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Continuous Improvement

Transitioning to a More Competitive Environment by Activating the Culture Loop

Summary

The concept of *Continuous Improvement* has been with us for several years, but its achievement has been spotty at best. This *Management Insight* identifies employee-driven cultural factors that directly influence superior results, and offers suggestions to management on how to influence these and foster continuous improvement on a sustained basis. It is based on lessons learned from actual business situations.

Continuous Improvement

Companies are at different stages in adjusting to the need for maintaining competitive advantage to thrive. In the most competitive industries, evolving technology and disappearing trade barriers have already taught management that continuously sharpening their competitive edge equates with survival. At the other end of the spectrum - where competitive pressure has been less - management teams are not as familiar with chasing moving targets. For example, electric utilities are transitioning from regulated to competitive environments for the first time, and management teams are having trouble mobilizing their organizations to compete. Electric utilities commonly find themselves hemmed in by corporate cultures that resist initiatives such as *Continuous Improvement*.

The concept of *Continuous Improvement* has been embraced for some time, but it still proves to be an elusive goal for most companies. Why is this desired end state so elusive? For one, too many businesses merely pay lip service to their quest for *Continuous*

Improvement. What then separates those companies who really try to achieve this cultural transformation - and are successful - from the “also rans”?

Our answer to this question is based on working with a large number of senior management teams over the years. Most of these assignments entailed working with middle managers as well. The issues were judged to be important enough to warrant senior participation - often on a full-time basis - for four months or more.

In some of these situations, issues were resolved from the perspective of top management, but little cultural change ensued. In others, however, the resolution process led to significant cultural transformation and ultimately to a culture of *Continuous Improvement*. Our analysis of the reasons for success or failure points to two reasons.

The quality of executive leadership is one factor. Without solid leadership, even traditional management processes are difficult to improve. But top quality executive leadership that is committed to and involved in breaking down old barriers, communicating new corporate visions, and insisting on accountability and commensurate rewards for all personnel, is but an “enabling” condition for cultural transformation.

The other factor is activation of what we call The Culture Loop, a conceptual management model that picks up where traditional management schemes leave off. We find this “Culture Loop” to be a complement to, not a replacement for, traditional leadership. Best described as a sequential, multi-step process, an effective Culture Loop offers clarity to employees at

all levels and provides feedback to executive management (supporting positive changes in vision, direction, and objectives). It also sanctions and motivates employees to play a more valuable role in the company's management processes.

Take Company A for example. It is a Fortune 500 energy-based company that had substantial performance problems at its large, capital-intensive processing plants. Plant cost, reliability, and output performance was erratic. Safe plant operation was being called into question by outside stakeholders. The company installed new executive leadership over the plants.

Company A now had reasonably capable executive leadership in place. Notwithstanding this, the new management team was unable to activate the Culture Loop. The problem was that the new management had its hands full just following what we call the Traditional Management Loop (TML). It achieved reasonable results, resolved many key management issues, but ultimately couldn't cope in a business environment that demanded *Continuous Improvement* to deal with increased competitive threats.

The Traditional Management Loop

This management model is primarily a top-down approach, beginning with management's leadership, without which the remainder of the management process is rendered ineffective. Stemming from leadership, a corporate *vision* is created, and management furnishes *direction* to the company. These are later translated into unit and sub-unit *goals*, which are hopefully embraced and *bought into* by employees who are *committed* to producing *results*. Results are measured, made known to management and employees, and are ultimately fed back to top management for adjustments to plans for the next business cycle. We portray this management model graphically in Figure 1.

An interesting phenomenon becomes apparent as one analyzes Figure 1. It has to do with management's control and influence on the process. As shown in the figure, management itself provides the initial four elements of *leadership*, *vision*, *direction*, and *goals*. While management can influence *buy-in* and *commitment*, its ability to exert significant control over

these elements is limited. It is more in the hands of the employees themselves, as important fact, which we will discuss later.

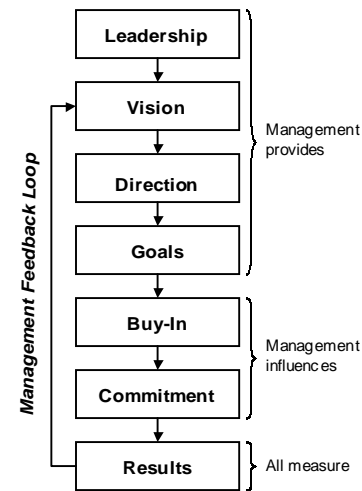


Figure 1: Traditional Management Loop (TML)

TML can produce excellent results, and for some companies, it has been a formula for reasonable success. In the case of the capital-intensive energy-based company cited earlier, identical technologically complex processing plants would experience cost and operational ups and downs for no apparent reason. The new executive management team took over and insisted on improvement using the TML process. The company soon began to produce better and more consistent results, but there was a downside to their approach - the use of fear to achieve employee buy-in and commitment. Short-term success was achieved, but long-term continuous improvement was not realized. Unfortunately, they were in an industry where competitive forces were increasing dramatically, and management gains were quickly countered by competitive action.

The Culture Loop

Let's look at another example, Company B, that addressed its core problems and activated the Culture Loop. It too was a Fortune 500 company, plagued by substantial performance and safety problems with its manufacturing plants. As with Company A, its facilities were large and technologically complex. In fact, Company B found itself with more severe problems than the first.

The key difference between Companies A and B lay in the ability of Company B’s executives to go beyond the traditional leadership model. Both sets of managers began addressing serious performance challenges by focusing on TML (replacing on-site management when necessary, strengthening accountability for results, and standardizing around best practices). Only the management in Company B paid attention to activating the Culture Loop, however. They foresaw the need for cultural change to transform their organization to a mode of *Continuous Improvement*.

As mentioned earlier, the Culture Loop is a model used to successfully bring about cultural transformation, which leads to *Continuous Improvement*. We all recognize that corporate culture has achieved prominence as a business challenge for management to shape and redirect. Vast resources have been spent to reshape cultures. Visioning, Organizational Development, Goal Setting, Re-Engineering, and other “flavor of the month” approaches have been pursued by management, each with limited success and seldom making a sizeable impact on the basic culture. Why?

We believe the answer is straightforward: **Cultural change leading to *Continuous Improvement* is primarily driven and controlled by employees, not by management, although it must be enabled by capable executive management.** While a sound TML process is a prerequisite for activating the Culture Loop, actually achieving continuous change and improvement occurs only when employees and management participate in harmony together (i.e., trust and communication effectiveness). Otherwise, the resources of the business are sub-optimized. Management’s challenge then, is to foster and support the elements of the Culture Loop, thereby energizing its employees.

Figure 2 presents the key elements of the Culture Loop. Beginning with the element in common with TML - *results* - each element is influenced by the one preceding it. For example, *good results* can enable increased employee *motivation*, which in turn should lead to a positive *work environment* that generates *energy*, unleashes employee *creativity*, and provides input to management to refocus/modify the corporate *vision* to best meet customer needs.

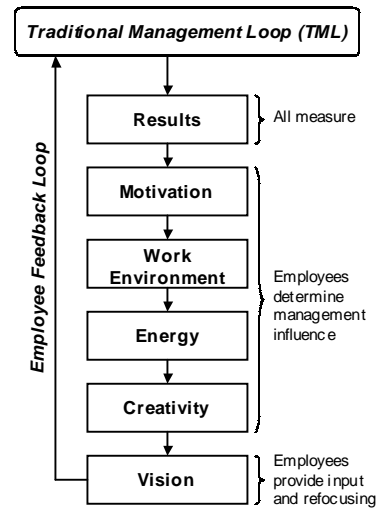


Figure 2: The Culture Loop (TCL)

Similarly, poor or unsatisfactory *results* present obstacles to moving toward higher *motivation* by employees. This situation must be addressed first if the appropriate motivation, work environment, energy, etc. are to be obtained.

Management/Employee Influence Patterns

Management must work harder and smarter to activate the Culture Loop. As shown in Figure 3, management influence diminishes as we move along the Culture Loop toward employee-driven corporate revisioning.

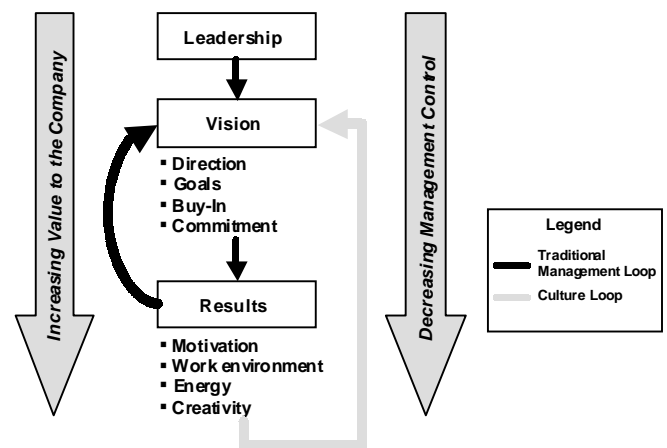


Figure 3: Management/Employee Influence Patterns

Achieving this state of management/employee synergy is difficult, and requires relentless pursuit by management to initiate and keep the Culture Loop activated.

Activating the Culture Loop

Activating the Culture Loop results in substantially increased value to the organization by optimizing employee contribution, a critical element for companies transitioning to a more competitive environment. After all, employees are on the front line with customers, vendors, regulators, and other stakeholders, and often know better than management what needs to be done to be more competitive.

There are several management principles that, if followed, can help any company to activate and to maintain the Culture Loop. It begins by paying close attention to each of the elements of the Culture Loop (i.e., **Results, Motivation, Work Environment, Energy, Creativity, and Employee-Driven Vision**). It is a process that takes concrete steps to strengthen them every day. The table below presents these four management principles for activating the Culture Loop.

Four Management Principles for Activating the Culture Loop

- Pay attention to the elements of the Culture Loop in your policies, management style, practices, etc.
- Create and maintain an effective and positive work environment; institutionalize accountability, but support honest mistakes
- Encourage everyone to be customer driven
- Reward superior results and out-of-the-box thinking (e.g., increase the size and significance of variable compensation to “eye-catching” levels)

While these management principles are fairly self-explanatory and for the most part non-controversial, the challenge management faces is how to implement them. One technique we have used is to assemble the best and brightest “up and comers” from middle management and focus them as a team on pressing corporate management issues (such as a stem-to-stern

re-engineering of a key corporate business process, or other such challenge).

Although the principal goal is to resolve that issue, this project team must be used to activate or extend the Culture Loop. The process used should be conscious of and make specific provisions for activating the Culture Loop in each team member’s mind, and it must be reinforced periodically by executive management. As an external facilitator to such teams, we have observed that those projects that do the best have executive management interest and support, and place a high priority on obtaining significant team member contributions.

Another technique, particularly useful in organizations where top management is not sure of the details that underlie the corporate culture or employee perceptions, calls for a structured survey that solicits viewpoints on culture, corporate values, and reward systems from all employees in organizational units ranging from a department to the entire company. Some of the most enlightening, and often unwelcome information (by management) comes from such surveys, and these snapshots of cultural reality are not for the faint of heart. As importantly, we advise against conducting such an effort unless management is committed to feeding back the results to **all** employees, and more importantly, to act on its findings (thereby helping to activate or maintain the Culture Loop).

Conclusion

As most businesses continue to transition to ever increasing competition and a faster pace of change, the need to take advantage of all organizational resources will become ever more crucial. Companies cannot afford to depend only on the traditional management processes inherent in the TML, but must also take advantage of those other capabilities that arise from activating the Culture Loop. Loosening these additional and often unused resources can mean the difference between being “world class” and not. To borrow from and paraphrase a famous General Douglas MacArthur quote: “Old cultures (like old soldiers) never die ... and unlike old soldiers, they only fade away slowly through much skill, sweat, and persistence.”