

The Art of Making the Right Thing Happen



Rob Kleinbaum
Managing Director
RAK & Co
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Summary

- This paper discusses the link between DA/DDP and a company's culture
- It presents a new definition of corporate culture
- Shows the cultural obstacles to decision making
- Discusses how to overcome these alligators
- Shows how to culture can supercharge a DA/DDP
- If DA practitioners want to become more effective at changing their company, they must become more adept at creating a culture of profitability

New understanding of how business culture affects profitability

- A theory of business culture that is
 - Intellectually credible
 - Decision relevant
 - Integrates with broader business decisions
 - Empirically validated
- Elevates management of culture to same level as cost structure, competition, or customer satisfaction
 - Primary business drivers that can be actively managed
- Based on work of Lawrence Harrison, Sam Huntington and Douglas North
- Link is http://www.rakandco.com/Culture_of_Profitability.html

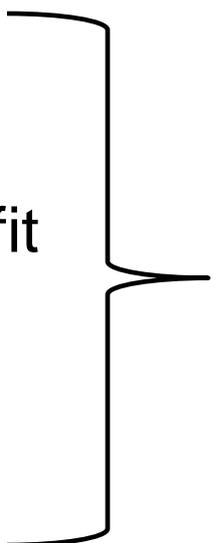
Definition of Culture in Business

- The values, beliefs, attitudes and assumptions shared within an enterprise
- Foundation of the business logic the company brings to any specific decision or problem
- Guides operations and strategy
 - Increases speed
 - Reduces costs
 - Aligns the enterprise

A “good culture” is one that leads to sustainable profitability

The three parts of culture determine the cultural capital of the business.

- True purpose/reason for being
- Instrumental values that drive fit with outside world
- Cultural infrastructure



*Cultural
Capital*

All three have a role

Poor purpose



Wrong direction

Poor fit



Wrong vehicle

Poor infrastructure



No roads

*The absence of cultural infrastructure will always hurt profits.
Their presence only creates opportunities.*

Fifteen traits that define the cultural infrastructure

Infrastructure of a Healthy (Profitable) Culture	
How people relate to the external world and each other	People identify broadly with society at large
	Trust and cooperation across internal boundaries is valued
The role and qualifications of leadership	Leadership is not worshiped
	Encourages debate and dissent
	Authority is decentralized and horizontal
	Enterprise holds leaders accountable
	Merit is central to advancement
Time Orientation	People emphasize the future, not the past
	People believe they can influence their destiny
	Frugality and investment are valued
	Innovation is valued
Basics	Work is central in healthy companies
	Education is critically important
	Ability is valued, regardless of gender, religion or race
	Ethical codes are important

Cultural Health

		GM (old)	Hospital	Hotel Co	Shipping Co
Core Purpose	True reason for being	Red	Yellow	Yellow	Green
How people relate to the external world and each other	People identify broadly with society at large	Red	Red	Yellow	Yellow
	Internal trust and cooperation is valued	Red	Yellow	Green	Red
The role and qualifications of leadership	Leadership is not worshiped	Red	Green	Green	Green
	Encourages debate and dissent	Red	Yellow	Green	Red
	Authority is decentralized and horizontal	Red	Green	Green	Yellow
	Enterprise holds leaders accountable	Red	Red	Green	Green
	Merit is central to advancement	Red	Green	Green	Yellow
Time Orientation	People emphasize the future, not the past	Red	Green	Green	Green
	People believe they can influence their destiny	Red	Yellow	Yellow	Yellow
	Frugality and investment are valued	Red	Red	Yellow	Green
	Innovation is valued	Red	Green	Red	Yellow
Basics	Work is central in healthy companies	Yellow	Green	Green	Yellow
	Education is critically important	Yellow	Green	Yellow	Yellow
	Ability is valued, regardless of gender and race	Yellow	Green	Yellow	Green
	Ethical codes are important	Green	Yellow	Green	Green

Culture perpetuates itself within a business.

- Scales
 - Stronger as it spreads
- Encoded into procedures, structure, processes, stories...
- Constrains actions that would change it
 - “We don’t do that here”
 - Ingrained emotional response
- Creates interest groups vested in maintaining it
 - Iron rice bowl
 - This was good enough for me...

“It rains into the sea and still the sea is salt”

Relative strength of culture

GM (old) Hospital



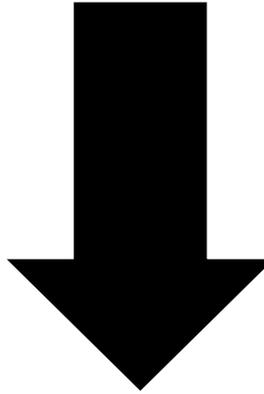
Hotel Co



Shipping Co



Where we are
most of the time



Positive

Culture makes it hard
to fail

Issues

A problem to over
come

Fatal

Culture destroys the
project

Must tackle culture
directly

Where do the alligators come from?



*Focus is fighting the gators, not draining the swamp.
Cannot change culture in the middle of a project*

How culture keeps the right things from happening

- Limits the choices
- Creates myopia or complete blindness
- Curtails debate
- Stops information flow
- Prevents effective analysis
- Confuses - or corrupts – values
- Stops people from dancing together – much less doing new dances

Loss of core purpose

- Case 1: Historical core purpose valid but “shareholder value” ascends
 - Example: too many...
- Symptoms
 - Lose understanding of customer
 - Degradation of product
 - Alternatives the company cannot implement
 - Financial concerns dominate, especially cost control
 - A great deal of attention paid to Wall Street and short term fluctuations in stock price
 - Eroding of competitive position without understanding why – leading to further cost cutting leading to...
- Remedy
 - Focus on alternatives consistent with traditional core purpose
 - Put the bean counters in their proper place
 - Be prepared to lose – in Red Territory
 - Deal with culture directly

Loss of core purpose

- Case 2: Company thinks it is changing its strategy but is changing its core purpose without changing supporting cultural capital
 - Example: A company transitions over several years from creating the product to buying, developing, marketing products from other companies. Seen as a shift in strategy but it is much more than that.
- Symptoms
 - Conflict/guerrilla war between producers/R&D and marketers/M&A
 - Large portions of organization focused on past glory
 - Alternatives that try to recreate good old days
 - Processes and skills out of alignment
 - Insufficient external and market focus to support new strategy
 - Organizational structures out of balance and part of the problem
 - Loss of morale and formerly key people leave / early retire
- Remedy
 - Need to raise issue of changing purpose and put it in the frame
 - Surface cultural fault line
 - At least as guide to alternatives

Cultural Infrastructure: Internal Mistrust

- Story – Channel conflict
 - Channel managers - Very dysfunctional group, powerful, smart, hate each others guts
 - New top guy forces them to cooperate
 - Managers control agenda to avoid change
 - Posture and pretend
 - Refuse to debate
- Remedy
 - Strongly structured exercises (DDP 101)
 - Iron grip
 - Used fear of the gorilla to keep them moving
 - Control development of alternatives, evidence, debate
 - Did not permit silence – sometimes side conversations
- Lesson: Took control away, forced behavior and used hierarchical nature of the culture to solve cultural problems
 - Used big guy as forcing function
 - Principles of DA drove the right decision
 - Helped the culture - Level of control went from very strong to none in 6 months
 - Eliminated their own organizations

Cultural Infrastructure: Internal Mistrust - A common story...

- Project problem: Key actors will not start project
 - Meddles in their turf
 - Takes over their role
 - Doubts about value
 - But promised peer to do it
- Remedy
 - Take over “project start process”
 - Write the kickoff memo and call the meeting
- Lesson: Attack the processes used to maintain the problem
 - Intuitively we do this, but need deeper understanding of why
 - Take control of key processes
 - Create alliances between key actors

“People identify broadly with society at large”

- Insularity is a common and often fatal problem
- Most companies that have ruined themselves were deeply insular
- Large and established companies tend to loose touch with society
- Decision quality problems
 - Alternatives will be wrong
 - The revenue side of the influence diagram is going to be wrong
 - Analysis flawed for both reasons

Indicators of Insularity

Poor Data on Customers	Company has data only on its own customers
	No data on customer needs, just demographics
	Market research ignored or only used to confirm decisions
Angry at the World	People blame customers for screw ups
	Hostility/suspicion to franchisees/distributors/retailers
	Relations with “civil society” perpetually hostile
	Unable to manage alliances and they are usually disappointing
	Attitude of contempt and hostility to people outside the company
	Supplier relationships hostile
Self-isolating	Products not developed around customers
	Company creates its own vocabulary and expects everyone to know it
	Everyone lives in the same neighborhood and goes to the same clubs

Remedy: Power in Service to Others

- Take responsibility for alternative generation, influence diagram structure, information collection and analysis
 - Should view as a service and part of job
 - Not take over content or disempowering
- Must overcome their worse natures
 - Natural tendency of organization is to do the wrong thing
- Challenge is must overcome voices deep within people
 - People will use the right words, but not believe them
- Requires actively confronting problem
 - Show – NOT TELL
 - Force tactile, experiential learning

Making a decision

Must understand if the recommendation is inconsistent with any part of the culture

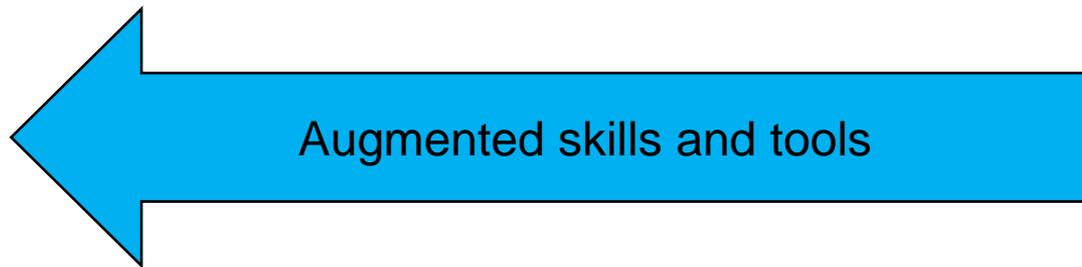
Eyes must be wide open

Supercharging a DA

Reconnect the decision to the core values

- If an organization is hierarchical and needs to change, then have the top person order the change
- A company that values overt aggression and greed (e.g. bond traders); “We love the rough-and-tumble, it makes us who we are” could be overturned by “This will double your bonus checks.”
- A high tech company that values informality and advanced technology; “We think informality drives creativity and technical excellence” can be offset with “We could do far greater and cooler technologies that would really change the world if we formalize things a bit.”
- A word will change your world...

If the goal is effectiveness and a stronger company, we need to be more adept at creating a culture of profitability



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