

# Organizational culture as a strategic competitive advantage for new enterprises

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## Introduction

Firms need a unique, sustainable competitive advantage to outperform the competition. Competitive advantages typically involve valuable, rare, and difficult-to-copy resources (Barney, 1986), such as distribution networks, proprietary algorithms, patented designs, or a unique brand.

One often-overlooked resource is the **culture** of an organization.

In professional services firms in particular, and most service-oriented companies in general, it can be argued that the the company's people and culture are often ultimately the only differentiating factors that drive differences in performance between competing firms (*ibid.*).

*“Culture might be the ultimate strategic asset and competitive weapon for most companies.”*

(Flamholtz and Randle, 2011)

**Organizational culture** has been defined, unsatisfyingly, as “values, beliefs, assumptions, and symbols that define the way in which a firm conducts its business” (Barney, 1986), and as “values, beliefs, and behaviors practiced in an organization” (Osterwalder and Gray, 2015). Flamholtz and Randle (2011) offer a more nuanced view, describing corporate culture as the “personality” of an organization, and as a key influencer of how people behave in the workplace. Corporate culture manifests itself in practices and customs, shared beliefs and values, the words and language employees use, symbols and messages, and physical artifacts such as furnishings and artwork in the company's facilities (*ibid.*).

In this paper:

- We will explore the importance of organizational culture and argue that a strong culture can only be properly instilled during the very earliest stages of an organization's founding.
- We will investigate the impact of a founder's personality traits on the culture of the organization.
- A practical framework will be presented that entrepreneurs and managers can use as an aid for planning and designing a culture for a new organization.
- We will conclude with recommended best practices for maintaining a strong culture as a company grows.

## The importance of organizational culture

Companies that claim that their unique cultures are a key element of what has made them successful include Google, Starbucks, Southwest Airlines, GE, and Toyota (*ibid.*).

Companies with a strong and positive corporate culture enjoy many advantages:

- Morale tends to be higher, and there is more positivity in the workplace, leading to higher performance, better teamwork, and better quality (in particular, better customer service).
- Employees take more pride in their company and are more committed, resulting in lower attrition rates.
- Firms with a reputation for a good culture are more easily able to attract top talent.
- Employees will tend to trust and support the company's management and will work towards achieving the company's goals.
- The culture, if coherently aligned with the strategy, will support the achievement of strategic objectives.

In contrast, companies with a negative corporate culture suffer from the opposites: low morale, less effective teamwork, high turnover, poor customer service, less respect and support by employees for management, and poor alignment with strategy. There is often more resistance to change as well.

## Corporate culture is hard to change in an established organization...

Every company has a culture, even if one has not been consciously planned and cultivated<sup>1</sup>. An unmanaged corporate culture is a major risk. Most companies do not actively attempt to design, cultivate, and manage their culture until it organizational dysfunction reaches a crisis point. The more toxic a culture has become and the longer the situation has been allowed to persist, the less likely any attempts to fix it will be successful. While it is not necessarily impossible to change the culture in a larger organization, it tends to be a challenging endeavor with uncertain outcomes (Katzenbach *et al.*, 2012).

## ...Therefore, culture should be intentionally established in the earliest phases of a company's formation

The best time to build a strong company culture is during the company's very earliest stages -- in particular, when the founders are finding suppliers, customers, and other business partners, and hiring their first employees.

In fact, I would argue that this is the *only* time that key elements of a good culture can truly be ingrained. Entrenched patterns of belief, behaviors, and interpersonal collaboration are difficult to reliably change, due to human nature and organizational inertia, and the task of truly changing a company's culture becomes increasingly intractable the larger and more complex the company is. It is much easier to intentionally design and cultivate a desired corporate culture from the beginning.

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<sup>1</sup> "A company that appears cultureless is actually a company with a weak or ill-defined culture" (Flamholtz and Randle, 2011, p. 9).

## The founder's personality shapes an organization's culture

It is my personal observation that organizations tend to exhibit characteristics that reflect the personality and behavioral characteristics of their founders.

This is hardly a surprising insight. Founders establish how their businesses are run, and act as role models. Founders hire, train, and manage staff who will work to please the founders and who will mimic the founders' traits. Employees with similar personality traits, beliefs, and values as the founders are more likely to be hired, more likely to use similar working practices, more likely to be judged as successful, and more likely to choose to remain employed at the firm. Such employees are then more likely to be promoted into roles with more responsibility and will subsequently hire additional people with similar traits and beliefs. Conversely, employees with differing traits and beliefs are more likely to eventually leave. In this way, founders' personality traits, beliefs, and values permeate the organizations they create and provide the fundamental basis for their organizations' cultures.

A disorganized founder will generally tend to build a disorganized organization, whereas an organized, detailed-oriented engineer with high quality standards will tend to build an organization that follows processes and practices and delivers high-quality products. An intense, performance-driven founder will tend to build a company with a competitive, perhaps fear-driven, environment. A risk-taker will build a company not afraid to take risks, and so on.

Furthermore, a pattern that I have observed at three different organizations is the following: A charismatic founder builds and grows a company into a successful operation, and then retires and passes control to a general manager, who, despite extensive managerial experience elsewhere, seems to struggle to keep the operation running. One explanation for this pattern is that the founder's personality and working style match the culture of the organization he or she has built; there is natural alignment. A different manager stepping into the role will have a different personality and working style; there will not be the same level of alignment. This suggests that the culture of the organization is a major determinant of how effective a leader can be, and a culture that a leader has built will serve as a powerful enabler of that leader's own leadership (but not necessarily that of others).

The practical implications of this are that founders should become aware of their own personalities, their beliefs and values, and their personal styles of working, communicating, and interacting with people. Any weaknesses or quirks risk potentially becoming part of the culture of the organization. Deliberately working to design and foster a culture is a way to combat this.

## The need for an effective framework for designing an organizational culture for a new enterprise

In my opinion, organizational culture is so important for a newly-formed and growing enterprise that it should be considered an essential element of business model frameworks.

There have been several attempts to create frameworks and canvasses to describe an existing culture or to design a culture, but I find these disappointing in general:

- Weijers' (n.d.) *Project Culture Canvas* is superficial; its focus on rudimentary team mechanics at only the project level fails to capture any of the true essence of a culture.
- The *Culture Map* canvas (Osterwalder and Gray, 2015) consists of only three generic elements; it is useless for anyone seeking a guidance for designing a culture.
- The *Culture Canvas* by Muñoz (n.d.) is more detailed but still omits critical elements of a culture.
- The *Corporate Culture Map* (Flamholtz and Randle, 2011) uses a matrix to relate five "dimensions" of culture against three "components" of culture. See Figure 1.

Cultural Dimension	Values	Beliefs	Norms
Customer/client orientation			
People (employee) orientation			
Performance standards and accountability			
Openness to change and innovation			
Company process orientation			

*Figure 1. Corporate Culture Map (Flamholtz and Randle, 2011)*

Although promising, this is too abstract to offer practical guidance to entrepreneurs.

Therefore, I will propose a new checklist-style organizational culture framework of my own in the next section.

## A culture design framework

The table below presents a list of elements that, taken together, contribute to forming the corporate culture as experienced by employees.

Entrepreneurs and managers can use this framework as an aid for thinking about and discussing what elements and practices they might wish to deliberately incorporate into their new enterprises. Users of this framework should reflect on the questions, make decisions on positions to take and initiatives to undertake, and formalize the decisions into written artifacts. A *Company Culture Handbook* document and related project planning artifacts may be suitable.

Element	Aspects to consider and commentary
Company mission and goals	<ul style="list-style-type: none"> <li>Leaders should define and communicate both the scope of the company's activities -- the mission -- and the main objectives the company aims to achieve. This provides focus and guides decision-making, and gives employees confidence that management has a long-term vision. If all employees understand and buy into the mission and goals, it can provide a shared direction that serves as a powerful motivator.</li> </ul>
Cultural goals	<ul style="list-style-type: none"> <li>Rather than selecting "company values", which tend to be vague, generic, and not actionable, I recommend instead setting goals for the type of <i>culture</i> that you wish to achieve, e.g., a meritocratic, collaborative, innovative, risk-taking, and quality-oriented culture (Katzenbach et al., 2012).</li> <li>What is the company's priority in the quality-cost-speed-flexibility trade-off? (Hayes and Wheelwright, 1984)</li> </ul>
Symbols	<ul style="list-style-type: none"> <li>Symbols, including the company's logo, branding, and colors, serve as visual representations of who the company is and what it represents. Symbols serve as an emblem, like a national flag, that people can identify with and rally around, and signal the character of the company (e.g., professional, playful) to stakeholders. Symbols must therefore be thoughtfully designed.</li> </ul>
Stories and legends	<ul style="list-style-type: none"> <li>Shared stories are a proxy for shared experiences. Telling stories can give people a common context, shared understanding, and a community spirit. Storytelling can also increase the likeability, warmth, and trustworthiness of the storyteller.</li> <li>What company-related stories can leaders tell at company-wide meetings, onboarding training sessions, Christmas parties, etc.? Examples: How and why the founders started the company, early struggles, near-death experiences, and funny or endearing stories about challenging projects or difficult</li> </ul>

	<p>customers.</p> <ul style="list-style-type: none"> <li>• Can legendary founders' stories be used as a marketing tool (e.g., Apple, HP)?</li> </ul>
Customs, rituals, and ceremonies	<ul style="list-style-type: none"> <li>• What meetings, gatherings, celebrations, and ceremonies take place? These can range from daily scrum stand-ups to company-wide training or team-building events, retreats, conferences, Christmas parties, etc.</li> <li>• How are successes celebrated? (For example, a team dinner to celebrate major deliveries?)</li> <li>• How are individuals recognized and praised? (For example, do monthly company meetings start with recognition of individuals who have accomplished remarkable tasks? Are awards given for outstanding individual contributions?)</li> </ul>
Workplace physical artifacts and atmosphere	<ul style="list-style-type: none"> <li>• What is the office space like? Is it an open floorplan concept, cubicles, shared offices, or individual offices? Is it supportive of the culture the company wants to create?</li> <li>• Do the furnishings, equipment, artwork, kitchen facilities, etc. project the desired image?</li> </ul>
Management structures and styles	<ul style="list-style-type: none"> <li>• Is the company organized in a strict hierarchy or in a flatter structure?</li> <li>• Does a "Theory X" (strict supervision, management by fear, external rewards) or a "Theory Y" (an enabling approach with a focus on motivation through job satisfaction) management style dominate? (McGregor, 1957)</li> <li>• How much independence and accountability do staff members have, and how open is the firm to bottom-up ideas and initiatives? (Harari, 1998)</li> </ul>
Formality or informality	<ul style="list-style-type: none"> <li>• Do staff address each other on a first-name basis? If applicable, is informal address (jij/jullie, Du, tu) or formal address (u, Sie, vous) used?</li> <li>• Is the dress code formal or informal?</li> </ul>
Competition- vs. harmony-driven atmosphere, work-life balance	<ul style="list-style-type: none"> <li>• Does the leadership wish to create a high-pressure atmosphere with performance targets and internal competition for promotions, or shall the atmosphere be more friendly and collaborative?</li> <li>• Are staff expected to work long hours or is work-life balance emphasized?</li> <li>• What steps will the company take to reinforce the chosen preferences?</li> </ul>
Customer focus	<ul style="list-style-type: none"> <li>• How seriously is the company focused on providing outstanding customer service?</li> <li>• Consider: Are staff courteous and responsive to requests? Are delivery deadlines, product feature promises, service-level agreements, etc. always adhered to? Are returns and allowances handled without complaints?</li> </ul>

	<ul style="list-style-type: none"> <li>• What systems and metrics could be put into place to monitor and improve customer satisfaction?</li> </ul>
Compensation and benefits structure	<ul style="list-style-type: none"> <li>• Is employee compensation fair? Is it perceived as fair by the employees?</li> <li>• If the company pays below market rates, does it compensate with benefits, perks, or intangibles?</li> </ul>
Career path clarity	<ul style="list-style-type: none"> <li>• Are there career development levels and career paths?</li> <li>• Do managers and employees meet regularly to set goals, monitor progress, and provide feedback?</li> <li>• Are mentoring opportunities available?</li> </ul>
Employee-manager communication	<ul style="list-style-type: none"> <li>• Do managers have frequent one-on-one meetings with staff?</li> <li>• Do employees feel that they can have open and frank discussions with their superiors?</li> </ul>
Level of organization: process maturity, quality management, and knowledge management	<ul style="list-style-type: none"> <li>• To what extent is the company able to reliably and repeatably perform business processes?</li> <li>• Are company operations managed as formal processes? Are job descriptions and critical tasks documented?</li> <li>• Are quality management frameworks/techniques implemented?</li> <li>• To what extent is knowledge recorded, kept up-to-date, and shared?</li> </ul>
Respect	<ul style="list-style-type: none"> <li>• Do staff treat each other with respect and dignity, and do managers take appropriate action when they become aware of disrespectful behavior?</li> <li>• Do employees feel that the company respects them as expressed through resources and facilities, e.g., quiet places to work, suitable equipment?</li> </ul>
Change orientation	<ul style="list-style-type: none"> <li>• Is the staff prepared for and supportive of change initiatives?</li> <li>• What change management techniques can management use to improve attitudes and readiness for change and to foster innovation?</li> </ul>
Diversity and tolerance	<ul style="list-style-type: none"> <li>• Is the company working towards building a diverse workforce in the broadest sense?</li> <li>• Is the workplace welcoming to minority team members?</li> </ul>
Performance evaluations and management	<ul style="list-style-type: none"> <li>• How are performance evaluations, raises, and promotions handled? Is there a formal system in place? Is it a quantitative or qualitative scheme?</li> <li>• Are people happy with the system? Is it regarded as fair and equitable, or dehumanizing and demoralizing?</li> </ul>
Engagement and excitement	<ul style="list-style-type: none"> <li>• To what extent do employees feel engaged, excited, and energized about their tasks, their team, and the company?</li> <li>• What will managers do to maintain the levels of engagement and energy?</li> </ul>

Upward trust and respect	<ul style="list-style-type: none"> <li>• Do employees trust and respect management?</li> <li>• Trust and respect can be earned by establishing and communicating a track record of competence, fairness, and transparency. Does the leadership plan to tell stories and legends about past successes?</li> <li>• Do employees feel that the company will look after them?</li> <li>• Do managers project both warmth and competence (Cuddy <i>et al.</i>, 2012)? What coaching can be done to help managers who need improvement?</li> </ul>
Recognition and meritocracy	<ul style="list-style-type: none"> <li>• How frequently does the company and its managers recognize, formally and informally, the contributions and performances of employees?</li> <li>• How does the company encourage “peer-to-peer” giving and receiving of recognition and kudos?</li> </ul>
Training and development	<ul style="list-style-type: none"> <li>• What programs and opportunities does the company offer to employees to help them develop their potential?</li> </ul>
Planning horizon and agility	<ul style="list-style-type: none"> <li>• Does the company do long-term planning?</li> <li>• Do project teams use traditional planning approaches or agile techniques?</li> </ul>
Teamwork capability and team spirit	<ul style="list-style-type: none"> <li>• Do employees work in close-knit teams?</li> <li>• What types of team-building events and shared experiences are planned to help build team cohesiveness?</li> </ul>
Hiring	<ul style="list-style-type: none"> <li>• What is the hiring process? Is it systematized?</li> <li>• Is the company highly selective?</li> </ul>
Growth and scalability planning	<ul style="list-style-type: none"> <li>• In firms that scale up rapidly, large numbers of new hires are usually not given the time and opportunities to learn and experience the culture, which leads to a “cultural chasm” (Niu and Roberge, 2017).</li> <li>• What steps will the company take to maintain and nurture the culture as the company scales up? (Onboarding training, mentoring, company events, etc.)</li> </ul>

## Best practices for culture cultivation in new and growing enterprises

The following best practices are recommended:

1. Founders and top managers must role-model behaviors -- like outstanding customer service, attention to detail, or treating others with fairness and respect -- that they wish their employees to practice (Katzenbach *et al.*, 2012). Leaders must behave the way they want their staff to behave. Especially if leaders are inspiring personalities

and possess both warmth and competence (Cuddy *et al.*, 2012), then subordinates will tend to mimic the leader's behaviors and attributes.

2. Establish a budget for organizing social and team-building events that can help to build a shared culture and sense of community.
3. Try to strike a reasonable balance between formal processes, rules, and metrics and more informal behavior patterns, such as "networking, communities of interest, ad-hoc conversations, and peer interactions" (Katzenbach *et al.*, 2012).
4. Sometimes culture will emerge bottom-up, with employees initiating start "organic, peer-to-peer" rituals and behaviors (Katzenbach *et al.*, 2012). If these practices are positive contributors to culture, managers should embrace them and help them spread. Authenticity could be damaged if the practices are formally codified, however, so simply aiding the spread of the practices in a viral, peer-to-peer way is often preferable. For instance, at GM, one team began giving gold star stickers to reward the outstanding performance of individual team members, a practice which then spread organically throughout the organization (*ibid.*).
5. Culture design and change, like any change effort, should ideally be measured and evaluated to review effectiveness and to determine whether to persevere with the current approach or "pivot" (*ibid.*).

## Conclusion

Organizational culture is a critical strategic asset and differentiator. As culture is difficult to change once established, founders of new businesses must pay close attention to creating a great culture during the earliest stages of business formation. Ultimately, a strong culture is the product of charismatic, inspiring leaders who intentionally plan, design, and implement a program to build a positive and supportive workplace atmosphere. Most investments in culture-building tend to be worthwhile, as a strong culture will support and magnify the efforts of leaders to achieve greater business success.

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