

Performance Anatomy: Culture in Action

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A company's culture can be a source of competitive advantage that is difficult to copy. But few companies actually use culture – which we define as the shared values and common understandings that give an organization its identity and serve as a basis for concerted action – to influence business performance, largely because leaders have great difficulty figuring out how to manage it. Most executives concede that culture can do a great deal to enable (or disable) an organization's ability to change or to embrace new ideas and technologies. But when asked what can be done to enhance a culture's positive effects (or diminish negative effects), they either shrug or offer a complicated explanation ending with the caveat that "it takes a long time."

But culture doesn't have to be that mysterious. Through original research, Accenture has clarified the relationship between culture and action by tracing the pathway from organizational values to managerial mindsets to specific practices to business results. That pathway constitutes an organization's performance anatomy.

This research report explains this pathway for leaders who need to manage organizational culture. The report's first section reviews the major strands of thinking on organizational culture and addresses whether culture can in fact be managed. The second section explores how values and stories can be used to create managerial mindsets. In the third, a case study of Marriott International demonstrates how that company's leaders have created a performance anatomy throughout the company. The

fourth section explores how universal assumptions and unwritten rules within an organization can be used to manage performance anatomy. Finally, the report concludes by linking performance anatomy to sustained high performance.

Corporate culture and performance

Academic debates about corporate culture over the last 30 years have confused managers. On the one hand, culture has been described as a set of explicit and implicit values that do not vary much between organizations. But on the other hand, it has been described as a unique feature of any organization, an element of a company that cannot be replicated and practiced elsewhere. In the first scenario, culture is a complex and fuzzy phenomena that is hard to understand; in the second, it is as intractable and unique as DNA. One

popular topic of discussion has been on the effect of cultural strength on business performance. Cultural strength is the degree to which employees share the same set of values, behaviors, and motivations. It is generally believed that a strong culture creates an unusual level of motivation and commitment in employees, which leads to higher employee productivity and, ultimately, higher company profits. Conversely, a weak culture means there is a lack of employee commitment to the organization and lack of uniformity in behaviors, which leads to lower productivity and lower profits.

Bestselling writer-researchers Jim Collins and Jerry Porras have written that visionary companies create a strong "cult-like" culture.¹ Companies such as IBM, Disney, GE and 3M indoctrinated their employees with company values, create uniformity in behaviors and instill

About the research

In 2004, Accenture embarked on a journey to understand the workings of high-performance businesses. Accenture identified three essential building blocks of high-performance business: market focus and position, distinctive capabilities and performance anatomy. The first phase of research on performance anatomy was a review of time-tested organizational models such as the 7-S model (Peters and Waterman, 1982), the congruency model of organization (Nadler and Tushman, 1997), the contingency model (Miles and Snow, 1994) and the culture model (Schein, 1992). The second phase of the research involved

an extensive review of common success factors among more than 50 high-performance businesses. These businesses all excel at managing five common business disciplines: leadership, people development, technology enablement, performance management, and agility and innovation. These five disciplines translate into the five performance anatomy mindsets.

The third phase of the research involved writing detailed case studies of four high-performance businesses: UPS, Marriott International, Constellation Energy Group and Harrah's Entertainment. The case studies were based on 78 interviews with C-level executives, key line

managers and associates. In addition, extensive analysis of company records (provided by the companies), publicly available reports and filings, and financial data were analyzed and compared; each company was also assessed by comparison to its industry peer set. The case studies were developed and written between June 2005 and May 2006. This phase was useful for refining the performance anatomy framework; it also provided Accenture with rich insight into the thinking, beliefs and assumptions of the senior leadership teams that manage their companies' performance anatomies.

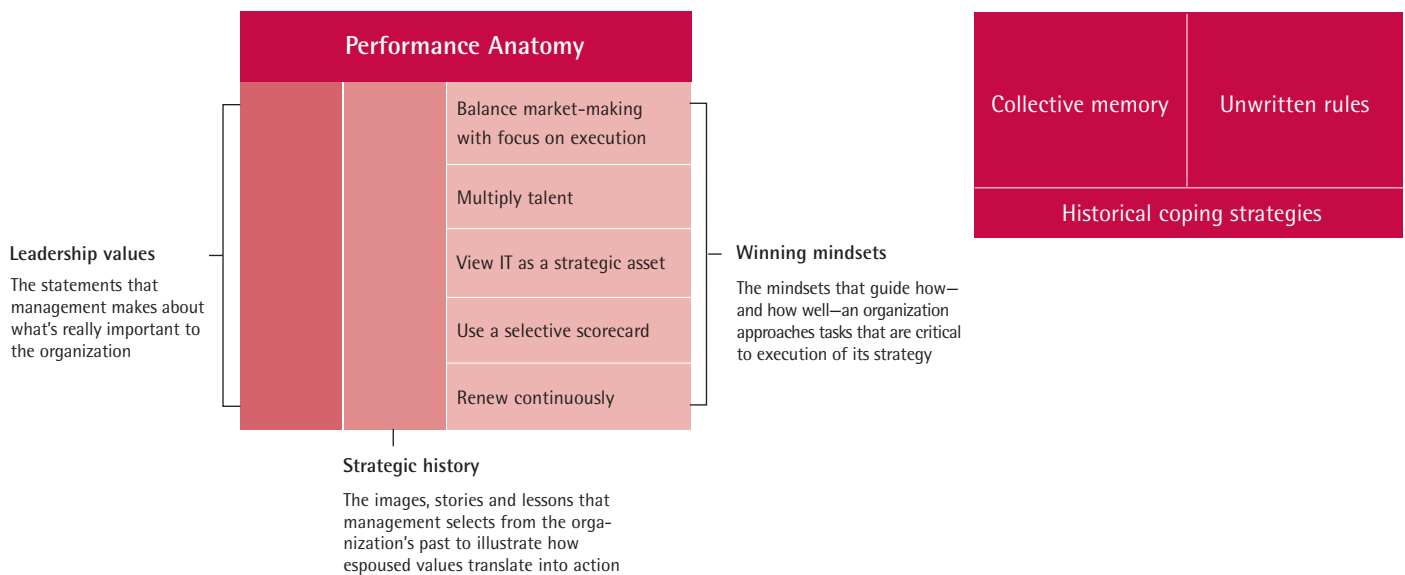
Exhibit 1. The two sides of culture

Observable and actionable

Because it is observable and actionable, this side of culture can be actively managed by the organization.

Hidden and hard to influence

The hidden and hard to influence side is often left unmanaged or indirectly managed by the organization.



a sense of belonging. Such uniformity of thought and behavior, according to this theory, has yielded positive results for these "visionary companies." As a whole, these values and behaviors are critical to organizations that are "built to last."

In contrast, Harvard Business School professors John Kotter and Jim Heskett conclude that there is no relationship between the strength of a culture and performance.² They contend that a firm with a strong culture can perform poorly and conversely, that one can have a weak culture and excellent performance. The key to business performance, in this view, is not cultural strength but a culture's ability to adapt to changes in business environments and its appropriateness to the industry. An adaptive culture allows management to alter formal structures, execute new strategies, introduce new technologies and change executive leadership and still inspire the same if not more commitment and productivity in its employees. An appropriate culture is one in which values, goals and overall mission are aligned with the company's strategies and the business environment.

Another strand of thinking, put forth by the seminal thinker in this field, MIT professor Ed Schein, suggests that managing culture means managing the interpretation of ideas, symbols and rituals within a group.³ Examples of symbols include company logos, employee uniforms, and office layouts, while rituals include award ceremonies and celebrations. Business academics of this school advise company leaders to conduct workshops

and run diagnostic tests to obtain insight into the culture and psyche of their organizations. Though these exercises may be helpful as a means of diagnosing corporate culture, they generally leave leaders with little sense of what to do with the information they have collected.

Accenture believes that the concept of performance anatomy solves that problem. Our original research and extensive review of secondary literature lead us to believe that there are two sides to culture: the observable and the hidden. (See Exhibit 1.) Performance anatomy is the observable side and can be actively managed. The concept borrows the ideas of shared assumptions, values and belief systems from Schein and other researchers, but it also shows how managers can harness the shared experiences, understand the current characteristics and position culture to achieve higher performance.

The other side of culture is hidden and is therefore harder to influence. It is made up of the company's collective memory and unwritten rules.⁴ Collective memory consists of stories and events that, over time, become stereotypes and expectations; unwritten rules consist of advice and coping strategies that make up the informal organization, often the unintended consequences of failures in the formal organization. Though harder to manage, the hidden side plays an important part in a company's performance because it can positively reinforce the values and mindsets of performance anatomy if the two sides are aligned. Conversely, it can dampen the effect of performance anatomy if the unwritten rules and assumptions are misaligned with stated values, mindsets and practices. (Further discussion of the hidden side of culture comes in a later section of this report.)

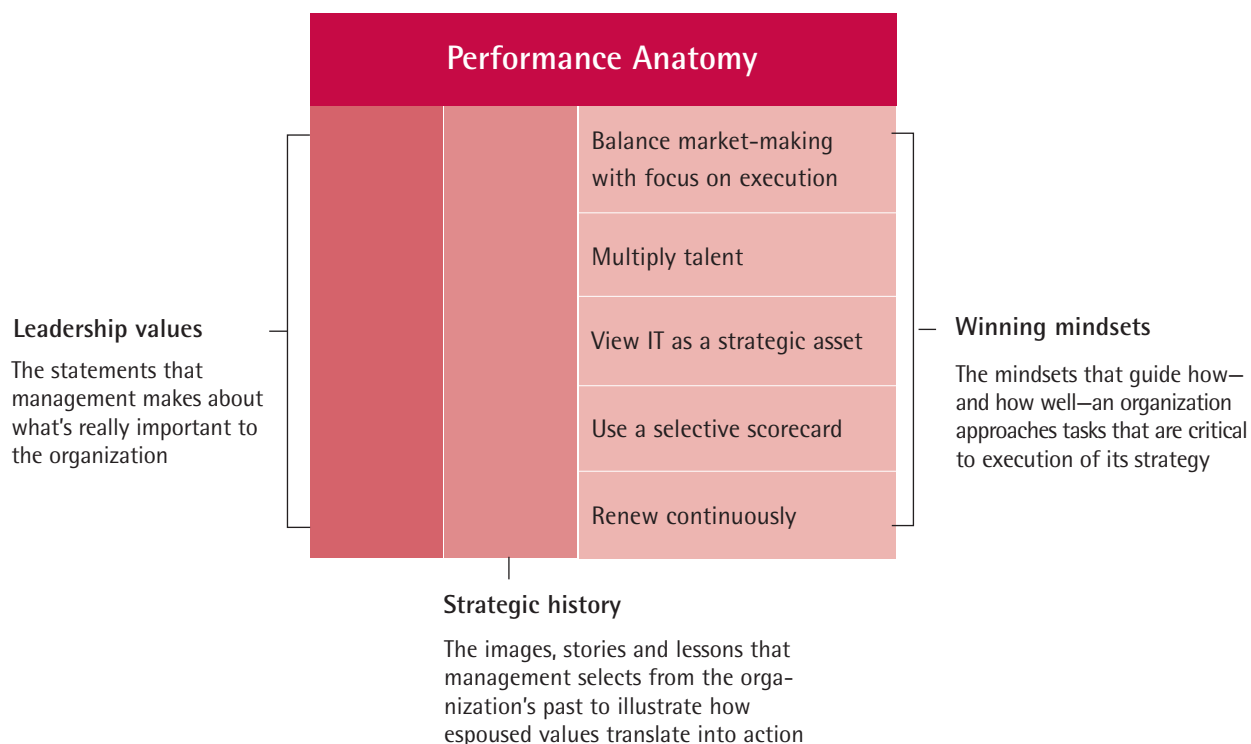
The observable and manageable side of culture

Performance anatomy, the observable side of culture, is made up of three parts: leadership values, strategic stories and winning mindsets. (See Exhibit 2.) Leadership values are reflected in statements that top management makes about what's really important to the organization. They often mirror the values initially put forth by the company's founders. Leaders give credence to these values by choosing specific stories, images, and lessons that illustrate how to translate espoused values into action.

These stories often come in the form of legends about how the founders built the business on the basis of certain principles, or they are about critical junctures at which the company overcame hardship and successfully met steep challenges. The values and stories are communicated to the rest of the organization in a concise and simple manner. Through this process, leaders in high-performance businesses actively manage performance anatomy.

Over time, the values and stories strengthen mindsets about five critical aspects of the organization: the balance between strategy and execution; the cultivation of talent; the strategic importance of information technology; the need to measure performance selectively; and the drive for continuous innovation and renewal. Mindsets in these areas guide decision making and execution of the distinctive business practices that allow a company to successfully compete with its peers.⁵ High-performance businesses—those

Exhibit 2. Performance anatomy



that remain at the top of their industries through business cycles and changes in technology and leadership—excel at managing their performance anatomies and the inherent tensions within the five mindsets:

1. Balance market making with focused execution.

A performance anatomy mindset always seeks a balance between "making markets"—that is, seeking out and exploiting opportunities that will pay off in the future—and the disciplined execution of day-to-day tasks that ensures a steady cash flow in the present. Leaders of high-performance businesses demonstrate a relentless drive to find, test and bet on new products and services, new clients and new concepts while, at the same time, maintaining a clear commitment to execute the business strategies.

2. Multiply talent.

Managers in companies with a high-performance anatomy strive not just to manage talent but to multiply it. High-performance businesses believe that the talent they assemble should create an impact that is geometrically greater than the sum of its parts. Management brings the same rigor and intensity to developing people that they bring to honing their financial processes. They work especially hard at getting the right people into the right jobs.

3. View IT as a strategic asset.

Companies with a high-performance anatomy view IT as a strategic asset capable of fostering growth, not just containing costs. They insist that IT serve the business instead of the other way around, realizing that managers and employees need to know more about their business and their customers in real time than their competitors do. This mindset shapes the way decisions

are made about what technology to invest in and how the IT organization works with the rest of the company.

4. Use a selective scorecard.

Managers in companies with a high-performance anatomy don't attempt to measure everything related to the business. They identify the metrics for outcomes that are most closely related to the company's strategic directions and growth. They also focus as much attention on

the active management of intangible assets—like human capital, brand identity and innovation—as they do on assets like machinery, real estate and financial capital.

5. Renew continuously.

Companies with a high-performance anatomy strive to renew the organization's most important assets by focusing on both revolutionary and incremental

innovations. They are never satisfied with the status quo. High-performance businesses imbue their people with this mindset and as a result are able to renew themselves at all levels with remarkable efficiency.

Our research indicates that rather than appearing inescapable and immutable (like DNA), the shared mindsets of performance anatomy are tangible, observable and actionable. These mindsets allow businesses to focus on operating practices that drive superior business results. (See Exhibit 3.) Marriott International, to take one example, has demonstrated the ability to elevate its business above the rest by carefully managing its performance anatomy.

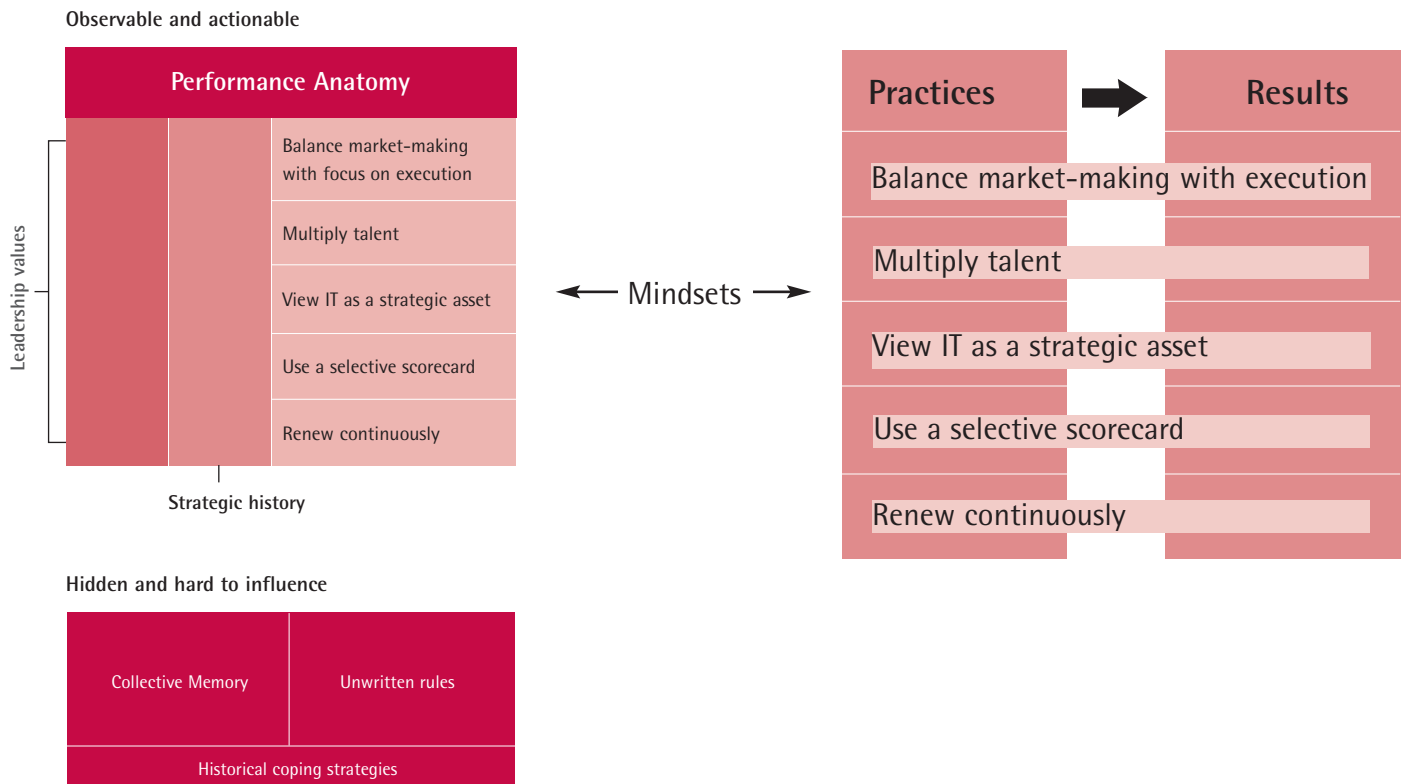
Marriott International: Building winning mindsets through values and stories

Marriott, the world's largest collection of hotel and vacation destination chains, began as a root beer stand that J. Willard Marriott and his wife, Alice, opened in 1927. From the beginning, J.W. Marriott was keen on managing his business by applying his deeply held beliefs in the value of employees, teamwork, fact-based decision making, humility, and continuous learning and improvement. These values are still important in the company's culture and are celebrated at Marriott. For example, the annual Award of Excellence is given out to publicly recognizes exemplary employees, and the story of former CEO Bill Marriott inspecting beneath the

beds of hotel rooms is in wide circulation as a reminder to employees to pay attention to details.

The company also communicates its values and stories to its workforce through a variety of publications. In The Spirit to Serve Daily News, employees share ideas about how to be gracious hosts and what it means to provide good service. A major part of the newsletter is devoted to explaining the Marriott methods of conducting guest service and ensuring guest satisfaction. Through the years, the values and stories have created distinct mindsets for Marriott and guided the company's practices in market leadership, talent management, performance measurement, technology usage and innovation.

Exhibit 3. Performance anatomy mindsets, practices and results



Marriott's winning mindsets and distinct competitive practices show up in its business results. In 2004, the company reported \$10 billion in revenue and \$596 million in net income. Operating efficiency also increased, as revenue per available room went up by 10.5 percent in 2004, and management and franchise fee revenue went up by 18 percent. With demand for lodging surging and growth in supply slowing throughout the world, Marriott added 27,000 rooms in 2004 (40 percent were conversions from other brands). Marriott's U.S. market share has more than doubled over the past 15 years, rising from 4 percent to 8.4 percent, and Marriott has consistently outperformed competitors in total return to shareholders in the last 10 years.⁶

Market making and focused execution at Marriott

Marriott International continuously develops new business models, tests them in pilots and simulations, and evaluates the organization's ability to execute them. This capacity to be both creative and disciplined has been critical to Marriott's evolution from a restaurant chain to a conglomerate to a leading hotel giant with a portfolio of brands that serve every economic segment.

When Bill Marriott became CEO in 1972, he wanted to expand Marriott's hotel business through franchising. Historically, companies in the hotel industry that grew through franchising did so at the expense of brand equity, but Marriott was intent on avoiding this problem. The company did so in part by infusing the chains with Marriott's culture and reminding

employees of the values that served as the bedrock of its success. Senior leaders revisited the original values set forth by J.W. Marriott, such as "taking care of associates" and "attention to details" to remind employees that though the franchises would own the hotels, they still carried the Marriott name and should deliver the consistent service excellence that is associated with the brand. But most important, the company reminded the franchise owners that Marriott's employees are crucial to the delivery of this service to customers.

Similarly, in 1983, Marriott gave values a central role in its portfolio-branding business model when it introduced the Courtyard brand. Marriott's branding model seeks to reduce operational costs by leveraging the back-of-house systems—such as reservations, distribution of supplies, and administration—while allowing the brand to deliver differentiated services and capture customers from different economic segments. Such a branding model was prevalent in the packaged goods and consumer products markets, but prior to Marriott's campaign it had not been adopted in the hotel industry.

Marriott knew that the transition from managing a single brand to managing a portfolio of brands would be tricky. Company leaders again called upon the values and stories to remind employees that the Marriott's culture is about delivering consistent quality services. Mike Jannini, executive vice president of brand management, explains that the brand management initiative was when "we had to articulate [values] that had been taken for granted in the culture and folklore of the company." Values such as "attention to details" were highlighted to guarantee quality service and ensure guest satisfaction.

Despite its diverse portfolio of brands, Marriott strived to deliver a consistent customer experience. Ed Fuller, executive vice president of international lodging, elaborates: "If you talk to our competitors or our customers, one of the strengths Marriott has is consistently delivering the brand promise of consistent values and quality delivered with every visit at every hotel. We have some brands that call for flexibility. For example, at Renaissance hotels, not every room looks the same; [each hotel] reflects the differences of the local market. But you still have to consistently deliver the values and quality. Consistency has become a value; it is certainly part of the Marriott culture." Encouraged by the immediate success of the Courtyard brand, Marriott expanded its portfolio, adding Residence Inn and Fairfield Inn in 1987, and luxury brands such as the Ritz-Carlton in 1995 and Bulgari in 2004. As a result, Marriott had an unmatched portfolio of brands for ten years before anybody in the industry had consolidated enough to be competitive.

Multiplying talent at Marriott

Talent management at Marriott begins with the phrase "taking care of the associates" because management believes that satisfied and engaged employees will take care of the customers. Marriott carefully selects its employees and, once they have been hired, provides them with ample training opportunities to keep them motivated and engaged. The company invests heavily in training and even incorporates a training budget requirement into its contracts with franchises and property owners. Brendan Keegan, executive vice president of human

resources, explains that at the outset "there is a very strict contract stipulating that training will occur and how many dollars will be spent. The [hotel] owners expect Marriott to provide training, and Marriott expects the owners to fund that training." Employees who have gone through the training programs tend to move up the ladder faster and demonstrate better experience, results and skills, which all translates to higher employee productivity, satisfied guests and higher revenue.

Marriott's dedication to training and retaining its employees has won it many awards: in 2005 Fortune named it among the top 100 companies to work for, and Working Mother ranked it among the top 100 companies for working mothers. Compared to others in the lodging industry, the voluntary turnover rates in 2004 for Marriott's North American lodging operations were among the lowest in the industry: 10.6 percent for managers and 21.9 percent for hourly workers. Indeed, employment tenures of 20 or 30 years are not unusual at Marriott. The company's senior officers have an average of 22 years with the company, while their direct reports have an average tenure of 15 years.⁷ Furthermore, Marriott's employees are also highly engaged employees who know the company's mission, have an emotional attachment to it and are energized to carry it out. The company knows that high employee retention at the property level drives profitability, and Marriott structures its benefits and compensation package to appeal to the needs of its employees.

IT as a strategic asset at Marriott

Marriott views information technology as a source of operational excellence and competitive advantage, and has a pioneering approach to managing it. In the late 1990s, the company established a guiding principle: there will be no IT projects, only business initiatives that are enabled and shaped by information technology. This principle comes from the company's value that "success is never final," meaning that the company must find innovative ways to use all available assets to stay ahead of the competition.

This approach requires business managers to have a clear understanding of what can be accomplished when the unique attributes of information technology are applied to business processes and functions. Any new initiative with a significant information technology component will be undertaken only after the project has been assigned a full-time business leader and a full-time IT leader. Furthermore, the IT function at Marriott is not given any R&D money. CIO Carl Wilson explains: "If we want to do something new that we think is a great opportunity for the company, we have to stop doing something that adds less value to generate the funds to do the new project. That keeps us all active and creative. We are always looking for process improvement."

For example, years ago, Marriott's innovative use of information technology allowed it to focus on customer room demand when the rest of the industry was still talking about supply. Today the company continues to invest heavily in collecting customer information, which it then uses to develop sophisticated brand-tracking studies and market segmentation analyses.

Using a selective scorecard at Marriott

Marriott's value of paying attention to details in all company practices translates into a keen interest in measurement. But Marriott goes beyond the examination of financial, operational and customer satisfaction measures. It can now assess its associates' performance, job satisfaction—even their commitment to the organization. The company has begun to measure employees' engagement—the extent to which employees know and understand the company's mission. These metrics can even measure employees' emotional attachment to the mission and how much energy they have to carry it out. Marriott has used these metrics to conclude that the majority of its associates—more than 80 percent—are "engaged" or "highly engaged." Such high engagement has translated into enthusiastic and productive workers and satisfied guests.

Indeed, Marriott increased its revenue by making a direct link between associate engagement and house profit, guest satisfaction and the frequency of guest returns. The company found, for example, that hotels with higher associate engagement scores have a lower incidence of associate accidents. David Rodriguez, senior vice president of human resources for North America lodging, notes this validates the company's long-held belief that taking care of associates ensures the company's financial health.

Continuous renewal at Marriott

At Marriott, "success is never final" is a value that is not only espoused by senior leaders but also lived and practiced by everyone at the company. This value translates into a mindset in which Marriott

continually assesses the competitive climate, searching for opportunities and threats. To encourage a risk-taking climate, Marriott reminds its employees that mistakes are learning opportunities. The company understands that occasional mistakes are the price to be paid for its culture of entrepreneurship and creativity. Employees are given the freedom to make mistakes, and the organization learns from them. When it comes to learning from one's own mistakes, Bill Marriott likens the experience to buying an education: "I just paid tuition. I'm going to get a return on that."

Marriott is currently focused on satisfying customers increasing desire for interesting experiences. It is looking to fulfill their desire for luxurious amenities, stylish surroundings, technological conveniences and personal services. "Generations X and Y look for innovation, sophistication and distinctiveness much more than the baby boomers have," explains Mike Jannini. This new initiative is being led by a team that incorporates all levels and regions of managers, not just those from corporate headquarters. "We [headquarters] can provide some central direction, but it calls on the local managers and regional managers to put their entrepreneurial spirit to work," says Jannini.

The effect of the hidden side of corporate culture on performance

In addition to managing the observable and actionable side of company culture, high-performance businesses are also alert to the hidden side of culture and how it can enhance or hamper even the most carefully planned intervention. As mentioned earlier, the hidden side of culture is made up of collective memory and unwritten rules that group members develop after years of coping with internal and external threats. To ensure success, the unwritten rules should not be in contrast with the espoused values and mindsets. Otherwise, just as the part of the iceberg that is below the water's surface poses great danger to an unsuspecting ship, this side of culture can sink the benefits of a well-managed performance anatomy.

For example, imagine a company that values customer intimacy and creates complex analytics to gauge its customers' satisfaction. Furthermore, to create deep customer relationships, the company designs its CRM system so that each customer will have one sales representative assigned to it. That rep would help the customer purchase the correct product and also be the first point of contact for service and sales of other products. The company believes its customer relationship management scheme will increase revenue. However, this model will not work if an unwritten rule for getting ahead in the company is to change jobs often or to get exposure to many clients and products. Consequently, few sales representatives stay in their current jobs to develop the relationships the company wants to create.

To ensure a positive effect, management should be aware of the company's unwritten rules, especially if these differ from the company's explicitly stated values and mindsets. To gain this awareness, management must have open and honest communications with employees and remain receptive to suggestions from the bottom ranks. Management must gauge the alignment of employees' beliefs and assumptions in the five mindsets of performance anatomy by conducting a diagnostic survey and then participate in in-depth group conversations. A later report will discuss a diagnostic tool for assessing an organization's mindsets and practices. Having insight into the company's unwritten rules—how they come about, and the inconsistency between the formal and informal systems—is a way to prevent those rules from retarding the effect of performance anatomy. Furthermore, such open communications between leadership and employees often lead to improved employee relations and higher employee engagement.

Conclusion

In a competitive market where technology, business models and talent are easily purchased, copied or lured away, culture can fuel a company's continued success. Opportunity exists for companies to harness their company culture to direct business practices and achieve results that keep them ahead of the pack.

Performance anatomy, the actionable and measurable side of culture, provides leaders with a tangible pathway to go from culture to action. The performance anatomy framework draws on the company's values and stories to create five mindsets about core skills that affect a company's willingness and ability to execute its strategy.

By using the performance anatomy framework, leaders can take a average-

performing organization to high performance. But companies with high performance cannot be complacent. As in the case of Marriott International, creating and maintaining performance anatomy is an ongoing job, even when the company has longstanding values and corporate history.

Notes

- 1 Jim Collins and Jerry Porras, **Built to Last: Successful Habits of Visionary Companies** (HarperCollins, 1994).
- 2 John Kotter and Jim Heskett, **Corporate Culture and Performance** (Free Press, 1992).
- 3 Among Ed Schein's many works on the subject, see **The Corporate Culture Survival Guide** (Jossey-Bass, 1999). See also Robert Goffee and Gareth Jones, **The Character of a Corporation: How Your Company's Culture Can Make or Break Your Business** (HarperBusiness, 1998) and Mat Alvesson, **Understanding Organizational Culture** (Sage Publications, 2003).
- 4 Peter Scott-Morgan, **The Unwritten Rules of the Game: Master Them, Shatter Them, and Break Through the Barriers of Organizational Change** (McGraw-Hill, 1994).
- 5 In a competitive and changing business environment, companies are faced with opposing forces when making decisions and creating practices relating to leadership, talent management, information technology, performance management and innovation. The five organizational mindsets of performance anatomy enable high performers to deliberately manage the tensions of a competitive business environment by allocating resources for today and tomorrow and deciding to grow locally or globally.
- 6 Marriott's 10-year average total return to shareholders is 17.9%. Source: S&P Compustat.
- 7 Robert J. Thomas, **Marriott: Building a Winning Mindset, Brand and Organization**, Accenture Institute for High Performance Business case study, February 2006.

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