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THE STRATEGY–CULTURE LINKAGE: A PROCEDURAL GUIDE

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by

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Abstract

This paper presents a schematic, procedural guide to describe the strategy/culture linkage. The paper starts with a quick review of a companion paper's synthesis of various authors' hypothesized dimensions of culture. Porter's (1985) value-chain concept is then presented. A scheme and procedure are suggested to analyze the core functional area and value-chain imperatives of a given strategy and relate these to key dimensions of culture. Differences between an ideal culture to accommodate a strategy and the current culture can be analyzed and recorded. A change program can then be suggested to alter either strategy, culture or both so that congruence can be gained.
A previous companion paper reviewed the current empirical/framework oriented literature on culture. Various authors hypothesized their dimensions of culture and the paper delved into describing and reviewing them. The paper then proposed a synthesis of the dimensions. This paper would like to start where the first paper left off. It will describe a diagnostic and analytic procedure that can aid management in assessing the linkage between strategy and culture. It will start with the dimensions of culture presented in the first paper and then attempt to integrate them with Porter's (1985:33-61) value chain analysis. The level of the organization where this analysis applies is at the top: the tone and thrust of the paper is to aid top managers in their quest to configure and design some of the key areas of their responsibility. The paper's emphasis will be on top management's role as "administrative architects."

I. The Procedure Outlined

It would be useful to outline the major sections of the procedure to get a roadmap of where the paper is headed. The eight step procedure can be outlined as:

1. Present and describe underlying dimensions of culture.

2. Use the most appropriate description of business unit and/or corporate level strategy.
   * Analyze the functional imperatives of the strategy
   * Analyze the value chain (Porter, 1985) imperatives of the strategy

3. Analyze the current, actual pattern of the cultural dimensions for the SBU or corporate level.

4. Analyze the relation between the functional and value chain imperatives of the strategy and the hypothesized ideal culture to accommodate it.
5. Assess the difference between the current, actual culture and the ideal culture as suggested by #4 above.

6. Assess the zone of indifference between the actual and the ideal culture.

7. Assess the strategy-culture risk profile (Davis, 1984).

8. Plan a change program to change certain problematic dimensions of culture or the strategy or both.

It will be useful to describe each of the steps more explicitly and offer some caveats from the author's attempt to use the framework in the banking and savings and loan industries.

1. Present various dimensions of culture

The previous companion paper reviewed the empirical/framework oriented literature on culture and presented this synthetic list of the underlying dimensions of culture:

1. **Clarity of Direction** - the extent to which the company emphasizes creating clear objectives and plans to meet them.

2. **Company Stretch** - the extent to which the company sets venturesome goals and approaches its business innovatively.

3. **Integration** - the extent to which units are encouraged to operate in a coordinated manner.

4. **Top Management Contact** - the extent to which people get clear communication and support from top management.

5. **Encouragement of Individual Initiative** - describes an emphasis on a high degree of delegation.

6. **Overt Conflict Resolution** - the extent to which people are encouraged to air conflicts and criticisms openly.

7. **Performance Clarity** - the extent to which the company makes performance expectations clear to individuals.

8. **Performance Emphasis** - extent to which the company demands high levels of performance from individuals and holds them personally accountable for results.
9. **Action Orientation** - refers to the timeliness with which decisions are made, a sense of urgency to get things done and a responsiveness to changes in the marketplace.

10. **Compensation** - extent to which people perceive the company as paying competitively and fairly, as well as relating that pay to performance.

11. **Human Resources Development** - extent to which companies provide opportunities for individuals to grow and develop within the company.

12. **External vs. Internal Emphasis** - the emphasis on the task satisfying the consumer. The internal portion of this dimension focuses on the extent of internal organizational activities such as committees and bureaucratic procedures.

13. **Bias Toward Innovation** - tries to measure the difference between a reluctance to adopt any new procedure that is not well established vs. the constant search for novel and distinct new goods, services and procedures.

14. **Complexity** - the degree of the tendency of organizations to develop elaborate procedures and structures.

15. **Formalization** - the degree of the tendency to have a formal mechanism for all procedures and decision making. This dimension ranges from elaborate written forms and documents to only verbal expression.


17. **Intimate Concern vs. Disposable Labor** - the degree of the difference in management's philosophy as to how the asset of human capital should be viewed.

18. **Integrity Priority vs. Expedient Priority** - the degree of the difference between management philosophy being one of opportunism or whether management and the firm should spend its energies to attempt to be a long term player.

This list, while quite lengthy, represents the distinct dimensions of culture as espoused by various authors. While some of the dimensions could undoubtedly be combined, this awaits a more thorough statistical analysis (such as through factor analysis). For the purpose of this current paper, which is expository, we can refer to these eighteen dimensions as a comprehensive, though tentative, list of distinct dimensions. If these eighteen dimensions are representative of the underlying construct of culture, then we should have
a relatively mutually exclusive set that at once stands for culture and distinguishes the culture construct from other constructs, such as structure, strategy, etc.

2. Select the Most Useful Description of SBU or Corporate Level Strategy

As anyone who has examined the strategic management literature knows, there exist many definitions of strategy. This may reflect the near infant status of the field or be a vestige of the fact that the definition used needs to be appropriate for the purpose at hand. Strategy is an inherently open systems concept and thus its definition needs to vary depending on the level of analysis and whether strategy is construed as a static or dynamic construct. For the purpose of this paper, which is expository and descriptive, we can use any rich description of strategy that has a modicum of empirical and face validity support. For this purpose, Porter's generic strategies will be most useful. It will also fit nicely with a later section that will use Porter's value chain analysis. As has become almost common knowledge, the three generic strategies—low cost, differentiator and focus, describe three mutually exclusive gestalts of ways in which firms can compete. The term gestalt is borrowed from the writings of Miller (undated) and refers to the fact that each of the generic strategies are distinct ways of competing and also have a consistent set of other organizational characteristics associated with them (see Porter, 1980:34-46 for more detail). It is thus a typology of strategy that has some empirical and much face validity support. If we can grade an SBU's strategy along this typology, the question then becomes what are the 1) functional imperatives and 2) value chain imperatives suggested. In other words, what are key distinguishing characteristics of each generic strategy along functional lines and value chain lines. An honest assessment
of these characteristics should give a good description of what are the sources of comparative advantage for the SBU or firm. An example would be useful at this point. McKinsey & Co., the international consulting house, has provided the following analysis of the three generic strategies as they pertain to the banking industry. Figure 1 shows the three possible generic strategies that McKinsey thinks will be feasible given the deregulation of the industry. What is interesting are the suggested functional imperatives of each of the generic strategies. As can be seen, each generic strategy has quite different functional imperatives -- the distinct strategic orientation of each of the functional areas. If, for a given generic strategy, the functional imperatives are done better than the competition, then comparative advantage should follow, ceteris paribus. We can gain further knowledge of possible comparative advantage by analyzing the value chain imperatives of each of the three generic strategies. The value chain is a process oriented view of what elements of the organization contribute to comparative advantage (See Figure 2). By process oriented the present writer means, given a generic strategy, what are the key organizational elements in the process of transforming inputs into outputs that give the firm comparative advantage over the competition. As can be seen by Figure 3, the functional area imperatives, being a static snapshot of the possible sources of comparative advantage, can be imbedded in the value chain imperative analysis. Thus, we can subsume a rather static view into the process view of the sources of advantage. Both of these analyses can give the manager a rather comprehensive view of not only the generic strategy but the relatively more microscopic sources of comparative advantage. Figures 4 and 5 show Porter's example of value chain analysis for Gallo's cost advantage in wine and Stouffer's differentiation advantage in frozen dinners.
The key proposition of this paper is that for the strategy and culture of the firm to be compatible, key dimensions of the culture must accommodate the functional and value chain imperatives of the strategy. This is not to say that this is the necessary and sufficient contribution or function of culture in the firm. Culture contributes to other aspects of organizational life: a sense of grounding and worth for employees, and a sense of worth will contribute in part to employees’ sense of satisfaction. These other positive attributes of culture are only indirect effects though of top management’s attempts to align strategy and culture. The requirement that the dimensions of culture accommodate the functional and value chain imperatives of a strategy is really then a rather practical and utilitarian statement. The normative and ideological attributes of culture are excluded from direct analysis in this paper.

3. Analyze the Current, Actual Pattern of the Cultural Dimensions

Once the analyst has specified a set of underlying dimensions of culture he or she is comfortable with, then any scheme can be used to assess the actual pattern of culture. This writer has used the Hay and Associates culture scales with success in assessing the current cultural pattern in a small, new bank and a large savings and loan that was in a turnaround situation. The Hay Questions allow one to capture on seven point scales their underlying dimensions of culture. Figure 6 shows two examples of the Hay scales. These dimensions (or the full eighteen suggested at the beginning of the paper) can then be arrayed as in Figure 7. One can simply connect the state of the current dimensions with a line to get a pictorial representation of the current pattern.
4. Analyze the Relation Between the Functional and Value Chain Imperatives of the Strategy and the Hypothesized Ideal Culture to Accommodate It

This will be the most difficult step of the eight suggested here. Figure 8 shows schematically what would be involved. Here, we can compare the value chain and functional area imperatives with the underlying dimensions of culture. There exists no empirical research known to this author that can help us specify what configuration of culture is accommodative to certain configurations of functional area and value chain imperatives. So, this part of the analysis will have to be company specific until there is a research base to suggest some broad relationships. The process by which the managers can begin to hypothesize what the ideal culture would look like given the imperatives suggested by the strategy can vary depending on the existing culture of the organization. The process could range from standard Organization Development techniques to Strategic Assumption Surfacing techniques (Mason and Mitroff, 1981). This author has used both of these processes with good results. The top management teams were made sensitive to the requirement of compatibility between strategy and culture and the beginnings of an "ideal" culture where created. Once this is done, the configuration of the ideal culture can be plotted on the histogram as shown in Figure 9.

5. Assess the Difference Between the Current, Actual Culture and the Ideal Culture Suggested by Step #4

This step is distinguished from step #6 for reasons that hopefully will become to be apparent in the next section. Here, we can simply compare the clustering of the current dimensions of culture with those that were designed to be the ideal culture for the given functional and value chain imperatives.
Not only the differences within each dimension should be noted but also the difference in the overall pattern of actual with ideal should be noted.

6. Assess the Zone of Indifference Between the Actual and the Ideal Culture

This concept is borrowed from Chester Barnard (1938:167). It attempts to convey the notion that even though there may be a difference between actual and ideal cultural dimensions, this difference may not be disfunctional to the organization. Systems theorists call this equifinality which means that the organization can accommodate a feasible range of actions (in this case a feasible range of difference on the score of certain dimensions of culture). One of the actions (or dimension of culture) in this range can be chosen and theoretically the same level of performance would ensure. In more popular terminology, there is more than one way to skin a cat well. For those dimensions for which there is no zone of indifference, the difference between the actual and ideal may prove to be problematic in the firm's attempt to implement the strategy. If the difference is acute enough, the organization will resist the strategy push in one of several ways. The organization will:

1. Be indifferent to the strategy thrust and ignore it
2. Develop behind the scenes political maneuvering
3. Develop open defiance of the strategy thrust

All of these disfunctional responses could be avoided if the strategy and the culture were made to be compatible with each other. Those cultural dimensions for which there is no zone of indifference are the ones where a strategic change program perhaps will have to be made. The culture, the strategy or both may have to be changed so as to make for a useful congruence.
7. Assess the Strategy-Culture Risk Profile

At this point in the procedure, the top management team must assess the risk of the change program. We can borrow a notion from Davis (1984) and ask what risk the change program will have in either damaging the strategy or the culture. Step #7 is really a derivative of Step #6 but here we want to ask the question of the potential damage of the change program. In other words, even if we have several dimensions of culture that are currently far from the ideal culture and that for these dimensions there is no zone of indifference, we will want to assess the risk of trying to change the culture. If the assessment shows that it is simply too risky to try to change the culture, the change program will have to be delayed or the strategy changed or abandoned. Figure 10, taken from Davis (1984) shows how to analyze the risk of the change program.

8. Plan a Change Program to Change Problematic Dimensions of Culture or Strategy or Both

Given the assessment in the previous step as to the risk of the change program, the change program should be formally planned. The Organization Development literature is replete with suggestions for enhancing the participation of key managers in any change program. The result of the risk assessment should point to which construct, strategy or culture, should be changed. If it is deemed that the culture is inviolable and immune to change attempts, then the top management team will choose a change program that centers on strategy with its appropriate managers. If on the other hand the culture needs to be and can be changed, then another type of change program could be called for with a somewhat different set of appropriate managers. Beer (1980), Huse (1980) chronicle change efforts appropriate to top management, while other texts describe change efforts at lower levels of the organization.
Currently there is little data available on strategy-culture change programs, so again this step will have to be firm specific in its development until such a data base can be developed.

Conclusion

This paper has attempted to demonstrate a straightforward procedure of how the functional and value chain imperatives of a given strategy can be related to core dimensions of culture. The paper attempts to advance the current diagnostically oriented strategy/culture literature by:

1. Positing that it is the functional area and value chain imperatives of the strategy that culture has to accommodate.

2. Making a position that culture can be adequately described by core dimensions, even though this description has purely pragmatic objectives.

3. Introducing the notion that there is risk in the strategy/culture change program that can be analyzed in terms of the procedure. This portion extends Davis (1984) published works.

4. Claiming that the strategy/culture change program needs to be explicitly planned.

As the author has stated in the paper, there is really very little research that can suggest underlying relationships among the steps in this procedure. The author feels that the procedure and the concepts contained within offer an exciting research agenda to be started and developed.
References


SUCCESSFUL FIRMS EMERGING FROM DEREGULATION CONSISTENTLY FOLLOW ONE OF THREE DISTINCT PATTERNS

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**NATIONAL DISTRIBUTION COMPANIES**
- Steady flow of innovative products
- Product/service unbundling
- Integrated national operations
- Strong marketing function
- Major, rapid adjustments to align prices and costs
- Broad, national distribution network

**LOW-COST PRODUCERS**
- Narrow, simple line
- Line-driven: low staff
- Advertising emphasizes price
- Deep price discounts
- Targeted toward price-sensitive segment
- Strong cost control orientation
- Streamlined distribution system

**SPECIALTY FIRMS**
- Focus on products or markets which are difficult to unbundle
- Information advertising
- Increasing emphasis on fees for service
- Targeted toward non-price-sensitive segment

Figure 2

The Generic Value Chain

Source: Porter, M., Competitive Advantage: Creating and Sustaining Superior Performance, New York, The Free Press, 1985, Figure 2-2, p.37.
Organizational Structure and the Value Chain

Source: Porter, M., Competitive Advantage: Creating and Sustaining Superior Performance, New York, The Free Press, 1985, Figure 2-5, p.60.
Figure 4

Gallo's Source of Cost Advantage in Wine

Source: Porter, M., Competitive Advantage: Creating and Sustaining Superior Performance, New York, The Free Press, 1985, Figure 3-3, p.114.
Figure 5

Sources of Stouffer's Differentiation in Frozen Entrees

Source: Porter, M., Competitive Advantage: Creating and Sustaining Superior Performance, New York, The Free Press, 1985, Figure 4-7, p.152.
Figure 6

TWO EXAMPLES OF CULTURE SCALES

Dimension 1: Clarity of Direction

ITEM:
1. Goal Clarity:
   To What Extent Does This Organization Have Clear Goals?
   To A Very Great Extent 7 6 5 4 3 2 1 To A Very Little Extent

2. Goal Utility:
   To What Extent Do Goals Provide A Useful Context For the Everyday Functioning of this Organization?
   To A Very Great Extent 7 6 5 4 3 2 1 To A Very Little Extent

3. Completeness of Planning:
   Planning for the Achievement of Goals in this Organization Tends to be:
   Incomplete 1 2 3 4 5 6 7 Complete

4. Defined Plans:
   To What Extent Does This Organization Have Defined Plans to Meet its Goals?
   To A Very Little Extent 1 2 3 4 5 6 7 To A Very Great Extent

Dimension 2: Company Stretch

ITEM:
1. Venturesomeness of Goals:
   Goals in This Organization Tend to be:
   Venturesome 7 6 5 4 3 2 1 Cautious

2. Innovativeness of Decisions:
   Decision Making in this Organization Tends to Be:
   Conservative 1 2 3 4 5 6 7 Innovative

FIGURE 7
MAPPING THE CURRENT CULTURE

CURRENT CULTURE = □

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Figure 8

Matching Functional Area and Value Chain Imperatives With Corporate Culture


Lower Panel: Primary
FIGURE 9
MAPPPING CURRENT WITH IDEAL CULTURE

CURRENT CULTURE = ❑  IDEAL CULTURE = ①

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Figure 10

Assessing Cultural Risk

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