Culture in Leveraged Middle-Market Organizations

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There are many long-winded definitions of organizational culture, but I recall hearing the succinct definition that it's: "**how an organization acts without being told.**" Its culture determines whether that organization will have sustainable success.

There are **numerous studies** that substantiate the link between an appropriate culture and success. However, many leveraged middle-market organizations ("LMMO") and stakeholders only pay lip service to their culture. These stakeholders see culture as a fuzzy, "touchy-feely" thing. Frequently, CEO's delegate establishing/ renewing/ shifting the appropriate culture to the Human Resources group—even though it's the CEO's most important responsibility and it can't be delegated.

Why should the culture of an LMMO be different?

An LMMO—especially with facilities located throughout the U.S.—has a smaller margin of error and must react more quickly than an organization with minimum leverage—especially for organizations in cyclical industries. Frequently, a highly-leveraged organization—both the debt equity ratio and the predictability of their revenue stream determine how highly

leveraged that organization is—may not be able to adequately invest in its infrastructure resources: talent, IT, fixed assets.

12 Suggested actions for new CEO's to establish/renew/ shift an appropriate culture:

1. Recognize it as one of your most important responsibilities.

Understand that it will drive your organization's sustainable growth and success.

2. Remember that—although every organization should have a different culture—there are **fundamental cultural beliefs.**

3. Don't try to duplicate the culture from your prior executive assignments because each organization is different and you will fail.

4. Quickly understand the organization's current culture by visiting all your geographic locations and talking with all levels of the organization. Try to accomplish this within your first 90-days. Do not, however, arrive accompanied by an entourage—as though Steven Spielberg directed your visits. Senior management will want to accompany you and introduce you around. **Go by yourself.**

5. Ensure your culture's foundation is team-oriented and customer-focused.

6. Communicate your beliefs to the entire organization—headquarters and all geographic locations—and continually repeat these beliefs.

7. Be specific and avoid using business buzzwords and phrases….such as "we need to start thinking outside the box." The organization recognizes B.S. and phonies, and if they label you as such, you'll be tuned out. Talk less and listen more.

8. Establish/renew/shift the culture through your **actions, not your words**. The internal grapevine "reports" all your actions, so if you preach watching every dollar, don't treat yourself—on the company expense account—to expensive meals at fancy restaurants because everyone will know and you'll lose your credibility.

9. Align both culture and strategy—as culture determines whether your strategy will be successful.

10. Become an **active participant in the hiring process** to ensure new team members have the right cultural fit.

11. Set the ground rules so the organization will know what behavior will not be tolerated. People who violate acceptable behavior cannot remain with the organization.

12. **Get out of the HQ's** and spend the majority of your time in the field developing relationships with all levels of the organization, customers and suppliers.

Mistake Example:
CEO tried to duplicate a culture from prior experiences.

A new CEO of an LMMO with locations throughout the U.S. inherited a field management team which had entered the industry from high school. Team members had spent their entire careers in this industry. They had grown up with friends working in customer organizations and had developed long-term relationships. Trust had been built up over many years, and relationships were the key customer buying decision. The new CEO was accustomed to field managers and senior people with advanced degrees and detailed knowledge of all the latest business school buzzwords.

What happened?
The CEO replaced most of the key field managers.

Result:
The fired field managers—with great customer relationships—started competing businesses or joined competitors and immediately took away significant profitable business. The business quickly deteriorated, and the CEO was eventually fired.

Mistake:
CEO tried to duplicate the resources and culture from his prior companies and failed to understand how customers buy in this industry.

I believe the following are fundamental culture beliefs:

FUNDAMENTAL CULTURE BELIEFS	COMMENTS
Emphasize continued growth and learning for everyone in the organization.	Avoid buzzwords broadcasted from the comfort of the HQ's. Instead, implement learning programs within your first 120 days.
Embrace outspokenness	Insist, however that any complaints must be accompanied by proposing two workable solutions—to produce meaningful changes.
Understand there is no such thing as a dumb question.	Set the tone as the CEO, so no one is afraid to share their ideas or opinions.
Create a fun environment...laughing should be encouraged.	Understand that your culture is your people; and a fun environment will reduce your turnover.

Demand and then reward the unvarnished truth—even though it goes against current thinking.	Don't tolerate the response: "You didn't ask me that question."
Don't tolerate bad behavior even from superstars	Realize that cancerous behavior will spread throughout the organization. Jerks must exit the organization.
Reward people for identifying problems	Encourage team members to identify problems, but require them to present two workable solutions to a problem. Otherwise the person is just throwing grenades.
Discourage people from presenting unreasonable personal requests lacking sense and good judgment. Tell the organization that unreasonable requests will be viewed as deceitful and reckless.	Don't allow behavior which says, "What's the harm in asking, they can only say no." Such behavior is deceitful and reckless. It destroys trust in the "questioner" and wastes precious time.
Involve and engage all levels of the organization.	Remember that the team includes the entire organization—not just senior management. All team members must feel free to voice their own ideas.

My article Strategy Process for a Leveraged Middle-Market Organization discussed the fact that culture is a key component of a business model. "Your organization's culture will determine whether your Value Proposition as well as your overall Strategy will succeed. Culture influences behavior and determines what's sacred to the people within the organization."

A culture is one of the few things that can be differentiated. Culture can be the key driver in achieving a superior ROIC by the way employees work together to execute day-to-day activities as well as how they work together in identifying growth opportunities. Unless your organization is

one of the very few organizations to enjoy a near-monopoly market position—and such a position is not sustainable—then you must have team-oriented and customer-focused organizational culture for sustained business success.

Word of caution:
Beware of hiring CEO's and senior management from an organization with a near-monopoly market position.

Please read my other articles at flatironsmanagementgroup.com

"How to Profitably Grow Underperforming Companies"

"Why Middle-Market Organizations Struggle Developing and Implementing a Strategy"

"Strategy Process for a Leveraged Middle-Market Organization"

"Tips to Turn Around a Distressed Company: A Nuts and Bolts Approach"