

PERFORMANCE LEADERSHIP SERIES

IT'S THE CULTURE, STUPID!

**FROM BEST PRACTICES TO NEXT PRACTICES:
FOURTH IN A FOUR PART SERIES**

by Frank Buytendijk, Beingfrank Research
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ABOUT THE SERIES

In a series of papers, author and industry expert Frank Buytendijk examines the people side of business performance and business intelligence. How does measurement affect human behavior? How does organizational culture contribute to business intelligence? What does a rational decision making process look like? Which number games do we recognize in business? What is the best methodology to manage business performance? In this fourth article of a series on how measurement drives behavior, Frank discusses how to link an organization's culture to the successful implementation of a business intelligence strategy .

ABOUT THE AUTHOR

Frank Buytendijk (Beingfrank Research) is a well-known industry expert specialized in strategy, performance management and organizational behavior. He is an exceptional speaker at conferences all over the world, known for his out-of-the-box, entertaining and slightly provocative style. Frank is also a TDWI fellow, a visiting fellow at Cranfield University School of Management, and author of various books, including "Performance Leadership" (McGraw-Hill, September 2008), "Dealing with Dilemmas" (Wiley & Sons, August 2010) and "Socrates Reloaded: The Case of Ethics in Business and Technology" (Beingfrank Publications, September 2012). Follow Frank on Twitter at @FrankBuytendijk or visit www.frankbuytendijk.com.

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¹The content of this paper is based on Buytendijk, F.A., 2010, "Performance Leadership," McGraw-Hill, United States

We need to get more grip on what many intuitively believe is the most important factor in a business being successful; its culture. However, particularly in finance and IT, culture is seen as soft and intangible. Hardly something that you can model or shape. But in fact, you can. One of the social business sciences, intercultural management, has understanding and affecting culture as the main object of study. Organizational culture is very simple to define. It's how people make decisions and solve problems. Even shorter, it is "the way we do things around here." The volume of research in this field is astounding. It's just that most business intelligence professionals are not aware of intercultural management and how to use it to improve their business intelligence.

CULTURE IS NOT "SOFT"

Culture is often called the soft factor, but in reality it is not. Culture has a very tangible impact on an organization's performance. New employees that join an organization and do not fit into its value system usually soon depart. They don't feel at home; they do not understand what is important and what is not.

Understanding your organizational culture can be a powerful source of management control. Traditionally, business intelligence is focused on bureaucratic styles of control, consisting of a number of standard processes, rules, and checkpoints to make sure all transactions are performed in the same way. This vertical alignment and a hierarchic approach works best in environments with low ambiguity (only one way to interpret things) and low uncertainty (stable environment). However, most environments are increasingly ambiguous and very uncertain. More control and more performance indicators would not lead to better results. In fact, they would lead to more dysfunctional behaviors. In ambiguous and uncertain environments, internalized control works better.

Internalized control means that the members of an organization share the values and the objectives of the organization, and will seek to do the right thing and be open about it. Again, this principle is not soft.

Organizations with a strong culture often work hard to keep it that way. They invest a lot of time in "painting their employees in the right color." They discuss decisions in terms of what is the right thing to do. They spend extensive time on sharing information, argumentation and deliberation, to make sure everyone buys into the decisions, and applies the lessons learned in their own decisions.

“ Organizational culture is very simple to define. It's how people make decisions and solve problems. ”

SKETCHING YOUR CULTURE

There are several frameworks by which to describe and categorize cultures. Often these frameworks use dimensions between two extremes to classify a culture on that specific characteristic. Most of the frameworks focus on describing national cultures, and deal with many social issues. However, some of the dimensions used also apply to corporate cultures, and they affect the way performance management should be implemented.

Group versus individual focus

In individual cultures, people have a personal accountability. Their contribution needs to be visible and recognized. Performance indicators are defined down to the personal level. Decision-making is often directive in nature.

Group cultures emphasize the needs of the group before the needs of the individual. People take responsibility for each other. KPIs and reward systems are team-based. Decision-making is a group-process.

Meritocracy versus aristocracy

Meritocratic cultures recognize people based on their achievements, preferably zero-based. You are as good as your last achievement. The business often has a quarterly rhythm. Success leads to more

responsibilities.

In an aristocracy, performance is linked to influence. Based on who you are allied with, your career progresses. KPIs are not zero-based, but incremental, building on successes of the past. Salary increases are more appropriate than bonuses.

Rules versus relational orientation

Rules-based cultures play it by the book, focused on processes, controls and clear rules. The rules are the same for everyone, and they can be openly found on the Intranet. A contract is a contract. Information is shared freely, staff rankings may be public information within the company.

In relationship-oriented environments, there are “special customers”, “loyal employees”. These relationships are more important than rules or contracts. Incentives are at the discretion of management.

“ It is important to realize that there is no right or wrong culture in the cultural performance management analysis. ”

Long-term versus short-term orientation

Short-term focused organizations have swift decision-making processes. They check what works, and use those new insights pragmatically. Many of the performance indicators are process-based. Feedback is given immediately, based on business events, like something going right or wrong.

Long-term focused organizations work differently. Their KPIs are aimed at measuring contribution to long-term goals. Feedback is periodic and holistic. Decision-making processes can take a long time, and include fundamental discussions to make sure there is broad buy-in across the company.

Theory X versus Theory Y

McGregor's Theory X and Theory Y describe two

extremes in people's work attitudes. Their X states that people are looking for ways to minimize their effort and avoid work. People need clear direction, and management is focused on control. Performance indicators mainly check if all the work has been done on time and within budget. Rewards consist of money.

Theory Y is the opposite. Work gives a sense of accomplishment. People are creative and seek better ways to do their job. Management's role is to coach and create leverage. KPIs provide continuous feedback to people.

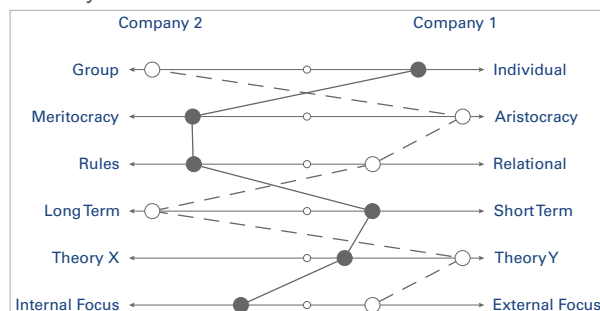
Internal versus external orientation

Internally oriented cultures have a strong sense of independence; they believe they can shape their world. Decision-making processes tend to be analytical and rigid. Performance indicators focus on the variance between plan and actual results.

Externally oriented cultures believe their success is the result of other factors, like the economy or the weather. Decision-making processes are very iterative, there is a high tolerance for uncertainty. Performance indicators are benchmarks, relative to others.

HOW DOES THIS WORK?

Organizations should do a cultural performance management analysis before embarking on a performance management initiative. Or, they should do such an analysis where initiatives already under way are suffering from dysfunctional behaviors, to help get the initiative on track again. In a cultural performance analysis, we classify the organization on all cultural dimensions. This makes culture not intangible and soft, but very visible and concrete.



It is important to realize that there is no right or wrong culture in the cultural performance management analysis. Every score is good; the key is that you are aware of the characteristics of your own corporate culture.

In the example, company 1, a manufacturer, is a classic public company with a strong U.S.-based business culture. The company has a very individualized orientation, and through the meritocracy everyone has the chance to work himself or herself up. It is very rules-oriented; there is a process for everything. Given its public nature, it has a relatively short-term focus; new business strategies need to pay off within a fiscal year. The company tends toward Theory Y for the higher staff, but there are people whose job it is to just follow the process. The company is relatively internally focused, and plans its business using a traditional budget. This company benefits from the typical best practices of performance management: top-down strategy implementations, openly shared feedback with a ranking of the best-scoring people in sales. The bonus program, based on overperforming on the goals, can be found on the company's intranet, next to all other procedural descriptions.

Applying this style of performance management in company 2, a manufacturer about the same size as company 1, would not be successful. Company 2 has been a family-owned business for multiple generations. Senior management knows most of the employees; many of them have worked for the company their entire professional lives. The next generation of ownership is growing up and the company needs to secure their future too. The culture of the company is externally focused, and it can only survive in the market due to an extreme customer focus. This company has a very different decision-making process. Senior management will ask for input from a few trusted employees, and then the family will make a decision. There are performance indicators, but these are mostly aimed at how the company is performing in the eyes of the customers. Information is shared with the staff, but usually verbally in informal meetings. Rewards are not

directly tied to performance in a specific period; the family rewards loyalty and provides bonuses when deemed necessary.

It needs to be made clear that cultural alignment doesn't always guarantee success. For instance, if company 2 is making a loss, perhaps some elements of the performance management practices of company 1 need to be adopted. Conversely, if company 1 is going through an extreme growth phase, key people need to be retained to manage that growth, and these staff members must feel part of the inner circle.

The cultural performance management analysis shows that the corporate culture drives how performance management should be implemented. But it also works the other way around, as measurement drives behavior. If there are cultural aspects that are undesirable, a measurement process might change that. If there is too much of a group focus, individual performance indicators may help. If there is too much of a long-term focus, short-term targets may help. If relationship focus turns into nepotism, more uniform reward processes may be needed. Business intelligence becomes change management, and dealing with undesirable behaviors is part of that. ♦

READ THE WHOLE SERIES:

How Measurement Drives Behavior. In this introductory paper to a four-part series, author and industry expert Frank Buytendijk examines the people side of business performance and business intelligence.

1. *Fact-based decision-making, or is it?* Take a close look at the process of decision making to ensure a rational, appropriate process is applied.
2. *What is the best methodology? Getting to double-loop learning.* Understanding the right measurement methodology is essential to achieving your requirements.
3. *Number games: making sure metrics drive the right behavior.* Why it's important to use measurements that incent actions that benefit the organization as a whole.
4. **It's the culture, stupid!** Unless measurements are linked to an organization's culture, the effect will be lost.