THE VISIONLINK ADVISORY GROUP

Why Isn't My Company Culture What I Envisioned…

and how do I change it?

Culture – What Is It?

A company's culture is defined by the values and practices employees of an organization share and exhibit through their behavior. Although every culture is unique, each has two identifiable qualities: character and personality.

A company's character is a reflection of the combined commitment and engagement its employees have to a value system that has as its underpinnings the laws of life that have governed human behavior for eons: integrity, consideration, trust, honesty, loyalty, excellence and so on. A company's character is evidenced in things such as customer responsiveness, innovation, team interaction and day to day job performance.

An organization's personality is rooted more in the attitude and tone employees carry and convey. Some companies' personality is very open and friendly. Others may be described as competitive. Businesses can succeed with a variety of personalities if they form the right character foundation.

Character is nurtured by teaching and reinforcing a value system. Personality is a reflection of the types of people the company attracts and employs as well as a "style" encouraged by leadership. Both can and should work hand in hand. For example, a person in sales may be encouraged to be competitive and aggressive in their approach securing business (personality). However, they can also be taught that they are part of a promise-based network (character) that relies on the integrity of processes, policies and people to deliver the intended value to the customer. As a result, that sales person must honor the capacity levels of those that will fulfill the promises he makes to customers and respect the pricing structure (that preserves the company's profit integrity) that people in finance have established in their forecasts. In this way, personality and character work hand in hand.

A company's culture, then, ultimately answers key questions for employees – or at least communicates what's acceptable in each of these areas.

- "How should I behave?"
- "How hard should I work?"
- "How creative can I and should I be?"
- "How should I treat customers?"
- "What should I prioritize?"
- "How (and how quickly) should I respond to problems?"
- And so on

Cultural Confluence in a Growth Organization

In a growth company, there are several cultural dimensions that leadership will want to nurture if breakthrough results are to be achieved. Three of those dimensions might best be described as promised based, sustainable and high performance. Let's examine each briefly.

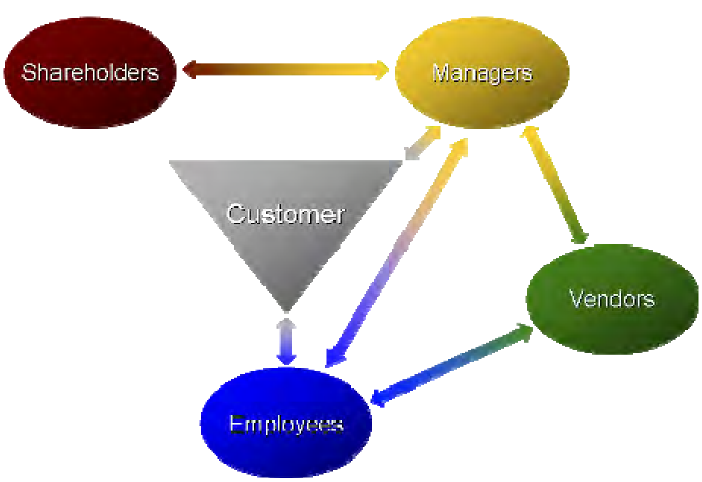
Promise-Based Culture

The concept of promise-based management is that there is interdependency in the roles and impact of shareholders, managers, employees, suppliers/vendors and clients that has to be recognized, nurtured, and respected if business is to be successfully executed. At any given point, each of those parties is in the role of either customer (needing information, resources, etc.) or provider (supplying information, resources, etc.). (See diagram below.)

In his Harvard Business Review article entitled "Promise Based Management" (April 2007), Donald N. Sull makes the following point.

"At its heart, every company is a dynamic network of promises…Promises are the strands that weave together coordinated activity in organizations…

"A promise is a pledge a provider makes to satisfy the concerns of a customer within or outside an organization. For our purposes, 'customer' and 'provider' refer to roles, not individuals, and these roles can vary depending on the situation. The CIO, for example, is a customer when requesting financial data from the CFO or soliciting a commitment from a subordinate. But she is a provider when supplying technical support to the finance department or making promises to her boss."



Given this view, growth companies must establish an infrastructure, processes and associated rewards systems that support and reinforce this promise-based approach. Without such, the network breaks down and breakthrough growth is lost.

Sustainable Culture

If a positive, performance based culture is going to be sustained, bureaucracy must be stifled. Values and judgment must prevail. A sustainable culture is one that promotes teamwork. There is an atmosphere of "we're in this together."

Companies that have developed a sustainable culture know how to absorb stress and work-life pain. Employees feel they are in an environment that is supportive and where their unique abilities can be enhanced and grow. The culture reflects reassurance and there is a sense of confidence and engagement.

All of this translates to a commitment to the customer and the ability of the company to deliver on its value proposition. Such organizations have nurtured an environment where high performance can become the standard.

High Performance Culture

The essence of a high performance culture is one in which there is an attitude of "we don't settle for anything but the best." That frame of mind permeates the organization and applies both to the people the organization is committed to attracting and retaining and the results the company seeks to achieve.

In a high performance culture, there is transparency throughout the organization. One can "look through the window" so to speak and easily see at every level of the organization the quality of what's being done and the commitment of the people involved.

Such transparency is available in this kind of business because there is an honesty and integrity between what the company promises and what it delivers—what it's people say and who they are. All of this comes about primarily because of leadership by example.

What is the importance (financially) of a high performance culture? In a high performance culture, the following elements exist—all of which have a fiscal impact.

- It is easier and less expensive to recruit new employees
- There is lower turnover
- There is higher productivity per employee
- There is stronger customer satisfaction
- There is greater brand value
- There is greater market value

There is a primary reason that greater market value exists in high performance companies. When this kind of culture is at work, the business generates what Fred Reichheld refers to as "good profits" instead of "bad profits." In his book, The Ultimate Question, Reichheld makes the following assertion.

"While bad profits don't show up on the books, they are easy to recognize. They're profits earned at the expense of customer relationships…

"Good profits are dramatically different. If bad profits are earned at the expense of customers, good profits are earned with customer's enthusiastic cooperation. A company earns good profits when it so delights its customers that they willingly come back for more—and not only that, they tell their friends and colleagues to do business with the company. Satisfied customers become, in effect, part of the company's marketing department, not only increasing their own purchases but also providing enthusiastic referrals. They become *promoters*. The right goal for a company that wants to break the addiction to bad profits is to build relationships of such high quality that those relationships create promoters, generate good profits, and fuel growth." (The Ultimate Question, Fred Reichheld, Harvard Business School Publishing Corporation, copyright 2006, pp 4, 9-10)

Imagine an entire culture that is committed to such principles and results. Conversely, the lack of a high performance culture, one not built on the right foundational values, costs shareholders millions of dollars of profits and value over time. Consequently, it is worth devoting time, energy and resources to address this objective.

Sources of Turnover

It is a common refrain to hear an employee say at some point (words to the effect of) "I'm moving on…" With low performing employees that were never a fit, this is not such a bad thing. The problem occurs when critical individuals leave an organization at critical junctures. By then it's too late to implement what "could have been," and the company is left thinking about what "might have been."

When an employee leaves, his or her reasons might best be categorized under one of the following four statements.

- "I'm not sure there's a future here for me."
- "I just don't feel like this is the right place for me."
- "I'm not sure I want to be doing this for the rest of my life."
- "I can make more money somewhere else."

Each of these observations is a comment on the company's culture.

These four areas of concern likewise translate to the four keys that a company must focus on if it is going to attract and retain great people. These four keys represent a total rewards value proposition that quality employees seek in their relationship with their employer. In essence, if any one of these areas falls short in too great a degree, an employee leaves (or in the case of recruiting, never joins). If everyone feels these needs aren't being met, then a high performance culture is not being achieved. They are as follows.

The Four Keys

High performance companies seek to be a 10 in each total rewards quadrant - recognizing that achieving such a rating means they are creating the high performance culture necessary for their growth goals to be fulfilled.

Creating a High Performance Culture

A high performance culture is not engineered over night. There are logical and somewhat sequential steps that must be followed before such an environment is realized. There are in essence two parts to this evolution. The first is having the right process and the second is having the right rewards approach.

Within that framework, a business might consider the following steps in their quest to build a high performance culture.

1. **Identify** – envision the future results that you want to achieve, innumerate the potential dangers and obstacles that can impede their achievement, define the opportunities that must be realized if those outcomes are to be reached and establish the strengths upon which you can build right now.

2. **Communicate –** make sure that everyone that will help you realize what you have envisioned gets a clear picture of what you see, is allowed to give feedback about it, and buys into their part in its creation.

3. **Exemplify –** walk the walk and don't just talk the talk; leadership must define and embody not just the strategy of the organization but all of its core values and principles. It must exemplify principle-based leadership not only what it says but even in the way it develops its infrastructure and builds its value proposition both for the customer and for its workforce.

4. **Reward –** build a rewards structure that reflects all aspects of the business model including mission, vision, values, strategy, roles and expectations. Promote and market the rewards strategy in a way that helps those most critical to the organization envision the financial framework within which they are operating and how it will benefit them.

5. **Reinforce** – never take for granted that everyone still understands the vision or is committed to, engaged in, and understands their role. Effective rewards strategies can assist in this reinforcement if they are constructed and communicated properly.

High performance cultures that build in this way are able to create greater value than their competitors and even their own original expectations. This happens because the value creators within the organization are committed and engaged. Passion has been unleashed and execution occurs routinely. When this happens, success is the byproduct and a culture of confidence results. A culture of confidence is synonymous with a high performance culture.

A Supportive Total Rewards Philosophy

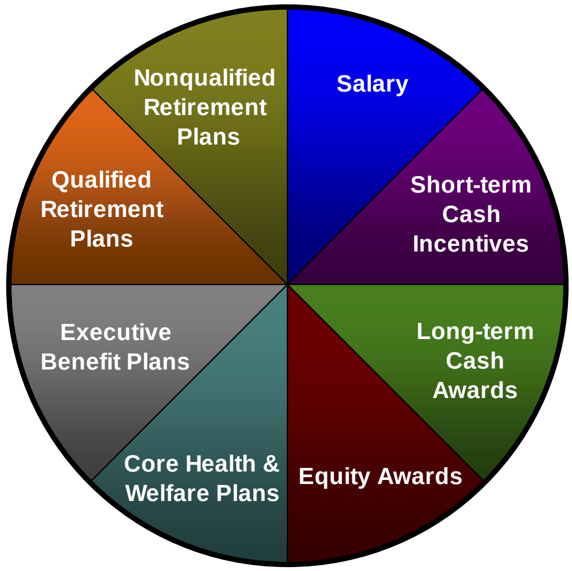
For companies intent on building a high performance culture, rewards and compensation are not simply issues of expense management. Rather, leadership comes to recognize them as strategic tools that can mean the difference in a workforce that is focused, motivated, committed and engaged and one that is not.

In this context, the question a company is asking itself is not "HOW MUCH should I pay my key people?" Rather, the question they ask is "HOW should I pay my key people?" For too many organizations, the "how much" question leads them to an over reliance on market pay studies and data that drive a compensation structure built strictly on "grades" and with an over emphasis on guarantees. On the other hand, the "how" question forces a company to create a philosophy that defines the balance between guaranteed and incentive compensation and short-term versus long-term incentives it wants to maintain. It's thought process in this regard is strategic, as with all other aspects of their business. This is how a high performance company thinks.

Such an approach frames compensation as an investment, not an expense. High performance companies make an effort to determine what kind of return they are receiving on that investment. This is not an evaluation that is made independent of other financial analyses the company routinely measures and performs such as return on equity. It is an extension of the same concept and reflects the return the company is getting that can be attributed to the effort of its manpower. (At our next month's webinar, we will talk more in depth about how this is measured.)

When a company takes this approach, it easily grasps the concept of "pay for performance" and moves towards rewards and incentives that are "self financing" (meaning value is paid out when value is created). High performance cultures are commonly framed by a rewards structure that draws upon many if not all of the elements at its disposal in engineering its compensation "pie." (See the chart below.)

The elements of the rewards pie that it chooses reflect the outcomes and priorities that the high performance culture has committed itself to. Those outcomes are likewise an extension of the goals the company has committed itself to achieve on the road to the future company it is trying to realize.



Companies that are intent on building a high performance culture must remember that their total rewards budget is the largest single expense it experiences. Unfortunately, most decisions about the use of this budget are made independently from one another. As a result, their return on their total rewards investment is not reflective of the high performance culture and outcomes they are striving to achieve.

In Conclusion

Most company leaders envision a culture that is better than the one they are now experiencing. To engineer a different outcome in this regard, a company must first understand the underpinnings of a high performance culture and then commit to the "we won't settle for anything but the best" attitude that must drive the needed changes. That commitment must be translated to a framework of vision, mission, values, strategy, roles, expectations and rewards that are coherent and compelling. That framework must then be built upon by attracting and retaining people that are committed, engaged and accountable for the results within their areas of stewardship. The proper total rewards structure reinforces the execution of key performance initiatives and leads to patterns of success. Such success leads in turn to a culture of confidence—the heart and soul of a competitive advantage. In the end, such an organization emerges victorious because culture is simply not copyable.

VisionLink is a national compensation consulting firm focused on helping companies envision, create and sustain compensation strategies that will be key drivers of results and increase the productivity of employees.

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