Culture Matters!

Abstract

Culture matters because organizational performance depends on it. At one end of the spectrum, you find mercenary cultures that routinely deliver disappointing performance – take the construction industry for example, where 65% of projects exceed cost and schedule by more than 20% with a dismal 54% on-time completion of commitments. On the other end you find synergistic cultures with explosive growth – like Amazon right now, or Apple, Microsoft, SAP, IBM, and a host of other companies that have achieved this kind of growth in the past. The key to understanding how cultures form and evolve requires new thinking. That thinking comes from network theory and complexity science. This paper attempts to bring that to light in a way that makes culture actionable - providing executives with a roadmap for establishing a culture that generates superior performance and attracts and retains talent.

Introduction

Visitors to Monterey's world-famous aquarium are immediately awed in the presence of breathtaking aquatic beauty. Take for example, the three-story glass-enclosed, live kelp habitat situated near the front of the building. First time and repeat visitors can be observed standing in silent amazement as they gaze at live kelp swaying in tune with the tidal motion of the bay – brought indoors for our enjoyment. In another habitat, myriads of species range freely in intricate, harmonious patterns. The sardines – backbone of Monterey's historical Cannery Row – occupy the top layer, constantly changing direction, moving as one, leaving us to wonder and marvel at such exquisite coordination. Huge groupers occupy the middle territory, occasionally coming right up to the window to stare – momentarily making us wonder who is observing who. On the bottom layer, ten-foot sharks display rippling power as they circle the enclosure with a flick of their tail. There is a palatable sense of appreciation as visitors weave through the aquarium – appreciation for the oceans and all that live within them.

Upon reflection, one cannot help but notice the remarkable order and tranquility that characterizes this culture of aquatic life. The whole experience is synergistic; it's as if we are being treated to an underwater symphony where the "cooperation of many produces a combined effect greater than the sum of their separate effects." Of course, this isn't accidental. It is a product of brilliant design and constant attention, right down to how the tide water from the bay is permitted to move in and out, making living kelp possible.

The aquarium serves as living proof that synergistic cultures are indeed possible when one understands the necessary conditions and deploys them intelligently. Synergistic performance need not be limited to aquatic life. Yet most organizations negate that possibility in attempting to grow in ways that resemble unceremoniously dumping a 50-gallon container of exotic fish into the tank – expecting assimilation and results to somehow magically happen. Instead, their attempts invariably set off a series of chaotic shocks that more often than not, based on industry statistics, wipe out a good bit of what was there before – just like what would happen in the aquarium.

To understand the necessary conditions that make the aquarium possible requires a solid grasp of how *non-linear* phenomena interact, or what complexity science recognizes as the *dynamic nature of networks*. In a network, everything is connected. Changes to any element in the network will ripple throughout, following laws that are distinctly *not* linear. These laws have only come to be understood in the last few decades,[1] representing a uniquely new form of thinking and opportunity to make culture a competitive advantage.

Your car does not behave in a non-linear way, and we would certainly not want autonomous, self-driving cars to behave that way either! Instead, we depend on cars having thousands of integrated components that are carefully organized in a linear cause-and-effect way to deliver the precise outcomes we want when we get behind the wheel. Cars, electrical power plants, cell phones, and all the mechanical devices we depend on are governed by laws of physics, which are linear in nature.

Organizational life (or what we take to mean 'culture') on the other hand, doesn't follow laws of physics and therefore cannot be effectively governed through cause-and-effect relationships (although many have tried with various forms of carrots and sticks). *The fact that culture cannot be controlled in a linear fashion is what makes culture so elusive for most executives.*

Nevertheless, every organization's final exam is based on *performance*. The question you might be asking now is, "How do you get reliable performance in a complex, non-linear environment?" Albert-Lazlo Barabasi, a leading figure in complexity science, gives us a strong hint in "Linked": "*A string of recent breathtaking discoveries has forced us to acknowledge that amazingly simple and far-reaching natural laws govern the structure and evolution of all the complex networks that surround us.*"

The place to start with is *structure*. In fact, Safi Bahcall, physicist, business executive, and author of "Loonshots," makes a compelling case for paying attention to structure in order to govern cultural behavior.[1] Our claim is that organizational culture is a product of a particular structure or framework that is constitutive to all organizations – as illustrated in figure 1.
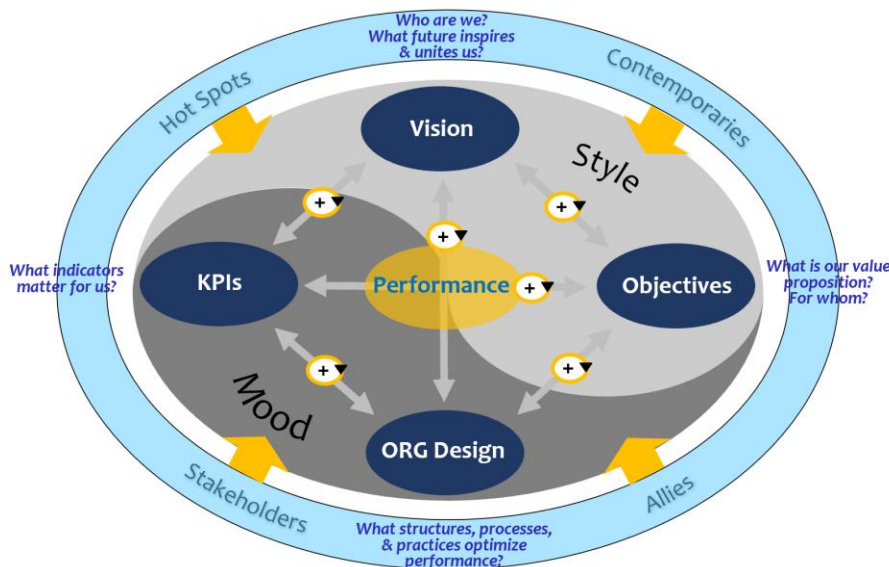

Fig 1. BI's Strategic Framework

The four key elements in dark blue are arranged in a bi-directional way that is consistent with networked behavior. Each is aligned with and affects the other. For example, a compelling Vision without an ORG Design that facilitates its realization will result in the formation of a negative or vicious cycle. The opposite is also true; strong alignment between these two elements will result in a positive or virtuous cycle. A number of dynamic interplays can be observed in figure 1 that must be balanced, including, for example, relevant entities within the external environment (represented by the light blue outer ring). Mood and Style must also be considered; they can act as stabilizing or accentuating forces, depending on how they resonate with the implementation of the Strategic Framework. More details can be found in our whitepaper "Cultural Alignment Analyzer (CAA) product description.[2]"

Culture affects performance, as reflected in organizational maturity – convincingly argued by Kotter and Heskett in "Corporate Culture and Performance.[3]" We go further, claiming that organizational maturity is a reflection of the Strategic Framework and how effectively it permeates and shapes everyday activity. When fully integrated, the tenets of the Strategic Framework can be found in an organization's hierarchical structure, business processes, recurrent practices, rituals, and norms.

Organizational maturity delineates two parameters needed for sustained performance - *resilience* and *adaptability.* Resilience is essential for maintaining organizational viability in selling and delivering products and services that customers continue to buy at a price that affords acceptable profits. Adaptability is associated with staying abreast of changes in the 'ecosystem' and investing in capabilities that make possible 'turning on a dime' when threats and opportunities dictate. We distinguish three distinct levels of cultural maturity: mercenary, tribal, and synergistic. Characteristics of each can be found in Appendix A. Figure 2 illustrates the correlation between performance and organizational maturity.
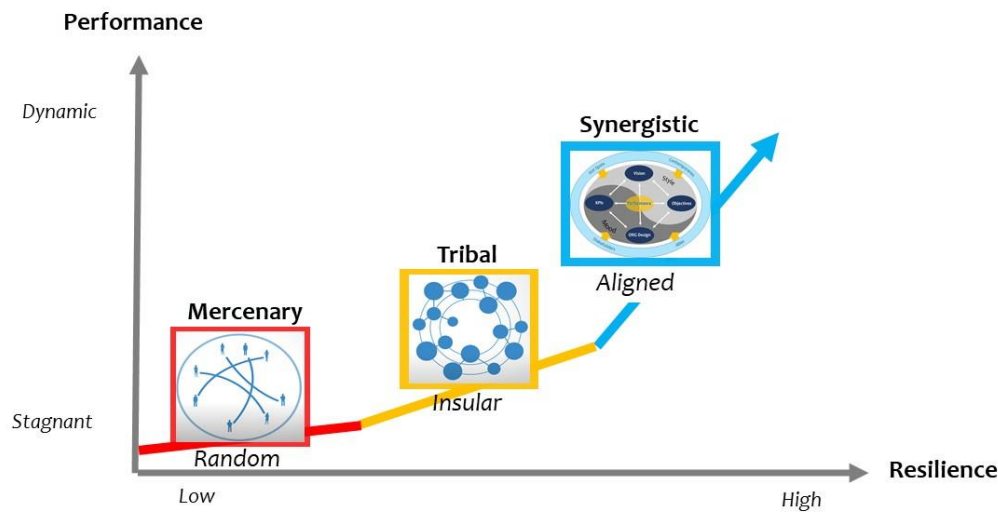
Fig 2. Performance and cultural maturity

By way of illustration, take the example of Aston Martin. In 2012, the Italian private equity fund Investindustrial bought a 37.5% stake, after several cycles of success and failure spread over the first 100 years of the company's existence. In 2014 they brought in Andy Palmer, formerly with Nissan, as CEO. Pre-tax losses for 2016 increased by 27% to £162.8 million. However, in 2017 Aston Martin returned to profit after selling over 5,000 cars. After reporting a full-year pre-tax profit of £87 million, the firm launched an IPO on the London Stock Exchange. *What made the difference in this remarkable turnaround?* Throughout this turbulent period CEO Palmer focused on the firm's culture, especially staff morale. In his words, he described employees as *"always good… but [with] their tails between their legs, behaving like lost souls. I needed to give the company something to get its swagger back."* Palmer's solution was to focus everything on the development of an exciting new model: *"Every turnaround plan needs a flag to rally around and to a large extent the Valkyrie has been that flag."*

In effect, Palmer shored up Aston Martin's Strategic Framework, setting into motion a series of virtuous cycles that elevated cultural maturity, increased resilience, and sky-rocketed performance. More details of the cultural transformation can be found in the white paper on our website, "PE transforms Elite Motor Company."

By now, you should be convinced of two things: 1) How culture affects performance can be made visible and 2) Increasing cultural maturity is possible. The question is – how to go about this? Here is a step-by-step roadmap to get you started:

1. Establish your cultural maturity baseline (Mercenary, Tribal, Synergistic). You can do this with informal inquiry or get a precise measure and supporting analytics using our Cultural Alignment Analyzer tool.
2. Determine your realistic performance threshold, using your annual plan as a guide.
3. Challenge your senior team to commit to a target above the threshold – it should be attainable but require stretching beyond their comfort zone. Structure incentives that appeal to the wider organization.
4. Design an initial 60-day sprint for improving alignment on your Strategic Framework. This involves listening for consensus on what needs fixing, as well as understanding the reasons behind big differences in opinion on what isn't aligned effectively. This effort should be led by the CEO, who should take charge of communicating the findings and proposed improvements.
5. Armed with a mutually aligned Strategic Framework, design a sprint for implementing proposed improvements that are achievable within the 90-days. Given a choice, opt for improvements that impact resilience, increasing value to customers and customer experience.
6. Upon completion of the 90-day sprint (now 150 days later), conduct a follow-up informal poll or survey to validate achievement or at least trending in the right direction. Don't forget to celebrate the wins and hand out earned incentives!
7. With new momentum and an updated pulse count on cultural alignment, prepare additional sprints (keep each to 90-days). Go after more deeply rooted or systemic issues e.g., shifts in style (such as executive decision making, management of daily operations, customer engagement), thorny business processes, and how the annual plan and budget are conceived.
8. Maintain a cultural alignment dashboard for tracking scores attributed to the Strategic Framework and its integration. Use this for alerting yourself and your senior team re the need for addressing current horizon issues associated with the Strategic Framework or adapting it to meet future challenges and opportunities that require investment.

Notes:

1. See Safi Bahcall's "Loonshots," 2019, St. Martin's Press
2. See "Cultural Alignment Analyzer (CAA) product description" www.businessingenuityinc.com
3. See Alberto Lazlo Barabasi's "Linked," 2002, Perseus Publishing
4. See Kotter and Heskett's "Corporate Culture and Performance," 1992, Simon & Schuster

Appendix A – Cultural Maturity Levels

Mercenary — *Random*
Tribal — *Insular*
Synergistic — *Aligned*

Mercenary attributes:
- VISON > self centered
- OBJECTIVES > unfocused, shifting
- ORG Design > fractured, inefficient
- KPIs > non-existent, vague, shifting
- Low resilience, lacking adaptability
- **Focus:** *self preservation*

Tribal attributes:
- VISON > biased, limited relevance
- OBJECTIVES > sub-optimized, conflicting
- ORG Design > siloed, rigid
- KPIs > sub-optimized, conflicting
- Moderately resilient and adaptable
- **Focus:** *preserve, maintain, or disrupt*

Synergistic attributes:
- VISION > inspiring, 'alive' in everyday activity
- OBJECTIVES > focused, prioritized
- ORG Design > integrated, flexible
- KPIs > simple, meaningful, timely
- Highly resilient and adaptable
- **Focus:** *cultivate, grow, adapt*