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Session 44 PD

Building a Winning Culture

Track: Management and Personal Development

Moderator: Alan J. Sheptin

Panelists: David S. Duncan
R. Thomas Herget

Summary: Between leadership changes, market shifts and restructuring, what does it take to really succeed in today's environment? Will your company be in the same business tomorrow? Are you positioned for success regardless of inevitable changes, or are you barely surviving today?

Participants in this session gain an understanding of the relationship between culture, high-performance teams, successful outcomes and personal success; discuss the importance of a winning culture in the recruitment and retention of top talent; become aware of how practices in successful sports franchises can be implemented in your department and company; discover more about the psychological and emotional benefits of "winning" and how it benefits all stakeholders in your company; and gain an understanding of how mergers, acquisitions and restructuring are doomed to failure when cultural issues are ignored.

MR. ALAN J. SHEPTIN: These presentations will be focusing on the importance of common themes of winning cultures.

David Duncan is an FSA and is vice president, group, at Kansas City Life Insurance Co., in Kansas City, Mo. He is a member of several SOA sections: Actuary of the Future, Futurism, Health and Management, and Personal Development.

Note: The chart(s) referred to in the text can be found at the end of the manuscript.

Tom Herget is the consulting executive vice president of PolySystems Inc., in Chicago. His focus is life insurance. He's on the Board of Governors and was formerly the chairperson of the Financial Reporting Section. Tom will primarily focus on differences in corporate culture.

I have a couple of questions to warm everybody up. Let's see a show of hands of how many have never interviewed for another job or switched jobs during your career? How many of you have been victims of being acquired by another organization or are the acquiree of another company? How many of you ever had your company switch from corporate dress to casual dress and back and forth? All of you have been involved in a change of culture or an adaptation of a new culture.

MR. DAVID S. DUNCAN: I like the fact that one of your questions, Alan, had the word "victim" in it. How many of you have been a victim of an acquisition? That starts to tell part of the story that we're talking about this morning.

I've been an actuary for 27 years. I've been with small insurance companies, large insurance companies and consulting firms. I found over the years that success in organizations is not always related to the amount of capital you have on hand; it is not necessarily a function of whether you are in an acquiring company or a company that has been acquired. I've seen throughout that culture is an important driver in a company's overall success. I've seen cultures that have been successful, and I've seen cultures that have been absolutely disastrous.

Tom and I were talking about this at the head of the meeting this morning, and Tom said, "This is one of the first sessions I've done that's a soft session." This means we're getting almost into art forms as well as anything. There's also a significant amount of science that's being added to the art form to talk about how issues such as profitability and business success are tied to the soft issues in an organization. Culture is the glue that tends to hold it all together. My goal is to not listen to myself ramble, but rather to meet the needs of everybody here. The goal is not to waste your time, but to help you to add value to your businesses.

Alan asked some questions this morning, but I want to ask one. How many of you are in a management position? Maybe 90 percent or 95 percent of you are. You are building and shaping a culture whether you know it or not. Your own success as you move through management ranks is not always related to your own ability, but it's related to how you're leveraging other people's abilities, too. Your success is determined not by your own abilities, but by how you leverage the successes of people around you. If you grasp the importance of culture, you can influence it, shape it and add more value in your company. I think the heart of our actuarial profession is finding ways to add value.

I have some information from a 2002 SOA survey that talks about employers' views of actuaries, the importance for executive positions, and where they see actuaries rating within those positions. The important skills are financial, business leadership and thought leadership, and actuaries have low ratings from employers in those areas. Employers want business-savvy skills, business acumen, business communication, self-development, relating to others, personal courage and leading people. Businesses are looking for people to help to lead in this regard. This is a great opportunity for actuaries to do this.

Leadership is not always about technical skills. In the *Harvard Business Review* there was an article called "Inside the Mind of a Leader," and it talked about the leaders leading not only by facts, but also by feel. We've all read or seen books on emotional quotient and emotional intelligence and know the importance of recruiting, listening skills, mentoring, psychological profiling and several other things. Building a winning culture is important.

Every company, every organization, every team, every family and every sports team has a certain culture. What is a culture? If we look at Merriam-Webster's, its attitudes, values, goals and practices. If the issue of culture were not all that important, we wouldn't have articles on the 100 best places to work.

I want to ask you questions about cultures this morning not as a warm up, but to get some feedback. From your perspective, are all cultures good? We had a discussion about this in our working group before we came to the session. Are all cultures good from your perspective? I'm getting some head nods. Does anybody want to volunteer a comment on how some are not good? Let's suffice it to say that not all cultures are good. Are some cultures bad? I saw a big head nod on that. Are some cultures better? The answer is yes; some cultures are better than others are. How important is winning? I want to hear about this, too. Because we're talking about a winning culture, how important is winning? Why is that important from your perspective?

FROM THE FLOOR: Energy.

FROM THE FLOOR: A feeling that it's worth it.

FROM THE FLOOR: Hired to do, hired to win.

MR. DUNCAN: If winning isn't that important, you probably wouldn't have anybody following the NBA. You probably wouldn't have guys like Karl Malone and Gary Payton going to the Lakers at the end of their careers and with salary reductions. Winning becomes important. Otherwise, why would players play hurt? If winning is not important, why do some of your employees show up on some days when others would not show up? Winning becomes important in the grand scheme of things.

How important is the process of winning itself? Is winning at all costs important? I've been with companies where winning is important at all costs. I've been with other companies where winning is important, but the process of winning and of how they're getting there is important, too. It may be more important than winning. How important is the process of winning as well as winning itself?

MR. DUNCAN: I think most of you are in here because you already believe in winning cultures, so a little bit of this is probably redundant for the audience. If it weren't that important, if we wouldn't have *Fortune* magazine year in and year out talk about the 100 best companies to work for. Why are some companies better to work for than other companies? It has to do with certain things related to their cultures.

What is the importance of a winning culture? There are three main reasons why it's important to have a winning culture. The first is the war for talent. It's an interesting environment we live in today in that we're in an employment-at-will culture. Anybody who wants to get up and leave at anytime can. If most of you have interviewed for another job or changed jobs at some point in your careers, you know that all of us have value to add. If we're not happy where we are, we can get up and go home.

My dream someday is to do it in a Forrest Gump way. You know how he's running across the country back and forth and then gathers this big flock around him? At some point, he stops and says, "I'm tired. I'm going home now." That's my dream. Someday I'm going to leave my Franklin planner on my desk, leave my computer on and say, "I'm tired. I'm going home now. " Because we have employment-at-will and a free-agency economy, it's important to know that people are not captive and can leave at any time.

I live in Kansas City, and Carlos Beltran plays center field for the Royals. Carlos is at the top of the list of players who may be traded about this time of year. Carlos says, "An offer some place else may well be attractive to me, but it could be a function of how well I think the Royals are doing at the time and how well I like it there." The culture is going to drive Carlos's decision.

Talent drives business success. You have to have a winning culture to get talent. Second, without talent there is no business success. If there is no business success, there is no personal success. Winning culture is important for all three of these and, in the end, for your personal success.

I think Alan asked this question, but I'll ask it again. How many of you have been involved in merger and acquisition (M&A) activities, either working for a company that has acquired or has been acquired? How many have not? Fewer than 10. If you haven't, you will be.

Here's the case for survival. These are M&A deals that have happened in life, health and managed care. These are not brokerage firms. These are life insurance companies, health insurance companies and managed care firms. I could think of a couple off the top of my head. When I saw these statistics and thought it could be St. Paul Travelers, Money Group, AXA, Equitable before it became AXA, Hancock, Great-West, General American, Canada Life, Guaranteed Life, Prudential, UnitedHealthcare, Oxford, Mutual Benefit, Liberty Mutual, AUL, United Central, American States, Conseco and Cigna, to name a few. These are companies that I can name off the top of my head, and it's a constantly changing industry. If it hasn't happened, it's something that will happen. We all will have to deal with either dealing with the new culture in a company that we have acquired or being part of an organization where the company has changed.

I have some M&A statistics, but Tom's going to talk a lot about M&A. A stream of studies has shown that corporate mergers have higher failure rates than liaisons of Hollywood stars. This came from *The Economist*. I thought that was an interesting quote. Seventy percent of mergers do not add value to shareholders in the end. It's a high number, and typically those failures are rooted in one of two causes. The first is lousy due diligence. The second is the lack of or inadequate attention to the people side of the transaction. This came from a recent edition of the *Marsh Risk Alert*.

As actuaries get involved in M&A work, and I'm not sure how many of you have done that, you'll find that few people are spending time on the people side of the equation. Given that it's half the gain, it's interesting that few people are participating in those discussions. We will do the financial due diligence and such activities as looking at the numbers, but few people are paying attention to that people side of the equation. I think this is an excellent opportunity for actuaries who are developing their soft skills to add value to the organization, and it's what chief executives are looking for in their senior staff.

Aon Consulting has issued a work-force commitment report. It said, "Successful organizations will be those that adopt a new way of thinking that treats employees with the same care and sense of urgency applied to investors and customers." It also said in this report, "Successful leaders will restore employee trust, create spirit and pride and build employee commitment by creating an energizing work environment that nurtures, involves and develops people."

Dick Vermeil, a football coach for the Kansas City Chiefs, came to Kansas City a couple of years ago. I had the good fortune of being in St. Louis when Dick was the football coach there. When he took the Rams to the Super Bowl in 1999, it was a fantastic year. I watched Dick Vermeil, who's my personal hero, and I get emotional sometimes. I'm known to cry at employee meetings every once in while. I'm a tender actuary. Dick Vermeil is known to get so emotional. He embraces players, hugs them and cries. I watched Dick Vermeil in St. Louis with the Rams and then with the Kansas City Chiefs when he came to Kansas City. I remember taking my wife and my parents to a football game, and I was sitting there thinking, "This is a winning culture. What are the elements of a winning culture?" I wrote down about 20 things that I saw that made that program successful in Kansas City, as well as in St. Louis.

There were some that I thought were major items and some that I thought were minor items. The first is important: It begins and ends with others first. In a winning culture you don't start with the bottom line trying to make money for your company. You start someplace else, and I believe you start with people first. If you meet the needs of other people, I believe there's a good chance that they will meet yours as well. Meet the needs of the other people first.

The second item is the serious business of winning. To have a winning culture, you have to get serious about winning. Are there any Red Sox fans here? Is winning important? Are there any Cubs fans? Who was the guy last year who caught the ball and interfered and was found in that little spider hole like Saddam Hussein? Winning is not that important. Please talk to Red Sox or Cubs fans, and they will tell you all about it.

The third is speed and passion. Speed, energy and passion are important elements in a winning culture. I bother my HR department when I do this, but I use three criteria for hiring people. The first is I want to know how they balance their checkbooks. Do they do it once a month? Some people do it everyday. Is it within a few hundred dollars? Is it close enough? Is it to the penny? However they take care of their business will be how they take care of mine. I have a checkbook test.

My second test is what kind of a heart do they have? Do they get emotional about things? I say, "Tell me about your current line of work. Do you like what you're doing?" "Yes, it's something I enjoy. I can't wait to get up in the morning and charge right in there. I get there every day right on time."

I have something that has to do with speed. In general, if you don't have small ankles, it's OK, but if you do, it's a big thing with me. I had my feet up on my desk one day, and a woman who works for me walked in and said, "When you were younger, were you fast?" I said, "What type of question is this? Yes, I was reasonably fast, but I never ran track or anything. Why do you ask?" She said, "Because you have small ankles, and I found that small ankles are indicative of people who are fast." I thought, "That's it! It's a hiring criterion. Let me see your ankles, please." I've not been shot down in the HR department yet. I don't recommend that. I think energy, speed and passion are important. Do people care about what they do?

Finally, execution is one of the important things. Are people hitting every tackle, making every block and doing everything they can do? Are they delivering? Are they following through on what you're giving them to do?

There are four other things that I think are important elements of a winning culture. They're not necessarily important to build one, but they are indicative of a healthy and winning culture. Genuine protection and care for one another is the first one. I saw a Dilbert strip and thought, "I've seen this too many times." The comic says, "You're working me too hard. I want to get home in time to kiss my daughter goodnight. I'm not the only one who feels this way." He says, "Look, I've seen your daughter, and I'm fairly certain you're the only one." You need to have a genuine concern for the people who work for you. Their believing that you care about them is important.

Compensation and the reward system have to be aligned in a winning culture. Everybody has to play in that type of a thing. A couple of you sent me e-mails asking me to talk about alignment of compensation. Is it important in a winning culture, and how do you do it? Suffice it to say that it's important to have differentiation and rewards for people and share in the variable compensation.

Continual growth and improvement are front and center in a winning culture. One note I received referred to having a growth culture. Tony Robbins says something like, "If you're green, you'll grow; if you're ripe, you'll rot." If you are someplace and simply are not growing and not learning, you're dying. Whether it's your business or you personally, if you're not constantly trying to grow, you're in the process of dying. If it's true for the bush in the front of your house and for your flowers; it's true for us as people. If something is not growing, it's dying.

Finally, communication is important in a winning culture. In a winning culture, you'll find it's imperative, constant and frequent. Again, it's like a winning baseball team that chatters on the field continually. Anybody who's played any type of sports at all knows there's constant chatter going on. Chatter and communication with an organization are important.

Here are some other elements of a winning culture that I don't consider major: diversity of talent, an embracement of diversity and youthful exuberance. It doesn't mean that everybody has to be young, but there's a youthful learning exuberance. Balance is important. Everything is not always fast; sometimes it's slow. There's a balance within your organization. Ideas come from everywhere. This is important. In my organization I don't know how to do one job that anybody does who works for me. I couldn't even lick the envelopes. I can learn in a couple of weeks, but I know I can't lick the envelopes as well as the envelope licker who works for me. There's not one job out there that I can do as well as anybody. If I want to improve my organization, I need to get all the ideas I can from everybody around me.

Mastery of fundamentals and the ability to improvise are other elements. Think of the Marines and the ability to improvise. Lack of egotism is important. If you know everything, you're not going to build a winning culture. If you think you do, you're going to have a problem. If you have people on your staff who think they know everything, you're going to have a problem. If we all knew everything, we'd have $5 billion and be sitting on a beach in Fiji right now. It's important for all of us to realize we don't know everything. We're constantly trying to learn and push that throughout our organization.

Physical, mental and spiritual attentiveness is necessary. It's a balance again across all of our person. Customer orientation is an element, and the last element is a fun and happy factor. A winning culture would be a fun place to work. For as much time as we spend getting up in the morning, getting dressed, going to the office, driving home, sitting in traffic and eating lunch, if there's no fun in there, people will find something more fun.

By the way, if you have unhappy employees, I don't believe it's possible to have happy customers. I think you have to have happy employees to have happy customers. Somebody who worked for me in St. Louis said she hires based on the happy factor. What is that? It made it into the presentation, and we spend a lot of time talking about it.

I interviewed somebody one time, and in the middle of the interview I stopped and asked, "Are you happy?" She said, "Why do you ask?" I responded, "I don't know. It seems that you're not happy." She said, "I'll be honest with you. I'm on medication. I just went through some depression." Certain things you're allowed to ask, such as, "Are you happy?" I don't know why I asked it, but it seemed that she wasn't that happy.

Does any of this work? A lot of this is feel-good stuff and is artsy, and we say, "It kind of works." My personal experience is that it does work. Putting others first and focusing on everything except the bottom line can increase the bottom line.

In St. Louis we had a book of business that did not increase in size over time. In 1999 when I went there, we had a financial plan of $11 million and made $1 million that year. I don't have the year-by-year breakdown in front of me, but I know we had a financial plan the next year of $11 million and made $17 million. The next year we had a financial plan of $23 million and made $35 million. The next year we had a financial plan of $50 million and made $68 million on the same amount of business. You may ask, "Dave, how did you do it?" I didn't do it. The fact is we leveraged through people, had the right reward systems in place and turned it into a happy, more family-oriented place. I'm not talking about having a "bring your spouse and kids to work day." I'm talking about a place where people genuinely care about each other and want to show up everyday. By doing that, the productivity increased significantly.

In Kansas City, we have our challenges. A couple of days ago, somebody asked, "In Kansas City right now, Dave, do you have a winning culture at the company you're with?" I said, "That's a good question. You caught me off guard." The answer is that we're getting there. Slowly but surely, we're getting there. It's not a process. As you go to build a winning culture, it's not like pricing a new product that may have a time frame. It's something that takes a longer period of time.

In Kansas City we're starting to see some of the results of the company I work for. Last year we had a $500,000 loss through the first three months. This year we have an approximate $500,000 gain. In our company, with only $50 million or $60 million of premiums, that's a big deal. We expect a $2 million or $3 million turnaround this year. We won't turn the entire thing around, but I think we are well on the way to building a successful culture.

How do you build a winning culture? We're talking not only about the elements of it, but about some of the things you can do. The No. 1 thing to do is build trust. A lot of this comes from communication. I would recommend highly that you share your business strategy, that you share business information, and that you share results. Knowledge is power. A lot of times we don't share as much because we somehow want to keep the knowledge. We know it gives us more power. What we want to do is empower the staff around us to build a winning culture, and so the issue of trust is important.

I worked for a company one time that had gone through several layoffs. It changed payroll systems, so there was this general spirit of distrust. It passed out the paychecks one day, and inside the envelope it told you all about it. It printed the information, I kid you not, on pink paper. As the paychecks were being passed out, it was like doing the wave at the stadium. You could hear groans of, "It's my turn."

One part of my enterprise right now is not in good shape. We've had two layoffs that happened before I got there. I had a meeting about a month ago and said, "I know what it's like to come in here every day. You come in and wonder if today is your last day. You wonder if your next paycheck is your last paycheck. I promise you I will never haul you in a conference room and say today is your last day. It's never going to happen. Never with me! If we decide to close this business, I will tell you exactly where we are along the way. We will give you weeks, if not months, of advance notice. It won't be a matter of coming in the conference room, and by the way, the guard is right here. Here's the outplacement guy and the guard, and they will help you. We're not going to have that any place." That's not how you build trust with people.

Have you ever given your cell phone number to anybody and everybody and say, "If you need me for any reason, call me?" I started doing that a couple of years ago, but I've never had a person call me on my cell phone that I didn't care to have call me. By giving people the cell phone number and saying, "I'm accessible to you 24 hours a day, so if you need anything at all, call me," you see that it's the little things you can do to create trust, and that's important.

Encourage change — décor and equipment. Do everything you can around you to encourage all the change you possibly can. Eliminate titles. There's something in Mars, Corning, GE, Disney, UPS and other companies called "universal first naming". A lot of times eliminating titles can help. There's something about layers of management bureaucracy. Somebody came in and gave me some suggestions for how to change the organization last week, and she said, "The title of this person is this, but it means grunt. Then we had this, but it means factory worker."

I'm shuddering over seeing this thing because a lot of times the interpretation of a title can be that type of a thing, too. Do what you can to modify titles of people. The fact of the matter is you can scratch everybody's title in today's economy and replace it with this: "Everybody is a value adder." The only reason we're employed is that the company that's paying our salaries believes that it's going to get more out of us by paying us than what they are paying us, and that's why we're employed. "Value adder" is the most important title of all.

Companies like Southwest Airlines have a successful culture. They don't have vice presidents of human resources and vice presidents of personnel. They have vice president of people. Everything is people-centered.

Another element in building a winning culture is a measurement system. All my managers and supervisors are mad at me right now because last week we completed this. I went to all of the employees and said, "I want you to rate your managers and supervisors on these following things." They did, and sometimes they were brutal. Sometimes they were brutal with me. There were some strong themes. You know how you do certain things and know you shouldn't do them but do them anyway? You say, "It's me. It's my personality." You need a wake-up call from people to say, "You need to stop doing that." You say, "You're right. I know it. It's a reminder."

You may hear other things, and people will tell you something you haven't heard before. I have a survey where my leaders deliver on their promises and commitments, and they can rate them a one to a four, where one is great and four is lousy. Items include the following: My leader is fair and impartial. My leader empowers me to solve issues, which will directly impact me. I sent out 15 questions. If you want to change your culture, you don't just do the things you say you want to do, but you find a way of measuring them. After you measure them, you align your incentive systems to reward people for doing those things. It's a circular process. We may try to do things, but if we don't have the other pieces in place, such as a way to measure them and a way to align, compensate or reward, the reinforcement won't be there to do that.

Somebody asked about the issue of aligning incentives and compensation. Some companies such as General Electric believe in individual incentives. In the Jack Welch book, which is a couple of years old and is called “Jack: Straight from the Gut,” Welch divides people into three groups. There are the stars, the A-players, and he made sure that they get two or three times the raises that the next group of people get. They still get something, too, but they're the 70 percent critical middle group, and then there's 5 percent or 10 percent of the people who have to go. The incentives are aligned on an individual basis.

For any of you who have gone down that path, and I have myself, it's important to have an alignment system that rewards people, but when it comes down to it, can you do it objectively, or is a lot awarded on a subjective basis? If you use that reward system, it has to be objective and you also have to know you're going to make 80 percent of the people mad at you.

There's an increasing body of evidence that talks about variable compensation at a group level instead of at an individual level. Toyota does this.

I have a couple of book recommendations for you. The first is “The Human Equation: Building Profits by Putting People First” by Jeffrey Pfeffer. One chapter talks about aligning compensation systems. Someone in this group sent me a question asking me to give an example of companies with winning cultures. I could spew them here in the next couple of minutes, or I can refer you to this book because it talks not only about company names but also about some of the things they are doing.

The other book is “The Customer Comes Second: Put Your People First and Watch 'em Kick Butt” by Hal Rosenbluth and Diane McFerrin Peters. It talks about things conceptually, whereas the other book gives more detail and some of the how-tos, but it's also a good book.

I sent an e-mail message to several people I know who have gone through company changes and cultural changes and said, "Have any of you ever been involved in what you consider a merger or acquisition or corporate change that's gone from good to bad, or bad to good? Give me an example of it." The person who wrote back to me said this about a culture. First of all, I believe it. I believe all this because I've seen some hard results in the bottom line by focusing on building a winning culture.

A few people responded to me, but I wanted to share this one with you. There are some themes in here for you to realize the difference between a winning culture and a losing culture. "Dave, I'm not sure if this is what you're looking for, but I'll send it to you anyway. When I first joined the company in 1989, it was like joining a family. The atmosphere was one of team membership, but it was made clear to you that everything you did had an effect on our clients and policyholders. Whether your job was that of filming pages of insurance policies or being an executive officer, you had a great feeling of responsibility and took pride in your work."

By the way, this person was in a fairly low-level position.

"This was impressed upon you at your orientation the first month of employment. If you were employed at this one group remote location, the company had a shuttle that took you downtown to the corporate office, and you were given a complete tour, including a visit to the president of the company."

I called this person up this morning and said, "Tell me about the tour to the company president." She said, "The day I started, the company shuttled me downtown. The president had two guys in his office, and I had no idea who they were. He said, 'I need to put you on hold. I have a new employee here.'"

He took the employee, looked out the window and said, "This is our location, and here's some stuff about the city, etc." She said, "From that moment, on I felt like such an important person in the organization and that whoever he was with, I was important to him. Given a complete tour strengthened your feeling of belonging to the team, working together and not being somebody hired to fill a spot. You felt important. You had onsite access to the payroll department and health insurance department. You were encouraged to participate in the company activities such as volleyball day." The company had a thing apparently called "hot dog day." It was some big deal with free hot dogs one day a year. There were activities for families. The entire climate was one of, and this is key, "security, dedication and caring not found in most organizations."

Now here we go. "Within a matter of months after our acquisition in 2000 and possibly the last two years of that experience, the acquisition brought such despair and a total feeling of loss with the downfall of the original company. More than once people repeated that we did not know how well we had it until we took our former company family for granted. The pride of workmanship was greatly deflated [like that doesn't affect the bottom line] and enthusiasm suffered [like that doesn't affect things] to the point of hushed quiet that normally precedes death. These are some of my feelings, and have a great day." At my age, these are sensitive comments.

In our environment, in our industry, the difference between having a winning culture and not sometimes is a difference between life and death in our organization, life and death in our business success, and sometimes life and death in our own personal success. Thank you very much. I'm going to turn this over to Tom.

MR. R. THOMAS HERGET: I'd like to talk to you about adaptation to corporate culture. Usually when I speak, I speak about issues such as accounting pronouncements, international accounting progress and financial accounting standards. I usually follow the more technical items, so this is a little bit of a venture for me talking about the softer side, something more on the art side than on the science side.

I feel compelled, nevertheless, to list my credentials as to why I'm an authoritative speaker about this. I install a lot of systems in the post-purchase environment. Many people are going through dramatic cultural changes. About that time, I get a fair amount of phone calls or faxes talking about job inquiries because of a sudden cultural change. Being a hospitality host suite, when you ask what's new, you hear a lot about cultural changes. The most significant is my participation as an editor of a new SOA textbook on M&A. As Dave pointed out, this is something you'll all be part of if you are not already part of it on an almost every-five-years basis. We have an analysis of why acquisitions fail and succeed. As Dave noted, it has to do with execution and failure to attend to cultural issues. We've been spending a lot of time identifying and dissecting cultural issues.

To start, I had an amazing exposure to a culture change. I've worked in almost every city in the country as a consultant and have been to Europe many times. I thought I knew culture until I went to Japan. Who here has gone to Japan or the Far East? It's a different place. They drive on the wrong side of the street, they walk on the wrong side of the street, and they are too polite. If you ask a question in business environment, they respond with a one-syllable answer. It's called "Hi." It doesn't mean yes, like you might think it would. It means, "I hear you." When you're in a business meeting, you have no clue as to whether they are on your side or not.

When you work in a new cultural environment, it puts you a little bit off guard. We should be happy that we have the same culture here in the United States when we make a shift. Within the business community you'll find many varieties of culture. There are a few differentiators. The first is formality in a business organization. Is your charge to get things done, and you go off and do it yourself, or are you going to be micromanaged? Another is the precision in the work you do. Is something close enough or does it have to be exact and precise?

Are you in a consensus-building environment, or do you take charge and get things done? Do you need to know everything yourself or can you delegate? There are people's individual styles. Employee benefits are often a big indicator of how cultures are different, for example, the richness of plans for health insurance, retirement, life insurance, 401(k) vesting and vacations. There are a lot of indicators of how a culture will be different.

I thought we'd examine some real situations. Because I didn't have any accounting pronouncements to look up or spreadsheets to work on, I contacted several of my friends who have been through recent cultural changes and asked them to share their experiences. I think there are three situations in which we encounter cultural changes. One is personal. It happens to an employee when there's a divorce, a death in the family or a birth in the family. However, we'll address when there's a change in the ownership or a change in key personnel such as your boss, a new president or a line division.

I want to start sharing some discussions with you. This is an interesting situation. A 900-pound gorilla bought a company, and it was in the process of interviewing actuaries to see who would be a survivor. In the new environment the culture was focused on earnings, focused on making earnings. Predicting earnings and making earnings were the most important things. The two corporate actuaries were interviewing a reasonably competent actuary at the new acquisition, and in the first part of lunch, the actuary started to say — and this is true — how valuable stochastic testing is and knowing the range results.

But the two corporate actuaries said, "In our department we're not interested in what could happen. We want to know what's going to happen, why you think it's going to happen, and if it didn't happen, why it didn't." The person nodded his head and unfortunately ignored that comment for the rest of the lunch. He kept going back to stochastic analysis and how great it was, and consequently was cut from the list of people who were going to be retained at the new company. That was one lesson I don't think this person learned. You need to listen and find out what's important in your new environment.

I've seen differences in achievements in targets. Ten years ago, at a sleepy mutual, they might have been monthly goals. You might have 25 goals for the month, and you achieve all 25. You set your targets way too low, but you bat 1,000 percent. If you're reasonably ambitious, you might have 70 targets for the month, and if you achieve 65 that's pretty good. You've set your targets a bit high.
They might set a goal of 100 events. They want to accomplish 100 things this month, and being hard, round-the-clock workers, they might achieve 98 of the 100 goals, which is a lot more than anybody else. My simple example says 28 more than your average ambitious person would achieve. What about those extra 28? Are they remembered? Absolutely not. It's the two you didn't get or the two that were a mistake that are remembered. That's a culture, and you have to adapt to it.

There are varieties in dress code. You can see variations around the country. Twenty years ago, it was a formal business environment. When the softball team played at 5 p.m., finished at 6:30 and came back to the office, they had to change out of their softball uniforms and get back into business formal before they went upstairs. That's the culture.

CNA in Chicago has a dual dress code. Vice presidents and above wear business formal. For women, the clothes aren't that different, but for men it's definitely a sport coat or a suit coat and a tie. Everybody who's a vice president and above wears a suit coat and tie. Anybody who wants to be a vice president had better dress that way, too. The people right below them have figured it out, so they do have an informal dress code, but nobody adheres to it because they all want to appear to be on the way up. I think that's interesting.

I recall visiting an insurance company in Indianapolis, College/University, which is off the radar screen now for different reasons. College focused on college professors. You had to be employed by a college, and it had its underwriting standard set for that type of educational level. They expanded into anybody else working, such as the families of these people and people who weren't in education but worked for a university. It opened a second company on a different floor. If you went to visit them, the people at College were dressed up businesslike. This was 20 years ago. With the people at University, it was as though you were in California.

They were dressed like hippies. The interesting thing was both were different cultures, and I'd say both were winning cultures. They were different, but they were both winning. The reason I think they were winning is because both companies were profitable companies. After thinking hard about this assignment, I'm thinking of a winning culture as one that produces a bottom line as positive and what your owners are expecting.

Here's an example of work hours. Two consultants are both successful. One takes the 6:20 train home at night, leaving early. Another successful consultant has Friday afternoons off. I'm not sure how that works, but both are successful. I have a friend at one who managed to finish all his assignments on Friday but nevertheless went into work on Saturday because he needed to be seen at the office. Even though he had no work to do, that was the culture. If he wasn't in on Saturday, people wondered what was going on.

An interesting cultural issue is the emergence of earnings. At the advent of a merger I was a witness to, the opening toast was, "We want to have fun and make money." The first month that we didn't make money, it was no fun. There was no fun at all. It was business/cultural. One firm was an IT firm that had big investments in hardware and big investments in software, where it might take a year to develop something. The acquirer was on the services side, where you go on almost a daily basis. It had a horrible time understanding the financials and why cash didn't come out everyday.

I've talked to some actuaries who have gone to work for investment banking firms. If they have an idea and would like to work on it, they find that they need to have amazingly fast returns. In life insurance, you're use to having returns over a five-, 10-, or 20-year period. In this instance, they needed the returns by the end of the current fiscal year. That was the turnaround period.

Maybe you have encountered the situation of a family-owned insurance company or family-owned mutual company. If ever you ever worked for either of them, they are unusual situations. The board of directors is usually filled with friends. People with the same last name hold all the corner offices. It's difficult for you to work your way up in that organization without marrying into the family. That's a situation that hopefully you can avoid because other than marrying into the family, I don't know how you could work your way up.

An ugly situation I've encountered more than once, which I think will now be diminished because of Sarbanes-Oxley, is the corporate demand to meet the earnings expectation.

As Dave did, I talked to some of my friends and extracted this true story: A corporate actuary reports his numbers, reports statutory numbers, and signs off on the stat numbers. That's fine. He reports the GAAP numbers. Apparently the numbers reported might not have been able to meet the expectations of management, who had made representations outside. The actuary turned in his numbers and was fine and happy. The auditors came by two weeks later said, "We don't understand how you got this number. It doesn't match." The actuary looks at the number and says to himself, "That's not what I reported. That's not the value."

Eventually he finds out management has changed his numbers. He ended up talking to the Academy's counsel, worked his way around the professional issues for himself, but then addressed the question, "What am I doing here? What am I doing in this environment?" The actuary, similar to this Clark situation in the Social Security Administration that was in the papers, decided that he would stay there and that an actuary is needed for this job. This guy had a strong enough backbone and was going to work to do the right thing. In a tough situation like that, I think quitting would not be the right thing to do. He did attempt to buck the culture and is still there. Now we have Sarbanes-Oxley, and I don't think it's going to happen again.

I talked to one person who became a new chief actuary in a radically different environment for him. I asked, "How were you able to succeed? What did you do that allowed you to quickly adapt?" He shared some of the things that worked for him. He quickly learned the new organization. He mastered the mnemonics so he could speak in the lingo as soon as possible. Where he would normally criticize something, he didn't initially. He focused on tangible and visible accomplishments. When you work, some days you push everything 1 inch along and don't have anything visible to show. This actuary said, "I need to have some visible output. I'll work on a couple of things for which I can show results on a short-term basis to get my reputation established." He made sure he credited his peers often and always managed to appear calm and unrattled no matter what the situation was. This worked for this person.

Dave talked about this situation, too. One corporation commonly known for its Six Sigma analysis and management has a strongly defined culture. It is not for everybody. I've talked to several people who've worked there. Some people had said that Six Sigma is good for manufacturing jet airplane engines, but when dealing with the unknown, and our business is the unknown, it's hard to get Six Sigma precise when you're dealing with unknown risk.

To echo what Dave said, and this is research totally independent of Dave's speech, we have the 20/70/10 rule where 20 percent are reaped and have all the rewards on them; the middle 70 percent do a good job and are regularly rewarded; and the bottom 10 percent are cut every year. I don't think too many of us work in that environment. Maybe that is the right thing to do, but I can't think of too many firms that cut the bottom 10 percent every year.

There are some popular culture-destruction mechanisms. You probably all read about the instances where you have to reapply for your own job. I've talked to some of those people. It's a humbling situation. You don't feel good about yourself.

You had been valuable, and now it's in question, and you don't know where you stand for a long period of time.

Also, you can see functions being sent to India. I've seen that happen twice in life-insurance environments. I'm happy to report that both times were a failure. It didn't work. Once it never got off the ground. For the second instance, they're slowly retrieving the function that was being done in India. When it was so interactive, it was too hard to talk to people when there was that much of a bridge in language and time.

Here's how a lack of attention to culture can kill an acquisition or kill a successful company. I have several examples to share with you. There's a company called Group America. It was a joint venture between Standard Insurance and Connecticut Mutual. This was about 10 years ago. The sponsors had resources to pull this company together. One company had the sales force, and the other company had the product expertise. By forming a new company and providing these services and resources, this new company, Group America, got off to a great start and was financially and market share-wise successful.

About four years later one owner said, "This isn't for me. I'm out of it." He sold 50 percent to the other owner, which was Connecticut Mutual. Connecticut Mutual said, "These people are down the road. They are only two miles away. I think we'll absorb them." They took an entrepreneurial stock-type organization into what was then a traditional mutual company and allocated more expenses to them, gave them far more reporting requirements, and the enthusiasm fizzled. The agents buckled, many left, and it was sold off at a fraction of its value. That was the impact of a major corporate cultural change.

I talked to one actuary who has been through a variety of different job situations. He started with a mutual company, was a consultant, went to a serial acquirer and then went to reinsurance. His name is Jeff. I said, "Jeff, how do you do this? These are four dramatically radically different places. How can you do all this?" He shared with me how he managed to do the cultural adaptations. He said, "I put all my cards on the table. I let people know what I'm thinking and what my capabilities are." He said that in his expectations he always focused on doing quality work rather than on his title or office. He said that if he could focus on always doing good work, he could do well. He had some looser expectations. He didn't expect a corner office.

As soon as he made a mistake in the new environment, which wouldn't be surprising because he had new rules, new fences and new boundaries, he would go and meet the people who he offended face-to-face and sit down and deal with them. This was how he was able to go from one environment to another dramatically different one.

This is the 800-pound gorilla. Let me read you an interesting story about culture. This comes from a friend I heard from two weeks ago: "We had a situation in which the parent company purchased a company that was not operating efficiently. The value of the acquisition to the parent company involved three items: significant expense cuts, continued profitability from a solid block of in-force business and utilization of an independent field force with strong loyalties to the acquired company. The acquiring company did not realize how interrelated these three items were. The plan was to fire most of the acquired company's senior management and replace them with several people from the parent company and several new hires. That person was inserted as the new president. He had been in the insurance business for many years and appeared to have an understanding of the field force dynamics.

"However, this new president did not respect the culture of the acquired company and attempted to impose immediate, harsh, arbitrary guidelines on the home office and field to achieve the necessary expense cuts. Almost overnight the field force became dissatisfied, and many previously loyal agents left the company. When the agents left the company, they took with them a lot of the in-force business they had written over the years. As a further expense-cutting measure, the company offered an early retirement program that provided incentives for people over 55 to leave the company. The take rate was nearly 100 percent. Within one year, the new management had alienated the field force, lost a lot of the profitable in-force business and lost a huge block of historical institutional knowledge.

"It would have been prudent for someone in the acquired company to make the problems known to the parent. However, there was nobody in the acquired company outside the new management team who had developed any relationship with the parent company. Thus, nobody could let the parent company know that value was being destroyed. When the parent company finally figured it out and replaced part of the management team, a lot of damage had been done. The new management took a different approach and restored some of the things that had been taken away by the first team of new management. Agent perks were restored, field advisory council was established and efforts were made in the home office to build the morale. Some of the old culture was reestablished in a more incremental approach and was decided upon to achieve at targeted earnings." There's a nightmare that was rescued, fortunately.

Here's one more. This is a recent reinsurance acquisition I'll share with you: "This acquisition was completely different. Our senior management decided that we should be larger and have more market share. How else can this be achieved in the short period of time besides buying your biggest competitor? The problem here was the companies were both completely successful, but with completely different cultures and completely different styles. Our companies are located in geographically different locations, which made us have to keep separate offices. This helped perpetuate the "us and them" mentality, which would persist, which will persist, for a generation of employees.

"What made matters worse is that the CEO did not make quick decisions. He invoked an atmosphere of consensus management, that is, sit in a room with a person who has the same job as you at the other company and decide on the best way to run the business. This sounds like a good idea, but the cultures are different, both companies were successful, and the two parties were in a beauty contest for their own jobs. When the acquisition was complete, it didn't work. There was a lot of animosity that still exists.

"The acquired party had a successful operation that it loved and had a difficult time giving up. It did not see the reason for the acquisition. Management did not consider this when deciding whether to proceed with the deal. Management should consider how people would react to a new company as a major issue before acquiring a company. Make decisions quickly. If you think that getting two people in a room who hold the same position at each company will come to a consensus, I have a bridge to sell you. It becomes a game of who can be more obnoxious and who can prove that he is smarter. Every one of these meetings was a disaster. The outcome was that many smart people left both companies before the acquisition was complete."

Then he tells a small anecdote. "When I trained to be a baseball umpire in Little League, the head umpire had an expression that I used all the time: 'It is better to be fast and wrong than to be slow and right.' Think about it in business. It is better to make a quick decision and every once in a while be wrong. If you take forever and are right, it doesn't matter."

I want to comment on Ohio National. If any of you ever have a chance to visit this company, it's identified by *Fortune* as one of the best 100 companies in America. It's a winner of the large-company category of Cincinnati's best places to work. It was the finalist for medium-size companies as great places to work in the United States. I've been there a few times, and as soon as you walk in you feel a little difference. There's a bright, shiny atrium, and people are always abuzz.

How exactly did the company achieve this? It leads from the top. The top person, the chairman, defines the culture. He sets the example himself. He gets his people fully involved. The goals are communicated, and what it wants to do is always linked to the strategic plan. It communicates daily, often sends e-mail to the entire staff and by keeping everybody aligned has managed to minimize politics. When you get different disciplines in the same room, they all are working from the same page. It's amazing. I think the Ohio National Formula is a good and successful one.

I have one more story to read. This is about an actuary who helped reverse a trend. He'd just been acquired. The acquirer has a track record of absorbing the companies, perhaps 30 of them in a row. This company is No. 31, but is by itself. It wasn't merged in. How did this happen? I'm still amazed.

I talked to the chief actuary. "I'm not sure that I did anything differently. I kept on doing my job irrespective of the ownership. The key was to be able to provide the information needed on a timely basis accurately and also be responsive to follow-up questions. As expected, initially the company had lots of questions on pricing, financial reporting and reinsurance. Because I had been responsible for all three functions, I became the point person to get answers. Fortunately, being a person who wants to know all the details myself helped me in providing timely responses to all the questions and to build confidence.

"During the prepurchase and the due diligence phase, I have been the point person for responding to the queries. We were told that the company would discontinue our operations. I did not see any reason why I should not be cooperative. I wanted the ordeal to end. I guess I won some points during this phase by being so cooperative. It did decide to continue the operations. Our president had seen both sides — the new home office and his operation — and realized that we were running more efficiently and integrating some of the functions would increase our cost."

He thinks that the biggest reason why the acquired company was able to stay on its own despite different cultures was that by staying on its own, it could stay cheaper and produce the bottom line that was going to be expected.

Coupled with the cooperation and the professional integrity was that the company demonstrated, "Let us keep our culture, let us keep our location, and we'll produce the profits that you're expecting." It kept its own location, kept its own culture and is producing the business and the profits.

What do I recommend in the M&A situation when you're confronted with a new culture? There are three things: keep your mind open, do some research and be yourself. By keeping your mind open, you should realize that a different way than you have been working can work. It doesn't have to be the same way that you've always done things. You need to keep an eye on your new environment and the people in the new environment. Watch what they do and be aware of their mannerisms. You need to grasp the top objectives of the organization and understand your own manager's perspective.

You need to research your products, know what the profit drivers are, know the inherent profitability, understand the competition in your new environment and know as much about the people who you'll be dealing with as you can.

Finally, one theme that I got from this is you still have to be yourself. You can't transform yourself into another person. Despite all these other things you can do differently, you need to stay within your own confines. Role models can help and seminars can help, but you have to recognize your strengths and build on them. Thank you.

MR. SHEPTIN: We have about 15 minutes for questions. If anyone would like to make questions or comments, please come to the microphone.

FROM THE FLOOR: I appreciated a lot of the comments, especially from you, David, being that you provided a lot of perspective on a winning culture. I feel that I'm in a culture that's not winning, and I attribute it a lot to the leadership. I'm in what I would call "middle leadership," caught between what I view as part of the problem and part of the solution. What would you recommend for situations where there needs to be a fundamental change from the leader, but you don't know how to make that change happen given that you're talking to your boss?

MR. DUNCAN: One of the problems is that there's always a disconnect between the short-term interests many times of a senior leadership and the long-term interests of your employees. There's typically a quarterly pressure on earnings, and things have to be done in a short time frame. On the other hand, culture-building is a longer-term process. When we talk about security for people and building those soft things, they take a long time. Given that there is not as much bottom-line science for those areas versus we need that money right now, there's always a disconnect.

If it doesn't come from the top, from my perspective you have to own what you can own and lead by example. If there is a way for you to deliver results, it definitely influences how others start seeing those things. It has to do with communicating that — not just the communication of what you're doing to the people who work for you, but also to your peer group.

My boss at my company is absolutely convinced that the things that I'm doing in my department are going to change the entire company. I think he's a little aggressive in his thinking. I think it is a different culture and environment, but I use my leadership responsibilities to do what I think is the right thing for what I own. In the end, I have to add value. I have to do the right thing. By owning that, delivering results and communicating those results, it provides a forum for you to gradually change the culture. If it's not coming down from the top to begin with, you have to do the best you can with what you own to try to drive it laterally and upward. It's not an easy task, but it can be done.

FROM THE FLOOR: To what extent does anybody on the panel believe that companies recognize or consider that having a good or winning culture is a competitive advantage?

MR. HERGET: I occasionally see it. I think in a positive culture, the rewards energy and rewards creativity will pay off. I'd say maybe a third of the companies have a positive, well-defined culture that's institutionalized. I think it is out there and it does pay off.

MR. DUNCAN: I think it does, too. Obviously, I think it does. Sometimes leadership wants to do things in spite of itself but can't do it, but there are enough examples of companies that are successful. The airline industry is an example, including Southwest Airlines and the culture it has built.

My wife is a flight attendant for one of the major airlines. Regarding one of the elements of how to build a winning culture, which is trust, she will be with that company 20 more years before she will even scratch the surface of trusting any senior management person at that company.

Trust has been absolutely destroyed at her company versus a company like Southwest, which has done all of the right things and returns profitability year after year after year. You find airlines doing things like cutting their costs to get in line with Southwest Airlines, thinking that they then will be competitive. They will never be competitive with Southwest Airlines because their cultures are so incompatible, and that's the competitive edge of a company like Starbucks.

A company like Starbucks is one of my favorites. If you haven't read the book "Pour Your Heart Into It: How Starbucks Build a Company One Cup at a Time" by CEO Howard Schultz, it's worth reading. Starbucks after 11 years in business has 7,000 outlets versus 4,000 at the same period of time for McDonalds. McDonalds, of course, has more than 30,000 today. There are a lot of ties between culture and delivery of results. Anybody paying attention to those types of things in businesses can become a believer, but it's not a natural thing for people to believe when there is so much focus on short-term results. Did we come close to answering anything at all?

FROM THE FLOOR: Kind of. What I was getting at is to what extent do companies purposely or consciously strive to achieve winning, good cultures and perceive that to be a competitive advantage? I realize it is. I'm wondering whether companies do that because they have some insightful executive who thinks it is the right thing to do or is there a business purpose for doing it? In other words, is competitive advantage a fortuitous consequence of somebody installing a good culture for other reasons, or is it a business decision? Can you say there's no emotion at all? There's no feeling of treating your employees well because you think it's the humanly good thing to do. You're doing it because you want to be more competitive than your competitor.

The early question you asked was, "Are winning cultures good?" If I'm in it, yes, but if they are my competitors, no. That would be my response. In a sense I want to win because I'm good, but I want to win because of their failures, as well. To what extent do companies in the insurance industry consider consciously installing good cultures? I suspect it's a low percentage and a small driving force. Are there companies that have winning cultures because they perceive it to be a given a competitive edge?

MR. DUNCAN: I believe the answer is yes. If you go out on the Scandia Web site, they spend a lot of time on these particular issues because they believe it provides a strong competitive advantage. I, like you, agree that it's a small percentage of companies.

MR. HERGET: I agree it's a small percentage from the examples we've talked about. I'd say GE and Ohio National are the two we talked about.

MR. DUNCAN: It's not an insurance company, but some companies purposely do things to drive results that are extraordinary. What we're looking for is extraordinary results. If we're doing everything like everybody else, we get results like everybody else. The next time you go to HyVee, Piggly Wiggly or wherever you do your grocery shopping, pick up a jar of Smuckers jelly, take it home and weigh it. It will weigh more than the little label says. That's a purposeful business decision to make sure that the company is meeting these customers' needs. It's outside the insurance industry. It's a small percentage, but it can be done.

FROM THE FLOOR: I have an incentive compensation and measurement question. When you're doing compensation and set goals and set measurements, how do you ensure that different departments don't use different standards? In other words, one department sets things that are a lot easier to achieve than another department or one department measures people on a different relative scale than another department.

MR. DUNCAN: I'm assuming that these departments do not both work for you.

FROM THE FLOOR: No.

MR. DUNCAN: That's one of the age-old things that we face as actuaries. Underwriters always hated us because underwriters said, "These people study half the time, they make more money than we do, they are always getting exam raises, they get time off, they have the life of Riley, and we're busting our cans." They have different compensation systems than we do completely, and they almost felt gypped. That stuff is all old. There's not much you can do with the difference unless that is driven from the top and through the human resources department.

On the other hand, again by focusing on what you own — and that's what I'm talking about, which is leadership and ownership over those things you truly do own — to the extent that you can drive a different set of outcomes from a different set of different business practices, you'll get the attention of other people. My dream always is to have a place where people come to work and are happy to show up, nobody leaves, and people are knocking on my door to get in the department. I say, "I'm sorry. Nobody is quitting. Nobody is sick. Everyone loves it here, we have to turn you away again."

It's the perfect dream that never exists, but still it's a happy, productive place that produces results and gets the attention of people around. A lot of times you can't do that unless it's driven from a corporate perspective, but it doesn't take away from your ownership of trying to do the right things.