Like It or Not... Culture Matters

Linking Culture to Bottom Line Business Performance

Provides an Overview of Business Culture Research Conducted by:
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The links between individual culture traits and specific performance indicators let you precisely target your organization's culture to meet specific results and to consciously build and monitor the organization's culture to ensure sustainable results.

So you think business culture doesn't matter. Perhaps you think it's a passing fad, big in the 1980s and starting to show its trendy head again—and this too shall pass. Or maybe you are one of those who actually think culture matters, but you figure you'll focus on it when "things slow down around here." Well, business culture does matter, and as an assistant HR professional you really can't afford to wait to deal with it. You must make a compelling case for top executives to take notice and focus on the true cost of having an operational culture that leaves people feeling dispirited, disenfranchised, and demotivated. It might be the most important thing you can do to support sustainable bottom-line results

Why Are We So Confused About Culture?

The concept of organizational culture first appeared in the historical record in 431 B.C. At the time, Pericles believed Athens could win the Spartan war through strong, unified teamwork. But the idea didn't make a significant appearance in business literature until the early 1980s, when the authors of *In Search of Excellence*[1] presented a strong case that the key to excellent business performance was to be found in the culture of an organization. Unfortunately, problems with their research emerged over time, and business leaders had a hard time moving these notions from the bookshelf to the shop floor.

The academics entered the scene, and although the business world seemed intrigued with the notion that a business might have a culture (not unlike a society, presumably), academia failed to deliver a clear or consistent definition to work with. At one point, there were 164 different definitions of culture, many of which would make you eyes roll back.

Another problem with this thing called culture was the confusion about where it comes from. Some argued that culture "happens" with no particular rhyme or reason; others contended that culture is an enduring manifestation of the founder's leadership style (see Exhibit 1). Just as unclear were the arguments about how to change a culture. Viewpoints ranged from "impossible to change a culture once it's established" (the founding-father paradigm) to "possible to change, but it requires years, even decades." Indeed, in those years, there was chaos on the culture front, amounting to nothing short of "paradigm wars."

Exhibit 1

Business Culture: Myths and Truths

Myth: Culture is intangible, esoteric, and difficult to manage.
Truth: Culture is behavioral, measurable, and manageable. It takes awareness. It takes attention. It takes leadership.

Myth: We still don't understand how corporate culture works or how it is directly linked to bottom-line business results. It's too "squishy."
Truth: Eighteen years of research involving 1,200 companies show us clearly how culture works—and reveal a clear link between it an a company's profitability, sales/revenue growth, market share, quality, innovation, and employee satisfaction.

Myth: Culture is solely embedded in the founders of the company or, worse yet, "culture just happens."
Truth: Effective cultures are almost always the result of thoughtful leadership, involving the entire organization in a focused direction. As a leader, by taking the right steps, you can rapidly change your organization's culture in any point in its evolution.

Myth: Culture is a luxury to be thought about when there is extra time and resources.
Truth: Cultural issues have strategic impact that must be managed to preserve business value and ensure success. There is probably nothing you can do with your time and money that will have more long-term leverage for your business success than focus on your culture.

Myth: Changing corporate culture is a cumbersome, difficult, and painstakingly slow process.
Truth: By precisely targeting and developing behaviors that support known results and applying lessons learned through others' experience, you can quickly achieve both culture change and its desired performance improvements.

Then there were the natural disagreements over how to measure a company's culture. A powerful force in the academic community insisted that the only way to truly understand your business's culture (that was view as utterly unique and not comparable to any others) was to send in a team of researchers to spend months probing your organization's symbolic and mythological underground. It was almost heresy to imply that culture could be subject to any kind of quantitative assessment.

As long as culture stayed in the realm of qualitative, it was almost impossible to link it to quantitative business performance—things like profitability, market share, sales growth, etc. The question, "what does it affect?" was long left unanswered in basic business terms.

So it is no mystery that discussions of culture have seemed irrelevant to the business community. Although the concept continued to appear in business literature (with some claims of a direct linkage with business performance), true understanding of culture remained beyond the reach of common sense—let alone business know-how. (After all, if I can't define it, can't measure it, can't change it, and I am unclear how it links to results, why bother? May as well dish up another program of the week!)

Looking at Culture Through a Business Lens

As the paradigm wars waged on, a small band of researchers set out to establish a way to quantify and measure business culture. One on these researchers was Daniel Denison, now at the University of Michigan business school. He was driven by the conviction that, to make the concept of any use to business and to draw a compelling link with bottom-line business performance factors, there had to be a way to numerically measure "culture."

For Denison, it was a matter of moving culture out of the academic realm and into the arena of everyday business realities. The traditional view said culture is embedded in a set of assumptions and beliefs held by the business regarding customers, competitors, employees, suppliers, shareholders, and others. Denison's view was that these assumptions and beliefs don't remain hidden, but are manifested in a set of outward behaviors toward these groups—and that, since they are observable, these behaviors are quantifiable.

It may well take an army of researchers to get a handle on something like assumptions and beliefs, but behaviors are easy to measure! And, after all, isn't it people's behavior that creates the culture that everyone experiences? While it is true that belief drives behavior, it is equally true that behavior drives results. So when our interest is in the realm of results, Denison argued, it is both practical and appropriate to approach culture via its most obvious dimension: The way people act.

Shifting the focus away from the intangible and esoteric to the tangible and behavioral (and thus measurable) allowed breakthroughs in understanding business culture. Nine hundred and fifty businesses of all sizes and sectors participated in the development of Denison's culture model, which is rooted in workplace behaviors and expressed in workplace language. It is a model designed in the business context, developed by business leaders, and understood from the business perspective—a far cry from traditional culture models developed in the academic context, described in academic language, and requiring a team of translators to make the perilous leap from the ivory tower to the corporate office. From Denison's model, it was a short jump to a quantitative culture assessment, which then opened the door to examining the link between culture and things like profit, market share, return on investment, sales growth, and more.

The Link Between Culture and Bottom-Line Results

Over the next few years, Denison's model was applied to over 1,200 companies ranging in size from 10 people to over 300,000, and representing all ages, industries, and sectors. The findings are compelling. They will enable you to understand in an entirely new way why you are not achieving the results you want.

The model measures four basic culture traits:

1. *Mission*—the degree to which the company knows why it exists and what its direction is;

2. *Involvement*—the degree to which individuals at all levels of the company are engaged in and hold that direction as their own;

3. *Adaptability*—the ability of the company to know what customers want, and the degree to which it can respond to external forces and demands;

4. *Consistency*—the company's systems and processes that support efficiency and effectiveness in reaching goals.

This model does something that other culture models fail to do. It embraces, rather than ignores, the basic paradoxes faced by businesses and their leaders. It accounts for the deep challenges of leadership familiar to most business leaders today: "It's not about doing either this *or* that. To be successful, I must do this *and* that, even if those two things are in direct conflict with each other." You know it well, don't you? You need both higher quality *and* lower cost. You need both precision *and* speed. You need growth *and* efficiency. You need to please both shareholders *and* employees; both regulators *and* customers—even when serving one appears to hurt the other.

The cold hard reality is that you have to pay attention to the inside *and* the outside of your business; to the short term *and* the long term; to things that provide focus *and* precision and to things that offer flexibility and fluidity. Denison's model reflects this reality. *Mission* represents external focus and support stability; *involvement* represents internal focus and supports flexibility; *adaptability* represents external focus and supports flexibility; *consistency* represents internal focus and supports stability.

Denison's research shows that the highest performing companies are those that show strength in all four areas. In other words, they have developed cultures that fully address the paradoxical demands facing them. They are crystal clear about why they exist and where they are going (*mission*). Their people embrace this defined direction, have line of sight from job to company goals, and bring the full complement of their skills to their work (*involvement*). They hear what their customers want or understand customer needs enough to lead their customers to new products/services, and they are able to learn what is needed to respond to changing marketplace demands (*adaptability*). And they have systems, structures, and processes in place to help align them as a company, while being both efficient and effective in their pursuit of results (*consistency*).

As a business leader, you might be saying, “Yeah right, if we were strong in all those areas, we’d be turning good results, too.” But, wait—the findings tell us more. Sure, they show us that the highest performing companies are strong in all areas simultaneously (for example, showing 31 percent return on investment or more). The findings also show us that there are relationships between individual culture traits and specific performance measures. Denison’s findings are summarized in Exhibit 2.

Exhibit 2

Denison’s Findings

Profitability/ Return on Assets	**Revenue Growth/ Sales Growth**	**Market Share**	**Innovation**	**Quality of Products & Services**	**Employee Satisfaction**
supported by	*supported by*	*supported by*	*supported by*	*supported by*	*supported by*
Mission	Mission	Mission			[Mission]
Involvement			Involvement	Involvement	Involvement
Adaptability	Adaptability	Adaptability	Adaptability		[Adaptability]
Consistency				Consistency	Consistency

Research: Caroline J. Fisher

Revenue growth and market share (both externally oriented performance measures) are supported by the externally oriented culture traits of *mission* and *adaptability*. Quality and employee satisfaction (internally oriented performance measures) are supported by the internally oriented culture traits of *involvement* and *consistency*.

Innovation (a performance measure related to flexibility) is supported by the flexibility-enhancing culture traits of *involvement* and *adaptability*. The performance measures of profitability, by far the most comprehensive and complex measure of business performance is supported by strength in all four cultural areas.

In the late 90's, I conducted a second phase of research at the California School of Professional Psychology. These findings confirm Denison’s and extend them down the path of understanding what creates success in today’s businesses.

These research findings revealed that *mission* alone, as a single cultural factor, affects the greatest number of bottom-line performance measures in a company. (Of Denison’s list, all except innovation were affected.) Thus, if a company is simply clear on why it exists and has a vision, goals, and strategies that are embraced throughout the company, five of six performance factors can be affected. The fact that innovation is not affected by *mission* alone is logical—a singular focus runs counter to the diverse thinking required for innovation and creativity.

Involvement is the second most important culture trait, affecting four of the six performance measures (all except market share and sales growth). *Adaptability* affects three of the six (sales growth; market share; and innovation); consistency affects two of the six (quality and employee satisfaction).

There are two critical messages here. First, as a business leader, when you're facing a crisis or trying to produce a steep change in results, do no focus on *consistency* alone. Ironically, when leaders face such challenges, they usually impose a new system or process or structure—an attempt to gain control. But when this is done without an accompanying emphasis on *mission* and *involvement*, you're bound to miss your mark. At best, you might incrementally improve product quality or employee attitudes. It's equally likely that you'll end up worse off than before, having increased the levels of cynicism and resistance to any future changes that really will become necessary.

The second message is perhaps the most important. If you want to produce breakthrough results (not just incremental change, but a whole new level of performance), look at *mission* and *involvement*. Between these two culture traits, all six performance measures can be affected. The other two culture traits (*adaptability* and *consistency*) count, of course, for full sustainable performance over the long run—but without *mission* and *involvement* they won't get very far.

With regard to employee satisfaction, my research shows that profitability in Denison's research is supported by strength in all four culture traits. It is becoming clear that employees are not only looking for things associated with *involvement* (having a say) and *consistency* (effective support systems), but they are also demanding *mission* (being part of companies doing positive things with a clear path) and *adaptability* (providing customer with what they want, and having flexibility and changing to meet new demands).

So Why Is All This So Important?

The corporate world has spent trillions of dollars attempting to change over the last 15 years. Training programs, consulting services, process improvements—the list goes on. By one estimate, customers as well as employees rate the effectiveness of these programs at 10-20 percent.[2] And that might be optimistic.

There are many reasons for this rate of failure. Often, the desired outcome or result was not clearly defined up front, with an initiative applied to clearly match that result. Often a leader desires the latest management fad, hoping somehow it's the answer. Alas, usually, it's not.

Sometimes, such initiatives can create meaningful change over time. For example, even though an employee survey has never changed a company, we have slowly learned that employee input *is* important, and its value has, in many cases, elevated surveys to far more than just another check-off item in a manager's list of "things I gotta do." The problem with an evolutionary approach, however, is that companies don't have the time, energy, or resources for that anymore.

Companies today can't mess around. They need results—and they need to precisely target their changes to hit those results on the nose. If a leader first defines a very specific result (i.e., increased sales growth or increased innovation) and then intervenes at a cultural level to achieve that result (*adaptability* and *mission* for sales growth; *adaptability* and *involvement* for innovation, etc.), they would be far more likely to get the result they want, not to mention getting it faster.

Another benefit of the cultural approach to getting results: A company can monitor and gauge how well it is developing its baseline sustainability—its ability to perform for the long haul. After all, companies with strength in all four culture categories win consistently over time.

Viewing an organization through the cultural lens is useful for other reasons as well. If a company is weak in all areas of culture, the best place to start is with *mission* and *involvement*. (Remember, you can ultimately affect all six performance measures through these two traits.) This can be true of: start-up ventures—do you know why you're doing what you're doing and do your people see your vision?; merging companies—creating a common "third point" of focus to help each group take their eyes off each other and put them on the goal; or companies in decline that once thrived even without a clear understanding of why they existed. Competition no longer allows this luxury.

The links between individual culture traits and specific performance indicators let you precisely target your organization's culture to meet specific results and to consciously build and monitor the organization's culture to ensure sustainable success. Remember, hope is not a strategy. If you truly understand something, you can make the right choices to so something about it.

What Business Leaders Often Don't Want to Admit

There are four ways to avoid dealing with your corporate culture:

1. Argue that the research is flawed and you need more proof.
2. Contend that your company is different, and the usual rules don't apply to you.
3. Acknowledge that it's something the company should think about—then delegate it.
4. Get really mad about last quarter's results and hire another marketing guy.

It's *easier* to tell yourself that culture doesn't matter—even if it *does*, it can't be managed. But if you are convinced that culture is a strategic lever for success, you've cleared one of the biggest hurdles between you and getting the results you want.

So figure it out. What results do you want from your business? Improved profitability? Increased innovation? Then:

- **Take a long hard look:** Determine what your culture really looks like right now. Profile it; sharpen your understanding of its dynamics and implications. This is no time for "amateur night at the Lodge." Engage the experience and perspective of professionals.

- **Focus on what matters most:** Identify those factors that directly support the results you want. Consider their implications in the context of your industry and the marketplace. Again, this is where the right expertise can really pay for itself.
- **Prepare for the change:** Clarify your expectations, check your commitment, enroll key teammates; identify critical support resources for the long haul.
- **Make it happen:** And hold on tight.

As hard as it may be to deal with, culture *is* the work of today's HR professionals and management. And the behavior changes needed to shape a business culture must start at the top, and be constantly reinforced by HR. These changes must weave through every level and every function and be consistently lead and strategically managed. You can't just talk about it: You have to *do* it.

Answering the Hard Questions

So, you ask, why aren't the "change programs" you've initiated having more impact? Why aren't the dollars you've invested in training your people paying off? What is it going to take to move this company to the next level of performance and beyond?

The answer to these questions can be found in what may be the last place you'd normally care to look: your business culture. Those "hard" results you've dreamed so much about have now been discovered smack-dab in the middle of "soft stuff." Yes, culture matters—and it matters in a big way. When all is said and done, it matters as much as profits and market share and sales growth.

With the right tools, information, and support, you can quickly understand the essence of your business culture—see exactly how it's supporting or hindering your company's performance. You can then zero-in on those aspects of your culture that lead to the specific results you long for. It's about understanding the true relationship between culture and bottom-line results—then using this understanding in a very deliberate and pragmatic way to get what you want.

Properly led, resources, and managed, it doesn't even have to be a long, drawn-out process. If you take your stand, engage the very best of yourself and your people, and take advantage of the resources now available through hard work, study, and experience of others, things can happen more quickly than you might have imagined possible.

Notes

1. Peters, T. J., & Waterman, R. H. *In search of excellence: Lessons from America's best run companies.* New York: Harper & Row.
2. Ashkenas, R. N. Beyond the fads: How leaders drive change with results. In C.E. Scheiner, ed., Managing *strategic and cultural change in organizations*. New York: The Human Resource Planning Society.

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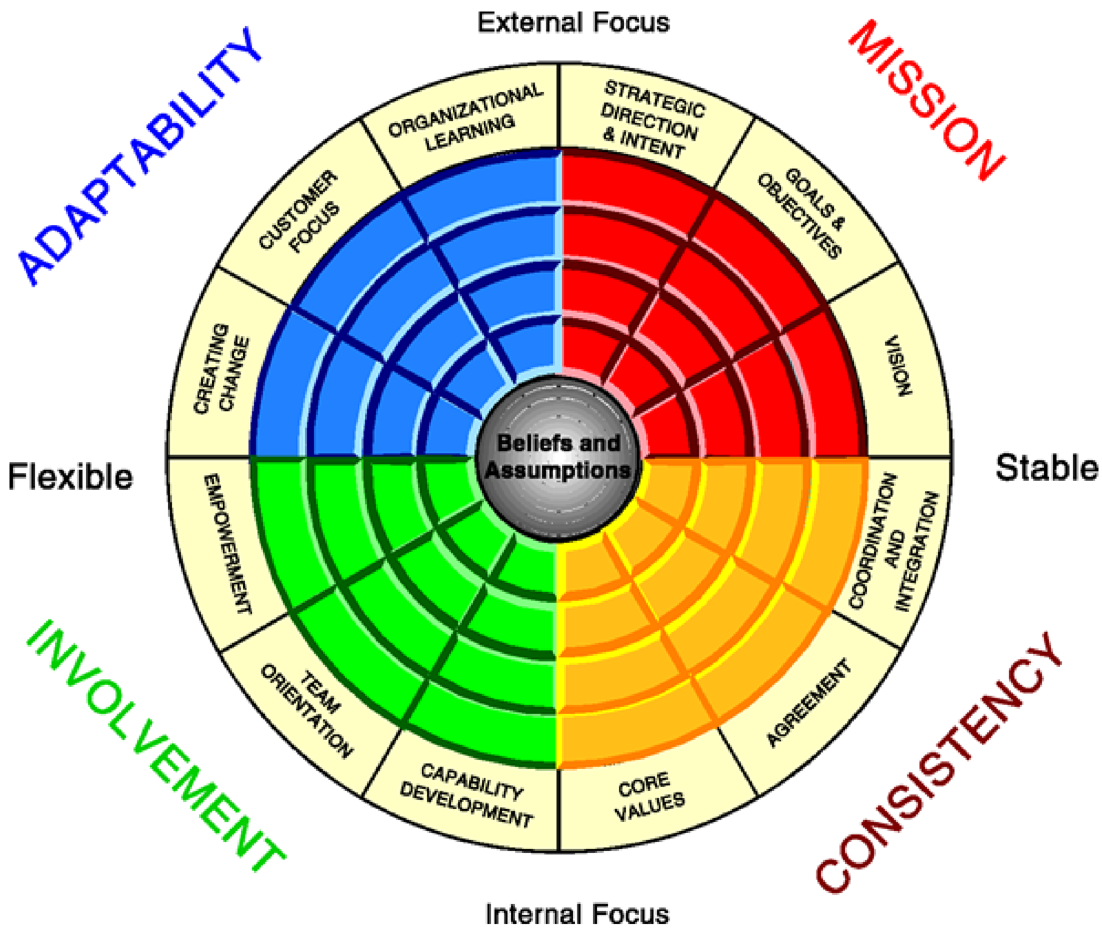
THE DENISON ORGANIZATIONAL CULTURAL MODEL

A Model for Leadership and High Performance



This article appeared in *Employment Relations Today* (a John Wiley & Sons Publication),