FINANCIAL AUDITS AND CULTURE AUDITS GO HAND IN HAND

CASS BETTINGER

CASS BETTINGER & ASSOCIATES

No competent business leader would neglect to perform regular, comprehensive, financial audits. After all, they are essential for keeping score, holding individuals and teams accountable, and identifying specific opportunities to enhance performance.

Corporate culture audits perform the same function and, given the overwhelming body of evidence linking corporate culture to financial performance, are more important than ever. It is therefore somewhat surprising that not all CEOs have taken advantage of this powerful and cost-effective tool for achieving and maintaining high-performance.

In a recent **FORTUNE** issue honoring America's most admired companies, corporate culture is identified as the key driver in attracting and retaining the exceptional people that are the ultimate competitive advantage for any company. According to the author:

"The corporate cultures of high-performing companies are dramatically different from those of average companies."

This is certainly consistent with our research and experience in the banking industry and is also validated by several recently published research studies. For example, Harvard professors John Kotter and James Heskett, in **CORPORATE CULTURE AND PERFORMANCE**, detail the results of their extensive research into the relationship between corporate culture and corporate financial performance. Their conclusion?

"Corporate culture can have a significant impact on a firm's long-term economic performance. We found that firms with cultures that emphasized all the key managerial constituencies (customers, stockholders, and employees) and leadership from managers at all levels outperformed firms that did not have those cultural traits by a huge margin. Over an eleven-year period, the former increased revenues by an average of 682 percent versus 166 percent for the latter, expanded their work forces by 282 percent versus 36 percent, grew their stock prices by 901 percent versus 74 percent, and improved their net incomes by 756 percent versus 1 percent."

This helps to explain why the management of corporate culture is being identified as one of the most important of all leadership responsibilities. In fact, when asked to differentiate CEOs who fail from those who are successful, Stephen Covey replied: *"They don't know how to bring about a change in culture."*

In today's world of constant and pervasive change, any company aspiring to consistent superior performance must develop new strategies which are compatible with new competitive realities. At the same time, the corporate culture must be managed continuously to support, rather than impede, the successful execution of the strategic plan.

MANAGING CULTURAL CHANGE

Creating and maintaining a strong, positive, strategically supportive corporate culture involves five key phases.

First, based on the company's strategic vision, core values, and strategic plan, the organization's leaders must determine what type of corporate culture is needed. What specific corporate culture characteristics, in other words, will be required to support fully the successful implementation of the strategic plan, and what specific cultural characteristics represent a threat to the organization's survival? One of the main reasons that so many strategic plans fail to produce the desired results is because the underlying culture is not supportive of the strategic change initiatives that are the essence of the plan itself.

Since a corporate culture audit quantifies an organization's cultural strengths and weaknesses, specific and measurable objectives can be established for the culture as a whole as well as for component areas, geographic locations and/or functional areas.

Second, a comprehensive corporate culture audit is conducted. With our system, each employee completes a survey instrument containing 92 statements in 20 component areas such as communications, teamwork, commitment to high-performance, sales culture, and strategic focus. Like a financial audit, the culture audit is a management tool by which leaders can keep score, hold individuals and teams accountable, and identify and prioritize specific opportunities to enhance performance. In the hundreds of culture audits we have conducted we have yet to find a "perfect" corporate culture. Opportunities for making a culture stronger and more positive can always be identified.

Step three, therefore, involves the quantification of the "cultural gap" the key differences between the actual culture and the desired culture. These differences are then prioritized based on their impact on strategic priorities.

The **fourth step** is the development and implementation of specific strategies and action plans designed to more fully exploit cultural strengths and to address proactively any weaknesses. At this point specific objectives can also be established for the next culture audit. We include corporate culture audits as an integral component of the annual strategic planning process.

Step five is the continuous management of the strategies and action plans developed in step four to ensure that they are all being implemented in a timely and effective manner. Ownership of this phase rests with the CEO and senior leadership team. After all, your corporate culture will impact significantly your financial performance whether it is managed strategically or not. Therefore, enlightened leaders will want to know that they are managing the culture for optimum performance.

This, of course, leads directly back to step one which, along with steps two through five, should become integrated into the strategic planning process itself.

In the not too distant past, many business leaders found reasons not to conduct regular culture audits. Some, for example, argued that while the relationship between culture and shareholder value creation might be intuitively obvious to some, there was no empirical evidence supporting the connection. Today the existence of such evidence is overwhelming. (See, for example **CORPORATE CULTURE AND PERFORMANCE,** by Kotter and Heskett) Others may have hesitated to conduct culture audits because they were not sure they could and/or would follow through with culture modification strategies which might be painful, disruptive, or risky. Today, enlightened leaders realize that the greatest risk to survival is failing to bring about strategic cultural change. Price Pritchett and Ron Pound, in their outstanding booklet **HIGH VELOCITY CULTURE CHANGE**, assert:

"Changing corporate culture is heavy duty stuff. This isn't the sort of challenge you take on simply because it sounds good. Or, because it's the in-thing to do these days. You do it because you have to in a desperate attempt to survive or – if you're lucky – and smart enough – you do it before you have to, knowing you must if the organization is going to maintain a competitive edge in today's rapidly changing market place."

Clearly, financial audits and culture audits do go hand in hand as powerful and complementary tools leading to greater shareholder value and the ability to control your own destiny. As such, they should become an integral and essential component of the strategic plan of any company that wants to achieve and maintain high-performance. After all, the performance of any company is really nothing more than the sum total of the performances of its people, and it is corporate culture that has the greatest impact on the attitudes, behaviors and performance of people.

For more information, please contact:

CASS BETTINGER & ASSOCIATES

(239)-596-2890

CASSBETTINGER@GMAIL.COM