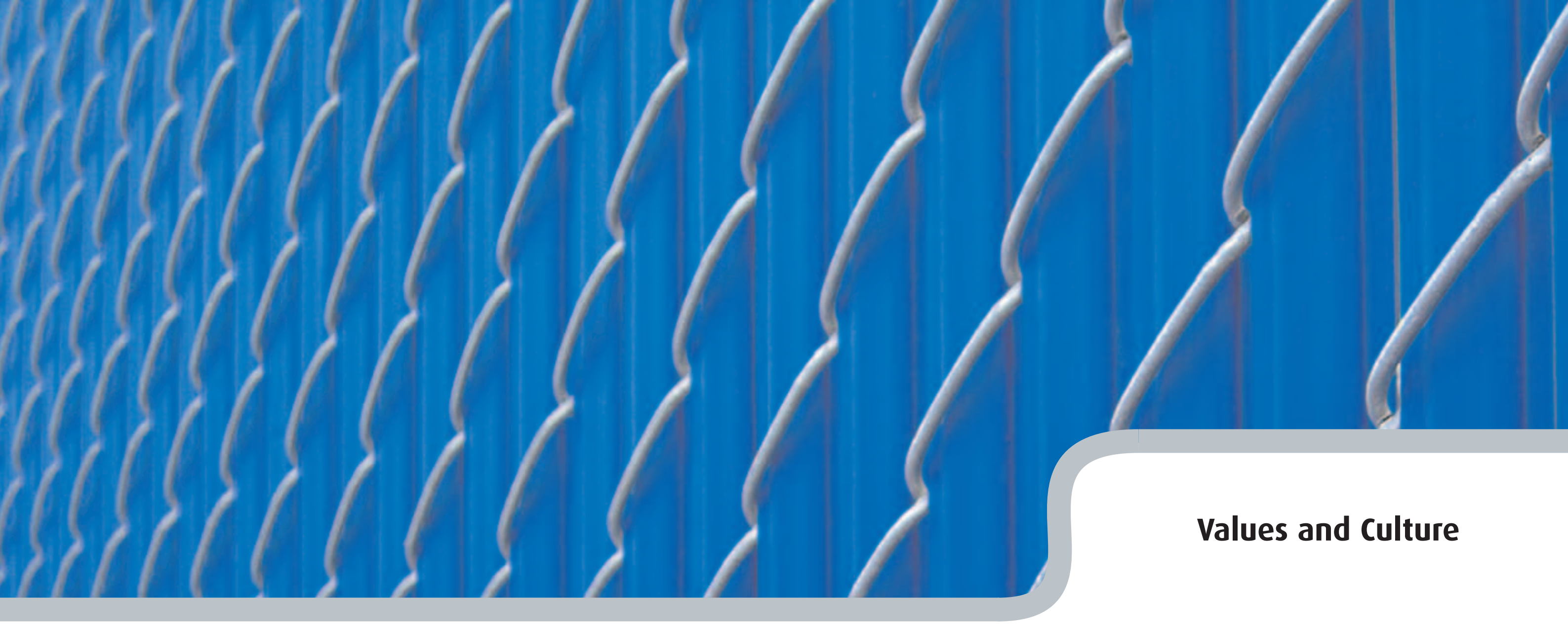

Linking Behaviour to Bottom Line Performance

Linking Financial Values and Cultural Values

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.

Background

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 programs, grading systems or competencies for instance. Ownership of such values may be with the board, HR, or it may lie with a combination of stakeholders.

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

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[1].

The following example seeks to contrast two airlines[2]. 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 whilst Brand 2 flies long haul and emphasises their luxurious customer experience. Comparing financial values, differences are in margins, the cost base, customer segmentation, distribution channels and levels of competition for example.

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. Writing in the Harvard Business Review[3], Kaplan and Norton write of the Office of Strategy Management and 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 the bottom line	Direct	Indirect
Summary	Economics	Emotions
Integration with other indicators via	Balanced Scorecard Other dashboard type tools	Balanced Scorecard Other dashboard type tools

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.

The micro world of managers and their teams is the place where strategy meets execution. It is the point that 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 (amongst 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 mangers for example. As a result, we feel that such an approach can highlight, in the words of Robert Kaplan, 'a chronic disconnect in organizations between strategy formulation and strategy execution'[4].

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 lead 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 micro perspective and focussing 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. 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.

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 program in isolation, developing a complementary approach which also tackles these issues on the micro level is far more likely to result in a successful outcome.

Footnotes and references

1. Balanced Scorecard and 'dashboard' tools do of course seek to collate numerous organisational variables, financial and cultural values being a part of this. This said, the utility of these tools will be examined in more depth later in the article.

2. The names of each airline were deliberately left out in order to make a more meaningful comparison and emphasise the different financial but near identical cultural values. If you would like to know which two airlines have been used, please get in touch.

3. Robert Kaplan and David Norton. The Office of Strategy Management. The Harvard Business Review, October 2005.

4.Q&A with Robert Kaplan. The Office of Strategy Management. Harvard Business School Working Knowledge, March 2006.

About Four Groups

Four Groups has developed a new approach called 4G to understand behaviour, relationships and culture. 4G provides its users with insight into personal characteristics, how relationships develop within teams and groups and how culture can be best defined and managed.

4G provides organisations with information on how best to deploy and optimise the performance of their people. It also enables preventative measures to be taken which minimise the less productive aspects of interaction and group dynamics such as friction and misunderstanding between colleagues.

4G represents a systematic approach to managing previously intangible aspects of organisational life. The methodology is easily replicable and can be implemented quickly and efficiently.

Four Groups Ltd
5 St. Johns Lane
London
EC1M 4BH, United Kingdom

Tel: +44 (0) 20 7250 4779
Email: contact@fourgroups.com
www.fourgroups.com

Company Number: 4650494
VAT Number: 817 7962 85
Registered in England and Wales