CULTURE AS A
COMPETITIVE
# DIFFERENTIATOR

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CULTURE
AS A CORPORATE
DIFFERENTIATOR

Since the financial crisis broke in 2008 it has not been hard to find articles pointing the finger of blame at 'corporate culture' in the banking sector as the source of much that went wrong **"Only a radical cultural change will transform banking"** (The Observer, May 24, 2015).

In recent years 'corporate culture' has been under scrutiny in other industries too; in oil and gas, **"Deepwater Horizon forced culture change on oil and gas industry"** (Financial Times, September 30, 2013); the automotive sector, **"Why did GM take so long to respond to deadly defect? Corporate culture may hold answer"** (The Washington Post, March 30, 2014); and also in consulting **"In Scandal's Wake, McKinsey Seeks Culture Shift"** (New York Times, January 11, 2014).
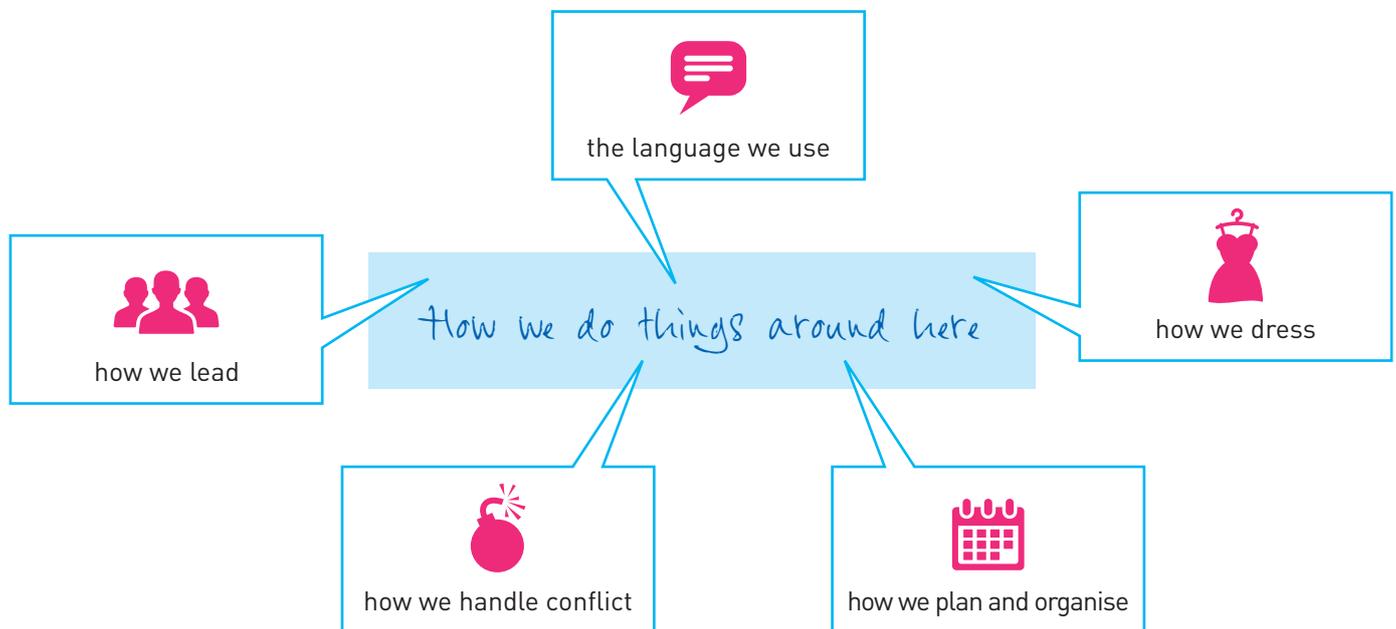
Rather than pursuing the argument that corporate culture is the source of all that is wrong with modern corporates, we want to present an alternative view. Although we do not dispute that in some cases organisational culture can drag down a business, we have also seen how corporate culture, at its best, can be a source of differentiation and competitive advantage.

sustainable
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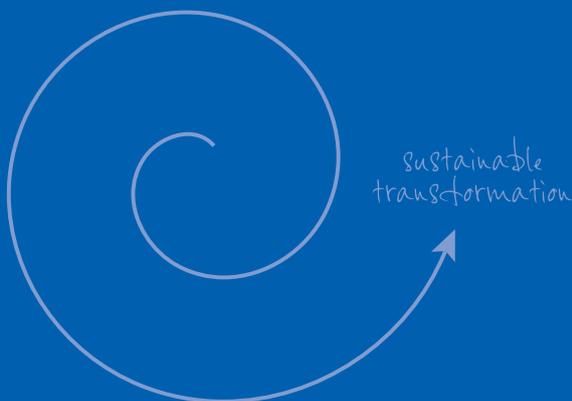
WHAT IS CORPORATE CULTURE? AND WHY DOES IT MATTER?

By corporate culture, we mean **'how do we do things around here?'** This refers to the language used, the way decisions are made, how work is planned and undertaken, even how people dress and deal with conflict. **Primarily, it relates to the patterns of behaviours people display that represent the way people in the organisation 'think' and 'feel'** (see diagram 1).

Diagram 1

the language we use

how we lead

How we do things around here

how we dress

how we handle conflict

how we plan and organise

It's how people in the organisation think, feel and behave

Source: EYT, adapted from ¨Organizational Culture & Leadership¨ E. H. Schein, Jossey-Bass, 2010

For example in one entrepreneurial organisation we worked with, processes and structures were not well formed and people came together as needed to promote and push new ideas; people were given a lot of freedom and flexibility to get things done. In contrast, in a large engineering company, not only were things more formal and structured, people placed great emphasis on engineering know-how and prowess, and discussions without at least one engineer in the room rarely took place. **Regardless of the organisation, there will be a multitude of cultures at play, such as national, divisional or functional cultures.** Nevertheless, in all of the organisations we have worked with there tend to be some sets of behaviours that are common (to a greater or lesser extent) across the business and this is the corporate culture we are referring to.

CULTURE AS A STRATEGIC ASSET

The importance of corporate or organisational culture is that it can either enable the business to function or act as a barrier. As the management guru Peter Drucker argued, culture eats strategy for breakfast. A view that is supported by John Kotter's and James Heskitt's in-depth long-term study[i] which demonstrated that corporate culture has a significant impact on a firm's long-term economic performance. Business executives generally seem to agree with this too. A survey undertaken by Strategy& in 2013 on culture and change, found that 84% of respondents felt their organisation's culture was critical to business success, with 60% saying that culture is more important than strategy or their operating model. Yet despite this, **our experience has been that when a firm seeks to transform, the focus of executives is on adapting their strategy or operating model, and culture is often ignored.**

Nothing distinguishes an organisation like its culture. Take two businesses in the same industry and, despite the commonalities, you just need to wander around their facilities and you will experience different behaviours and ways of thinking about what they do, and how they do it. Culture is one of the very few things that no competitor can copy. **Whereas a competitor can copy your strategy, business model and even your products and services, copying your culture is not possible.**

It is fascinating to discuss culture with CEOs. We have found that they will be happy to tell you how unique their culture is. Such was the conversation with one CEO of a large global marketing company, who felt that what truly differentiated his organisation from any of the competitors was the people he hired and the way they behaved towards each other, their clients and their suppliers.

One of the best examples of using corporate culture as a strategic asset is Ikea, the Swedish based global furniture retailer. Its proposition is to offer a wide range of well designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them. The company recruits people based primarily around values and behaviours, playing down skills, academic credentials or experience. There is even a culture quiz on its website to test potential recruits' suitability. The organisation's way of working is very decentralised but given this focus on values and behaviours it can remain quite a flat organisation and avoid bureaucracy. As Peter Agnefjall, the current CEO, noted in an interview with the Financial Times[ii] in 2012 "Every company needs something that glues it together . . . [for] Ikea it's our culture. If we share the same values and the same vision we can put more trust in people working in the organisation".

ADAPTING AND EVOLVING CORPORATE CULTURE

Corporate culture can be an asset. It can also be a hard thing to change and if you seek to tackle it head on, in all likelihood you will fail. Carly Fiorina, HP's CEO from 1999 to 2005, found this out the hard way. Carly, the first outsider appointed to this position, took on HP's culture, the fabled 'HP Way' and in the end lost – pushed out by descendants of the Hewlett family.
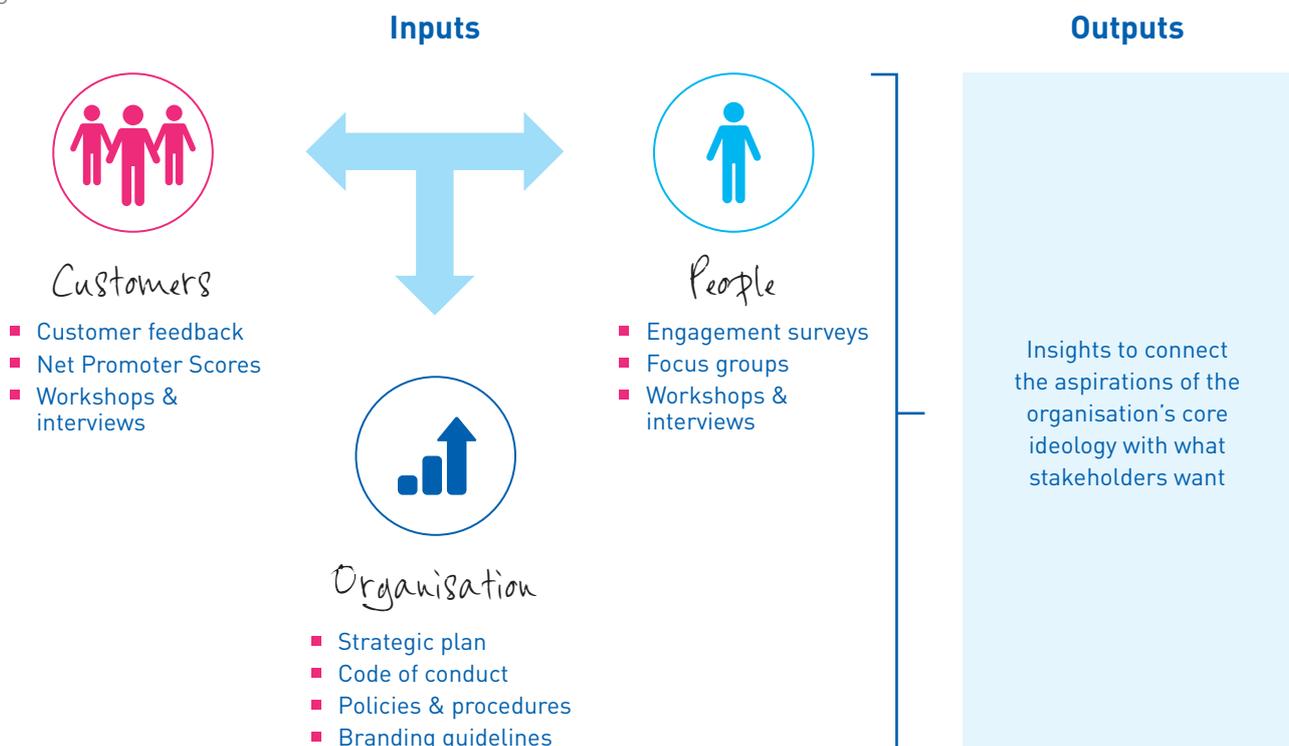
A firm's corporate culture does not stand still, but can and does evolve. However, rarely is it a managed process. There are five things a company needs to do if it wants to use its culture for competitive advantage:

- **Understand and measure your culture**

- **Identify the behaviours you need**

- **Recruit, develop and retain the right people – focus on behaviours**

- **Take advantage of real life role models**

- **Lead by example**

1. Understand and measure your culture

It is always amazing to see how excited senior executives get when they sit down and discuss their organisational culture. Although these conversations do capture the spirit of their culture they rarely capture the complete picture. **Organisations that take the time to understand their culture find the insights helpful in being able to play to their organisational strengths, but also in explaining many of the challenges they face.**

Diagram 2

Inputs

Outputs

Customers

- Customer feedback
- Net Promoter Scores
- Workshops & interviews

People

- Engagement surveys
- Focus groups
- Workshops & interviews

Insights to connect the aspirations of the organisation's core ideology with what stakeholders want

Organisation

- Strategic plan
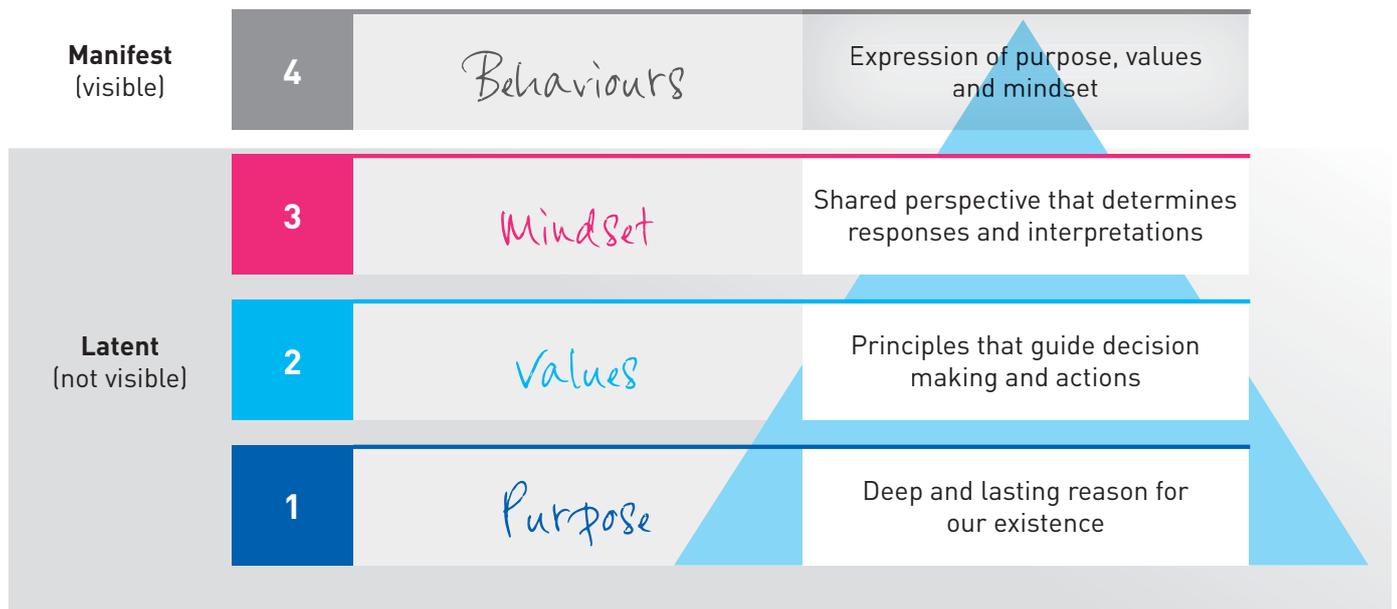- Code of conduct
- Policies & procedures
- Branding guidelines

Source: EYT

Typically most of the information needed to provide a complete picture is already there. It exists in customer feedback, employee surveys and strategic documentation. This should be supplemented with interviews and focus groups from across the organisation as well as conversations with customers and suppliers (see diagram 2).

A robust picture, informed by multiple data-sources is important to help leaders understand the reality on the ground in terms of people living the organisation's purpose and values, as well as the reality of the 'mindset' and 'behaviours' that are actually dominant in the business (see diagram 3).

This picture allows executives to understand what behaviours they need to encourage and which ones need to be mitigated. In one organisation, there was a dawning realisation that people's willingness to 'follow orders' meant that it had a real strength in execution, but its lack of 'questioning' behaviours meant that its people would happily execute silly requests without a second thought.

Diagram 3

Manifest (visible)	4	Behaviours	Expression of purpose, values and mindset
Latent (not visible)	3	Mindset	Shared perspective that determines responses and interpretations
	2	Values	Principles that guide decision making and actions
	1	Purpose	Deep and lasting reason for our existence

Source: EYT "The Culture Code"

the leader's shadow

2. Identify the behaviours you need

The discussion that takes place around the existing culture by its nature tends to bring to the fore the behaviours that are missing. This is not about finding the many behaviours that leadership want to see demonstrated but rather the three or four that they feel can make the difference.

This requires open, mature and facilitated conversations around the executive table. Executives discuss what behaviours are required and what those behaviours might mean in different parts of the organisation, as well as what they mean for them. For instance, behaviours that demonstrate accountability manifest themselves differently at the C-Suite than they do in a call centre. In recent years, we have participated in lots of conversations in search of behaviours that will promote collaboration, innovation, accountability and continuous improvement. What this means in practice will differ according to each organisation and its starting point.
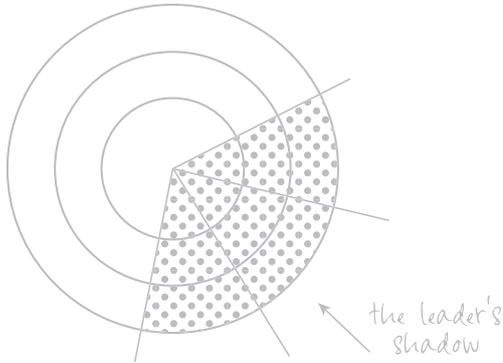
3. Recruit, develop and retain the right people

Having determined the desired behaviours for the organisation, the challenge is how to have them adopted. **It is essential that these behaviours are integrated into your organisation's people model. From the way people are recruited, to the way they are developed, through to how people are retained.** Measuring the demonstration of behaviours can help reinforce their importance, setting clear expectations and allowing people who live the behaviours to be recognised in a credible and consistent way. Measuring behaviours allows leaders real knowledge about areas of strength and also ensures that development activities focus on specific areas.

At one organisation we worked with, a global engineering company, a widespread engagement exercise was adopted to help flesh out the behaviours and what they meant. This resulted in a behavioural framework being designed, which the organisation is now integrating into its performance management processes. Another organisation took a phased approach to implementation; a subsequent employee survey found that those areas that had adopted the behavioural approach had significantly higher levels of engagement than those areas not yet exposed.

As with Ikea, we would strongly advocate using the desired behaviours as a means to recruit. This key lever tends to be under-utilised, all the more so given it is harder for people to change behaviours than to develop skills.

...WE HAVE PARTICIPATED IN LOTS OF CONVERSATIONS IN SEARCH OF BEHAVIOURS THAT WILL PROMOTE COLLABORATION, INNOVATION, ACCOUNTABILITY AND CONTINUOUS IMPROVEMENT.

4. Take advantage of real life role models

The fascinating observation about organisations, is that if you look for them you will always find people who are demonstrating the behaviours that you desire. The next step is to spread those behaviours through socialisation techniques, as colleagues will learn and adopt successful behaviours from others and spread them further – a viral change approach.
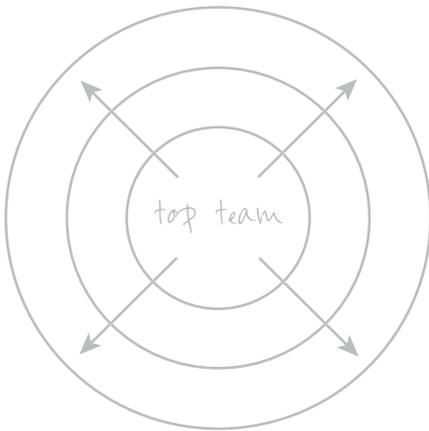
In one organisation, the leadership wanted to spread motivating behaviours that would drive performance. At one site we identified a group of 8-10 frontline employees who were superb at getting colleagues to adopt new ways of working. This group of 'master motivators' would meet informally. They identified important improvement opportunities and with top level management went about having these ideas adopted across their site. Their improvements were soon readily incorporated not just at their site, but through the grapevine they were invited to other sites to help with adopting new ideas. The impact on performance was much quicker than otherwise would have been the case and was significant.

5. Lead by example

No discussion of how to evolve a culture is complete without discussing leadership. **Without doubt leaders need to bring to life the behaviours they want to see. The key to success is senior people acting authentically.**

A good example of this is General Alfred 'Al' Gray, who served as the 29th commandant of the US Marine Corp. Appointed at a low point in the Corp's history, Al Gray had the distinction of joining the Marines as a private and rising to four star general. His behaviours were driven by the belief that the Corps had to go back to its roots. He is the only commandant whose official portrait shows him in military fatigues as opposed to dress uniform and he would visit bases without his insignia or name tags on display. An important ingredient in Gray's success was the degree to which he was seen by Marines as 'looking out for them' and demonstrating what he expected through his personal actions. Gray inspired a remarkable degree of loyalty, not least among the junior officer and enlisted ranks.

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IN CONCLUSION

An organisation's culture can either be a source of strength, or a barrier that pulls the organisation down. **Given the difficulty in trying to challenge your organisation's culture the secret is to find the strengths and competitive advantages embedded within it and build on these.** Fighting your culture can be a long tough battle and the chances of coming out victorious at the other end are slim.

As cultures evolve over time, the challenge is to make the most out of your culture and ensure it adapts in a way that lines up with your business strategy and operating model. To do that effectively, the focus needs to be on behaviours. Identify a small number of behaviours that express and reinforce your desired organisational culture. Use these behaviours to recruit, develop and retain people, remembering it is easier to build people's skills than change their behaviours. Find the role models in your organisation who demonstrate your desired behaviours. Encourage these people to experiment and network with others. Then, make sure senior leaders are onside, own and role model the behaviours.

Remember, people judge the leadership not by what they say but rather what they do. Clarity of the behaviours you desire to see in your organisation enables you to measure the existence of these and to deliberately manage "how we do things around here".

Culture is the vital ingredient in the success of any business; it is too important for you not to make the most of it.

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[i] John P. Kotter & James L. Heskitt, "Corporate Culture and Performance", The Free Press, 1992.
[ii] Richard Milne, "Against the grain", Financial Times, Wednesday November 14, 2012.

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Telos Partners was founded around the belief that organisations are the product of their relationships, rather than just the sum of their transactions. Organisations need to be considered not only as economic enterprises, but also as complex networks of relationships and human interactions.

We believe therefore that change can only be accomplished effectively in organisations by addressing behavioural change in parallel with strategy development and implementation. To be successful any initiative must address these two elements in tandem, with an equal focus on both the rational and emotional process of change.

Today we have consultants working around the world. The nature of the work we do means that we are not industry specific and our clients range from ambitious small business owners to CEOs of global companies.

We work internationally, with both the private and public sectors, social enterprises and non-profit organisations. We help them achieve the business outcomes they need by adopting a balanced approach to change.

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EYT

EYT is a strategic consultancy that codifies and socialises organisational culture. We believe that the voice of your market and your employees are rich sources of information that should inform organisational culture. We journey with organisations to codify the culture that is most likely to deliver your business strategy, applying behavioural change techniques and information-based decision-making.

Codifying culture goes beyond the invisible purpose and values that drive an organisation. A culture code expresses how work should be done in behaviours that are a visible and measurable articulation of your purpose and values.

We work with organisations that believe not just in what they do, but also in how they do it. We are for organisations that know that if they consistently meet peoples' rational and emotional needs they will create a consistently positive customer experience that will attract and retain customers and employees.

The longevity of culture change is supported through the design of integrated talent management architecture that reinforces your desired culture.

We are head-quartered in South Africa and are privileged to work internationally in both private and public sectors, governmental and para-statal and non-profit organisations. We codify the culture your people and your market are asking of you so that you can measure it, scale it and sustain it.

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