahead of him.

4. Commit to individuals.

Sadly, the cliché about traditional corporate or bureaucratic cultures is frequently true: individuals can be treated like cogs in the machine. To the extent their contribution is valued, it is based on who they are today, not who they might become. High-performing cultures turn this notion on its head. They make a point of investing in individuals at all levels of the organization and helping them develop their full potential.



Shintaro Hori is managing partner of Bain & Company's Tokyo office, and a co-leader of the firm's Organization practice in Asia. He has worked with company leaders on corporate strategy, business turnarounds, improving company organization, and product-market strategies in industries ranging from automobiles and electronics to retail and consumer products. He has written several books on growth strategy and company transformation.

This commitment takes different forms at different companies: The strong leadership development programs at GE, Nestlé, and Enterprise, for instance, measure leaders in part by their abilities as coaches and mentors, and promote almost exclusively from within. It requires an environment where feedback is open and honest about what people do well and where they can improve.

Performance cultures reinforce their investments in individuals by providing training programs for all employees, not simply managers. ASDA offers its associates a variety of “best in class” training programs through the ASDA Academy and has introduced a range of innovative workplace practices, such as child care leave, flextime, job sharing, and even grandparents’ leave for the birth of a grandchild. Nucor, the American steel company, provides its employees not only profit sharing, an employee stock-purchase plan, bonuses, and service awards but also sizable annual stipends toward the college or vocational education of their children and spouses.

The message in all these cases is unmistakable: a company will not achieve its full potential unless its people do, as well.

5. Spread courage to change.

Today’s successful companies must be able to change and adapt to new environments quickly and continuously. But how many company leaders can truthfully say that their employees (or themselves) comfortably take risks, experiment, and challenge the status quo? How many can say they are happy for employees to make mistakes, as long as they learn from them? General Electric has managed to instill in its employees a recognition that taking measured risks is necessary in order to achieve its clearly defined business goals. CEO Jeffrey Immelt wants the company to spawn more creativity and innovation, and is asking business leaders to come up with three or more large-scale “Imagination Breakthrough” proposals every year.

Taking risks is not a goal in itself, of course. But companies with high-performance cultures find ways to make risk acceptable, within clearly defined boundaries and with the right controls in place. Steelmaker Nucor, as the company declares on its Web site, “aggressively pursues the latest advancements in steel making around the world,” and expects mill managers and employees to take the lead in implementing the technologies it acquires.

Companies that succeed in taking risks know how to deal with the risks. While many major global corporations have focused more on their core businesses, leading Korean Chaebols, such as Samsung, are succeeding through diversification. By working in a high-achievement environment, by having a keen sense of when to take a risk and of what the risk entails—and what countermeasures should be taken if a risk backfires—Korean conglomerates have written some of the world’s biggest success stories.

6. Build trust through debate.

Even the most talented and energetic group can fail if its members are not aligned. Cohesive teams trust one another. They aren’t afraid to engage in conflict around ideas, but once they commit to a decision, they walk out of a meeting with a common plan of action.

This principle gets tested thoroughly when two cultures merge following an acquisition. The process of merger integration can reveal a company’s culture in high relief, and often provides a new understanding of that culture, even among people who have lived it for years. When Johnson Wax Professional took over Unilever’s DiverseyLever unit in May 2002, for instance, some cultural differences between the companies were stark. Johnson Wax Professional had relied on an entrepreneurial, intuitive, and unstructured culture to become a world leader in floor care and housekeeping solutions. DiverseyLever, meanwhile, was highly structured, both in its communications and in its

planning. The cultural gulf became apparent at the very first meeting of the integration team. Diversey executives dominated the early discussions with their formal briefs and confrontational style, catching the Johnson executives off guard.

As a first step toward a “third way” that would accommodate both cultures, Gregory E. Lawton, the new CEO of the combined firm, JohnsonDiversey, called a timeout to help members recognize their different approaches and talk about them without judgment. “These differences weren’t good or bad, just different,” he says. The leadership group began to work through decisions in a way that both teams could accept, combining the entrepreneurial, delegating style of Johnson with the structure, discipline, and organization of DiverseyLever. During the critical period between the deal’s announcement and its close, Lawton put the new team on one compensation and incentive system that linked directly back to the success of the new company. A year later, DiverseyLever had retained most of its key executives and major accounts. The expected deal synergies had materialized. Through careful attention, the culture had knitted together into a single enterprise where differences were encouraged.

Each of these six attributes contributes to a stronger and more coherent culture. But the real measure of a high-performance culture is an organization’s ability to nurture and combine all six. In our experience, the anchors are knowing what winning looks like and committing to individuals. Both of these create the confidence and the conditions within an organization to spread the

courage to change. Risk-taking becomes easier, and more important, people understand what types of risk to embrace when the company has clearly defined the picture of winning, along with the strategy to get there, and the value placed on individual effort and achievement. With these attributes in place, an organization tends to build trust, empower debate, and create ranks that can think and act like owners, which is often the first milestone in building a high-performance culture.

Leading Cultural Change

Changing a culture is often difficult because it entails influencing people’s deepest beliefs and most habitual behaviors. At some companies, the culture may be so thorough in its focus on cost efficiency, for instance, or on a narrowly defined “Company Way,” that the culture itself becomes a bottleneck to change. That’s why crisis—which focuses attention and breaks down resistance—can be a potent catalyst for cultural change. New competitors, new technologies, or new regulations often require

organizational change on a large scale. And that kind of change is often necessary to get to the next level of performance.

Compelled by such necessities, companies have found that they *can* change their cultures, provided that their leaders are truly committed to change and that they understand the steps involved. But companies shouldn’t have to wait for a crisis to precipitate cultural change. High-performance cultures rarely stand still. Indeed, cultures with strong customer focus or those that reinforce innovation often excel at inducing cultural change. In

■
*Leading by example
is the only way to
change an organization’s
culture.*
■

our survey, 76 percent of executives said they believe it is possible to change a company's culture, while 65 percent said they needed to change the culture of their own companies.

Clear, effective leadership, not surprisingly, is the critical first element. Cultural change starts at the top, or it doesn't start at all. The process begins with aligning the top team around a common vision of the future, and then rolling out the vision and values to the entire organization. The importance of strong leadership was underscored by our survey results: leadership behaviors and decisions were cited as the single most important influence on their organization's culture by 80 percent of executives, ahead of the type of people recruited (70 percent), evaluation and promotion systems (56 percent), compensation systems (44 percent), and the type of people encouraged to leave (41 percent).

Cultural change cannot happen unless leaders model the behaviors and values that define the evolving culture, and then spread them constantly through personal contact and communication. Our experience, validated by the survey results, is clear on this point: leading by example is the only way to change an organization's culture.

Each company and every leader will follow a different course. But leaders who succeed at cultural change tend to follow some common principles:

- *Stay close to the front line.* Cultural change is often catalyzed when senior managers identify *linchpin* employees, people who will buy in to the culture and whose word will carry weight. These employees become natural mentors, passing along the values and behaviors that characterize the change in culture. At the same time, leaders need to identify mission-critical roles in the organization and deploy its top talent—people who exemplify the desired culture—in these roles.

- *Use symbols to send and reinforce the message.* Symbolic changes shake people up. They signal that the company really is serious. Leaders may get rid of the corporate jet or paint over reserved executive parking spaces. Maybe they set in motion a redesign of the office layout, or do away with old job titles. Leaders of cultural change can publicize milestones, celebrate successes, and reward heroes. Word will get around.
- *Align the organization with the new culture.* This step may entail revamping corporate structure and decision roles—removing or adding managerial layers, for example, or changing the balance of authority between corporate headquarters and regional operations. Metrics and incentives must be aligned as well. It does little good to promote teamwork, for example, if performance reviews, pay increases, and promotions are based on individual performance alone.
- *Zap the "cultural terrorists."* In any organization there will be people who don't go along with the new culture, including a few who actively resist it. An important job of any leader is to act quickly to move out the naysayers and encourage those on the fence to join in. The most effective leaders actively retain linchpin employees, the people critical to spreading the new culture.
- *Track the changes.* Leaders need a simple, practical way to measure their performance on each of the six dimensions—a scorecard that allows them to see where they started and what progress they have made toward their objectives.

No culture is forever. Culture change requires commitment on the part of a company's senior leadership, and the job is never really complete. 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 asset. ■