CULTURE BENCHMARKS: A DANGEROUS PRACTICE

While many culture survey providers use industry benchmarks, this is a dangerous practice that can cause leaders to make decisions based on incomplete or misleading information. The premise behind benchmarks is there is such a thing as the best or right culture (good versus bad) which simply is not true. A more appropriate and useful way of looking at culture is whether an organization has the culture it needs to execute its strategy, achieve its goals and fulfill its purpose.

THE SEDUCTIVE APPEAL OF INDUSTRY BENCHMARKS

There are numerous famous examples of companies learning from their competitors, such as Toyota adapting and improving on General Motor's manufacturing processes. This is benchmarking at work. The objective is to identify "best practices that produce superior performance when adapted and implemented in one's organization" [i]. This is accomplished by using "a continuous process of measuring products, services and practices against the toughest competitors or those competitors recognized as industry leaders" [ii]. It has diverse applications ranging from measures of human competence and capability (high versus low performers) to work processes (i.e., sales and manufacturing) and even organizational culture[iii].

These measures, when used in quantitiave studies, take the form of statistics commonly referred to as benchmarks[iv]. With respect to culture, benchmarks are used to compare an organization's scores on a set of cultural attributes or characteristics to those of others within the same industry. The argument is that organizations achieving scores at or above the industry benchmark can expect to achieve a higher level of performance than those below the benchmark[v]. In reality, there are only three good reasons to use industry benchmarks and these have, at best, an indirect link to improved performance.

#1 Constraints on Culture Change

An organization's culture is influenced by the assumptions and norms of its industry[vi]. This is due to the fact that organizations tend to emulate others with whom they have substantial contact and who they perceive as highly effective[vii]. Industry norms are also a product of basic market requirements which are influenced by competitive dynamics, customer and societal expectations. This operates as a form of cultural control and constraint in that organizational survival depends on the ability to function in a manner that is consistent with these expectations[viii]. For example, organizations in a highly regulated sector such as financial services and pharmaceuticals must meet rigorous reporting and compliance requirements. This affects their culture and is evident in a strong orientation towards normative (emphasis on policies, procedures etc.) practices. Any organization that does not have a *sufficient emphasis* on this in their culture is likely to experience consequences that negatively affect their performance.

It is important to note that 'sufficient emphasis' is not necessarily the same thing as achieving or exceeding an industry benchmark. One of the challenges with industry specific cultural characteristics is they can be over developed and, due to the systemic nature of culture, impede other important attributes. For example, an organization with a 'normative' culture typically invests significant resources documenting, monitoring and reporting on compliance activities. When effective, these practices help the organization meet its regulatory, fiduciary and/or legislated obligations. At the same time, they can not interfere with the ability to execute strategy and achieve performance goals. This requires that the organization finds the right balance of cultural characteristics, such as pragmatism versus normative practices, people versus task orientation and high versus low risk orientation, to allow it to deliver on its strategy.

#2 Competitive Differentiation

Benchmarks can help leaders discover how similar or different the culture of their organization is vis-à-vis others in the industry. This is not, however, about identifying gaps so actions can be taken that would serve to make the culture the same as others in its industry. Instead, a benchmark gap analysis can be helpful in providing a starting point for a deeper exploration of an organization's culture and its potential as a source of competitive advantage. Meaningful insights that inform action can be gained by asking questions such as, why are we different from others in our industry? How is our culture supporting or getting in the way of strategy execution? How can we leverage our culture to stand out in the marketplace? What values, beliefs and assumptions are core to our culture?

#3 Learn New Cultural Practices

While benchmark metrics are not useful for this purpose, a third reason to use benchmarking practices is to learn from other organizations. This can reveal insights into the ways other organizations, within and outside the industry, intentionally shape and change culture. This includes learning about an admired (or not) organization's strengths and specifically the network of behaviors, practices, structures (i.e., systems, processes, reporting relationships etc.), physical artefacts and so on that work together to bring its values and beliefs to life. It can also include culture change strategies and techniques, which borrow from traditional change management but are different in important ways. Regardless, the objective is to learn and grow culture design and change capability by acquiring new insights and knowledge.

The Problem with Industry Benchmarks

The bottom-line is benchmarks and benchmarking, while not necessary, can be helpful when used as a starting point for a deeper exploration of culture and its implications for strategy and performance. Specifically, a *framework of culture attributes* provides a common language and structure. This allows people to share perspectives and make explicit the underlying beliefs, values and assumptions that are the foundation of culture. In so doing, they develop a shared understanding of why things are the way they are, which opens the door to explore the changes required to align culture and strategy and improve performance. It also enables groups and organizations to engage in meaningful dialogue about their similarities and differences leading to more effective working relationships, such as those required in mergers, acquisitions, joint ventures, and global operations.

The problem is that using benchmarks in this way runs contrary to common management practice. Common practice is to assume that a gap indicates a problem; the larger the gap, the greater the problem and higher the priority for action. Unfortunately, this is not necessarily true when it comes to culture, which by its nature is complex and highly nuanced. There may actually be very good reasons for the gaps, such as competitive differentiation or deeply embedded values, that leaders would be well advised not to change. In fact, there are a lot of reasons not to use benchmarks, which although appealing are dangerous and should be avoided.

#1 Leaders Are Biased Towards Action

More and more, leaders are under pressure to deliver results with fewer resources. Many, if not most, spend their entire day in meeting upon meeting with little time for thought or reflection. To make matters worse, culture and culture change is complex and not an area of expertise for most leaders. This means that related discussions take time and effort while competing with the myriad of other urgent matters requiring leaders' attention. A culture assessment that identifies gaps so decisions can be made in an expeditious manner provides a very appealing alternative. The problem is that, in so doing, leaders make significant assumptions about causality that can lead to wrong decisions and actions that harm, or at best, add no value. For this reason alone, leaders are better served to avoid comparisons to industry benchmarks and focus on culture alignment to strategy with the objective of competitive differentiation.

#2 Organizational Cultures aren't 'Good' or 'Bad'

Cultures aren't 'good or bad', contrary to what is inferred by industry benchmarks. They serve a purpose and 'stick' because they make sense and have helped the organization succeed. They reflect the shared values, beliefs and assumptions of members regarding the correct and best way to do things in order to achieve an organization's goals and fulfill its purpose[ix].The problem is that nothing stays the same. Changes in the internal and external environment require new and different strategies and ways of working that challenge existing belief systems.

To remain competitive and produce results, an organization and its culture may need to change. This doesn't mean the current culture is "bad"; it just needs to be different in some, specific ways. In fact, best practice studies indicates that building on existing culture strengths while at the same time questioning assumptions is the most effective approach to achieving sustained change[x].

#3 Culture is Complex and Nuanced

Culture is complex with tonalities and nuances that make every organization wonderfully unique. At a macro level of measurable culture attributes, an organization may appear to be similar to others and yet be very different in terms of the lived experience. It can also have characteristics in common with others in its industry yet differ on several attributes and in subtle ways that are critical to its identity and success. This is one reason why benchmarks, while informative, can be dangerous. As a statistical measurement tool, they do not capture the subtleties of culture, the dynamic interplay between different aspects of culture and other elements of the organization system, or identify underlying beliefs and assumptions that are the foundation of culture.

#4 Effective Cultures are Contextually Appropriate

An organization's performance is affected by the extent its culture is contextually appropriate and aligned to strategy[xi]. A contextually appropriate culture acknowledges the importance of industry, but also reflects market dynamics, societal values, leadership, organization size, life cycle stage, governance structure, M&A history and other factors in determining norms, values and beliefs[xii]. Societal values, for instance, have a greater influence on culture than industry norms meaning there is no such thing as a global, industry-specific culture[xiii].

It also recognizes the critical role that culture plays in enabling strategy execution and in turn, the effect that strategy has on cultural norms and behaviors. While organizations in the same industry may have some cultural attributes in common, differing strategies mean their cultures are distinctive in other significant ways. For example, all companies in the regulated airline industry require a normative culture due to the importance of safety and reliability of operations. However, companies such as Frontier Airlines and Spirit compete on price, which requires a culture that emphasizes consistency and efficiency of operations evident in a strong process and task orientation. At the same time, Southwest Airlines and Westjet have built their brand on the promise of a special, consumer experience. This is achieved, in large part, by providing a personal touch in every customer interaction, which requires a high engagement culture that is people-oriented, flexible and adaptive. Similarly, an organization that strives to differentiate itself from competitors through product innovation requires a different culture than one that aims for excellence in the customer experience or reliability of its operations.

#5 Culture Benchmarks Reinforce the Status Quo

Organizations that have the good fortune to operate in a stable environment, don't have to worry about changing their culture. As long as they continue to perform and achieve their goals, the culture can and will remain unchanged. For an organization to thrive, and even survive, in a dynamic environment, it must be adaptive; able to anticipate and respond effectively to change on a continual basis[xiv].

Emerging technologies, the entrance of new and/or non-traditional competitors, shifts in customer expectations and other evolving market dynamics demand new and different ways of thinking and operating. In many cases, the assumptions and beliefs that once helped the organization succeed become barriers to progress and change. As a result, the culture an organization has today is unlikely to be what it needs for the future. In these environments, comparisons to others in the same industry add little if any value. In fact, instead of helping to improve performance, benchmarks create the risk of perpetuating the status quo and in so doing undermine efforts to adapt and change.

If evidence is needed, look no further than popular management books such as Bossidy, Charan and Burck's (2002) *Execution* and Collins' (2001) *Good to Great*. Many of the organizations cited as examples of the cultures that others should aspire to ended up struggling or outright failing. For example, ten of the original eleven companies[xv] noted as stellar performers in Collins' book *Good to Great* performed slightly worse than the Standard & Poor's 500 during the 2009 recession[xvi]. In fact, two of them, Circuit City and Fannie Mae had disastrous results with Circuit City filing for bankruptcy in 2008 closing the last of its stores in March 2009[xvii]. Meanwhile, the U.S. government had to step in to shore up Fannie Mae hand-picking executives to run the company and pledging unlimited financial support projected to be somewhere in the vicinity of $154 Billion USD[xviii].

#6 Culture is Dynamic and Systemic

Organizations are living systems in that all of their elements are interconnected and work together to fulfill their purpose and mission. Culture affects and is affected by strategy, structure, policies, processes, physical space and so on. Cultural attributes cannot be viewed as separate components operating in isolation of each other or other elements of the broader system. It is the rich combination of all of the cultural attributes, and other elements of the system, working together in a dynamic and organic manner that makes each and every organization's culture unique.

This is what makes culture so "sticky". It is embedded in all aspects of the organization system. Yet, industry benchmarks by design treat cultural attributes as independent variables. This can lead to actions to close the gap on a specific attribute, without considering its connectedness to other aspects of the culture or the organization system as a whole. The result is unintended and potentially detrimental consequences impacting culture and performance.

Let's say, for example, an organization discovers it is below the industry benchmark on process-orientation (emphasis on how work gets done). As a result, an action plan is developed to document core work processes, eliminate exceptions, simplify work and implement a disciplined approach to process change management. However, for decades, employees have been taught that processes are bureaucratic encumbrances impeding delivery of the customer experience. This is firmly entrenched in the organization's belief system and evident in the way people work and interact. For the process improvement initiative to be successful, it must reconcile this conflict in an explicit way that is embraced by the organization. This includes looking holistically at the culture and addressing competing norms such as tendencies for groups to work in isolation of others and to allow people to deviate from the standard process. If this does not happen, it is highly unlikely that change efforts will be successful or sustained.

Case Study – Apple Inc.

For almost three decades, from its inception in 1976, Apple (formerly known as Apple Computer) was known exclusively as a manufacturer of computers[xix]. This started to change in 2001 with the introduction of the iPod followed in 2003 with the launch of the iTunes music store. In 2007, the company formally removed 'Computer' from its name noting that this too narrowly defined its portfolio of products and services. The same year, Apple entered the smartphone industry with the introduction of the iPhone, a revolutionary product that caused significant market disruption. Today, Apple has an 18% share of the smartphone market reaching number one in the fourth quarter of 2016 for the first time since 2011[xx]. Since 2007, Apple has continued to introduce innovative new products such as the iPad in 2010 and Apple Watch in 2014. At the same time, while the company continues to build out its ecosystem of devices and apps, it is the race for content against the likes of Amazon, Google and potentially Microsoft with its huge installed base that is garnering a lot of attention in the business and financial world.

What would have happened if, back in the 1980's and 90's, Apple had used industry benchmarks to determine the culture it needed? The comparison might have involved other computer manufacturers, such as Atari, Commodore, and Tandy, or perhaps IBM and Hewlett-Packard. Would this have resulted in the culture Apple needed to be where it is today? What about a comparison to other smartphone manufacturers such as Samsung and Blackberry or e-commerce and cloud computing companies like Amazon and Google? Undoubtedly, there are some cultural attributes that are required for any company to survive, but these are not the qualities that differentiate it in the marketplace or allow it to adapt and reinvent itself.

> *"When you think about Apple's products, what words come to mind? For most people, words such as simple, elegant, and innovative are among the first. Of course, that is no accident. Those values were critically important to Steve Jobs, and he instilled them into the Apple company culture."* [xxi]

These qualities emerge from the convergence of leadership, culture and strategy. In 1980, Apple's founder, Steve Jobs, stated that the company's mission was "To make a contribution to the world by making tools for the mind that advance humankind."[xxii] This provided the foundation which inspired its people, anchored its culture and guided its strategy. It is the belief in the power of human creativity combined with values that emphasize excellence, agility and combativeness that has fueled Apple's ability to innovate and its success[xxiii]. The people the company hires, the actions of leaders, the way work gets done and so on are influenced by and reinforce these values and beliefs. It is by crafting and nurturing a culture that is adaptive and aligned to the company's vision, mission and strategy that Apple, and other organizations, are able to differentiate themselves in the marketplace, achieve high levels of performance and thrive for the long-term.

Closing Thoughts

An assumption implicit in the use of industry benchmarks is the premise that organizations should strive to develop a culture that is similar to that of others within the industry. But what if an organization is striving to be different and standout from its competitors or there is a new entrant with a different paradigm about the way to do things? If culture is truly a potential source of differentiation, what is the value in being the same as evey other organization in the industry? Do you think Uber has or wants the same culture as a traditional taxi or limousine company?

Instead of asking how our culture compares to others in our industry, there are three questions leaders should ask:

1) Do we have the culture we need to execute our strategy, achieve our goals and fulfill our purpose?
2) Do we have an adaptive culture that allows us to anticipate and respond effectively to change?
3) How can we be the best version of ourselves?

A culture assessment can help leaders answer these questions by providing a common language and frame of reference to anchor discussions. It can also reveal culture strengths which can lead to insights regarding the organization's deeply embedded belief system. It should not circumvent the dialogue required to build shared understanding and alignment about beliefs and assumptions that leads to meaningful action which is a very real danger inherent in the use of industry benchmarks.

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CULTURE-STRATEGY FIT INC.

Culture-Strategy Fit Inc. is a leading culture and executive leadership consulting firm conducting groundbreaking work in leveraging culture to drive strategy and performance. It's suite of culture surveys and culture alignment tools are used by market leading organizations around the world.

End Notes

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