Sijthoff – HR Academy

Culture and Strategy: Friends, Foes, or Frenemies?

Prof .Dr. Filip Caeldries
TIAS School for Business and Society, Tilburg University
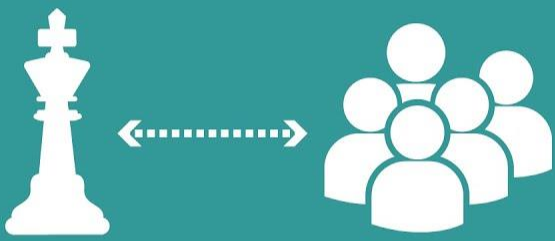The Netherlands

@FilipCaeldries

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Friend of Foe ?

Strategy and Culture

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Culture: Definition

"A system of shared beliefs (that define what is important) and norms that define appropriate attitudes and behaviors".

O'Reilly–Chatman

"The self–sustaining patterns of behavior that determine how things are done".

PWC – Katzenbach Center

"A group's shared beliefs, assumptions, values, or preferences that drive a group's behavior".

Li & Van den Steen

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The Breakfast Issue

"Culture eats Strategy for Breakfast" (*)

(*) Most often attributed to Peter Drucker. But …

"When culture resists strategy, culture always wins".

4

The Breakfast Issue

"Culture eats Strategy for Breakfast" (*)

Meaning ?
True or False? Or ... It depends?

5

The #1 reason why 'culture eats strategy'

6

3

Some Bad Strategy Evidence

Employees

80%
Have no clear line of
sight between their
tasks & corporate
goals

Employees

71%
Couldn't correctly
identify their
corporate
strategy
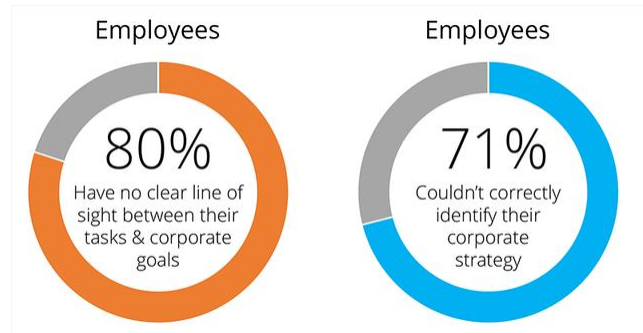
7

What is Strategy all about?

MAKING GREAT STRATEGY

Arguing for
Organizational
Advantage

Jesper B. Sørensen
Glenn R. Carroll

Columbia Business School
Publishing
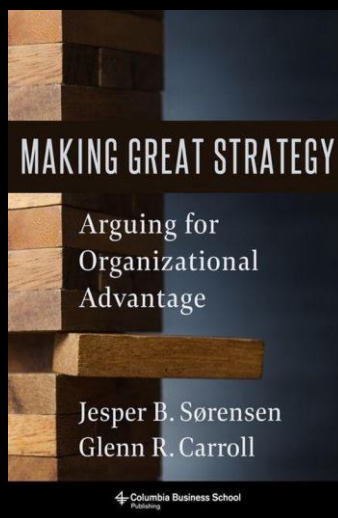
"The essential point of strategy in the first place is to provide a guide for action, decision-making, and resource allocation".

"Strategy is central to concerted coherent action within any organization".

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We (urgently) need
to put some
substance into the
term strategy.

9

"Make no mistake about it,
strategy is CHOICE.
It is a set of choices about what
you will do, and what you will
not do so as to create an
advantage over the competition"

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Strategy = Cascade of Choices
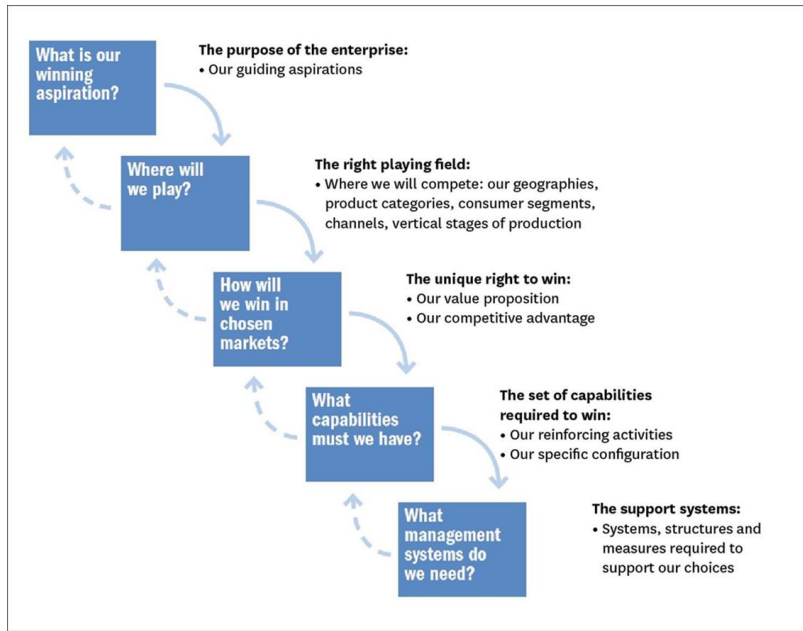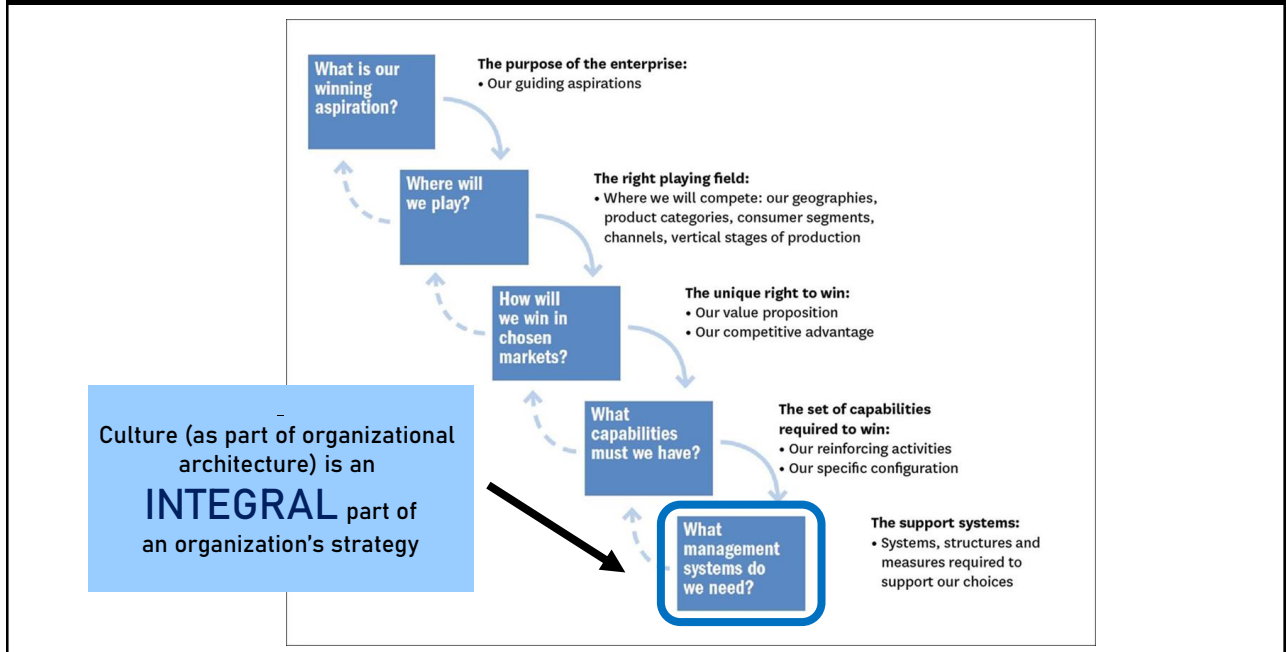
What is our winning aspiration?

The purpose of the enterprise:
• Our guiding aspirations

Where will we play?

The right playing field:
• Where we will compete: our geographies, product categories, consumer segments, channels, vertical stages of production

How will we win in chosen markets?

The unique right to win:
• Our value proposition
• Our competitive advantage

What capabilities must we have?

The set of capabilities required to win:
• Our reinforcing activities
• Our specific configuration

What management systems do we need?

The support systems:
• Systems, structures and measures required to support our choices

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Culture (as part of organizational architecture) is an
INTEGRAL part of
an organization's strategy

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The Breakfast Issue

"Although bad strategy may get eaten by culture, **great strategy knows how to be carried by culture** (and make culture do the hard work)".

Li & Van den Steen (2021), Birds of a feather … Enforce social norms? Interactions among culture, norms, and strategy, *Strategy Science*.

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Culture follows Strategy

"You cannot craft an organizational culture until you fully develop and articulate your business strategy.

Strategy must come first".

Chatman and Cha (2003), Leading by Leveraging Culture, *Cal. Mgmt. Rev.*

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Slide 15

The SECRET OF CULTURE CHANGE

HOW TO BUILD AUTHENTIC
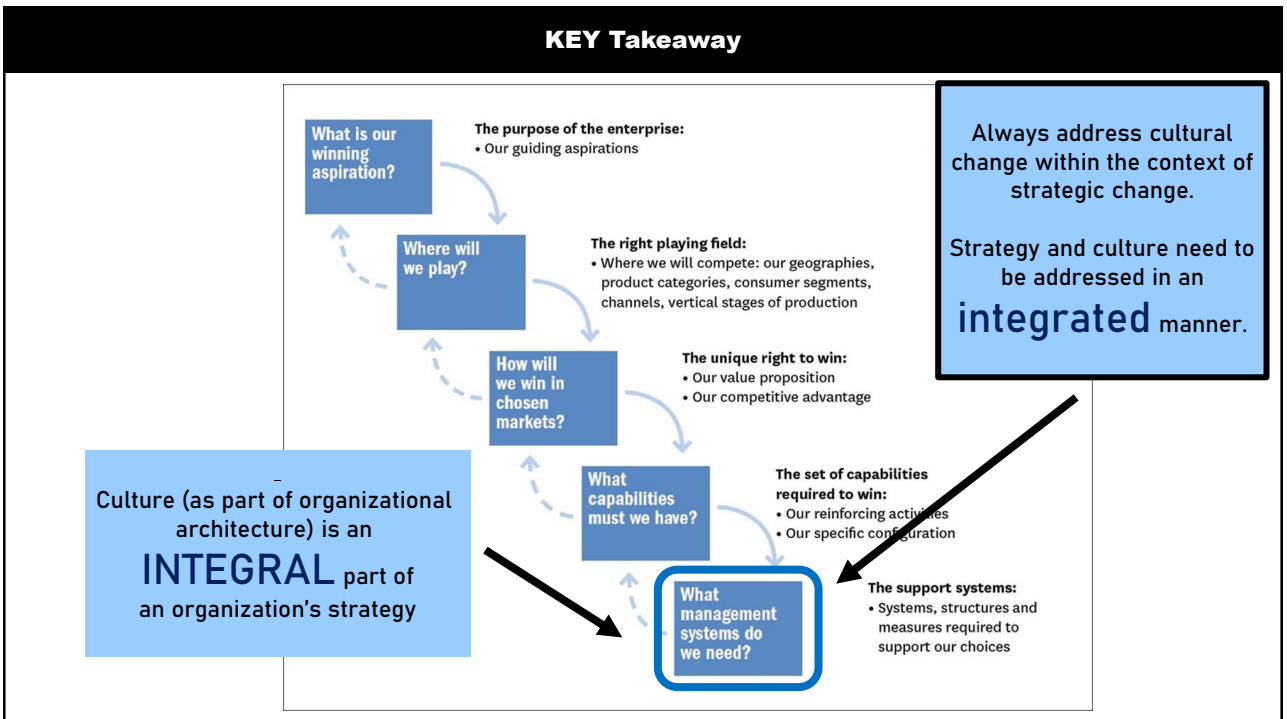STORIES THAT TRANSFORM
YOUR ORGANIZATION

JAY B. BARNEY | MANOEL AMORIM | CARLOS JÚLIO

Firms where strategy and culture align outperform firms where they do not.

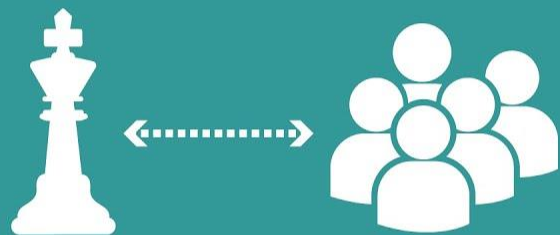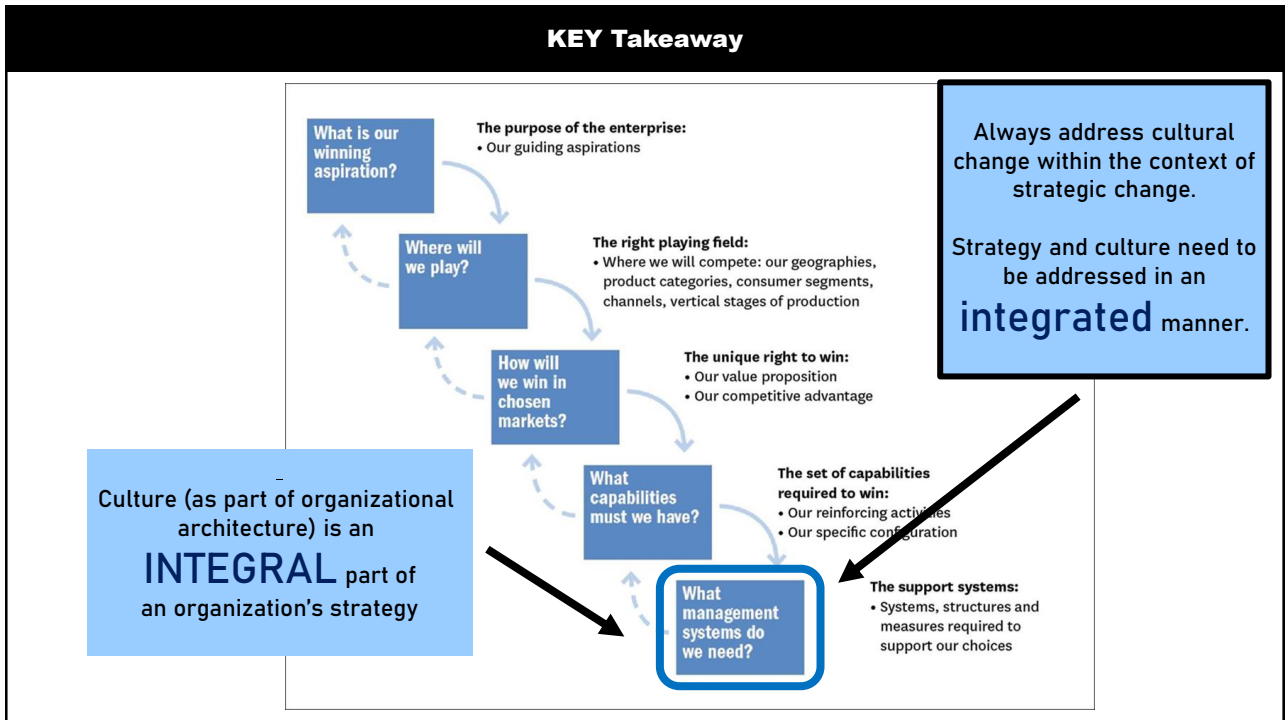If the two aren't aligned, you most likely need to change your culture

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Slide 16

KEY Takeaway

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The purpose of the enterprise:
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Always address cultural change within the context of strategic change.

Strategy and culture need to be addressed in an integrated manner.

Culture (as part of organizational architecture) is an INTEGRAL part of an organization's strategy

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It's all about alignment

Strategy and Culture

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Case Study of Strategy–Culture Misalignment

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Strategy–Culture Misalignment

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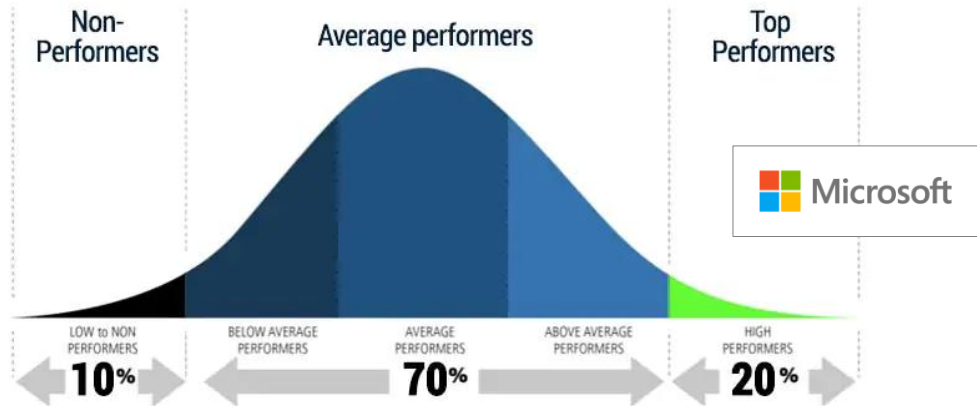
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Strategy-Culture Misalignment

It leads to employees focusing on **competing with each other** rather than competing with other companies.

A lot of Microsoft superstars did everything they could to **avoid working alongside other top-notch developers**, out of fear that they would be hurt in the rankings.

Microsoft employees not only tried to do a good job but also **worked hard to make sure their colleagues did not**.

People responsible for features would **openly sabotage** other people's efforts.

One of the most valuable things I learned was to give the appearance of being courteous while **withholding just enough information to ensure colleagues didn't get ahead of me** in the rankings.

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Strategy-Culture Misalignment

Because the reviews came every six months **employees focused on shorter performance**, rather than on longer efforts to innovate.

People planned their days and their years around the review rather than around products. You really had to **focus on the six-month performance, rather than undoing what was right for the company**.

I was told in almost every review that the **political game** was always important for my career development.
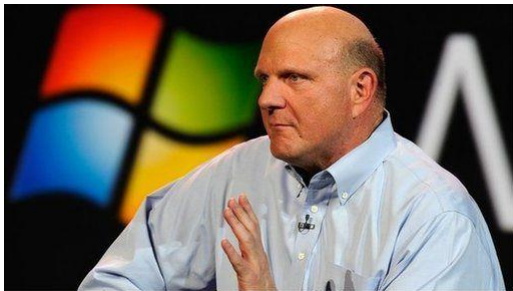
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Strategy-Culture Misalignment

"In the end, the stack-ranking system **crippled the ability to innovate** at Microsoft".
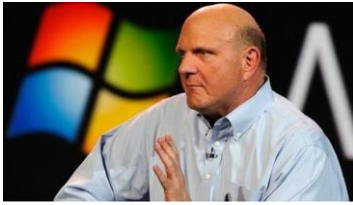
The Atlantic

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Change the System?

Q: A lot of people have slammed Microsoft's stack ranking review system as contributing to a non-collaborative atmosphere.

Is the kind of cultural change you want to effect possible with that stacked ranking system still in place?

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A: We're doing our performance reviews now. We're finishing up our year (and **there are) no changes to—no—I'll say minor changes to our system**. I think everybody wants to work in a high-performance culture where we reward people who are doing fantastic work, and we help people who are having a hard time find something else to do. Now, **whether our existing performance-management system needs to change to meet the goal of fostering collaboration is something that Lisa Brummel [head of human resources] would take up**.

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One year later

Microsoft Abandons 'Stack Ranking' of Employees

Software Giant Will End Controversial Practice of Forcing Managers to Designate Stars, Underperformers

By *Shira Ovide* [Follow] *And Rachel Feintzeig* [Follow]
Updated Nov. 12, 2013 7:34 pm ET

↗ Share   AA

Microsoft Corp. is abandoning major elements of its controversial "stack ranking" employee-review and compensation system, the latest blow against a once-popular management technique.

9 months later Ballmer leaves as CEO

28

"I devoted myself to building not just a successful company, but a sustainable creative culture".

"My job as a manager is to create a fertile environment, keep it healthy, and watch for things that undermine it".

"Identifying the destructive forces isn't merely a philosophical exercise. It is a crucial, central mission".

Ed Catmull, CEO Pixar (2014)

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Culture – (Sustainable) Competitive Advantage

Strategy and Culture

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Culture and Strategy: A Landmark Article

Organizational Culture: Can It Be a Source of Sustained Competitive Advantage?

JAY B. BARNEY
University of California, Los Angeles

Source: *Academy of Management Review*, 1986

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Netflix Culture

We **had one thing that Blockbuster did not: a culture** that valued people over process, emphasized innovation over efficiency, and had very few controls.

Our **culture has allowed us to continually grow and change**.

Netflix is different.

Reed Hastings, Founder Netflix

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Netflix Culture … Not a Secret

Reference Guide on our
Freedom & Responsibility Culture

These slides are meant for reading,
rather than presenting

Netflix Culture Slide Deck (127p)

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Judgment

You make wise decisions (people, technical, business, and creative) despite ambiguity

You identify root causes, and get beyond treating symptoms

You think strategically, and can articulate what you are, *and are not*, trying to do

You smartly separate what must be done well now, and what can be improved later

Communication

You listen well, instead of reacting fast, so you can better understand

You are concise and articulate in speech and writing

You treat people with respect independent of their status or disagreement with you

You maintain calm poise in stressful situations

Impact

You accomplish amazing amounts of important work

You demonstrate consistently strong performance so colleagues can rely upon you

You focus on great results rather than on process

You exhibit bias-to-action, and avoid analysis-paralysis

Curiosity

You learn rapidly and eagerly

You seek to understand our strategy, market, subscribers, and suppliers

You are broadly knowledgeable about business, technology and entertainment

You contribute effectively outside of your specialty

Innovation

You re-conceptualize issues to discover practical solutions to hard problems

You challenge prevailing assumptions when warranted, and suggest better approaches

You create new ideas that prove useful

You keep us nimble by minimizing complexity and finding time to simplify

Courage

You say what you think even if it is controversial

You make tough decisions without excessive agonizing

You take smart risks

You question actions inconsistent with our values

Passion

You inspire others with your thirst for excellence

You care intensely about Netflix' success

You celebrate wins

You are tenacious

Honesty

You are known for candor and directness

You are non-political when you disagree with others

You only say things about fellow employees you will say to their face

You are quick to admit mistakes

Selflessness

You seek what is best for Netflix, rather than best for yourself or your group

You are ego-less when searching for the best ideas

You make time to help colleagues

You share information openly and proactively

NETFLIX   **We Want to Work with People Who Embody These Nine Values**   19

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NEW YORK TIMES bestseller
NO RULES RULES
NETFLIX and the Culture of Reinvention
REED HASTINGS
ERIN MEYER

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Netflix Culture

NEW YORK TIMES bestseller
NO RULES RULES NETFLIX and the Culture of Reinvention
REED HASTINGS ERIN MEYER

- **Manage for Talent Density** (Hire the best, no tolerance for mediocre performance, pay above market, coach leaders to manage for density)

- **Manage with (loads of) Feedback** (Anytime, anywhere. With respect for individual. With +^{ve} intent. No jerks allowed)

- **Manage without Controls**

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Culture and Strategy: A Landmark Article

Organizational Culture: Can It Be a Source of Sustained Competitive Advantage?

JAY B. BARNEY
University of California, Los Angeles

Can the Netflix culture be copied ?
Under which conditions can culture a source of SCA?

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"Everything our competitors could copy tomorrow. But they can't copy our culture – and they know it."

-   Herb Kelleher, Founder - Frmr CEO Southwest

Organizational Culture: Can It Be a Source of Sustained Competitive Advantage?
JAY B. BARNEY
University of California, Los Angeles

The organization's culture can be a source of SCA when it is:

Valuable: "It must enable a firm to do things and behave in ways that lead to high sales, low cost, high margins, or in other ways add financial value".
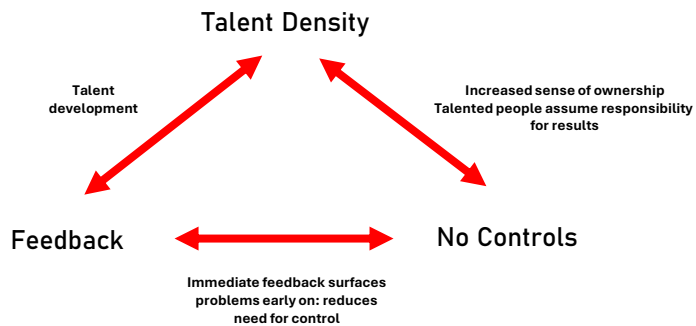
Rare: "It must have attributes and characteristics that are not common to the cultures of a large number of other organizations". Why ?

Imperfectly Imitable: other firms find it difficult to (cannot) acquire the characteristics of the successful culture. Why?

Netflix Culture: It's a (Complex) System

NEW YORK TIMES bestseller
NO RULES RULES
NETFLIX and the Culture of Reinvention
REED HASTINGS
ERIN MEYER

Talent Density

Talent development

Increased sense of ownership Talented people assume responsibility for results

Feedback

No Controls

Immediate feedback surfaces problems early on: reduces need for control

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Assume you can copy 70 % of Netflix's culture, how much of the competitive effect would you obtain ?

- – More than 70 %
- – 70 %
- – Somewhat less than 70 %
- – Much less than 70 %

?

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Final Thought

A culture will form in an organization, a department, and a work group.

The question is whether the culture that forms is one that helps or hinders the organization's ability to execute its strategic objectives.

Organizational culture is too important to leave to chance; organizations must use their culture to fully execute their strategy and inspire innovation. It is a leader's primary role to develop and maintain an effective culture.

Chatman & Cha (2003) Leading by leveraging culture, *Cal Mgmt Rev*.

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"Top management's job isn't to
create strategies.
It's job is to

build an organization

that can continuously spawn cool
new business concepts".

– Gary Hamel

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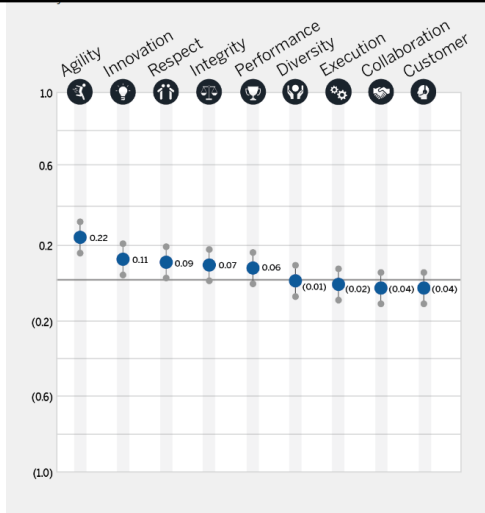## MITSloan
Management Review

When It Comes to Culture, Does Your Company Walk the Talk?

Company practices often conflict with corporate values. Closing the gap starts with communication.

Donald Sull, Stefano Turconi, and Charles Sull · July 21, 2020

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No Correlation Between Core Values and Corporate Culture

The chart shows the correlation (with 95% confidence intervals) between the values a company emphasizes in its official corporate culture and how well the company lives up to those same values in the eyes of employees. Four of the correlations are negative, and all but one hover near zero. Even agility, with a correlation coefficient of 0.22, reveals a very weak relationship between a company's public commitment to flexibility and employees' assessment of how agile the company actually is.

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Walking the Talk: Not That Easy

Question: Please indicate to what extent you agree or strongly agree with the following statements:

|	C-suite/board	Below management
'Our organisation has a strong sense of purpose'	79%	65%
'I feel a personal connection to our organisation's purpose'	83%	54%
'Our organisation supports relevant societal and environmental issues'	73%	52%
'Our leadership team walks the talk on purpose, values and culture'	73%	46%
'My team inspires me to do my best work'	81%	54%

■ C-suite/board ■ Below management

Base: C-Suite/board: 382. Below management: 926.

Source: PwC 2021 Global Culture Survey

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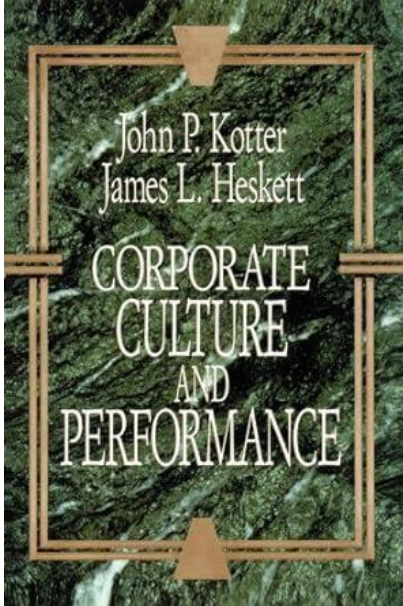
Culture Impact on Long-Term Economic Performance*

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