CULTURAL CHANGE THAT STICKS

START WITH WHAT'S ALREADY WORKING

by Jon R. Katzenbach, Ilona Steffen, and Caroline Kronley

In the early 2000s Aetna was struggling mightily on all fronts. While on the surface revenues remained strong, its rapport with customers and physicians was rapidly eroding, and its reputation was being bludgeoned by lawsuits and a national backlash against health maintenance organizations and managed care (which Aetna had championed). To boot, the company was losing roughly $1 million a day, thanks to cumbersome processes and enormous overhead, as well as unwise acquisitions.

Many of the problems Aetna faced were attributed to its culture—especially its reverence for the company's 150-year history. Once openly known among workers as "Mother Aetna," the culture encouraged employees to be steadfast to the point that they'd become risk-averse, tolerant of mediocrity, and suspicious of outsiders. The prevailing executive mind-set was "We take care of our people for life, as long as they show up every day and don't cause trouble." Employees were naturally wary of any potential threat to that bargain. When Aetna merged with U.S. Healthcare, a lower-cost health care provider, in 1996, a major culture clash ensued. But instead of adapting to U.S. Healthcare's more-aggressive ways, the conservative Aetna culture only became more intransigent. Aetna's leaders could make little headway against it, and one CEO was forced out after failing to change it.

What Aetna's management didn't recognize was that you can't trade your company's culture in as if it were a used car. For all its benefits and blemishes, it's a legacy that remains uniquely yours. Unfortunately, it can feel like a millstone when a company is trying to push through a significant change—a merger, for instance, or a turnaround. Cultural inclinations are well entrenched, for good or bad. But it's possible to draw on the positive aspects of culture, turning them to your advantage, and offset some of the negative aspects as you go. This approach makes change far easier to implement.

In late 2000, John W. Rowe, MD, became Aetna's fourth CEO in five years. Employees skeptically prepared for yet another exhausting effort to transform

ILLUSTRATION: SERGE BLOCH

the company into an efficient growth engine. This time, however, they were in for a surprise. Rowe didn't walk in with a new strategy and try to force a cultural shift to achieve it. Instead, right from the start, he, along with Ron Williams (who joined Aetna in 2001 and became its president in 2002), took time to visit the troops, understand their perspective, and involve them in the planning. With other members of the senior team, they sought out employees at all levels—those who were well connected, sensitive to the company culture, and widely respected—to get their input on the strategy as well as their views on both the design and execution of intended process changes.

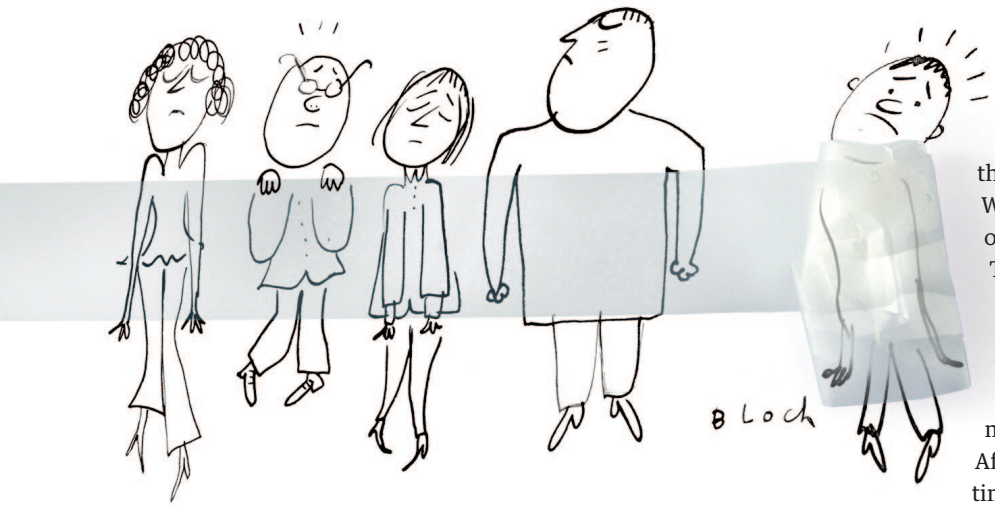
These conversations helped Rowe and his team identify Aetna's biggest problem: A strategy that focused narrowly on managing medical expenses to reduce the cost of claims while alienating the patients and physicians that were key to Aetna's long-term success. At the same time, they surfaced Aetna's significant cultural strengths: a deep-seated concern about patients, providers, and employers; underlying pride in the history and purpose of the company; widespread respect for peers; and a large group of dedicated professionals.

These insights led Rowe to rethink his approach to the company's turnaround. He declared that instead of just cutting costs, the organization would pursue a strategy he called "the New Aetna." It would build a winning position in health insurance and a strong brand by attracting and serving both patients and health care providers well. That was an appealing proposition but would require significant restructuring; no one's job was guaranteed. In other words, it was the kind of change that Mother Aetna traditionally resisted with every passive-aggressive move she could muster.

But this time, without ever describing their efforts as "cultural change," top management began with a few interventions. These interventions led to small but significant behavioral changes that, in turn, revitalized Aetna's culture while preserving and championing its strengths. For instance, the New Aetna was specifically designed to reinforce employees' commitment to customers—reflected in the firm's history of responding quickly to natural disasters. Rowe also made a point of reinforcing a long-time strength that had eroded—employees' pride in the company. When, in an off-the-cuff response to a question at a town hall meeting, he highlighted pride as a reason employees should get behind change, he received a spontaneous standing ovation.

So while the plan for change challenged long-held assumptions (among other things, it would require the elimination of 5,000 jobs, with more cuts likely to come), it was embraced by employees. They had been heard and appreciated, and they came to accept the New Aetna.

Indeed, during the next few years it became clear, from surveys, conversations, and observation, that a majority of Aetna's employees felt reinvigorated, enthusiastic, and genuinely proud of the company. And Aetna's financial performance reflected that. By the mid-2000s, the company was earning close to $5 million a day. Its operating income recovered from a $300 million loss to a $1.7 billion gain. From May 2001 to January 2006, its stock price rose steadily, from $5.84 (split adjusted) to $48.40 a share.



Aetna's story (which we have drawn from a draft of an unpublished book by Jon Katzenbach and Roger Bolton, a retired Aetna senior executive) isn't unique. We've known for a long time that it takes years to alter how people think, feel, and behave, and even then, the differences may not be meaningful. When that's the case, an organization with an old, powerful culture can devolve into disaster. This has happened at organizations like Washington Mutual, Home Depot (before its recent turnaround), and the U.S. Marine Corps during the Korean and Vietnam wars.

Happily, it's also possible for a culture to move in the right direction, as we saw at Aetna. After all, cultures do evolve over time—sometimes slipping backward, sometimes progress-

Idea in Brief

Many leaders blame their company's culture for thwarting significant change initiatives, such as mergers or turnarounds. But when they try to solve the problem by changing the culture, their efforts tend to fizzle, fail, or backfire. The consequences can be severe.

What those leaders don't see is that culture is highly ingrained in the ways people work—and that any company culture has assets. The secret is to make the most of its positive elements—to work with and within the culture, rather than fighting against it.

Leaders should take care to honor their culture's strengths, focusing on changing just a few critical behaviors rather than attempting a wholesale transformation. Once they take this view, some leaders even find that their culture has become their primary competitive advantage. These companies align their business priorities with the culture and use it to sharpen their strategic focus, all the while helping the culture evolve so that it becomes an accelerator of change, not an impediment.

ing—and the best you can do is work *with* and *within them,* rather than fight them. In our research we've found that almost every enterprise that has attained peak performance—including the Four Seasons, Apple, Microsoft, and Southwest Airlines—got there by applying five principles. Such companies see culture as a competitive advantage—an accelerator of change, not an impediment.

In this article, we'll walk through the five principles, using examples from our research and client experience. Following them can help an organization achieve higher performance, better customer focus, and a more coherent and ethical stance.

1 Match Strategy And Culture

Too often a company's strategy, imposed from above, is at odds with the ingrained practices and attitudes of its culture. Executives may underestimate how much a strategy's effectiveness depends on cultural alignment. Culture trumps strategy every time.

Some corporate leaders struggle with cultural intransigence for years, without ever fully focusing on the question: *Why* do we want to change our culture? They don't clearly connect their desired culture with their strategy and business objectives. Many times we've walked into organizations that presented us with an entire laundry list of hoped-for cultural traits: collaborative, innovative, a meritocracy, risk taking, focused on quality, and more. The list is too vague and too long to tackle. It sounds great but provides nothing in the way of differentiation.

Contrast such nebulous aspirations with those in an organization in which a few cultural traits truly do match and support the strategy, like the Mayo Clinic. World renowned for its ability to bring together specialists across a range of medical fields to diagnose and effectively treat the most complex diseases, the clinic promotes unusually high levels of collaboration and teamwork, reinforcing those traits through formal and informal mechanisms.

> A strategy that is at odds with a company's culture is doomed. Culture trumps strategy every time.

2 Focus on a Few Critical Shifts in Behavior

Studies show that only 10% of people who have had heart bypass surgery or an angioplasty make major modifications to their diets and lifestyles afterward. We don't alter our behavior even in the face of overwhelming evidence that we should. Change is hard. So you need to choose your battles.

Where do you start? First observe the behavior prevalent in your organization now, and imagine how people would act if your company were at its best, especially if their behavior supported your business objectives. Ask the people in your leadership groups, "If we had the kind of culture we aspire to, in pursuit of the strategy we have chosen, what kinds of new behaviors would be common? And what ingrained behaviors would be gone?"

Say your organization is a former utility or government agency interested in becoming a better service business. If it excelled at service, how would people treat customers differently? What kinds of interactions would be visible in any new offices you opened? How would employees propose new ideas

The Cultural Slide at Arthur Andersen

One of the best-known, and yet most misunderstood, examples of cultural backsliding took place at the Arthur Andersen accounting firm.

With practices in more than 30 countries, it was once the envy of professional service firms. Then in 2002 indictments during the Enron investigation forced Andersen into bankruptcy. At the time, many believed that a single client relationship had brought the firm down for largely legal or regulatory reasons. In fact, its fall stemmed from a creeping cultural erosion that had begun decades before the Enron debacle.

At least that was the conclusion of analyst and journalist Charles Ellis, who studied the Andersen failure in depth and described it in an unpublished manuscript, *What It Takes*. "Arthur Andersen, once the world's most admired auditing and professional services firm, descended through level after level of self-destructive decline to its ultimate death," he says. Ellis traces the firm's decline to the 1950s, when its leaders shifted their focus from quality and integrity to beating other firms' revenue numbers and market position.

As Andersen expanded around the world, it abandoned practices geared toward pro-

or evaluate one another? How would they raise difficult issues or bring potential problems to others' attention? And how would employees react when they actually saw colleagues doing things differently?

When choosing priorities, it often helps to conduct a series of "safe space" discussions with thoughtful people at different levels throughout your company to learn what behaviors are most affected by the current culture—both positively and negatively. This is what Aetna did. It was also the approach taken by a national retailer that was looking to build a culture with a strong customer focus. The retailer's leaders enlisted the help of internal "exemplars"—people who were known for motivating their teams effectively. A group of senior executives interviewed them and isolated a set of crucial motivating behaviors, such as role-modeling good customer service. Store managers received training in the behaviors, which were also translated into specific tactics, such as ways to greet customers entering the store. The stores that have introduced the new behaviors are already beginning to see results, including improved same-store sales in key product areas and fewer customer complaints.

The behaviors you focus on can be small, as long as they are widely recognized and likely to be emulated. Consider the response one company had to the discovery that a major source of employee frustration was its performance-review process. The company used a 360-degree evaluation mechanism, but employees were often unpleasantly surprised by the results. So management introduced a simple behavior: asking people who were providing input whether they had ever given the feedback to the person being reviewed. As a result of this straightforward question, colleagues began to share constructive criticisms with one another more often, resulting in fewer demotivating surprises and a better dialogue about performance.

When a few key behaviors are emphasized heavily, employees will often develop additional ways to reinforce them. As GM was emerging from bankruptcy, the company decided to spur innovation by placing a renewed emphasis on risk taking and the open exchange of ideas. After one colleague complimented another on his performance in a meeting, their team lightheartedly began a practice of handing out "gold star" stickers to recognize colleagues exhibiting strong character and candor. The practice soon began to spread. While the stickers probably would have been received skeptically as a top-down initiative, as an organic peer-to-peer custom they helped reinforce GM's larger cultural evolution.

3 Honor the Strengths of Your Existing Culture

It's tempting to dwell on the negative traits of your culture, but any corporate culture is a product of good intentions that evolved in unexpected ways and will have many strengths. They might include a deep commitment to customer service (which could manifest itself as a reluctance to cut costs) or a predisposition toward innovation (which sometimes leads to "not invented here" syndrome). If you can find ways to demonstrate the relevance of the original values and share stories that illustrate why people believe in them, they can still serve

If they look hard enough, most firms will find they already have pockets of people who practice the behaviors they desire.

fessional excellence, such as a rule that all accountants had to spend two years in auditing and the use of a global profit pool that ensured that all partners had a stake in one another's success. Each new measure, while defensible, made it a little easier to compromise the firm's values. The cultural deterioration also made it easier to ignore many warning signs, including the 1973 bankruptcy of Four Seasons Nursing Centers of America, in which the founder pleaded guilty to securities fraud and Andersen, as the auditor, was indicted. By the time Enron became a key client in the late 1990s and insisted on using only individual accountants and auditors who accepted its questionable practices, the accounting firm's professional culture had already declined past the point of no return. A few modest interventions might have preserved the firm's commitment to integrity and avoided a very public and embarrassing demise.

your company well. Acknowledging the existing culture's assets will also make major change feel less like a top-down imposition and more like a shared evolution.

The same surveys of employee behavior, in-depth interviews, and observation that you use to diagnose your culture's weaknesses can also clarify its strengths. Executives at one financial services firm, for example, conducted a survey to test employees' readiness to follow a strategy that involved going head-to-head with a new, aggressive set of competitors. The survey revealed a number of serious cultural challenges, including passive-aggressive behavior, inconclusive decision making, and pervasive organizational silos. But it also showed that staff members were unusually willing to commit time and effort toward the strategy; they really wanted to help. This enormous strength had been largely untapped. That realization helped executives rethink how they communicated the strategy, and more important, how they interacted with employees to support the new behaviors.

Another way to harness the cultural elements you want to support is by acknowledging them. At Aetna a major turning point came during one question-and-answer session, when a longtime employee said, "Dr. Rowe, I really appreciate your taking the time to explain your new strategy. Can you tell me what it means for someone like me?"

Not an easy question. After a thoughtful pause, Rowe replied, "Well, I guess it is all about restoring the Aetna pride." As we noted earlier, he got a spontaneous standing ovation from the hundreds of attendees. Why had that concept hit such a nerve? Aetna had always had a strong record of responding to natural disasters (including the Great Chicago Fire of 1871 and the 1906 San Francisco earthquake). Its employees were also proud of the many famous people—movie stars, astronauts, sports heroes, and other public figures—that the company insured. It was only as a result of a strong managed-care movement that emerged in the 1980s and 1990s that Aetna had gained a reputation as a stingy, recalcitrant company. Employees stopped feeling good about their association with it. "At cocktail parties," said one longtime Aetna staffer, "I really dreaded the question, Who do you work for?" When Rowe and Williams made "restoring the pride" the core of their message, they touched the hearts of many employees and helped them believe Aetna could regain its former glory.

Another strength companies can leverage is the employees who are already aligned with their strategy and desired culture. Most companies, if they look hard enough, will find that they have pockets of activity where people are already exhibiting the new, desired behaviors every day—just as the "exemplar" store managers did at the retailer.

4 Integrate Formal and Informal Interventions

As you promote critical new behaviors, making people aware of how they affect the company's strategic performance, be sure to integrate formal approaches—like new rules, metrics, and incentives—with informal interactions. (For a menu of tools, see the exhibit "Mechanisms for Getting the Most from Your Culture.") Only a few companies understand how to do this well. In our experience, most corporate leaders favor formal, rational moves and neglect the informal, more emotional side of the organization. They adjust reporting lines, decision rights, processes, and IT systems at the outset but overlook informal mechanisms, such as networking, communities of interest, ad hoc conversations, and peer interactions.

Mechanisms for Getting the Most from Your Culture

Formal

- Reporting structures
- Decision rules and rights
- Business processes and policies
- Training, leadership, and organizational development programs
- Performance management
- Compensation and rewards
- Internal communications
- Councils and committees
- Company events

Informal

- Behavior modeling by senior leaders
- Meaningful manager-employee connections
- Internal, cross-organizational networks
- Ad hoc gatherings
- Peer-to-peer interactions and storytelling
- Communities of interest
- Engagement of exemplars and motivational leaders
- Changes to physical plant, resources, and aesthetics

Google is a good example of a company that makes the most of its informal organization. A senior leader we interviewed there compared the company to universities that plan out paved walkways when they expand their campuses. At Google, he said, "we would wait to do the walkways until the employees had worn informal pathways through the grass—and then pave over only those getting the most use."

Whether formal or informal, interventions should do two things: reach people at an emotional level (invoking altruism, pride, and how they feel about the work itself) and tap rational self-interest (providing money, position, and external recognition to those who come on board).

At Aetna, Rowe explicitly sought out informal interactions with employees. These included social visits, ad hoc meetings, impromptu telephone discussions, and e-mail exchanges. He and Williams focused on getting cross-sections of people to reflect on how they were feeling and on identifying their sources of anxiety and concern. Separate nonhierarchical forums among peers and colleagues were also held across the company to discuss Aetna's values—what they were, what they should be, why many of them were no longer being "lived," what needed to happen to resurrect them, and what leadership behaviors would ensure the right employee behaviors.

One early and important networking effort by Rowe was to identify a core group of "key influencers"—potential leaders who could offer invaluable perspectives on the cultural situation, regardless of their level in the hierarchy. Rowe began interacting with a cadre of about 25 influencers and within a few months expanded the group to include close to 100. These discussions not only gave him insights about the staff but created a rapport between him and a respected group that disseminated his message both formally and informally.

5 Measure and Monitor Cultural Evolution

Finally, it's essential to measure and monitor cultural progress at each stage of your effort, just as you would with any other priority business initiative. Rigorous measurement allows executives to identify backsliding, correct course where needed, and demonstrate tangible evidence of improvement—which can help to maintain positive momentum over the long haul.

Executives should pay attention to four areas:

Business performance. Are key performance indicators improving? Are relevant growth targets being reached more frequently? What is happening with less obvious indicators, such as local sales improvements or decreases in customer complaints?

Critical behaviors. Have enough people at multiple levels started to exhibit the few behaviors that matter most? For example, if customer relationships are crucial, do managers update the CRM database on a regular basis?

Milestones. Have specific intervention milestones been reached? For example, has a new policy

successfully been implemented? Are people living up to their commitments to key account targets?

Underlying beliefs, feelings, and mind-sets. Are key cultural attitudes moving in the right direction, as indicated by the results of employee surveys?

This last area is usually the slowest to show improvement. Most people will shift their thinking only after new behaviors have led to results that matter—and thereby been validated.

When designing cultural metrics, remember that you get what you measure. An overemphasis on quarterly sales results, for example, can trigger inappropriate pressure on valued customer relationships. And if a company, in an effort to become more customer-centric, defines "engage with your client more often" as a critical behavior and measures it in number of calls per week, its staff may make lots of phone calls without increasing business. Similarly, focusing on retention metrics as an indication of overall engagement and job satisfaction may not be as useful—or as important—as what happens to retention of top performers once a cultural initiative gets under way.

Companies should also use their tracking efforts to remind people of their commitment. Some organizations send out a five- or 10-question survey every other week, asking how often particular behaviors have been exhibited. These surveys serve as good a basis for dialogue and act as a simple reinforcement mechanism.

If not approached correctly, measurement efforts can quickly become cumbersome, time-consuming, and expensive. It's better to include a few carefully designed, specific behavioral measurements in existing scorecards and reporting mechanisms, rather than invent extensive new systems and surveys. In some cases, it may also be worth focusing on interactions within key subpopulations—such as midlevel managers or those in business-critical functions—whose own behaviors have a disproportionate impact on the experiences of others or on business success.

Cultural Intervention As the First Resort

All too often, leaders see cultural initiatives as a last resort, except for top-down exhortations to change. By the time they get around to culture, they're convinced that a comprehensive overhaul of the culture is the only way to overcome the company's resistance to major change. Culture thus becomes an excuse and a diversion, rather than an accelerator and an energizer.

But cultural intervention can and should be an early priority—a way to clarify what your company is capable of, even as you refine your strategy. Targeted and integrated cultural interventions, designed around changing a few critical behaviors at a time, can also energize and engage your most talented people and enable them to collaborate more effectively and efficiently.

Coherence among your culture, your strategic intent, and your performance priorities can make your whole organization more attractive to both employees and customers. Because deeply embedded cultures change slowly over time, working with and within the culture you have invariably is the best approach. The overall change effort will be far less jarring for all concerned. Simply put, rather than attacking the heart of your company, you will be making the most of its positive forces as your culture evolves in the right way.

HBR Reprint R1207K

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