Cultural Capital: The New Frontier of Competitive Advantage

Increasing Market Value by Leveraging the Intangibles

By Richard Barrett

Critical Issues for Business in the 21st Century

As we move into the 21st century there are three concerns above all others that are preoccupying the boardrooms of both large and small companies in the USA and Europe:

- How do we attract and keep talented people?
- How do we increase profits and shareholder value?
- How do we increase creativity and productivity?

The answer to all these questions is, "By building Cultural Capital."

What is Cultural Capital?

What is Culture?

Individuals have personalities. Groups of individuals have cultures. We distinguish individual personalities by their values, beliefs and behaviors. We also distinguish cultures by their values, beliefs and behaviors. Geert Hofstede, the Dutch-born social researcher defines organizational culture in the following way:

"*The collective programming of the mind which distinguishes the members of one organization from another.*"[1]

When individuals enter an organization they encounter values that may be similar to or different from their own. When the values are similar, there is a "values alignment." When the values are different, there is a "values misalignment."

There is considerable evidence to suggest that there is a strong link between values alignment and organizational effectiveness, and values alignment and financial success.

- During the 1990's the average annual shareholder return for the companies that make up the "100 Best Companies to Work For in America" was 23%. The average annual shareholder return of the Russell 3000 Index (a general index of American industry) over the same period was only 14%.

- In 1998 there were 164 publicly held companies represented in three lists of "best" companies: Fortune Magazine's list of "100 Best Companies to Work For", Industry Week's "100 Best Managed Companies", and Working Mother's list of "100 Best Companies". Of these 164, thirty-eight were on more than one list. These "best" 38 showed consistently superior financial performance over a ten-year period of several percentage points over the 164, and the 164 showed a consistently superior financial performance of several percentage points over the Standards and Poor 500.

- In "Corporate Culture and Performance," Kotter and Heskett[2] show that companies with strong adaptive cultures based on shared values outperformed other companies by a significant margin. Over an eleven-year period, companies that emphasized all stakeholders – employees, customers and stockholders, and focused on leadership development, grew four times faster than companies that did not. They also found that these companies had job creation rates seven times higher, had stock prices that grew twelve time faster and profit performance that was 750 times higher than companies that did not have shared values and adaptive cultures.

- In "Built to Last," Collins and Porras[3] show that companies that consistently focused on building strong corporate cultures over a period of several decades outperformed companies that did not by a factor of 6 and outperformed the general stock market by a factor of 15.

Because values alignment is essential for success, it is important to understand what values an organization currently has and how they were created. Let us begin by understanding how cultures are created:

"*The culture of an organization is reflection of the personality of the current leader and the heritage of the personalities of past leaders*."

In other words, the collective programming of the mind that distinguishes one organization from another is the personal and societal programming of the leader(s), or the heritage of the personal and societal programming of past leaders.

This phenomenon can be clearly seen in small organizations. The cultures of small organizations are almost always a reflection of the personality of the leader. It is only when the founding father or mother fully steps aside, that the culture has the opportunity to change. The changes that take place will always reflect the personality of the new leader.

Research carried out with large companies supports this finding. In Built to Last, Collins and Porras found that in successful companies the Board of Directors usually search among internal candidates to replace the leader.[4] They promote from within because they want to preserve a successful culture. When a company is failing, the Board of Directors will usually look for an external candidate to replace the leader.[5] The reasoning behind such a decision is that they feel they need for the organization to undergo a culture change. The outsider brings a different mental programming. Someone from the inside would be too indoctrinated by the existing culture to be able to change it.

What can we conclude from the above discussion?

1. The personality of a leader(s) has a significant impact on the culture of an organization. The leader and/or heritage of past leaders, creates the tone of an organizational culture.

2. Values alignment occurs when the values and behaviors of the organization resonate with the values of the employees.

3. Conflicts arise when the values and behaviors of the organization do not resonate with the values of employees.

With this understanding of “Culture” as it applies to organizations, let us now return to the question “What is cultural capital”?

What is Capital?

Capital can be defined as:

“*The assets available to an individual or a group that can be used for the creation of wealth.*”

What is Cultural Capital?

We can now combine our definition of culture with our definition of capital to define cultural capital.

Cultural Capital is the value attached to the collective mental programming (values, beliefs and behaviors) of the organization that supports its relationships with its employees, customers and society.

- Cultural capital can appreciate or depreciate in value.
- It is difficult to create cultural capital.
- It is easy to loose cultural capital.
- The value of cultural capital is not captured on an organization’s balance sheet.
- Cultural capital makes a significant contribution to an organization’s market value (between 60% and 95%).

How can we measure Cultural Capital?

Traditionally intangibles such as culture have been difficult to measure. However a new series of Corporate Transformation Tools® has been created by Richard Barrett & Associates to map the values of individuals and organizations. The tools are based on the Seven Levels of Personal Consciousness and the Seven Levels of Organizational Consciousness (See Figures 1 and 2). The models and tools are described in Richard Barrett's book "Liberating the Corporate Soul".[6] The tools are available in fourteen languages and have been used in companies and organizations such as Siemens, Volvo, Kraft, World Bank, SEB Bank, ING Bank, Microsoft, PriceWaterhouseCoopers, Cap Gemini Ernst & Young, McKinsey and KPMG.

Figure 1: Seven Levels Of Personal Consciousness

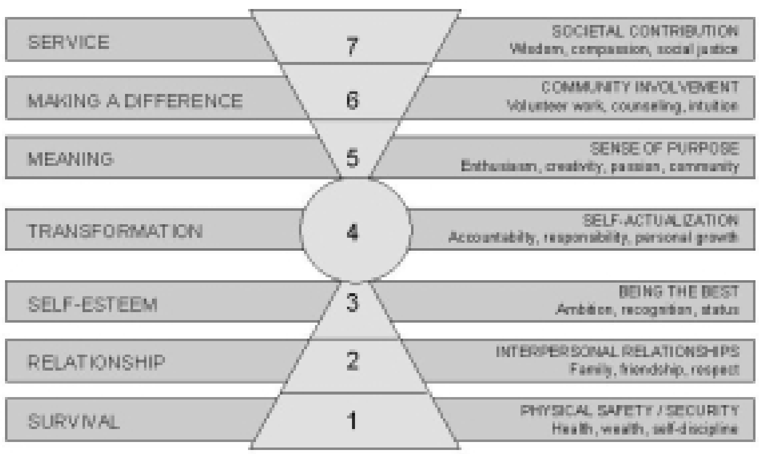
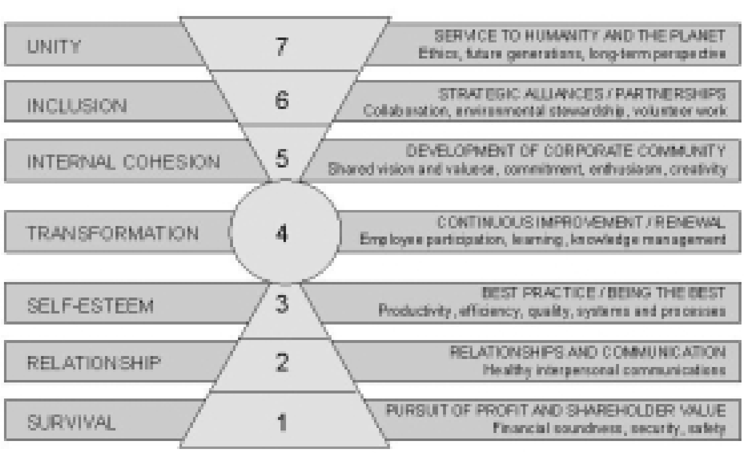


Figure 2: Seven Levels Of Organizational Consciousness



The culture survey instrument is Internet based (paper surveys can used if necessary), takes about and 15-20 minutes to complete, and provides a complete diagnostic of a corporate or team culture. The instrument measures the degree of alignment of personal values, current culture values and desired culture values. Each employee is asked three questions:

- Which of the following values and behaviors most represent who you are, not what you desire to become? (Personal Values)

- Which of the following values and behaviors most represent how your organization operates? (Current Culture Values)

- Which of the following values and behaviors most represent for you an ideal, high performance organization? (Desired Culture Values)

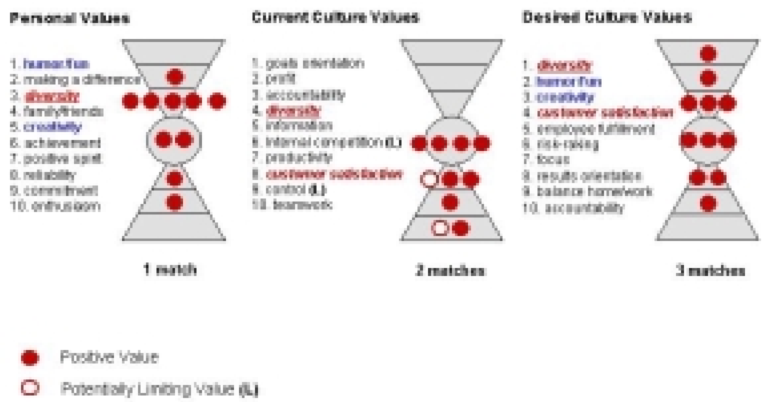
Employees pick ten values from a list of 90-100 values. Each value is related to one of the Seven Levels of Consciousness. The template of personal values is different from the template of organizational values in that it does not contain values such as customer satisfaction or employee fulfillment. These types of values are however included in the organizational templates. The templates of values can be customized to include the values that are particular to the type of business of the company and/or the values that are included in the company's mission, vision and values statement. The degree of alignment between these espoused values and the current culture can be measured.

Differences in the culture of departments, offices, factories, and managers and staff can be measured. The survey instrument can be also be used to map the values and measure the alignment of individuals and teams.

The following two examples show the results of culture assessments from a company with a misaligned culture (Company A) and a company with an aligned culture (Company B).

Figure 3 shows the *top ten* personal values, current culture values and desired culture values of 50 employees in Company A. Figure 4 shows the *distribution* of all the values that were voted for by the 50 employees in Company A. Figure 5 shows the *top ten* personal values, current culture values and desired culture values of 550 employees in Company B. Figure 6 shows the *distribution* of all the values that were voted for by the 550 employees in Company B.

Figure 3: Company A - Misaligned Organization



Company A

The lack of values alignment in Company A is evidenced by four factors:

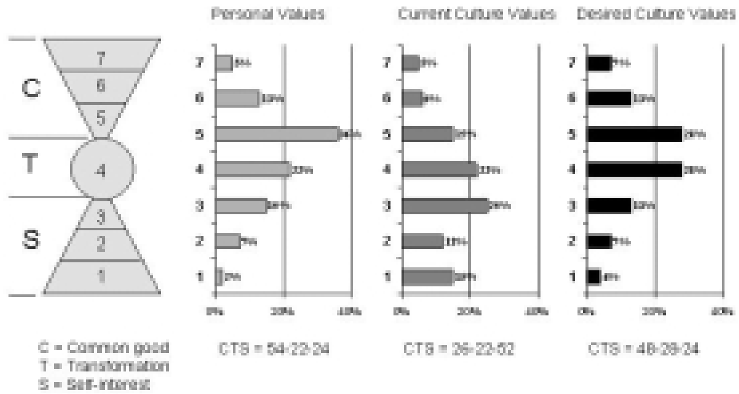
- There is only one matching value between this group’s personal values and the current culture of the organization - diversity.

- There are two potentially limiting values in the current culture – internal competition and control.

- There are only two matching values between the current culture and desired culture.

- There are no values in the current culture in the upper three levels of organizational consciousness. In Figure 4 we see that 54% of this group’s personal values are in the upper three levels of consciousness, whereas only 26% of the current culture values are in these levels. 48% of their desired culture values are in the upper three levels of consciousness.

Figure 4: Company A - Misaligned Organization



The top three values in the desired culture – diversity, humor/fun and creativity – all appear in the top personal values, but only one of them – diversity – is in the current culture. This group wants to see more humor/fun and creativity in their organization.

The strongest level of personal values (Figure 3) is at level 5 – the level of meaning and community. The strongest level in the current culture of the organization is at level 3, closely followed by level 4. The strongest levels in the desired culture are levels 4 and 5.

The people in Company A are not happy in their organization. They want the company culture to shift from level 3 to levels 4 and 5, to be more in alignment with their personal values. Their personal values are at a sufficiently high level that they could implement this cultural shift. Company A is struggling to become profitable.

Company B

The strong values alignment in Company A is evidenced by four factors:

- There are three matching values between this group’s personal values and the current culture of the organization – commitment, integrity and friendliness.
- There are no potentially limiting values in the current culture.
- There are eight matching values between the current culture and desired culture.
- The top ten values in the current culture cover every level of organizational consciousness. In Figure 6 we see a very even distribution of current culture values between the upper three levels (39%) and the lower three levels (40%) – the company is functioning well at all levels. The distribution of desired culture values is very similar to the current culture.

The top three values in the desired culture – teamwork, customer satisfaction and customer service – are exactly the same as the top three desired culture values (See Figure 5). This group thinks the organization is on the right track.

Figure 5: Company B - Aligned Organization

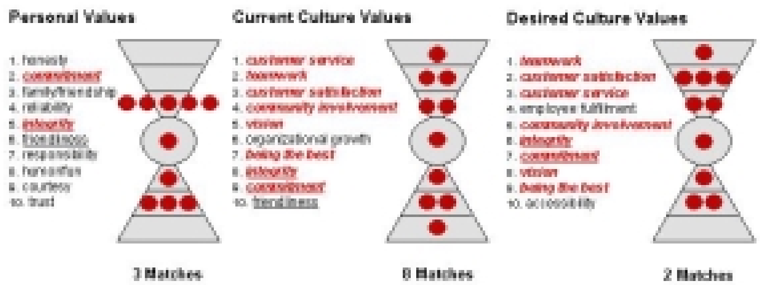
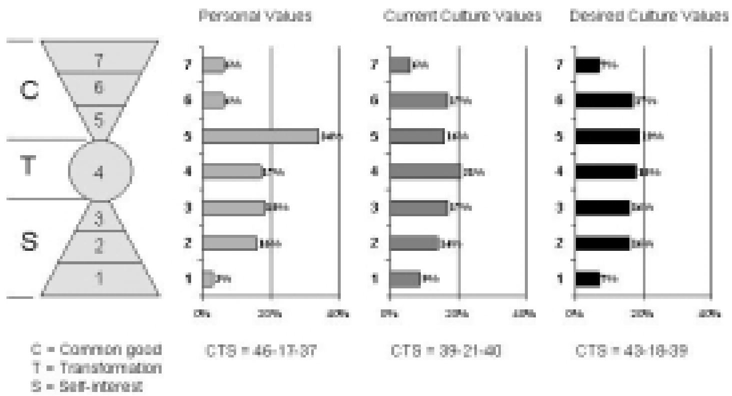


Figure 6: Company B - Aligned Organization



Commitment and integrity, which are important personal values for this group are also found in the current culture and desired culture.

The people in Company B are very happy in their organization. They want to see a slightly stronger focus at level 5 in line with their personal values. Their personal values are at a sufficiently high level that they could implement this cultural shift. Company B has made record profits over the past 16 years.

The Author:

Richard Barrett is the Principal Partner in Richard Barrett & Associates, a Cultural Transformation and Leadership Development Consultancy. He is the creator of the Corporate Transformation Tools®. He is an author, keynote speaker and change agent. Prior to starting his management consultancy practice Richard was Values Coordinator at the World Bank from 1995-1997. His books include, *Liberating the Corporate Soul: Building a Visionary Organization*, published by Butterworth-Heinmann, *A Guide to Liberating Your Soul*, published by Fulfilling Books. He is currently working on a new book entitled *Love, Fear and the Destiny of Nations*. For more information got to www.corptools.com or call USA 1 828 452 5050. You can contact Richard Barrett at richard@corptools.com

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[2] John P. Kotter and James L. Heskett, Corporate Culture and Performance, (New York: The Free Press) 1992
[3] James C. Collins and Jerry I. Porrass, Built to Last, Successful Habits of Visionary Companies (New York: HarperColllins) 1994
[4] James C. Collins and Jerry I. Porrass, Built to Last, Successful Habits of Visionary Companies (New York: HarperColllins) 1994
[5] John P. Kotter and James L. Heskett, Corporate Culture and Performance, (New York: The Free Press) 1992
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