

When the recession of 2008 hit its full stride, the effects were devastating to companies in the housing sector. And Camden Property Trust was no exception. The real estate investment trust, which owns and manages 63,000 apartment units in 13 states, saw its stock plummet from a high of \$80 to \$17. But rather than focus on the traditional methods of rescuing shrinking revenues—such as cost cutting, asset sales and workforce reduction—CEO Ric Campo relied on CPT’s culture to reverse the trend.

WHERE CULTURE COMES FROM

Culture in its simplest definition is “the way things really get done” within an organization – from how people write emails, to how leaders reward (or ignore) accomplishment, how a company relates to its stakeholders, and how decisions are made.

Culture within societies and organizations evolves based on needs, influences and leadership, and is consistently a key factor in the function—or dysfunction—of those groups. As businesses change and adapt to market forces, culture is more important than ever: it is how companies ensure the alignment of their purpose and mission to their strategy and vision, and use inspiration to cascade their core values into specific leadership behaviors. Only when observable leadership behaviors are identified, communicated, measured, tracked, managed and integrated into the business processes and talent management systems can an organization evolve on its cultural journey.

As leaders, we should recognize that by shifting from governance to

Built on the values of trust, integrity, leadership by example and respect for team and customers, the company’s culture forged an emotional bond between the employees and the organization by creating a personal investment; to do this they fostered entrepreneurial thinking, created constant and consistent communication, encouraged ear-to-the ground listening, and built deeper shareholder programs for employees than is typical. When the market crisis hit, CPT was well positioned to rally the team, telling them to ignore the press and television reports, reinforcing their team’s vision and ability, and cheering them on. By the end of 2009 the company’s stock had rebounded to \$42 and CPT was back on solid footing.¹

Culture, as it turns out, is not only a powerful stanchion in stormy times but a revenue booster as well. The Russell Investment Group found, in its assessment of the Fortune ‘100 Best Companies to Work For’ for the Great Place to Work Institute (which administers the survey), that those ‘100 Best’ on average outperform the S&P 500 consistently—by 7.35% or more in last 10 years of the Russell survey.²

DOING CULTURE INTENTIONALLY

Culture’s impact on results isn’t accidental; in fact, for culture to have an effect, it must be intentional. It was because CPT’s culture was designed to create a greater sense of ‘ownership’ among employees, so that even lower-level employees felt personally invested in the direction of the company, that the company was able to use values to guide long-term goals and address short-term problems. By leading with values—setting the tone, supporting risk taking and innovation through trust, and inspiring creative solutions aligned with long-term vision and mission—rather than governing through a command and control system of rules and policies, CPT found a powerful solution that will continue to pay dividends after the crisis. In short, their strategy for addressing the situation was their culture.

By creating an intentional culture, an organization ensures that its values, norms and practices not only align with, but facilitate the overall mission. Of course, most senior leaders recognize the importance of culture and even cite it as an imperative. Far fewer are able to lead through culture, however. While many companies have implemented ethical culture guides in response to large corporate scandals and regulation such as Sarbanes-Oxley and the U.S. Federal Sentencing Guidelines, few have made culture part of their organizational fabric.

Many leaders are saying culture but they aren’t doing culture. Daily news headlines are filled with stories of companies that espouse superior values yet have devastating systems breakdowns. The culture disconnect is so common that recent data drawn from an LRN survey of more than 450 institutions indicates that only 25 percent of organizations help their employees to apply core values to their work and lives, and 66 percent of respondents report

¹ Fortune’s 100 Best Companies to Work For (2010, January) <http://money.cnn.com/magazines/fortune/bestcompanies/2010/snapshots/10.html>

² Source: Russell Investment Group© for Great Place to Work® Institute, Inc. http://www.greatplacetowork.com/what_we_believe/graphs.php

leadership we can inspire principled performance in people, no longer simply relying on rules to achieve organizational success. Making this leap requires leaders to understand the evolution of culture and, even more important, how they can elevate their own culture to the next level.

There are essentially four categories of culture: anarchy and lawlessness, typical of ancient village markets; blind obedience, characterized by early industrial-age factories, largely unskilled laborers and industrialists who ruled with an iron hand; informed acquiescence, a rules-based command and control method popularized in the 20th century; and self-governance, which operates on a common set of values and beliefs. While rules-based cultures have been popular because they are efficient, predictable, controllable and scalable in top-down organizational models, the fast-evolving state of technology and globalization has pushed self-governance to the forefront of effective cultures. In an era of frequent, intense and unpredictable crises and one in which we are all ethically interdependent, effective culture demands agility and unimpeachable integrity; rules can no longer cover this ground.

that they are unable to identify which business initiatives can effectively promote culture.³

But companies like CPT, who successfully lead through culture, have a natural agility in the face of crisis, a strategy that can easily adapt to changing market forces and safeguard against systems failures. Campo and Oden found what Lou Gerstner, the former CEO of IBM, discovered long ago. "I came to see, in my time at IBM, that culture isn't just one aspect of the game; it is the game," said Gerstner in his book *Who Says Elephants Can't Dance: Leading a Great Enterprise Through Dramatic Change*.⁴ For Gerstner, culture was the mission-critical path to restoring profits, nurturing innovation and creating the new products that turned IBM around.

CULTURE: CRITICAL TO SUSTAINED PERFORMANCE

The entire performance of a company, from efficiencies to innovations to internal and external relationships, stems from culture, and it is what creates an enduring significance: it is not only what you do and how you do it, but how your brand and company are perceived, how your customer regards you, and your reputation in the marketplace.

And, the better your culture is, the better your business is. The American Management Association found that the more positive a company's culture, the higher the performance. In a study of nearly 2,000 respondents worldwide, the AMA found that cooperation, trust, culture/strategy alignment, innovation encouragement, culture that fosters strategy execution, fast facilitation of change, and performance and decision-making authority at all levels clearly correlated with a positive culture. The study also found a high correlation between some of these characteristics: culture and strategy, change resiliency and innovation, and trust and cooperative spirit, and concluded that positive culture results in higher performance, greater facilitation of change initiatives, higher productivity, and better talent retention. And the stronger these culture characteristics were in a company, the higher the correlation.⁵ The AMA's results buoy those of the Russell Investment Group: sustainable values lead to a beneficial culture, and a beneficial culture leads to sustained performance.

LEADING THROUGH CULTURE

Recognizing the value of culture as a strategy, and the correlation between values and a positive culture leaves the challenge: how to create culture. First, it must come from the top tier of leadership and second, it must be regular, obvious and intrinsic. "I have a very simple model to run a company. It starts with leadership at the top, which drives a culture. Culture drives innovation and whatever else you're trying to drive within a company," says Steve

³ Great Place to Work Institute, 2010. www.greatplacetowork.com/what_we_do/search-results.php?

⁴ Gerstner, J. L. (2003). *Who Says Elephants Can't Dance: Leading a Great Enterprise Through Dramatic Change*. HarperCollins Publisher.

⁵ Vickers, M., Dennis, D., Tompson, H., Lindberg, A., & Williams, R. (2008). *Cultivating Effective Corporate Cultures: A Global Study of Challenges and Strategies (Current Trends and Future Possibilities 2008-2018)*. New York: American Management Association.

The debates that most engage the public and rise to highest importance—environmental disasters, financial meltdowns, auto recalls—all focus squarely on the decisions, relationships, and organizational cultures within companies—and the extent to which those behaviors contributed to the problems. If companies intentionally create a sustainable culture, promoting values-based self-governance, people will judge them as much by how they do business as by what they produce or provide. In a culture of self-governance, employees make decisions and take actions not because the rules tell them to, but because they believe in the interconnectedness between themselves, the organization and the greater world beyond. That their decisions and actions are in the best interest of a broad range of company stakeholders, including leadership, customers and the communities in which they function is to the greater benefit of all, and ultimately serves to reinforce the underlying values of the organization.

Sadove, chairman and CEO of Saks, Inc., parent of Saks Fifth Avenue. “And that then drives results.”⁶ Sadove is among the growing group of CEOs who realize that just as the bottom-line is a C-suite imperative, so is culture. “I try to communicate the mission and values of Whole Foods at every opportunity and I try to live those core values myself with complete fidelity. Fidelity to the mission and values builds trust, while any deviance undermines it,” says Whole Foods CEO John Mackey.⁷ To support the commitment to its culture, Whole Foods articulates and publicizes its values, which can be seen throughout the company, printed on the store’s shopping bags and in-store signage, on its documents and all over the website. This very visual articulation of the culture has led dynamic growth—from just a few stores in the 1980s to 280 outlets with 53,000 Team Members and \$8-billion in sales—while preserving its decentralized entrepreneurial leadership structure.

By articulating these values so publicly, what Mackey has done might sound warm and fuzzy—setting feel-good standards—but what he really has done is ensure that every employee, all day long, focuses on strategy. And by making it an initiative from the top, the Whole Foods culture has become not only an imperative, but a lens through which the entire company can focus on the singular goals of the organization. In a time in which companies need to reconnect to their employees and customers to accomplish goals, chief executives can lead their companies through culture, which becomes the strategy that allows our behavior—organizational and individual—to be effective.

WHAT DOES CULTURE COST?

Probably one of the greatest barriers to fundamental change is cost. But because culture affects the way an organization thinks and acts, it is not necessarily something that demands a budget line, and one that many companies employ with little or no dedicated funding. “Culture doesn’t have to cost a lot of money. In fact, we often say that lack of money is a poor excuse for not doing the right thing on culture,” said Alfred Lin, Chief Operating Officer of Zappos, the \$1.5 billion internet retailing business that is just as famous for its culture as its success. When asked how Zappos, which ranked 15th on Fortune’s 2010 list of Best Companies to Work For, budgets for culture, Lin couldn’t point to a line item. “We don’t have a clean cut idea of how much we invest in culture. Besides having a pipeline (training) department, a lot of the culture stuff doesn’t cost very much. A few more happy hours than other companies, a few more interviews because we interview for culture, more time spent outside the office because we believe that improves communication, are about all that we ‘spend.’” Lin points to creative exercises that build culture. “When you visit our offices you’ll notice it is decorated like no other company, but all of this is user-generated by the employees. Conference rooms are themed and decorated by teams of employees. It didn’t cost us any more than having the landlord paint the place; we just used it as a bonding experience for our employees.” In fact, says Lin, “money solves one thing: a lack of creativity.”

⁶ Bryant, A. (2010, May 30) For the Chief of Saks, It’s Culture That Drives Results from NewYorkTimes.com: www.nytimes.com/2010/05/30/business/30corner.html

⁷ Mackey, J. (2010, March 14). Creating a High Trust Organization, from The Huffington Post www.huffingtonpost.com/john-mackey/creating-the-high-trust-o_b_497589.html

Like Zappos, for many companies, culture develops naturally as a result of self-realization or necessity. And with the growth of green and resource-saving technologies, it is easier than ever to cascade culture messages throughout an organization, such as creating paperless policy changes, enhancing training programs through an intranet or using Twitter or Facebook as the company grapevine. Of course, old-school methods such as the CEO working alongside front-line associates and mid-level managers and personifying the message are as powerful as ever, too.

THE DIMENSIONS OF CULTURE: THE FIVE HOWS

Leading through culture can be intentional and easy for some companies, such as a start-up, but for others with dysfunctional or antiquated cultures, building values-based leadership is a much greater challenge. In leading companies through this change leaders must first identify core dimensions of culture at play (see side bar “Where Culture Comes From”) which makes it no longer a “soft” concept that is difficult to articulate and measure, but one that can be discussed, evaluated and even used to uncover strengths, areas at risk, and opportunities for improvement. These “Five Hows of Culture:” How we Know, How we Behave, How we Relate, How we Reward, and How we Pursue are outlined in the book *How: Why How We Do Anything Means Everything in Business (and in Life)*.⁸ Using this framework, companies can assess their governance, process and leadership, and identify the behaviors that are effective, and those that are dysfunctional, in the organization.

Companies that get this right are most admired on the outside as well as the inside: their self-governing culture is created by extending trust, being transparent, living and operationalizing their sustainable values, and pursuing growth and significance. Winning companies build inspirational cultures inside the organizational walls and throughout the extended enterprise by aligning with society as a responsible corporate and environmental citizen. They become known for outperforming and outbehaving the competition.

IMPLEMENTING CULTURE

So, where do you start? First, what stage of culture development defines your organization: A start-up, with no culture infrastructure yet; an established company with a defined (effective or not) set of guidelines; or a blended company resulting from mergers, acquisitions or market forces that has many sets of rules at play? Next, what are the mission and sustainable values that define your brand and how you operate? How effectively do your values support your goals? Do your employees believe and embrace your mission and values? Do your policies, communications and rewards support these values consistently and completely? And last, how dedicated is your senior leadership to the mission? By embracing the mission and carrying it throughout the organization, your leadership sets the stage for effective strategy execution. But without the culture to implement the message, strategy will suffer. The answers to these questions set up the next stage: ‘Doing’ Culture.

⁸ Seidman, D. (2007). *HOW: Why HOW We Do Anything Means Everything...in Business (and in Life)*. Wiley; pp. 255-256.

The Five HOWs of Governance, Culture and Leadership

DIMENSIONS OF CULTURE		ANARCHY	BLIND OBEDIENCE	INFORMED ACQUIESCENCE	SELF-GOVERNANCE
HOW WE KNOW	Use of Information		Hoarding	Need-to-Know Basis	Transparent
HOW WE BEHAVE	<ul style="list-style-type: none"> ▶ Organizational Structure ▶ Source of Behavior ▶ Reason for Behavior ▶ Responsibility for Own & Others' Behavior ▶ Source of Authority (Who Gets to Decide) ▶ Magnitude of Authority ▶ Source of Regulation 		<ul style="list-style-type: none"> Silos & Fiefdoms Autocratic Leadership Coercive Central Policing Authority Power Figure—Arbitrary Authority without Recourse Externally Imposed 	<ul style="list-style-type: none"> Division of Expertise & Functions Rules Based Motivated by Individual Self-Interest Individual Organizational Units Power Figure—Consistent with Rules Top-Down Decision Making Voluntarily Adhered to Internal & External 	<ul style="list-style-type: none"> Integration with High Trust Values & Principles Based Inspired for Greater Good Universal Vigilance Individual—Values Based Empowerment & Individual Accountability Act on Shared Beliefs
HOW WE RELATE	<ul style="list-style-type: none"> ▶ Roles & Types of Skills ▶ Personnel Development ▶ Level of Trust ▶ Rules vs. Values ▶ Nature of Relationships (Employees) ▶ Nature of Relationships (Customers) ▶ Nature of Relationships (Supplier/Third Party) 		<ul style="list-style-type: none"> Follower & Worker Rote Learning Heavy Inspection & Limited Delegation Minimal Adherence—Loopholes Suspicion & Penalty Based Suspicion & Close Monitoring Arm's Length—Transactional 	<ul style="list-style-type: none"> Manager Training Checks & Balances, Contracts Compliance with Requirements Honorable Work—Pay & Reward Price It Fairly & Get Paid in Return Contractual, Fair, Impartial with Continuity 	<ul style="list-style-type: none"> Leader Education High Trust & Verify Guided by What Is Right to Do Social Contract—Committed to Growth Add Value Beyond Expectation Mutual Collaboration—Make Each Other Better
HOW WE RECOGNIZE	<ul style="list-style-type: none"> ▶ Rewards & Recognition ▶ Penalties & Discipline 		<ul style="list-style-type: none"> Conformity &/or Obedience Supervisor Determined—Fear 	<ul style="list-style-type: none"> Rewards for Personal & Organizational Success Established Structures & Procedures 	<ul style="list-style-type: none"> Satisfaction in Achieving Mission & Significance Guilt from Self—Peer Pressure & Sanctions
HOW WE PURSUE	<ul style="list-style-type: none"> ▶ Time Orientation ▶ Mission & Purpose for Existence ▶ Determination & Definition of Significance ▶ Attention to Regulatory & Legal Requirements ▶ Attention to Market & Public Dynamics 		<ul style="list-style-type: none"> Short-Term Survival—Coerced to Participate Significance not a Concern, Human Doing Emphasis on Enforcement Superficial Attention—Game the System 	<ul style="list-style-type: none"> Short-Term & Long-Term Goals Success Oriented—Reward for Achievement Journey of Success Controlled by Rewards & Penalties Highly Responsive & Reactionary 	<ul style="list-style-type: none"> Driven by Legacy & Endurance for the Enterprise Mission, Promise, & Significance Journey of Significance Proactive & Preventive Lead & Transcend the Markets

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1

Building Culture Using The Five Hows: Start-Up

- First: outline mission and values; set goals.
- Knowledge: Allow information systems to be transparent.
- Behavior: Set high trust level; individualize authority and accountability; encourage vigilance; build sense of greater good.
- Relate: Create social contract within the organization; create continual learning and growth; operate on values rather than rules; trust and verify.
- Recognize: Set values-based rewards; reward achievements as well as chance-taking; let the journey be the reward: personal satisfaction and peer acknowledgement will guide.
- Pursue: Follow mission and create marketplace promise to achieve greater good; build legacy; be proactive and preventive; think long-term.

2

Building Culture Using The Five Hows: Shaping Existing Culture

- First: Identify gaps/barriers in culture, where mission and values do and do not support goals; identify models within the organization for each of the five How dimensions.
- Knowledge: Create/enhance transparency; eliminate opaque or secretive practices; open knowledge sources.
- Behavior: Build or enhance trust systems; value vigilance; promote sense of greater good; empower and invoke accountability.
- Relate: Create social contract; evaluate and enhance learning and growth; create mutual collaboration; trust and verify.
- Recognize: Evaluate and strengthen communication venues; reward achievements and chance-taking and communicate throughout the organization; reward those who further the mission and goals of the organization; create success models of intrapersonal and cultural alignment; personal satisfaction and peer acknowledgement will develop.
- Pursue: Evaluate and embrace legacies; lead and transcend marketplace; create alignments to achieve a greater good; encourage proactive and preventive action; think long-term.

3

Building Culture Using The Five Hows: Blending Cultures

- First: Identify values and gaps/barriers in culture, areas where mission and values do and do not support goals; build models within the organization for each of the five How dimensions.
- Knowledge: Create/enhance transparency, eliminate opaque or secretive systems.
- Behavior: Evaluate values and trust systems; embrace and reward vigilance; establish sense of greater good; heighten empowerment and accountability.
- Relate: Build social contract; evaluate and enhance learning and growth systems; encourage and create collaboration; trust and verify.
- Recognize: Reward achievements and chance-taking and communicate throughout the organization; reward those who further the mission and goals of the organization; create success models of intrapersonal and cultural alignment; personal satisfaction and peer acknowledgement will follow.
- Pursue: Evaluate and embrace legacies; lead and transcend marketplace; create alignments to achieve a greater good; encourage proactive and preventive action; think long-term.

PUTTING HOW IN ACTION

By replacing authority with accountability, contractual obligation with collaboration and checks and balances with trust and verification, companies can begin to achieve not only excellence, but sustain a values-based culture of self governance that

accommodates short and long term goals, changing market forces and that will create competitive advantages. Just as strategy must be planned, so must culture. As senior leaders begin the planning process and identify strategic initiatives—improved customer service, leadership development, risk mitigation—they should also plan for a culture that will serve as the catalyst to achieving those goals.

About LRN: Inspiring Principled Performance

Since 1994, LRN has helped 10 million people in over 400 companies worldwide simultaneously navigate complex legal and regulatory environments and foster ethical cultures. LRN's combination of practical tools, education, and strategic advice helps companies translate their values into concrete corporate practices and leadership behaviors that create sustainable competitive advantage. In partnership with LRN, companies need not choose between living principles and maximizing profits, or between enhancing reputation and growing revenue: both are a product of principled performance. LRN is the trusted partner to leading businesses including Procter & Gamble, Apple, Pfizer, Johnson & Johnson, Viacom, DuPont, Rolls-Royce, 3M and The Dow Chemical Company. We help our partners engage their employees in over 100 countries, and have offices in Los Angeles, New York, London and Mumbai. For more information, visit www.lrn.com, follow @LRNinc on Twitter, or call: 800-529-6366 North America +1-310-209-5400 Global