

A Strong Market Culture Drives Organizational Performance and Success

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A company's culture influences everything it does. It is the core of what the company is really like, how it operates, what it focuses on, and how it treats customers, employees, and shareholders. As a large body of research proves, culture is the driver of business performance. Which culture to introduce and support in any company is a strategic issue. Why is this issue important now for business leaders? Turnover at the top of the management hierarchy escalated to record levels in 2007, according to Liberum Research,¹ primarily because executives have not altered their paradigm on how to compete successfully in the new century.

It's the HR executive's lead role to work with the CEO and other C-level executives to define and mold the organization's culture. Specifically, this article describes how a strong *market culture* can help companies outperform the competition and achieve unparalleled financial performance.

BEYOND CUSTOMER SERVICE

The difference between a market culture² and other types of organizational cultures is the degree to which an entire organization focuses its attention on:

- Understanding its markets;
- Supporting the necessary skills to create value for customers; and

- Promoting the belief that the ultimate purpose of the business is to create superior customer value, profitably.

A FIVE-STAR SUCCESS STORY

Le Touessrok Hotel exemplifies a strong *market culture*. The five-star hotel is the flagship of four hotels owned by the Sun Hotels Group in the Republic of Mauritius, an island nation in the Indian Ocean off the southeast coast of Africa. Le Touessrok appeals primarily to European tourists and provides luxury accommodations and individualized attention to every requirement of the discerning guest.

What sets this hotel apart from its five-star competitors is not the beauty of Le Touessrok's location; the unique relaxing design of its rooms, gardens, and buildings; or even the "quiet zone" with its exquisite pool, manicured lawns, and sweeping palms alongside a superb spa. Although it was completely renovated and rebuilt in 2002, the real competitive advantage of Le Touessrok is the *strong market culture* instilled in all employees by senior management.

This hotel has an unrivaled organizational culture dedicated to creating and delivering value for the customer—and financial business performance to match for its investors. All hotel employees—whether seen or not by guests—excel at customer service. All members

of a team serving a group of guests make it their business to know who their guests are, what their guests' current concerns are, and how they can make their guests' stay at the hotel memorable.

For example:

- ❑ Tony, who is responsible for creating a romantic dinner setting for two on a quiet corner of the beach, receives glowing reports from the guests on leaving the hotel and is rewarded with travel vouchers and a commendation by management for his "beyond-expectations" performance.
- ❑ Monique, the Mauritian butler for a group of six rooms and their inhabitants, suggests refreshing drinks, completes the laundry list for clients, and inquires how else she can help. She makes it clear that it is important to her and future clients that guests complete the detailed "satisfaction" survey before they leave.
- ❑ Fabrice, the chef, is fully aware of diet restrictions, food allergies, and specific dietary needs of customers and ensures that his staff knows which customers have specific requirements.

Everyone at Le Touessrok knows what he or she must do to give customers an experience they will remember and broadcast to the world. Employees are well trained and well informed and, above all, work as committed teams. Their performance is continuously measured against customer-satisfaction metrics, benchmarked against close competitors, and rewarded as both individuals and teams.

Le Touessrok's success starts with recruiting individuals from the local area where the hotel is situated. The newly recruited employees are already familiar with Le

Touessrok's culture, as many have brothers and sisters, cousins, and friends who work there. Admittedly, the Mauritian culture is naturally friendly, courteous, and helpful, but Le Touessrok's management takes no chances. It follows its careful recruitment with induction,

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coaching, training, empowering employees to act, and recognizing and rewarding them for delivering memorable experiences for customers.

Is the Le Touessrok story about excellent customer service only? No, it's about something deeper, more important, and, if we step back and look at the larger picture, more obvious. Customer service in this story is the manifestation of an organizational culture that Le Touessrok's management has worked to instill over the last five years.

GREAT LEADERS SHAPE THEIR MARKET CULTURE

The world's most successful business leaders agree that corporate culture, if correctly aligned with the external environment, is the glue that ensures long-term organizational success.

Former IBM CEO Lou Gerstner, who led its spectacular transformation from a products company to a services organization, says: "I came to see, in my time at IBM, that culture isn't just one aspect of the game—it is the game. . . ."³

Jack Welch, former head of GE, regarded by many as one of the most successful and enduring CEOs of the twentieth century,

observed: "To be a winner we had to couple the 'hard' central idea of being No. 1 or No. 2 in growth markets with intangible 'soft' values to get the 'feel' that would define our new culture."⁴

The sentiments of Gerstner and Welch are recognized by Ritz-Carlton, which had become synonymous with luxury high-end hotels. Diane Oreck, vice president and director of its Leadership Center, says: "We don't think culture is part of the game, we think it is *the* game [emphasis added]. Everything we do is aligned with our Gold Standards." When Ritz-Carlton saw a change in its customer base from an older, more formal clientele to younger, more diverse and individualistic customers, it realized it had become misaligned with its market. It needed to change the meaning of its core value of "elegant service" and how it is implemented. This meant changing the approach of employees from a formal and scripted approach for all its guests to a more natural, authentic, and individualistic style. This was recognized as a "culture shift" and required a great deal of planning, communication, and training.⁵ Oreck explains: "The training around our culture is an absolute non-negotiable. It's the most important thing that happens—absolute sacred cow."⁶

The observations of Gerstner, Welch, and Oreck support the importance of culture as the driver of competitive advantage and business performance. They also illustrate that all business leaders need to see their central job as proactively leading their firm's culture for sustained superior performance.

Our experience indicates that few CEOs are like Gerstner and Welch, who intuitively understood that organizational culture drives business performance. This is understandable, as most CEOs come to the position

through backgrounds other than human resources. They are experts in finance, marketing, manufacturing, and the like, and have limited formal knowledge of human psychology. This presents a great opportunity for HR executives to influence business performance by educating CEOs on the importance of culture and how to manage it to deliver superior financial performance.

What distinguishes a company that has a strong market culture? Leaders and staff of such companies exhibit different beliefs, values, and assumptions from inwardly focused firms. These beliefs, values, and assumptions cause every decision within the firm—and all of its functional groups—to *begin and end with the customer*. Such an organization has the deeply held belief that the entire organization

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must create and deliver superior value to customers, profitably. The word *profitably* is strategically placed at the end of the sentence because profits are *a lagging indicator* of the superior value that companies create and deliver to buyers. All employees and business functions play an important role in creating and delivering value to customers—good or bad. This means that any misalignment of functions such as procurement, recruitment, finance, and operations can severely limit value created and delivered.

Let us be very clear: market culture is a far more encompassing concept than simply customer focus. In our experience, *customer focus* is too often a platitude repeated by executives who don't realize that customer focus is the manifestation of a strong market culture.

THE EVIDENCE LINKING MARKET CULTURE AND BUSINESS PERFORMANCE

Between 1990 and 2007, more than 60 research studies covering 7,619 companies and small business units in 26 countries have found that market culture and business performance are strongly related. This positive correlation is identified by more than 35 performance measures, including return on investment, revenue growth, customer retention, market share, new product sales, and employee performance. The evidence provides executives with an empirical basis for embracing a strong market culture as a means to creating a competitive advantage for their firms and the superior business performance that results.

In one study, authored by Kotter and Heskett of Harvard Business School, it was reported that firms with performance-enhancing cultures grew their net income 756 percent between 1977 and 1988, as compared with 1 percent for firms without performance-enhancing cultures over the same period. The authors' definition of *performance-enhancing cultures* is remarkably consistent with our description of a strong market culture.⁷

Exhibit 1 shows the comparative net income growth in percentage terms of performance-enhancing cultures compared with nonperformance-enhancing cultures from that study.

THE MARKET CULTURE PYRAMID

The Market Culture Pyramid as displayed in **Exhibit 2** depicts the importance of market culture and how the foundation of a superior market culture leads to superior value and performance relative to benchmarked competitors.

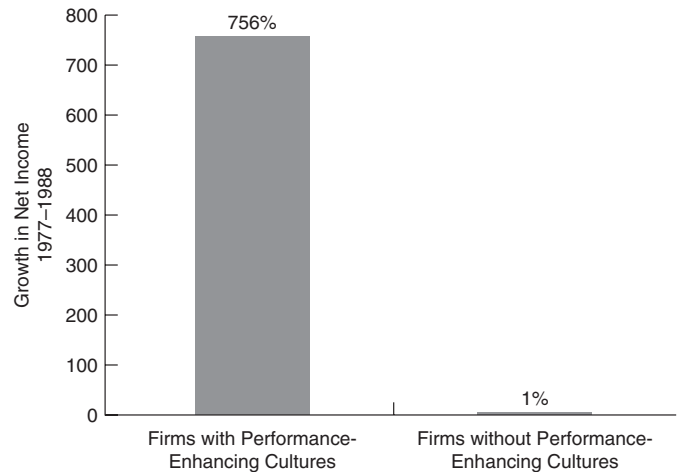


Exhibit 1. Effect of Culture on Growth in Net Income

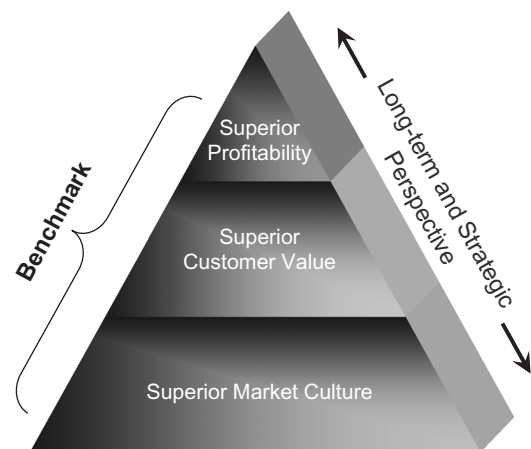


Exhibit 2. The Market Culture Pyramid

Market culture can be reliably measured and should be benchmarked on a regular basis to allow management to assess relative strengths and weaknesses.

Toyota began to embed elements of a superior market culture more than 25 years ago when it changed its goal from being number one in market share to number one in customer satisfaction. It built its entire business around creating superior value for customers. Other companies in that industry, like GM, have not paid attention to their market culture

and have suffered dire consequences. Many factors have contributed to GM's downfall, not the least of which is its internal focus and its failure to create superior customer value.

It is easy to overlook the gradual misalignment of your business with the market. Dell Computer has lost its way after many years of creating superior value for customers and shareholders. Few who saw the news reports can forget the vivid TV news image of a Dell laptop in flames—caused by a faulty battery—during a conference in Osaka, Japan, in 2006. Because of its diminished cultural commitment to superior customer value, Dell at first refused to acknowledge the widespread faulty battery issue. Finally, Dell was forced to recall over four million batteries. As Dell's newly appointed chief marketing officer, Mark Jarvis, stated in a *Wall Street Journal* interview, "Quite honestly the biggest challenge facing Dell is changing the culture of the company."⁸

THE MARKET CULTURE MODEL

Based on our studies of consistently successful firms and review of the academic literature, we have created the 6Cs Market Culture Model, shown in **Exhibit 3**, to help business leaders organize their thinking and focus their initiatives for organizational and financial performance improvement:

1. **Creation of superior customer value, profitably.** The customer is at the center of the model. The key objective is the creation of superior customer value, performed in a profitable manner. The model is circular because it is a never-ending quest, and as the market changes, your value proposition must be improved.

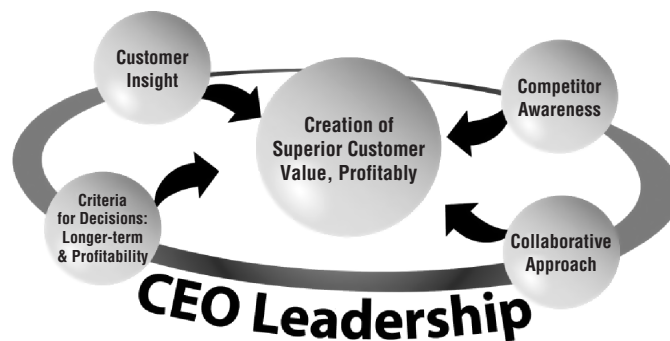


Exhibit 3. *The 6Cs Model of Market Culture*

2. **Customer insight.** This involves developing such a thorough understanding of the firm's target customers that the firm knows the customers' needs better than the customers do themselves. Thorough customer insight requires that a seller seek to understand a buyer's entire value chain, not only as it was yesterday or is today, but also as it will evolve over time.
3. **Competitor awareness.** This means that a company understands the short-term strengths and weaknesses and long-term capabilities and strategies of both current and potential competitors. This includes the entire set of product forms and technologies capable of satisfying the current and expected needs of the target buyers.
4. The collaborative approach has two elements:
 - ❑ **Cross-functional team approach.** The intelligence gathered in customer insight and competitor awareness activities is distilled to its essence and shared with all functions in the organization, along with the firm's strategic direction. By doing this, strong market culture companies are able to achieve coordinated leverage of all the resources available within the organization to create superior customer value and do so profitably.

- ❑ **Collaborative value networks.** These are networks created between individuals and teams inside the business and individuals and teams outside the business. Designed to create and enhance value for customers, these networks channel capabilities and competencies, irrespective of firm boundaries.

JPMorgan Chase's Card Services, one of the largest issuers of private-label credit cards, has harnessed the collaborative

Toyota consciously made a decision that sacrificed short-term results to maximize long-term profitability by carefully limiting short-term availability of its product.

value network to great success. Their collaborators range from the American Association of Retired Persons (AARP) and Amazon.com to *The Nation* magazine and Yale University. By partnering with other organizations like the AARP and issuing the private-label cards, Chase can create greater value for cardholders who value AARP services, for the AARP as an organization, and for Chase's shareholders. Chase Card Services' return on investment in 2006 was an attractive 23 percent.

5. **Criteria for decision making.** A company with a strong market culture will have a longer-term and profit perspective on business decisions. For example, Toyota's Scion division could have captured short-term profits in 2006 by responding to surging consumer demand and producing 25,000 more cars than it had scheduled to fabricate. However, a careful analysis of customer preferences found that Scion's target market (consumers born after 1985) valued uniqueness and scarcity. Based on

this understanding of their target market, Toyota consciously made a decision that sacrificed short-term results to maximize long-term profitability by carefully limiting short-term availability of its product.⁹

6. **CEO leadership.** The CEO plays the all-important role of developing shared vision and shaping culture from subsequent decisions, actions, and behaviors. C-level leaders have a decisive role in the level of market culture achieved by the organization. However, in strong market-culture companies, leadership is practiced not only by those with executive titles, but also by frontline employees who are expected to provide leadership in creating superior customer value.

CONCLUSION

Instilling a strong market culture in an organization makes intuitive sense. The research solidly confirms that it is a driver of superior performance. Because HR executives are charged with both stewardship of the firm's human resources and the profitable management of the organization, they have a duty to lead the initiative to leverage this critically important asset. It takes a strategy in which HR executives and professionals play a key part to build and maintain.

NOTES

1. Liberum Research, <http://liberum.twst.com/>.
2. We draw on a large number of academic studies examining what many researchers call "market orientation." We have distilled the common themes in the market-orientation literature into a collection of elements we call market culture. Please e-mail us for a complete bibliography.

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5. Gordon, J. (2007, March). Redefining elegance. Training, pp. 15-20.
6. Durett, J. (2006, March). Plug in and perform: Technology opens the door to success at Ritz-Carlton. Training, p. 32.
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Sean Gallagher, Christopher Brown, and Linden Brown, PhD, are cofounders and principals of MarketCulture Strategies, a professional services firm that helps corporations outperform their competition by transforming them into totally market-driven and customer-focused entities. MarketCulture Strategies achieves this by using proprietary processes in the areas of management training, marketing skills training, and strategic planning to solidify a profitable marketing orientation alignment. Along with their global team of business experts, they are able to deliver strategic and technical expertise ranging from the benchmarking and improvement of marketing skill sets to leadership development and internal strategic marketing transformations. For more information, visit www.marketculture.com, or e-mail Sean.Gallagher@MarketCulture.com.