OLIVER WYMAN

Delta

The Ownership Culture

Expanding cost management from an event to a mindset

Executive Summary

Each day's headlines bring further confirmation of what business leaders already know. The current recession is real, it is deep, and it probably isn't going away any time soon. Every company – regardless of industry or geography – must pare spending, match capacity to demand, and defer any expenditures that don't demonstrably help the balance sheet, profitability, or growth.

The problem is that draconian cost-cutting as an immediate response to a crisis rarely achieves the desired results. Some studies suggest that fewer than half these initiatives actually meet their goals. And for all the organizational upheaval these efforts cause, the positive impact tends to be short-lived, because an institution's spending habits are deeply engrained and resistant to change.

Moreover, no organization can operate indefinitely in crisis mode; as normalcy returns, so too do the traditional attitudes toward spending. Expenses that might have seemed excessive at the height of a crisis somehow seem quite reasonable once the crisis has subsided. Positions previously deemed redundant quietly slip back onto the payroll – a phenomenon commonly known as "headcount creep." And after a while, the expense approval requirements and strict oversight imposed during a crisis come to be viewed as overly bureaucratic, inefficient, and disempowering.

At the risk of oversimplifying, it's just like dieting. Just as 95 percent of dieters struggle to lose the same 10 or 15 pounds over and over – often undermining their overall health in the process – companies eliminate the same jobs and expenses time after time, further disrupting customer focus and eroding employee loyalty with every new round of cuts. Just as doctors tell patients that the only way to drop weight and keep it off is through basic changes in lifestyle, the same holds true for organizations. The only way to permanently change the organization's spending profile is by taking deliberate steps to instill a cost-conscious culture in which everyone shares a zealous determination to root out – and keep out – every instance of wasteful expense.

The hallmark of a cost-conscious culture is when the statement "Our employees spend the company's money as if it were their own" is an accurate description, not a slogan. That sense of ownership is found most often in small, entrepreneurial companies where people do, in fact, have a personal financial stake in the business' performance. It is much harder to create a similar line of sight between personal and corporate performance in a big company employing thousands, even tens of thousands, of people. When executives you've never met make $10 million bonuses for reasons you don't understand, it's hard to feel guilty about booking yourself into first class instead of coach.

That gap in connecting personal actions with corporate consequences is endemic to large public companies. Compare it with the culture of private equity companies, where every penny every employee spends is literally a penny out of their own pocket. Not long ago, we joined two employees of one of the largest private equity firms for lunch while on assignment at one of their portfolio companies. These two incredibly successful men, who could have chosen any restaurant they wanted in this upscale suburb, took us to their preferred expense account dining spot: the Subway restaurant inside a Wal-Mart. They just couldn't imagine charging the company a dime more than necessary for lunch, because a chunk of their compensation – and that of their colleagues – was determined by the portfolio company's financial performance. It just wouldn't have occurred to them to run up a big tab for a business lunch when they could get by on a tuna sub and a Coke.

That is the ultimate cost-conscious culture – the "ownership culture." The question is how to recreate some reasonable semblance of that culture in the thousands of companies in which ownership is either tightly centralized within a very small group of shareholders or broadly diffused through employee stock ownership programs, where the relationship between company spending and share price is rarely direct or significant. The challenge is difficult; it takes time, hard work, and a concerted, consistent effort across top management. But the potential payoff is immense.

Building the Ownership Culture

A true "ownership culture" is one where employees feel a substantial, personal stake in the company's performance. It creates a situation in which behavior is guided more by values than by rules; even when "nobody is watching," people treat each spending decision as if they were, in fact, the owner. They see a clear line of sight between their individual actions and the cumulative impact to the bottom line – and to their own rewards. In other words, they see their own decisions as integral to the firm's failure or success. Ideally, cost-consciousness becomes, in the end, an organizational capability and a shared mindset, rather than a bunch of rules that are resented and resisted.

In our work with a wide range of complex global companies across all major industries and sectors, we have observed some incredibly frugal cultures as well as some that epitomize the kind of corporate excess that has fueled an outpouring of public disgust. Comparing and contrasting both types, we believe there is a rather simple way to describe the company culture most leaders would say they aspire to build.

Being clear about the culture you want to build, and understanding the specific behavior it entails, is a critical first step – but only a first step. The hard part is changing whatever culture you have today – transforming it to one where prudent expense management is not something that surfaces every two years during a RIF, but rather is part of the normal rhythm of work life.

We believe there are four primary levers available to senior leaders when it comes to transforming culture in meaningful ways: defining the new culture and the values and behavior associated with it; rethinking the ways in which the organization performs its work; redesigning the structures, processes, and practices to carry out that work; and engaging and motivating people to change their behavior in fundamental ways.

These four particular levers were selected for a reason – they represent the four fundamental components of any organization, large or small:

- ***Informal Organization*** – the values, beliefs, relationships, and behavioral norms that influence how people get things done and deal with each other – sometimes referred to as "culture"
- ***People*** – the capabilities and characteristics of individuals within the organization and their leaders
- ***Formal Organization*** – the structures, processes, and practices put into place to guide how work gets done
- ***Work*** – the basic and inherent work to be performed by the organization

The Ownership Culture: Attributes and Actions

Cultural Characteristics	Manifested in how people…
Outrage at excess	…react to what they perceive as unnecessary spending – the degree to which people speak up and question or challenge where money is being spent
Wise choices	…make trade-off decisions regarding where to spend, and the degree to which the rationale is made transparent to others (e.g., we are increasing the travel allowance for salespeople in order to focus on growth in a high-potential region)
Needs of the company come first	…view and manage their annual budget (e.g., it is not "theirs," and just because they have one doesn't mean they need to use it all)
Economical behavior	…personally spend the company's resources on themselves (e.g., do you automatically need to accept two assistants when becoming a division CEO?)
ROI mentality	...think about spending time and resources (e.g., start with the customer/client and work back from there so that the biggest investments are made in areas that directly affect revenue or margin)
Swift and clear sanctions	…deal with others' excessive spending (e.g., refuse to sign off on t&e submissions that are outside policy guidelines or indicate excessive spending)
Hunt for greater leverage	…maximize every dollar spent by looking for ways to get greater impact and return
Investment in the future	…view and manage the cycle of save-to-invest (e.g., remove the bottom 5 percent of performers continually in order to upgrade talent; consciously and transparently manage the flow of dollars so savings fall not only to the bottom line but are clearly and explicitly designated for reinvestment)
Personal accountability	…feel about their role in relation to the company's bottom line – what they personally step up to do differently that has an impact on profit

The effectiveness of any organization depends upon the degree of fit among these four components and how closely they match the requirements of the organization's strategy. The closer the fit – or "congruence" – the better the performance. The tricky part is that a major change in any component raises the likelihood of disruption and poor fit; for example, you can't dramatically change the work requirements without somehow changing the capabilities of the workforce, either through recruitment or reeducation. Doing different work will likely require a reconfiguration of roles, responsibilities, and groupings of activities. Finally, the new work might well require different behaviors in terms of attitudes toward speed, performance, accountability, collegiality, customer focus, and so forth.

In short, no organizational change takes place in a vacuum; there is an inherent interdependence that makes it essential to work all of the available levers, and to work them in concert. That is particularly true of culture change.

With that in mind, we propose these four levers – targeted opportunities for interventions – for creating a deeply engrained and long-lasting "ownership culture."

Articulating the Culture

1. Define and communicate the ownership culture you want to create.

Link the "ownership" values, attributes, and supporting behaviors to the organization's vision, and educate employees about what cost-consciousness actually means. Specifically, help them to differentiate between "good" and "bad" costs – those costs that might seem "wasteful" in one context but could be absolutely "critical" in another (e.g., car allowances for salespeople versus car allowances for executives who rarely, if ever, use their cars to generate business). A basic rule of thumb is to determine which costs yield a strong ROI, and which don't.

2. Assess the gap between the culture you have and the culture you want.

Identify the barriers that stand in the way of creating the new culture. Understand the varying degrees of openness to change that might be found among different businesses and functions. Based on the data, develop an implementation strategy that allows you to accumulate victories, build on success, and create a critical mass of support before taking on the more deeply entrenched opponents.

Engaging and Motivating People

1. Align and focus leadership behavior – act as role models by taking both real and symbolic actions.

Articulating the culture is essential, but words alone are not enough; leaders must personally model cost-conscious behavior in very visible ways. Specifically, they must demonstrate that they are willing to "walk the talk," thereby dispelling the skepticism – so prevalent in so many companies today – that cost-reduction is something the top tells the middle to do to the bottom. For reasons that are all too legitimate, employees assume that the pain of cost-cutting will be borne disproportionately by the "rank and file." You can't expect employees to scrupulously count every penny they spend when they know the boss is flying around the country on a lavishly appointed private jet stocked with vintage wines to accompany gourmet meals served on the finest china.

At many companies, the toughest challenge lies in changing deeply embedded management practices that contribute to unnecessary costs. Cultural entitlements may involve travel, leased autos, luxurious offices, and unnecessary support staff (at some companies, it's not unusual for executives reaching a certain level to be automatically assigned two administrative assistants – as though now they would be working twice as hard as they were one level down). These perks must be identified, actively managed, and where appropriate, scaled back or eliminated.

2. Engage people in identifying cost-cutting opportunities.

Front-line employees are often best positioned to assess what expenses can be cut and what processes can be streamlined without compromising quality or client satisfaction. By engaging people from across the organization in identifying and designing cost-cutting opportunities and efforts, organizations benefit not only from richer ideas, but also from broader endorsement and understanding about the source and intent of cost-cutting efforts.

At a large pharmaceutical company, an Administrative Assistants' team was chartered and charged with identifying cost-cutting ideas related to their day-to-day tasks. The team came up with dozens of cost-management tools and methods, from creating an online auction for surplus office supplies to streamlining the number of types of pens the company ordered – and then negotiating a preferred rate from a single online vendor. Eventually, they launched an online portal featuring these and other cost-management tools and methods to help administrative assistants minimize the costs associated with their daily tasks.

A major benefit of engaging front-line employees at the individual level is that the actions and endorsements of key opinion leaders can generate broad-based support for cost-management efforts far beyond what any corporate-sponsored effort can achieve. These influential employees have high credibility, and if they can be convinced of the virtues and benefits of cost management, then they will help spread the new culture.

Redesigning the Structures, Processes, and Practices

1. Streamline the organization by expanding spans of control and reducing layers of management.

This is an inevitable trend underway in most companies as we head into serious belt-tightening mode. But more than simply restructuring, leaders must establish a set of rules for changing organization designs in the future. These rules can range from a basic guideline concerning the appropriate number of direct reports (i.e., there must be more than seven to add a layer of management) to requiring a formal review by a standing body of any proposed organizational changes involving the addition of new roles.

2. Align critical systems to reinforce the ownership mentality, rewarding and appropriately compensating behavior that supports the culture and sanctioning performance that doesn't.

Managers should align goal-setting and performance management systems with cost-cutting objectives. Other management practices – including clear approval processes for projects and budgets over a certain size, rules about hiring new staff, travel and entertainment policies, and the like – can help institutionalize a cost-conscious culture.

Numerous companies have instituted profit-sharing and employee ownership programs that give the workforce a personal stake in the company's success. Bonus plans can be weighted to allocate each individual's compensation for both personal and organizational performance. At Wal-Mart, the company's profit-sharing plan seems to be a driving force behind employee frugality. According to senior executives, cost-control at Wal-Mart has become like an extreme sport where employees willingly engage in behaviors that support cost-management goals. Employees even take out their own trash rather than pay a cleaning service.

Rethinking the Way Work Gets Done

1. Simplify work and eliminate activity that adds no value.

This is far easier said than done; nonetheless, it is central to weeding out deeply rooted but unnecessary costs. Every organization with more than two people creates policies, systems, and ways of operating that quickly become embedded norms. Before long, hardly anyone stops to ask, "Why do we do it this way? Isn't there an easier, faster, smarter way to do it?" As time passes, individual roles, new functions, and even entire businesses are bolted onto the original company, inexorably expanding organizational complexity in terms of how information is shared, decisions are made, and work gets done.

One way to address this and move toward an "ownership culture" is to assign teams – within units and across functions – to ferret out practices and procedures that complicate work or slow it down, and then challenge them to find better ways to get the work done. This approach can often be just as effective as large, expensive reengineering efforts, which tend to focus too heavily on restructuring and too little on changing employees' attitudes and actual work. Employee attitudes and non-value-added work are closely related; rote tasks, unnecessary activity, fragmented responsibilities, and superfluous approval requirements all undermine an "ownership culture." It is both vital and viable to nurture an entrepreneurial environment in which people don't think twice about pitching in to do whatever is required to get the job done.

2. Give people the information they need to make a direct connection between their individual decisions and the organization's performance.

With more transparency around cost drivers and a stronger understanding of how the economics flow through the business, people are better equipped to make intelligent choices about how best to spend the company's money. Management skeptics notwithstanding, few people willfully spend company money irresponsibly. By and large, money is wasted through ignorance, not malevolence. Rather than dealing with the problem by imposing restrictive and elaborate spending policies, management's time and effort is better spent in providing people with the knowledge they need to make the right choices.

Think about it – when people see what they believe is an unnecessary policy that limits what used to be a discretionary decision, many will either fight the policy or find ways to get around it. The "poster child" for this kind of policy involves the use of preferred airlines for business travel. Not fully understanding the economic rationale for flying with preferred airlines, many people see the disparity between their "approved" ticket and the lower fares offered online by discount vendors, and they become cynical about the company's dedication to reducing expenses. As one of our clients recently said, "Don't spend time trying to change me – just give me the information I need so that I can make good choices."

Another of our clients recently did just that, providing its people with "the big picture" regarding small, routine shipping expenses. They explained that people were regularly spending an extra $10 to $15 for "overnight" versus "standard" deliveries when, in fact, there was a negligible difference in actual delivery times. Those little decisions added up to around $1 million the company was spending annually for no obvious return. Once people understood the implications of their everyday decisions, there was no need for a new "shipping policy"; armed with the necessary information, they easily made the right call.

In another case, one of our CEO clients developed a simple and straightforward set of slides to show concretely how one dollar of savings flowed through the system and resulted in stronger company performance. This created an "aha" moment for managers, as they could directly see how curbing unnecessary expenses translated into company financials that benefited them personally.

Conclusion

If you could wave a magic wand and instantly create an "ownership culture" in your company today, would you? Of course. Would your organization be the better for it? Definitely. But there are no magic wands, particularly when it comes to culture change. So we conclude on a realistic note of caution, with a few points to keep in mind:

1. Do not embark upon this kind of culture change unless you truly have the stomach for it. You can't go halfway and then give up; any perceived lack of resolve will erode your credibility, energize opposition, fuel cynicism, and undermine any success you might already have enjoyed – and the next time you expound on the importance of cost discipline, no one will be listening.

2. Do not underestimate the resistance you will encounter. Culture change is difficult under the best conditions. In this instance, you are talking about a change that targets managers throughout the company and threatens to strip them of people, perks, power – or, in some cases, all three. That is a dangerous scenario; you are challenging the perceived self-interest of powerful and influential people while at the same time imposing greater discipline, sacrifice, and accountability. Don't expect people to give up without a fight.

3. The active, personal involvement of the CEO, as well as each member of the senior team, is essential to effecting a change of this magnitude. They must be zealous leaders of the push for change, providing personal visibility and tangible support. They must speak with clarity and consistency, and they must demonstrate to the rest of the organization that they are acting as one.

4. As you begin the effort, understand that culture change is a marathon, not a sprint. It takes time, hard work, and patience. Long-term change does not result from short-term programs. This is about effective organizational leadership: creating a compelling vision of a better future, devising a workable plan to get there, empowering people to get the job done, and helping them to persevere when the going gets rough. And all of that takes time.

The trick, of course, is simultaneously building the "ownership culture" of tomorrow while scrambling to make essential cost reductions today. The good news is that the two are not mutually exclusive. To the contrary, placing today's actions in the larger context of how the company needs to change its expense behavior in the long run provides a meaningful perspective and a much-needed strategic approach to the difficult work we all face in this challenging period.

Keys to cultivating ownership culture

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About Oliver Wyman Delta

Oliver Wyman is an international management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational change and transformation, and leadership development.

Oliver Wyman Delta works with CEOs, executive teams, boards, and other senior executives, in the design and implementation of large scale, transformational change with impact across the enterprise. We help leaders increase their individual effectiveness, teams improve their collective performance, and organizations achieve their strategic objectives.

We bring our deep understanding of the leadership challenges at the top of the organization and proven approaches to:

- Maximize CEO and senior executive effectiveness
- Enhance senior team performance
- Build an engaged and high-performing Board of Directors
- Manage executive talent and CEO succession
- Redesign organizational structures and processes
- Manage the dynamics of change
- Develop and implement new strategies
- Shape a culture consistent with your strategy
- Use communications to engage and mobilize
- Apply metrics to measure performance and impact

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