



# Building a High Performance Organization

By Joel Shapiro, Ph.D.

*High performance organizations remain competitive through successive generations of leaders. This is not a coincidence. It is by design—their leaders build their organizations for adaptation, innovation, and lasting success.*

## Introduction

Training is not the solution to every problem, and even when training is the solution to your problem or opportunity, training must be reinforced by other human resource and management systems. For example:

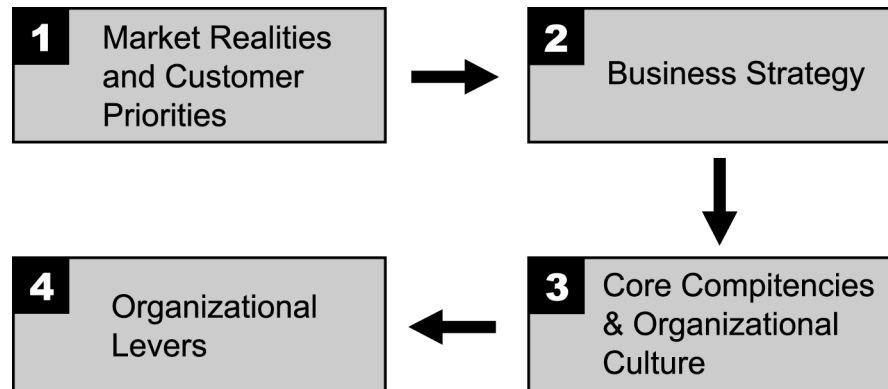
- **Selection:** If you are not hiring the right people for your organization, you can triple your investment in training and still not get the results you desire.
- **Measurement:** If you are not measuring the right things, your people will be looking in the wrong direction.
- **Rewards:** If your reward and recognition programs are not aligned with your vision and strategy, you will be rewarding your employees to strive for the wrong goals.
- **Structure:** If your organizational structure restricts customer contact, your employees will not understand customer needs, and they will make poor decisions and customer service will suffer.
- **Alignment:** You can invest in a world-class teamwork training program, but if you still bonus people for individual

achievement, you will neutralize your entire training effort.

We don't need to recite a hundred examples here. Smart companies around the world make dumb mistakes like this. The bottom line is simple: align your human resource and management practices with your mission, vision, and strategy. Use these practices (the "organizational levers") proactively and strategically to build, reinforce, and sustain a high performance organization.

This paper will discuss three areas of strategic human resource management for building high performance organizations. First, I will define what I mean by "strategic." I will do this by sharing a holistic model of **strategic planning & execution** that outlines precisely how best practice companies remain customer focused and manage for results. Second, I will discuss the importance of **organizational culture**. And finally, I will show you the tools you have at your disposal for building a high performance organization. I will describe the key **organizational levers** that drive, reinforce, and sustain high performance results and a winning culture.

Figure 1: **Holistic Model of Strategic Planning & Execution**



**Starting at the Top:  
A Holistic Model of Strategic Planning & Execution**

To build a high performance organization you must build your organization around your vision and strategy. All major policies, systems, and programs must be designed to help you get where you are going. *Figure 1* shows how everything must ultimately be rooted in market realities and customer priorities.

From the perspective of **strategic planning**, read *Figure 1* clockwise. Market realities and customer priorities determine the strategy the firm chooses. The business strategy, in turn, determines which core competencies (technical skills) and organizational culture are necessary. And finally, these competencies & cultural characteristics determine how the organizational levers should be designed and deployed.

From the perspective of strategic planning, high performance organizations ask themselves these questions:

1. Market Realities and Customer Priorities: What are the key market realities (competition, technology, government regulation, etc.)? And who are our primary customers; what are their needs

and expectations; what are their buying criteria?

2. Business Strategy: What business strategy do we need to succeed in this marketplace, create the most value for customers, and make our most important customers loyal to us?
3. Competencies & Culture: What technical skills (individual, team, and organizational competencies) and organizational culture do we need to execute our strategy?
4. Organizational Levers: And finally, which human resource and management practices will best generate, reinforce, and sustain our desired culture and core competencies? How should these organizational levers be designed and deployed to help the business win?

From the perspective of **executing strategy**, running your business, read *Figure 1* in reverse. You must develop precisely those management practices that create the competencies and culture that enable you to execute the strategy that responds to market realities and customer needs and expectations.

One of the biggest mistakes that organizations make is to design systems and practices that are not strategically relevant,

i.e., that are not specifically designed to help the business win. Perhaps *the* biggest mistake when formulating business strategy is to ignore what customers value. What is the result? Suppliers typically provide customers with more services than they want or need at prices that often reflect neither the value of those services to customers nor the cost of providing them.<sup>1</sup> This is a lose-lose situation. The solution? Build your strategy around value creation for customers, and then build your organization around that strategy. In other words, use the organizational levers to build a high performance organization; work the levers to build the capabilities and culture you need to achieve your vision.

## Organizational Culture

What do we know about organizational culture? Experience and research tell us that it is a huge mistake to think that culture is a “soft” issue. Culture makes a difference—a big difference! Culture has an enormous impact on bottom line results and an organization’s competitiveness (see *Figure 2*, below).

By organizational culture, we are not talking about how friendly your employees are, or how many storytellers you have. We are talking about cultural attributes that contribute to your competitive advantage. To give you a very concrete example of how mission-critical organizational culture is, imagine a start-up software development company. This start-up recognizes that to compete against the software giants it needs very specific cultural strengths: speed, flexibility, innovation, and the ability to take risks. Identifying these strategic cultural strengths is crucial because they will determine the kinds of people the company will hire; how and what they are going to train; what they are going to measure and evaluate; what kinds of behaviors they will reward and recognize; how they will design their organizational structure; and the kind of leadership they will need. You can easily see that speed, flexibility, innovation, and risk taking might help this start-up compete

against Microsoft. Yet imagine the unmitigated disaster that would occur if the same cultural attributes (speed, flexibility, innovation, and risk taking) were applied to running a nuclear power plant. Culture matters! What culture do you need to help your business win? (See *Figure 4*)

What do we know about organizational culture? We know that culture has a huge impact on the **bottom line** and on an organization’s **competitiveness** (see *Figure 2*). To have a positive long-term impact, an organization’s culture must:

- be **strong** and **unified**,
- **fit** its strategy, and
- be **adaptive**, or rather, it must enable or actively drive an organization to grow, learn, or adapt to an ever-changing world.<sup>2</sup>

Everyone today knows how important it is for organizations to be adaptive. Michelle Darling (EVP of HR for the CIBC) got it right when she said that the rate of learning by individuals, teams, and the company as a whole must meet or exceed the pace of change in the external environment.<sup>3</sup> In the words of Arie de Geus (former Head of Planning for Royal Dutch/Shell), the ability to learn faster than your competitors may be the only sustainable competitive advantage. These words ring more true each fiscal quarter. Yet most companies create huge bureaucracies that hinder learning, change, and adaptive behavior. Many companies fail because they do not pro-actively build a drive for progress and innovation into their cultures. This is obviously not intentional. They simply haven’t stopped to think it through or make the necessary changes. *Their* oversight can be *your* opportunity. Culture matters!

Does your culture contribute to your competitive advantage? Is your culture strong, suited to your strategy, and adaptive? Are employee attitudes, mind-set, and behavior helping you become a high performance organization?

Figure 2: **Culture, Profitability, and Competitiveness: Important Lessons from the Research**

- In the landmark study *Corporate Culture and Performance* documenting results for 207 large U.S. companies in 22 different industries over an eleven-year period, Kotter and Heskett reported that companies that managed their cultures well saw revenue increases of 682% versus 166% for the companies that did not manage their cultures well; stock price increases of 901% versus 74%; and **net income increases of 756% versus 1%**.<sup>4</sup>
- Denison's research of 34 large American firms—one of the most frequently cited studies of culture & performance—found that companies with a participative culture reap an **ROI that averages nearly twice as high** as those in firms with less efficient cultures. Denison's study provides hard evidence that the cultural and behavioral aspect of organizations are intimately linked to both short-term and long-term survival.<sup>5</sup>
- Many companies complain that their employees are de-motivated, unproductive, and disloyal. Jeffrey Pfeffer, a business professor from Stanford University, argues that these companies get exactly what they deserve. If you create a "toxic" (dysfunctional) work environment, you are going to get toxic behavior from your employees. According to Pfeffer's research, companies that manage people right will outperform companies that don't by **30% to 40%**.<sup>6</sup>
- The **top five performing stocks** from 1972 to 1992 were Plenum Publishing (with a return of 15,689%), Circuit City (a video & appliance retailer; 16,410%), Tyson Foods (a poultry producer; 18,118%), Wal-Mart (19,807%), and Southwest Airlines (21,775%). Yet during this period, these industries as a whole performed very poorly. What these five successful firms have in common is that for their sustained advantage, they rely not on technology, patents, or strategic proposition, but on how they manage their workforce...<sup>7</sup>
- Three quarters of reengineering, total quality management, and downsizing efforts have failed entirely or have created problems serious enough that the survival of the organization was threatened. Most frequently cited reason for failure: a neglect of the organization's culture.<sup>8</sup>
- In a 1992 study by Coopers & Lybrand of 100 companies with failed or troubled mergers, 85% of the executives polled said that differences in management style and practices were the major problem.<sup>9</sup>
- In 1996, the British Institute of Management surveyed executives involved in a number of acquisitions and concluded, "The major factor in failure was the underestimation of difficulties of merging two cultures."<sup>10</sup>

If culture is so important, then how do you create the culture you need? How do you develop and reinforce the culture and capabilities you need to execute your strategy and achieve your vision? —By working your organizational levers.

**The Organizational Levers:  
Build to Last!**

Organizational levers are the systems and practices that make an organization tick—the primary tools you use to run your company. They include hiring, training,

performance measurement and evaluation, reward and recognition, and so on (see *Figure 3*). The organizational levers are your primary tools for strategic human resource management. They enable you to manage firm talent and build a championship culture; building and sustaining the capabilities and culture you need to achieve your vision.

All organizations use these levers, but most of them do it very poorly. Often the levers themselves are poorly designed. Sometimes they conflict with one another, neutralizing each other's force. And worst of all, the organizational levers are often not aligned with the organization's vision and strategy. At the end of the day, who cares if you have world class programs if they are not aligned with *your* organization's strategy; if they are not going to help *your* organization achieve its vision; and if they are not going to help *your* business win! Used correctly, these levers are your most powerful and important tools for generating and sustaining your culture and core capabilities. They are your primary tools for building a high performance organization.

Your organizational levers must specifically be designed to help your business achieve its vision. When you examine *Figure 3*, ask yourself these questions:

- Which levers are you working most and least successfully?
- Are your levers aligned with each other—do they compliment each other?
- And are they aligned with your mission, vision, and strategy? Are they designed to help your organization achieve its mission critical objectives?

Here is a brief description of ***the eight primary levers*** that make organizations tick.

***Selection:*** How and who you hire (your talent base) will have a very significant impact on your ability to execute your

strategy. "At the end of the day, you bet on people, not on strategies."<sup>11</sup>

***Development:*** Training also makes an enormous impact on business success. An organization's capacity to improve existing skills and learn new ones is the most defensible competitive advantage of all.<sup>12</sup>

***Appraisal:*** Performance improves when performance is measured. Performance measurement and appraisal not only clarify performance targets, but also hold people accountable for generating results. A good performance appraisal program is an excellent tool for helping managers monitor and support the performance of their teams. Appraisal systems work best, of course, when they are not designed merely to police performance, but to help people improve performance in areas that make the biggest possible difference to the business.

***Rewards:*** Reward systems are also important motivators in keeping your teams focused on achieving desired objectives. You get what you reward,<sup>13</sup> and if your reward and recognition programs are not aligned with your vision and strategy, you will get poor results from your teams.

***Organizational Design*** is a crucial but often overlooked factor. All of the following elements of structure have an enormous impact on employee skill development, behavior, and performance: how decisions are made (and at what levels); exposure to experienced executives (from open door policies to mentoring); team versus individual structures; flat versus hierarchical organizations; and functional versus general management structures.

***Internal Communication*** is another key factor in an organization's success. Good communication within and between teams improves the flow of work throughout an entire organization—speeding up order processing, problem solving, recovery from customer complaints, and so on. Communication systems and practices must be simple, effective, and strategic. That is, they must be designed to make your

organization easy to do business with and support extraordinary customer service.

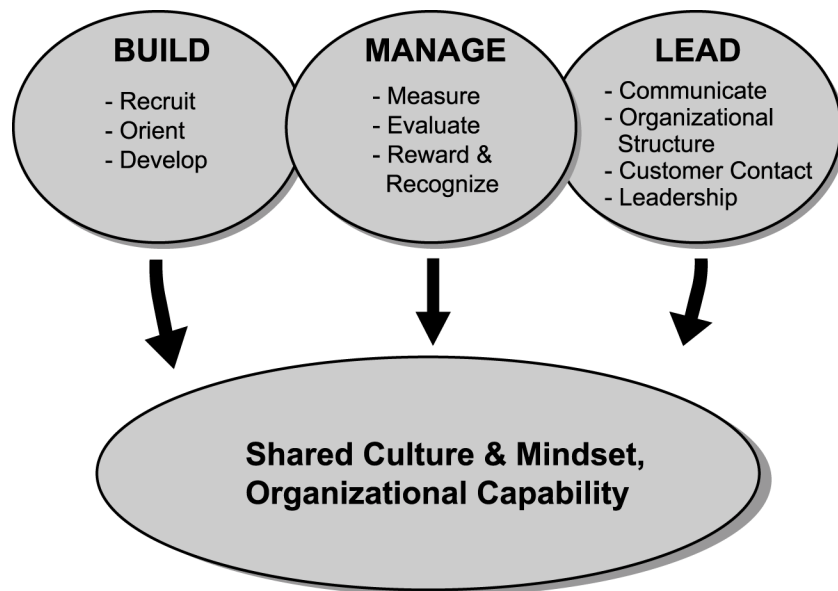
**Customer contact** is another key tool at your disposal. Not only do employees need to know how their jobs contribute to customer service (how they can make a positive difference), it is also crucial that all employees understand customer needs and expectations. Customer feedback is the ultimate reality check. This means that customer feedback must be collected and shared throughout your organization, and that mechanisms are in place to ensure customer feedback is effectively captured and acted upon.

**Leadership:** Finally, we all know how important leadership is to organizational success. You can have the best training

programs in the world, but if your leaders are not modeling the desired behavior, people will follow the example set by the leaders rather than the lessons they learned in the training programs. Either programs must reflect the behavior the leaders are going to model, or leaders must change their behavior to model the desired behavior outlined in the training programs. Either way, leaders must be involved in setting the agenda, and setting the right example.

It is not enough to offer generic or cool leadership development programs. Your programs must be strategically relevant. A substantial portion of your leadership development budget must be invested in areas that are of strategic importance to your organization.

Figure 3: **A High Level Map of the Organizational Levers**



Don't be satisfied with a few successful projects. Work your organizational levers to build a high performance organization. Use your organizational levers strategically and pro-actively to build and sustain the skills and culture that will enable you to execute your strategy.

According to the McKinsey study called "War for Talent," firms with **leadership depth** were much more profitable than those

without it.<sup>14</sup> General Electric's CEO Jack Welch, one of the biggest business success stories this century, claims he spends 40%

of his time on people issues, much of it on leadership development.<sup>15</sup> Clearly, the ultimate challenge of leaders who are senior managers is to develop the next generation of leaders more capable than themselves.<sup>16</sup>

### Closing Thoughts

Winning companies typically have cutting edge programs in at least two of these eight organizational levers. It is not necessary to invest in all levers equally. You must focus on the two or three levers that will be most effective in the context of achieving your vision and executing your strategy. At a minimum, make sure that none of your levers are obstacles to your key strategic initiatives.

It is important to remember that there is no one correct way to use an organizational lever. Your organizational levers have to be designed and deployed in a way that works best for your organization. Your organizational levers must be aligned with your organization's unique vision, strategy, and culture.

It is also very important when designing and deploying your levers to beware of the "Wizard of Oz Effect." The levers should not be used to manipulate people from behind the scenes. The organizational levers must be used to support real people—helping real people be more successful and better achieve desired organizational results. It is not about manipulation. It is about getting people what they need, from skills and tools to information, authorization, and internal service, to help the business win. This is what it means to build a high performance organization.

To conclude with a metaphor used by Collins and Porras in their brilliant book *Built to Last*, we have to be clock builders rather than time tellers:

"Having a great idea or being a charismatic visionary leader is 'time telling'; building a company that can

prosper far beyond the presence of any single leader and through multiple product life cycles is 'clock building'... The builders of visionary companies tend to be clock builders, not time tellers. They concentrate primarily on building an organization—building a ticking clock—rather than on hitting a market just right with a visionary product idea and riding the growth curve of an attractive product life cycle. And instead of concentrating on acquiring the individual personality traits of visionary leadership, they take an architectural approach and concentrate on building the organizational traits of visionary companies. The primary output of their efforts is not the tangible implementation of a great idea, the expression of a charismatic personality, the gratification of their ego, or the accumulation of personal wealth. Their greatest creation is *the company itself* and what it stands for... The continual stream of great products and services and individuals from highly visionary companies stems from them being an outstanding organization, not the other way around... Once you make the shift from time telling to clock building, most of what's required to build a visionary company *can be learned.*"<sup>17</sup>

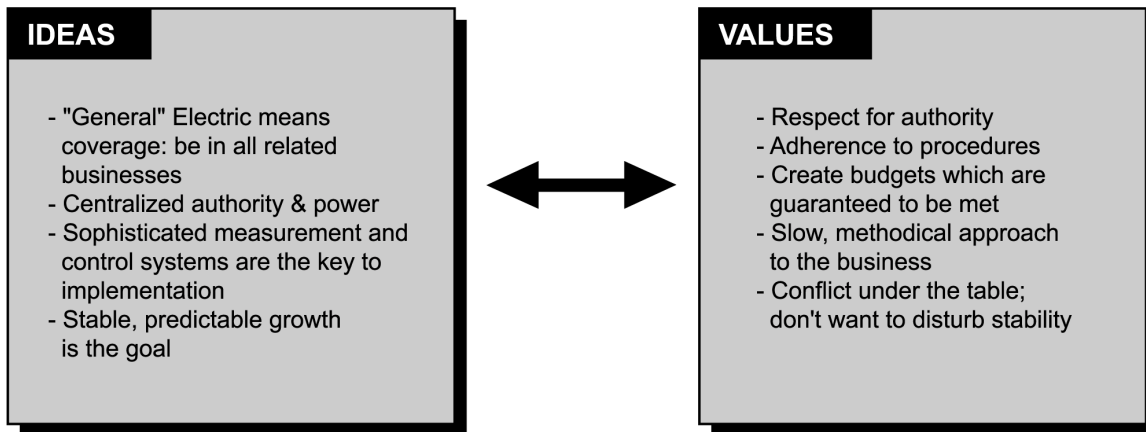
It is not enough to be able to tell the time accurately. Great leaders build clocks that can tell the time consistently over and over again, well into the future.

Building a high performance organization requires you to plan and execute for success. You must base your **strategy** on **customer buying criteria** (customer needs and expectations); develop the **capabilities and culture** you need to execute your strategy; and pro-actively design your **organizational levers** to help the business win. Aligning these four key pillars will help you achieve extraordinary results and build long-term competitive advantage.

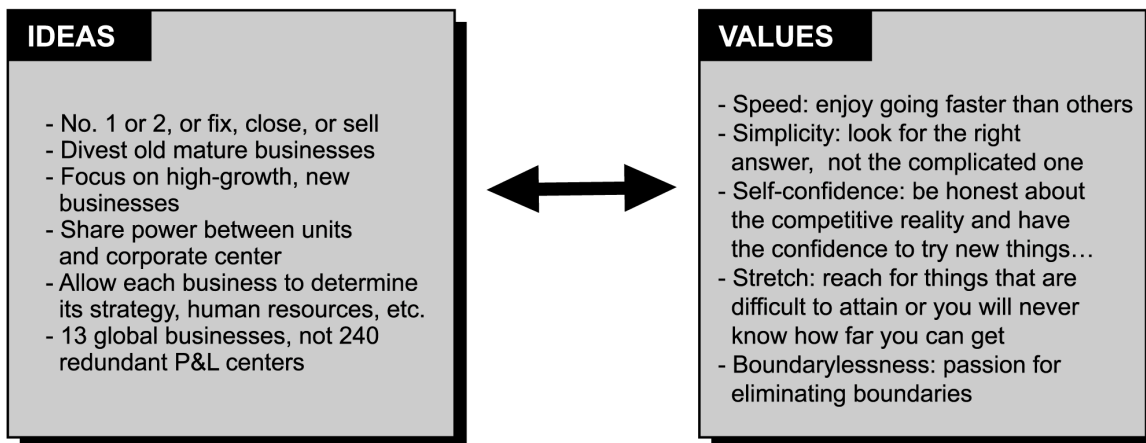
**Figure 4: Case Study: Aligning Strategy with Culture (Ideas with Values)**

As the CEO of General Electric, Jack Welch created more shareholder wealth than any other CEO in history—and did it in 17 years (from 1980 to 1997). Here is the map of one of the largest-scale organizational transformations in corporate history. GE identified the cultural strengths (values) they needed to execute their new strategy, and then created, reinforced, and sustained their transformation by aligning their organizational levers with their new ideas and values. (Source: Tichy & Sherman, *Control Your Destiny or Someone Else Will* (HarperBusiness, 1994).)

**GE'S OLD IDEAS & VALUES:**



**THE NEW GE:**



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## Endnotes:

- <sup>1</sup> James C. Anderson & James A. Narus, "Capturing the Value of Supplementary Services," *Harvard Business Review* (January-February 1995).
- <sup>2</sup> These conclusions are confirmed and amplified in Kotter & Heskett, *Culture & Performance* (Free Press 1992). Collins & Porras, *Built to Last* (Harper Business 1994), chapters 4 & 6. Denison, "Bringing Corporate Culture to the Bottom Line," *Organizational Dynamics* (Winter 1984), p. 18. Dave Ulrich, *Human Resource Champions* (Harvard Business School Press, 1997), p. 175. And "The First Report of the World Economic Forum," Booz-Allen & Hamilton Strategic Leadership Project.
- <sup>3</sup> Michelle S. Darling, "Building the Knowledge Organization," *Business Quarterly* (Winter 1996), p. 63.
- <sup>4</sup> John P. Kotter & James L. Heskett, *Culture & Performance* (Free Press 1992).
- <sup>5</sup> Daniel R. Denison, "Bringing Corporate Culture to the Bottom Line," *Organizational Dynamics* (Winter 1984).
- <sup>6</sup> Jeffrey Pfeffer, "Danger: Toxic Company," *Fast Company* (November 1998), pp. 152-161.
- <sup>7</sup> Jeffrey Pfeffer, *Competitive Advantage through People* (Harvard Business School Press 1995).
- <sup>8</sup> Kim S. Cameron and Robert E. Quinn. *Diagnosing and Changing Organizational Culture* (Addison Wesley 1999), p. 1.
- <sup>9</sup> Robert J. Carleton, "Cultural Due Diligence," *Training* (November 1997), pp. 67-75.
- <sup>10</sup> Robert J. Carleton, "Cultural Due Diligence," *Training* (November 1997), pp. 67-75.
- <sup>11</sup> Larry Bossidy quoted in Noel M. Tichy, *The Leadership Engine* (Harper Business 1997), p. 13.
- <sup>12</sup> Gary Hamel and C.K. Prahalad, *Competing for the Future* (Harvard Business School Press 1994). An ASTD study on the value of training reported 57% higher net sales per worker, 37% higher gross profits per worker, and 20% higher ratio in market-to-book values for companies investing in employee training. Properly designed learning initiatives can generate ROI of between 150% and 2000%. Cases such as these are reported in Vicere & Fulmer, *Leadership by Design* (Harvard Business School Press 1997), pp. 192-93, and Jack J. Phillips, *Return on Investment* (Gulf Publishing Company 1994), pp. 14-16.
- <sup>13</sup> Cf. Michael LeBoeuf, "What Gets Rewarded Gets Done," in *How to Win Customers and Keep Them for Life* (Berkley Books, 1989), pp. 148-153. On rewards, cf. also Jeffrey Pfeffer, "Six Dangerous Myths about Pay," *Harvard Business Review* (May-June 1998), pp. 109-119.
- <sup>14</sup> Dave Ulrich, Jack Zenger, and Norm Smallwood, *Results-Based Leadership* (Harvard Business School Press 1999), p. 2.
- <sup>15</sup> *Ibid.*, p. 5.
- <sup>16</sup> Cf. *ibid.*, pp. 212, 214, 215.
- <sup>17</sup> James C. Collins and Jerry I. Porras. *Built to Last* (Harper Business 1994), chapter 2.

## Related Shapiro & Associates Program:

- "Managing Vision, Purpose, and Culture"



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