Should Financial Performance Drive Your Culture?

by Ellen Bryson

What is your company's purpose? If you know it, do your employees know it? Are they focused on making it a reality every day? If the answer to any of these questions is no, you have work to do.

UNLESS YOUR EMPLOYEES clearly understand and buy into your company's reason for existence, they will eventually lose any passion they have for your work and ultimately leave your organization. Today's workers want more than a paycheck; they want connection to something bigger than themselves. They want to know how their talents contribute to the successful realization of a shared vision. If they don't find it at your company, they will seek it elsewhere. Based on the evidence of today's highly transitory workforce, it seems they do not often find it at their next stop, either. In short, those companies who are able to align their employees around a clearly articulated purpose seize a distinct competitive advantage in the marketplace.

All purposes are not created equal, however. While there is no "right" purpose, I suspect there is a wrong one: financial performance. When growth becomes your purpose, trouble is not far away. McDonald's discovered this in the late 1990s when they shifted their focus from "QSCV" (quality, service, cleanliness, and value) to building more

restaurants. By early 2000, McDonald's had more than 28,000 restaurants with annual revenues in excess of $15 billion. Two years later, they experienced their first quarterly loss since 1954.

Starbucks had a similar experience. In *Onward: How Starbucks Fought for Its Life Without Losing Its Soul,* Howard Schultz shares how Starbucks lost its focus. In effect, growth became their purpose. Schultz says that financial growth is not a strategy; it's a tactic. He admits that when Starbucks began pursuing undisciplined growth as a strategy, their culture crumbled and they lost their way. Ironically, the financial performance they were pursuing eluded them when it became their chief focus.

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Both companies have since had happier times. McDonald's recognized the errors of its ways, refocused, and revamped its business model. This resulted in one of the most remarkable restructurings in modern business times. Starbucks, after much self-examination and hard work, set out to become a very different company and began to rebound. Today, they are again focused on their core: sourcing, roasting and serving the highest quality coffee in the world. Schultz recognizes that his company's relationship with its people–its culture–is its most sustainable competitive advantage and the key to long-term success.

In their book *The Discipline of Market Leaders,* Michael Treacy and Fred Wiersema talk about three distinct operational models: customer intimacy, innovation, and operational excellence. In my experience as an advisor to CEOs and executive teams, I have seen each of these manifested as the driving force of culture. I have never seen a thriving company with a culture centered on its own financial performance ahead of serving the customer. Is financial performance important? Of course! But it is the *result*, not the *cause*, of serving customers well.

A culture of customer intimacy specializes in customization and solving unique customer problems. In short, it seeks to build value in the customer relationship. These companies tend to have fewer, but deeper customer relationships. In their quest to understand the customer, anticipate his needs, and deliver exceptional service, the front line employees enjoy a strong bond with the customer, and that becomes the competitive advantage. Starbucks, The Container Store, Ritz Carlton, and Nordstrom are able to charge premium prices for their services precisely because of their customer intimacy culture.

A culture of innovation is extremely focused on quality and the product cycle. These companies are on the leading edge of technology and design, constantly creating new products and even new markets. People with high intellect thrive in this culture. Nike, Google, Facebook, Zappos, and W.L. Gore are great examples of an innovation culture.

A culture of operational excellence seeks to reduce costs or increase operational efficiency. These companies strive to be "low cost" leaders, constantly improving quality, systems, and processes in order to drive out cost and inefficiencies. Dell and Southwest Airlines are well-known examples of this culture. (Both also have strong connections to their customers.)

While healthy companies typically exhibit elements of more than one of these cultures, one usually emerges as primary. One is not better than the other, but it is important to understand which one is the driving force behind your company's success and provides the greatest opportunity for competitive advantage in your market.

Once you understand your core culture, you can design employee staffing and retention processes around it. When your employees buy into your purpose and vision from the outset, they will be motivated to excel and grow within your organization, which in turn will excel and grow your company. This close linkage between people and purpose is the essence of cultural alignment, which:

- reduces problems associated with politics, morale, productivity, and turnover;
- fosters a deep personal connection between employee and company,
- creates an environment where employees experience more fulfillment in their work,
- improves decision making,
- increases organizational clarity, and
- creates a competitive advantage.

In a June 2011 McKinsey Quarterly article, *Organizational Health: The Ultimate Competitive Advantage,* authors Scott Keller and Colin Price reveal that organizations focusing on both performance and health (culture) rate themselves twice as successful as those focusing on health alone and nearly three times as successful as those focusing on performance alone. Success in your business is not driven by sales numbers. It's rooted in your culture. Understanding the larger purpose that drives your organization and nurturing employees who share that vision will yield far better results than focusing on financial performance alone.

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