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Building a Performance-Directed Culture

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It's startling when the father of business intelligence proclaims that a mature organizational culture is the prerequisite to successful transformation. Howard Dresner, former Gartner research fellow and chief strategy officer at Hyperion, addresses the culture imperative in his latest book, *Profiles in Performance: Business Intelligence Journeys and the Roadmap for Change* (Wiley, 2009). Here, Dresner presents his ideas on building a performance-directed culture, with an excerpted case study of Mueller, Inc., cultural exemplar and 2007 BSC Hall of Fame winner.

My previous book *The Performance Management Revolution* (Wiley, 2007) was about the coming revolution in performance management and my belief in the ascendancy of a new management system for the global enterprise in the 21st century.

Every business has a management system, but in my view, a modern management system consists of people, processes, and technologies aligned and optimized for performance. It empowers people to make decisions and to take action on their own. It defines processes for increasingly decentralized organizational structures and uses technology to support people and processes day to day while providing a platform for long-term business growth. Certainly I'm not alone in my thinking. To *BSR* readers, these requirements describe at a high level what Robert Kaplan and David Norton have formulated with their six-stage Execution Premium model—a system that integrates all the processes and tools needed to develop, operationalize, and continuously refine strategy.

With my new book, *Profiles in Performance*, I intended to capture and present best practices for creating the management system I've just described. Along the way, I realized an important truth: that before an organization can succeed, it must first create a culture that values performance, transparency, and accountability. In other words, people trump processes and technology *every time*.

Intuitively, we know this is true. We've all worked in organizations where a technology initiative was scrapped or stalled because an important group of people didn't buy in: senior management offered lukewarm support, managers felt that they had not been consulted enough in the design of the system, or the system was so complex that end users could not use it.

Of course, this does not mean that technology is not important. It is—but as an enabler of people, and not the other way around. These realizations prompted me to shift my focus to people and culture, and I began to look at organizations that have established—or have made enough progress that there is no turning back—what I call a performance-directed culture.

Energized by this new focus, I also realized that before I could begin interviewing and identifying case study candidates, I needed a model that would provide a lens or filter through which I could assess these organizations' cultures. Such was the genesis of the Performance Culture Maturity Model, which serves as the centerpiece of the book.

The maturity model is the most comprehensive model of its kind that I am aware of. It helps us understand the path taken by specific organizations in their quest for better performance. It reveals an organization's position along that path at specific points in time, something that is also valuable. If there is one thing I have learned in the course of my career, it's that a performance-directed culture is a journey and not a destination.

What Is a Performance-Directed Culture?

At the highest level, a performance-directed culture is one in which everyone is actively aligned with the organization's mission; transparency and accountability are the norm, new insights are acted on in unison, and conflicts are resolved positively and effectively.

The Performance Culture Maturity Model (see *Figure 1*) employs six criteria (shown here along the top row), with four levels of maturity that determine the degree of an organization's progress.

The four levels of maturity describe how mature an organization is in each of six performance-directed culture criteria. Even the least culturally mature organization would not be at the absolute lowest level in each category. Almost without exception, every enterprise will exhibit different levels of maturity across the six criteria. This is normal and is part of the process of assessing and improving an organization's maturity.

The Four Levels of Cultural Maturity

The first (and lowest) level of achievement on the maturity model is *Chaos Reigns*. At this level, fragmentation and disorganization prevail. Any organization at this level in most criteria is at serious risk of collapse.

The next level of achievement is *Departmental Optimization*. At this level, departments and functions are playing for themselves. Although the organization seems to function well enough to survive, cooperation and collaboration are virtually unheard of. Most organizations, it turns out, operate at this level—a fact that underscores our preference as humans to work in small groups, with people of similar backgrounds, outlooks, and goals. Anthropologists refer to these groups as "tribes." If we look around, we can find them throughout modern society— think of gangs, alumni associations, or political parties. In business, for example, we can think of corporate departments and functions—e.g., IT, procurement, legal—as tribes of a sort. With similar backgrounds and experience, outlooks, and goals, people in these departments work together to protect their tribe from outside threats. For example, procurement people may believe it's their goal to prevent managers from spending money (even though their efforts often cause allocation cuts that ultimately imperil value creation).

By the time it reaches Level 3, *Performance-Directed Culture Emerging,* an organization has started to enjoy the benefits of working across departmental barriers and to focus on a common organizational mission.

Figure 1. The Performance Culture Maturity Model™

	Alignment with Mission	Transparency and Accountability	Action on Insights	Conflict Resolution	Common Trust in Data	Availability and Currency of Information
LEVEL 4 Performance-Directed Culture Realized	Actionable and embraced mission supported, informed, and reinforced by metrics	General transparency and accountability accepted as cultural tenets	Closed-loop processes ensure timely, concerted action	Established and effective mechanisms for resolving conflicts	Data as truth. Common application of data, filters, rules, and semantics	Currency of metrics/data matches rhythm of business
LEVEL 3 Performance-Directed Culture Emerging	Actionable mission supported by top-down metrics	Limited transparency and accountability: multiple functions collaborate	Ad hoc (informal) action on insights across functions	When identified, conflicts resolved on an impromptu basis	Common data: provincial views and semantics used to support specific positions	Enterprise availability, uneven currency of information
LEVEL 2 Departmental Optimization	Alignment with discrete functional goals, not enterprise mission	Fragmented transparency and accountability within discrete functions	Uncoordinated/ parochial action (sometimes at the expense of others)	Appearance of cooperation, "opportunistic reconciliation"	Conflicting, functional views of data cause confusion, disagreement	Availability and currency driven by departmental sources
LEVEL 1 Chaos Reigns	Mission not actionable, not communicated, and/or not understood	Arbitrary accountability, general opacity	Insights rarely leveraged	Conflicting, redundant, and competing efforts are the norm	Data and information generally unreliable and distrusted	Multiple, inconsistent data sources, conflicting semantics

The model identifies four levels of culture maturity and six performance-directed culture criteria. The criteria (column headings) fall into three categories: strategic, operational, or technical.

Cross-functional sharing and cooperation occur but tend to be impromptu and opportunistic. Two or more functions, for example, may start to collaborate for mutual benefit. A virtuous cycle starts to emerge as the benefits of a performance-directed culture become obvious, with management providing the needed support and encouragement.

At the level of *Performance-Directed Culture Realized,* performance improvement has permeated the very fabric of an organization's culture. Processes center around transparency and accountability. Individuals are rewarded for sharing, cooperating, and supporting the mission of the enterprise. The enterprise thinks, strategizes, plans, analyzes, and executes as a single organism. In the world of Abraham Maslow (the founder of humanistic psychology), this would be the equivalent of "self-actualization."

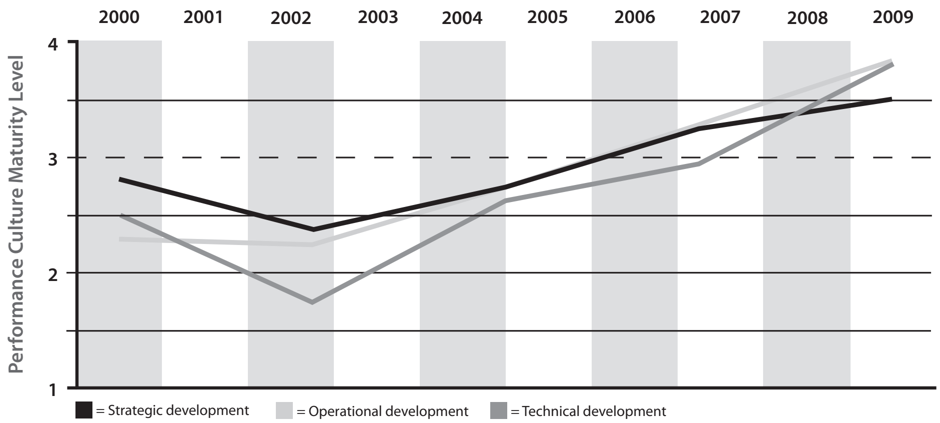
Six Performance-Directed Culture Criteria

Each of the six performance-directed culture criteria falls into one of three categories: *strategic, operational,* or *technical.*

In the strategic category are *Alignment with Mission* and *Transparency and Accountability.* Because they are strategic, these attributes must be initiated and cultivated—or, at the very least,recognized and actively supported —by the seniormost managers, typically C-level executives. No other level of manager can raise the organization to the levels of a performance-directed culture for these two criteria. In addition, these attributes help elevate all other areas of achievement in a performance-directed culture. Without them, a true performance-directed culture is not attainable.

In the operational category are *Action on Insights* and *Conflict Resolution.* Operational behaviors can be driven by everyone in

Figure 2. Mueller, Inc.'s Self-Assessment of Its Performance Culture Maturity Level



Milestone Events

2000: ERP implementation begins, management structure redefined

2002: Strategy map completed

2003: ERP goes live, BSC created

2004: BSC cascaded to business and support units, BSC used in management meetings, automated reporting system implemented, Branch Target System created

2005: BSC linked to budgeting

2006: BSC linked to compensation and development plans; BI software suite implemented

Mueller's CEO, CFO, CIO, and financial planning manager ranked the maturity level of the company's performance culture at five points: 2000, 2002, 2004, 2006, and 2009 (although 2009 featured no major milestone events).

an organization on a day-to-day basis; they cannot be readily controlled or directed by senior management. They represent every individual's responsibility. Rank-and-file employees and other stakeholders determine how and when to execute on these criteria. Hence, success or failure is in these individuals' hands. Because of their operational nature, Action on Insights and Conflict Resolution represent continuous processes; constant attention and diligence are required if an organization is to avoid regression to a previous stage.

In the technical category are *Common Trust in Data* and *Availability and Currency of Information*. These technical criteria are managed by business management in partnership with the IT function and/or other technical resources. Technology cannot instill a performance-directed culture; attitude is the driving force. Trust in data and its availability and currency are critical for creating a performance-directed culture and sustaining it long term on an enterprisewide scale. Certain aspects of technology are obviously important enablers. For example, data warehousing and business intelligence (BI) technologies are crucial tools; but they must be employed in alignment with the other performance-directed culture criteria: strategy and operations.

The Performance Culture Maturity Model can serve as an excellent tool to assess and chart your organization's progress toward becoming a performance-directed culture. A technique I used with the case study organizations profiled in the book (and other organizations since) was to have them pick three dates and plot them on the maturity model, with the midpoint representing the moment when significant and positive changes began to emerge, signaling the transformation to a performance-directed culture. The first date is some earlier date—before enlightenment—and the third date is where the firm is today. Not only was this approach useful to help better understand today's strengths, weaknesses, accomplishments, and areas for improvement, but it also gave me an understanding of the chronology of key events, and the cause and effect relationships. (See *Figure 2.*)

However, the model alone cannot help you move the needle and improve your chances of success. That's where what I call the "four forces" come into play.

1.Visionary leadership. The organization's seniormost leaders (CEO and other C-level executives) embrace a performance-directed culture (especially the attributes of transparency and accountability) as a pillar of the organization's business strategy. In reality, only executives at this level can substantially direct, influence, or mandate organizational change.

2. Business advocacy. Silos begin to vanish, as formerly segregated groups and departments work cross-functionally and the organization begins acting as a single organism with a common purpose.

3. Data literacy. Leaders and employees alike value (and are fluent in) data use and information, and they come to depend on the insights data enable for decision making.

4. Organizational activism. The organization is populated with knowledgeable, focused, committed, passionate, and persistent individuals, who are either appointed by management or who are self-appointed activists.

In addition to these four essential forces, I've consistently observed two other key factors for success—ironically, negative events that jolt the organization into positive change: setbacks and wake-up calls. These can be triggered by internal or external events. A setback is anything that disrupts existing plans, slows things down, costs more money, or creates strife. Setbacks are inevitable and need to be placed into the right context and met with the determination to overcome them. Setbacks in themselves are not considered useful events, except in the sense that they build character. Wake-up calls are events that often change mindsets and can be leveraged to accomplish important change—if recognized in time. Examples include a change in the organization's market, a new competitor, a recession, or a terrorist attack. Wake-up calls create urgency for management to look at the business with fresh eyes and consider new approaches.

One of the premier case study subjects from the book, Mueller, Inc., illustrates these points aptly.

The Evolution of a Performance-Directed Culture at Mueller, Inc.

Founded in the 1930s, Texas-based Mueller, Inc., manufactures and sells preengineered metal buildings and metal roofing products and services. Today, with 600 employees, 28 retail and distribution centers, and three manufacturing sites in the southwestern United States, Mueller earns revenues of $250 million a year and represents a huge chunk of the multibillion-dollar steel building system industry.

Originally a maker of metal cisterns for farmers and ranchers, the company made a significant leap forward when it began using secondary steel in the 1960s. By 1970, the company was generating $1 million in annual revenue. The company found further advantage in the secondary market for prepainted steel. By the early 1980s, Mueller's annual revenues reached $32 million. Then, in 1984, the company was bought by Burly Corporation, a family-owned supplier of agricultural fence products. By the mid-1980s, prompted by intensifying global competition, the U.S. steel industry made significant quality and efficiency improvements, which caused the secondary steel market to dry up. President and CEO Bryan Davenport was forced to rethink strategy.

Many companies falter—or worse—at such critical junctures. Mueller, however, overcame this and a series of major market and business challenges over the next 20 years. How? By retooling strategy, reorienting and reenergizing the workforce, adopting new technologies and business processes, embedding new cultural values, and implementing a new management system in the form of the BSC. At the center of this evolution was the visionary Davenport, whose leadership motivated and inspired employees to surmount—even embrace—these challenges.

Inducted into the the BSC Hall of Fame for Executing Strategy in 2007, Mueller embodies not only the principles of the Strategy-Focused Organization but also the characteristics of a performance-directed culture: a workforce aligned with its mission that emphasizes transparency and accountability, has the ability to act on insights, instituted mechanisms for resolving conflict, and invests in and trusts data as the objective record of the business's realities. Its trajectory to performance culture maturity is particularly impressive, given the company's late arrival to IT sophistication and its rural workforce of seasoned employees.

A New Strategic Imperative

At the critical juncture in the mid-1980s, Davenport was committed to retaining the company's focus on its end-user customers—primarily farmers, ranchers, and other rural do-it-yourself types. He knew the focus on the end-user customer represented Mueller's competitive advantage over companies that dealt with contractors. To navigate the shift in its sheet metal production while holding on to the company's core customer base, Davenport decided to transform Mueller's value proposition from "lowest cost" to "total value." This involved eliminating the shipment of incomplete orders (which translated into costly downtime for customers); opening retail and distribution centers closer to customers; and expanding product offerings, such as steel building kits.

Repositioning the company's value proposition proved to be a major cultural hurdle. Mueller had never before given its employees a common mission. Davenport knew that to get everyone focused on a common mission, he would have to articulate it, communicate it frequently, and live it—and thus make all employees understand it and their roles in supporting it.

Growth Tests Mueller

By 1993, Mueller had successfully navigated the transition to prime-based products, but growth had taken a toll, straining Mueller's management structure, business processes, and systems. The two-man management team of Davenport and CFO John Jones made virtually all the decisions. Business processes were mostly manual and not scalable. Davenport decided that technology was the answer.

Soon after buying the company's first computer and financial software, Davenport brought in consultants to conduct a workshop for key managers on reengineering business processes. The workshop helped establish the foundation for a new management structure, with new responsibilities for company leaders. Davenport quelled apprehension by assuring his people that he would stand by their decisions. People were encouraged to work as a team to solve problems and seek opportunities.

Throughout the 1990s, Mueller expanded its offerings and its customer base. By 1999, Mueller had 11 branch offices. But Davenport became concerned that Mueller's computer and software systems were out of date and would not be able to support continued growth. Although manufacturing and distribution processes had been reengineered, the systems used to manage them were still largely manual. The company's technology lagged in other areas as well; for example, there was no computer network. In October 2000, Mueller launched a full-scale enterprise resource planning (ERP) implementation.

Setbacks and Wake-up Calls

The arduous ERP implementation—an enterprisewide effort that ultimately took three years, cost $10 million, and strained personnel more than once to the point of near-meltdown—was only one element in the perfect storm of external and internal challenges Mueller faced at the turn of the millennium.

The steel crisis of 1999–2001, when more than 30 U.S. steel producers and processors went bankrupt as a result of excess global capacity, forced the company to add new overseas suppliers to its supply chain. China became a major consumer and then a major producer of steel—and raw material prices became volatile. Customer demographics changed and new competitors emerged, as did new approaches to meeting customer needs. Drought conditions in Mueller's markets put severe financial pressure on customers.

Mueller faced numerous internal challenges as well. The company needed to maintain good working relationships with, and ultimately partner with, contractors to sell effectively to new, less self-sufficient end users. It also needed to change its product mix and focus. Management accelerated expansion plans and opened new branch offices. And CFO Jones was set to retire in 2002.

The turn of the millennium represented a major turning point for Mueller: formalizing performance management. In anticipation of Jones's retirement, Mueller added two key people to its finance team: Phillip Arp, CFO-designate; and Mark Lack, manager of financial planning and analysis. Arp and Lack suggested adopting the Balanced Scorecard as a performance management tool to help Mueller adapt to a changing competitive landscape and the internal challenges posed by growth.

First, the company refined its mission statement to "deliver[ing] the best total value to end users of metal building and residential metal roofing products, in the Central and Southwestern United States." It created a strategy map (in 2002) and a Balanced Scorecard (2003), which it began cascading to business and support units in 2004.

Benefits materialized almost immediately. Processes became more efficient; employees were eager to improve wherever they could. The ERP system, which went live in February 2003, helped enforce a management structure. "Because the system tied everything together, you had to do your job so others could do theirs," Arp observed. The interconnectedness triggered new levels of cooperation and communication. The successful completion of the complex ERP implementation provided an immeasurable confidence boost. Now, says Davenport, "people are constantly trying to figure out how to apply [technology] in new areas to improve the business."

In 2005, the company tied the Balanced Scorecard to budgeting and, in 2006, linked it to compensation and development plans.

Beyond ERP to BI

Reporting and business analytics became Mueller's next top technology priority. Davenport, a self-described "big believer in standardization" sought to adopt best practices throughout the company's branches.

So in 2004, Mueller created what it calls its Branch Target System, which aims to help optimize resource allocation throughout the system. Mueller branches are organized into three groups: young and underperforming branches ("calves"); midsized, medium performers ("heifers"); and top performers ("cows"). Branch managers are trained to use the Branch Target System to understand how they should be performing; their performance is then tracked against the system's key financial metrics. Also in 2004, Mueller installed an automated reporting system, upgrading it to a comprehensive BI software suite in 2006.

Mueller and the Performance Culture Maturity Model

Though it's clear that today Mueller has a performance-directed culture, its path has been evolutionary over the past 25 years. Through consistency and determination, Mueller rose to the level of Performance-Directed Culture

Realized for alignment with mission, action on insights, common trust in data, and availability and currency of information.

Figure 2 shows this evolution. Mueller executives ranked the company's performance culture maturity level in its strategic, operational, and technical areas on five dates. The company has today achieved an overall Performance Culture Maturity Model level ranking of 3.7.

With a well-established performance-directed culture and enabling technologies and solutions, Mueller has been able to readily take stock of its capabilities and, in a slowing economy, make key investments in preparation for the next stage of growth. For example, the company is taking advantage of the decline in real estate prices to buy land for future branch offices.

Visionary Leadership

For more than two decades, CEO Davenport has provided visionary and steady leadership, insisting that, despite changes in almost everything else, Mueller's mission stay the same. He has consistently communicated openly with employees, clarifying expectations and exhibiting fairness, empathy, and loyalty. His steadfastness in the face of obstacles and challenges has sustained their motivation, even in the most difficult of times. He has shown marketplace vision—recognizing emerging (and transformative) global trends in production and demand, and acting on them swiftly. He has embraced technology to expand and reinforce roles; established a new organizational structure to match growth and new management and performance systems and processes; implemented the BSC, the Branch Target System, and a manufacturing scorecard; and embraced transparency and accountability as cultural norms. He has consistently moved the organization forward. He has built a strategic management team as part of a performance-directed culture vision—with hands-on involvement.

Clearly, the formula has worked. From a $32 million company operating in a single location in 1984, Mueller reached annual revenues of approximately $250 million in 2008, a compound annual growth rate of 12.5% over the preceding year (with a return on net assets of 26%), and a pretax profit of 18%.

Most companies that engage in performance management initiatives do so only after a wake-up call of some sort. Mueller is an exception to this rule. Under Bryan Davenport's leadership, Mueller has patiently and deliberately moved forward, investing heavily, enduring setbacks, but never wavering in its commitment to its core values, its mission, and the fervent ownership of performance improvement efforts. ■