

---

# On Performance Culture

by Scott Keller and Carolyn Aiken

- 1 [Article Summary](#)
  - The idea in Brief
  - The idea in Practice
- 2 [On Performance Culture](#)
- 17 [Attachments](#)
  - Further Reading

# On Performance Culture

## The Idea in Brief

Most business leaders know intuitively what academic research has consistently confirmed – that cultural factors are powerful drivers of business performance.

Larry Bossidy, reflecting on his turnaround of Allied Signal, says that “the soft stuff is at least as important as the hard stuff.” Jack Welch, after he masterminded GE’s corporate transformation in the ’80s and ’90s, said, “No company can sustain high productivity without culture change.” They are right. McKinsey research has found that companies with strong performance cultures have 11 percent higher annual total return to shareholders (TRS) and 5.2 percent higher return on investment capital (ROIC) than those with weak performance cultures.

But culture change doesn’t come easily. Lou Gerstner, who transformed IBM’s fortunes in the ’90s, says, “Fixing culture is the most critical – and the most difficult – part of a corporate transformation.” Carly Fiorina, the ex-HP boss reflects, “The soft stuff is actually the hard stuff.” They are right, too. The truth is that more than 70 percent of large-scale change efforts fail, and of these failures more than 70 percent are due to culture-related issues: employee resistance to change and unsupportive management behavior.

Executives try a variety of initiatives to create high-performance environments. More often than not, however, the results are disappointing. Cultural interventions are often not clearly linked to business performance and value creation. Such initiatives also frequently fail to explicitly address the often hidden mindsets and attitudes of employees. Finally, dysfunctional cultures are simply tough to fix. How do you get thousands of employees to suddenly change their most basic assumptions about their company when these filter through everything the company does?

To help companies overcome these obstacles, we have developed a proven approach to creating high performance cultures that combines rigor and discipline in problem-solving, deep insight into human behavior, and pragmatic business sense. We see five imperatives in driving high performance through culture.

## The Idea in Practice

**1. Build Transformation Intent.** Building transformation intent is the process through which the organization solidifies and signals its commitment to cultural change. It involves establishing a *shared vocabulary and fact base* regarding company culture; addressing the *root causes* of cultural inhibitors; focusing efforts on the *business-critical “from-to’s”*; and *aligning senior leadership* on the need to tackle these factors and transform themselves ahead of the organization. At British Petroleum, for example, the cultural goal was to move from bureaucracy to entrepreneurialism, internal focus to market focus, blame/finger pointing to accountability, and a “hit today’s numbers” mindset to a sustainable growth mindset.

**2. Shift the Employee Environment.** The same person will behave differently in different environments. Successful programs capitalize on this fact and proactively shape the environment to enhance culture shifts, by applying four management levers: creating powerful and consistent *role models*; *fostering understanding and conviction* through compelling stories/communications; *adjusting formal structures, systems and processes* to support desired shifts; and developing the required *talent and skills*. At Southwest Airlines, for example, a Culture Committee of more than 100 corporate missionaries dedicate themselves to promoting the company’s unique culture. All of the people systems are also wired to influence the desired culture. As founder Herb Kelleher says, “We don’t care that much about education and expertise, because we can train people to do whatever they have to do. We hire attitudes.”

**3. Facilitate Personal Transformation.** It is naïve to think that changing an employee’s external environment is the whole answer to culture change. Not all people in a given environment will act the same – there is always personal choice. Companies can achieve dramatic shifts by creating opportunities for employees to gain *insights into deeply ingrained patterns* of behavior, pursuing these interventions until they are *fully embedded*, and ensuring a *critical mass* of personal transformation is quickly achieved. For example, when British Airways decided to transform itself from a transportation business to a service business, its primary intervention was putting its entire 37,000

person workforce went through a multi-day personal transformation workshop entitled “Putting People First.”

**4. Culturally Engineer Business Initiatives.** In an age where performance, growth, and culture change must be pursued simultaneously, business initiatives can easily run counter to, and ultimately sabotage, culture efforts. Culturally engineering initiatives involves explicitly maximizing both the *culture impact of business initiatives* and the *business impact of culture interventions* as well as ensuring the *employee experience* is coherent and reinforcing across all initiatives, collectively creating a virtuous cycle of culture change. Take GE’s transformation, for example. Sixteen of Jack Welch’s nineteen major initiatives were explicitly engineered for their culture impact. And, according to Welch, timing was everything: “It took 5 years to prepare the company culturally to be able to handle WorkOut” (one of the cultural interventions.)

**5. Ensure Bottom-Line Impact.** Once cultural initiatives have been designed, companies need a robust approach to *taking stock* of and adjusting efforts during implementation, using data to *tailor culture interventions* to specific needs of business sub-segments, and developing methods to *determine the ROI of culture interventions* so efforts can be rigorously traded off against other competing priorities. For example, a longitudinal study by Sears department store chain found that a 5-point increase in its culture survey correlated to a 1.3-point improvement in customer satisfaction, which in turn correlated to a \$250 million increase in revenue.

*Culture can be both an obstacle to and an enabler of high performance at companies. By linking interventions to the bottom line and targeting the root causes of resistance, our approach helps clients create value through cultural change.*

---

# On Performance Culture

by Scott Keller and Carolyn Aiken

## Soft Issues: The Hardest and Most Critical

Look back over your career and think of a time when you worked with a group of people, where you would say “We were awesome. We did something extraordinary. It was a peak performance experience.” What was it that sets it apart from all the other experiences you could have chosen? What characterized the environment in which you were working that enabled this experience to be so distinctive?

Most managers who reflect on this question highlight similar factors, all relating to the organization’s culture. They speak of *alignment on direction*: everyone understood and agreed with where they were collectively headed. The process by which they would get there was clear, as were implications for everyone’s role.

They speak of *quality of interaction*: people worked together efficiently and effectively as a team, with a sense of belonging. Meeting processes were clear; decision making was effective; people put egos aside. Conflicts were raised and resolved constructively; there was trust and real communication.

And many mention a *sense of renewal*: the team’s goal was deeply meaningful at

a personal level – it mattered. There was a sense of making a difference beyond what any individual could do alone. Team members stretched, were excited, learned from one another. People got out of their comfort zones.

How much more productive were you during this peak performance experience than on average? Most managers report they are two to five times more productive in peak performance environments.

Do the math for your own organization. What percentage of your employees are currently working in a peak performance environment, where goals are aligned, people interact well and teams feel renewed by their work? If you are like most leaders we have met in large organizations, your answer is likely to be less than 20 percent.

Imagine if 50 percent of your employees worked in such an environment. Or 70 percent. For every 30 percent improvement, productivity would double. What would happen to business performance? And how would it feel to come to work every day?

The simple exercise above illustrates what most business leaders know intuitively, and what academic research confirms – *cultural factors are powerful drivers of business performance*.

---

**Scott Keller** ([scott\\_keller@mckinsey.com](mailto:scott_keller@mckinsey.com)) is a Principal in McKinsey & Company’s Chicago Office. Scott is the co-founder and leader of McKinsey’s Performance Leadership Institute and has deep experience in transforming company culture for improved business performance. Also from McKinsey & Company is **Carolyn Aiken** ([carolyn\\_aiken@mckinsey.com](mailto:carolyn_aiken@mckinsey.com)), an Associate in the Toronto Office who has pioneered approaches to shaping the employee environment and culturally engineering strategic and operational initiatives.

Larry Bossidy, reflecting on his turnaround of Allied Signal, says that “the soft stuff is at least as important as the hard stuff.” Jack Welch, after he masterminded GE’s corporate transformation in the ‘80s and ‘90s, said, “No company can sustain high productivity without culture change.” They are right.

At GE, the performance culture became so strong that GE could apply it to newly acquired companies in disparate industries and raise their performance significantly within the first 2 years. This cultural competitive advantage sustained continuous stock-value growth of 30 percent per year for more than 20 years.

And GE is not alone. McKinsey research has found that companies with strong performance cultures have 11 percent higher annual total return to shareholders (TRS) and 5.2 percent higher return on investment capital (ROIC) than those with weak performance cultures. At the operating level, the landmark longitudinal study by Sears department store chain found that a 5-point increase in its culture survey correlated to a 1.3-point improvement in customer satisfaction, which in turn correlated to a \$250 million increase in revenue.

But culture change doesn’t come easily. Lou Gerstner, who transformed IBM’s fortunes in the ‘90s, says, “Fixing culture is the most critical – and the most difficult – part of a corporate transformation.” Carly Fiorina, the ex-HP boss reflects, “The soft stuff is actually the hard stuff.” They are right, too.

The truth is that more than 70 percent of large-scale change efforts fail, and of these failures, more than 70 percent are due to culture-related issues: employee resistance to change and unsupportive management behavior. (See pie chart, “*Why change programs fail.*”)

Executives try a variety of initiatives to create high-performance environments. More often than not, however, the results are disappointing, for three reasons:

- Cultural interventions are often not clearly linked to business performance and value creation, so they easily become low priority in the eyes of managers and employees alike.
- Such initiatives frequently fail to go beneath the organization’s surface, to explicitly address the often hidden mindsets and attitudes that employees bring to bear on their daily work.

#### **What business leaders say ...**

- *“Fixing culture is the most critical – and the most difficult – part of a corporate transformation... In the end, management doesn’t change culture. Management invites the workforce itself to change the culture.” Lou Gerstner, IBM<sup>1</sup>*
- *“The soft stuff – people’s beliefs and behaviors – is at least as important as hard stuff. Making changes in strategy or structure by itself takes a company only so far.” Larry Bossidy, AlliedSignal<sup>2</sup>*
- *“A company can boost productivity by restructuring, removing bureaucracy and downsizing, but it cannot sustain high productivity without culture change.” Jack Welch, GE<sup>3</sup>*
- *“Our organization is our strategy.” Sir John Browne, BP<sup>4</sup>*
- *“Culture and capability is the only source of sustainable corporate advantage.” Dave Roberts, Barclays<sup>5</sup>*
- *“Culture and values and how people behave ... I’ve heard people refer to it as ‘the soft stuff’ – they often underestimate its importance. The soft stuff is actually the hard stuff.” Carly Fiorina, Hewlett-Packard<sup>6</sup>*
- *“A great company needs a really rock solid culture that stands up to bad times” Tom Siebel, Siebel Systems<sup>7</sup>*
- *“In the end, whether or not you have a values-driven culture is what makes you a winner or a loser.” Sam Palmisano, IBM<sup>8</sup>*
- *“Having the right culture is a critical element of building a business of any sort.” Steve Markel, Markel Corp<sup>9</sup>*
- *“One of the first things I did as CEO was take senior leadership through a series of sessions to develop and common set of values and make sure they were understood and constantly reinforced. We then asked 40,000 employees for input and got incredible feedback, which we incorporated. It was a transformation process.” Bruce Nelson, Office Depot<sup>10</sup>*

- Dysfunctional cultures are simply tough to fix – perhaps the toughest challenge that can beset a corporation. How do you get thousands of employees to suddenly change their most basic assumptions about their company? After all, the beliefs and attitudes that make up culture filter into everything else – decisions on basic strategy, management style, staffing, performance expectations, product development, etc.

In 1999, McKinsey established its Performance Leadership Institute, which aims to help companies avoid these disappointments and create real and lasting change. Since then, the firm has spent more than \$40 million investigating what it takes to transform company culture for improved business performance – and to do so in a relatively short timeframe (18 months to 3 years).

Our research has involved 1,000+ senior executives, 500+ historical and live cases,

35 professors from 15 business and graduate schools, and more than 30 of the world's foremost executive coaches, facilitators, and adult-learning practitioners. The result is an approach to cultural change that is distinctive for its combination of problem-solving rigor and discipline, deep insight into human behavior, and pragmatic business sense.

At the heart of this integrated, proven approach are five imperatives for driving high performance through culture:

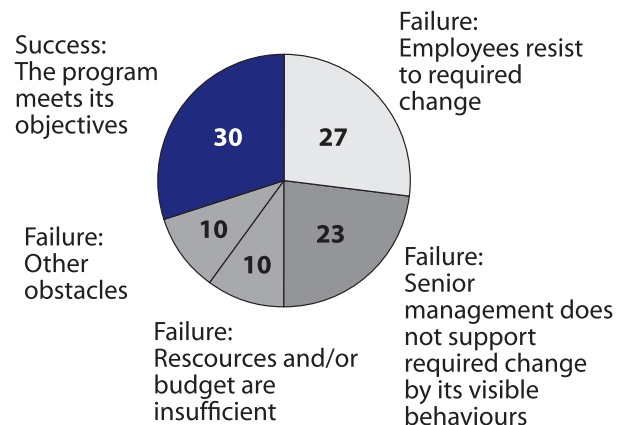
1. Build transformation intent
2. Shift the employee environment
3. Facilitate personal transformation
4. Culturally engineer business initiatives
5. Ensure bottom-line impact.

#### **Selected Research on the Business Impact of Culture**

- Companies with strong performance cultures have 11% higher annual TRS and 5.2% higher ROIC than those with weak performance cultures<sup>11</sup>
- Multiple longitudinal studies during the 1990s at companies such as Sears, Ford Motor Credit, and National Bank of Detroit have quantitatively shown that culture improvement programs drive real business performance improvement. The landmark study by Sears (department store chain), for example, found that a 5-point increase in its culture survey correlated to a 1.3-point improvement in customer satisfaction, which in turn was correlated with a US\$250 million increase in revenue.<sup>12</sup>
- The number 1 motivator of talented people in a manager survey of the top 200 companies worldwide (out of a list of 20 possible) is 'Values and Culture'. It was cited as essential by 58% of respondents – compared with other items such as 'career advancement' 38%, 'high total compensation' 28%, 'job security' 8%.<sup>13</sup>
- A comparison of refineries in a global oil and gas company found culture is the single biggest driver of performance differentials (R-squared 0.54).<sup>14</sup>
- Studies suggest that over 70% of large-scale change efforts fail, and of these failures over 70 are due to organizational issues – employee resistance to change and management behavior considered not supportive of the change.<sup>15</sup>

#### **Why Change Programs Fail**

Transformation program results  
Percent



## 1. Build Transformation Intent

Building transformation intent is the process through which the organization solidifies and signals its commitment to cultural change. It involves establishing a *shared vocabulary and fact base* regarding company culture; addressing the *root causes* of cultural inhibitors; focusing efforts on the *business-critical “from-to’s”*; and *aligning senior leadership* on the need to tackle these factors and transform themselves ahead of the organization.

### Establish a shared vocabulary and fact base

Alignment on direction requires a shared language and objective data on company culture. These move culture from being “airy fairy” to being overtly manageable, enabling a company to objectively evaluate its choices and decide where and how to focus its efforts.

McKinsey has developed a number of proprietary tools for this purpose, based on research into more than 200 of the world’s highest performing companies:

- The Organization Performance Profile (OPP) is a survey tool that examines multiple dimensions of organization performance such as accountability, motivation, alignment on direction, values, innovation, external orientation, etc... Each of these dimensions is considered in depth, in terms of both the outcomes they achieve and their drivers – be they mindsets, skills, or practices.
- The Values Survey is a proprietary tool that allows companies to quickly (survey takes just 5-7 min. to complete) understand their employees’ current and desired organizational experiences, and how these relate to employees’ personal values.
- Deep Structure Interview (DSI) techniques are used to reveal the underlying mindsets that drive behaviors. While the effectiveness of traditional interviews often depends on the interviewee’s self-awareness, DSI techniques use story telling, role playing,

examples, responses to hypotheticals, and provocations to help interviewers get beneath the surface.

Beyond surveys and interviews, real data should also be gathered in order to validate perception with fact. In a financial services organization, for example, there was a strong sense that pay did not vary based on performance and that this was de-motivating for the workforce. The facts, however, proved that in fact pay varied significantly with performance and had done so for a number of years. The problem called for a communications, not a process, fix.

### Uncover and address root causes

Too often, organization specialists stop their diagnoses at the level of concluding that an organization is “bureaucratic” or “hierarchical.” Although useful at a thematic level, this level of conclusion is hardly insightful – most managers would tell you this in the first 15 minutes of any interview. McKinsey adds distinctive value by identifying the root causes of such cultural blockers and showing how they manifest in ways that directly influence business performance.

In one bank, for example, the impact of bureaucracy was quantified by understanding how it directly impeded the bank’s ability to acquire new customers. Bankers were spending excessive time on administrative tasks at the expense of dealing with customers – despite instructions and incentives to the contrary. Investigation revealed that a significant portion of the bureaucracy was unconsciously self-imposed by the bankers themselves, rather than by corporate processes. And they did so because they were intrinsically more comfortable with and skilled at dealing with paper than interacting with people. Acting on this insight, the bank helped employees become aware of – and overcome – this performance limiting mindset.

At a telecommunications company, the challenge was innovation. Little impact had come from introducing a venture capital-like stage-gate funding process that promised to create a pipeline of innovative ideas. Rigorous investigation into the root cause showed that prevailing mindsets and



behaviors – “why things won’t work” (vs. “finding ways to make them work”) and “failure is a big black mark” (vs. “one-off failure is fine if my overall portfolio of effort is a success”) – were reducing the new process to little more than added bureaucracy.

### Pursue business-critical “from-to” culture shifts

Successful transformations involve focusing on a critical few “from-to” themes. Themes give coherence and focus to a program, providing a vision for the desired end state and a vehicle for drawing links between different initiatives that make up the overall program. Emphasizing the critical few acknowledges that time and resources are constrained – and that the company will concentrate on the areas that will unlock the most business value.

At IBM, for example, the culture themes were moving from arrogance to humility/learning, bureaucracy to agility, silos/turf to “One IBM” and internal focus to customer focus. At BP, the cultural goal was to move from bureaucracy to entrepreneurialism, internal focus to market focus, blame/finger pointing to accountability, and a “hit today’s numbers” mindset to a sustainable growth mindset. At GE, Jack Welch focussed on embedding 6 values-driven behaviors worldwide: learning, openness, sharing, quality, accountability and growth.

Themes are grounded in data, but are ultimately determined inductively through significant consideration, discussion, and judgment – taking into account the existing culture, the culture required to support the business strategy, and where employee passions lie.

### Align the top team

Driving significant culture change along with the other strategic and operational demands of the business generally places unprecedented demands on a management team. At the same time, visible, high-quality leadership that models the new culture is vital for success. To transform the organization’s performance culture, the top team must also transform. High-performing companies invest significantly in senior leadership up front, to ensure that

the individual and collective power of the group is fully leveraged through the life of the cultural transformation effort.

Senior teams align when they do real work together in an environment of robust, candid dialogue. This environment is rarely already present in companies pursuing culture changes. Multiple techniques can be employed to quickly create alignment. “Being presented to” and engaging in the minutia are out – co-creating strategies, smart decision making based on only the data required, opportunities for individual reflection, small group work, and safe/efficient ways to “put elephants on the table” are in.

Successful CEOs spend considerable time leading the cultural transformation program, as do their senior leadership teams, as part of a commitment to lead by example. Ensuring alignment with the program may also require removing those who are not willing to get on board.

The top team alignment journey is not easy. A state of constructive discomfort must be achieved in order to genuinely align, grow and improve. But it’s worth it – as the CEO of a multi-national financial institution told us, “The team has come light years in terms of knowing where we are going and how we are going to get there, and in terms of how we behave with one another. I can’t imagine going back to the way things were. We now speak with one voice – our stakeholders are much more confident in us.”

## 2. Shift the Employee Environment

The same person will behave differently in different environments. Successful programs capitalize on this fact and proactively shape the environment to enhance culture shifts, by applying four management levers: creating powerful and consistent *role models*, *fostering understanding and conviction* through compelling stories/communications, adjusting *formal structures, systems and processes* to support desired shifts, and developing the required *talent and skills*.



### Choose the right models

*Ever heard of Royal Elastics (RE)? The founders of the company made a distinctive shoe they thought “looked cool,” and they decided they wanted to own the casual shoe market for young adults. But they had no marketing budget. Cleverly, they gave away free pairs of shoes to a limited number of underground DJs in London (the vanguards of cool). Kids saw their idols, the DJs, wearing the shoes, and asked where they could get them. Within a few months the shoe became the biggest seller in Europe within the target market. The lesson? When it comes to “walking the talk,” or role modeling new behaviors, organizations should enlist not just the top team and senior managers, but also “the DJs” – people who know lots of people, have a natural ability to influence and persuade, and are well respected in the organization.*

### Create powerful role models

Employees should see others behaving in the new way, especially people they look to for guidance.

Henry Meyer, chairman and CEO of KeyCorp, put it this way: “The best-performing companies are managed by those who walk the talk. Values aren’t merely posted on a door. The shadow cast by leadership is the starting point for how our values cascade down from the top so that they permeate the culture and can be felt by everyone we touch.” Jack Welch of GE recalls, “I was an outrageous champion of everything we did – from our early need to face reality and change the culture to our major initiatives that reshaped the company.”

Seeing leads to believing – and to doing. High-performing companies put a premium on ensuring that respected people, at all levels of the organization, demonstrate the desired mindsets and behaviors in their own day-to-day activities. Senior leaders often go through their own individual transformations via mechanisms such as 360-degree feedback, coaching, and individual and collective development workshops. They engage in thoughtful, symbolic acts that send strong messages to employees about what is important.

One of the most famous examples of a symbolic act is when McDonald’s company founder Ray Kroc stopped by one of his Chicago restaurants and noticed trash littering the parking lot. After calling the person in charge, Kroc, his driver and that manager picked up all the garbage together.

Other examples include CEOs spending significant time with major customers to emphasize customer focus, adopting open-door policies and finishing conversations with, “Is there anything I can answer or clarify for you?” to build trust, eliminating back-stabbing among senior managers and scheduling the top team (instead of just the CEO) to appear at important events to show collaboration. Such actions not only demonstrate that the leadership is “walking the talk,” they also give employees permission to advocate and practice the new behaviors themselves.

And it’s not just about senior management. Role modeling should be fostered throughout the organization. At Southwest Airlines, for example, a Culture Committee of more than 100 corporate missionaries dedicate themselves to promulgating the company’s unique culture. At Home Depot, the role modeling of “care for the customer” of a sales associate has been immortalized in the story of him telling a customer that he didn’t need to buy a new \$200 faucet because he could fix his old one for \$1.50.

### Foster understanding and conviction

Employees need to be able to say, “I know what is expected of me – I agree with it, and it is meaningful.” The foundation for achieving this is a well crafted transformation story.

On an intellectual level, the story needs to have compelling answers to questions such as: Why do we have to change? Where we are headed and why? How we are going to get there and in what timeframe? On an emotional level, the transformation story should also reveal what it means for the author – what he or she will change personally – and should create a sense of plot and character development over time. The story should also resonate deeply with employees’ sense of meaning and identity – the story should make clear the expected impact on the listener (both “gives” and “gets”) and on the greater good. In terms of the famous parable of the cathedral bricklayers in medieval times, a good story will invoke the feeling employees are “serving God” versus “laying bricks”.

No matter how powerful the transformation story is, however, it is unlikely to have lasting effect if it is simply





### **Employee Engagement – is it worth it?**

*Some executives question the value of time spent achieving genuine employee engagement. “We’ll just tell them what to do, and they’ll do it” can be the common wisdom. Studies in behavioral psychology provide some evidence to the contrary. For example, in one experiment researchers run a lottery and allow half the people to write their own number, while the others are assigned at random. Just before the drawing, researchers offer to buy the tickets back. What payment do those who picked their own entry demand? Answer in study after study: five times more than those who did not. This is totally irrational – the odds of winning are no greater or worse if one writes one’s own ticket. The business corollary: engaged employees who feel they are part of creating the future are at least five times more committed to getting an outcome than those who are not. Even if it takes twice the effort to achieve this level of engagement, the return on investment is attractive.*

told to employees. Careful thought should be given to how the story ultimately gets owned by each employee and reinforced over time.

One powerful technique used by a large European retail bank to get the story out involved each manager writing down his/her own story about the ‘how and why’ of the short- and long-term plan as it related to their area. This personal story was then ‘taught’ to his/her direct reports. All of the reports gave feedback to their managers on the story and then created their own stories that they shared with their direct reports; and so the process cascaded.

A large telecommunications company took a different tact. Employees were weary of traditional change programs given a history of big bang launches that ended in a wimper. Communications from the center were oversaturated. Strong local loyalties existed, threatening to fragment any central efforts. Against this backdrop, a decision was made to adopt a “viral” approach to getting the word out. The company looked to successful “buzz” marketers and attackers who win in crowded marketplaces for inspiration. The resulting approach “leaked” sober and substantive information to influential people in edgy and distinctive ways, catalyzing an “epidemic” of peer-to-peer communication.

### **Reinforce through structures, processes and systems**

Employees should see that the organization’s structures, processes, and systems reinforce the change in behavior they are being asked to make. While these are the levers with which managers tend to be most comfortable, they are often under-used to explicitly drive culture.

Performance management processes can play a critical role. GE evaluates its employees on both what they achieve – their performance, and how they achieve it – and their values. Jack Welch was noted for saying, “If you get results with out living our values, we’re coming for you.” Continental Airlines mailed a \$65 check to the home of every employee when Continental was in the top 5 on time airlines during their turnaround.

Talent management processes also are critical. Herb Kelleher reveals how Southwest Airlines’ recruiting is used to safeguard the culture of fun and teamwork, “What we are looking for, first and foremost, is a sense of humor. Then we are looking for people who have to excel to satisfy themselves and who work well in a collegial environment. We don’t care that much about education and expertise, because we can train people to do whatever they have to do. We hire attitudes.”

Structure also is an important lever. BP, looking to improve the level of accountability in the organization, re-structured from 3 to 90 performance units. At IBM, an 11-member corporate committee was established to promote greater cooperation between business units. A retail bank looking to improve its customer focus re-structured around key accounts and segments rather than products.

Systems also play a critical role. Customer service, for example, is greatly aided by the availability of appropriate and timely information. The same is true for people development. Collaboration is most successful when supported by a knowledge management system. Increasing trust requires timely information flows, which can often be facilitated by upgrades in systems.

**The power of changing formal systems**

New York mayor Rudy Giuliani's "Zero Tolerance" program led to a dramatic drop in that city's violent crime rate, by using formal mechanism as the primary influencer on the mindsets and behavior of criminals. Zero tolerance meant cracking down on all petty crime. This relatively modest change set off a major chain reaction. People who in the past would have built criminal careers were stopped early, while the hard cases moved to environments where it was easier to operate. In business, even small changes in reinforcing systems can be a powerful influencer on poor employee performance and dysfunctional culture – those who would "go off the rails" in unproductive behavior don't, poor performers opt out, etc.

**Carrots and sticks – necessary but not sufficient**

Many managers we have met feel they can get the culture they want simply by tying the desired behaviors to incentives. While incentives are certainly important, this philosophy ignores certain truths about human behavior. A compelling example can be found in what are called "ultimatum games." Ultimatum games go like this: Give two strangers \$10. Put them together and tell them that one person has to make an offer to split the money with the other (the split does not necessarily have to be 50/50). If the offer is accepted, the game is done and the money is split. If the offer is rejected, the game is over and no one gets any money. Studies show that if the offer is a \$7.50/\$2.50 split, less than 5 percent of the people will accept it, even though it means they go home with nothing instead. What does this imply for, say, a bank that is trying to bring in new pricing? About 95% of employees will likely sabotage the business outcome (often even if it's a good outcome for them) if they perceive it is not fair. While this may be considered irrational, the good news for managers is that it is also entirely predictable!

**Develop talent and skills**

As adults we are not motivated to do things in which we don't feel competent. Employees should feel that they have the skills, capabilities, and opportunities to behave in the new way.

For example, if the company's problem is insularity, employees may need guidance in ways to gain external perspectives. If empowerment is an issue, employees need the problem-solving skills that will enable them to proactively identify improvement opportunities. If the company wants to improve customer service, employees may need relational selling skills to quickly diagnose customers' behavioral preferences. If the organization can't collaborate, there may be EQ (awareness of self and others) skill gaps at play.

One of GE's most significant cultural interventions in the area of quality and

continuous improvement was its six-sigma program. The six-sigma program, with its emphasis on reducing variation and its impact, was adopted across all of GE's businesses (including GE Capital) through its basic training and black-belt training and deployment programs. A common saying in GE is that "sometimes 99 percent right just isn't good enough."

Skill gaps can be remedied in many ways, such as offering formal training, providing on-the-job development, bringing in new talent, removing C-players, etc. When thousands of employees require upskilling, specialized techniques such as "train the trainer" academies and pull-driven approaches should be employed.

Companies should also take the opportunity to ensure the skill-building approaches themselves play a positive role in influencing the culture. For example, if empowerment is a theme, how much learning is self-directed? If innovation is a theme, how innovative are the training formats themselves?

**3. Facilitate Personal Transformation**

It is naïve to think that changing an employee's external environment is the whole answer to culture change. Not all people in a given environment will act the same – there is always personal choice. Companies can achieve dramatic shifts by creating opportunities for employees to gain *insights into deeply ingrained patterns* of behavior, pursuing these interventions until they are *fully embedded*, and ensuring a *critical mass* of personal transformation is quickly achieved.

**Create opportunities for insight into ingrained patterns**

Psychological research has shown that the choices we make are significantly influenced by individual emotional constructs rooted in years of experience and habit. Managers have little, if any, direct influence over these drivers of employee mindsets and behaviors – employees are often not even conscious of the role their emotional constructs play in how they choose to behave. An additional

**Mindsets Matter**

*Until 1954, people believed a human being was physically unable to run a mile in 4 minutes or less. Roger Bannister challenged this belief, and broke the barrier on a British track. What's even more interesting is the effect this had on the running community – within 3 years, 16 other runners had also cracked the 4-minute mile. Was there some breakthrough in human evolution? No, the basic human equipment was the same. What had changed was the mindset that it could be done.*

**A lesson in organization dynamics – the power of ingrained culture**

*The parable of the classic experiment done in the 1970s demonstrates the power a culture exerts on its individual members that they may be unaware of. Experimenters placed four monkeys in a cage. In the middle of the cage, metal steps led up to a bunch of bananas hanging from the roof. As the monkeys walked up the steps, a very strong, cold jet of water hit them, keeping them from reaching the bananas. After a few days the monkeys stopped bothering to walk up the stairs – they developed the attitude that it wasn't okay to grab the bananas. The researchers then removed the water sprayer, took one monkey out of the cage and put in a new one – one that hadn't had the water hit him before. The new monkey saw the bananas and started up the stairs. But the other monkeys pulled him down – fearing that he would be hit by the blast of water. Pretty soon the new monkey didn't bother to go for the bananas; he didn't enjoy being pulled off the ladder. Over the next few weeks, the researchers removed all of the original monkeys one by one, replacing them with monkeys who had never seen a jet of water. But the same thing kept happening – the monkeys in the cage would always pull the new one down before he could grab the bananas. In the end, not a single monkey in the cage had ever seen a jet of water, but none tried to get up the stairs – following the clear unwritten rule that “you don't grab the bananas around here.”*

challenge is that for most people, change (including culture change) equals stress. And what happens when people are stressed? They generally react by digging into tried and true behavior patterns in order to survive, hoping to wait it out as “this too shall pass.”

Most managers are tired of hearing employees' excuses and assignments of blame for their organization's problems. Often, when nearly all the employees in a company agree, for example, that the organization is hierarchical, not one will say, “I behave hierarchically.” If an organization is no more than a collection of its people, how can this be? Many well intentioned employees exhibit ego-centric/fear-based behavior (power-hoarding, tribalism, control, etc.) and victim mindsets (“the

system does it to me,” “I cannot make a difference”). They use these behaviors and attitudes to meet needs of which they are not conscious. Becoming conscious of these drivers and learning skills to manage them can have transformational effects.

Much has been learned about the process of personal transformation – the art of helping people focus attention on internal drivers, unfreeze established positions, change opinions and crystallize new views. Applications are found in various leading-edge programs outside business – such as treating cancer patients, and helping professional athletes, musicians, and entertainers achieve peak performance.

Business applications of these programs can be found in most successful culture changes. When British Airways decided to transform itself from a transportation business to a service business, Colin Marshal and Lord King decided to put virtually its entire 37,000 person workforce through a 2-day personal transformation workshop entitled “Putting People First.” Almost 1,400 managers went through a 5-day version entitled, “Managing People First.” In combination with changing the compensation system to have a behavioral component, British Airways achieved massive transformation in customer service culture and performance with largely the same technology, same routes, and same workforce it had previously.

McKinsey has worked closely with the world's leading executive coaches, facilitators and adult learning specialists to develop experiential workshop-based approaches that enable employees to expand their awareness of what drives their behavior and, in turn, to choose more performance-enhancing behaviors. After one of these workshops a telecommunications employee wrote on his evaluation form, “I have kept waiting to hear what ‘they’ or ‘we’ were going to do to change things ... I now realize that it is up to me to choose to be the change I want to see in the organization.” A bank general manager wrote, “The most valuable course I have ever been on – life changing.” An oil and gas company senior executive wrote, “The impact this will have on me, my team and the organization will be profound.”



### Incremental Impact of Personal Transformation

*The impact from changes to employees' external environment can be dramatically enhanced when coupled with workshop-based personal transformation interventions, with appropriate embedding. This has been proven multiple times in longitudinal control-group studies close to the front line, where direct business impact can be most easily measured. Data across multiple organizations shows a marked increase along several important measures where personal transformation interventions were pursued in concert with shifts to the external environment vs. shifts to the external environment alone:*

- 43 percent increase in cross-sell ratios (vs. 19 percent)
- 65 percent reduction in customer churn (vs. 35 percent)
- 46 percent increase in the number of referrals made (vs. 15 percent)
- 9 percent increase in product sales (vs. 3 percent)
- 3 percent year-on-year continuous improvement in cost effectiveness (vs. 1 percent)

Where these types of personal interventions are applied in concert with changes in the external environment, we have consistently seen significantly larger (50 to 100 percent) sustained business impact versus applying external approaches alone.

#### Pursue interventions until they are fully embedded

When it comes to behavior change, “one-off” interventions are not enough. Adult learning research indicates that, to fully embody a new mindset or skill, adults must move through a growth process that involves gaining *insight* into what they need to change and why (“I know what I don’t know”), *practicing* (“I am putting significant energy into practicing and getting feedback”), and *embedding* (“it now comes naturally to me, freeing up energy for the next learning”).

Moving through this process takes time and effort. Effective culture programs think through how to give employees the space, motivation, and feedback to practice new behaviors. One-on-one coaching, checklists, buddy systems, facilitated follow-up sessions, formal monitoring/stock-take events, action-learning assignments, follow-up calls, and reminder emails are all examples of embedding activity. At British Airways, the primary embedding vehicle was reference groups called “Customer First” teams.

Note too that communications also play a key role in embedding – in particular by planting symbols and language markers into the organization to create the space to practice new behaviors. At Walmart, for example, the “10-foot rule” (whenever you are within ten feet of a customer, look them in the eye, smile and ask if you can help) helps embed a culture of customer service. At a multi-regional universal bank, for example, the phrase “Grab the Banana” became commonplace, reminding employees to constantly test their assumptions as to what could and couldn’t be done in the organization and encouraging them to “just go for it” in relation to continuous improvement (refer to side-bar, *A Lesson in Organizational Dynamics – The Power of Ingrained Culture*).

#### Quickly achieve critical mass

Changes in mindsets and behaviors follow “S curves”: typically, progress is slow initially, but takes off once the program reaches a critical mass of people. If critical mass is not reached, the majority will overwhelm those affected, and momentum will be lost when the effort is supposedly complete. When critical mass is reached, new ways of thinking and behaving become self-supporting; change begins to feel inevitable; and virtually the entire organization is touched by someone who has been a core part of the program.

There is no hard and fast rule for what constitutes critical mass, but epidemiological studies in both the physical and social sciences indicate that 30 percent of a self-contained population is a good rule of thumb for how many employees need to adopt new behaviors to tip the entire population. Critical mass must be reached fast – changes in behavior require immediate, continual, and mutual reinforcement if they are to be sustained.

## 4. Culturally Engineer Business Initiatives

Culturally engineering initiatives involves explicitly maximizing both the *culture impact of business initiatives* and the *business impact of culture interventions*



as well as ensuring the *employee experience* is coherent and reinforcing across all initiatives, collectively creating a virtuous cycle of culture change.

### Maximize the culture impact of business initiatives

Every initiative that touches employees is a culture intervention, whether engineered to be so or not. In an age where performance, growth, and culture change must be pursued simultaneously, business initiatives can easily run counter to, and ultimately sabotage, culture efforts. Consider the damage to employee mindsets if the culture program extols the virtues of people development and empowerment while a cost-reduction effort cuts training budgets in half by top-down mandate.

Successful culture programs consider strategic and operational initiatives as primary distribution vehicles for culture-change efforts by ensuring the problems are solved through the mindset of the desired culture, not the dysfunctional one. Examples abound of how this can work. Take, for example, how a cost-cutting operational initiative, which is often one of the toughest challenges during culture change, can be culturally engineered:

- If collaboration is a desired trait, cross-functional teams can be employed to generate ideas, and a company-wide information-sharing system can be created and used during implementation.
- If trust is a culture theme, an “announce as soon as we know it” approach can be taken (often a dramatic break from the past) and multiple “town hall meetings” can be held as part of the process.
- If customer focus is a theme, “triple targets” can be introduced (equal percent reductions in cost, improvements in quality, and improvements in service). Customers, and even customers’ customers, can be invited into the problem-solving process to understand and resolve their “pain points.”
- If growth/innovation is a theme, savings percentages can be explicitly linked to the amounts of capital available in a VC-style growth fund, and training on the

ability to “think out of the box” can be built into the brainstorming process.

Thinking along these lines can make a significant difference to the experience of employees. At the ANZ Bank, for example, in the same period as more than 6,000 employees were let go, employee satisfaction rose from 45-80%.

### Maximize the business impact of culture interventions

Culture-specific interventions should be thoughtfully deployed in ways that maximize bottom-line impact. Companies should determine the extent to which the success of business initiatives (e.g., business unit strategy, cost cutting, sales stimulation, pricing, customer retention, business unit strategy) are dependent on the desired culture changes and build in culture interventions accordingly.

For example, a multi-national media company looking to develop a robust growth strategy was disappointed when it engaged its top 100 managers in idea generation. The company did not understand how organization-wide cultural issues of powerlessness, politics, silo-based thinking and internal focus (slated to be addressed separately by an HR-driven culture initiative) would affect the quality and quantity of ideas surfaced. Once the company connected the dots and addressed the culture issues head on as part of the growth strategy effort, a new level of thinking emerged and an exciting growth strategy was formulated.

Another example is a Fortune 500 insurance company that wanted to implement lean operations, but became frustrated that its upskilling efforts were not yielding significant improvement ideas. Results came only when the company simultaneously addressed such front-line mindsets as “don’t make anyone look bad” (the result of employees coping with periodic short-term cost-cutting efforts), “keep your head down” (from years of being managed by command and control), and “don’t trust anyone in management” (from living through a management revolving door that was constantly changing the “flavor of the month.”)

### Manage the employee experience across all initiatives

Because as humans we work on conditioning (we look for what we have seen before), it is critical that the employee experience during a culture change program be planned in detail and executed 100 percent, to achieve the most rapid and profound shift possible. Otherwise, employees will likely filter their experience to see those things that confirm how things have always been and discount the positive changes. Such backsliding leads to great frustration throughout the organization, strengthens cynicism, and builds further resistance to any future change efforts.

Taking the perspective of various employee segments, the organization should answer whether the initiatives, taken together, ensure each employee group is transformed on each key cultural theme? If not, do other culture-change interventions fill the gap appropriately? And as employees interface with each individual initiative, are the interventions seen as linked in a

coherent journey, reinforcing the direction of the business and equipping employees to personally make a difference?

Take GE's transformation, for example. Sixteen of Jack Welch's nineteen major initiatives were explicitly engineered for their culture impact. And, according to Welch, timing was everything: "It took 5 years to prepare the company culturally to be able to handle WorkOut [a process for tapping the creativity and intellectual capital of employees in an agile way]."

## 5. Ensure Bottom-Line Impact

Once cultural initiatives have been designed, companies need a robust approach to *taking stock* of and adjusting efforts during implementation, using data to *tailor culture interventions* to specific needs of business sub-segments, and developing methods to *determine the ROI of culture interventions* so efforts can be rigorously traded off against other competing priorities.

### We see what we want to see – the power of conditioning

*Many sobering studies have been done regarding how we filter our world to see what we look for.*

- *In one research study, subjects were standing at an airport ticket counter. The ticket agent pretended to drop something, ducked behind the counter, and a different person finished the transaction. Many of the subjects didn't even recognize the change had been made. Are there chunks of the environment that you and your employees have learned to tune out?*
- *In another study, subjects were asked to count the number of times players with white shirts passed a basketball in a video. Most of the subjects achieved a fairly accurate account of the passes, but only 42% saw something more important. A person in a black gorilla costume walks right into the center of the action, beats his chest and moves off. More than half the subjects were so engrossed in the task at hand that they couldn't see the gorilla. An entire gorilla, right in front of their eyes! Our models and attention create blinders that limit what we see. What gorillas are moving through your field of vision right now that you fail to see?*
- *Another experiment involves subjects reading a piece of paper with no title on top and four paragraphs - three related to Wall Street and one related to space men. When asked 'what was the paper about,' the vast majority of respondents reply that the paper is about Wall Street, but there is this funny thing in there about space men. The same exercise is repeated with different subjects with one alteration – the piece of paper now has a title across the top saying 'Spacemen.' When the same question is asked after the paper is read, the vast majority of respondents reply that it is about spacemen, but there was also a lot of stuff about Wall Street.' In culture change, if 19 out of 20 times the new culture is exhibited, but the old patterns are reinforced once, the human tendency is to read the signs through the title of the dysfunctional culture and respond with, "I knew it, this place will never change."*
- *Students at Princeton Theological Seminary were asked a series of questions about their personality and level of religious commitment, then sent across campus. Along the way, they passed a person slumped over, coughing and groaning, asking for medical assistance. Did self-proclaimed "nice people" help more? No. The only predictor of the altruists was that half of the seminarians had been told they were late for an appointment, and the others that they had plenty of time. 63% with spare time helped, 10% of those in a hurry. When short of time, even "religion as a quest" did not ensure concern for a fellow person.*



### Rigorously take stock and adjust efforts over time

In a culture-change program, as in any business initiative, it is critical to measure success and proactively manage results over time against a clear baseline. Most often, the diagnostic effort that supports the initial step – building transformation intent – is used to set the baseline for culture broadly, as well as the specifics of each desired “from-to” shift. Progress against these goals can then be frequently measured via short and sharp “thermometer-type” surveys and interview/focus-group methodologies. In addition, broader culture stock-takes – generally involving a full or partial re-run of the culture diagnostic – are taken every 6 months or year. These ensure that the chosen themes remain business critical and

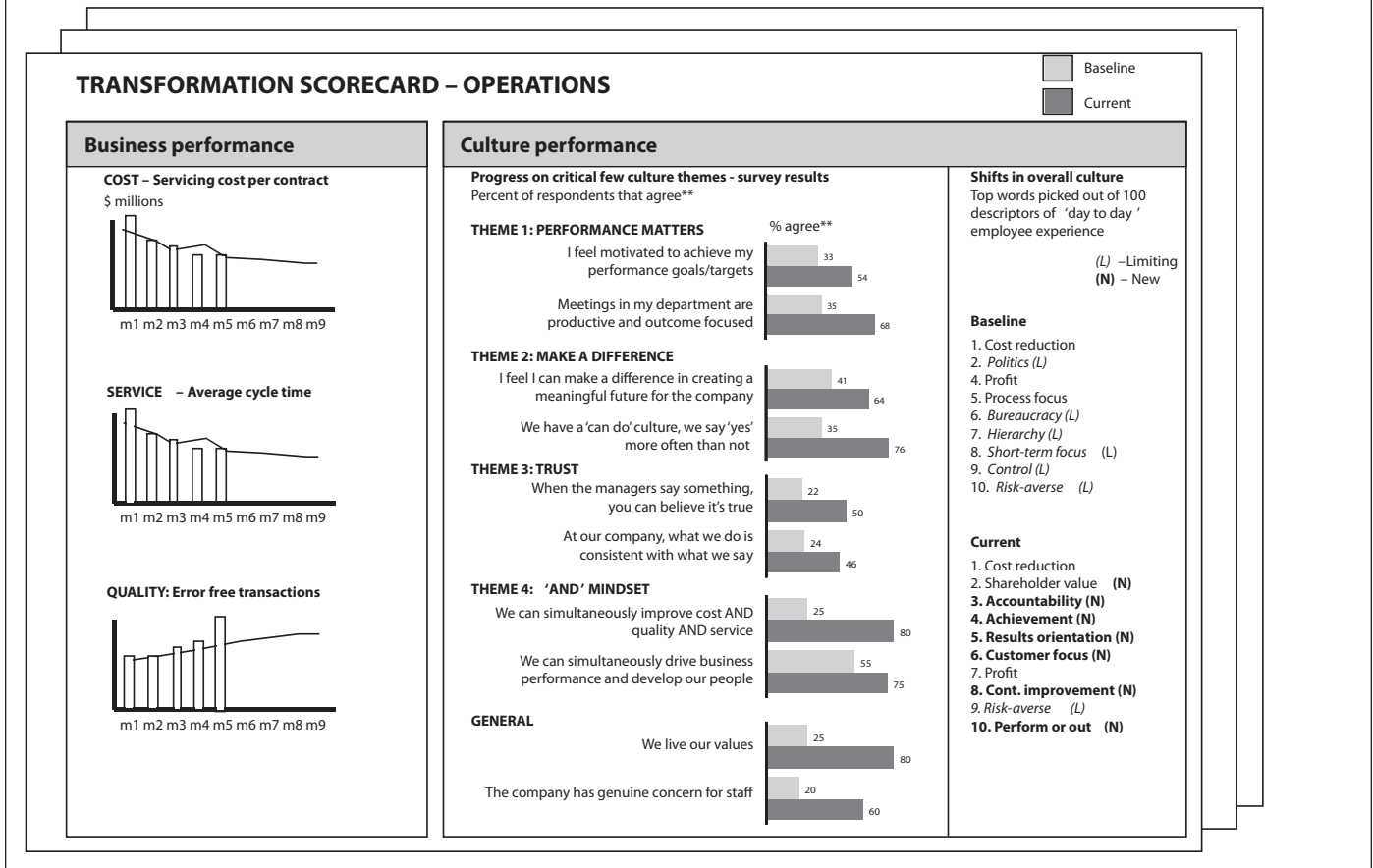
that unintended consequences are being avoided.

### Tailor interventions to area-specific needs

Company-wide culture programs in many multi-business, multi-geography organizations often meet resistance from individual areas. This “not invented here” attitude can be overcome by tailoring the deployment of initiatives to meet areas’ specific needs. Simple survey methodologies can be used to establish the impact on each initiative on the desired culture shifts (e.g., one initiative might have significant impact on people development, but much less on agility; another may have the opposite). This knowledge can then be combined with area-specific baselines against each cultural

#### Keeping score unit by unit– example performance culture scorecard

Performance culture should always be looked at in the context of business results and vice versa. Business results are an indicator of current performance, whereas culture is one leading indicator of the organization's ability to sustain and evolve performance over time



theme (e.g., some areas may be more agile or better at people development than others) to create a fact-based deployment of efforts that address area-specific needs.

### Determine a concrete ROI for the culture efforts

Ultimately, it is critical to link culture program impact and business performance to establish a rough ROI that will help guide ongoing cultural investment decisions. Multiple robust tools exist for this purpose, including business result/culture correlation analyses (adjusted for macro-economic business driver variances), service profit chain predictive correlation analyses (front-line only) and pilot vs. experimental group longitudinal study approaches (front-line only).

A large retail bank found, for example, that cultural interventions led to a 3 percent change in performance culture, which in turn increased employees' ability to serve the customer by 4 percent, which correlated with a 2.4 percent increase in customer satisfaction, which correlated to an additional \$1.9 million of lending and deposit sales per banker, per year. Taking

into account the cost of the program, the program's return on investment was 223 percent – greater than the client had seen on virtually any previous front-line sales intervention.

## Are You Ready?

There is no doubt that dysfunctional cultures can be transformed. Make no mistake, however – the soft stuff is hard work. Moreover, failing at an attempted fix will leave the culture worse off than before. McKinsey's approach brings a holistic, top-management perspective to culture change, linking culture interventions directly to value creation and getting beneath the surface to explicitly address the deeply ingrained mindsets and attitudes that stand in the way. What impact will creating a culture of peak performance have on your business?

### Check-list for designing a robust culture change program

#### 1. Build transformation intent

- ☐ Establish a shared vocabulary and fact base
- ☐ Uncover and address root causes
- ☐ Pursue business-critical "From To" shifts
- ☐ Align the top team

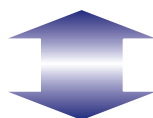


#### 2. Shift the employee environment

- ☐ Create powerful role models
- ☐ Foster understanding and conviction
- ☐ Reinforce through structures, processes and systems
- ☐ Develop talent and skills

#### 3. Facilitate personal transformation

- ☐ Create opportunities for insight into ingrained patterns
- ☐ Pursue interventions until they are fully embedded
- ☐ Quickly achieve critical mass



#### 4. Culturally engineer business initiatives

- ☐ Maximize the culture impact of business initiatives
- ☐ Maximize the business impact of culture initiatives
- ☐ Manage the employee experience across all initiatives

#### 5. Ensure bottom-line impact

- ☐ Rigorously take stock and adjust efforts over time
- ☐ Tailor interventions to area-specific needs
- ☐ Determine a concrete ROI for the culture efforts

## Footnotes

---

1. Lou Gerstner, IBM, “*Who Says Elephants Can’t Dance*”
2. Larry Bossidy, CEO, AlliedSignal, “*Execution*”
3. Jack Welch, former CEO, GE, “*GE’s Two-Decade Transformation: Jack Welch’s Leadership*”, Harvard Business School, 2002
4. Sir John Browne, BP, Address to analysts (2000)
5. David Roberts, CEO, Barclays Personal Financial Services, 2003
6. Carly Fiorina, HP, “*The Costco Connection*”, May 2004
7. Tom Siebel, founder and CEO Siebel Systems. Stanford case study
8. Sam Palmisano, IBM, HBR interview “*Corporate Values and the Bottom Line*”, December 2004
9. Tilson, Whitney, “*Corporate Culture Impacts Profits*” (2001)
10. Tilson, Whitney, “*Corporate Culture Impacts Profits*” (2001)
11. McKinsey & Company, Performance Ethic research
12. AJ Rucci et al, “*The Employee–Customer–Profit Chain at Sears*,” Harvard Business Review (1998); JW Wiley, “*Linking Survey Results to Customer Satisfaction and Business Performance*” in AI Kraut (ed), “*Organizational Surveys*”, Jossey–Bass Publishers; RH Johnson, “*Employee Attitudes at Ford Motor Credit*”, Presentation at SIOP Forum
13. McKinsey & Company, War for Talent research (2000)
14. McKinsey & Company, Performance Leadership research
15. Transformation Compendium; Beer and Nohria (2000), Cameron and Quinn (1997), CSC Index, Caldwell (1994), Gross et al. (1993), Kotter and Heskett (1992); Hickings (1988); Conference Board report (Fortune 500 interviews)

# On Performance Culture

## Further Reading

### ARTICLES

#### **What is an Organization's Culture?**

By Clayton M. Christenson  
*Harvard Business School Note*  
Note 9-399-104 Rev: October 12, 2004

Organization culture is a unique characteristic of any organization. While the phenomenon of organization culture is difficult to define succinctly, understanding it can help a manager predict how his or her organization is likely to respond to different situations; to assess the difficulties that the organization might experience as it confronts a changing future; and to identify the priority issues for the leadership to address as they prepare the organization to compete for the future. Organizational culture effects and regulates the way members of the organization think, feel and act within the framework of that organization. Culture is the result of common learning experiences. Because culture forms the basis of group identity and shared thought, belief, and feeling, one of the most decisive and important functions of leaders is the creation and management of its culture. This article summarizes the thinking of the world's foremost scholars on organizational culture, Edgar Schein, Modesto Maidique, and B.J. Zirger to shed light on what culture is, where it comes from, how it can be changed, and how it inhibits change.

#### **The Psychology of Change Management**

By Emily Lawson and Colin Price  
*McKinsey Quarterly*  
2003 Special Edition: The Value in Organization

Large organizational-change programs are notoriously difficult to run: They involve changing the way people not only behave at work but also think about work. Sometimes, however, changing individual mindsets is the sole way to improve a company's performance. Psychologists in fields of adult development have made several important

discoveries about the conditions that have to be met before people will change their behavior. First, they must see the point of the change and agree with it, at least enough to give it a try. Then the surrounding structures – rewards and recognition systems, for example – must be in tune with the new behavior. People must also see colleagues they admire modeling it and need to have the skills to do what is required of them. Applying any one of these insights on its own doesn't have much impact. But managers now find that applying all four together greatly improves their chances of bringing about lasting changes in the mindsets and behavior of people in an organization – and thus of achieving sustained improvements in business performance.

#### **Make Your Values Mean Something**

By Patrick M. Lencioni  
*Harvard Business Review*  
July 2002, Reprint R0207J

Take a look at this list of corporate values: Communication. Respect. Integrity. Excellence. They sound pretty good, don't they? Maybe they even resemble your own company's values. If so, you should be nervous. These are the corporate values of Enron, as claimed in its 2000 annual report. And they're absolutely meaningless. Indeed, most values statements, says the author, are bland, toothless, or just plain dishonest. And far from being harmless, as some executives assume, they're often highly destructive. Empty values statements create cynical and dispirited employees and undermine managerial credibility. But coming up with strong values – and sticking to them – isn't easy. Organizations that want their values statements really to mean something should follow four imperatives. First, understand the different types of values: core, aspirational, permission-to-play, and accidental. Second, be aggressively authentic. Third, own the process. Finally, weave core values into everything. Living by stated corporate values

is difficult. But the benefits of doing so can be profound; so can the damage from adopting a hollow set of corporate values.

#### **Leading Change While Business Is Good**

Interview with Samuel J. Palmisano, CEO IBM  
*Harvard Business Review*  
December 2004, Reprint R0412C

Lou Gerstner's was a hard act to follow. As CEO in what were arguably IBM's darkest hours, Gerstner brought the company back from the brink. After nearly 10 wrenching years, in which the big-machine manufacturer remade itself into comprehensive software, hardware, and services provider, business was looking good. So the challenge for Sam Palmisano, when he took over as CEO in 2002, was to come up with a mandate for a second act in the company's transformation. His primary aim was to get different parts of the company working together so IBM could offer customers "integrated solutions" – hardware, software, services, and financing – at a single price. As part of this effort, he asked all of IBM's 320,000 employees, in 170 countries, to weigh in on a new set of shared corporate values. Over a 72-hour period, thousands of IBMers throughout the world gave Palmisano and his executive team an earful in an intranet discussion dubbed "ValuesJam," an often-heated debate about the company's heart and soul. Twenty-four hours into the exercise, at least one senior exec wanted to pull the plug. The jam had clearly struck a chord with employees, but it was a dissonant one, full of rancor and discontent. Palmisano let the discussion continue, and the next day, the mood began to shift. The criticism became more constructive. Out of the million words generated by the jam grew a set of values that, as Palmisano explains in this interview, are meant to guide the operational decisions made by IBM's employees – and, more important, to serve as Palmisano's mandate to continue the reinvention of the company.