

The Culture Strategy Fit: Why Aligning Culture and Strategy is Crucial

A December 02, 2008 *Management Forum Series* presentation by

Sherrill Burns

Synopsis by Rod Cox

All leaders understand that their organization – and every other organization – has a culture. Yet surprisingly few of them understand the critical relationship between culture, strategy and achievement. In particular, they don't realize that a culture not aligned with the organization's strategy can seriously undermine it. *“If you don't understand the culture of your company, even your most brilliant strategies will fail. Your vision will be resisted, plans won't get executed properly, and all kinds of things will start going wrong.”* Isadore Sharp, CEO, Four Seasons Hotels

Sherrill Burns notes that *“Frustration with available culture diagnosis tools has lead us to an intensive period of research into what really is important for culture diagnosis.”* She has made it her professional purpose to bring this research to light, and to train leaders and organizations to use culture to help sculpt strategy, and vice versa. In this Portland, Oregon *Management Forum Series* presentation, Burns focused on:

- *helping organizations identify the culture they aspire to, the cultural strengths they need to foster and manage, and the areas where cultural patterns need development*
- *how culture fit accelerates strategy execution*
- *why reducing culture drag is so challenging*
- *the role strategic context must play in determining how to shape culture for future success*
- *core aspects of culture which provide the foundation for using culture as a strategy accelerator*
- *strategic aspects of culture that will support a company's future success, building the capacity to deliver*
- *three components of a culture measurement plan; how to measure it to see if it supports the strategy*
- *key ways (practical things that do work) to shape culture as an accelerator*
- *how to convince leaders that there is a significant payoff for shaping culture fit to strategy*

Sherrill Burns is a founding partner of Culture-Strategy Fit Inc. and a leading global expert in leveraging culture to drive strategy and performance. Her experience in psychology, education, and organizational development is the foundation for her rich contextual understanding of the complex challenges facing organizations. This synopsis is drawn from her Portland, Oregon presentation, and includes ideas, presentation methods and quotes from that seminar. The seminar included a number of break-out table discussions where participants discussed the ideas and worked through exercises designed to give them traction in developing culture strategy fit in their own organizations. Some of their insights and comments are included in the synopsis.

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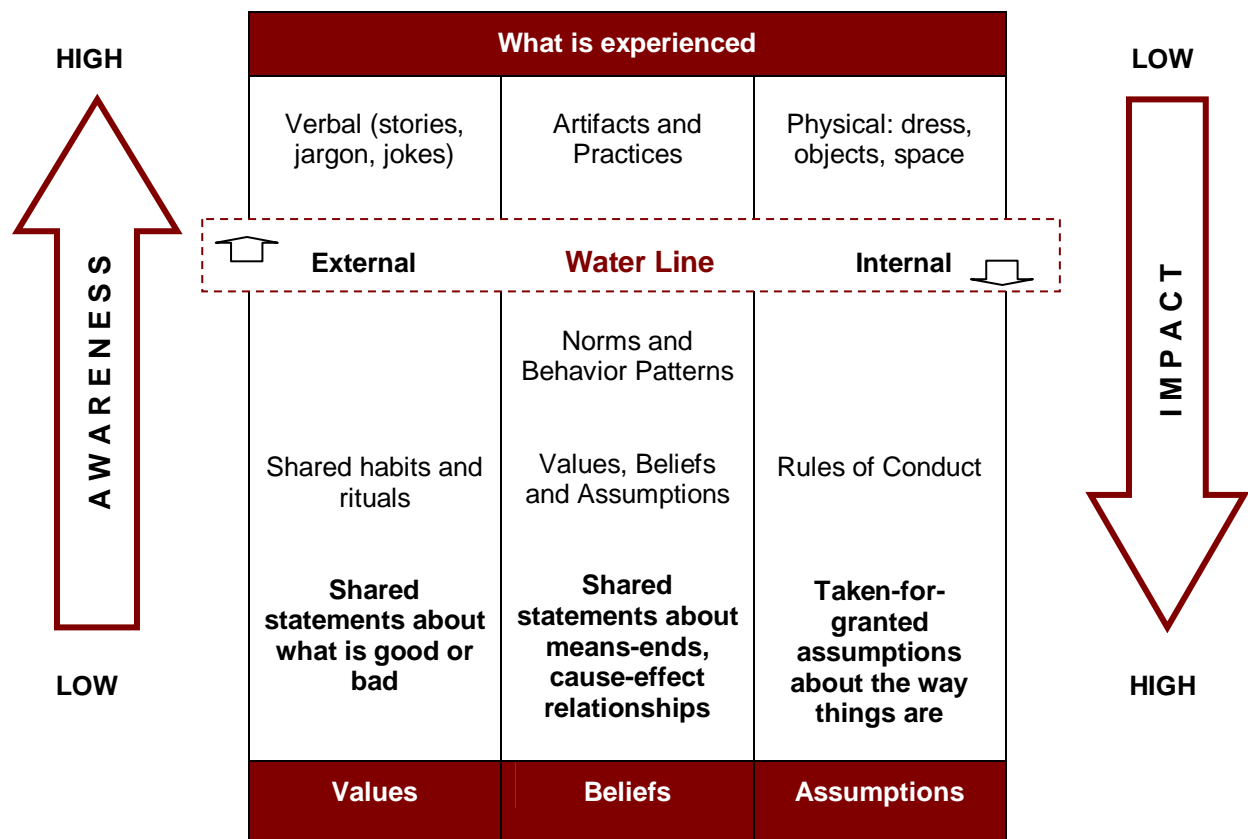
What, exactly, is culture?

Just as all organizations have a culture, each of them has both an external and an internal culture.

The external cultural experience has to do with the stories you hear about an organization: its awards, your own experience, media and advertising. This might include logos, uniforms, office space, jargon, jokes, technology, products and services, published values, observable rituals, ceremonies, market/financial conditions, competition, and so forth. All of these impact the strategy of an organization.

But the internal cultural experience – the shared habits, values, beliefs, assumptions, rules of conduct, etc. – is more likely to profoundly impact the strategy.

To put this into perspective, Burns employs an iceberg metaphor from the work of leading culture scholar, Edgar Schein: what is seen (above the water line) is only a fraction of the cultural mass below the water line. **“The areas of greatest strategic impact (and conversely, lowest awareness) are the internal cultural experiences beneath the water line.”**



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Thus, organizational culture is *“a pattern of shared basic assumptions that a group learned as it solved problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.”* Edgar Schein

Burns emphasized the validity of understanding specific cultural dynamics. *“In your organization:*

- *How long does it take a new entrant to learn the way the organization functions?*
- *What practices and behaviors do groups learn that support or get in the way of strategy?*
- *What is the organizational capacity to achieve results as a reaction to external changes and the adaptation required? (External and internal cultures that are not matched will almost certainly have a negative impact on organizational success.)*
- *What is your organization’s capacity to take the present culture’s strengths to drive strategy the future? This is a key leadership challenge.”*

How culture alignment accelerates strategy execution

It creates a distinctive advantage

The Four Seasons started as a single small motor hotel. Its owner, Isadore Sharp, quickly recognized that to make money, he had to build larger hotels. But he was not satisfied: the larger hotels, although efficient, were sterile, definitely lacking the “home away from home” atmosphere he was seeking for business people. What to do? He made a strategic decision by asking himself: “Does owning the hotel matter?” The answer was, “no.” Sharp shifted his strategy from owning hotels to running hotels, letting others pay for the bricks and mortar.

Still, Sharp remained focused on a home-away-from-home atmosphere as a way to command premium prices for his rooms. His secret? The Golden Rule, trusting employees to treat customers as they would themselves like to be treated, and letting them set the standards. This also invested the employees in building the culture over time. Driven by culture, The Four Seasons hotels, now international, are among today’s top-rated corporate hotels, consistent winners of prestigious customer satisfaction awards.

It delivers the mission

A Christian healthcare center created a culture focused on mission and purpose in a most unusual way: it opened its books to reveal the internal information that many other healthcare centers keep under wraps: healthcare delivery errors, death rates, and other not-so-pleasant statistics. Potential patients, instead of being put off, were impressed with the healthcare center’s honesty and transparency, and began making it their center-of-choice, preferring to go there instead of to the competing centers whose statistics were secret.

Over time, the success of this cultural enhancement allowed the center to expand its mission by pursuing a loftier goal as a trusted consultant to other hospitals.

It builds productivity

“When trust is low, speed goes down and cost goes up. When trust is high, speed goes up and cost goes down.” Stephen M.R. Covey This is certainly a message with a win-win foundation. Note this: the total Return-On-Investment (ROI) in culturally/strategically aligned organizations is three times higher than it is

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in non-aligned organizations. In a landmark ten-year study by Kotter and Heskett, ***companies that intentionally managed their cultures well outperformed organizations that didn't:***

- revenue increased 682% vs. 166%
- stock price increased 901% vs. 74%
- net income increased 756% vs. 1%
- job growth increased 282% vs. 36%

It manages risk

Although most of the publicity surrounding the Columbia space shuttle disaster focused on the foam panels that damaged the wings on take-off, the inquiry board found that as much a culprit was a NASA culture with flaws that inadvertently created the conditions for disaster,.

“It has been scorched into my mind that bureaucracies will do anything to defend themselves” said Admiral Harold Gehman, Jr., Head of Inquiry. *“Because of bureaucratic intimidation at NASA, engineers had no voice and no ability to make needed changes that might have prevented the disaster.”*

It maintains sustainability

Jim Collins, (*Good to Great*) is a keen observer of the bottom-line benefit of cultural alignment *“Whereas the good-to-great companies had Level 5 leaders who built an enduring culture of discipline, the unsustainable comparisons had Level 4 leaders who personally disciplined the organization through sheer force.”*

For example, Lee Iacocca, while turning around Chrysler in the 1980s used force of personality rather than a focus on sustained culture change. When Iacocca's attention shifted elsewhere, the culture shifted right back to its historical culture patterns. Collin's research proved that leaders of companies that sustained top performance over time persistently paid attention to the development of a strong culture aligned to strategy.

Cultural alignment, then, is not a “feel good” approach. It's a foundation to organizational success that:

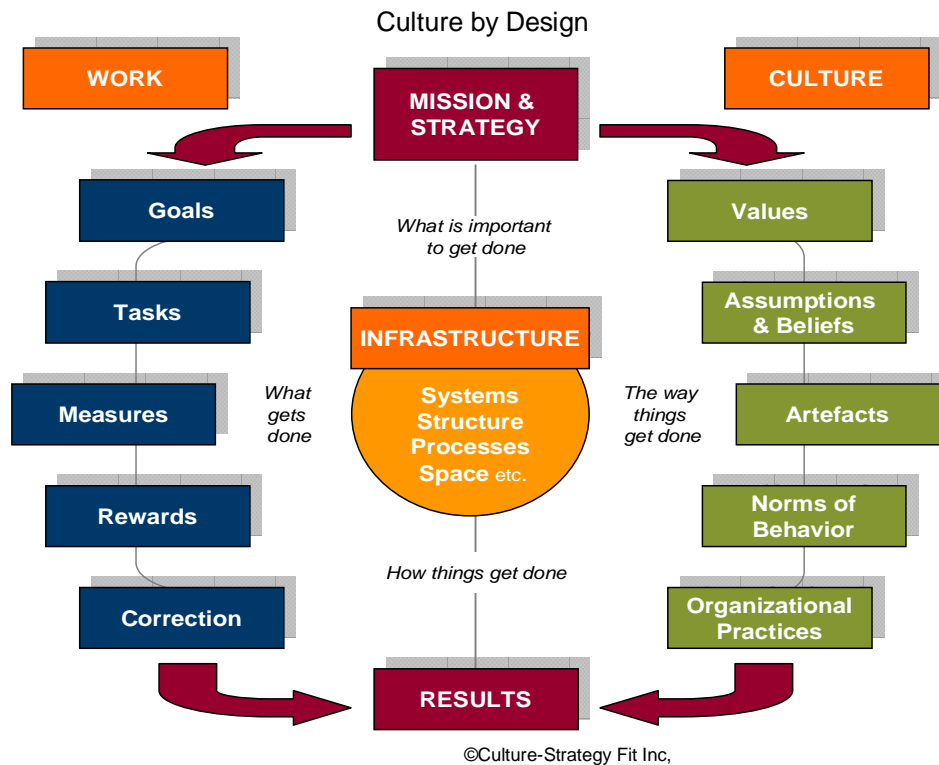
- creates distinctive advantage
- delivers mission
- builds productivity
- creates breakthrough performance results
- manages risk
- and maintains sustainability.

It's also a leadership choice: will the organization just let culture evolve by default, or shape culture more deliberately by design? As a leader, do you delegate this and allow it to unfold as it may in different functions and groups over time? Or do you pay attention to what is important to focus on and develop sufficient cohesion and strength of culture patterns? Burns notes: *“If you want to use culture as a competitive advantage there is no choice but to focus collective attention on what is important and to engage core groups in creating the practices and norms of behavior to make it happen. .”*

Note the illustration on the following page.

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Do you need to balance the work items (left-hand column) with the culture items (right-hand column)? You need to balance the time spent on both which is often not the case. *“But if you pay attention to the right-hand column, the left will typically follow as the conditions for high performance have been set.”*

| Fatal Thinking | Actuality |
|--|--|
| Goal alignment will create culture alignment | The existing culture is apt to override goal alignment |
| Infrastructure change will be supported by the current culture | SAP won't change beliefs |
| Communication will change norms of behavior | Stump speeches won't work by themselves |
| Cultural work can be delegated | It remains the responsibility of the leaders |

Building a Vibrant, Healthy Culture

Within any organization, social and operating norms and practices – the tacit rules about the way things get done – create cultural patterns. These can include the dynamic combinations of individuals and groups, organizational practices, whether it's okay to talk with the CEO, the interplays between people

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and business units, and so forth. *“The combination of the patterns creates the organizational DNA. The interplay makes strength.”*

Within your organization, what culture patterns illustrate where and what you are now? What cultural patterns would create a more vibrant, healthy future? Would it include accountability? Flexibility? Trust? Mindfulness? Shared purpose? Collaboration? Social dynamics? Leadership authenticity? *“Context is critical. Given the history of your organization plus the work that has to be done, what should be emphasized?”*

This is where leadership plays a critical part. *“It’s not what we are told, it’s what we hear.”* And one might add, *“what we see.”* Leaders can and do shape a culture by their own behavior. When this is done thoughtfully through a collective, cohesive focus on the critical items that support the desired culture, leaders can achieve the necessary critical mass (statistically, 13%) that is required to tip the culture in the desired direction. *“A leader is not required to change everyone’s behavior. But he can achieve this through the amplifying effect of leader behavior. The focus is this: building new culture patterns, and engaging the people to promote them.”* An excellent place to start is to ask what are the critical few strategic culture patterns that will have the most impact *“to make our organization different, and build our viability and capacity to thrive?”*

Start with context

“The first step is to identify all of the contextual factors that will influence the organization’s culture. Is it a regulated industry? Is the stage of growth new or is it mature? What is the ownership (public, private, family) and geographic dispersion? What is the organization’s promise to the stakeholders? How does it plan to be distinct and different from the competition?” A leader who examines these carefully and thoughtfully will be able to narrow the field of play. *“You can’t do everything at one time.”*

| Contextual factors to consider | | |
|--|--|--|
| External Environment: socio-demographic, geo-political | Sector: private industry, regulated, unionized, ownership, governance, family-owned | Organization Complexity: size, structure, geographic dispersion |
| Funding Relationships: government, social entrepreneurs | Leadership: corporate values, vision and mission, style and philosophy | Customers: numerous or few, expectations |
| Growth Strategy: new markets, mergers and acquisitions, alliances | History of Major Internal Change: people, technology, financing, other | Third Party Relationships: joint ventures, supplier relationships, partnerships, outsourcing, other |
| Financing | Social Responsibility and Sustainability | Merger and Acquisition History |

Consider the basis for differentiation

The strategic direction of any organization is founded on one of four core focuses: **product leadership** (the best products); **customer intimacy** (the best total solution); **high reliability** (the most dependable); or **operational excellence** (the best total cost). In each case, the area of focus will require distinctive culture patterns.

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Using the chart below, see if you can identify organizations that fit each category and gauge where they are in their development of strategic and cultural fit. Do they just meet minimum requirements of culture fit to strategy(a), or have they developed culture fit as a competitive edge (b)? Since we’re talking about core strategic directions, “no organization can fit into more than one category.”

| Focus | Representative Organizations | Market Leaders |
|---|---------------------------------|---|
| Product Leadership: the best products | (a) meet the industry threshold | (b) first to market in its products or services |
| Customer Intimacy: the best total solution | (a) generally meet expectations | extraordinary service levels and expertise. Customized personable services. Solutions partners. |
| High Reliability: most dependable | (a) consistently effective | (b) confront the unexpected, and handle failure with resilience. Manage complexity with aplomb. |
| Operational Excellence: best total cost | (a) low price, dependable | (b) optimize processes, fill to capacity, hassle free, convenient |

In which of the four focuses does your own organization fit, and why? Within that focus, if you’re in the (a) column, what would it take to move to the (b) column? Where is your organization in its life cycle: startup (creating, learning), or growing (building, developing, marketing), or maturing (renewing, reshaping), or is it a turnaround (challenging, focusing)? What impact will this life cycle have on determining your strategic direction and cultural fit?

Putting it together

The question is, how do we shape strategy? What is our focus for the next year? How do we reset our organizational DNA?

A key early step is narrowing down the field of play so that the focus is on the things about which the organization needs to be mindful. Earlier we talked about the Four Seasons Hotel experience. In

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shaping the strategy, Isadore Sharp paid particular attention to both core culture patterns and strategic culture patterns as he shaped the environment. As mentioned on page five, this is a role an effective leader can't delegate.

| Core Culture Patterns | Strategic Culture Patterns |
|--|--|
| <ul style="list-style-type: none">▪ adaptability▪ authenticity▪ identity▪ knowledge sharing▪ power (fairness and equity)▪ trust | <ul style="list-style-type: none">▪ focus on people: empowerment, involvement, learning and development▪ collaborative practices: collaboration, responsiveness, social dynamics▪ focus on results: accountability, goal alignment, results▪ execution discipline: problem management, process discipline |

The network effect – synergy, if you will – between core culture patterns and strategic culture patterns creates culture dynamics. *“With these in mind, which are the strategic culture patterns that need attention? What cultural dynamics would create the capacity necessary to deliver on the goals?”*

Aligning culture fit to strategy

Challenge 1: Cultural alignment

- Put collective attention on specific culture patterns needed for tomorrow.
- Define the role of the leader.
- Think beyond engagement patterns to discover the other patterns that need fulfillment.

Challenge 2: Culture coherence

- Build strength and intensity by determining the compliance level required by individuals and groups with beliefs, assumptions, practices and norms of behavior. Include the need for sufficient cultural intensity to create the capacity the organization needs to deliver its strategy.
- Determine the engagement level required, and the geographic dispersion, the downside of cultural intensity, and remote work arrangements.
- How much intensity is needed? What of the existing culture can be exploited? What needs to remain distinctive?

Challenge 3: Culture cohesion

- Determine the appropriate level of diversity. What are the sub-cultures (R&D, Sales, HR) and how do they affect each other? Which shared practices and norms of behavior are needed, and which are not required?
- Consider the issues: multiple locations, multi-disciplinary services, acquisitions, autonomous leaders, etc. How will they affect cultural cohesion?

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Every cultural initiative includes three critical components that require consideration and, if the culture is to endure, must have continued attention:

- 1. Discover:** *“This has to be done through conversations, asking questions to gain deep insights for priority setting.”*

Initially, the goal may simply be to discover ‘*the way things get done around here.*’ Bulletin boards, how people assemble, who talks to whom, how communication is handled, the cultural stories, how customers are celebrated, and so forth, may yield important clues. Are there differences between the high-performing and low-performing areas?

Interpretation (deconstruction) is the next Discovery step. Look at the data to assess culture pattern alignment, coherence and cohesiveness. How do they operate to support and/or impede strategy execution? What are the variances in perceptions and experience in core groups? What are the sub-culture differences? How are core dynamics revealed in the interplay of patterns and causal factors? *“Interpretation is a process of connecting the dots between strategy, culture, leadership and results. Can you take what’s now observable through the stories and data, explore it, and select one or two aspects of culture to focus on to deliver the gains you seek?”*

Consider using a culture alignment measurement system. This might include anecdotal stories and practices that exemplify behaviors plus culture survey data. Again, look for patterns of practices and behaviors using different methods to track change over time.

| Ambiguous/New | ←————→ | | Routine/Familiar |
|-------------------------------------|---|--|----------------------|
| Function | Observation Deconstruction Reconstruction | Assessment Causal factors Priorities | Measurement outcomes |
| Data Format | Stories and Practices | Patterns | Numbers |
| Sample size | n = 1 | n = 3 | n = 7 |
| Features and Characteristics | Emergent | Diagnostic | Statistical |
| Descriptors | “anecdotal” | “qualitative” | “quantitative” |

Adapted from a model by T. Bidga-Peyton Pd.D.

- 2. Focus:** Build broad understanding of culture fit priorities and demonstrate new practices and behaviors. *“At any one time, organizations can handle a maximum of three culture fit priorities. More than that, and it’s doubtful that any of them will survive.”*

Proactive change can occur without a lot of fanfare, and it can be incremental. To illustrate this point, Burns tells of a Sprint executive who was given the charge of integrating a small acquired telecommunications company with a pronounced entrepreneurial culture, counter to Sprint’s disciplined approach. Without even announcing it, the executive created a profound cultural shift in a single year:

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- start: He announced a one-hour daily meeting with a specific agenda and start time at which time the door would be locked. Ironically, during the first week, the CEO was locked out (and kept out) when he arrived late.
 - next: He announced that everyone would be accountable for three performance objectives for the year. A one-page business case was required on requested expenditures.
 - by six months: People had become accustomed to providing a business case for requested expenditures and living to expense guidelines.
 - by nine months: ABC accounting was being planned to help decision making
 - at 12 months: The financial discipline of the Sprint culture was in place and the smaller firm had retained its entrepreneurial spirit and speed of decision making.
- 3. Live It:** Spark chain reactions. *“Demonstrate, install, track and sustain culture-strategy fit across organizational practices, and in group and personal behaviors.”*

Core groups lead the way, but action learning and cultural shift requires that all of the people are engaged and involved in creating the new practices. The same rules apply to everyone, and consistency is 100% with no exceptions or excuses. This is necessary to maintain the intensity.

Wrap up

Burns topped off her presentation by asking what the audience would suggest – from their own experiences and from what they had learned during the presentation – to promote culture strategy fit. Their concluding responses:

- Consistency so that the values hold true.
- Take small change steps over time, but within a defined focus.
- Break down hierarchies, and add collaboration between departments.
- Use pictures to carry the message and the movement.
- Challenge the management group to come up with innovative practices.
- Focus accountability and responsibility on the team. (Burns notes that it’s difficult to change individuals, but collectively focusing on the team encourages individuals to change to fit the group norm.)
- Know what other departments are doing. Foster interdepartmental coordination.
- Develop personal relationship abilities to include open, candid conversations.
- Promote work/life balance. Honor a coworker’s time at work so that she can go home on time.
- Use effective, regular communication and engagement practices that focus on what is important.
- Frame the change by tying performance management to professional development.