



Stroud Quarterly

As we approach a new year, it's an excellent time to reflect on how each of us creates individual behaviors that come together to create a culture. Our culture at Stroud includes a relentless drive to find a problem's true root cause in as few steps as possible. I encourage you to read about our creative approach, and a practical case study about on helping a large energy company reduce costs by 10%. As always, we welcome your feedback and ideas. Please contact us directly or visit www.stroudconsulting.com to learn more. Our best to you for 2011.

Nathaniel Greene, Managing Partner
Stroud Consulting

In the December issue:

- **Full Article:** Achieving Culture Change One Person at a Time
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- **Case Study Synopsis:** Reducing Energy Costs – A major energy company reduces gas emissions and energy costs by 10%

Achieving Culture Change One Person at a Time

by [Ryan Hale](#) - [follow this link for a PDF of the full article](#)



A flock of birds flies overhead, each bird conserving energy in formation and enabling the group to extend the distance of its journey. A herd of deer grazes safely in a clearing, as the watch for predators passes seamlessly among them between bites. Bees buzz past laden with nourishing pollen for their young, as their sisters diligently tend the growing hive. Walking through the woods provides numerous examples of collaboration among groups of animals, in which individual behaviors contribute to benefit the group as a whole. Despite our relative evolutionary advantage, why do so many groups of humans struggle to reach an effective level of collaboration?

Removing the context of evolutionary biology to focus on the human species, most business leaders face the challenge of achieving organizational change at least once in their careers. Most would agree that change is successful when a new culture takes hold in an organization, bringing with it a level of performance that was not possible before. While many varied and nuanced definitions of culture can be found in literature, here we will take culture as the aggregate of individual behaviors in a group. These behaviors reflect the underlying mindsets, beliefs, and motivations of each person. As a leader armed with the accumulated wisdom of John Kotter, Jim Collins, Peter Drucker, and others, you may find your organization struggling to modify behaviors in a way that produces the results and culture required to be successful. This paper will add a critical portion to the theory of achieving lasting change, and then outline specific practical steps for implementation.

By considering organization change as aggregated individual behavior change to achieve a desired group outcome, examples of success appear readily in the contexts of society and of family life. Most people today would be appalled if a fellow car passenger rolled down his or her window to throw trash onto the roadside, yet for our parents' generation, this same act might not have raised an eyebrow. Kids and parents commit their free time (with various amounts of whining) to maintain the cleanliness of personal and shared space in the household, because the positive benefits of contributions

outweigh the potential negative consequences of shirking responsibilities.

Economists regularly model consumer behaviors using rational actors, and recently Mark Kleiman cleverly applied economic and social research to suggest remedies for the conundrum of America's disproportionately high incarceration rate. Perfectly rational actors always select the outcome to a situation that maximizes their individual benefit. The rate at which we discount future potential consequences (e.g., treadmill tomorrow vs. cake today) and how other people's choices impact our own (e.g., the second fastest car on the highway is less likely to get a ticket) complicate the model, however, rational actors and game theory in social settings form a solid basis from which to design a practical strategy to achieve organizational change. Leaders can shift the odds in their favor by devising incentives for individual choices that, on average, yield the desired group outcome.

Incentives drive individual choice

Understanding a few key theories around incentives and how they impact decision-making will prime leaders to apply these theories for tangible organizational benefit. In this document, the term incentives encompasses the range of positive and negative consequences to choices individuals make; things that encourage or discourage certain choices. First key theory: consciously or not, people evaluate three attributes of incentives when making decisions:

- **Certainty** – the most important. How likely am I to receive the potential outcome?
- **Timeliness** – second most important. Immediate consequences are more certain than delayed consequences
- **Severity** – least important, especially in situations with low certainty and low timeliness

To make these three attributes very tangible, consider the choice a driver faces about whether or not to obey the speed limit with the potential negative consequence of a speeding ticket. How likely are you to speed when the enforcement method changes from police cruisers hiding behind trees with radar guns to speed-activated cameras and average speed calculation using RFID? Next, how likely are you to speed if instead of mailing in payment for the ticket handed to you by an officer, they require payment on the spot? Lastly, given the same original certainty and timeliness of consequence, by how much would the fine need to increase to guarantee that you choose not to speed? \$10? \$100? \$1000?

Second key theory behind incentives to remember: people consider the net benefit of their choices, combining positive and negative consequences over the short- and long-term. In the context of the workplace, Herzberg proposes that the most effective positive incentives remove job dissatisfaction and enable long-term career fulfillment. He also proposes that the most effective negative incentives strengthen commitment to the desired organizational outcome in individuals who were already committed or undecided, and quickly deselect individuals who were disruptive or uncommitted to the organization's vision of success. Tactically, this means temporarily amplifying job dissatisfaction for individuals who make choices that undermine the vision. Further examples of incentives (both positive and negative; the "encouragers" and "discouragers" in Braksick's model.) can be found in the sidebar.

Encouragers

- **Recognition of achievement: public and/or private**
- **Increased autonomy/responsibility**
- **Financial rewards: many risks, use cautiously and sparingly**

Discouragers

- **Financial penalties**
- **Increased supervision & bureaucracy**
- **Recognition of disappointment: public and/or private**

Dynamic enforcement raises certainty of incentives

Keeping these two key theories in mind, the business leader faces a practical challenge: how to provide resources to maximize certainty of incentives that will amplify the long-term commitment of the organization's most committed and talented people—and quickly encourage "self-deselection" by the least talented dissenters? In an organization where everyone already feels busy, this is not a trivial challenge. The main concept to embrace in order to maximize certainty of incentives Kleiman calls "dynamic enforcement," which takes on a much less pejorative tone in commercial applications. Essentially, it entails clear communication of highly likely outcomes of behaviors to a subset of the

organization, and then removing distractions from the people who have accountability to provide those incentives in response to the behaviors. What does dynamic enforcement mean to a parent? This could mean sitting down with your three children in a quiet room, asking them to help the family keep a tidy house by cleaning up all the toys at the end of each day, and explaining that if all three rooms are clean each Saturday will be pizza night but if any one of the three rooms are not tidy, they will lose “screen privileges” in order of oldest to youngest. We will review practical interpretations of this concept in the workplace shortly.

The endnote references provide sources for readers interested in the supporting research. The remainder of this document outlines a comprehensive process to shift individual behaviors to create organizational change. The major steps in this sequence answer the following questions:

1. What are the goals of the organization, and what will it be like when we get there?
2. For each role in the organization, what behaviors will support this vision, which we will reward? What behaviors will undermine it, which we will not tolerate?
3. Which representative behavior by a specific role will serve as a public example that reinforces the vision?
4. Do we have adequate resources to increase certainty and timeliness of outcomes for the behaviors exhibited by the target population?
5. Does the target population clearly understand what the incentives will be, exactly how they will be delivered, and what the short- term and long-term implications of those consequences are?
6. Is the outcome of this pilot effort fully understood within the target population and by the broader group?
7. How much actual resource was required to enact this change? How much will be required to sustain it?
8. Where should we focus next? (repeat...)

Establish a clear vision for the desired organizational change

Kotter’s perspective on the errors that leaders make while embarking on organizational change provides plenty of colorful examples of the consequences of not establishing a vivid vision of the end-state. Without going into detail, consider a descriptive vision of success a prerequisite for the remainder of this process.

Translate the vision into specific behaviors for each role, choose a focus area

By working with individuals holding key roles in the organization, determining the behaviors that both support and undermine the vision statement can “short circuit” the lengthy process of aligning underlying attitudes and mindsets. Focusing on behaviors by no means removes the need to achieve a genuine change in thinking within the organization—sustainability is impossible without a sincere shift in mindset—however, taking the “fake it ‘til you make it” route can pull forward the benefits of the new culture and allow the mindsets shift to occur in parallel with the behavior change.

For example, retail staff may shudder at the thought of having customer feedback about themselves written down, never mind posted publicly to their peers. By setting a minimum threshold of submitted customer feedback forms as a prerequisite for eligibility for promotion, however, the staff will be much more likely to ask their customers to submit feedback after a transaction (with a smile, hopefully!), even if the deeper mindsets shift of genuinely focusing on the needs of the customer takes longer to internalize.

Work with leaders at each level of the organization to create a list of desired and intolerable behaviors for the role. Select a role in the organization and a subset of behaviors that will form a particularly powerful example for the organization: these behaviors will embody the new culture and will be the first focus of your incentive system. Decide on a trial period and a set of metrics to evaluate the effectiveness of change.

Provide resources to maximize certainty of incentives for the focus area

Using the target population and behaviors you selected above, consider who in the organization will have accountability for delivering the incentives as outcomes of the target population’s behavior.

Typically, this means the supervisors and middle managers. Often, these individuals have more things to do than time to do them, so employees understand that the certainty of outcomes is low—therefore reducing the likelihood of behavior change. A leader's role is to remove the distractions and lower-priority accountabilities that could prevent certain incentives for the target population. To extend the previous example, this means explaining to a retail manager that for the next three months, other ancillary paperwork will be considered a "nice to have" and it is critical to review customer feedback forms on a daily basis and keep the customer feedback database current. Additionally, giving the retail managers authority to allocate overtime hours to processing feedback forms, in a tightly-managed retail sector, reinforces that the outcome more than justifies a temporary investment. By deliberately removing time consuming, lower priority tasks from the individuals, leaders create certainty of incentives to drive behavior change without additional investment.

Clear communication increases certainty of incentives

Direct, explicit communication with the target population and the individuals delivering incentives will further increase certainty and therefore raise the likelihood of behavior change. Of course each leader's style will vary, but the key points below should form the outline of these conversations with the target population:

- Describe the vision for organizational change concisely and vividly
- Explain the individual's role in the vision, including examples of the desirable and intolerable behaviors
- Clearly articulate the incentives (both positive and negative) associated with the behaviors, such that the individual understands that he or she has a genuine choice with certain outcomes
- Articulate the mechanism by which the incentives will be delivered

After speaking with the target population, leaders should hold similar conversations tailored to the perspective of the individuals delivering the incentives.

An important potential reaction to dispel in this phase is "that sounds great but it will never happen to me, so I don't need to change." In one extreme yet illustrative example from *When Brute Force Fails*, individuals on probation for drug offenses saw where on the list of names in the program they sat. The probation officers described very candidly that they only had the resources to process ten violations a month and the first ten people on the list to fail the drug test on the list would go back to jail. In this example, both the number of violations and the resources required to enforce them decreased, because the game theory was clear to everyone involved. Establishing the same certainty of outcomes in the workplace can enable leaders to reach the nirvana of more and more change occurring with less and less effort.

Reflect on lessons learned from the focus area and repeat

Using the duration and effectiveness metrics selected in the first step, bring the group together at the close and review the lessons learned. To what extent did behaviors change? How consistently did incentives apply, and were they appropriate? How much resource did the change consume compared with expectations? Answering these questions and compiling feedback from individuals involved in the focus area will allow the business leaders to expand the change initiative with greater confidence of success.

Individual behaviors are the basis of culture change

While we may not do so as transparently as animals in the forest, humans will modify their individual behaviors to fit the incentives they expect. The aggregate of these individual choices defines the culture of the group and reflects underlying beliefs and mindsets. Because a leader's role is often to address both beliefs and behaviors in order to achieve organizational change, creating the incentive structure with high certainty of outcomes very early in the change process can prompt behavior change which, in turn, facilitates changes in beliefs that often take longer to achieve. By adding this approach to the suite of tools available, leaders can be even more effective in achieving successful organizational change.

References

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Solving problems from first principles Step 3: Analyze the problem to understand the root cause

[By Taylor Milner](#)

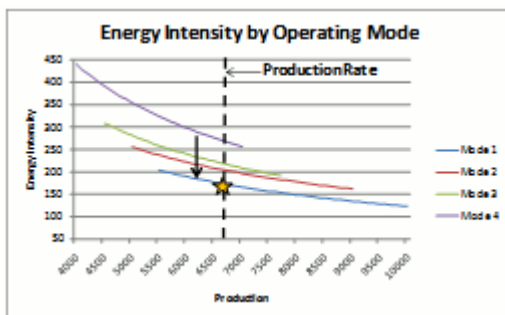
For the third installment of our five-part series on the basic principles of problem solving methodologies, we'll tackle Step 3: Analyzing the problem to understand the root cause. In this article, we'll examine what constitutes a complex problem, why having a rigorous process for determining all root causes quickly and easily is imperative, and why it's often prudent to use Variable Analysis for finding the root cause.



[Read the rest of the article](#)

Solving Reducing Energy Intensity: Helping a major energy company reduce greenhouse gas emissions and energy costs

Case Study Spotlight



To reduce its environmental footprint, a multi-billion dollar energy company sets a corporate goal to reduce energy intensity (EI) by an aggressive 10% within 6 years. At the corporation's largest production site, employees have many ideas for reducing EI (defined as units of energy per units of output), many requiring capital investment. However, this complex organization lacks meaningful data on the biggest drivers of energy consumption and does not fully understand what affects those drivers. Without that understanding, the company

has developed a long list of energy initiatives and capital projects, but has struggled to reach alignment on what to work on first. The company will have a tough time achieving the target and predicting the capital and resource costs.

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