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Building culture from the outside in

Dave Ulrich, Justin Allen, Norm Smallwood, Wayne Brockbank and Jon Younger

Abstract

Purpose – Traditional views of organizational culture have one thing in common; they define culture from the inside out – who we are, what we do and how we do it. In this article, the authors suggest that a more robust and practical approach to leveraging culture is to identify and shape culture from the outside in.

Design/methodology/approach – They define culture as ''what we want to be known for by our best customers made real to our employees through systemic processes every day.'' With a practical process, the article outlines four straightforward steps to create culture from the outside in. They are: clarify a compelling strategy to identify target customers; create a unity of identity; make that identity real for customers; and make that identity real for employees.

Findings – The paper reiterates that a more robust and impactful approach to leveraging culture is by defining and shaping it from the outside in. When leaders follow the four steps outlined above, they will define the right, customer-centric culture. In a volatile world of speed and change, customers must be the foundation of organizational culture.

Originality/value – The authors conclude that in a volatile world of speed and change, organizations build winning cultures when their culture efforts begin with customers, then shift to employee behaviors and organizational processes.

Keywords Culture, Organizations, Customers, Corporate identity, Corporate strategy

Paper type Research paper

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Traditional views of organizational culture have one thing in common; they define culture from the inside out – who we are, what we do and how we do it. We suggest that a more robust and practical approach to leveraging culture is to identify and shape culture from the outside in. As a result, we define culture as ''what we want to be known for by our best customers made real to our employees through systemic processes every day.'' In this article we outline four straightforward steps to create culture from the outside in. In a volatile world of speed and change, organizations build winning cultures when their culture efforts begin with customers, then shift to employee behaviors and organizational processes.

From Aesop's community on the Isle of Samos to Napoleon's camp at Boulogne, leaders and influencers throughout history have attempted to infuse values and norms into organizations to influence interactions and create change. In the last 50 years, many academics and practitioners, including Charles Handy, Geert Hofstede and Edgar Schein, have explored the impact of organizational culture on business outcomes and suggested how to influence culture to achieve specific results. Handy defined the culture of an organization as the collective behaviors of individuals within that organization (Handy, 1976). Hofstede explored the link between national culture and organizational culture, and has encouraged an understanding of both individual values and organizational practices to effectively manage a global organization (Hofstede, 1980, 2001). Schein explained that leaders must understand rituals, values and artifacts, and then underlying assumptions, before seeking to effect change (Schein, 1985). In sum, these and other pioneering thought leaders have defined

> **"Organizations that focus everyone's attention on a primary strategic direction have tremendous advantage over unfocused competitors."**

culture as a distinct set of norms, values, expectations, behaviors, patterns and routines that work together to impact firm performance.

A four-step process for creating culture

Our research and experience concurs that culture has a significant impact on organizational performance (Ulrich *et al*., 2008). However, we have found that leaders in most global organizations today, while acknowledging its importance, fail to understand how to manipulate (let alone create) such an amorphous abstract. Most leaders know that culture impacts performance, yet only a handful of the very best leaders know how to craft a culture that consistently delivers positive results.

Not coincidentally, the leaders who know how to create a constructive culture also happen to be some of the most successful in their industries. Over the last 25 years, we have studied and worked in hundreds of organizations with top-performing leaders and have found that a common source of their success is that they reliably connect customer expectations on the outside of the firm to employee behaviors and organizational processes inside the firm.

Based on our research, we propose a four-step model that creates a value-generating culture from the outside in. The steps are:

1. Clarify a compelling strategy to identify target customers.

   ■ Ask: Who are our best customers?

2. Create a unity of identity.

   ■ Ask: What do we want to be known for by our best customers in the future?

3. Make that identity real for customers.

   ■ Ask: What capabilities do we need to meet customer expectations?

4. Make that identity real for employees.

   ■ Ask: How do we make culture real inside our company?

Step 1: Clarify a compelling strategy to identify target customers

Although making a list of target customers may sound like an easy task, we have often found a disconnect between the senior executive team's definition of an ''ideal'' customer and the definition a customer-facing salesperson might offer. The first step for creating culture from the outside in involves three actions:

1. identify new environmental realities;

2. clarify strategic direction; and

3. identify target customers.

1.1. Identify new environmental realities

At the beginning of any business initiative, leaders should identify their environmental realities. Technology has increased access, accessibility, visibility and connection. The connected world is smaller, changing rapidly and has more open information. Customers are increasingly segmented and demanding. Investors are increasingly attuned to and actively

concerned about financial results and intangibles. Employees represent increasingly diverse demographic backgrounds including not only race and gender, but also cultural backgrounds and orientation to work. Competitors come from both traditional global players and emerging smaller innovators. Regulators are increasing oversight and control; meanwhile, financial markets are more volatile than ever. All of these themes occur in the context of global business where what happens in one corner of the world affects business throughout the world.

These trends and their implications affect all aspects of business from how to fund a firm to how to position the firm in customers' minds, and they must be considered when building a culture from the outside in.

1.2. Clarify strategic direction

Understanding strategic direction is the next critical prerequisite when identifying target customers. We categorize five basic growth strategies, as outlined in Table I. Most management teams can quickly identify two or three strategic emphases. However, our experience indicates that high-performing cultures focus primarily on supporting one strategic option. Organizations that focus everyone's attention on a primary strategic direction have a tremendous advantage over unfocused competitors.

1.3. Identify target customers

Knowing environmental realities and clarifying strategic direction, leaders are ready to identify target customers. Each strategy suggests a unique approach to growth and, therefore, a unique target customer. Refer to Table II for customer profiles in each growth strategy category we have identified.

The results of step one are a clear understanding of the external environment, strategic response and target customers.

Step 2: Ensure a unity of identity

Once leaders have identified a growth strategy and the target customers associated with that strategy, they must ask: ''How will we differentiate ourselves in the eyes of the customer?'' Ultimately, actions taken inside the organization need to deliver value to customers outside the organization. The tag line ''employer of choice'' makes more sense if we are the ''employer of choice of employees our customers would choose.''

Unity of identity emerges when a management team reaches consensus on the question: ''What do we want to be known for by our target customers?'' The unity of identity then becomes the foundation for both the firm brand (for external stakeholders) and the company internal culture (for internal stakeholders). In other words, a strong unity of identity becomes the guide for how customers experience our products, promotions and people. Although marketing gurus have written volumes on creating firm brand around product and

Table I Strategic options matrix					
	Product/service	*Customer intimacy*	*Technology*	*Production capacity*	*Distribution*
Strategy definition	Innovating products or services with growth created by expanding sales of that product or service to new customer segments	Selling new products or services to the same customer base is the anchor, with growth coming from selling more products to a customer	Creating new and innovative technology is the anchor, with the intention of finding a ''home'' for that technology among a large variety of customers	Leveraging a particular asset or resource as the core business is the anchor, and keeping that asset fully utilized maximizes growth	Creating highly reliable distribution channels is the anchor and maximizing the throughput of those channels creates growth
Example	Kellogg, Toyota	Johnson & Johnson, UBS	Google, SONY	Marriott, BA	Wal-Mart, JC Decaux

Table II Customer profiles					
	Product/service	*Customer intimacy*	*Technology*	*Production capacity*	*Distribution*
Target customer profile	Target customers have strong product loyalty, are looking for future products that resemble current and past products, and are comfortable using products that are leveraged across multiple customers	Target customers all fall within a particular class and have similar needs. A variety of products may satisfy them. The ''destiny'' of the company's products and services is in the customer's hands	Target customers are most likely to adopt new technology and are willing to change current behavior, or are an underserved group with an unmet need	Target customers make orders in large volumes and/or they are reliable in their frequency of use. They allow the source company to maximize utilization	Target customers include anybody at the output end of the channel. This strategy focuses on customers who will accept as many products as possible through the channel
Example customer	Kellogg's Kashi customers: Mid-thirties professional who grew up eating Frosted Flakes and is now looking for an organic health cereal	Johnson & Johnson customers: Mothers, fathers, nurses, and other healthcare professionals	Google customers: Anyone looking to advertise directly to potential customers via sophisticated search technology	Marriott customers: Business travelers who are looking for a similar experience regardless of which city they are in	Wal-Mart customers: Value shoppers who aim to find everything they need in one place

promotion, relatively little has been written about using a unity of identity to connect with customers through people in the organization. With this in mind, we define culture as ''what we want to be known for by our best customers made real to our employees every day.''

The second critical step in building a culture from the outside in requires the creation of a unity of identity through five key actions:

1. collect ''identity statements'' from senior leaders;

2. evaluate the level of shared mindset;

3. revisit results to reach consensus;

4. test assumptions with customers; and

5. evaluate the shift in current emphasis to new emphasis.

2.1. Collect ''identity statements'' from leadership team

Ask each individual to write a response to the question: ''What are the top three things we want to be known for by our target customers in the future?'' This question turns attention outward rather than inward by seeing the organization through the eyes of the customers. It highlights target customers, focuses attention by asking for three answers rather than a limited amount and points to the future.

2.2. Evaluate the level of shared mindset

Next, categorize and combine the responses. For example, a team of 12 leaders will result in 36 answers. Sorting them into like categories may result in nine that address ''efficiency,'' seven that address ''reliability,'' six that address ''customer focused'' and 14 scattered over other categories. Add the total number of responses in the top three categories (22 in this example) and divide by total responses (36) for a rough measure of shared mindset (61 percent in this case).

2.3. Revisit results to reach consensus

Our rule of thumb is that a desired shared mindset is 80 percent agreement. As a group, review themes in the results, cluster and redefine themes, and then repeat the exercise until an 80 percent consensus on the top three items can be reached.

2.4. Test assumptions with customers

Now, test the internal unity of identity with customers to make sure it's right. Ask target customers: ''Why do you buy our product rather than buying from the competition?'' and invite them to answer by allocating a total of 100 points among the top five or six categories identified in action 2.2. above. If customers allocate 80 percent of their points among the three categories chosen internally, then you're on the right track. If not, revisit steps 2.1., 2.2., and 2.3. Validating with customers is critical and ensures that the culture is built based on customer expectations. If you find inconsistency between customers' desires on the outside and leaders' targets on the inside, then two options are available. Change the target identity of the senior leadership team or focus the firm on a different set of target customers whose needs are consistent with the company direction.

2.5. Evaluate the shift in current emphasis to new emphasis

With a clear unity of identity defined, evaluate the difference between the current emphasis and the new emphasis as validated by customers. For example, as shown in Figure 1, when answering the question ''What do we want to be known for?'', a large manufacturing company discovered that they had been straddling two competing emphases: ''value'' (low cost) and ''latest technology'' (innovation), while dabbling in customer service and quality. After identifying a clear unity of identity based on their customer needs (given their strategy), leaders realized the need to eliminate ''value'' as an area of primary emphasis, and increase focus on ''the latest technology,'' ''solid customer service'' and ''good quality.''

Step 3: Make identity real for customers

After establishing a clear unity of identity, the next step is to find ways to make that identity real for customers. To this end, leaders must move from focusing on activities to focusing on the results the organization needs to achieve. In a customer-driven culture, those deliverables are the organizational capabilities that will make their organization unique and drive the creation of intangible value. Capabilities deliver a unity of identity to provide the firm brand to which customers can relate and the culture that shapes employee behavior.

Based on the identity defined in Step 2 (above), leaders can select from a list of common capabilities (see Table III) to determine which organizational capabilities will ensure that their desired identity is real for customers. For example, the manufacturing company above found that its customers wanted it to be known for ''the latest technology,'' ''solid customer service'' and ''good quality.'' With this identity in mind, leaders selected innovation, customer connectivity and accountability as the three organizational capabilities needed to deliver the identity.

Once the most critical two or three capabilities are identified, leaders can identify points of contact, or ''touch points,'' between the firm and the target customers through which customers can experience and benefit from the firm's capability, thus ensuring that customers' expectations are fulfilled. They can also determine how each of these might be measured so that progress against these desired capabilities might be more clearly defined

Figure 1 Example of an emphasis shift for a *Fortune* 100 manufacturing firm
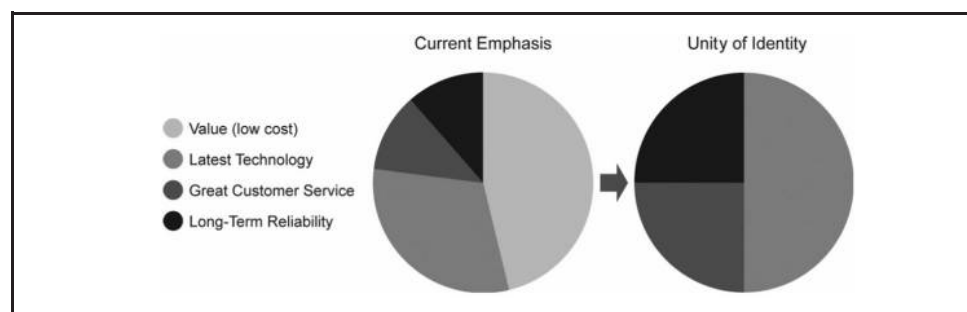
Table III	Example of organizational capabilities selected by *Fortune* 100 manufacturing firm	
Most critical	*Capability*	*Description*
	Leadership	We are good at building leaders that generate confidence in the future
	Strategic unity	We are good at creating a shared agenda around our strategy
X	Customer connectivity	We are good at fostering enduring relationships of trust with target customers
	Corporate social responsibility	We are good at establishing a strong reputation for sustainability, philanthropy and employability in our industry and community
	Shared mindset	We are good at ensuring customers and employees have a consistent and positive experience of our firm identity
	Collaboration	We are good at working together across boundaries to ensure leverage and efficiency
	Learning	We are good at generating, generalizing and implementing ideas with impact
X	Innovation	We are good at doing something new in both content and process
	Talent	We are good at attracting, motivating, developing and retaining talented and committed people
	Speed	We are good at making important changes rapidly
	Efficiency	We are good at reducing the costs of our business practices
X	Accountability	We are good at creating and enforcing standards that lead to high performance and execution

and tracked over time. The final step in this process outlines how to operationalize these capabilities and create a culture that consistently delivers on these customer expectations.

Step 4: Make identity real for employees

In this final step we describe how to create the desired culture by aligning:

1. internal communication (intellectual agenda);

2. behavioral competencies (behavioral agenda);

3. HR practices (process agenda); and

4. leadership brand with the organizational capabilities.

4.1. Intellectual agenda

A customer-oriented culture becomes the intellectual agenda that shapes what executives communicate throughout the organization. For the manufacturing firm mentioned above, this meant that the corporate communications team was tasked to ensure that all internal communication from leaders and through departments focused on customer connectivity, innovation and accountability. Other examples include Lexus, where the pursuit of perfection is not just an advertising tag line, but also an internal employee mantra, and Wal-Mart, where the pursuit of low costs is repeatedly shared with employees in speeches and executive presentations.

4.2. Behavioral agenda

Second, customer expectations become the behavioral agenda for how employees perform on a daily basis. Employee actions aligned with culture may come when employees are empowered to act consistently with customer expectations, when employees are licensed by senior management to change their daily actions or when employees are encouraged to offer suggestions on how to make the new culture real to them. At Lexus, employee suggestion systems generate thousands of employee ideas on how to better design, manufacture or sell cars.

4.3. Process agenda

Third, a customer-driven culture becomes the process agenda that guides management processes such as staffing, training, compensation and technology. At our example manufacturing firm, HR leaders redefined their hiring process to ensure that new recruits have a predisposition for innovation and customer service. HR also renewed the performance appraisal process and the compensation strategy to create and sustain the

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desired capabilities throughout the organization. In a similar manner, Wal-Mart builds systems (compensation, facility management, supplier management and so forth) that encourage low costs.

4.4. Leadership brand

When intellectual, behavioral and process agendas align around customer-centric organizational capabilities, an organization's culture becomes the foundation of leadership brand (Ulrich and Smallwood, 2007). Organizations with strong leadership brand have the systems and processes in place to ensure that leaders inside a company behave consistently with customer expectations outside the company. Leadership brand occurs when leaders successfully transfer their own customer-centric behaviors to employees and embed them in employees throughout the company. Defining effective leadership through a customer lens ensures that leaders do the right things in the right ways.

The outcome: a culture built to deliver customer expectations

We reiterate that a more robust and impactful approach to leveraging culture is by defining and shaping it from the outside in. When leaders follow the four steps outlined above, they will define the right, customer-centric culture. In a volatile world of speed and change, customers must be the foundation of organizational culture.

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