

Creating a Culture of Profitability

A Revolutionary Model for Managing Culture



by Rob and Aviva Kleinbaum

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*To our three sons: Ian, Aric, and Danny, who taught us more
than we are willing to admit.*

Preface and Acknowledgments

First, a note on “voice.” We go back and forth between the first person singular and plural. When we use singular voice, Rob is talking about his experiences (usually in a context that should make it obvious). We hope we have not caused any unnecessary confusion by switching back and forth between singular and plural pronouns. We have done our best to keep the tone light and informal. The subject is serious, but there is no reason the language has to be dull.

Thanks to Lawrence Harrison for bringing us into his work family and for creating the immense intellectual foundation on which the work rests, as well as his insightful and detailed comments on this work.

Three successful but different businessmen – David Jerome, Greg Powel, and Nick Pudar – offered wonderful advice. The participants at the Society of Decision Professionals 2013 Workshop, “Managing Alligators,” were generous and thoughtful in their suggestions; they also reinforced our belief in the applicability of these ideas to managing projects.

The brilliant and eclectic participants of the Samuel Huntington Memorial Symposium: *Culture, Culture Change, and Economic Development* that took place in Moscow in 2010 provided a world class forum for discussing the main ideas in this book.

Our editors, Dave and Debbie Charlesworth, provided constant comments that shaped and focused the ideas, bringing their own long experience in business as well as their editing skills to bear on the work. Nancy Winchester offered helpful and gracious comments well beyond the call of duty.

Ian Mutchnick took time out of his crazy schedule as a neurosurgeon to make valuable comments about the neurological underpinnings of culture; this could well be the wave of the future. Dan Kleinbaum has been a deep contributor to this work for the last two years. It would not be here without his thoughtfulness, support, and effort. It is a great blessing to have worked together.

This book has been a joint labor of love between the two of us over the last five years directly and over the last 15 years working together, always trying to blend our different point of views. It helps to be in love with your co-author, especially when talking loudly through the disagreements. We are each here because of the other.

Publisher's Note

Two years ago Rob Kleinbaum and I talked at a Decision Analysis Affinity Group (DAAG) conference about a book he had started working on. Rob and his wife Aviva had studied fundamental sociological research that Lawrence Harrison and others had been doing on determining why some cultures succeed and others fail and were extending this thinking to a business context. This concept was intriguing, so we agreed to undertake the project. We went through many discussions and revisions of the text, especially as we got feedback from reviewers as noted in the Preface. In fact, it was just over a year ago when we provided our first comments back to Rob on the initial manuscript.

We believe the result is a powerful framework that gives managers and leaders the tools they need to create sustainable and profitable cultures within their organizations.

You might wonder why a publisher of decision analysis and game theory books would be interested in a book on business culture. The answer is simple: a company won't realize the full benefits of implementing decision analysis unless the culture is positive. The Kleinbaums have systematized, organized, and codified what most of us who work have intuited but never organized.

Another distinction relative to decision analysis (DA) is that DA can sometimes be implemented, at least partially, from the ground up (although a medium to high level sponsor is usually necessary). To change the culture, the top person within a unit or a team or a company *must* be either the instigator or at least integrally involved in and supportive of the effort.

We suggest that you first read the book for an overall view of the content. Then refer to Chapter 12, which discusses how to get started. An example from my background may be useful in illustrating some of the potential benefits of changing culture and providing direction on successful implementation.

I once worked as a technical team leader in a manufacturing plant. It was not a fun job – many of the negative cultural traits you're going to read about in this book were present. We probably had negatives relative to most of Rob's 13 aspects of cultural infrastructure (see Table 2.1).

In addition to manufacturing a large slate of products, our Division also had to interface with R&D and marketing. R&D would develop something to fill a marketing need, they'd sample the customer,

and if the customer liked it, we'd have to scale it up. Many times there were significant problems with the scale up, which would anger marketing and R&D (they'd blame us and tell headquarters that were incompetent).

The Production Superintendent and the Division team leads (the Division Leadership Team), recognizing that we had an image problem relative the rest of the business, decided to try to improve our image. I had connectivity to an excellent Organizational Development "guru" named Ed Klinge, and Ed gave us a framework to use for us to work on the image problem. His framework was much more basic and "generic" than what the Kleinbaums present here, but it illustrates a successful approach.

We did a workshop, and started with the question, "What is our perception of our own image?" We filled several chart pad pages of comments, mostly negative. The next question was, "What do we do that contributes to this image?" Again, chart pad pages of stuff, 90% of it negative. This was very sobering. At the end of that exercise (the first phase of Workshop) everybody was really depressed, as we realized that we were our own collective worst enemy!

We condensed and reviewed our lists with the upper management on-site (no way we would have trusted the headquarters managers with any of this!), and they apologized, as they didn't realize that the climate was so bad. Then we collectively discussed the question, "Which of these items is the most important factor on our list?" There was a healthy debate, which we captured and we then agreed on the top one. The next question was, "What steps do we need to take to address this item?" This turned into a plan and time line on the whiteboard, which we all contributed to, agreed to do, and agreed to hold ourselves accountable for doing. We implemented the plan and the site upper management was right there with us supporting us. We completed the first item and then came back and did the second item on the list. After we did items 3 and 4, our performance, communication, and subsequently our reputation started to improve. We were slowly changing the culture.

These changes were subsequently put to the test. We had a new product that we failed several times to make in our equipment. The Production Superintendent had agreed to kill it. The marketing guy called and pleaded with me to intervene, as he had customers that loved the product samples they had obtained from R&D. We convened a workshop and used a very similar framework, but this time included R&D (which had heretofore been considered the enemy). It took 1/2

day just to ground everybody on the history of the product's R&D and the previous failed attempts. The workshop took two days. We ended up with a VERY detailed multi-color time line on the white-board wall of the conference room which everybody bought in to (even R&D and marketing) and they all had a role. Upon the "last chance" production run, we nailed it. One of the R&D team leaders spent a whole shift working at the front of the process helping an operator de-lump feed materials, which was unheard of. Even the most cynical operators were excited when the thing worked. We did a look-back workshop and agreed to work together (rather than blame each other) on subsequent new products. We changed the culture. It can be done!

The lessons learned relative to this book include:

1. *Top Down*. Culture change has to be top down, but in our case, a member of the Leadership Team (me) did catalyze it. I was fortunate to have a progressive and competent Division Superintendent – we would not have been successful without his active involvement, participation, and support.
2. *No Shotguns!* Don't take a "shotgun" approach to changing culture – pick out the top one or two items and address them thoroughly before moving on to the next items that you need to work on.
3. *Culture can be improved*. This book gives you a powerful tool kit to get started.

We would sincerely like to hear your comments relative to this book, especially successful examples. Please e-mail dave@decisions-books.com, and we sincerely wish you success in your endeavors.

Dave and Debbie Charlesworth
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1

Introduction: A Better Way

I knew that corporate culture carried much of the blame when, after 25 years of working either for or with General Motors (GM), I watched the company deteriorate and go bankrupt.

GM's response to the crisis in 2008 and early 2009 reflected its fundamental beliefs about the way the world works and was consistent with what it had been doing for the last 30 years: cut "structural costs," wait for future products to bring salvation, and count on cash from other regions to help prop things up. In the meantime, make no fundamental change in the business, its structure, or people running it (as they are clearly the best and brightest, know how to manage in a serious way, and have a sound plan). Proposed changes were touted as "profound" and "fundamental" but were really the minimum change from status quo the company believed it could get away with. GM leadership was unwilling to make necessary but painful long-term changes; instead there was continual compromise of action that only delayed disaster. This was reflected in every aspect of the enterprise, from decisions on manufacturing, which never brought capacity into line with market realities, to people, where almost no one was ever let go for poor performance.

GM's corporate culture had become unhealthy and self-destructive. Lack of customer awareness and the strong insular nature of its culture sent GM down a path towards bankruptcy well before the onset of the economic crisis. GM was so out of touch with the market they could not capitalize on innovations and changing customer needs, even though they had many of the technologies and ideas to do so. They failed to stay competitive.

I knew that culture was an important factor contributing to GM's failure and that there had to be an explanation and a solution to the problem of poor organizational culture. The best business writings on organizational culture – Argyis¹, Schein², and Kotter³ – assign the success and failures of companies to their cultures but did not go far enough to be useful and none did a great job of describing what I was seeing. Because GM's culture was so destructive, I wondered if there were organizations with cultures that led them to be successful. There must be a better way!

The path to creating this book began with *Culture Matters*⁴ by Lawrence Harrison and Samuel Huntington, two of the leading experts in economic development. These scholars addressed a fundamental question: *Does culture matter in societal development?* Harrison and Huntington made a compelling case: *culture matters a great deal*. They uncovered the specific traits that lead a society to progress or prevent it from doing so. Their work provided a rigorous way to think about culture that is based on evidence. They found that some cultures are able to create and foster consistent strong development, but some flounder despite huge amounts of international aid. Their explanation was brilliant. Surmising that these same cultural traits that Harrison and Huntington found to be important in a society would also apply to private enterprise, I took their model and applied it as a filter to analyze GM's culture. The product was a paper I wrote in March 2009, *Retooling GM's Culture* (see Appendix).

Retooling resonated with nearly every GM manager and professional below the management committee that was making the corporate decisions. It also resonated with many outsiders. The most compelling e-mails were from GM people who noted that the paper echoed their experience and wanted to know how they could help. The desire by members of the organization to belong to a healthy culture was so strong that it was almost heartbreaking. It showed the deeply human side of understanding culture – it matters to the lives of people. When *Retooling* circulated widely in government and industry, many

-
- 1 Argyris, Chris. (1993) *Knowledge for Action: A Guide to Overcoming Barriers to Organizational Change*, Jossey-Bass.
 - 2 Schein, Edgar. (2010) *Organizational Culture and Leadership* 4th Edition, Jossey-Bass.
 - 3 Kotter, John and James Heskett. (1992) *Corporate Culture and Performance*, Free Press.
 - 4 Harrison, Lawrence and Samuel Huntington. (2001) *Culture Matters: How Values Shape Human Progress*, Basic Books.

industry experts, executives, consultants, and journalists said that the paper was the best description of the culture they had seen. Senior management, starting with the CEO, was furious; they immediately canceled my contract and said that I would never work at GM again (nor have I). So clearly I was on to something.

One unexpected result of *Retooling* was that Lawrence Harrison brought me into his professional family and invited me to join the executive committee of the Cultural Change Institute at Tufts University. He inspired me to work more deeply on the role of culture in business. This involved addressing the fundamental question that he had asked concerning nations:

Is there a definition of “good” *corporate* culture – culture that leads to lasting business success?

This book answers the question and the answer is “Yes.”

We have created a useful map where there was once only a vague sketch with many regions marked *terra incognita*. The map’s value is the power it gives business leaders to navigate their way and manage culture to the same degree they can manage other important and complex drivers of profitability such as cost, customers, R&D, and so on. Managing culture will still need insight, diligence, creativity, and work, just as these other drivers do, but the map we provide is a big improvement over today’s ad hoc treatment of culture. Like any map, its worth is how it gets you to your destination, not the detail on every space between here and there.⁵

1.1 What do we Mean by “Culture?”

Before laying out the details, we need to create two key building blocks: what we mean by “culture” and what makes a culture “good.”

Culture is the values, beliefs, attitudes, and assumptions shared within a company.

Culture includes all the shared mental baggage people carry with them. Behind any string of complicated logic lies the assumptions giving a thought shape. Culture is what defines those assumptions and, therefore, includes the reasoning and logic people use when they are making decisions. These beliefs and behaviors are brought to one decision after another, leading to success or failure. Culture affects the

5 Giere, Ronald (2006) *Scientific Perspectivism*, University of Chicago Press.

success of the company through the quality (or lack of quality) of the decisions that management makes.

Business culture helps people decide quickly by making the basic rules clear and aligning the company. People at all levels understand their role and what they are supposed to do without having to be told. The success of many companies, including Chevron, McKinsey, P&G, Honda, WL Gore, and Pixar is attributed to their cultures. A recent study of Toyota concluded that its success is due as much to its culture as to the Toyota Production System.⁶

Despite all this, mentioning the “C” word makes eyes roll, as it is seen as too “soft” to deal with operationally and does not matter anyway, once the “real stuff” has been taken care of. Business leaders know that culture is important but are frustrated with the lack of tools and specifics available to improve culture. Academic business theory is either too general or too daunting to be useful. Defining a good culture as adaptable and appropriate is hard to argue with but is not very helpful. A theory of culture needing an army of outsiders led by a genius professor to manage is not going to be “scalable,” as we say today. Much of the research is driven by ideology and “positive” values from people with little understanding of business and only a vague notion that profits are important. Authors assert values that sound good, but do not have a convincing story on how culture adds to profits.

1.2 What is a “Good” Culture?

We define a “good” culture very simply:

A good culture is a culture that leads to a profitable, sustainable, healthy business.

Our focus is on sustaining a healthy and profitable business, not morals or aesthetics. Profitability is the outcome of success, that is, a measurement or indicator of how healthy your business is. If an idea does not contribute to the long-term health of a company, it should be tossed aside. We are not saying greed is good; it is not, for reasons we will discuss later. However, without profit, your business will be neither sustainable nor healthy. Robert Heinlein once said “Blessed are the rich in spirit, for they shall make dough.”⁷

6 Takeuchi, Hirotaka, Emi Osono, and Norihiko Shimizu (2008) “The Contradictions that Drive Toyota’s Success” Harvard Business Review

7 Heinlein, Robert. (1961) *Stranger in a Strange Land*, Putnam.

Now that we've defined "good" culture, is there such a thing, and if so, what is it? The current consensus in literature is that the only universal characteristics of a good culture are adaptability and fit. This is not very useful. People need more depth to improve culture and business leaders are frustrated with the literature. It is like reducing marketing to "give customers what they want" or managing costs to "keep costs as low as possible."

An unsatisfactory answer does not always mean an incorrect answer. Our cure for the common cold is rest and chicken soup, and that is the extent of our understanding whether we like it or not. For culture, however, there is a much richer answer that we will develop.

People who care about the development of countries have looked at the role of culture for a long time, e.g. Weber's *The Protestant Ethic and the Spirit of Capitalism*, published in 1905. Over the last 20 years, there has been new research on the subject, initiated and led by Lawrence Harrison (mentioned earlier) and the Cultural Change Institute at Tufts. The Institute focused on how culture contributes to the prosperity and democracy of nations and published their findings in three major works: *Culture Matters* (2001), *The Central Liberal Truth* (2006), and *Jews, Confucians, and Protestants: Cultural Capital, and the End of Multiculturalism* (2012), with three volumes of supporting studies.

One of their important findings is that policy interventions need to consider culture, both in considering the causes of the problem and its cure. Naïve policy prescriptions that are oblivious to cultural issues are likely to fail. This also holds true for managing business problems. Culture is often a key part of many business challenges and needs to be part of the solution. Without this awareness, people will often work on the wrong issues.

Harrison and his colleagues (led by Mariano Grondona) found 25 attributes that define whether a culture is good⁸, i.e. leads to economic success and democracy (see Appendix for a full listing). These attributes have been empirically validated⁹ and are compelling. These are the values shared by the most successful societies on Earth and by the highest achieving minorities within them. Harrison calls them collectively a country's *cultural capital*. This is a powerful idea that applies to companies as well.

8 Harrison, Lawrence. (2013) *Jews, Confucians, and Protestants: Cultural Capital and the End of Multiculturalism*, Rowman and Littlefield.

9 They were independently tested in the World Values Survey. Ronald Inglehart, "Testing the Progress Typology," presented at the final Culture Matters Research Project conference at the Fletcher School, Tufts University, March 27-8, 2004, p. 10.

It is a short leap to assert that the same values that lead to prosperity for nations also lead to prosperity for companies, since a nation's wealth depends heavily upon the success of its businesses. These 25 attributes are the starting point for thinking about what defines a good culture for companies, but there are three reasons they must be modified:

- ◆ Some, such as child rearing, do not apply.
- ◆ A company is part of larger society and we know that the company's culture plays an important role in how well it fits into the surrounding society. For example, German and Japanese companies hold different cultural norms within their respective national cultures.
- ◆ Companies possess a core purpose beyond making money that defines the heart of their values. This purpose differs from company to company, even for close competitors in the same markets.

Leo Tolstoy famously said, "All happy families resemble one another; each unhappy family is unhappy in its own way." This quote sheds insight on understanding business culture and differences between companies. *All good cultures look alike, as they share many of the same characteristics.* Even in different places and industries, healthy companies all have a clear purpose, fit well within the larger society and markets, and live by a set of values that drive business success.

However, culture can go bad and drive failure in many ways, so there will be differences between the "unhappy" companies with a poor culture: some will be buggy makers in a world of automobiles, some have poor ethics, some are insular, some will be torn apart by internal silos, and so on.

1.3 How this Book is Organized

The next chapter defines a "profitable culture," presenting the main ideas and concepts. The will give you a clear understanding of the structure of a good culture.

The following chapters form the heart of the book: how to diagnose and manage culture. For each cultural value, we discuss:

- ◆ Forces leading to decay, which we refer to as the forces of entropy,
- ◆ Symptoms allowing diagnosis, and
- ◆ Remedies for restoring cultural health, both for upper management and for middle management.

In discussing how culture decays, we contrast what makes a company successful with what leads to decay. We liken cultural decay to entropy, that is, natural forces that lead to decay.

We discuss detailed symptoms on the health of each part of corporate culture. This permits a company to develop an early warning system and to understand specific cultural problems.

When presenting remedies, we distinguish between actions top management can take and those middle management can take. Both are important, but the respective span of control and roles are different, so separate tools are necessary. Both the top manager and middle manager should recognize what aspects of culture are within their span of control and have a conceptual model and set of tools to restore cultural health to their organization.

Following the chapters on diagnosis and treatment there is a chapter on managing the ways that culture preserves and protects itself. This issue cuts across different cultural traits and merit its own chapter.

We then discuss how a company should begin to implement culture management, including specific steps and tools. We suggest organizational roles and responsibilities for managing culture on an ongoing basis. Each company will need its own solution, but the initial road map can help it get started. We include a chapter on dealing with a strong but unhealthy culture.

The next chapter is titled “Managing Alligators.” It focuses on how to survive cultural issues when running a project. The purpose is to give the tools for anticipating culture-related problems at the beginning of a project. This allows the team to plan for and manage them.

The final chapters include an empirical test of our key idea: right culture leads to profitability. While the results must be read with some caution, they are encouraging.

We are now ready to discuss a *culture of profitability*.

2

A Profitable Culture

The first step to fill in the sparse map of culture is to split corporate culture into four distinct parts, each with its own role:

- ◆ *Core purpose* – the guiding objective or principle that sets the organization’s direction – its *raison d’être*.
- ◆ *Instrumental values* – links between the external environment and the firm.
- ◆ *Cultural infrastructure* – traits necessary for sustainable success for all companies, although their relative importance will vary. These traits drive good decisions throughout the enterprise.
- ◆ *Self-preserving mechanisms* – the ways in which culture becomes deeply embedded within the enterprise, ensuring compliance and punishing those who would change it; almost a living thing in its tenacity and will, not a set of ephemeral values.

This is a fundamental redrawing of the map of culture, replacing “Here be Dragons” with a map that supports navigation and management.

The following sections discuss these distinctive parts of culture and describe how they can contribute to making a culture “good” or healthy, ultimately leading to profitability.

2.1 Core Purpose

The first part of a company’s culture is its *core purpose or reason for being*. This is the true heart of the enterprise – what people really want to do and where they want to go. To be useful, the purpose must be broadly understood and specific enough to guide action, otherwise