High-Performance Culture

Getting It, Keeping It

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Jim Hemerling and Julie Kilmann

AT A GLANCE

Most leaders recognize that a high-performing culture is critical to their organization's success. Yet many struggle with culture change. Organizations can achieve the culture they want by following an approach based on the answers to four questions.

What Culture Do We Need?
Identify the right level of employee engagement and the behaviors that best align with the organization's strategy.

What Culture Do We Have—and Why?
Organizational context determines culture, so analyze and determine the roots of employee behavior.

What Aspects of the Organizational Context Should We Change?
Design interventions to move seven "context levers" that will change behavior in the right ways.

How Do We Make the Change Happen?
Enlist change champions, run pilots, sequence rollouts, communicate properly, and constantly monitor and adapt interventions to orchestrate change.

CULTURE IS HOT. IN our discussions and work with leaders in business, government, and not-for-profit organizations, we have observed a markedly increasing emphasis on culture—for a host of reasons.

Leaders trying to reshape their organization's culture are asking: How can we break down silos and become more collaborative or innovative? Others, struggling to execute strategy, are wondering: How do we reconnect with our customers or adapt more proactively to the new regulatory environment?

Leaders overseeing a major transformation want to know how to spark the behaviors that will deliver results *during* the transformation—and sustain them well beyond. Those involved with a postmerger integration grapple with how to align the two cultures with the new operating model—and reap the sought-after synergies. And those simply seeking operating improvements often ask: How can we become more agile? Accelerate decision making? Embed an obsession for continuous improvement throughout the organization?

Regardless of the reasons, there's little debate about what culture is. Most agree that it's the values and characteristic set of behaviors that define how things get done in an organization. Nor is there any debating culture's importance. Most leaders recognize how critical a high-performance culture is to their organization's success. But many are discouraged by the yawning gap between their current and their target culture. Others are frustrated because they don't know why their culture is broken (or just suboptimal)—or what steps they might take to get and keep a high-performance culture.

> Culture change is not only achievable but entirely feasible within a reasonable amount of time.

Through our work with clients, we have found that culture change is not only achievable but entirely feasible within a reasonable amount of time. Any organization that is willing to make the necessary effort can realize its target culture by implementing change based on the answers to four questions:

- What culture do we need?

- What culture do we have—and why?

- What aspects of the organizational context should we change to get the behaviors we seek?

- How do we make the change happen?

While these questions seem fairly straightforward, they are often shrouded in myths. These myths create the hurdles that make the goal of a high-performance culture seem so elusive.

What Culture Do We Need?

Some believe that there is one universally "good" culture: a single ideal that every organization should aspire to. If only they could encourage employees to behave according to that ideal, their organization would have the culture it needs.

Certainly, there are cultural ideals that are universal—for example, having employees who are ambitious and accountable for their actions, and who care about their work. But although these attributes are necessary in any organization, they do not in themselves constitute a high-performance culture.

High-performance cultures share two characteristics: a set of "good" behaviors, manifested as high employee engagement, and specific behaviors that align with the organization's strategy.

Take a West Coast–based not-for-profit, whose leaders worked hard to cultivate employee morale and commitment. Their efforts paid off: surveys showed that employees were committed to the organization's vision, understood their contribution to its long-term success, and considered their career opportunities attractive. Still, performance suffered. Delivery delays were chronic because the different functions insisted on executing tasks in their own way, rather than following distribution processes designed to keep handoffs in sync and workflow on schedule. Employees may have been motivated to do a good job, but the behaviors necessary to fulfill the organization's strategic needs—in this case, following established processes to maintain on-time deliveries—were lacking. No amount of emphasis on engagement would resolve this problem.

THE REALITY: A HIGH-PERFORMANCE CULTURE MUST BE ALIGNED WITH STRATEGY

A high-performance culture requires more than a standard set of attributes. We have found that such cultures, regardless of the organization's industry or size, share two characteristics:

- *A Set of "Good" Behaviors, Manifested as High Employee Engagement.* Employees are involved in and committed to their work and to the purpose and goals of the organization, and are willing to go the extra mile.

- *A Set of Specific Behaviors That Align with the Organization's Strategy.* The way work gets done (by individuals as well as by teams) promotes the organization's purpose and goals and the strategy designed to realize them. For example, a high appetite for risk taking may be essential to the strategy of a design company or a venture capital firm but would be disastrous for a nuclear-power utility.

The not-for-profit organization described above enjoyed high employee engagement, but it needed to look more closely at the behaviors required by its strategy (which emphasized operational excellence) and then foster an environment consistent with that strategy. For example, everyone—from senior leaders to line workers—needed to follow established processes. In addition, the organization needed to set appropriate decision rights at each decision point within those processes.

Equally important, it needed a performance management and rewards system that supported the defined processes.

IDENTIFYING YOUR TARGET CULTURE

Determining what culture your organization needs first requires having a clearly articulated purpose and set of goals and a strategy designed to realize them. The target-setting process involves translating the strategy into the specific capabilities and behaviors required to implement it. The target culture is thus a combination of behaviors related to employee engagement and strategy-specific attributes.

Through our research and client experience, we have concluded that engaged employees have the following attributes: they are ambitious, inspired, achievement oriented, accountable, and supportive. The organization must determine the level of engagement necessary—for example, how much ambition is required—to achieve its goals. (See Exhibit 1.)

EXHIBIT 1 | The Degree to Which Each Attribute of Engagement Is Required Depends on the Organization's Goals

Engagement can be described as the degree to which individuals and teams are:

- *Ambitious:* they set high goals for individuals and the organization
- *Inspired:* they believe in the organization's goals and in the intrinsic value of their work
- *Achievement-oriented:* they meet or exceed performance requirements despite challenges
- *Accountable:* they are held responsible for meeting organizational and individual goals
- *Supportive:* they mentor and develop direct reports and others

Examples of how these aspects of engagement are manifested in an organization's culture:

The organization strives to be the best in its industry

Senior management authentically communicates the vision of the organization

Exceptional performance is rewarded; poor performance is not tolerated

There is a compelling desire to consistently meet the organization's milestones

Real value is placed on teaching and mentorship

Source: BCG analysis.

Then the organization's leaders must choose strategy-specific behaviors along the following seven dimensions. (See Exhibit 2.)

- *Structured Versus Flexible:* How specifically are processes and acceptable behaviors defined? How closely are they followed in practice?

- *Controlling Versus Delegating:* To what extent is power and decision making concentrated at the top or diffused throughout the organization?

- *Cautious Versus Risk Permitting:* How much does the organization support risk taking?

- *Thinking Versus Doing:* To what degree do people spend time developing ideas versus actually executing them?

EXHIBIT 2 | Target Setting Involves Choosing the Behaviors That Support the Organization's Strategy
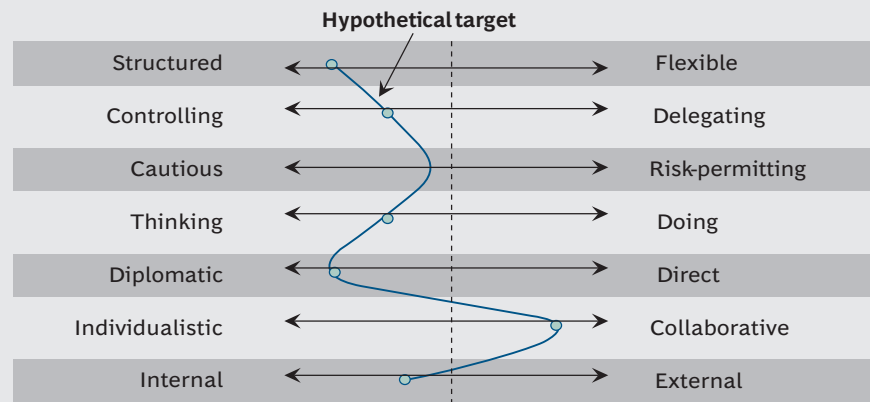
Source: BCG analysis.

- *Diplomatic Versus Direct:* How transparent are interactions and communications between coworkers and managers?

- *Individualistic Versus Collaborative:* To what extent are employees concerned with their own individual performance versus shared goals?

- *Internal Versus External:* To what extent are processes and behaviors oriented toward the outside world versus the internal environment?

Leaders make these choices by translating the organization's strategy into a set of capabilities and behaviors required to deliver it. The strategy thus governs where employees' behaviors should fall along each of the seven dimensions. The culture target-setting process is best accomplished through workshops. (Workshops are also the right place to ensure appropriate target-setting for units that require their own subculture; the strategy group, for instance, should probably embrace risk-taking more than the finance group.)

To illustrate the culture target-setting process for an organization that has shifted its strategy, consider the example of a European bank. The bank had just crafted a new, three-pronged strategy: to become the preferred partner for a select set of customers for the European business; to compete with market leaders by cross-selling, retaining key clients, and winning more RFPs; and to grow revenues each year over the next five years without raising costs. In two workshops, company leaders scrutinized the requirements of the new strategy in order to translate it into the necessary supporting capabilities and behaviors. One supporting goal—upgrading to the market standard—required the ability to be execution focused. This, in turn, called for such behaviors as adhering to decisions and informing others early on when things went wrong.

After crystallizing the behaviors needed for each key capability, the leaders mapped them along the relevant dimensions. For example, sticking with a deci-

sion once it has been made requires more structured processes and behaviors, and informing others at an early stage when things go wrong requires more direct communications.

What Culture Do We Have—and Why?

Another myth is that culture is primarily determined by mindsets, which you must understand in order to understand why people do what they do. This misconception is supported by culture assessment approaches that use pseudodiagnostics to characterize employees: for example, engineers favor technology over process solutions, or customer representatives lack curiosity, or IT people are inflexible. Such a simplistic, stereotype-based approach is ineffective because it ignores the influences that encourage or discourage specific behaviors, whether intentionally or unintentionally.
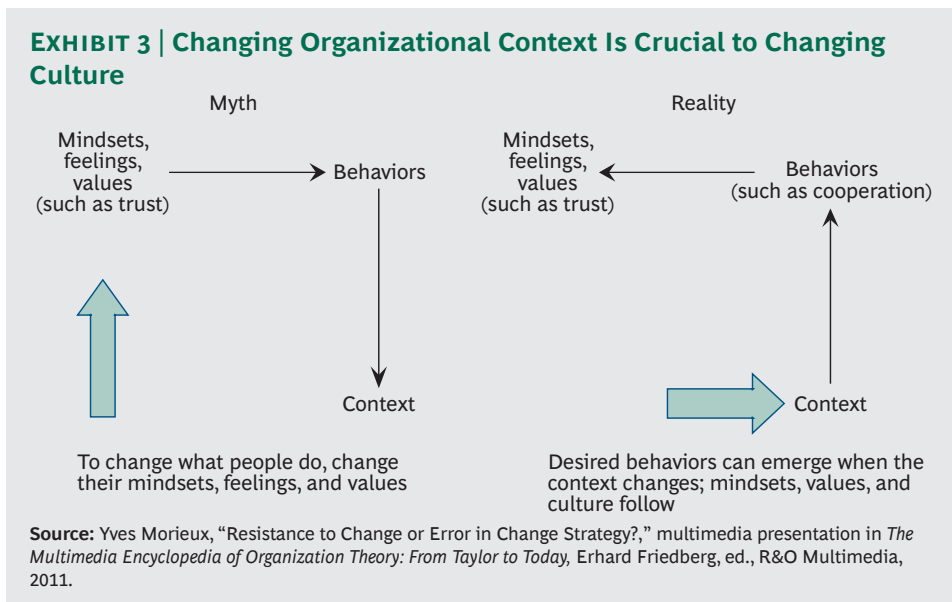
THE REALITY: CULTURE IS PRIMARILY DETERMINED BY ORGANIZATIONAL CONTEXT

In many organizations, leaders may simply be unaware of the effect that the organization's leaders, structure, systems, and incentives have on people as individuals and in teams. It is this organizational context, and not mindsets, that drives and sustains culture. Desired behaviors can emerge spontaneously when the context changes. Mindsets, values, and culture will follow. (See Exhibit 3.)

DIAGNOSING CULTURE

To diagnose why you have the culture you've got, you need to identify employees' behaviors and uncover their underlying causes.

Assess behaviors. Using a set of key culture attributes, an organization can conduct a survey (as well as interviews and focus groups) to identify the main behaviors that characterize its culture—the dominant one, as well as any subcul-

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EXHIBIT 3 | Changing Organizational Context Is Crucial to Changing Culture

Myth

Mindsets, feelings, values (such as trust) → Behaviors → Context

To change what people do, change their mindsets, feelings, and values

Reality

Behaviors (such as cooperation) → Mindsets, feelings, values (such as trust)

Context → Behaviors

Desired behaviors can emerge when the context changes; mindsets, values, and culture follow

Source: Yves Morieux, "Resistance to Change or Error in Change Strategy?," multimedia presentation in *The Multimedia Encyclopedia of Organization Theory: From Taylor to Today,* Erhard Friedberg, ed., R&O Multimedia, 2011.

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tures that may exist within the organization. It can then map these behaviors along the seven dimensions described above. (See Exhibit 4.) The resulting picture will allow the organization to portray its existing culture and compare it with the one it wants. By identifying concrete behaviors, organizations can clarify whether current behaviors match those that the strategy requires.

Examine why people behave the way they do. The latest research in organizational sociology offers many ways of analyzing the root causes of peoples' behavior. Each approach has different strengths, so it's helpful to use multiple lenses. One such lens is goals–resources–constraints analysis, which seeks to identify the environmental elements (both hard and soft) that trigger behaviors. This can help an organization understand what interventions are needed to bring its culture in line. (To see how goals–resources–constraints analysis applies in a real-world situation, see the sidebar "Why Do We Have the Culture We Have? When Organizational Context Reinforces the Wrong Behavior.") Whatever analytic framework you choose, be sure to use observations and document reviews to supplement the analysis.

What Aspects of Organizational Context Should We Change to Realize Our Target Culture?

The third myth is that it is difficult to know how and where to intervene in order to change employees' behavior. There are too many factors, and the relationships between them and the organization's culture are too complex.

EXHIBIT 4 | A Survey Can Provide a Picture of the Organization's Existing Culture
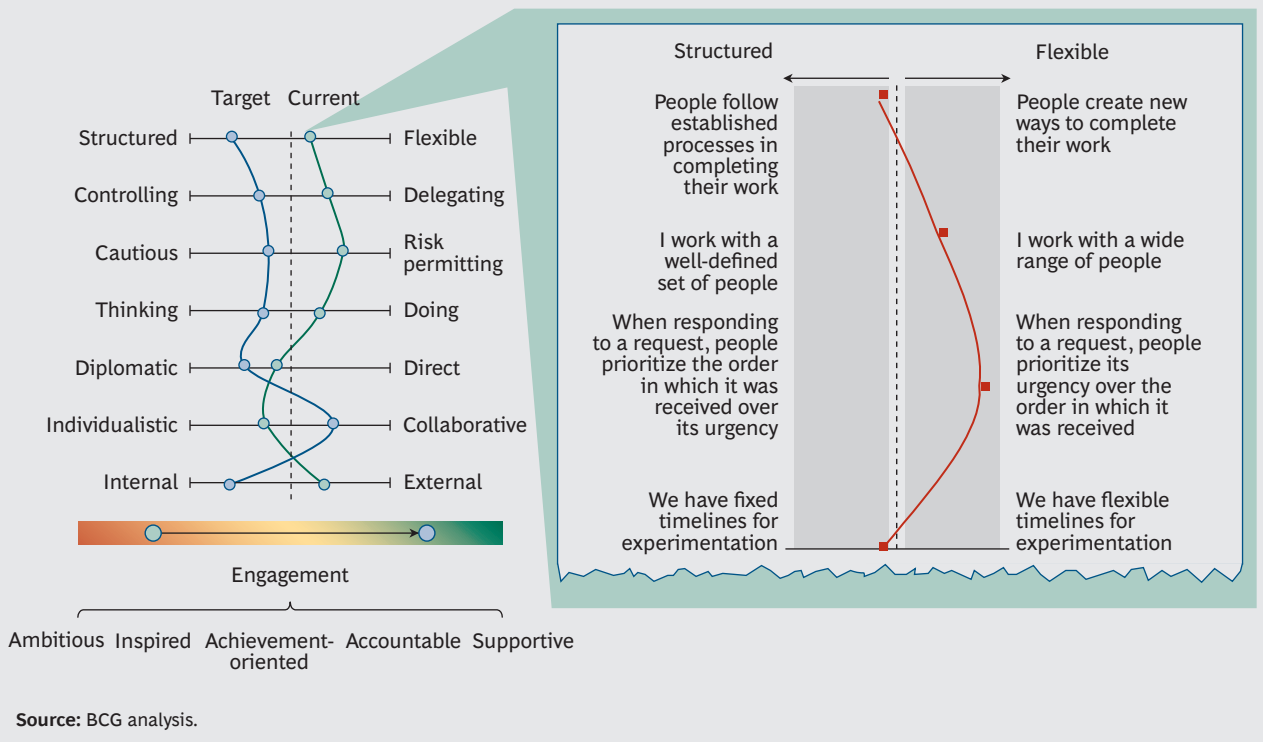
Source: BCG analysis.

WHY DO WE HAVE THE CULTURE WE HAVE?
When Organizational Context Reinforces the Wrong Behavior

Executives at Belle-Tel (the company's identity is disguised) were concerned that the lack of cooperation within and across the telecom's business lines was hurting performance. An increasingly tough operating environment made resource sharing and cooperation more essential than ever.

Belle-Tel conducted an in-depth culture diagnostic, including interviews with managers to identify behaviors and analysis to understand how employee interactions were affecting behavior and performance. It then conducted an organizational-context analysis to show how key elements of the company's environment were shaping behavior. Executives examined the goals, resources, and constraints that affected how three sets of actors operated.

The leaders of each product line, for instance, shared the goal of maximizing performance. They also controlled the career paths of their staff and had relationships with those working in other product lines (their resources). Moreover, their success depended in part on the cooperation of those other product lines (a constraint). The problem arose from conflicts among these goals, resources, and constraints.

To illustrate how the organizational context at Belle-Tel was reinforcing the wrong behavior, consider the situation of Joe Smith. Based in the network services unit, Joe was in charge of a product development initiative that could potentially lead to joint offerings with the company's fledgling cloud-based-services unit. Joe and his boss had every interest in ensuring that the product, if it passed muster, was marketed first and foremost as a network solution. Yet initial findings revealed that the service could be even more profitable as a hosted IT/cloud-based service. Joe faced a classic conflict of interest. His career advancement depended on supporting his boss and his unit, yet doing so would undermine enterprise goals. At the same time, avoiding conflicts with his counterparts in other units became paramount, because he couldn't afford to jeopardize relationships with those whose support he depended on to do his job.

Clearly, Belle-Tel's existing organizational context was compromising cross-company objectives and reinforcing silos—and subpar performance.

THE REALITY: LEARNING WHAT TO CHANGE IS A LOGICAL—AND AN ENTIRELY FEASIBLE—PROCESS

Certainly an organization is a dynamic behavior system, and dynamic systems are inherently complex. But that does not make them undecipherable. The elements of organizational context work in aggregate; some may amplify while others may neutralize the effects of behavior. Which elements are operative depends on the

circumstances. So as long as you understand the organizational context and the interplay among its constituent elements, you can effectively change culture. By applying techniques drawn from social and behavioral psychology—techniques designed for complexity—you can create a set of interventions that move multiple "context levers" in the right combination. It's even possible to determine the sequence of actions that will have the best and most timely results.

DESIGNING THE INTERVENTIONS

Leaders have a plethora of context levers at their disposal to align employee behavior with strategy—and close the gap between their current and target culture. These levers represent a mix of hard and soft approaches that separately and in combination shape behavior. They enable organizations not only to understand the forces shaping their current culture but also to specify what needs to be changed in order to achieve and sustain the desired culture.

The Seven Organizational-Context Levers. BCG has identified seven context levers that influence the seven dimensions of behavior and thus shape organizational culture.

- *Leadership:* leaders' role-modeling behaviors; their manner of communication, especially in reinforcing desired behaviors; how they spend their time, manage their priorities, and interact with direct reports (do they micromanage or manage by principle?); and the heroes and legendary leaders they revere and talk about

Context levers enable organizations not only to understand the forces shaping the current culture but also to specify what needs to be done to achieve and sustain the desired culture.

- *People and Development:* the kind of employees who are recruited and hired; opportunities for meaningful work and the kind of career paths and personal growth the organization enables; how talent is promoted and retained; the coaching that supervisors provide; the organization's learning and development programs

- *Performance Management:* the key performance indicators that the organization uses to define and track performance drivers, and its policies and practices regarding compensation, benefits, reviews, promotions, rewards, and penalties, including the consequences of undesirable behavior (knowing when to dismiss employees is just as important as knowing when to promote)

- *Informal Interactions:* networks, the nature of peer-to-peer interactions, and gatherings and events (do active communities of interest exist? do people know whom to contact to access organizational knowledge?)

- *Organization Design:* organizational structure, processes and roles, decision rights, and collaboration processes; units' relationship to headquarters; office layout and design

- *Resources and Tools:* the projects that are funded, access to human resources, management systems, and analytical tools

- *Values:* the collective beliefs, ideals, and norms that guide people's conduct and help them adhere to priorities, especially when facing a business dilemma

For each gap uncovered in the context analysis, organizations must choose the right levers, design the right interventions, and determine when to apply them. For example, if your diagnostic has revealed that teams tend not to share information (and your strategy requires more collaborative behavior), you might want to see if a process breakdown is hindering collaboration. If so, one possible intervention would be to implement cross-functional processes that facilitate communication. If you find that the cross-functional processes are sound but your performance-management systems don't encourage collaboration, you might develop programs that reward teaming behaviors and team accomplishments.

Some interventions, such as establishing a recognition system, will generate quick wins, while others, such as a reorganization, will take longer—but regardless, it's important to prioritize them. Consider applying the 80/20 rule: picking the 20 percent of interventions that will have 80 percent of the impact. An implementation plan should delineate the highest-priority interventions—those intended to target the red flags identified in the context analysis—and sequence them as appropriate.

How can a well-designed set of interventions advance culture change at an organization? Take the example of a utility company undergoing a postmerger integration. To support its new operating model—and foster a common culture for the two entities—the company sought behaviors that would demonstrate a sense of local ownership, greater accountability, and greater customer focus. It devised several interventions, including redefining decision rights to cultivate ownership at the district level, introducing audits to promote transparency and maintain consistency and compliance across districts, and conducting skills training for employees.

How Do We Make Change Happen?

The fourth myth is that changing behavior and culture is a gamble. The complexity of the process makes culture change unpredictable; with all the moving parts involved, you can't count on getting the results you seek—or even be sure that activating the right levers will make change happen. Of course, many organizations unwittingly perpetuate this myth by not tracking behavior change and the business objectives it is intended to advance. So when the new strategy, initiative, or transformation falters, they have no way of getting a true picture of what went wrong.

The Reality: Behavior and Culture Change is a Predictable Process—and Can Be Orchestrated to Achieve the Intended Results
Our experience working with clients across many industries and regions suggests that culture change can indeed be orchestrated successfully. If you have conducted a thorough diagnostic and identified, designed, and implemented the right interventions, you can get fairly predictable results in a predictable period of time. However, doing so requires an active, hands-on, systematic approach—and considerable attention to change management. The approach you take will, of course, depend on the specific interventions you've identified; changes in leadership behavior, performance management, people development, or role charters will naturally have different implementation requirements.

An implementation plan should delineate the highest-priority interventions and sequence them as appropriate.

IMPLEMENTING CULTURE CHANGE

A handful of practices can ensure that the interventions you choose will have the best chance of achieving the intended results.

Find and support change champions in the organization. In every organization, there are people who are already behaving in the right ways and are enthusiastic about bringing others along. Ideally, they have been involved in the intervention design and understand and are committed to the proposed changes. To improve the odds of success, it will be important to train these champions in leading change and ensure that they are rewarded for taking on that role.

Run pilot programs. A crucial step is testing a select set of interventions through pilot programs. (See the sidebar "Pilots in Action: Changing BCG's Always-On

PILOTS IN ACTION
Changing BCG's Always-On Culture

Predictability, teaming, and open communication (PTO), a recent BCG initiative to modify the company's 24/7 culture, illustrates the importance of a well-conceived implementation program. (For more on this initiative, see Leslie A. Perlow, *Sleeping with Your Smartphone,* Harvard Business Review Press, 2012.)

We wanted to find ways to work smarter (and thus more effectively), reduce burnout, and achieve a better work-life balance for our employees. For each client case team, PTO enabled consultants to take one scheduled night off each week without jeopardizing client coverage or work quality. The idea of scheduled time off, with no checking of e-mail or voicemail permitted, was so inconceivable to many consultants that we had to run rigorous test cases to prove not only that it could be done, but that work, client outcomes, and team relationships would not suffer.

The first pilot, in our Boston office, involved a coveted new client with

which daily interaction was required. At weekly check-ins, team members reported on their adherence to the plan and discussed their experiences and whether the plan was sustainable in its current form. The check-ins had unexpected benefits—resulting in more cohesive and well-informed teams with greater sharing of responsibilities for the client project. These benefits, in turn, accelerated acceptance and implementation across the organization.

More than ten pilots followed over the next five months, with different case teams, client projects, and parameters. These provided opportunities for experimentation to see what worked and what didn't. BCG tracked progress with each team monthly, comparing the results with those of non-PTO teams. This provided ongoing metrics, and marked improvements were apparent in every dimension measured within five months.

Culture.") The choice of pilot should be carefully considered. For example, it's best to avoid pilots where there are many variables, such as in a unit that interacts extensively with other units and areas. In such cases, it can be difficult to interpret the pilot's results.

Roll out interventions after the pilot. Organizations must decide how to roll out the change: which levers and interventions to introduce in what sequence, and a timetable that makes sense. You will need to create metrics and mechanisms for measuring and monitoring the change (and for evaluating the results of the pilot to identify adjustments needed before the full rollout).

Ensure frequent, specific, and transparent communication. Communication is critical in any change program, and in culture change it is even more important. That's because of the perceived amorphous nature of culture, the large number of people affected, and the potential for cynicism. The goal of a communications program should be to make culture as tangible as possible, emphasizing what it means for the individuals who will be affected. To counter the potential for cynicism, communications should include opportunities for direct interaction with leaders and change champions.

Measure and monitor progress—adjusting and refining interventions as needed. Culture change is predictable, but it is also inevitably messy. Changing organizational context in the right ways will certainly reinforce the desired behaviors. But people are human, and their choices are informed by numerous influences. For these reasons, it is crucial to monitor progress in order to determine whether the desired results are in fact being achieved. If they are not, you'll need to adjust and refine the interventions. Measurement is a powerful tool for driving behavior change. Refer back to the business goals used during the culture target-setting stage to actively monitor your desired business results and behavior changes.
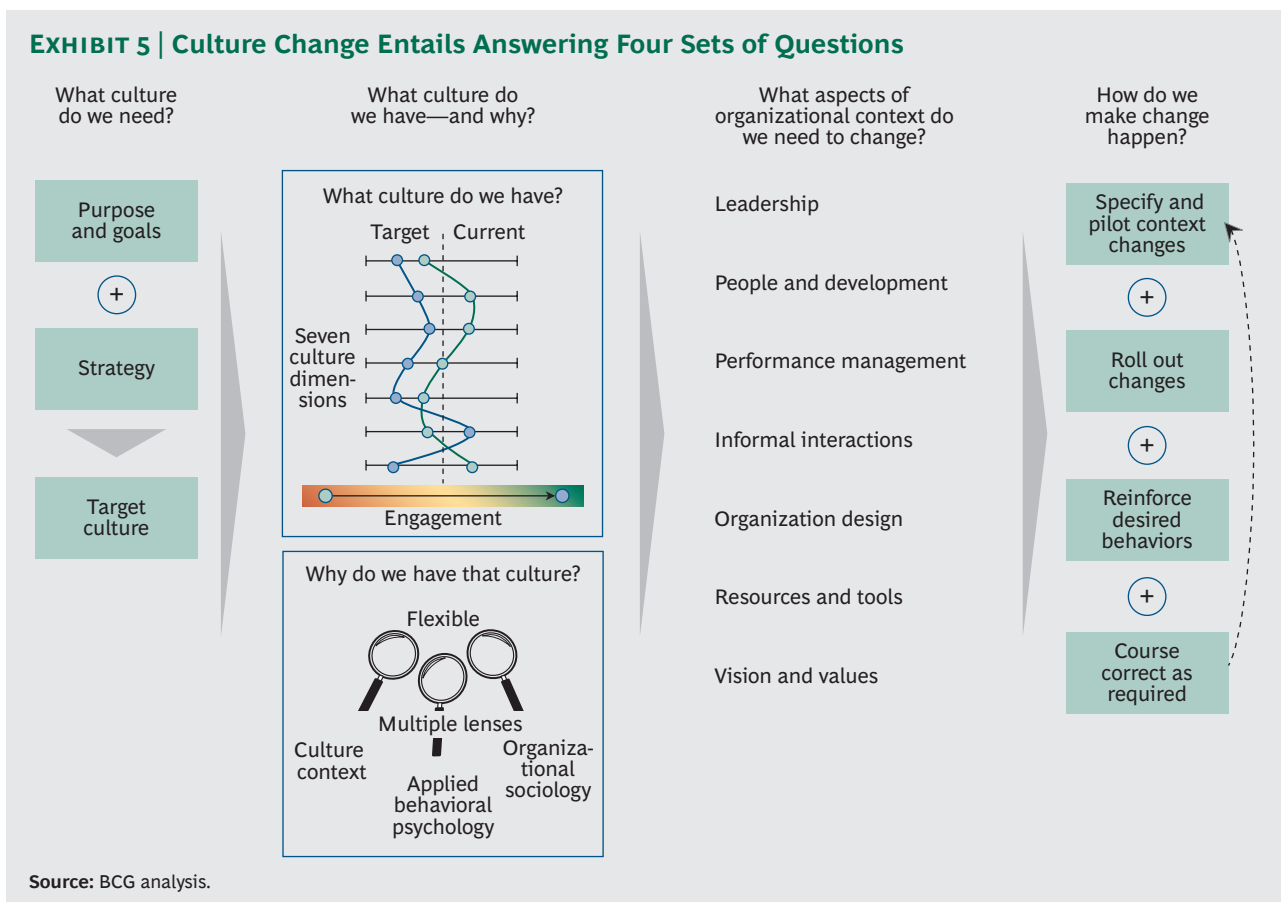
Does Your Culture Need a Makeover?

Sometimes the need to assess, if not change, an organization's culture is obvious. But often it isn't at all obvious that a culture check is in order. What might signal the need?

- Is there a growing sentiment that your culture may be getting in the way of achieving your goals?

- Has there been a change in strategy? Is your current culture aligned with your strategy?

- Are you contemplating or involved in a merger? Are the cultures of the two organizations aligned?

- Are you engaged in a transformation or a large-scale change program? Are the behaviors required to deliver—and sustain—results in place?

- Are you struggling to drive higher levels of productivity?

The goal of a communications program should be to make culture as tangible as possible, emphasizing what it means for the individuals who will be affected.

Sustaining business success can be an uphill battle when the culture isn't right. And no organization can expect the desired set of behaviors to emerge when the organizational context discourages them. Whatever the challenge—whether a postmerger integration, a transformation, or even an effort to improve a specific element of operations—the odds of success will be dramatically improved by having the right culture.

Effective culture change, like any major change initiative, requires a disciplined change-management effort. From target-setting to making the changes happen, the organization needs to prepare management to lead the way, engage and excite the extended leadership team, cascade change through the layers of management, and enroll the entire organization in the effort. (See Exhibit 5.) A robust change-management program will help keep expectations fresh, communicate progress, and demonstrate leaders' commitment.

Culture change can be frustrating, but it doesn't have to be. By answering the four questions laid out here—and recognizing culture myths for what they are—you can be confident about getting and keeping the culture you've always wanted. It's surprising how quickly culture can be changed—and high performance unleashed—when culture myths give way to reality.

EXHIBIT 5 | Culture Change Entails Answering Four Sets of Questions

What culture do we need?	What culture do we have—and why?	What aspects of organizational context do we need to change?	How do we make change happen?
Purpose and goals	**What culture do we have?** Target / Current — Seven culture dimensions — Engagement	Leadership	Specify and pilot context changes
+		People and development	+
Strategy		Performance management	Roll out changes
↓	**Why do we have that culture?** Flexible — Multiple lenses — Culture context — Applied behavioral psychology — Organizational sociology	Informal interactions	+
Target culture		Organization design	Reinforce desired behaviors
		Resources and tools	+
		Vision and values	Course correct as required

Source: BCG analysis.

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