



Wilson Perumal & Company's
Vantage Point

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- ***Creating a Culture of Operational Discipline that leads to Operational Excellence:***
Applying lessons from High-Reliability Organizations



As the world becomes more complex, the best companies and leaders are beginning to realize that improving culture is their greatest lever for achieving Operational Excellence. Complex systems require a different kind of culture—one with a specific set of guiding principles. In order to instill these principles in your organization, it is necessary to learn what the current culture is and what people think it ought to be like, establish the guiding principles necessary to be successful, align them to every level of the organization, and develop and sustain them through committed leadership and integration into key management system processes.

Wilson Perumal & Company has a long track record of helping companies in all industries transform their cultures and dramatically improve operational results. In this Vantage Point, we will share the most important lessons we have learned through our research and experience working directly with High-Reliability Organizations (HROs) and our clients as they pursue Operational Excellence.

Why is culture important for achieving Operational Excellence?

The world has changed dramatically over the last two decades. Email, the Internet, and now social media have radically increased the interconnectedness of the world. Globalization has increased competition, forcing companies to expand product portfolios and design increasingly complex manufacturing processes and supply chains. Government regulations have become progressively more active, forcing companies to create new organizations and processes to ensure compliance. All of these changes have dramatically increased

the complexity of the environment in which companies operate and the pace of change continues to accelerate.

Complex systems have several characteristics that make them especially susceptible to high consequence/low probability events. First, complex systems have many interdependent components that do not act in linear or sequential patterns. Second, they have feedback loops that act to amplify reactions. As these interdependent variables are amplified by feedback loops, complex systems begin to exhibit emerging properties causing them to behave in ways that are impossible

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to predict. A perfect example of a complex system can be seen in a flock of birds. A flock has basic rules they follow such as don't run into each other, but the complexity of the interactions makes it almost impossible to predict what the flock will do.



Today organizations look less like this flock of geese, with one goose clearly in charge and the others falling in formation...



...and more like this flock of birds, where no single bird is in control, or even knows which way the flock will go next.

In a complex operating environment, it is important to focus on a principle we call layers of defense. The first layer is equipment design. It is important to design robust equipment, but we can't design perfect pieces of equipment that will never fail. Therefore, we must have the second layer of defense which is rigorous procedures. Procedures are important to tell employees the best way to operate, however, it is impossible to develop procedures that will cover every situation. Thus the final and most important layer of defense is well-trained people and a culture of Operational Discipline. Operational Discipline can be summed up as doing the right thing, the right way, every time.

What kind of culture is required?

The culture of Operational Discipline required in a complex operating environment is a very different culture than many leaders are used to. Traditional command and control structures will not work. Through our research and work with some of the world's pre-eminent HROs, such as the U.S. Navy's Nuclear Propulsion Program, WP&C has identified the following 5 guiding principles that define the culture of Operational Discipline that allows

these organizations to achieve Operational Excellence despite operating in the most complex and high-risk environments.

Integrity: All employees can be relied upon to do what they say and what is expected, whether someone is looking or not. They have the courage to do what is right and hold everyone accountable, including themselves.

Knowledge: All employees understand not just what they do but why they do it. They continually expand their understanding of the systems, processes, and hazards in their workplace. They continually seek greater knowledge, not just of their immediate work area or activity, but also of other areas that interact with theirs.

Formality: All employees follow authorized procedures. They conduct their work as planned. They communicate important information in a disciplined manner. They recognize that there is a right way to perform their tasks, do it that way and expect the same from others. They do not take or tolerate shortcuts.

Questioning Attitude: All employees ask themselves what might go wrong. They anticipate potential problems and are alert to unusual conditions. They don't assume, they verify.

Team Back-up: Given the seriousness of what they do, all employees actively back each other up and value the input of others. They look for what might be wrong in another's area, or what a co-worker might have missed, and expect the same in return. Employees act as 'each other's keeper.'

How do you create this culture of Operational Discipline?

Unfortunately, while many leaders are waking up to the fact that transforming their organization's culture to that of an HRO may be their greatest lever for improving safety, reliability and profitability, they don't know where to start or what the process looks like to create the desired culture. Through our experience working with clients to achieve meaningful and sustainable performance improvements by focusing on culture, WP&C has developed a four-step process for driving cultural transformation. We call this process LEADS and it can be broken into the following steps:

Learn

Before you can develop a plan for cultural transformation, it is important to first measure and create a baseline for where the organization is at and where it wants to move in the future. Skipping this stage results in spending a lot of time working on the wrong things. As anyone who has tried to measure culture will tell you, traditional approaches such as surveys and interviews are fraught with many issues.

In order to overcome these issues, and to help companies with this discovery process, WP&C developed yardstick™, a web-based assessment tool that allows companies to efficiently assess their culture against the characteristics of an HRO, and then empowers leaders with the data and information needed to make the necessary changes. The entire process is automated and respondents can participate on their computer, phone or tablet.

What is an HRO?

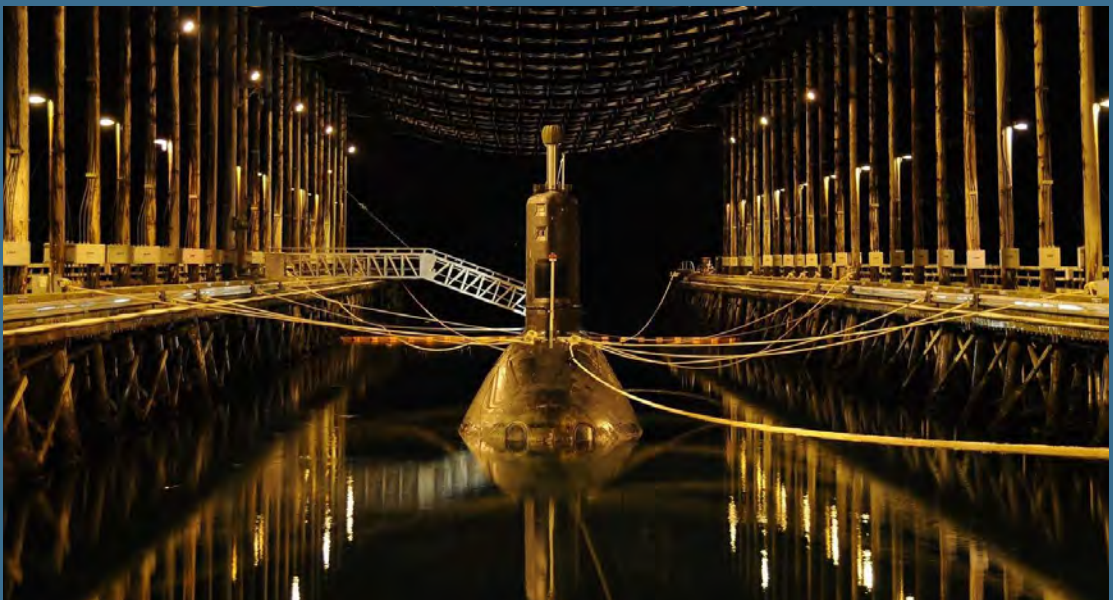
As the environment that companies operate in becomes more complex, high consequence/low probability events are becoming more and more frequent. Disasters of the scale of BP's Deepwater Horizon, the 2008 housing market collapse, the Fukushima Daiichi nuclear reactor meltdown, the West fertilizer plant, and the Takata airbag recall are becoming all too common.

However, a select few organizations have been able to defy this trend. These High-Reliability Organizations (HROs) have been able to demonstrate extraordinary levels of performance even in highly complex operating environments.

An HRO is an organization that has a remarkably low number of mishaps consistently over a sustained period of

time while performing highly complex and inherently hazardous tasks.

The United States Navy Nuclear Power Program is an outstanding example of an HRO. For more than 60 years the U.S. Nuclear Navy has operated more than 150 mobile nuclear reactors onboard submarines and aircraft carriers in remote locations and under dynamic conditions. They have crews with an average age of 22 years old and those crews turn over every 3 years. Despite these challenges, the Nuclear Navy has never had a nuclear accident. This is an astonishing record when compared to that of civilian nuclear reactors that are stationary, operated by more experienced employees and not burdened with high personnel turnover.



Vantage Point

Yardstyck™ uses a forced ranking technique that is superior to other culture surveys that may result in bias, while also taking significantly less time to complete than interviews and focus groups.

Establish

Make no mistake, creating and sustaining an HRO culture is the role of senior management. Our 5 guiding principles are a great starting point from which to base your company's culture, but you should absolutely make them your own. Many companies make the mistake of having too many principles or behaviors for employees to focus on. We have seen some companies with more than 20. The key is to develop a set of corporate principles that will be meaningful, easy to understand and resonate with employees, and are different from current language used by the organization to signify that the required behaviors are new and different.

Depending on the mindset of senior management, the defining of the principles may need to be preceded by making a case for change to gain alignment that the current culture is not adequate to deliver the desired business performance and commitment to create the needed culture. Data and analysis obtained from a yardstyck™ survey can be a powerful tool in making the case for change.

Align

With the desired culture defined and agreed upon by senior management, the next step is to prepare the organization for change. Before individuals will be open to change, they must first understand why there needs to be a change. Similar tools are needed to accomplish

this objective as those used to help senior management align on the need for change. In addition, a series of town hall style events are usually necessary to inform employees on the rationale for change. The key difference between these sessions and the sessions conducted with the senior leaders is that the case studies and workshops will need to be tailored to the desired culture that has been defined by senior management. Senior leaders will also need to take an active role introducing the defined culture to the rest of the company. Once employees are aware of and understand the need for change, they must comprehend their specific responsibilities for the new principles and senior leaders' expectations for how they should live out those principles. To accomplish this objective, role specific training is needed. However, helping employees internalize the new principles requires a deeper understanding than employees typically gain from presentations, instructor-led or computer-based training, posters, pamphlets and other messaging tools. While those tools are appropriate for efficiently creating a base level of awareness, they are not sufficient for helping employees translate the principles to specific behaviors in their daily tasks. To achieve this we use a process called VITAL (Values Internalization Translation Awareness and Learning). During the VITAL process, leaders guide their employees through the development of role description sheets that translate the principles to their specific roles. This not only aids employees in understanding and internalizing how the principles apply to their day-to-day work, but it creates strong alignment between leaders and their employees regarding acceptable behaviors.



The Problem with Traditional Surveys

Companies will often use surveys to gauge employee attitudes and measure culture. Likert scales are one of the most popular types of rating scales used in research studies and surveys. We've all participated in them before. A statement is presented and the participant is asked where they fall on a scale of agreement from strongly disagree to strongly agree.

While using the Likert scale on surveys can provide helpful insight on general opinions and attitudes, it is susceptible to the central tendency bias because participants are unlikely to choose extreme answers on either end. This is why many surveys lead to middle of the road results. Moreover, these middle of the road results provide no distinction between attributes.

A better way to distinguish between attributes is to use forced-ranking in surveys. In a forced-ranking respondents must rank attributes on a scale, and they must fill up all slots on the scale to complete the survey. Yardstick™ uses this approach which gives companies a better sense of whether change is needed and, if so, which areas to focus on.

Develop & Sustain

The final and most often overlooked step in driving sustainable culture change is integrating cultural and behavioral expectations into management processes. While creating a compelling case for change and teaching employees about the desired culture are critical steps, no lasting change will occur unless the systems and processes that reward and discourage behaviors are aligned to the new behaviors defined by the organization.

Delivering Results

WP&C has a track record of helping companies transform their culture to reduce incidents by +70% and improve profitability by +\$200 million in less than a year. Our yardstyck™ process is the first step in developing a plan for transforming organizational culture. Once you have established the baseline and defined your target culture, we can help you embed it in every level of your organization through our LEADS process. Finally, we will ensure your cultural transformation is sustainable by integrating it into every aspect of your management system. To learn more visit www.yardstyck.com or contact us at contact@wilsonperumal.com.

What is Yardstyck™?



Yardstyck™ is a web-based tool that allows companies to efficiently assess their culture against the cultural characteristics of an HRO and then empowers leaders with the tools to make the necessary changes. The entire process is automated and respondents can participate on their computer, phone or tablet.

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How Does Yardstick Work?

The first step of the process solicits employees to respond to a survey, providing data and insights into how employees describe the current culture based on 40 different indicators. Yardstick™ provides a baseline that future progress can be measured against.

Next participants describe the target culture. This helps leaders understand what employees want the culture to be like, the degree of alignment and the size of the gap between current and target.

We have conducted yardstick™ assessments with HRO organizations like the U.S. Nuclear Submarine Force, allowing us to provide organizations with a third view that our competitors can't. Upon completion of the current and target culture surveys, your company's results are compared against those of an HRO.

Our force ranking technique allows leaders to know which areas to focus on and to celebrate areas that are going well. Leaders can also view results grouped by any chosen demographic group. For example, yardstick™ can show how perceptions

of culture vary by level in the organization (such as senior leaders, managers, and front-line operators).

In addition to the yardstick™ assessment reports, we routinely conduct follow-up focus groups and workshops with clients to further diagnose issues. These sessions allow us to develop a detailed plan to help companies close the culture gap.



Top 5 characteristics that Operators wanted to see more of:

Characteristic	Operators		Senior Leaders	
	Current Rank	Target Rank	Current Rank	Target Rank
Bring solutions not problems.	26	3	8	5
Focus on the positive.	37	14	21	21
People mind their business.	40	20	37	36
Help others to grow & develop.	24	1	3	1
People rarely frustrated.	23	2	3	3

Top 5 characteristics that Operators wanted to see less of:

Characteristic	Operators		Senior Leaders	
	Current Rank	Target Rank	Current Rank	Target Rank
Stay Busy	3	47	30	27
Work long hours	3	40	15	28
Cover the mistakes of others	18	19	36	19
Compete with peers	12	34	33	30
Do whatever it takes	10	27	31	35

CASE STUDY

Driving Cultural Transformation at a Major Refiner

We recently followed up with one of our clients who saw a \$200 million improvement in profitability due to cultural transformation guided by our principles of Operational Discipline to ask them some questions on the keys to their success and advice for other companies on a similar journey.

WP&C: Why is it that businesses need to change in the first place?

Client: Usually the case for change comes from a company's metrics. They have indicators in their business that say, "We need to change, and if we don't change, we will not survive." Your culture is how you deal with those things. While you can't always define what the problem will be, your culture should be robust enough that no matter what comes up you have behaviors, expectations and values in place to deal with it.

WP&C: How should you get started?

Client: Before you can start you have to take a leap of faith. For every one of us, when you go to work you follow your systems, procedures and processes. That could be defined as what you do. The leap of faith is that, when redefining your culture, you need to look closely at how you do it.

To us, the "how you do it" is your culture. Then you must define your culture. We used the 5 Guiding Principles as a starting point and asked ourselves if everyone in the company behaved consistently with these principles would that make us successful. The answer was yes, but we tailored the language of the principles to fit our workforce.

WP&C: Once you've defined your culture, how do you live it and sustain it?

Client: The first thing you have to do when you decide on the behaviors or principles that are important to you is define them so there is a common understanding of what each one means. So to implement the behaviors, you need to think about your workforce. There's an old saying that says "if you treat people like they are, they stay like they are, but if you treat people like what you want them to become, that's what they'll become. If you challenge your workforce to approach every problem with the behaviors in mind they become value-adders. The behaviors apply at every level of the organization from the CEO to the entry-level operator. One of the biggest challenges in changing your company culture is sustaining the change. The behaviors must be integrated into your management system process from hiring to performance reviews and promotions.

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About Wilson Perumal & Company:

Wilson Perumal & Company is a premier management consulting firm and the leading advisor on how to manage and capitalize upon the complexity of today's world. To learn more, visit www.wilsonperumal.com.

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