SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT

By Peg Neuhauser, Ray Bender and Kirk Stromberg

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Building Corporate Culture in the Connected Workplace

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THE SUMMARY IN BRIEF

Everyone seems to be racing to transform themselves into e-business enterprises. Corporations are doing it. So are nonprofit organizations. Even government agencies are trying it. The biggest stumbling block most companies face is that their corporate cultures don't match up with how people are required to work in the new economy. In this summary you will get a road map for building and changing your company culture so it will help rather than hinder your company's transformation.

In this summary you will learn to face common challenges such as:

✓ **Making the Jump to Warp Speed.** Everything moves fast and furious in the Internet world. You will see why moving to warp speed requires you to learn to tolerate risk and make quick decisions.

✓ **Building a Corporate Culture in a Virtual Organization.** This summary will show you how to maintain a corporate culture when employees don't work in the office. Included in this section: seven steps for successfully transmitting your corporate culture to a new remote worker.

✓ **Living With Parallel Cultures.** As you transition to e-business — by setting up separate Internet-driven divisions or companies that run parallel to the bricks-and-mortar activities of the organization — you will have to live with the resulting parallel company cultures.

✓ **Managing a New Breed of Teams.** In e-business, teams form, get the job done and disband. You will learn how to manage these teams.

✓ **Communicating Openly and Managing Knowledge.** Learn why in the .com world no one controls information; it belongs to everyone. Discover the best way to manage the knowledge that's crucial to a successful e-business.

✓ **Building Corporate IQ.** Learning is crucial. See why so many leading companies are changing the way they train workers.

This summary highlights the issues involved in building a corporate culture that fits the Internet age — an essential step for the future success of your company.

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CULTURE.COM

by Peg Neuhauser, Ray Bender and Kirk Stromberg

— THE *COMPLETE* SUMMARY

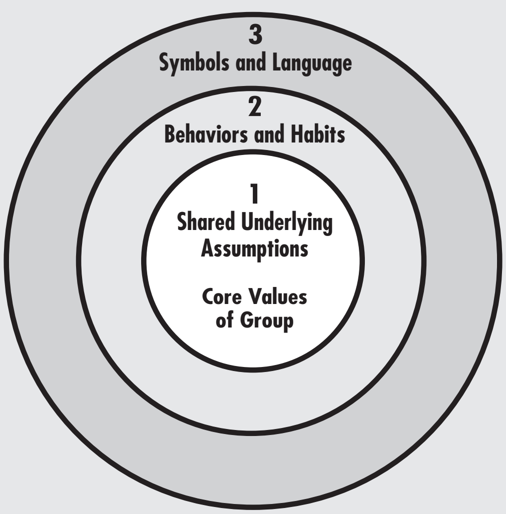
Your Corporate Culture in a Clicks-and-Mortar World

The rules of the game are changing. We are living in a .com world. We are experiencing the biggest shift in the way the world functions since the Industrial Revolution. While so far the focus has been on how to deliver goods and services in the new networked environment, comparatively little attention has been paid to the changes that are occurring to corporate cultures.

No doubt your company is changing the way it does business in order to compete in the new economy. Corporate culture, usually defined as "the way we do things around here," can make or break your strategy. If your company strategy does not match your corporate culture, the culture will win every time.

To change corporate culture, you must first understand it. Corporate culture exists in three layers. At the center are the core values of the group, which are the underlying assumptions the group shares. The next layer holds the behaviors and habits that have developed and which reflect the core values and assumptions. At the outer layer are the symbols and language members of the culture use to communicate with each other.

Three Layers of Culture



Layer 1— Most stable and unchanging
Layers 2-3 — Changes frequently as environment and business strategy changes

The Deepest Layer of Culture

The underlying assumptions and core values are the hub of the wheel for everything else about the culture.

Examples of underlying organizational assumptions include whether the group believes society should be organized around the community or the individual and whether it is acceptable to do several things at a time instead of finishing one task and only then moving on to the next. Generally, underlying assumptions are unspoken.

Core values, on the other hand, are conscious and discussed or written about in the organization. Examples include statements like "Customers come first," "Individual initiative is the source of success" and "Keep your promises. Your word is your honor." Keep in mind that as your company transitions to a .com organization, the core values may change to reflect the new realities.

Behaviors and Habits

The behaviors and habits of people working for your company make up the middle layer of culture. These are the company norms and include everything from formal policies to the informal tactics employees use to get things done. Formal policies may include everything from dictating behaviors like always answering the phone in three rings to requiring that workers never bypass their supervisor when seeking permission. Informal habits include only socializing with people at your hierarchical level or never disagreeing with the boss in public.

The behaviors and habits that make up the middle

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Your Corporate Culture in a Clicks-and-Mortar World

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layer of culture are learned in the first few weeks on the job. Newcomers watch how veteran workers operate and quickly learn the ground rules.

Symbols and Language

Symbols and language are the most visible and simplest level of culture. These include your company's logos, colors, dress codes and office layouts. Together, these create the company "look." Consider Amazon.com. The company started in a rented garage with desks made of wooden doors, two-by-fours and angle brackets. Desks like the first ones are still used throughout the company. They have become a symbol of the way things are done at Amazon.com.

What Do You Change and What Do You Keep?

If your company is to meet the challenges of a changing world, it must be prepared to change everything about itself except its basic beliefs. Since the core layer of culture tends to be the most stable, build upon it as you change the rest in your transition to the e-business world. Change the behaviors, symbols and language, but not the core.

For example, if your company currently requires five sign-offs before a team can implement a decision, cut back to one or two approvals. That way, you are able to adapt to the faster pace of e-business without changing your company's core belief in accountability and control.

Bear in mind that change is disruptive and upsetting to employees. People get attached to "the way we do things around here." The reality is that most people will gripe, complain and resist their way through the entire process. Don't expect to keep everyone happy while the company changes; it just won't happen. If you are confident you are focusing on keeping the core while instituting a better business strategy for the reality of the new e-business world, then everything else about the culture is negotiable, even if it will be a rough journey.

Once you determine what to change and what to keep, you need to communicate the changes often enough that they become part of the culture. That means that one or two glitzy events announcing the new company will not work. Old habits die hard. You need to point employees in the new direction through small, everyday actions. Whether it is allowing workers to speak up at a meeting without retribution, or rewarding a team that delivered results in half the usual time, be sure to highlight each change. ■

What Is Corporate Culture?

The best definitions of corporate culture are simple. They include:

- **the way we do things around here — the IBM or HP way,**
- **the personality of the organization,**
- **what people do when no one is watching.**

Making the Jump to Warp Speed

Today, businesses must operate in "Net time." Some suggest that in the new e-economy, business is transacted ten times faster than before. Changes that took ten years to make now have to happen in one year. For example, Cisco Systems consummates acquisition agreements in days or weeks instead of the months and years it used to take. Chase Manhattan designed, built, tested and launched its Web site, ChaseShop, in a mere 18 weeks. Lexmark International slashed its production cycles for printers by 90 percent. Unless you move fast, your traditional business model will be overrun by a .com startup company, a phenomena known as getting amazoned. Speed is crucial in the e-business world.

The term "launch and learn" best describes the way companies are getting new products to market on Internet time. Rather than design, build, test and perfect products before launching, companies are often launching products before they are fully developed. If you wait until the product is perfect, someone else will have beat you to market. Even established giants are using this approach. For example, Proctor and Gamble used to take five years to launch a new product. When they introduced Swiffer, a dust sweeper with disposable electrostatically charged cloths designed to attract dirt and dust, it did so after only 18 months of development.

How to Produce Both Speed and Quality

For now, many consumers seem to accept that new products will have a few bugs. In the long run, though, companies that want to succeed will have to figure out how to deliver quality **and** speed. Unless a product or business model is very new and really unique, customers are not likely to tolerate 80 percent quality forever.

The first step is to identify which products need to be 100 percent ready and which can get away with 80 percent readiness. Train your people to make judgment

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Making the Jump to Warp Speed

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calls about when 80 percent is acceptable and when only 100 percent will do. Ask what customers expect of the company. Is it a flawless product or a new product they will help refine? If you decide 80 percent is acceptable, make sure you have the infrastructure in place to respond quickly to customer comments and suggestions.

Improve both speed and quality by practicing quicker prototyping. Start the process by compressing the requirements analysis. For example, if you are developing software, identify as quickly as possible the top 20 or 30 requirements for the system, and then stop. Then take two or three weeks to develop a client prototype. Let them play with it, and get their reaction. Does it suit their needs or does it need tweaking? By involving the client at this crucial stage, the client is more likely to accept the finished product, saving valuable development time.

Creating a Culture that Supports Risk Taking

In companies where it is acceptable to take years to develop a product, everyone involved in the product is greatly insulated from risk. That's because each decision along the way is approved, modified and revamped. But in the e-business era, the pace doesn't allow that luxury. It's no longer possible to take the safer, slower route. To thrive, companies and the individuals in them must be willing and able to take risks.

In risk-encouraging cultures, people are rewarded for taking risk. It has to happen at every level within your company, not just among an elite group. To make risk taking one of your dominant traits, you must:

✓ **Encourage it by providing monetary and recognition awards for risk taking.**

✓ **Reward risk takers whether they succeed or fail, but reward successes more highly.**

✓ **Loosen the controls over decision-making so people can make more decisions on their own.**

✓ **Let teams do their jobs without bureaucratic interference.**

✓ **Hire proven risk takers and let them lead.**

Making Decisions at Warp Speed

Decision-making goes hand in hand with risk taking. To increase risk taking you must make it easier for your employees to make decisions. You must free them to move fast. To force faster decision-making, begin to cut the number of meetings or approvals needed to reach a decision. Remember, people tend to fill any amount of time allotted for a task. To speed the process, cut the allotted time.

As you make the changes necessary to speed decision-making, remember that it will not be easy. Loosening controls and allowing more freedom without bureaucratic oversight is one of the most difficult changes leaders working in traditional companies make. Upper management needs to ensure teams are staying with their strategic focus, but not interfere with the details of how the team is carrying out its mission. ■

Peter Drucker on Warp Speed

Peter Drucker advises companies that want to speed up decision-making, increase risk taking and focus on the right priorities to do the following:

Adopt a policy of organized abandonment. That is, forget about maintaining yesterday; focus instead on moving in new directions. Abandon a dying, resource-eating element of your business if it is fully written off, has just a few good years left or is causing new markets to be neglected.

Adopt two budgets. The first tracks expenditures for maintaining present business. In bad times, cut the budget. In good times, keep it constant. The second budget is for the future, to be used to develop new and promising businesses. Never cut this budget.

How to Organize a High-Speed Project

If you want to try your hand at completing a project in "Net time," organize the project like this:

- Pick an important, high-profile project, and meet with team leaders to negotiate a finish date one-fourth to one-half the usual time it takes to finish similar projects.
- Give the project a name everyone likes.
- Have the CEO or other key leaders become part of the team. Their participation reinforces that management is working as hard as everyone else involved in the project.
- Make sure leaders can handle constructive criticism and accept it with humor and appreciation.
- Create publicity within the company about the project. Tell lots of stories about the heroics they are engaged in.
- Be prepared for problems and challenges along the way, but do not change the deadline. Let the team know up front there will be problems along the way, but that the deadline will not change.
- Draft team members who are enthusiastic about the project and want to participate.

Building a Corporate Culture in a Virtual Organization

In the virtual organization, employees don't all work in corporate offices. Instead, employees work out of their home offices, or on the road. Some are full-time regular employees while others are contract workers.

The incentives for creating a virtual organization are great. For example, the savings in real estate costs alone when workers no longer need to come to the office can be enormous. Another powerful incentive is that in today's tight labor market, freeing workers from the corporate office is a powerful recruiting tool.

A real challenge facing the virtual organizations in which these workers toil is creating a corporate culture. After all, if workers are at home or on the road, they have a limited amount of interaction with others in the organization. If ten percent or more of your employees are remote workers, there will be an impact on corporate culture. Some workers liken their situation to bowling alone. Bowling, like traditional work, has a social dimension. Bowling alone lacks this dimension. The feeling of being isolated from the organization can disconnect the worker from the organization's culture.

To help link remote workers to your organization's culture, be sure they spend the first few weeks at corporate offices so they can soak in the culture. Let them get to know others they will be working with remotely. Invite employees who are excellent role models for the culture to participate in orientation. Be sure the stories that transmit so much of corporate culture are recounted, either in person or through a video or audio recording.

You must also have department meetings bringing together all the employees so they create personal relationships. Publish newsletters, have company outings and holiday parties, invest in video conferencing technology and remind everyone that virtual workers are part of the organization.

Seven Steps to Transmitting Culture

There are seven steps to successfully transmitting your corporate culture to a new remote worker. These are:

Selecting. Select workers who will be able to handle the isolation distance workers face. If the applicant tells you she is used to being the life of the party, working at home probably isn't a good idea. It is also a good idea to let applicants know that they can transfer to an onsite position if working remotely doesn't pan out. You also need to screen as carefully as you can for traits that already match your corporate culture. Start with a fit and work from there.

Conditioning. Virtual workers need to be conditioned to the way things are done in the company. For those coming from traditional backgrounds, it may be difficult. In the e-business environment, it is common for co-workers to be openly critical of others' work and for low-ranking employees to make presentations for the top brass. In other words, there is a strong emphasis on sharing information and criticism throughout the organization. Virtual workers have to make a real effort to exchange information with colleagues.

Training. Don't neglect training. It is essential that virtual workers have the technological, work process, communication and collaboration skills needed to do the job remotely.

Measuring and Rewarding. Be sure that you come up with a way to measure the work being performed remotely and reward it appropriately. A key consideration is that accomplishments must be quantified. Managers accustomed to reading visual cues such as enthusiasm or number of hours in the office will need to focus instead on results. For example, sales figures and customer survey results take center stage in the evaluation process.

Shared Values. To integrate remote workers, find ways to share company values. This can be as simple as a company newsletter or history.

Legends and Folklore. Share the stories that make your company special. For example, every Nike worker learns about how the first Nike shoe sole was created using a waffle iron. Draft the best storytellers from the company to orient new workers. Develop a catch phrase that captures what the company is all about. For example, Nike's catch phrase is "Just Do It!"

Role Models. Role models are an important part of the socialization process. For example, if your organization values customer service highly, identify role models who excel at customer service. ■

Living With Parallel Cultures During the Transition to E-Business

Soon, there will be no difference between traditional ways of doing business and e-business. Companies will adapt to the new environment or will fail. Meanwhile, organizations have to find a way to make the transition. Some companies may choose to set up separate Internet divisions or companies that run parallel with the rest of the organization; others will want to make a complete transition to an Internet culture.

Still others will combine the two approaches, moving some divisions entirely into the Internet age while oper-

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Living With Parallel Cultures During the Transition to E-Business

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ating separate divisions or companies in other segments of their business.

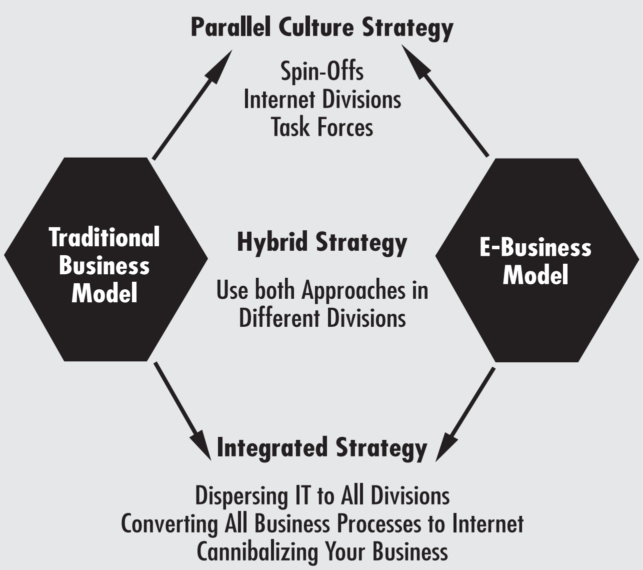
There is more than one way to make the transition; which one you choose depends on your company's needs. If you believe your old culture is too slow to change and hostile to the new business strategy, use the parallel approach. On the other hand, if your business strategy calls for all products, services and processes to be e-enterprises as rapidly as possible, choose the integrated approach.

Seeing how others are making the transition may help you decide on which approach is best for your company. Take Sears and Whirlpool, two companies involved in the sale of similar products who have taken sharply different paths to e-business.

Sears created a new Internet division and located it at the Sears campus in Illinois. The division employs 50 people in a casual office atmosphere. The Internet operation sells mainly appliances and tools and will soon be adding garden tools. Sears doesn't plan to have the division go public, but instead hopes to grow it as e-commerce takes off.

Whirlpool, on the other hand, created an entirely new company, Brandwise. The new company is located in New York's Silicon Alley rather than near Whirlpool headquarters. Brandwise will carry more than Whirlpool appliances. In fact, Sears is selling appliances through the site as well as through Sears.com.

Different Strategies for Making the Transition from a Traditional Business Model to an E-Business Model



Jack Welch and destroyyourbusiness.com

General Electric CEO Jack Welch recently announced that GE was going to integrate all functions to take advantage of the Internet. He calls his strategy "destroyyourbusiness.com." He announced that every division will become an e-business operation and will discontinue old business lines to replace them with Internet-driven products and processes. GE will in effect cannibalize its older operations to make the transition.

Six Criteria to Consider

There are six criteria you need to consider when deciding whether to follow an integrated or parallel strategy during the transition. These are:

1. Is your dominant corporate culture likely to be hostile to a dot.com culture? If your corporate culture is likely to kill any e-commerce initiative, create a separate company. Locate it far from your main headquarters.

2. Do you need a separate e-business operation to recruit the right people? Start-ups attract talent who look and act differently from more conservative workers. A separate entity may be necessary to attract the .com type.

3. Are you changing business-to-business processes or business-to-consumer activities? If you're integrating the Internet into all internal and business-to-business processes, integration is the way to go. But if you're aiming for the online consumer market, set up a separate .com unless you are already serving those consumers in a physical store. If you are, you may create confusion and frustration when customers think both entities are the same and expect integration between clicks-and-mortar operations.

4. Do you have the resources to create separate parallel operations? If there isn't enough money for a new company, you have no choice but to change the entire operation, one step at a time.

5. How clear and unifying is your leadership vision and strategy? If you choose to integrate all operations into an e-business enterprise, everyone has to understand that there will be changes, some of them less than pleasant. Get personally involved.

6. Do you have many new employees? If there are lots of new workers, transitioning the entire company won't be as difficult with many *new* workers than with a large number of workers resistant to changes to the culture. ■

A New Breed of Teams In a .Com Culture

Work inside an e-business is project work. People are organized into fast-moving teams brought together to accomplish a specific goal. They deliver results and disband. Workers may be on as many as seven or eight teams at the same time, all of them temporary. Each team lasts as long as it takes to deliver the goal. In short, the old organizational chart has no place in the e-business world.

It helps to think of teams as Lego pieces that can be put together, taken apart and then reconstructed into an entirely different structure. .Com teams differ from ordinary teams in that they appear obsessed with their goal, are creative and have an unconventional style, are informal and democratic, don't pay much attention to team members' feelings or personalities and let go easily when the job is done.

Obviously, you will need to recruit team members who can function in the .com team environment. Pick unconventional, irreverent talent, give them space to create their own environment, give them the resources to get the job done and build in high profile rewards for accomplishing goals.

Protecting Team Members From Burnout

Working on a team can be exciting, but the intensity can also create burnout. One source of burnout is a letdown feeling that many people experience when a project is finished. The best remedy is to build in some "cruise" time after the completion of a project. Make it one of the rewards for a job well done. It also helps to explain to employees that a letdown feeling is a normal emotion that will pass after a break or with the beginning of the next project. ■

Communication Belongs to Everyone in a .Com Culture

In the e-business world, everyone has access to information. For all practical purposes, the corporation can no longer control the flow of information or its timing. It can, however, communicate cheaply and instantly with everyone in the organization, wherever they are located. So, of course, can employees who have been known to set up unofficial web sites airing complaints about the company.

Your company must learn to listen for and respond to cyberspace name-calling, cope with e-mail overload, let workers pull information they need rather than having it pushed on them and move from a philosophy of hoarding information to one of sharing it.

The End of In-House Competition

A culture based on internal competition and rugged individualism won't work in the .com word. Hoarding information; paying more attention to beating your rival than performing tasks well; treating others with mistrust, suspicion and scorn; and spying on others within the organization are all signs that your workplace is too competitive. Unless you do something about it, the "winners" will begin to feel invincible and grow arrogant while the weaker give up entirely.

To succeed, you must move the culture from internal cut-throat competition to a collaborative model. In case of long-running rivalry, attempt to mediate the conflict. If that fails, terminate the culprits and explain to the rest why you did it. Termination sends a powerful message about what will and won't be tolerated.

Screen new applicants for collaborative skills. One good test is to ask what the applicant would do in a situation where a possible solution can be reached through collaboration rather than conflict. Train people in the use of collaborative negotiation skills so they learn how to create win-win solutions to conflicts. ■

Knowledge Management Is Managing People's Brain Power

Knowledge and information drive the economy. That knowledge and information must be managed. In the e-business world, knowledge management is managing people's brain power and the company's collective memory.

Effective knowledge management requires both high-tech and high-touch solutions. The high-tech side includes databases, storage and other systems that collect and organize the information your company encounters. On the high-touch side, managing knowledge requires you to share information. Sharing is critical in the .com world.

The most powerful way to get workers to share knowledge is to tell stories about successful sharing. Stories work better than lectures or pleas because people connect with them. ■

Sharing Knowledge at PARC

At the Xerox Palo Alto Research Center (PARC), researchers share information about projects they are working on and invite comments and feedback through the use of whiteboards. The boards are placed throughout the facility. Researchers jot down project notes and ideas, and invite passers-by to comment and collaborate. The method is a sure way to get a diversity of approaches to a problem.

The New Corporate IQ and Getting Smarter

In the .com world, your company must be smart, have smart workers and learn faster than your competition. The collective brainpower of your organization is its corporate IQ. It is a key determinant of success.

Corporate IQ is not measured by adding the IQ of each worker then dividing by the number of workers. That's because corporate IQ as a whole is greater than the sum of its parts. Think of corporate IQ as the aggregate of the data, information, knowledge and mastery of tools needed to run the organization and compete. It includes:

✓ **Knowing what you know and where that knowledge is.**

✓ **Knowing how to use the information to make decisions.**

✓ **Knowing what the current decision-making processes are.**

✓ **Identifying the direction of the organization and how that relates to its mission, goals and strategy.**

✓ **Recognizing in which networks the business operates and how to use them effectively.**

You Don't Know What You Don't Know

One of the most difficult tasks is identifying what you and your organization don't know. After all, you don't know what you don't know. The companies that learn to confront the unknown without fear will succeed. Your company must be prepared to create a learning culture.

In today's world, everyone is responsible for learning. To that end, make learning part of every employee's job description and performance appraisal. Provide resources and time for learning. Use in-house publications and informal conversations to highlight stories about workers who did something in their work as a result of learning. ■

No More Sheep-Dip Learning

The days of hauling everyone into a classroom for training will soon be gone. The sheep-dip approach to learning simply doesn't work anymore. Instead, companies are using:

- **Mobile learning stations.**
- **Mentors and on-the-job training.**
- **Virtual and e-learning, in which education is delivered via satellite and over the Internet.**
- **Online universities promising top-of-the-line education for professionals who need education to improve their job performance and human capital.**
- **Corporate universities.**

The Cultural Challenge Of Mergers and Acquisitions

Companies decide to buy rather than build to expand capacity or meet new market opportunities. The biggest risk to acquiring companies is that the cultures of the two companies don't mix. The truth is that the odds are against pulling off a successful merger or acquisition. As soon as a merger is announced, employees face psychological reactions that include ambiguity, weakened trust levels and a focus on self-preservation.

There are only three options for the acquiring company: keep the cultures separate; dominate the old culture with the new; or blend the two cultures, keeping the best of both. ■

Ten Final Tips On Building a Corporate Culture for the Connected Workplace

- **Recruit for Cultural Fit.** It is easier to hire people who fit your culture than to change their way of looking at the world.
- **Speed Up Your Culture.** Pick a high-priority project and set a firm but short deadline for completing the project.
- **Remember You Get Only One Point for Every Action Modeling the Culture Change You Want to See.** Many actions are much more valuable than one speech.
- **Lead More and Manage Less.** Set the direction and let your team navigate the way.
- **Pick Credible Role Models.** Be sure there is general agreement among management on the choice.
- **Protect .Com Teams from the Corporate Immune System.** Let them keep a low profile to avoid being attacked by corporate white blood cells.
- **Increase the Collective IQ of Your Company.** Let workers learn from mistakes and try again. Trial and error increases the learning process and raises corporate IQ.
- **Enhance Your Company's Knowledge Management System.**
- **Plan to Integrate Parallel Cultures.** Temporary groups form strong cultures, but must be reintegrated into the company.
- **Clarify Each Party's Commitment Level in Alliances.** Be sure both partners understand the basics of the agreement.