



VitalSmarts®

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Four Crucial Skills of a High-Performance **Cultural Operating System**

Gadgets are smart these days. You can buy a refrigerator that tells you you're out of milk. Your car knows when its tires are low. You can even ask your mobile phone for parenting advice. We owe the increasing power of our toys and tools to the fact that all of them now sport powerful operating systems.

Similar to our gadgets, organizations have operating systems. Think of them as cultural operating systems. Both electronic and cultural operating systems provide a set of rules that guide the behavior of the device or the people respectively. For example, when you press the ON button of an iPhone, a whole series of coded rules display an Apple logo, followed by the time of day, your customized wallpaper and an unlock bar.

Similarly, a cultural operating system engages a set of rules that guide the behavior of employees when they enter a high-stakes meeting, react to abrupt organizational changes, or contemplate what to do with discretionary time. But while electronic intelligence is processed by written coded rules, a cultural operating system (COS) is often driven by a combination of written and unwritten rules. For example, executives may have *written* cultural mandates in the form of values, mission statements, and corporate creeds that prompt employees to take *initiative*, *speak candidly*, and *act as a team*. Yet when you watch what employees actually do, you realize the unwritten rules are *avoid risk*, *defer to the boss* and *stay in your silo*.

Executives have known for decades that their COS is a huge determinant of organizational success or failure. For example, renowned restaurateur Danny Meyer has created a cultural operating system that influences his 1,500 employees to create superlative *hospitality*

experiences for his 100,000 daily guests. Recently, a harried guest forgot her cell phone and purse in a taxi that raced away after depositing her in front of the restaurant. The maître de—prompted by Danny Meyer’s COS—welcomed her, assured her all would be well and seated her with her party. In the meantime, the maître de began calling the guest’s cell phone repeatedly until the cab driver noticed and answered it. Before the guest had even ordered her entrée, an employee had been dispatched to meet the cab driver, retrieve the phone and purse and deliver it to the overwhelmingly appreciative customer. And, while much credit for the remarkable experience is due to an enterprising team, less dramatic versions of unrivaled customer service happen hundreds of times a day because Danny Meyer has designed crucial skills into his intentionally created COS.

Leaders who invest in fostering a potent cultural operating system that enables their organizational strategy reap daily rewards for their investment. Leaders who fail to make such an investment tend to suffer from dysfunctional unwritten rules that inevitably fill the void. For instance, the CEO of one company struggling to survive an economic downturn by reducing expenses had a COS in which employees’ loyalties aligned with their department first and the enterprise last. When the CEO charged managers to pull together to close the financial gap, they vigorously nodded in agreement while in the room and then vigorously defended their department budget after leaving. After months of haranguing unresponsive managers to find efficiencies and reduce headcount, the CEO was forced to impose top-down solutions. Losses incurred from managements’ dallying amounted to millions of dollars. Unwritten rules always trump written ones.

It’s no wonder studies suggest that the culture of an organization can account for one third to one half of its growth and profitability. One extensive study showed that a well-designed COS correlated with 400 to 500 percent increases in revenue, income and share price growth over organizations with less effective written and unwritten rules.¹

Two Purposes of a Cultural Operating System

While today’s software systems rely on mind-bogglingly complex operating systems that offer hundreds of features and functions, an organization’s cultural operating system only needs to enable two functions. The measure of a good COS is the degree to which it enables an organization to *execute* superbly and *innovate* consistently.

Gallery Furniture in Houston, Texas provides a stunning example of how a COS is crucial to these two functions. One of Gallery’s competitive advantages is its ability to offer same-day delivery of

any of its merchandise anywhere in its enormous service area. This is no small promise when you consider that even purchases made at dinnertime are promised to arrive before bedtime. And yet, Gallery’s ability to execute flawlessly on this high-value promise has distinguished the retailer for decades and enabled the company to grow even through tough economic times.

Recently, Jim McIngvale, Gallery’s CEO, found that 20 percent of the company’s signature deliveries had to be reworked due to errors or damages. The rework was costing the firm millions every year. Most any organization has its own version of Gallery’s 20 percent rework problem—imperfections in execution that cost time, trust and money. What’s unique about Gallery—and what accounts for its distinct capacity to execute—is how routinely these problems are surfaced, analyzed and addressed. When the extent of the rework became apparent, McIngvale’s team did what it usually does—they candidly discussed deficiencies, explored potential solutions and developed a robust way of changing behavior to drive better execution. Gallery’s written and unwritten rules of initiative, teamwork, accountability and candor are key to their remarkable competitive advantage.

But Gallery’s COS doesn’t just enable flawless execution. It is also a powerful impetus of innovation. For example, Gallery makes more from selling mattresses than most any other product line. Yet competition for mattress sales is fierce. Most mattresses you could buy at Gallery can be price-shopped online with a few simple clicks. Gallery, however, is reinventing mattress sales by reframing the customer relationship around the entire sleep experience. Their goal is no longer simply shipping you the mattress you want. Rather, they have realigned their team to enable sales reps to follow a customer’s sleep experience for months after the sale. The goal is to ensure the customer’s new mattress provides the optimal mix of emotional, physical and mental ingredients they need to feel rested and well—*forever*.

Executing on this innovation took much more than a simple brainstorming session. It meant realigning teams, developing new competencies and perfecting new processes. Most organizations fail to innovate not because they lack ideas but because their unwritten rules stifle or stall them. Gallery stands head and shoulders above a fiercely competitive industry because execution and innovation are hardwired into their COS.

While scholars often confuse the issue by suggesting an organization can’t be world-class at both execution and innovation, real-world executives know success depends on both. Execute unimpressively and you risk both capital and customer flight. Innovate lethargically and you sprint toward irrelevance. Doing both better than others is the only sure path to long life and mission success.

¹ John P. Kotter and James L. Heskett, *Corporate Culture and Performance*, (2011), 5 – 10.

Four Crucial Functions of a Cultural Operating System

So what makes for a powerful COS? Is the recipe customized to your industry? Geography? Workforce? Or, are there common ingredients independent of organizational specifics?

Our research shows that even organizations as diverse as restaurants, furniture stores, government agencies, hospitals and auto manufacturers need four key skills to enable world-class execution and innovation. Just as all electronic devices need basic functions like input, output, data management and so on—there are some basic skills needed to enable the effective functioning of any human system. When these crucial skills are present, things run smoothly and improve routinely. When these crucial skills are absent, the system bogs down and gets mired in mediocrity—or worse.

Each of these skills addresses a critical competency for individual, interpersonal, team or organizational effectiveness.

1. **Personal:** Self-directed change
2. **Interpersonal:** Open dialogue
3. **Team:** Universal accountability
4. **Organizational:** Influential leadership

The best way to appreciate the necessity of these four skills is to consider the impediment their absence presents to execution and innovation.

Self-Directed Change

The unwritten rule in most organizations is *resist change*. Change only happens when people are dragged kicking and screaming into it. For example, a hospital that invested tens of millions of dollars in a new electronic medical records system found most doctors were still using paper prescriptions eighteen months after it went live. Resistance to the new-fangled system overrode any written rule executives tried to impose.

Most leaders trying to drive improved execution or accelerated innovation encounter cynicism and lethargy rather than enthusiasm and engagement. Ultimately, organizational change requires individual change. And the evidence shows we're no better at the latter than we are at the former. One VitalSmarts study revealed that fewer than 10 percent of employees are able to change their own deeply ingrained habits—even when their lives or careers depend on it.² For example, the typical employee who is fired for failure to change bad habits has been counseled about those habits for years before being shown the door.

Our deficiency to engage in self-directed change explains the almost complete failure of twentieth-century performance management practices to produce any meaningful improvement in organizational performance. Managers who have just finished giving performance feedback to



Change Anything™
Training is a one-day course that equips employees with the skills to successfully solve any individual behavior challenge.

Cultures that enable employees with the skills and support to succeed at self-directed change see results in the following areas:

- **Performance Management:** 70 percent of employees who are aware their boss is unhappy with their performance can't tell you what they are doing wrong or how they will change. Yet, employees equipped with the skills to change can realize their professional potential.
- **Corporate Wellness:** The U.S. Centers for Disease Control and Prevention puts a \$3,391 price tag on each employee who smokes. Companies that teach employees to achieve greater personal health reduce their healthcare costs while increasing employees' well-being.
- **Change Management:** While leaders might understand the required behavior for success, they often struggle to drive rapid, comprehensive change. However, leaders who enable employees with the skills to direct their own behavior are ten times more likely to influence system-wide change.

employees believe their employees have less than a one in ten chance of making meaningful change in targeted areas. Our research supports managers' lack of confidence in their direct reports. Specifically, fewer than one in twenty people succeed when attempting to change longstanding work, health, spending or relationship habits that undermine their ability to achieve important professional and personal goals.

Limited efficacy for personal change robs organizations of a core competence required to drive flawless execution and vital innovation. As a result, key initiatives are led by a small pool of self-starters—or they don't happen at all.

Most organizations attempt to compensate for widespread ineffectiveness at self-directed change through *supervision* rather than *leadership*. They install tall hierarchies designed to ensure people behave as needed—assuming that without compulsion, little would happen.

² Change Anything Labs, *Lake Wobegon at Work* survey, February 2010.

In an ideal world, hierarchies exist so different individuals can focus on different levels of strategic problems. Management should exist to organize work, not control individuals. When individuals are incapable of absorbing performance feedback and developing robust methods for changing their own habits, hierarchies are diverted to micromanaging, compelling and monitoring individual change rather than coordinating the central work of innovating and executing.

So what's different in a robust COS? The most basic building block of a powerful cultural operating system is the capacity to effectively engage in independent action. Imagine the potential of an organization where continuous personal initiative is a cultural norm. Walk the campus of the tech juggernaut Google and you'll be immersed in a culture of self-directed change. Everywhere you turn, there is an opportunity or resource to support you in getting fit, learning a new skill, developing a new relationship or engaging in an innovative task. Walls are plastered with pictures of people who have made diverse contributions to the planet—from Mother Teresa to Steven Hawking. Discretionary time is available to employees to follow their passion. Speakers are invited every week to the campus to stimulate thought and enable personal improvement.

Consider the message Google is sending its employees. First, it's saying, "We trust you." Employees who test the limits by using Google's time to explore a new risky project hear this message loud and clear. Second, it's saying, "We care about you." Employees who focus their efforts on self-improvement hear this message. However, what sets Google apart is the way it sends these messages. These aren't just words a jaded employee reads in a corporate brochure. These are actual programs that encourage and enable action—the kind of direct experiences that convince even the cynics.

The payoff for the organization comes in employees who are confident that their individual initiative will be rewarded and supported instead of punished and undermined. In this way, Google has created a culture where individuals don't wait to be told. When they see opportunities, they leap and Google benefits.

But you don't have to have billions in cash and resources to create a culture of self-directed change. Take Gallery Furniture for example, the small business is no less interested in creating this cultural capacity than Google. McIngvale has spearheaded several efforts to support individual initiative. He has created scholarships that make it easy for employees to further their education in any direction they want. He sponsors employees' volunteer efforts in the community and gives them time off to make a difference. He has also created a track and gym in the warehouse to support employees who want to improve their fitness. In fact, McIngvale models his own self-improvement efforts by arriving at 7:00 a.m. for calisthenics.

Think of the bottom-line results organizations achieve when all of their employees are continually engaged in self-directed change. In this kind of culture, employees know they are trusted so oversight is minimal. Individuals become skilled at self-direction, which enables

their organizations to overcome barriers that stymie their competition. And, with every employee able to think and act on their own, the organization's capacity to pivot and adapt is profoundly enhanced. The result is unbeatable levels of execution and innovation.

It's this kind of employee working in this kind of cultural system that sees a guest who just lost her cell phone as an opportunity for service rather than a distraction from duties.



Crucial Conversations® is a two-day training course that equips employees with the skills to create alignment and agreement by fostering open dialogue around high-stakes topics.

This award-winning training course builds cultures where people can speak up with complete candor (no matter the topic) and with complete respect (no matter the person). As a result, organizations experience:

- Reduced deference and defiance
- Spirited dialogue that gets the best ideas on the table
- Reduction in lost time and resources as employees resolve concerns, make high-quality decisions and act on those decisions with unity and commitment
- Improved teamwork as employees speak up respectfully and candidly

Open Dialogue

The greatest impediment to leveraging the potential of a workforce of subject-matter experts is people's innate reluctance to speak honestly about emotionally and politically risky issues. Reluctance and the inability to speak up are a primary cause of poor decisions, half-hearted execution, employee disengagement and stifled innovation.

When people can't speak the truth to those in power, the organization loses its ability to self-correct and its capacity to handle the unexpected. For example, imagine how many organizations have an equivalent of Gallery Furniture's 20 percent rework problem but the information is buried rather than discussed. In one organization, the IT department knew for years that maintaining both Macs and PCs for executives was costing hundreds of thousands in support expenses. But everyone stayed

him because they believed the CEO would resent them for questioning his personal preference.

Innovation is stifled less often because a workforce lacks ideas and more often because of a failure to generate spirited debate among differing ideas. Vigorous disagreement is the crucible of innovation, yet human beings are nurtured from childhood to defer to those in authority. If leaders do not make intentional efforts to break down a culture of silence, they will, by default, have a COS that undermines continuous improvement and innovation.

However, our research shows that a culture of tremendous open dialogue is possible. Danny Meyer says that the crucial skill he needs to maintain his world class COS is helping employees learn that *anything* can be said if it will help the team offer better hospitality to guests. His most fundamental challenge is ensuring his unwritten rule matches his written one.

For example, during one blistering summer, the air conditioner failed at *Eleven Madison Park*, Danny Meyer's high-end French Restaurant. By the time the first hundred lunch guests arrived, the temperature in the restaurant was already at 80 degrees and rising—not to mention the stifling humidity. Rather than bury the problem or defensively cancel lunch to avoid embarrassment, the *Eleven Madison Park* team immediately acknowledged the problem and candidly discussed ways of ensuring guests' comfort. Because the team wasted no time finger pointing, they were ready when the guests arrived—offering each the option of a personal fan (purchased by creative team members at a local hardware store) or a rescheduled reservation. The majority of guests weathered the heat in good humor and admired the caring response of the staff.

Individuals yearn for the freedom to express their views. They don't need others to agree—they only want to be listened to respectfully. When leaders take action to develop a COS of candid dialogue, mistakes are caught more quickly, decisions are implemented more effectively and innovation flows more routinely.

Universal Accountability

One wise healthcare executive discovered that rampant hospital acquired infections (infections patients contract *from healthcare workers!*) were not a fact of life in a complex healthcare system. Rather, they were largely a consequence of silence. Many of her employees knew how to avoid spreading infections but were afraid to hold others accountable to following those best practices—even simple practices like washing hands or wearing masks and gowns. For example, we once watched a doctor working with tiny, critically ill, premature babies enter the intensive care unit without donning the required protective clothing. We were stunned not only that he did that, but also that the dozen or so nurses and doctors who saw him *said nothing*.

When accountability requires position power, very little accountability actually happens. It becomes a line-of-sight problem. Few managers see their employees often enough or understand their performance deeply enough to hold them accountable in a meaningful way.



Crucial
Accountability™ is
a two-day training
course that equips

employees with the skills to
identify and resolve performance
gaps, enhance accountability,
eliminate inconsistency and
improve performance.

By learning how to talk about violated expectations in a way that solves problems while improving relationships, employees with these skills will know how to:

- Hold anyone accountable no matter position or temperament
- Master face-to-face performance discussions
- Determine the potential root causes of misaligned or bad behavior
- Agree on a plan, follow up, and manage new expectations

If team members can't hold each other accountable, then an organization's capacity to carry out unified action on complex interdependent tasks plummets. *And nearly all significant results, whether they are related to innovation or to execution, require unified action across multiple teams and functions.*

A weak COS is one where those who see problems say nothing because they assume they don't have the power or authority to raise a concern. Time, resources and morale are wasted through an unwritten rule that "accountability is someone else's job." In most organizations, a culture of collusion prevails—one where individuals see problems but say nothing, assuming someone "up there" will deal with it. In so doing, they unwittingly collude in undermining results. Then when it comes time to debrief the disaster, the focus is more on blame than on learning since there is no widely shared sense of accountability. Because mistakes threaten power, the immediate motivation in a power-focused culture is to deflect blame.

Organizations that want to pivot rapidly and execute flawlessly can't afford to wait for accountability to happen top down. Successful organizations depend on creating a culture where anyone can hold anyone else accountable—managers to employees, employees to managers and peers to peers. The core value in this COS is not *power* but *results*. When a norm develops that allows people to raise concerns

with those beside, above and below them on the org chart, problems are solved routinely and quickly and a pervasive sense of empowerment and responsibility for results prevails. Even when problems happen, the sense of personal responsibility that accompanies a culture where anyone can hold anyone else accountable drives a focus on learning rather than blame. This focus accelerates the development of collective competence, dramatically improving execution and facilitating innovation.

Influential Leadership

We've worked in hundreds of organizations over the past thirty years. The most common cultural characteristic we encounter is deep cynicism about leaders' ability to execute change. When leaders are not skilled influencers, they create "flavor of the month" organizations that rotate through trendy change initiatives—even when their own strategic goals remain constant.

What struck us about Jim McIngvale's COS is that when new behavior was called for in the same-day delivery process, intricate plans to drive that behavior were not only developed, they were also implemented *and embraced*. The dominant feeling about change in his organization is not cynicism—it is optimism.

Few organizations can drive rapid, comprehensive change—even when an organization finds itself on a burning platform. Leaders aren't able to mobilize their people to execute or innovate in a conscious, strategic way. One change initiative after another fails—not because the strategic ideas were inadequate, but because leaders were incapable of influencing change in the behavior required to execute on the new ideas. Cynicism builds year after year as bold strategies produce small effects and ultimately, employees learn that it's a waste of time to invest in understanding and supporting change efforts. Instead, they wait them out—realizing that if they wait long enough, the idea of "change" will simply go away.

Ironically, organizations with a weak COS stay that way because their leaders lack this one COS functionality—the ability to execute behavior change. In fact, leaders' unwillingness or inability to think systematically about influencing rapid, profound and sustainable behavior change is so damaging that it directly leads to cultures of silence, collusion and resistance to change. And when in moments of clarity leaders feel a need for change, their ineffective attempts—which are often delegated to staff functions—fall short of creating real change, which in turn leads to a culture of cynicism.

The picture is profoundly different in organizations where leaders are competent at intentionally influencing system-wide change. Leaders who think deeply and skillfully about the myriad forces that shape behavior, and who creatively engage all of these forces to create positive change, create cultures of confidence. In these organizations, employees hold leaders in higher regard and feel optimistic that even profound changes will lead to improved future performance.

influencer

Influencer Training® is a two-day course that equips leaders with proven strategies

to uproot entrenched habits and execute change initiatives in teams and entire organizations.

This award-winning training course builds cultures where teams and organizations overcome profound, persistent and resistant problems; and where leaders have the skills to develop an effective and comprehensive influence strategy.

Organizations that put Influencer Training to work experience the following results:

- Successful execution of corporate-wide change initiatives—with or without formal authority
- System-wide behavior change
- Reduction in errors and project failures
- Improved corporate culture

Conclusion

The question is not whether you have a cultural operating system—every organization has one. The question is whether your COS is one that advances or impedes continuous improvement at execution and innovation.

Leaders who lead the way in creating a COS characterized by self-directed change, open dialogue, universal accountability and influential leadership harness the full potential of their human resources. And in so doing, they leverage what research shows is the most potent predictor of sustained value for customers, employees, shareholders and the world—a high-performance cultural operating system.

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About VitalSmarts— An innovator in corporate training and leadership development, VitalSmarts combines three decades of original research with 50 years of the best social science to help leaders and organizations change human behavior and achieve new levels of performance. We've identified four high-leverage skill sets that, when used in combination, create healthy corporate cultures. These skills are taught in our award-winning training programs and *New York Times* bestselling books of the same titles: *Crucial Conversations*®, *Crucial Accountability*™, *Influencer*, and *Change Anything*™. VitalSmarts has worked with 300 of the Fortune 500 and trained more than one million people worldwide. www.vitalsmarts.com