The Link Between Culture and Organization Effectiveness: A CEO's Perspective

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Most organization change efforts fail. As many as 75 percent of organization change efforts, such as reengineering and total quality management, failed completely or created serious problems that threatened the future of the company.[1] Even strategic planning – the tool touted by consultants and executives as the key to moving the organization forward – is in the list of failed initiatives.

The reason? Several studies reported that failure to change the organization's culture – that is, the values and behaviors that define the way things get done – doomed the other kinds of organizational changes that were initiated.[2] In other words, the failures were caused by a culture that was misaligned with the business strategy.

The focus of this article is on establishing a case for changing the culture to align it with the business strategy. And who better to make the case than a CEO. Ron Schlegel has had experience as an operations executive and CEO in aerospace, precision components, industrial equipment, electronics, and metals and composites. Here is his perspective.

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Surviving in today's competitive environment requires a strategy for achieving operational excellence. An effective operational excellence strategy must be developed on a deep and honest analysis of current processes – the value generated by each process step and the alignment of process outputs with customer expectations. Resulting process improvement is where the rubber meets the road because employees must change their work routines and push their peers to do the same, and they must trust that these changes will make things better.

It is in the midst of this kind of change that misalignment between culture and business strategy can hamper value creation. The culture of an organization acts as the default decision-making system.[3] Unless the culture promotes trust and honesty and

allows for open discussion, not to mention failure without ramifications, people will be reluctant to take on the risks inherent in change.

The good news is that an organization's leaders *can* change the culture. Managements' actions must continually influence employees to step out from behind the default system and lead them down a path that encourages a new culture to emerge.

A great example occurred when I was CEO of a privately-owned engineering-based manufacturing company. We decided to adopt a strategy of diversifying our product offerings in order to grow profitable sales. We knew that we would run into significant cultural issues in executing this strategy as it would mean breaking away from what had been a successful business model.

Up to that point our business model had been one of building on past successes. This had created a "rear view mirror management" culture that ensured we didn't stray too far from the "tried and true." The operating style was one of fear and blame.

In order to be successful executing the new strategy, we needed to change the culture to one of looking forward to anticipate the needs of our customers. We had to engage the workforce. And because we were injecting huge risk, we had to build trust that there would be no punishment for taking a prudent risk and failing.

We aligned our business strategy with our culture change strategy. At the heart of the combined strategy was singling out the core competencies that best defined and supported our past success *and* our future direction. Additionally, we chose to

pursue incremental tangents from past practice, rather than bold game-changing moves. The links between old and new eased the resistance to change and engaged managers and the workforce in pursuing new approaches and products.

We began deploying our change strategy over lunches with groups of eight to ten employees, engaging them in open conversations about what we did well and what we could do better. We formed the groups by mixing shop floor and office personnel, probably for the first time in this organization.

The discussions produced new respect for the challenges each individual in the company faced when trying to get their work done. They also created an appreciation of the talents we had and how we could apply them to take on new opportunity. And the meetings highlighted the ways that individuals could help each other. The resulting realization that we could accomplish more by working together was another step away from the old default system and into a new "shared purpose."

The benefit we realized from these meetings did not stop there. The trust we had built, our sense of shared purpose and our past successes gave us the confidence to pursue a new product line. When the opportunity presented itself, we were ready.

The opportunity came in the form of a new production assembly for a new customer in a new industry. We communicated about it openly in our monthly All-Hands Meetings. We were transparent about everything, right down to the negotiations with the customer and how we were nurturing the relationship. Everyone – from executive row to the cubical to the shop floor – rallied around the opportunity and made it work. By changing the cultural focus from "fear and blame" to "learning and working as one," we were able to take advantage of a business opportunity that in the past would not have been possible.

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Management expert Peter Drucker said, "Company cultures are like country cultures. Never try to change one. Try, instead, to work with what you've got." With all due respect to the late Mr. Drucker, Ron Schlegel's story refutes this advice.

The key takeaways:

- A company culture that is misaligned with the business strategy *must* be changed. Failure to do so is likely to result in failure to reach the desired future state.

- Company cultures evolve over time. Evolution is change and culture can be changed over time if management leads by example.

Ron Schlegel recognized the culture of fear and blame would not support the kinds of open conversations needed to break out of the past, take prudent risks and engage employees in creating the future that led to profitable growth. He also recognized that, as a leader, he set the tone for the organization and was an important catalyst for change.

Culture is defined by behaviors and interactions. The behaviors and interactions demonstrated at the top typically are mirrored at every level of the company. The efforts of Ron and the other members of the leadership team to change how they worked together cascaded through the organization and employees followed leadership's example. In this way the company culture evolved.

About the Authors

Ronald Schlegel most recently was the CEO and a Member of the Board of Directors for an engineering-based manufacturing company in the Aerospace and Defense Market. Under his leadership the company grew sales and improved profitability by diversifying its product offerings and instilled a Lean Enterprise/Customer-Centric Culture. Ron's previous experience includes positions such as the Vice President of Operations and Vice President of Supply Management at award winning-companies. He holds an MBA from Villanova University and was a Bartley Medallion recipient; an MS in Concurrent Engineering Management from the Stevens Institute of Technology; and a BS in Industrial Engineering from The College of New Jersey.

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Both Pat and Ron are proud members of Greater Philadelphia Senior Executive Group.

[1] Cameron, Kim S. "Techniques for Making Organizations Effective: Some Popular Approaches." In Daniel Druckman, Jerome E. Singer, and Harold Van Cott (eds.), *Enhancing Organizational Performance*. Washington, D.C.: National Academies Press, 1997.

[2] Caldwell, Bruce. "Missteps, Miscues." *Information Week*, June 20, 1994; CSC Index. *State of Reengineering Report (North America and Europe)*. Cambridge, Mass.: CSC Index 1994; Gross, Tracy, Pascale, Richard, and Athos, Anthony. "The Reinvention Roller Coaster: Risking the Present for a Powerful Future." *Harvard Business Review*, November-December 1993, pp. 97-107; Kotter, John P., and Heskett, James L. *Corporate Culture and Performance*. New York: Free Press, 1992.

[3] Gharajedaghi, Jamshid. *Systems Thinking: Managing Chaos and Complexity: A Platform for Designing Business Architecture*. Butterworth Heinemann, 2006.