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# Understanding Your Culture and Understanding the Culture You Must Create

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## **YES, CULTURE CAN BE TRANSFORMED.**

As we discovered in interviewing some of the top CEOs in the world, successful CEOs and senior leadership teams can and do nurture and reinforce new mind-sets. Individuals, teams, and entire organizations can adapt, mature, and increase preparedness to deal successfully with current and future challenges. They learn to transform successfully what they do and how they do it. As a result, they create and sustain a “think different, think big” culture that is matched only by a “do different, do big” culture. The magic is not in espousing a bold vision or executing an untargeted strategy, but in the match.

Take a client of mine, Claro Colombia, the America Movil subsidiary in Colombia. America Movil has operations in 18 countries throughout South and Central America, the Caribbean, Mexico, and the United States as well as in eight countries in Europe through its Austria Telekom operation. Partly as a result of a corporate-wide initiative to laser focus on enhancing customer experience but also to sustain its leadership position, Claro required a game-changing think-big vision and strategy

to ignite its cultural change initiative. Led by Claro Colombia CEO Juan Carlos Archila (see his interview in Chapter 11), Claro started its transformation journey by leveraging its considerable corporate people strengths—an unwavering focus, discipline, and flawless execution in such areas as product development and work processes—into a laser focus on the customer, including building customer relationships based on rapport and trust, creating memorable customer experiences, and building and sustaining a culture based on customer advocacy. Claro’s new value proposition emphasizes an almost maniacal focus on enhancing a customer’s experience and providing instantaneous turnaround on most services and products, delivered with consistent quality by an entrepreneurial and engaged staff. In conjunction with these transformations, the company launched a new, far simpler business model geared to growth. While still early in its transformation journey, these measures have brought new energy to the organization and inspired a stronger and more vibrant culture of leader and individual contributor *capability*, *commitment*, and *alignment* that is driving impressive operating results. Again, Claro Colombia’s shift was big, but the shift required a laser focus on fewer levers—not more—enabling leaders and all employees to focus on what really matters.

Organizations that want to adapt during turbulent times cannot force these transformations purely through programmatic approaches such as restructuring and reengineering. They need a new kind of leadership capability—one that can reframe dilemmas; reinterpret options; and reform, revitalize, and renew operations. They must achieve all of these capabilities at once.

Transforming organizational culture is not for the weak or the quick-change artist. Real, serious, sustained transformation requires real, serious, sustained leadership.

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## WHAT IS CULTURE? LET’S START HERE

Your organization’s culture represents the collective character, values, thoughts, emotions, beliefs, and behaviors of your leaders and individual contributors. Your organization’s culture is a product of such factors as its history and how your leaders and individual contributors ascribe meaning and value to it as well as leadership style (legacy and current), which is then reflected in the creation and implementation of your organization’s values, vision, mission, purpose, strategy, structure, and roles.



Figure 1.1 The Five Cultures of Culture

Ultimately, your overall culture and the relative health and vibrancy of your culture comprises five cultures as shown in Figure 1.1.

### Capability Culture “Can Do”

To what extent does your organization develop the inner core (that is, values, character, thoughts, beliefs, emotional makeup) and outer core competencies and skills of employees and leaders at all levels? Is there a passion and diligence displayed on the part of the senior leadership team to equip leaders and individual contributors with the skills required for individual and organizational effectiveness now and into the future, skills that increase people’s learning agility, change/transformation agility, and people agility? To what extent is your organization creating a culture of can do, in which people truly believe they have the skills and capabilities required to be successful and help the organization be successful?

### Commitment Culture “Will Do”

To what extent do your organization’s vision, mission, and purpose excite and motivate leaders and employees? To what extent is authority and responsibility delegated to those who have the best and most up-to-date information to make the best decisions? To what extent do people truly believe that they can impact the business in a positive way and add value for customers and society? Are people motivated,

passionate, and inspired to do great things for the organization? To what extent is there a reasonable risk-taking culture in place in which people believe they can take risks and failure is seen as an opportunity to grow and become better?

### **Alignment Culture “Must Do”**

To what extent is there a clear vision and strategy for the organization? To what extent do different parts of the organization and different levels share the same vision for the organization? To what extent is cooperation and consensus possible when different parts of the organization and different levels work together? To what extent are leaders visionary and possessed of a long-term view? To what extent has the vision, mission, and strategy been translated into a structure with key roles identified so that all employees know their roles and the link between their contributions and the contributions of the whole? To what extent are people so connected and aligned with the vision that they feel they must execute at a high level?

### **Individual Performance Culture**

To what extent is there a culture of individual excellence and execution? To what extent are leaders and employees truly role models? To what extent does everyone “walk the talk”? Does everyone operate with strong character and values? Are they effective leaders in how they go about their work? Are employees effective in how they go about their work? Are leaders and individual contributors open to receiving feedback from others – including customers? Are leaders and individual contributors actually listening to feedback and making needed adjustments?

### **Team Performance Culture**

To what extent is there a team and collaborative approach to getting things done in your organization? To what extent is there real involvement by everyone in helping shape the organization’s vision, mission, purpose, strategy, structure, roles, and key responsibilities associated with those roles? To what extent do you have a cooperative, nonsiloed approach to getting work done? To what extent is there a passion and inclination to work hard to achieve win/win solutions when conflicts and disagreements occur?

## Why Is Culture Important?

Your organization's current and future operating success is tied to the health and vibrancy and overall maturity of your culture. Regardless of your unique transformation challenge (for example, the need to be more innovative, collaborative, global, more responsive, more efficient, execute better, become more customer-focused, or even integrate or merge with another organization), your culture and how strong and vibrant it is will determine whether you succeed or fail.

## Why Transform Culture?

As we discussed in the Introduction, organizations have no choice but to transform. The business world is shifting fast; progressive CEOs and senior leaders see it, know it, and feel it. Attempting to cope, they apply their best thinking to the structures, systems, and processes they need to compete. Conventional wisdom says that the right business structures will provide the right efficiencies and agility (learning, change, and people) that organizations need to succeed and achieve meaningful longevity. Behind closed doors, however, senior leaders and CEOs are speaking a different truth. Conventional wisdom? Throw it out the door.

Increasingly, companies are questioning the incessant reorganizing, reengineering, and restructuring in the name of efficiency. Strategies and plans that should work instead fall apart, yielding yet again less-than-expected results. Operational decisions that once were clear-cut become more complicated and ambiguous.

Worse, many top executives and teams struggle to agree on outcomes—or even common ground—for moving forward. Talented individual leaders with impressive track records fail to collaborate. They don't know how to work together to understand difficult challenges, much less to resolve them. Instead, they continue to be constrained, operating in silos and defaulting to traditional boundaries and turf battles.

Integrating systems, collaborating with partners, and coordinating across the supply chain remains an elusive skill. Innovation is haphazard or thwarted. Customer-focused strategies become uncoordinated with uneven implementation. In short, organizations are stuck; many are failing. Frustrated executives work harder and longer. People at every level are overwhelmed, guarded, and cynical.

## What's the Problem?

Inadequate leadership ability is a huge part of the problem. You'll note we say "leadership"—not just a reference to the individual leader. The shift in focus from development of the individual, heroic leader, to the unfolding, emergent realization of leadership as a collective activity is intentional—and very, very important.

Through my research and coaching I have found that the five most important skills and capabilities needed by organizations (and leaders) of the future—leading people and overall people “agility,” strategic planning, inspiring commitment, learning agility, and agility with respect to leading and managing change—are among the weakest competencies of today's individual leaders.

These findings suggest that organizations should prioritize creating more balance between developing leaders through individual competencies and fostering the collective capabilities of teams, groups, networks, and organizational leadership. The culture of team performance is just as real and powerful as the culture of individual capability (can do), the culture of commitment (will do), the culture of alignment (must do), and how these three cultural leading indicators manifest themselves in driving the culture of individual performance (are doing). In fact, as we established earlier in this chapter, an organization's overall culture is the net result of the health and vibrancy of these five cultures.

The common thread that ties together my research, coaching, and what we have learned in our CEO interviews is a powerful one: Thoughtful and deliberate attempts to foster and sustain the appropriate, relevant leadership culture given the current and anticipated demands and challenges your organization faces will, in the end, determine your transformation success or failure.

Different leadership cultures serve different purposes. A hierarchy of culture exists—and each advancing culture is increasingly capable of dealing with greater and greater complexity in leading and gaining the commitment of others, effecting strategy, and being successful in organization change.

As companies face change, they need to invest intentionally in a leadership culture that will match the unfolding challenge. The beliefs that drive leadership behaviors need to align with the operational business strategy. Without that alignment, painful gaps appear in the individual leadership skill set as well as the organization's collective leadership capability.

In contrast, when executives change their leadership culture, they are rewarded with significant, sustainable outcomes, including:

- An accelerating ability to implement emerging, successive business strategies
- Greater speed and flexibility, allowing the organization to move faster in response to change and challenge
- New, stronger core organizational capabilities
- Achievement of bottom-line results
- Improved ability to create shared direction, alignment, and commitment throughout the organization
- Growth of not only individual capabilities but waves of individuals all growing capabilities in a leadership collective
- The development of talent and culture while implementing the business strategy
- Genuine organizational innovation for not only products but also the organizational systems required to sustain innovation
- Effective cross-boundary work and the collaboration required for dealing with complexity and change
- Increased engagement within the top leadership team that links through leadership down to employees throughout the organization
- A rehumanized workplace, balancing technical and operational expertise with beliefs and experience
- Leadership and organizational transformation

Change remains difficult, and the history of change management teaches us that a simple recipe does not work. Our experience with clients and with the CEO interviews in this book has helped us identify themes and patterns, tools, and models that will help leaders and organizations positively transform their cultures.

Here are some of the most important themes and patterns that we will touch upon now but will explore in more detail in later chapters with the help of our CEOs.

*Thinking different and thinking big are the nonnegotiable prerequisites that will enable any organization to keep pace with rapidly changing reality. This thinking must start with the CEO.*

Reality is way ahead of our collective capability to lead transformation initiatives. What's needed to keep pace with the challenges organizations face are new transformation mind-sets, new behaviors, and new habits.

Most organizations lag behind when it comes to their developing the needed capabilities that will propel them toward achieving a more interconnected culture. It takes an even greater stretch to thrive in the face of change. There is no doubt that thinking different and thinking big are the non-negotiable prerequisites to achieving transformation success and this thinking must begin with the CEO.

*Real sustainable transformation requires new mind-sets, not just new skills.*

Organizations have become savvy developers of individual leader competencies. In doing so, they have over-relied on the human resource function to manage change through individual skill development. Executives have not considered the need to advance both individual and collective leadership mind-sets.

*Values and beliefs drive behavior and habits.*

Unexamined beliefs control an organization and prevent any meaningful change. Years of valuing hierarchy, status, authority, and control—even if unstated—can lead to assumptions and behaviors that are out of date, unnecessary, unhelpful, and potentially at odds with stated goals and strategic direction.

*Real sustainable transformation requires that all leaders possess a strong, vibrant, and mature inner core.*

Change yourself—change your culture. That's the new reality. Senior executives who want to move the needle toward organizational transformation must first experience significant personal transformation. That commitment to personal change is a fundamental part of their readiness to take on the leadership and management challenges of change for a sustainable future.

*Transforming culture is the real leadership work. No, culture is not "soft." The culture you create and reinforce will determine your operating success.*

The hardest work done by the best leaders is developing new beliefs and mind-sets. Developing a new mind-set is much harder than managing spreadsheets and the next restructuring. If this work were easy, everyone would be doing it and doing it well.

## **Understanding the Culture of Leadership**

Fundamentally, culture is about the meaning that people make of the world and the tools they have to deal with it. Leadership culture is the meaning that people make and the tools they have to create shared direction, alignment, and commitment throughout the organization. The goal of culture change work is to build, purposefully and actively, capability

for new ways of working. It allows for the new thinking, beliefs, tools, and processes that will result in the organizational success.

As business strategies get more complex, culture growth is required to meet the level of complexity required to implement it.

Let's start by describing the hierarchy of leadership culture: reliant, self-sufficient, and interconnected. Organizations, like people, tend to evolve along a path from reliant to self-sufficient to interconnected.

Each of the three hierarchical levels of leadership culture is characterized by a set of beliefs, behaviors, and practices. Each successive culture is more sophisticated and can respond more successfully to deeper challenges. The core reason? They can think, learn, and respond to challenges faster and better.

*Reliant leadership cultures* hold only people in positions of authority responsible for leadership. Authority and control are held at the top. Success depends on obedience to authority and loyalty. Mastery and recognition of work operates primarily at the level of technical expertise.

*Self-sufficient leadership cultures* assume that leadership emerges from a variety of individuals, based on knowledge and expertise. Authority and control are distributed throughout the ranks. Self-sufficient cultures value decentralized decision-making, individual responsibility and expertise, and competition among experts. Other characteristics associated with self-sufficient cultures include:

- Individual performance as an important source of success and status
- An emphasis on taking calculated risks
- Open disagreement
- Independent actions within functions or work groups

*Interconnected leadership cultures* view leadership as a collective activity requiring mutual inquiry, learning, and a capacity to work with complex challenges. Authority and control are shared based on strategic competence for the whole organization. The mind-set tends toward collaborating in a changing world so that new organizational orders and structures can emerge through collective work. Other characteristics associated with interconnected cultures include:

- The ability to work effectively across organizational boundaries
- Openness and candor

- Multifaceted standards of success
- Synergies being sought across the whole enterprise

### ***Match the Culture to the Need***

While there is nothing inherently wrong with any level of culture, organizations must match the leadership culture to the operational need. Asking a command and control (reliant) culture, for example, to implement an innovative, agile strategy is a recipe for disaster. In contrast, an interconnected organization is better poised to handle a high caliber of complexity and challenge. As a more fluid organization, it will be able to draw on individual talent, connect effectively across boundaries, and adapt as needed. Developing leadership culture is about growing leadership talent. To break through the current capability ceiling, organizational leaders must take time to connect two critical factors.

First, you have to know where, in the hierarchy of cultures, yours sits. The way leaders engage with each other and with others in the organization will depend on the leadership logic that dominates. Knowing what your current culture is capable of will save dollars, and more importantly, time. You might leap to implement the next, new thing only to find out your approach was off the mark. Instead, understand where your leadership culture is today to develop feasible change plans.

Second, you must understand the drivers and core capabilities needed for your business strategy to succeed. What future level of leadership culture is needed to support the business strategy? It is the job of leadership to ensure intelligent strategies are wisely implemented. This is possible only when the culture of beliefs and the focus on readiness to develop capability to implement is real. By choosing the right level of leadership culture that your organization requires for its future, your leadership talent as a collective can advance to new levels of organizational capability, securing success. When the level of leadership culture aligns with your business strategy, your performance will be stellar.

### ***Taking Time to Reflect Is Critical***

More and more executives tell us they need increasingly collaborative leadership for working effectively across boundaries inside their organizations and across their value chains. In fact, our executive research

shows that it is their highest need and yet least effective organizational capability.

If an interconnected culture is needed, but a company is operating at the reliant or self-sufficient level, how does the senior leadership team start to change culture? How does the senior team start to work more effectively across business and functional boundaries? In a counterintuitive move, they need to pause and reflect more—much more.

Pausing and reflection are vital requirements for leading change. By exploring, reflecting, and understanding the sometimes hidden values and beliefs that drive behavior and culture, executives help the organization to be more nimble and agile in the future.

When leaders and teams pause and reflect effectively, real communication begins to happen that then drives better problem solving and decision-making. Instead of reinforcing speed, the focus is on learning. Better solutions and more frequent right answers arise. Everyone involved is able to reflect on assumptions, understand problems more clearly, and integrate the perspectives of others.

Leaders who create a culture that values pausing and reflection at key times for learning, diagnosis, and dialogue almost always create powerful, positive momentum—creating accurate, focused, valuable decisions. Time lost on the front end translates into speed further along in the process. Pausing and reflection help reduce organizational missteps (both large and small) due to poor communication, hasty decision making, and the faulty assumptions and beliefs that drive them.

Pausing and reflection is also a powerful cultural change marker. The behavior in itself signals to everyone that transformation is not only needed but valued.

The Stealth Cultural Transformation Model (see Figure 1.2) offers a compelling, symbolic way to understand the predictive relationships that exist between your organization's critical talent processes—demarcation, diagnosis, deployment, and development, otherwise known as the 4 Ds—critical cultural leading indicators (capability, commitment, and alignment—more on these later), intermediate outcomes, and ultimate outcomes. The 4 Ds essentially act as the four turbocharged engines that propel the stealth toward its target—your organization's Future Desired State and the required leadership competencies required to execute both the current and future business strategy. By way of analogy—if the four engines are well oiled and functioning at a high level (i.e., optimized) and working together (i.e., integrated), they will propel the stealth (yes, your organization) toward its goal.

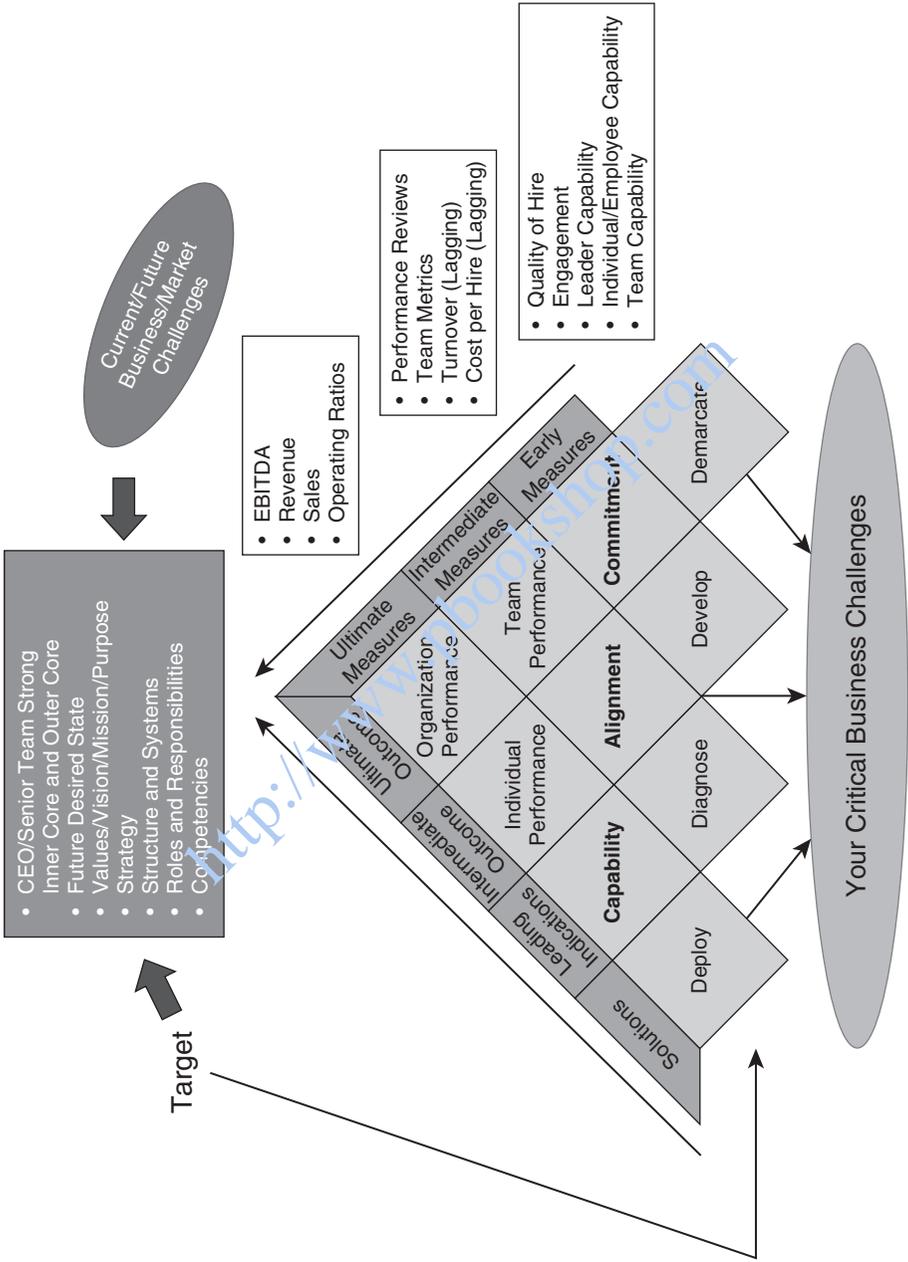


Figure 1.2 The Stealth Cultural Transformation Model: What Is Your Cultural Value Proposition?

In practical terms, your organization's Cultural Value Proposition (CVP) is the holistic sum of the following four talent practices (i.e., tools, processes, etc.) in your organization:

1. *Demarcation*—accurately separating the A, B, and C players (performance management) on those competencies and behaviors that support the new, desired, vibrant culture
2. *Diagnosis*—obsessively and objectively assessing the requisite skills and capabilities of leaders and potential leaders
3. *Deployment*—sourcing, screening, and selecting the best of the best leaders and future leaders but also making sure there are structured “bubble-up” meetings to integrate performance and potential assessments, calibrate capability, determine development options, and identify potential replacement scenarios
4. *Development*—coaching, on-the-job development, and training programs—all in support of the competencies and behaviors required to support the new, desired culture. This is the beginning of your CVP

Beyond this, your organization needs to measure the impact of these four, hopefully turbo-charged, talent engines on multiple levels of outcome—such as capability, commitment, and alignment levels (cultural leading indicators); intermediate outcomes such as individual and team performance, customer satisfaction metrics, bench strength, percentage of women and minorities promotions versus percentage in pool, percentage of women and minority successors, retention rate of successors, percentage of key positions filled internally, promotion rate of successors, success rates of those promoted and cost to fill key roles (lagging indicators); and ultimate outcomes such as organizational revenue, profits, and operating ratios.

Regardless of the exact words used to capture a given organization's CVP, one thing is sure: The elements identified in your stealth need to be continuously well thought out, believed in, communicated, executed, and measured. At its core, a great CVP encompasses everything leaders and future leaders experience and receive as they are employed by your organization—including the degree of engagement they experience, their comfort and fit within the culture, the quality of leadership, and the rewards they experience.

A great CVP always encompasses the ways in which an organization fulfills the needs, expectations, and dreams of leaders and future leaders.

More than anything, an exceptional CVP clearly connects winning talent practices to business and operating metrics. Finally, an exceptional CVP is the very definition of what it means to have a great culture.

As was discussed earlier, there exists no better way to create the belief in the value of talent than by demonstrating the connectedness between winning talent practices and operational success. The research is clear and compelling. The Hackett Group's Talent Management Performance Studies, involving hundreds of Fortune 500 companies and government agencies, gathered both qualitative and quantitative data showing enterprise financial, operational, and process payoffs as a result of having winning talent practices. Others—Boston Consulting Group, the Hay Group, PwC, Executive Development Associates, and others—have replicated these studies. Organizations with the most mature talent capabilities (i.e., the 4Ds) had significantly greater EBITDA, net profit, return on assets, return on equity, and operational results than those organizations that were immature in their talent processes. Additionally, mature talent organizations had leaders who believed in the value of the human capital asset, were passionate about investing in building and growing talent, and were relentless in their assessment of leaders, individuals, and teams.

It is clear that organizations that achieve operating excellence do so because of a sound CVP. They select and promote only those leaders and future leaders who demonstrate (as a result of performance and objective assessments) they have the highest probability of being successful; they benchmark and essentially certify (as a result of assessments) that leaders and future leaders have the capability, commitment, and alignment required to execute strategy; they provide a rich, compelling, engaging, and dynamic learning and performance support environment that motivates leaders and future leaders to become the best they can be; and they recognize and reward those who truly execute what's required in support of the desired culture and current and future operating results.

A strong CVP foundation leads to:

- *Capability*—in which leaders and future leaders possess the *can do* to execute at extraordinary levels
- *Commitment*—in which they possess the *will do*
- *Alignment*—in which they possess the *must do*

Great organizations excel in creating the belief that their leaders and future leaders have the can do (i.e., the skills, the talents, the behaviors)

to execute; the will do (i.e., passion, motivation, drive) to execute; and the must do (i.e., an overwhelming sense of connectedness to the culture, mission, strategy, and values of the organization) to execute.

In other words, a strong CVP is the foundation for any organization to build and sustain an overall positive culture in which leaders and future leaders become continuously more capable (the can do culture), committed (the will do culture), and aligned (the must do culture), which then fosters a strong individual and team performance culture (the are doing culture). In fact, organizations that excel in promoting and developing leadership talent—with a focus and unwavering commitment to optimizing all of these cultural leading indicators—achieve impressive operating results.

### ***Identifying and Developing Leaders and Future Leaders: A Critical Element of Your CVP***

Current succession planning processes in the global corporate environment are insufficient to do the job. The gap between those in senior executive positions and those prepared to move into them is widening by the day. And just as boards of directors and senior executive teams are beginning to recognize the problem, they are running into new demographic and workforce challenges that make the leadership crisis all the more challenging. This is true especially in the United States, Europe, and the Far East. By some estimates, up to 40 to 70 percent of any organization's management population is currently eligible to retire. While aging thins the ranks of senior executives, other forces have contracted the pool of those available to take over the reins. In the United States, for example, changes in many organizations' pension systems are making it easier for executives to leave senior positions, while downsizing during the 1990s and 2000s have deprived many organizations access to some of the best and the brightest. Therefore, the succession planning debate is not only about the numbers: The quality and state of readiness of those who will take over leadership is also at issue.

A number of big, successful companies have taken action to both upgrade their succession planning practices and address their leadership pipeline issues. General Electric, Procter & Gamble, and IBM have made significant progress. Others, such as FedEx, Office Depot, and Navy Federal Credit Union have launched major projects to improve their succession planning practices. But the record is mixed across. In general, many large companies and most midsize and small companies are struggling with succession challenges. Most U.S. federal agencies

and in fact most of other nations' governmental entities are in the same boat. There is little question: Considerable work remains to be done.

Succession planning is about identifying and developing your best talent (present and future) and preparing them to assume higher level roles or other key roles. Succession planning and management can also be interpreted as an organization's intelligent approach to dealing with the inevitable loss of key talent they may be experiencing now or that they project in the future (based on workforce plans). Organizations with succession plans have created intelligent contingencies for successfully combating their present and future losses. Organizations without succession plans have no choice but to react to the inevitable losses they encounter with panic and reactivity, resulting in ineffective succession decisions. Ultimately, as the Stealth Cultural Model predicts, when organizations are not intelligent about deploying their top talent, individual and team performance suffers and operating results decline—significantly.

Succession planning is needed for several key reasons. The current workforce is aging rapidly. Given the large number of baby boomers nearing retirement, all organizations must prepare for these losses. Compounding this problem are the indisputable generational realities all organizations are facing and the resulting talent gaps, both in sheer number and quality (i.e., readiness) associated with those who belong to Generation X. Not only do organizations need to prepare for a mass exodus of older workers, they must prepare for life with fewer workers in general. Furthermore, many baby boomer executives have the talents and capabilities that many high-potential and emerging leaders do not yet possess. If these talents are not transferred effectively to younger leaders and future leaders, they will become lost forever.

One thing is sure—the attraction and retention of key talent for every organization is no longer a nice-to-have. The Stealth Cultural Transformation Model clearly provides all organizations with a predictive path for achieving breakthrough operating results by successfully executing the four Ds—deployment, diagnosis, development, and demarcation. Clearly, any organization that uses an intelligent approach to optimizing its four Ds—by definition—improves its chances of both attracting and retaining the key talent required to propel the organization to greatness.

No, culture is not soft. Culture predicts operating success. So, what are the critical steps you need to take to transform your culture? Let's answer that question in Chapter 2.