

Linking financial and cultural values

A Guest Article by Bruce Lewin
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Aligning values for strategic success

The financial and cultural values of an organisation often appear to be two separate and distinct entities. However, simultaneously linking and managing them can have a major impact on the success of both strategy and its execution.

How financial and cultural values are defined

Typically, the financial values of an organisation do not mirror the cultural and behavioural values of the organisation.

Financial values are the aspects of financial performance that are measured, rewarded and recognised. Examples such as revenues, return on equity, profit margins and share valuations are all included in here.

Internal examples include the setting of targets and milestones, while the market may define price levels or influence market share and investors seek dividends or increases in the share price, for example.

Contrast the financial values with the cultural values that firms often use in the form of mission statements, desired behaviours and emotional commitment. Such cultural values are highly likely to be defined internally (either deliberately or casually) and take the form of training programmes, grading systems or competencies, for instance.

Ownership of such values may lie with the board or with HR, or it may lie with a combination of stakeholders.

The point of this comparison is to say that often, financial and cultural values are defined and managed by entirely separate and distinct tools and processes.

Same culture, different costs

The following example seeks to contrast two airlines. Table 1 shows a near perfect match between cultural values, as taken from their respective websites. Yet, despite the similarity, Brand 1 is a low cost, short haul, budget airline while Brand 2 flies long haul and emphasises its luxurious customer experience.

Comparing financial values, differences are in elements such as margins, the cost base, customer segmentation, distribution channels and levels of competition.

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TABLE 1: COMPARING THE CULTURAL VALUES OF TWO AIRLINES	
Airline 1	Airline 2
Dynamism	Fast moving
Open culture	Inclusive nature
Innovation	Innovation
Everyone makes a difference	Everyone ... works together
Opportunity	Change is a constant

Why link financial and cultural values?

If the management of financial and cultural values is typically defined as two distinct and separately owned processes, why would one seek to link them? Ensuring the successful execution of strategy demands that financial and cultural values are aligned and linked.

In the *Harvard Business Review* in October 2005, Robert Kaplan and David Norton wrote about the Office of Strategy Management and said that its responsibilities should include “communicating corporate strategy ... executing strategic initiatives to deliver on the grand design and aligning employees’ plans for competency development with strategic objectives”.

Moving from the macro to the micro

TABLE 2: COMPARING FINANCIAL AND CULTURAL VALUES		
	Financial values	Cultural values
Defined and owned by	The board The finance function Shareholders The market	The board The HR function Other internal stakeholders
Measured via	Financial statements	Surveys Behaviours and grading Sometimes can't be measured
Impact on bottom line	Direct	Indirect
Summary	Economics	Emotions
Integration with other indicators via	Balanced scorecard Other dashboard-type tools	Balanced scorecard Other dashboard-type tools

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While Table 2 shows the contrast between financial and cultural values, the best place to link them is via the various layers of management within the firm. Given different ownership and the need to marry economics with emotions, managers face a multitude of options and decisions. Understanding what each manager values and what they choose to focus on is critical in combining these concepts.

Extending this line of thought, the emphasis of the integration must shift from the macro ideas above to the micro world of managers, team members, single decisions and local prioritisation.

Where strategy meets execution

The micro world of managers and their teams is the place where strategy meets execution. It is the point at which visions and plans become reality. This boundary is very much the coal-face of the organisation and represents the place where the core activities of the firm are transacted.

We said earlier that many firms employ the balanced scorecard or similar approaches. While these do link financial and cultural values (among others), their focus is often on the macro aspects of performance. By definition, they struggle to capture and analyse the micro interactions between individuals, teams and managers, for example. As a result, we feel that such an approach can highlight, in the words of Robert Kaplan, "a chronic disconnect in organisations between strategy formulation and strategy execution".

Top-down and bottom-up

With the need to link the financial and cultural values of the firm and the current challenges in linking strategy and execution, perhaps a new perspective may help? Many management initiatives are led via a top-down approach. This is in part to demonstrate "senior commitment" and "sponsorship", but equally, this then creates its own set of problems, as highlighted by the thinking around the Office of Strategy Management.

By way of contrast, complementing a top-down perspective with a bottom-up view of the organisation opens up a series of new possibilities, especially when looking at the organisation from a micro perspective and focusing on the coal-face. Not only does this get to the point at which individuals determine the link between finance and culture for themselves, but as a management interface, a new series of tools and techniques can be deployed.

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Such tools seek to simultaneously define, predict and align the financial and cultural values of individuals, teams and departments. While this perspective demands a bottom-up approach, the ability to then link behaviour to the bottom line begins to fill the gaps left by alternative methods.

Framework for reconciliation

Clearly, the key to solving this conundrum is to enable organisations to develop a framework within which they are able to reconcile and align the goals of financial performance and cultural identity. Rather than developing a grand plan or unified programme in isolation, developing a complementary approach that also tackles these issues on the micro level is far more likely to result in a successful outcome.

Bruce Lewin

Managing Director – Four Groups

If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.