



CULTURE VS. STRATEGY

WHAT DEFINES GLOBAL CHAMPIONS?



by Yannick Schilly, President & CEO – Altix Consulting Inc.

“Culture eats strategy for breakfast.”

– PETER DRUCKER

Much has been written on the subject and importance of corporate culture; its significance is undisputable. In fact, a recent research project of Duke University (Durham, North Carolina) revealed that 92% of North American executives believe that improving corporate culture increases corporate value and 84% recognize the need to improve their corporate culture.

WHY? WHY DOES CORPORATE CULTURE MATTER? COULD CULTURE BE MORE IMPORTANT THAN STRATEGY?

Culture is a broad and complex topic deeply rooted in the cradle of humanity; in the history of countries, organizations or individuals. Having worked across various continents has taught me early on that culture matters a lot. After all, our world is made of very different geographic cultures, languages, foods, arts and traditions which greatly influence our way of life, religion and beliefs, politics, economics, business performance and pretty much everything in-between.

Countries like Egypt and China can trace their rich history and cultural evolution back thousands of years, while others have more recent histories like here in the United States of America.

All of them, however, encompass marvels of beauty in arts and literature, all have specific strengths and weaknesses, and together they form a wonderful diversity and complementarity.

While we can see and describe with precision the high-level aggregate of macro-cultures, it is more difficult to describe and articulate with precision a corporate culture as each corporate culture is unique in character, identity, psychology and personality of each individual.

While the corporate world invests billions of dollars a year worldwide on corporate strategy – much less is invested in corporate culture. Is it less important? Is it less tangible? Is it more complex?

Corporate culture is comparable to an iceberg – only its smallest part is visible at the surface, ninety percent of it is hidden under the water.

Among the visible elements we can name:

- Organization structures
- Institutions of corporate governance (Board of Director, CEO, Management team, ...)
- Policies and business processes
- ETC.

Among the invisible elements we can name:

- Values
- Beliefs
- Norms
- Stories

- History
- Unwritten rules and codes
- Traditions
- Influencers and informal power structures
- Corporate “micro politics”

The upper segment tells us how the organization performs ideally, while the lower parts tells us how the organization really performs. Sometimes the gap is small, more often the gap is more significant.

Culture evolves with the organization over time, often outliving generations of leaders. Leadership can be close to the organization like a founding family member or their descendants or can be outside of the organization like a professional manager. This already outlines a first, very important dimensional difference between strategy and culture: time and chronology. Culture spans over a much longer period of time than strategy.

Strategy often looks at a time range from 2 to 5 years depending on the regions of the world and the cultural environment (longer term orientation in Asia – shorter term orientation in North America). Culture, however, accompanies and evolves with the organization over long periods of time. Mercedes Benz, Coca Cola or Procter & Gamble have defined their corporate cultures over decades, sometimes centuries.

Corporate culture, as a combination of the collective knowledge, history, shared memories and stories, traditions, beliefs, successes and failures, legends, builds the entire collective behavior and psychology of the enterprise. Like in sports – this is an absolute essential dimension which can easily make the difference between winning the game or losing the match! Strong athletes know that they need to cultivate body and mind with the same attention.

WHILE BEING DETERMINANT ON WIN / LOSE PSYCHOLOGY – IT GOES BEYOND!

Strategy gives the organization clarity of direction. How will we achieve our goal? It responds to all areas of investment in R&D, sales and distribution, human resources and product supply footprints. Culture on the other hand, determines the lanes for management and employees of what to do and what not to do, what is right and what is wrong. It will determine if the organization will be filled with

positive energy and creative attitude in the best case, or toxicity and destructive attitude in the worst case.

The role of the captain / the leader / the CEO is essential. The leader will influence the culture significantly and help shape the future of the organization positively or negatively. The leader will unite or divide the employees of a company or the citizens of a nation.

The actions of individuals will be influenced in their decision making as it will impact:

- Which character traits / personality attributes are hired and valued
- What risk appetite is acceptable for the organization (calculated risk taking vs. cowboy/gambling attitude)
- Code of conduct, ethics and compliance
- Corporate social responsibility and corporate citizenship
- Short- and long-term strategies / decisions / actions and planning.

Numerous corporate failures are directly linked to scandals where top management closed an eye on core guiding principles and accepted fraud – Enron, WorldCom or more recently giant automobile manufacturers with gas emissions or major aerospace companies on product safety. In fact, culture determines to a large extent the future and well-being of an organization. Culture defines whether key initiatives will succeed or fail. Culture more often defines if M&A transactions will happen or not (other than the price of a transaction) and when M&A integration fails it is often linked to improper cultural fit, which may go undetected during the due diligence.

Can culture be influenced or changed? What about a cultural transformation – does that exist?

The most important step with any evolution, revolution or transformation is to gain a good understanding of a starting point and status quo – in other words, a diagnosis or assessment of the current culture.

An assessment is usually triggered by unforeseen events or a crisis, like the current Covid-19 crisis which can lead to a major economic crisis, or

“Culture is what people do when no one is looking.”

– HERB KELLEHER



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a change in leadership or a capitalistic transaction like a merger or acquisition. Change is often triggered by a catalyst or change agent and it can be externally or internally driven.

Once the current culture has been assessed, it is important to define a specific target and to clearly formulate the attributes of the company's ideal cultural environment. This often comes with a deep reflection of the core set of values and leadership guiding principles the organization wants as guiding rails or lanes supporting decisions along the journey – the organization's psychological “swim lanes”.

Leading cultural transformation is a long-term process, it is not a matter of weeks or months – it's a journey. Such transformation needs focus and attention from top management and cannot succeed without the full commitment from the CEO. The captain's role is absolutely critical. In addition to the CEO, the leadership team must buy into the journey of change, or it will fail. A clear assessment of who is on board and who is not is imperative, and all must be committed to make the necessary adjustments. Failure to do so will backfire and add toxicity and politics in the workplace, thereby, undermining any efforts to change the culture in a positive direction. The leader will need to rely on additional key players and team members to become cultural champions and cultural ambassadors. They will soon become the lighthouse for all others!

Culture matters greatly because it impacts everybody in the organization from the top engineer in R&D, to the operator of the CNC machine. People are the most important asset of any organization. People need to feel that the company they work for will offer them a positive learning environment and growth opportunity. They need to feel trust, care, respect and security. They will better succeed in a fair and reliable system of reward, accountability and consequence. When a company culture favors a system of nepotism and biased decision making, employees may compare their workplace to a shark-infested sea where their goal will be to survive, instead of striving. It will only be a matter of time before the best employees will jump ship and seek more nutritious grounds to help them flourish with other employers.

Employees who feel valued and respected will take very good care of all business matters and ensure customer satisfaction. Culture to a large extent defines the brand and reputation of the organization. It can lead to extraordinary accomplishments and innovation like we see with Apple, it can also lead to fraud and scandals like we have seen with Theranos. These companies' respective founders and iconic leaders played an instrumental role in the future of their organization; Steve Jobs created one of the most successful brands in the world, Elisabeth Holmes, on the other hand, razed Theranos to the ground.

The entire cultural equation applies to organizations of all sizes from small to large, and the leader's commitment to corporate culture must be unwavering. General Electric was a champion of Lean and Sigma for many years, but it will have to re-invent and re-establish a culture of mastery and professionalism to ensure long term value creation.

The same applies for every high-perform organization – a nation, a sports team, a company or a musical orchestra. The careful selection of leadership and key players, as well as the definition and application of values and guiding leadership principles will make or break the organization. So yes, culture does eat strategy for breakfast – every time! And I'd like to leave you with a final quote from Lou Gerstner:

“Until I came to IBM, I probably would have told you that culture was just one among several important elements in any organization's makeup and success — along with vision, strategy, marketing, financials, and the like... I came to see, in my time at IBM, that culture isn't just one aspect of the game, it is the game. In the end, an organization is nothing more than the collective capacity of its people to create value.”

— Louis V. Gerstner, Jr., Former CEO of IBM.

PRACTICAL TIPS FOR DEVELOPING A WINNING CULTURE:

1. Make sure the selection of the Captain/CEO is right
2. Lead by example and be a role model
3. Ensure consistency among the chain of command and the entire leadership / management organization
4. Corporate values are clearly defined, documented and communicated
5. All employees are able to name those values at any time
6. Do not tolerate cultural “offenders”
7. Identify cultural “ambassadors” among all areas of the business, within and outside the management rank
8. Communication and story telling become strategic management tools
9. Celebrate success and reflect openly about failures
10. Develop a lifelong learning organization attitude
11. Define right and wrong and provide a clear behavioral track
12. Define leadership guiding principles and invest in leadership training
13. Culture is a journey (infinite) and not a project (finite)
14. Ensure goals, objectives, risk taking, and strategies are in line with the culture
15. Perform a regular dialog about culture and listen to the organization, read between the lines.