culturestrategyfit

10 Reasons Why Culture-Strategy Fit is a Priority for Executives

1 Competition and disruption

According to research conducted in 2005 by the Economist Intelligence Unit by 2010, the key competitive threat in 2005-2010 will come from mergers of existing players into larger ones, but new entrants from emerging markets will also alter the scales ... and to compete, most companies will be focusing on specialization.

- 40% identified new entrants from emerging markets as the more important source of competitive threat
- 60% identified consolidation of existing companies across industries
- 60% of respondents reported a focus on specialization versus diversification as their response to this threat

2 Need to enhance speed and flexibility

With the rate of business change accelerating, executives will seek to ingrain speed and flexibility as core firm attributes.

- 33% reported 'swift adaptability to change' as the most important challenge
- 18% reported speed of innovation
- 18% reported customer retention/acquisition

3 Need to address the change in work and coming talent shortage

The Economist Magazine calls it the Battle for Brainpower in its October 7, 2006 edition. In an exceptional report, it summarizes some of the key structural changes facing organizations:

- The rise of intangible but talent-intensive assets such as a skilled workforce, patents and know-how now account for more than half of the market capitalization of America's public companies. This has shot up from 20% of the value of companies in the S&P 500 in 1980 to around 70% today.
- McKinsey argues that over the past 6 years, the number of American jobs that emphasize 'tacit interactions' (complex interactions requiring judgment) have grown two and a half times as fast as transactional jobs (interactions that can be easily scripted or automated) and three times as fast as employment in general. The American labor market is now made up of 40% of jobs requiring complex interactions requiring judgment and these jobs account for 70% of the jobs created since 1998.
- Baby boomer retirements in 500 of America's largest companies will result in half of their senior management leaving in the next five years or so. With re-engineering and downsizing having decimated leaders at the next level, the search for leadership talent will be keen. Research indicates that 40% of mid-managers maintain relationships with recruiters. Attrition in the civil service is anticipated to be even higher.
- While much of the transactional work is being outsourced to India and other countries, the war for talent is heating up in these countries as well. It is predicted that India's IT sector will have a short fall of 500,000 professionals by 2010. Turnover is 40% in its IT sector and wage inflation is 16% per year.
- Compounding is the need to manage global teams and work within complex collaborative arrangements (such as joint ventures) which requires trust, deep knowledge and long-term relationships to do well.
- All of which makes attracting and retaining talent a critical organizational issue.

4 Need to manage risks

Talent-intensive organizations have the most need for the internal control that a healthy, ethical organizational can provide.

- Arthur Anderson and Enron's demise happened quickly. With blogs and web-sites such as vault.com that describe the internal workings of organizations, organizational viability and brand value can be quickly diminished by group and leader behaviors that reflect poorly on the reputation of the organization.

5 Culture as a critical competitive differentiator

Those organizations that can make strategic change happen quickly will lead their sectors. A 2005 Corporate Culture Survey revealed…

- 93% of executives see culture as a critical competitive differentiator. (2003 Accenture)
- 72% of executives said that their organization's culture is not what they desire in the future
- 64% leaders said managing culture is important and they are starting to steer their companies in new directions

6 The link to financial performance and talent attraction

82% of executives said corporate culture has an impact on financial performance.

- Also the share of executives who said it has tangible impact on their organization's ability to recruit, manage and retain the best people

7 Analysts see the link too

According to Measures that Matter: Mavrinac and Siesfield 1997, 35% of an institutional investor's evaluation of a company is attributable to non-financial information such as strategy execution, innovativeness, acquisition and retention of talent and management credibility.

8 Yet most change efforts fail to hit the mark

Many studies report that only 25% to 33% of major change initiatives achieve their performance targets. Root cause? Failure to address culture.

9 Mergers & Acquisitions need to retain value

Research by KPMG shows that less then 20% of international mergers and acquisitions add value to the organizations involved (from www.itim.org 2005) while a 2004 Canadian Business Magazine study of 100 mergers and acquisitions revealed that close to 60% destroyed shareholder value. The main reason? An inability to overcome differences in organizational culture.

- Average returns of acquiring companies trailed industry peers by 25% in the first year following the deal's announcement

10 Transformational leadership enables culture change

Finally, let's hear from two great leaders who identified culture-strategy fit as a key lever for sustained competitive advantage.

"A corporation is a living organism; it has to continue to shed its skin.
Methods have to change. Focus has to change. Values have to change.
The sum total of these is transformation."
Andrew Grove, Cofounder and former Chairman, Intel Corporation

"An organization's ability to learn,
and translate that learning into action rapidly,
is the ultimate competitive advantage."
Jack Welch, Former Chairman and CEO General Electric Corporation