

**A Special Report for Senior Executives**

# **Fostering a Culture of Growth: Increasing the Return on Your Investment**

**Insights from a Study on Senior Executive Experiences**



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## The Challenge of Fostering a Culture of Growth

A sign featuring the comic strip character Dilbert says, "Change is good... You go first." However, in this tumultuous business environment, there's no luxury of time to wait to make changes happen. Business as Unusual" is the new normal, and senior executives are finding that they must constantly adjust even their most well-conceived growth strategies to address unprecedented issues. In our experience, and in study after study, business culture (also referred to as "culture") is a critical factor that impacts whether strategies succeed. The challenge for many leaders is figuring out exactly how to best foster their company's culture to drive growth despite the uncertain conditions.

***Taking a strategic approach to fostering your company's culture can lead to even better outcomes in any business environment.***

Having gathered much anecdotal evidence that senior executives in companies of all sizes across many business sectors definitely feel the pressure of this challenge, we sought to obtain some objective measures of how senior executives were experiencing and shaping their companies' cultures to support growth and profitability. To that end, we conducted a survey of CEOs and presidents in the consumer products industry titled "Fostering A Culture of Growth" (see Appendix 1. for details).

We discovered that senior executives of even the oldest and most stable companies find that their organizations must quickly develop new strategies to effectively respond to a variety of emerging issues including: shifting customer needs, increased competitive pressures, mergers, new regulations, ESG imperatives and other issues that impact business growth. While most executives acknowledge the important link between culture and the success of their strategies, they mentioned that "lack of time" followed closely by "not having the right people in place" are two of the biggest obstacles they see to fostering a culture of growth in their companies.

While these obstacles can seem like insurmountable roadblocks, there are ways to navigate around them. Gaining new perspectives on the underlying issues and then taking a strategic approach to fostering your company's culture can lead to even better business outcomes in any business environment.

### Why is it difficult to find time to address culture?

The obvious question is, if everyone agrees that it's important to positively shape company culture to achieve higher levels of business success, why is it so difficult for top leaders to find the time and the right people to address it? Although these obstacles appear to refer to different issues, it frequently comes down to a matter of uncertainty about the return on investment.

For example, in one case a company established a "culture-building program" to improve teamwork. The program, designed and executed by human resources, included team building off-sites, parties, awards, teamwork signs on the walls, and other initiatives. The problem? Even though everyone liked the program and gave the classes rave reviews, executives had a difficult time measuring the return on investment, and did not see tangible changes in behaviour that resulted in the increased business performance they had expected. Predictably, further work on the culture building program was indefinitely postponed as senior executives reallocated resources and people to focus on what they called "real work," including launching a new product while integrating a merger. However, the poor morale, escalating conflicts, lack of collaboration, and slow decision making that spurred the culture-building program in the first place persisted and ended up delaying the integration and product launch.

This gridlock was substantially unsnarled once the CEO and his executive team realized

***The biggest shift in perspective on business culture for many executives is internalizing the links between culture, organizational performance, strategy, objectives, and outcomes.***

that they needed to treat fostering culture as an integral part of “real work” and strategic business outcomes, rather than as an independent program. Shifting their perspective led them to realign their priorities and create the necessary time and resources to address the specific cultural issues that were most relevant to their objectives. Consequently, the company was able to achieve measurable improvements in their business results.

The second most common obstacle to fostering culture mentioned in the survey was “not having the right people.” This is frequently an issue in companies that are going through reorganizations, mergers, downsizing, or growth. While this may be a separate issue from “no time,” it also frequently has uncertainty about ROI at its center. However, as the above example illustrates, your business culture exists whether or not you consciously shape it. If left unaddressed, a culture that conflicts with the organizational performance required to achieve your strategy and business objectives can be far more costly. Even in companies in the midst of reorganization, devoting time and resources to actively foster a culture that supports business-critical objectives lays the foundation for generating growth.

Gaining new perspectives on overcoming the obstacles that prevent fostering business culture is the first component to getting even better business results. The other component is deciding which elements of culture have the most potential to provide a return on investment for your unique organization.

*While culture does not have a direct impact on business outcomes, there is a definite path that links culture to measurable results.*

## Linking Culture to Business Outcomes

Perhaps the biggest shift in perspective for many executives is internalizing the links between culture, organizational performance, business strategy, objectives, and outcomes. A useful way to visualize this is to think of a target with business outcomes at the center (Figure 1).

**Figure 1. Focus on Business Outcomes to Foster a Culture of Growth**



In this diagram, “outcomes” are specific, measurable results; “objectives” are broad goals (Example: increase top line growth in the target market by 30%); “strategy” refers to an approach and plan of action (Example: develop new products for a target market) to accomplish the objectives; “organizational performance” refers to what your organization needs to do or accomplish to advance the strategy (Example: “shorten cycle time of developing new products.”); and “culture” refers to all of the values, beliefs and practices that exist in your organization. (While we’ll go into this in greater depth below, one example of a cultural element could be “teamwork is important”).

As you can see, while culture does not have a direct impact on business outcomes, there is a definite path that links culture to measurable results. That’s why it’s essential for the CEO and executive team, who are ultimately accountable for business results, to address culture in the context of specific business needs, rather than as a stand-alone program.

The following steps can serve as a guide to identifying and shaping culture to drive the growth of your company:

### **Step 1: Identify the specific organizational performance needed to achieve your strategy and objectives:**

The more closely you can establish a context between a specific business critical objective and the contributing cultural elements that will foster the necessary performance, the more likely it is that your efforts will be targeted on the most relevant issues.

For example, in a consumer products company, executives identified the cultural element of increasing collaboration between marketing, research and development, and manufacturing as critical to the organizational performance requirement of decreasing cycle time. They also identified specific metrics for assessing performance, including decreasing the number of tries it took to “get the new product right,” and increasing the speed and efficiency of prototype performance testing. While executives agreed that these performance metrics were essential to decreasing cycle time, and they encouraged employees to collaborate through a variety of methods including presentations, memos, communication training and posters, the employees mysteriously resisted making the changes.

The mystery was solved by looking more closely at the strong messages that some middle managers were sending to employees by directly telling them to focus on their individual job functions rather than working with employees from different functional areas. Another conflict existed around risk taking. Although top leadership encouraged employees through speeches and memos to take prudent risks to streamline their work, some middle managers also sent messages through informal conversations with employees, discouraging them from taking time and resources to develop and validate more efficient test methods that the managers felt took focus away from “getting product out the door.”

Once executives realized the link between messages and practices that were inadvertently blocking the performance needed to shorten the product development cycle, they were able to adapt the content of their messages and rewards so that employees viewed collaboration and risk taking as relevant to achieving their goals and objectives. The bottom line was a significant decrease in cycle time.

Likewise, establishing the linkages between your key priorities and business objectives, the strategy that best addresses this objective, the organizational performance that leads to successful execution, and the cultural elements that foster necessary performance will

*Although it’s common to refer to “company culture” as if it were one entity, culture actually shows up in two distinct ways – Formal and Informal.*

enable your efforts to foster culture to be seen by everyone as more relevant and measurable.

## Step 2: Address both the formal and informal cultures of your

**organization:** Although it's common to refer to "company culture" as if it were one entity, over the years we've found abundant evidence that culture shows up in two distinct ways:

- **Formal culture** reflects the "official" values, beliefs, and practices of your business – such as the mission and values statement, the policy manual, the style of your business cards, the operating procedures, the performance review system, communications programs, the organizational chart, and so on. This is how the organization ideally sees itself, and frequently where the bulk of an executive team's attention is focused when they want to change or influence the organization's performance.
- **Informal culture**, in contrast to the formal culture, is not written down, posted on the walls, or featured in speeches, training programs or employee awards. Instead, it is transmitted through conversation and observation, and reflects what *really* happens on a day in and day out basis. There's nothing in writing that describes any of the values, beliefs, and practices, yet they're just as cherished and respected as the written code, sometimes more so. From who sits where in the lunchroom to how information is shared to how important decisions get made, the informal culture is just as prominent as the formal culture.

For example, a department at one company had members who proudly proclaimed in casual conversations with colleagues that their mission statement was to be "the only department in the company not to have a mission statement." While this was funny to a number of people in the organization, the poor morale and distrust that it masked resulted in a slowdown of decision-making and resistance to collaboration that delayed a product launch.

When formal and informal cultures are aligned, the result is very powerful. However, *when formal and informal cultures clash, which often occurs as companies respond to changes in the business environment, the informal culture will win every time.*

The lesson to keep in mind is that just as it's important to develop formal elements of your company's culture, fostering a culture of growth depends just or even more critically on discovering and addressing issues in your organization's informal culture that can advance the objectives and business outcomes that need to happen.

## Step 3: Adjust elements of culture that have the highest impact

**on critical performance:** Focusing on aspects of an organization's culture that are important to achieving its most critical business objectives, makes changes more relevant to the interests of employees and other stakeholders who must make them happen.

For instance, consider the case we mentioned above of the consumer-goods company where senior executives identified accelerating product development as a business process they wanted to improve. It became clear that informal cultural elements that emphasized sticking to established ways of working effectively conflicted with the formal culture voiced by senior executives that encouraged collaboration and risk taking.

*When formal and informal cultures clash, the informal culture will win every time.*

*Building specific efforts to foster company culture into a new or existing high-priority business strategy makes the changes more relevant and likely to be implemented.*

Recognizing this conflict between formal and informal cultures, the leadership took a series of steps to bring the informal culture in line with their formal principles, initially focusing on employees involved with their leading product line. This included establishing new work processes in which selected senior managers were made responsible for the work product of multiple functional areas (i.e. research and development, marketing, and manufacturing). In addition, senior executives modified performance evaluations to include assessment of collaboration and innovation, and individuals and groups who exhibited the highest levels of productive collaboration and risk-taking were singled out for special recognition.

The measurable outcome of these efforts to foster culture was that product development cycle time sped up by approximately 40%, cost to develop and launch an individual product decreased by 30%, and consumer acceptance of the new products contributed to a significant rise in both their top and bottom line results.

As this company's executives learned, identifying the elements in both the formal and informal culture that both advanced and blocked necessary performance, and adjusting and rewarding them accordingly made it easier to explain to employees and external stakeholders why changes were necessary and relevant to them, ultimately accelerating their acceptance and adoption.

## Keep Adjusting for Best Results

When you build specific efforts to foster company culture into a new or existing high-priority business strategy, employees will view the changes as relevant to their work and be more likely to implement them in measurable ways that impact top and bottom line results.

Keep in mind, however, that just as individuals change and grow over time in relationship to their world, so do organizations and cultures change over time. The culture that grew your company in its early days - or even last year- is continually shifting in large and small ways. That's why even if your basic objective stays the same, it's critical to regularly assess big and little changes that have occurred in your organization over time, and make appropriate adjustments to business strategies, organizational performance requirements, and the cultural elements that are necessary to support them.

Ultimately, when CEOs and executive teams work together to foster a culture of growth, new possibilities to address challenges and improve business results often unfold that might not have seemed possible. Addressing this on a consistent basis will enable your company to sustain growth no matter whatever economic twists and turns lie ahead.

*It's critical to regularly assess big and little changes that have occurred in your organization over time, and make appropriate adjustments.*

## Appendix: Survey Methodology and Results

### About the Survey

**Survey Objectives and Population:** To learn about senior executives' opinions about key business growth, strategy, organizational performance requirements, and cultural issues in the snack food industry, Business Advancement Inc. collaborated with the Snack Food Association to independently conduct a survey of selected senior executives of member companies, with knowledge and consent of SFA leadership. An invitation to participate in the online survey was sent to 53 SFA member company executives identified by the Association; 15 individuals completed the survey. Because of the relatively small sample, the results should be interpreted as representing trends among snack food industry executives, but not a definitive representation of attitudes across the whole industry.

**Survey design:** The survey consisted of nine questions (Table 1) addressing important areas of change in the business environment impacting business growth, companies' responses to these changes, key performance factors driving the success of those responses, the perceived impact of company culture on business performance, measures taken to positively influence, and major factors impeding the success of those measures. Required responses included ranking lists, multiple selection, and five-point rating.

#### **Table 1. Survey questions:**

1. Rank the impact/importance of changes in the following areas to your company
2. Rank the following business priorities as a way to grow in the face of a changing business environment
3. Rank the following performance factors according to their impact on your most important business priority from question
4. In your opinion, how strongly does company culture influence the performance factors listed in question 3
5. In your company, how extensively is company culture addressed as a factor for growth?
6. How frequently is company culture a focus of your conversation with your middle management and front line workers?
7. What factors do you believe to be important for fostering a culture of growth in your company?
8. How satisfied are you with the extent to which the measures you take to foster your company's culture contribute to growth?
9. What are the leading inhibitors in your company to fostering a growth-oriented culture?

## Survey Results:

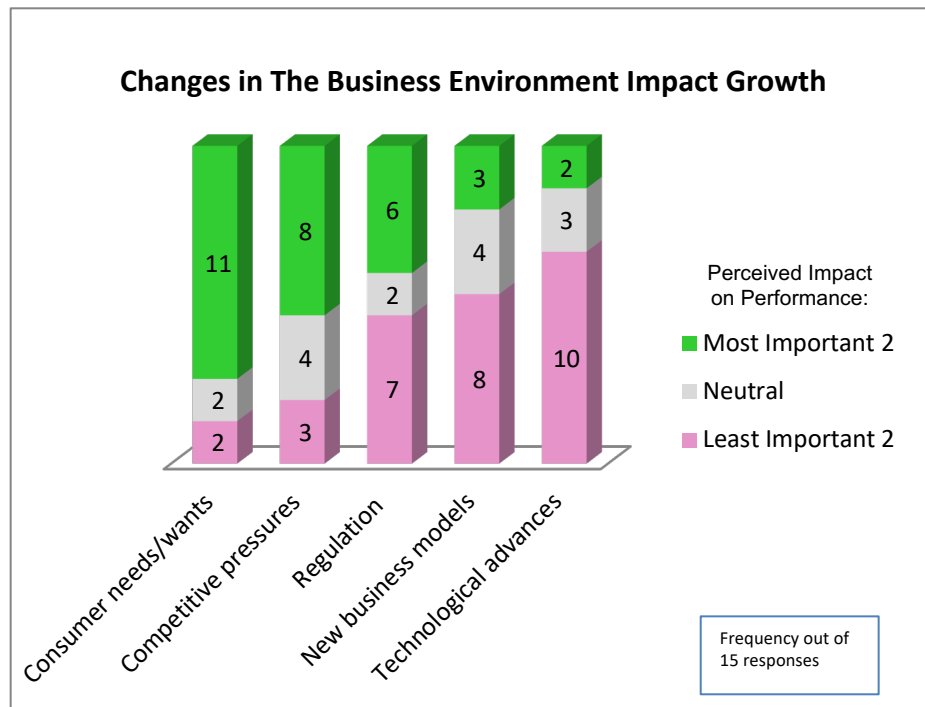
The principal findings of the survey are summarized below. Changing customer demands led the list of the biggest changes in the business environment affecting growth, and a major response has been to focus on introducing new products to meet these needs. The survey also clearly indicated that these senior executives recognized the importance of business culture in shaping increasingly higher levels of business performance from their organization. However, the biggest challenge cited by almost everyone was “lack of time.”

In more detail, the results of the survey showed the following:

### Changes in consumer needs and wants, competitive pressures, and regulation top the list of factors affecting the respondents’ companies.

When asked to rank which or five changing factors in the business environment have the greatest impact upon their businesses, 11 of the 15 respondents ranked changes in consumer needs and wants in the top two of their list (Figure A1). Competitive pressures and changes in regulations were ranked in the top 2 by eight and six of the respondents, respectively.

**Figure A1: Rank the impact/importance of changes in the following areas to your company**

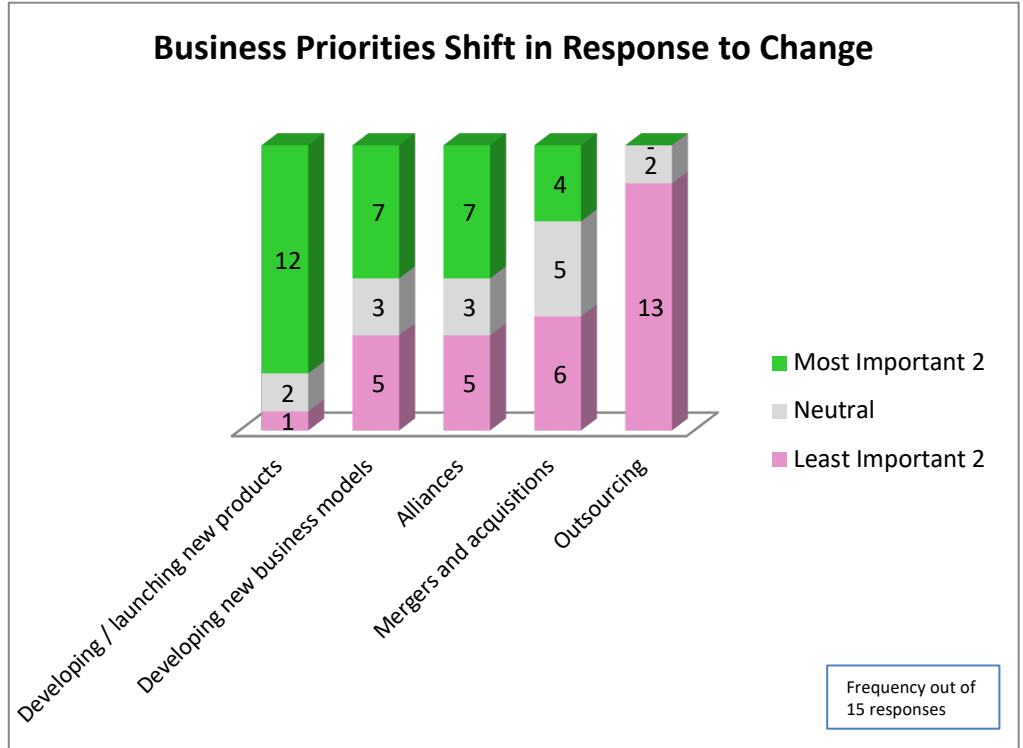




**New products, new business models, and alliances top the business priorities used to adapt to changes in the business environment and drive growth.**

When asked to rank which of five business priorities were most useful in adapting to shifts in the business environment, 12 of 15 executives rank developing and launching new products in the top to their list (Figure A2). Developing new business models and implementing alliances also ranked in the top two for 7 of the 15 respondents.

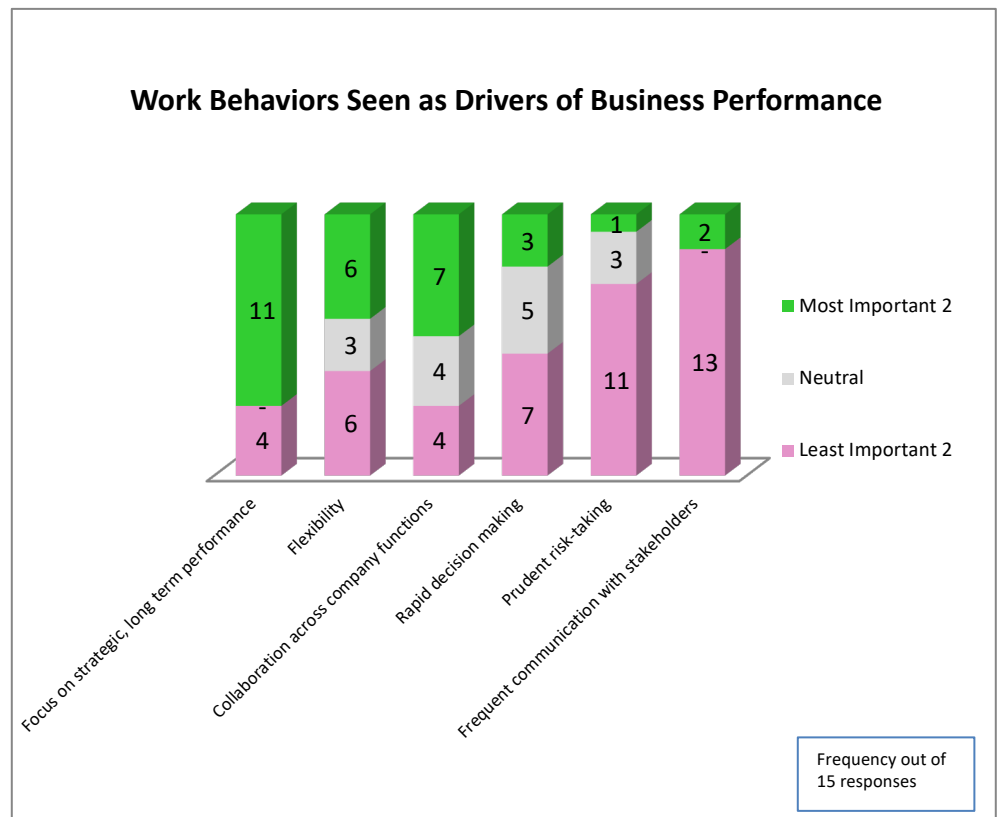
**Figure A2: Rank the following business priorities as a way to grow in the face of a changing business environment**



**A focus on long-term strategic goals, cross-functional collaboration, and flexibility topped the list of work behaviors seen as leading drivers of business performance.**

When asked to rank which of six work behaviors were the most important drivers of business performance, 11 of the 15 respondents placed a focus on long-term strategic performance in the top two (Figure A3). Cross-functional collaboration and flexibility were ranked in the top two by 7 and 6 of the respondents, respectively.

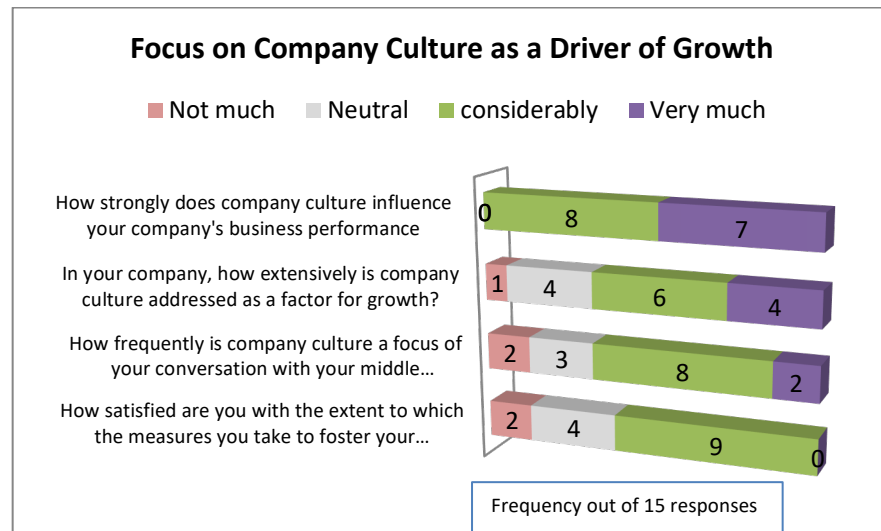
**Figure A3: Rank the following performance factors according to their impact on your most important business priority from question**



**Company culture is well-recognized as a driver of business growth; the extent to which culture is addressed as a driver of growth is mixed.**

When asked to rate on a five-point scale how strongly company culture influences business performance, seven of the 15 respondents rated culture as a very strong influencer, while the remainder rated it as strong (Figure A4). In contrast, one third of the respondents responded that company culture was only moderately or infrequently addressed as a factor of growth or served as a focus of conversation with middle management and front-line workers.

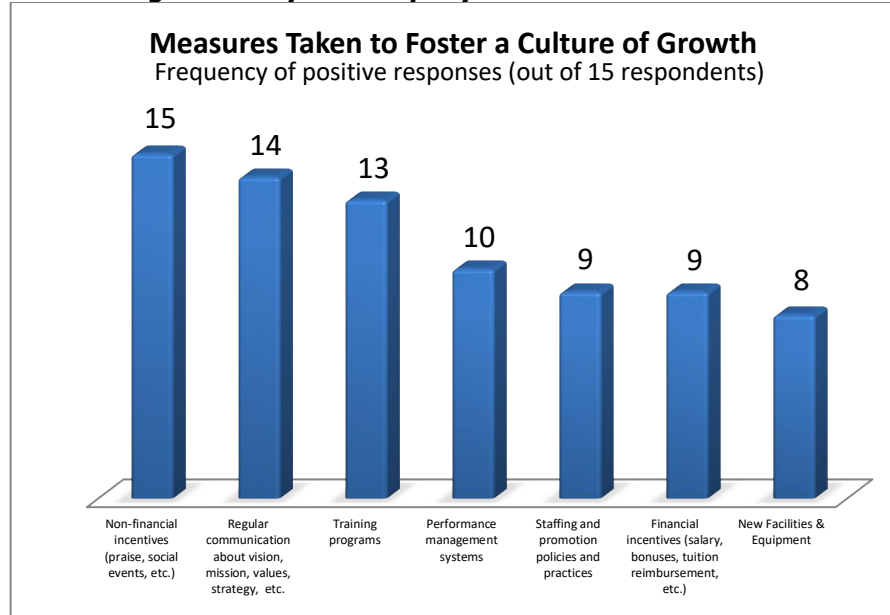
**Figure A4: Rate responses to the following questions using a 5 point scale from “very much” to “not at all”**



**Executives use numerous measures to foster corporate culture; some are more widespread than others.**

**Satisfaction with those efforts is less uniform.** When asked to check off which of eight approaches to fostering corporate culture they used in their company, all or almost all of the respondents selected nonfinancial incentives, regular communication about vision mission and values, and training (Figure A5). Five other approaches ranging from performance management systems to facility layout were somewhat less prevalent, selected by 8 to 10 of the 15 respondents. When asked how satisfied they were with how the measures they took to foster company culture contributed to growth, none of the respondents were highly satisfied, although nine of the 15 were satisfied, leaving six either neutral or dissatisfied (Figure A4).

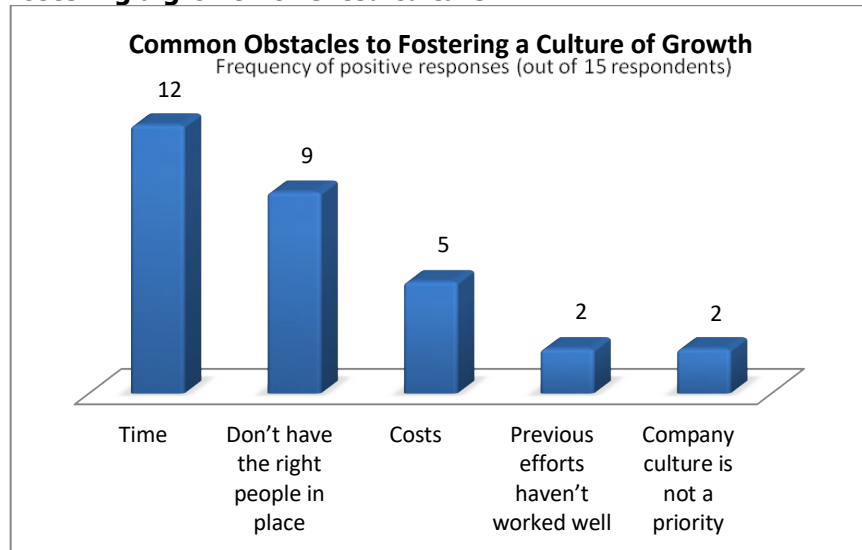
**Figure A5: What factors do you believe to be important for fostering a culture of growth in your company?**



**Constraints of time and people are leading obstacles in executives' efforts to foster a growth-oriented culture.**

When asked to check off which of five common obstacles they saw as inhibiting their efforts to foster a growth-oriented culture, the vast majority of respondents (12 of 15) cited time constraints, while nine of the 15 selected "don't have the right people in place" (figure A6). In contrast, only five of the respondents cited costs as an inhibitor, and the other two obstacles were selected by just two of the respondents.

**Figure A6: What are the leading inhibitors in your company to fostering a growth-oriented culture?**



**Bottom line:** Business culture is widely recognized as an important driver of business performance needed to promote growth in the face of a changing environment. Efforts to influence culture are common, although satisfaction with results is slightly less widespread. Time pressure is by far the most-cited obstacle to fostering a culture of growth, followed by “not having the right people in place.”

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## About the authors:

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