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WHAT IS CULTURE?

The question is not whether your enterprise has a culture, but whether it's the RIGHT one.

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Culture is often referred to as “the way we do things around here,” but it is really much more.

Culture is the assumptions, mysteries and engine of an enterprise’s success – or the poison pill of its failure. “It’s the culture” is a common explanation for the defining characteristics of successful companies, such as Apple’s creativity and Ritz Carlton’s intense customer caring. In an ironic twist, it is also the explanation for companies in decline such as Sears and BlackBerry, and failed companies such as Enron and Pan Circuit City.

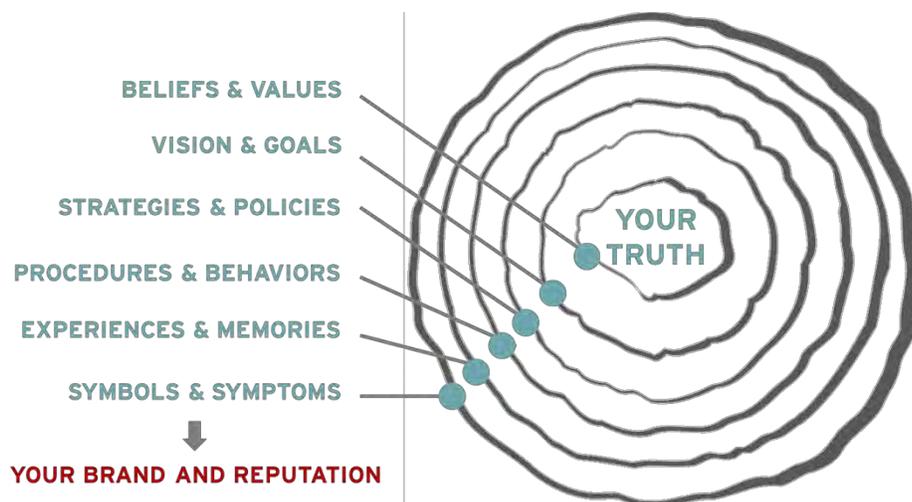
Given culture’s power to determine an enterprise’s fate, you might think that asking leaders why their company’s culture is the way it is would yield more illuminating answers than, “It’s just the way we do things around here.” While that correctly describes how culture works, it’s not a useful answer if your interest is in understanding, building or changing a culture. Moreover, it is not necessarily a very hopeful answer, especially for an enterprise in decline.

WHAT IS IT?

Scholars tend to be a bit more specific in their definitions than managers and leaders, as indicated by the following summarized definition from academia: The system of shared values, beliefs and experiences that govern the thinking and behavior of a group and its members. The major function of culture is to initiate and sustain success as well as provide a personal and shared identity for members.

THE STRUCTURE OF CULTURE

Cultures are layers of meaning. While its layers are what make a culture so hard to define, understanding can be gained by methodically peeling back the layers to reveal the underlying values and beliefs. The layers of an onion provide a good metaphor for defining and understanding the key elements of culture, and the importance of purposefully aligning those elements. In a “strong culture,” all of the layers are in alignment, creating a structurally united culture. In a “healthy culture,” the layers are not only aligned, *but* directly and intentionally connected to the enterprise’s success. Given this important distinction, it follows that a strong culture is not necessarily a healthy one.



COMPANY CULTURE, BRAND AND REPUTATION

When you experience a company from the inside-out, what you experience is its culture. This is the perspective of internal stakeholders such as employees and suppliers. In contrast, when you experience a company from the outside in, what you experience is its brand and reputation. This is the perspective of external stakeholders such as customers and community members. While cultures are built from the inside-out, they are more easily understood from the outside-in.

Symbols and Symptoms are things you can see or readily find (in the instance of a public company). Examples of symbols include how employees dress, the company logo (think Nike's swoosh or McDonald's arches) and office appearance (décor, location and size). Symptoms are important metrics of success such as share price, sales and profit as well as employee turnover. This is the most visible layer of a company's culture.

The next layer, **Experiences and Memories**, reveals the roots of the company's customer and other stakeholder experiences and the memories created by those experiences. For example, Ruth's Chris Steak House wants its customers to experience four specific things: *Timeless American Steak House Food, A Great American Bar with a Twist, Legendary Service* and *Total Guest Indulgence*. The memory that the experience is intended to create is: "Ruth's Chris is the best American steak house – period." To the extent that this memory is consistently created, Ruth's Chris will have a strong consumer brand.

Procedures and Behaviors support the creation of the intended experiences and memories. This layer includes stakeholder-focused procedures such as employee pay and benefits, hiring procedures, recognition programs, products and product ingredients, customer service programs and product/service guarantees. Also included in this layer are the employee behaviors that the procedures are designed to promote and reinforce. For example, in the airline industry, safety is the primary focus of many procedures. However, if employees don't follow an important procedure, such as the safety announcement that precedes every flight, safety is compromised. This results not from a bad procedure, but rather a failure to execute the procedure, which is a consequence of a behavioral lapse.

Strategies and Policies are the organization's identified imperatives and the policies that support them. In most service industries, for example, one of the must-have imperatives is talent management, in particular hiring, developing and retaining employees who will deliver the organization's intended brand and customer experience. Examples of policies that support talent management may include hiring practices, reward programs, scheduled and documented job training programs, and outside education with

incentives such as tuition assistance and/or the opportunity to take sabbaticals. This is the layer that connects internal stakeholders (employees) with external stakeholders such as customers.

Vision and Goals are where the future of the enterprise is imagined and constructed to ensure success. For example, a company might have a vision of being a remarkable place to work and, to ensure that they can achieve this, they establish goals such as industry-low turnover, industry-high employee productivity and a high ranking among *Fortune Magazine's 100 Best Places to Work*.

Values and Beliefs are the heart and soul of a culture - the "whys" of a company's actions - and, while impossible to see in any direct sense, they illuminate a company's culture and its ability to create and sustain success. Values and beliefs also explain the differences in stakeholder priorities within different cultures. These differences result from the culture's beliefs about success (i.e., business model), while its values determine how different stakeholders' priorities are treated.

GETTING IT RIGHT

Values are a bit difficult to distinguish and are about choices of morality - choices that color the culture's beliefs about success. In contrast to the moral aspect of values, beliefs are just what they sound like: *articles of faith assumed to be true*. Because beliefs are rooted in the dreams, assumptions, life experience and upbringing of an organization's leaders, this layer is almost always murky, emotional and mysterious, even to the leaders themselves. However, because clarity around values and beliefs can cause dramatic improvements in the precision, rationality and alignment of the layers it supports, it is absolutely critical that these two key elements are clearly defined and understood.

Getting values and beliefs right is what culture building (or renewal) is all about. The alignment of the other layers depends heavily on the veracity of the leaders' values and beliefs. Unfortunately, in many instances of cultural renewal (e.g., company turnaround, regime change, mergers/acquisitions, etc.), values and beliefs are ignored or treated superficially. The danger in this practice is captured in former Merck CEO Richard Clark's observation that "...culture eats strategy for lunch. You can have a good strategy, but if you don't have the culture and enabling systems that allow you to implement that strategy, the culture of the organization will defeat the strategy." This tendency to underestimate the impact of a company's culture, for good or bad, is often combined with pursuit of costly initiatives, such as rebranding, with disastrous effects. Unless these important efforts are truly aligned with the culture's core - *values and beliefs* - they will not have the desired impact and, in some cases, may backfire.

WHY CULTURES SUCCEED

A fact that is so obvious that it many times goes unnoticed is that leaders are limited to two basic tools: words and actions - - hence the phrase “walk-the-talk.” Cultures start with leader-speak about success and how it is achieved. For example, many leaders believe that success has to do with results and company reputation. How they talk about these outcomes is how they will eventually be understood and how they talk about the right ways to achieve them is how they will eventually be achieved. A leader may believe, for example, that being an employer of choice is an important outcome. This conclusion, if it is to become reality, has to be followed-up with the nature of the employee experience that will make the company an employer of choice. These words are strongly influenced by the leaders’ beliefs and values and expressed initially in the vision and goals that they have for the company, followed by strategies and policies and so-on-and so-forth culminating in the symbols and symptoms that they believe indicate success. Success itself depends on two things: the correctness of the beliefs and how accurately they are weaved through the successive layers of culture. Thus, in order to build a strong and healthy culture, you must have a viable set of beliefs and a business model that is aligned with those beliefs.

WHY CULTURES FAIL

Faulty beliefs about success and how it is achieved are the primary reason for enterprise failure. However, our experience indicates that there is another reason that ranks right up there with faulty thinking - poor alignment between one or more layers of the Culture Onion. As the onion illustrates, the right goals, policies, strategic imperatives, intended experiences, etc. are foundational to a strong and healthy culture. For example, in virtually any service-based enterprise, the hiring, development and retention of talent is one of the most important strategic imperatives and perpetually receives intense focus. Nonetheless, in some industries where employees are a major part of the customer experience (approximately 65% by some estimates), the acceptance of high turnover and slipshod employee development procedures is the norm. Consequently, the scarcity of General Electric-like powerhouses in these industries is no accident or surprise. In the end, cultures fail because leaders fail to lead them.

FINAL THOUGHTS

There are two major contributors to the core beliefs of a company: the definition of success and the process of being successful. For this reason, beliefs have the largest impact on the nature of a company’s culture. It is differences in beliefs rather than values that cause a company to be transformed – for good or ill – by a change in leadership. The culture building process involves aligning the layers from the core beliefs and values to the defining symbols and symptoms. A strong and healthy culture is the first

outcome of perfect alignment, while its ultimate reward is a company reputation for human goodness, flawless execution and being a best-in-class brand.



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