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Why Strategies Fall Apart: The CEO/Culture Disconnect

WILLIAM E. SCHNEIDER

A strategy that doesn't fit the organizational culture will fail in the long term—and too many CEOs don't understand their own firms' cultures.

*Bill Schneider is CEO of the Corporate Development Group, Inc. (CDG) in Denver, CO (www.cdg-corp.com). CDG specializes in organizational and executive development, emphasizing the alignment of strategy, culture, and leadership. Mr. Schneider is author of *The Reengineering Alternative: A Plan for Making Your Current Culture Work* (McGraw-Hill/Irwin, 1994).*

Although 70 percent of CEOs consider themselves good at formulating business strategy, only 30 percent believe they (and their companies) are any good at implementing it, reported a 1999 Louis Harris poll of 200 CEOs. When you look at what CEOs and their executive teams have been able to accomplish in the world of business in the past 50 years, it is mind boggling to think that most CEOs see themselves, their executive teams, and their companies as weak in strategy implementation. For such to be the case, there must be something inherent in the nature of organizational behavior that CEOs cannot understand and utilize.

The problem is too striking for the cause to be anything else. Of course, it may be that CEOs have unrealistic expectations and, therefore, rate their performance too low. But it is unlikely that, even if this is so, the problem amounts to only a limiting perception on their part. Far more likely is the probability that something more fundamental to their organization's functioning is going on.

Every business organization has three fundamental resources that are the most "leverageable," meaning that if an organization invests in these resources and effectively manages them, it can obtain a substantial return on that investment. These three resources are money, information, and people.

Business leaders, to date, have made great headway when it comes to money and information (which includes technology). Indeed, this successful use of money and information accounts to a considerable extent for the bulk of successful strategy implementation to date. But business leaders have been much less successful when it comes to leveraging their people resources.

A number of understandable causes maybe at the root of this: Particularly after World War II, money and information could carry the day and did. The times, the nature of markets,

and the prototypical business models of this era relied primarily on money and information in order for strategy to be successfully implemented. We are now, however, in the era of human capital productivity and “intensity.” We have been in this era for about 10 to 15 years, and now our people intensity is growing fast. People are much more critical to strategy implementation than they have ever been before, and it appears likely that they will continue to be increasingly important for quite a while.

Though they are quite capable when it comes to money and information, business leaders are *least* trained in how to leverage people resources and thus less capable when it comes to the people side of their business.

Simply put, CEOs and their executive teams, increasingly faced with a people-intensive business model, unfortunately lack the knowledge and power required to leverage their own people resources. Historically they have been successful at managing money and information in order to succeed, but most still struggle with how to manage people in order to succeed.

Jacques Nasser at Ford is a good example of this. By all accounts, he had been very effective at the money and information side of Ford’s business but continually ignored or minimized the people side, particularly those responsible for Ford’s dealerships. Eventually this caused his ouster by the Ford board of directors.

What knowledge and power CEOs do have today is generally *individual* oriented. While this is valuable, it is proving woefully inadequate, equivalent to someone having knowledge and power when it comes to individual dollar bills or individual bits of information but not the really important knowledge and power having to do with the leveraging of *collective* money and information. Though CEOs have made great progress on the individual side, they’ve made precious little progress when it comes to the collective of people and how to leverage that collective.

Understanding and capitalizing on organizational culture is how leaders leverage people resources. Culture after all is how you manage people in order to succeed, and practically speaking it’s the equivalent of finance (decision science for the collective of money) and of management

Businesses have one of four core cultures: control, collaboration, competence, or cultivation.

information systems (decision science for the collective of information).

The more business leaders learn how to use their own organization’s culture, the more they will succeed in implementing their organization’s strategy. When viewed through the lens of developing trends, the Louis Harris poll results mentioned above appears to be the result of two simultaneously occurring factors: (1) Business has become increasingly people intensive, and (2) CEOs and their executive teams lack knowledge and power when it comes to organizational culture.

Case in point: According to the Organizational Culture & Alignment Indicator (OCAI), a validated measure of culture and 19 “culture leverage points,” administered to more than 92 business organizations, 67 percent of the time leaders experienced their own organizational cultures differently than everybody else within their own organizations! This confirms that top business leaders have much to learn in the area of managing people.

WHAT CULTURE IS AND WHY IT’S SO IMPORTANT

If culture is how you manage people in order to succeed, the way you handle and or implement culture will establish your organization’s deep pattern of (people) behavior. Organizations are living social organisms, each with its own culture, character, nature, and identity. Every organization has its own history of success, reinforcing and strengthening the organization’s way of doing things. The older and more successful the organization, the stronger its culture, its nature, and its identity become.

Organizations are also “communities of people with a mission,” says Anthony O. Putnam in his book *Organizations, Advances in Descriptive Psychology*.

Though they exhibit machine-like characteristics, they are not machines, so to be effective, adds A. de Geus in his book *The Living Company*, they must serve the needs of the community and not vice versa.

Organizations exist to fulfill their mission and to contribute to the larger world around them, including their marketplace, but they do not exist just for shareholders. They exist for the communities they serve, the society within which they are embedded, their employees, their customers, *and* their shareholders. They exist for all of these stakeholders, all together, all the time. Profits are important because they allow the organization to survive, reinvest, and grow, and are analogous to air and water, vital for survival and growth. But they are not the purpose or the mission of the organization.

In their book, *The Witch Doctors: Making Sense of the Management Gurus*, John Micklethwait and Adrian Wooldridge explain: “Good management means doing the decent thing by both workers and consumers, not just amassing profits for bosses. ‘An organization is a human, a social, indeed a moral phenomenon,’ Peter Drucker notes, in a phrase that today’s reengineers ought to be forced to learn.”

There is a natural hierarchy of living systems. The basic nature of a living social organism is naturally more fundamental, deeper in the hierarchy, and therefore much more powerful than business work processes, financial systems, business strategy, vision, supply chains, information technology, lean manufacturing, marketing plans, team behavior, corporate governance, Wall Street’s investor reports, and so on. All of these factors are important. But they are less *fundamentally* important than the basic nature of organizations as living social organisms or cultures. This critically important reality must be where any strategy implementation starts.

When strategy incorporates cultural factors, strategy implementation has a chance of working. When it doesn’t, the probability of failure is high. It may look like a strategy is working in the short term, but what is usually happening is the living system is yielding short-term financial cost savings that start creeping back over the intermediate and long term. This is most evident in the example of “surgical” strategies, such as reengi-

A well-known control culture is that of Wal-Mart.

neering, de-layering, and downsizing. Though there are times when “surgery” is necessary, it is not the solution all the time, with every organization, everywhere. Yet quite a few recent management thinkers would lead one to believe that surgery is the only treatment that will work for all organizations.

All living systems, including organizations, grow and develop from the inside out. They start from their core and grow and evolve over time from that core, operating for a purpose. That purpose is *always* greater than the self-interests of the organism itself. People, organizations, communities, and societies exist in relationship with one another. Each establishes its own unique pattern. Self-sufficiency is a myth.

All living organisms operate in a non-linear manner, in a *core and periphery* manner. That core is central to any one living system’s *nature*. Organizations follow the same laws of natural living systems that all other kinds of living systems follow (such as sub-atomic particles, biological systems, ecological systems, societal systems, and interplanetary systems).

One central reason that new strategy implementation ideas work or don’t work has to do with whether or not they are based on non-linear, natural paradigms. The more a strategy operates from the paradigm of “organization as machine,” the greater the likelihood that it will not work. The more machine-like the idea, the more the living system will take the hit and, as soon as possible, start the process of reconstituting itself, just the way the human body operates when it has been damaged or injured. Indeed, all the evidence is that system-attack, machine-paradigm-based, interventions (like reengineering and downsizing) do not last. Every time, the living system reconstitutes itself, heals itself. The organization’s

“immune system” begins developing ways to neutralize its “attackers.”

Conversely, the more a strategy implementation idea builds on the nature and strengths of a particular living social organism and honors the integrity of that organism, the greater the likelihood that the idea will be adopted and integrated into the fabric of that organism.

Determining where an organization has been, where it is currently, and where it is primarily poised to go next is critically important before you make *any* attempt to “change” anything. Indeed, leaders should help their organization discover its own unique patterns and processes, then work to influence it in a manner that helps the organization to help itself function more efficiently and effectively. This technique will get your strategy implemented.

CULTURE IS MORE POWERFUL THAN ANYTHING ELSE

Research into the nature of living systems reveals that all living systems, including living social organisms (organizations), possess certain inalienable and consistent characteristics (see *The Web of Life: A New Understanding of Living Systems*, by Fritjof Capra, 1996). When it comes to the true nature of living systems, reality turns out to be a *pattern of dynamic relationships*, which, at the organization level, is what we call culture. This explains why organizational culture is so powerful, say John Kotter and James L. Heskitt in their 1992 book *Corporate Culture and Performance*, in that its impact supersedes all other factors when it comes to organizational economic performance.

Culture is an organization’s way, pattern of dynamic relationships, and “reality.” No strategy implementation idea, no matter how good, will work if it does not fit the culture. Even if a firm seems to have a superb strategy, if its culture isn’t aligned with and doesn’t promote that strategy, this “great” strategy will either stall or fail. Culture establishes and underpins everything: order, structure, membership criteria, conditions for judging effective performance, communication patterns, expectations and priorities, the nature of reward and punishment, the nature and use of power, and decision-making and management practices.

While no one organization has a pure culture throughout, every successful organization has a

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core culture. This core culture is central to the functioning of the organization, forming the nuclear core for how that organization operates in order to succeed. It is critical that this core (or “lead culture”) is aligned with the organization’s strategy and core leadership practices. Without this alignment, the organization loses focus and wastes energy as people, systems, and processes work at cross-purposes with one another.

Businesses generally have one of four core cultures: control, collaboration, competence, or cultivation. Leaders create one of these four core cultures, consciously or unconsciously, from their own personal history, nature, socialization experiences, and perception of what it takes to succeed in their marketplace. This leadership factor explains the strong connection among strategy, culture, and leadership. Table 1 shows the fundamental connections among all three.

Table 1 also lists the four “epistemologies” that correspond to each of the four core cultures. “Epistemology” means the primary or central way that each core culture *knows and understands*. Understanding the epistemology for each core culture is particularly necessary for any kind of effective strategy implementation. The more that a strategy implementation adapts to the epistemology appropriate to the core culture in question, the more probable that the strategy will take hold and significantly affect the organization.

The four core cultures are:

Control. This is a culture that is all about certainty. It fundamentally exists to ensure predictability, safety, accuracy, and dependability. The fundamental issue in a control culture is to preserve, grow, and ensure the well-being and success of the organization per se — a process

Table 1. Strategy, Culture, & Leadership Connections

Culture	Strategy	Leadership	Epistemology
Control	Market share dominance Commodity or commodity-like Distribution intensive Predictability	Directive Authoritative Conservative Cautious Definitive Commanding Firm	<i>Certainty</i> Organizational systematism
Collaboration	Synergistic customer relationship Close partnership with customer High customization Total solution for customer Incremental, step-by-step relationship with customer	Team builder First among equals Coach Participative Trust builder Integrator	<i>Synergy</i> Experiential knowing
Competence	Distinction Excellence Extremely unique One-of-kind offering Create market niche Constant innovation to stay ahead Typically, carriage trade markets	Standard setter Conceptual visionary Taskmaster Assertive Convincing persuader Challenger of others	<i>Superiority</i> Conceptual systematism
Cultivation	Growth of customer Fuller realization of potential Enrichment of customer Raise the human spirit Further realization of ideals, values, higher-order purposes	Charismatic Catalyst Cultivator Commitment builder Steward Appeal to higher level vision	<i>Enrichment</i> Evaluational knowing

called “organizational systematism,” meaning the organization as a system comes first.

This culture is not a contradiction of the earlier statement about organizations existing for a larger purpose than their own existence. It just happens that the way a control culture does fulfill its larger purpose is by emphasizing the success of its organization, per se. Accordingly, the design and framework for information and knowledge in the control culture is built essentially around the goals of the organization, and the extent to which those

goals are met. This culture is centered purely on organizational goal attainment. A well-known control culture is that of Wal-Mart, which has always been obsessed with fulfilling its mission of offering the lowest prices.

Collaboration. This culture believes in synergy. Fundamentally it exists to ensure unity, close connection with the customer, and intense dedication to the customer. The fundamental issue in a collaboration culture is the connection between people’s experience and reality. The organization moves ahead through the diverse collective experience of people from inside and outside the organization. Collaboration culture people “know” something when diverse collective experience has been fully utilized. It’s a culture centered on *unique customer goal attainment*. A public relations firm is a good example of a collaboration culture.

Competence. This is a culture centered upon distinction. Competence cultures fundamentally exist to guarantee the accomplishment of unparalleled, unmatched products or services. This culture is one of uniqueness per se, of one-of-a-kind products or services. The fundamental issue here is the realization of conceptual goals, particularly superior, distinctive conceptual goals, or “conceptual systematism.” A competence culture’s framework for information and knowledge develops essentially around the conceptual system goals of the organization, including the extent to which those goals are met. It’s a culture driven by *conceptual goal attainment*. Well-known examples of competence culture companies are Intel and Microsoft.

Cultivation. This culture is all about enrichment. It fundamentally exists to ensure the fullest growth of the customer, fulfillment of the customer’s potential, and the raising up of the

Table 2. Culture Leverage Points

CULTURE LEVERAGE POINTS

1. Way to Success
2. Approach with Customers
3. Leadership
4. Management
5. Compensation
6. Nature and Use of Power
7. Approach to Decision Making
8. Approach to Managing Change
9. Managing Performance
10. Managing Innovation
11. Managing Conflict
12. Nature of Work
13. Role of Employee
14. Organizational Structure
15. Teaming
16. Information Technology
17. Selection
18. People Development
19. Promotional Practices

customer. This culture is also about the further realization of ideals, values, and higher order purposes. The fundamental issue in the cultivation culture is the connection between the values and ideals of the organization and the extent to which it can put those values and ideals into operation. The organization's cultural focus is on *value-centered goal attainment*. Anita Roddick's Body Shop is one example of a cultivation culture. Habitat for Humanity is another.

HOW TO LEVERAGE ORGANIZATIONAL CULTURE

Organizational culture is the missing link between business strategy and bottom-line performance. If business leaders want to leverage their people

capital, in an era of ever-increasing reliance on this category of capital to achieve economic success, they will benefit from taking the following steps:

- Determine how well everyone in your organization understands the firm's business strategy and core value proposition.
- Determine how well core culture and core leadership practices are aligned with business strategy and core value proposition.
- Determine the extent to which your organization's sub-cultures are operating in service to organizational core culture.
- Determine how effectively core culture and core leadership practices have been "integrated," that is, how consistent are the elements, process, and systems within the overall culture with regard to the core culture? And how consistent is leadership behavior with the core leadership practices?

CORE CULTURE DRIVES SHAREHOLDER VALUE

Core culture resides in the parts of the organization that drive shareholder value. The rest of the organization is composed of sub-cultures that must operate in service to the core culture. Once you've identified core culture, you must then ensure that each and every sub-culture not part of the core operates to support and enhance the performance of that core culture. The key here is making certain that the *output* from every sub-culture is exactly what the core culture needs in order to be more successful.

Culture and leadership are fully integrated when elements of cultural behavior and elements of leadership behavior are operating consistently with core culture and core leadership, respectively.

Table 3. Leadership Leverage Points

LEADERSHIP LEVERAGE POINTS

1. Setting Direction
2. Mobilizing Commitment
3. Building Organizational Capability

There are 19 such cultural behavior elements in all (see Table 2), and three leadership behavior elements (see Table 3).

To achieve culture integration you must ensure that all 19 culture leverage points operate in a manner consistent with the organization's core culture. Because there are four core cultures, all 19 culture leverage points will behave in four distinct ways, each one unique to one of the four core cultures. This means there are four distinct ways to approach customers, make decisions, compensate, manage performance, etc. The key for leaders is to bring these 19 leverage points back to the point of operating consistently with their organization's core culture. Accomplishing this mandate will deliver huge positive benefits to bottom-line performance and strategy implementation. Conversely, not doing this will keep an organization confused, misdirected, and operating at cross-purposes with itself.

The same principles hold true for leadership integration: All three leverage points operate dif-

Profits alone are not the purpose or the mission of the organization.

ferently in each of the four core leadership practices. But when functioning in a manner consistent with a firm's core leadership business strategy, implementation will be smooth and the bottom line will report out as planned and desired.

The most important thing business leaders can do is to build, maintain, and develop their organizational cultures. The best leaders understand that culture is the most powerful force available to them when it comes to successfully implementing their business strategies. ●