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The Performance Gene

Unleashing the Human Element of Organizational DNA

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Paul Richter takes a deep breath as he contemplates the wrenching changes ahead. In the 10 years he has been chief human resources officer (CHRO) of Dahl Drums, Inc., he has been part of the transition team for three separate and sizable acquisitions. He has managed the adjustment of both incoming and outgoing employees and integrated compensation, benefits, and performance measurement systems. He has set up new offices across the country, even internationally. But he's never had to do something like this.

Until now, the changes Richter has overseen have been incremental—even predictable—and they have been implemented over a reasonable time frame. The core business has remained fairly stable and the impact on the overall workforce has been modest. But everything is different now. Al Gordon, Dahl Drums' new CEO, has just left Richter's office, having thrown down the gauntlet. Richter's challenge: to identify the pockets of poor performance in the company and motivate a turnaround in three months, or start crafting a voluntary severance and retirement package for those who can't measure up.

Paul Richter is looking at a lot of long nights in his near future. That's because Dahl Drums—a composite company based on clients Booz Allen Hamilton has advised—is what we call a “Passive-Aggressive” organization, and Passive-Aggressive organizations, as the name suggests, are uniquely resistant to change.

So congenial as to seem free of conflict, the Passive-Aggressive organization is the workplace where everyone agrees to change—but never actually does. Building consensus to take action is easy at these companies; converting that consensus into action, however, is next to impossible. Entrenched, underground resistance from field operations routinely defeats corporate initiatives, as line employees assume “this too shall pass.” Middle managers make a career out of biding their time until the next promotion.

Decision shopping, accountability avoidance, stifled information flows, and consensus-driven inertia: these are the signs of the Passive-Aggressive organization. Perhaps unexpectedly, this profile fits many Fortune 500 companies. Having secured a large and defensible market position, they become complacent.

Not surprisingly, Dahl Drums has seen its business slowly decline for years. At first imperceptible, then collectively denied, the downturn has now become a full-blown crisis. Dahl Drums recently lost its cornerstone customer, Magic Music Stores. That's when the board of directors finally took action and recruited Al Gordon to turn the business around. Gordon immediately declared a new three-pronged growth strategy focused on: 1) cross-selling existing products to existing customers, 2) selling existing products to new customers and markets, and 3) creating a line of “new-to-world” musical instruments.

Pushing growth in these areas has obvious implications for how the organization manages its human resources. In fact, as Gordon has just made clear, his

strategy is all but meaningless if Dahl Drums' people do not rally and align their actions behind it. Richter has been handed the challenge of making that happen; it is a heady, but daunting, responsibility.

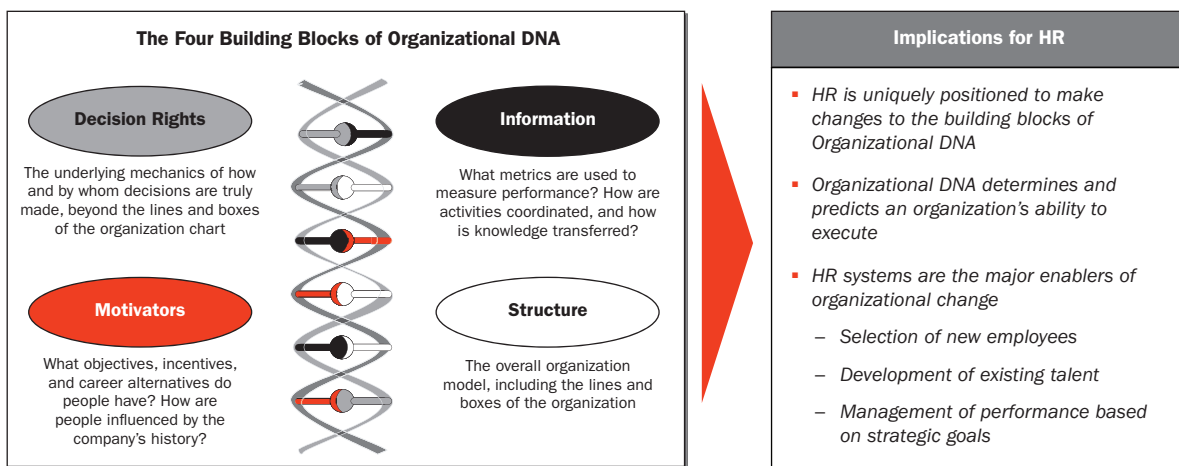
HR Today

Never has HR been more relevant to the quest for success at organizations around the world. Winning in an increasingly complex and service-driven global economy is all about execution, and execution comes down to people. The countless decisions made and actions taken by people at every level of an organization are the sum and substance of that business. If they make the right decisions and take the right actions at the right time with the right information, the business will flourish. If not, it will flounder. It is both that simple and that complicated.

As an executive charged with people management, the CHRO is in an increasingly powerful and exposed role. From the CEO on down, senior leaders are focusing greater attention on how the human capital of an organization contributes to the enterprise's success or failure. When the organization is aligned behind its strategy, it executes skillfully and achieves desired results. By the same token (and as anyone who has worked in an organization of any size, whether in the public or private sector, has seen firsthand), individuals' counterproductive behaviors can take root and impede a company's strategy and ultimate success.

Exhibit 1

The Building Blocks of Organizational DNA



Source: Booz Allen Hamilton

The Power of the Individual

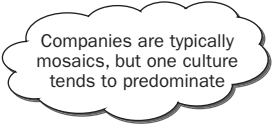
The first step to breaking out of typical debilitating patterns of behavior is to recognize how and why the inherent traits of an organization influence and even predict the actions of each individual within it. Organizations are not monolithic entities; they are collections of individuals who can usually be expected to act in rational self-interest. These individuals each make decisions and trade-offs every day that are bounded by their access to information and their anticipation of censure or reward. The challenge in motivating superior performance, then, is to design an organization that aligns individual actions with the actions of others and the interests of the firm as a whole, every day, at every level. Yet few organizations have discovered the right formula.

Organizational DNA

That formula, in our experience, is a function of four individual building blocks (which HR officers are uniquely well positioned to wield)—decision rights, information, motivators, and structure—and how they are aligned, or not, within a particular organization. Because there are four fundamental components, and because they effectively identify an organization's unique culture, we refer to the combination and integration of these four building blocks as "Organizational DNA" (see Exhibit 1).

Organizational DNA determines and predicts an organization's ability to execute, and, in our

Exhibit 2
The Seven Types of Organizations

Weak Execution Cultures			Strong Execution Cultures	
The Passive-Aggressive Organization	<p>"Everyone agrees, but nothing changes." Congenial and seemingly free of conflict, this organization builds consensus easily, but struggles to implement agreed-upon plans</p>			
		The Just-In-Time Organization	<p>"Succeeding by the skin of our teeth." Inconsistently prepared for change, but can "turn on a dime" when necessary, without losing sight of the big picture</p>	
The Overmanaged Organization	<p>"We're from Corporate, and we're here to help." Multiple layers of management create "analysis paralysis" in a frequently bureaucratic and highly political environment</p>			
		The Military Precision Organization	<p>"Flying in formation." Often driven by a small, involved senior team, it succeeds through superior execution and the efficiency of its operating model</p>	
The Outgrown Organization	<p>"The good old days meet a brave new world." Too large and complex to be effectively controlled by a small team, it has yet to "democratize" decision-making authority</p>			
		The Resilient Organization	<p>"As good as it gets." Flexible enough to adapt quickly to external market shifts, yet steadfastly focused on and aligned behind a coherent business strategy</p>	
The Fits-and-Starts Organization	<p>"Let a thousand flowers bloom." Contains scores of smart, motivated, and talented people who rarely pull in the same direction at the same time</p>			

Source: Booz Allen Hamilton

experience working with clients, we've identified seven predominant types, three of which basically succeed: Just-in-Time, Military Precision, and Resilient. These companies execute well and produce positive results. The other four—Fits-and-Starts, Overmanaged, Outgrown, and Passive-Aggressive—do not. They cannot effectively implement their strategies, and they therefore tend to perform poorly (see Exhibit 2).

In fact, the Passive-Aggressive organization is the most challenging to fix, because its dysfunctions are so widespread and insidious. All of the DNA building blocks in this organization are effectively out of sync. Authority and accountability (i.e., decision rights) are typically unclear or haphazard, prompting rampant second-guessing, and information is inaccessible to those who need it. The structure is often misaligned

with the strategy, and motivators are too weak to stop the spread of frustration and, ultimately, cynicism.

Converting a Passive-Aggressive Culture

So, let's return to our composite Passive-Aggressive company, Dahl Drums. What can HR Director Paul Richter reasonably do to identify and overcome the organizational impediments to executing Al Gordon's growth strategy? Step one is to diagnose the problem by establishing a baseline understanding of current employee sentiment and outstanding issues.

As we have said, Dahl Drum's principal problem is its Passive-Aggressive culture, which suggests that the company will have to tackle all four building blocks at once—decision rights, information flows, motivators, and structure. Tackling the transformation of a Passive-

Aggressive organization one building block at a time is a futile exercise with negligible impact. To make changes stick, the company must declare a “new day” and break completely with the past.

From a human resources perspective, that means the company will need to carefully examine its current management team to see which individuals are up to the task. More importantly, the company must reconsider how it finds, develops, and retains its human capital. To execute Gordon’s growth strategy, employees will need to be relocated, opening up new offices in emerging markets. The demand for new talent will be significant; the company has to fill the gaps identified or opened up by departing managers.

An HR-Orchestrated Transformation

As a first step, Richter immediately overhauls Dahl Drums’ approach to recruiting, selecting, and managing talent to transform its ineffective DNA and achieve the organization’s growth agenda.

Recruiting and Selection

- **Decision Rights:** To identify the right employees for new and critical positions, Richter changes the selection process from what amounted to ad-hoc hiring by each of the units to a more formal, cross-functional recruiting program in which decisions are made by a committee that considers multiple selection data points and several structured interviews.
- **Information:** In the recruiting and retaining of talent, Richter tightens processes for sharing and acting on information regarding candidates and top performers. Uniform metrics are established for evaluating employees, with a premium placed on critical strategic skills such as cross-selling, new product development, and emerging markets experience.
- **Motivators:** Mediocre performers are weeded out of the management ranks, while those remaining are encouraged to recruit skilled friends and associates through a referral program that compensates them with a \$1,000 bonus if their candidate is hired and remains for 90 days.

- **Structure:** Mechanisms are put in place to facilitate the mobility of employees across previously “siloed” business units and the filling of critical strategic vacancies worldwide.

Performance Management

- **Decision Rights:** Rather than allowing division heads to promote individuals without any central coordination, Richter introduces career development committees comprising managers from across the enterprise. These committees bring an enterprise-wide and consistent perspective to managing talent.
- **Information:** Performance management metrics evolve from a relatively decentralized system focused on highly specialized market segments to a more centralized, consistent, competency-based platform that allows for broader market perspective.
- **Motivators:** Richter redesigns the compensation system for the sales force, replacing straight commissions (which skew the sales force’s focus to closing sales with existing customers) with a system that evaluates sales performance on the basis of feedback from customers and other inputs. Product developers are subject to a separate appraisal system that rewards them on the basis of idea generation. In general, reviews have more weight in year-end bonus and promotion decisions.
- **Structure:** Gordon and Richter “de-layer” Dahl Drums to decrease the number of subordinates per supervisor and redesign the performance appraisal process to incorporate customer and peer feedback.

HR Officer as Performance Enabler

Clearly, these are just some of the levers available to HR professionals looking to optimize the performance of their organization. The key to success in changing organizational behavior is not just pulling individual levers, but developing an integrated, holistic approach to performance enhancement that aligns all four building blocks.

So, for example, if one is trying to rally business unit managers around company-wide goals, it is not enough to tie part of their bonus to the achievement

of corporate objectives. This motivator, in isolation, won't work. HR leaders must support the behavior they are trying to encourage with consistent, mutually reinforcing actions encompassing all the building blocks, such as promoting managers who contribute to enterprise performance (structure), assigning them more significant responsibilities (decision rights), and publicizing their achievements internally and externally (information).

Naturally, this point of view on organizational performance elevates the profile of HR professionals. Not only are they responsible for hiring, training, developing, and evaluating employees, but they are also partners in charting the course of the enterprise and enabling its performance.

HR officers today are far more strategic in aligning resources within their own department to best serve the company's objectives in a complex, global, competitive environment. They are leveraging the tools they have available (e.g., selection systems, performance appraisals, organizational metrics) to do more than monitor organizational performance; they are unleashing it. They are devising methods for overcoming the organization's instinctual resistance to change and helping weak execution cultures become more strongly connected to and aligned behind their strategy.

It's a daunting, but heady, responsibility.

What Booz Allen Brings

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for more than 90 years. Providing consulting services in strategy, operations, organization and change, and information technology, Booz Allen is the one firm that helps clients solve their toughest problems, working by their side to help them achieve their missions. Booz Allen is committed to delivering results that endure.

With 18,000 employees on six continents, the firm generates annual sales that exceed \$3.7 billion.

Booz Allen has been recognized as a consultant and an employer of choice. In 2005 and in 2006, *Fortune* magazine named Booz Allen one of "The 100 Best Companies to Work For," and for the past eight years, *Working Mother* has ranked the firm among its "100 Best Companies for Working Mothers."

To learn more about the firm, visit the Booz Allen Web site at www.boozallen.com. To learn more about the best ideas in business, visit www.strategy-business.com, the Web site for *strategy+business*, a quarterly journal sponsored by Booz Allen.

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