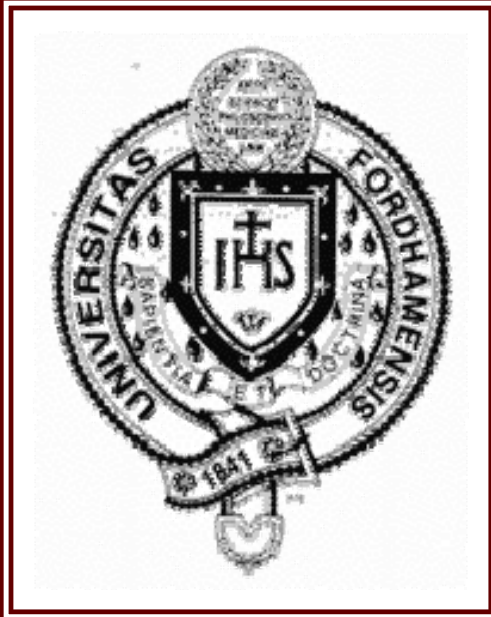


INFORMS


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Corporate Culture and
Performance
Patrick J. Socci, Ph.D.




What is Corporate Culture?



Corporate culture is the collection of rules, values, rituals, ceremonies, vocabulary and customs that are defined by the organization as necessary to implement the corporate strategy and conduct business.

Why is it Important?

A background image showing several Euro banknotes of various denominations (50, 100, 200, 500) scattered and slightly out of focus. The text is overlaid on a white rectangular box in the center.

Payroll is the largest expense for virtually all corporations. Maximizing its positive impact on performance is a reasonable expectation.

Early Research

Corporate Culture and Performance

John Kotter & James Heskett conducted four studies of 22 Fortune 500 corporations concluding in 1987

Three Theories of Culture

- **First Culture Theory**

In a strong corporate culture, almost all managers share a set of relatively consistent values and methods of doing business. New employees adopt these values very quickly. In such a culture, a new executive is just as likely to be corrected by a subordinate as by his bosses if he violates the organization's norms. (9 corporations studied)

- **Second Culture Theory**

The content of a culture, in terms of which values and behaviors are common, is as important, if not more important, than its strength. It also asserts there is no "one size fits all". A culture is good only if it fits the context whether that means the objective conditions of the industry, the segment of the industry specified by the firm's strategy or the business strategy itself. (22 corporations studied)

- **Third Culture Theory**

Only cultures that can help the organization anticipate and adapt to environmental change will be associated with superior performance over long periods of time. (20 corporations studied)

Revisiting the Question

32 CEOs participated in the study

Fortune 500 Rank Frequency

500 - 7

400 - 5

300 - 8

200 - 4

100 - 8

16 Product Companies

16 Service Companies

Grouping the Data

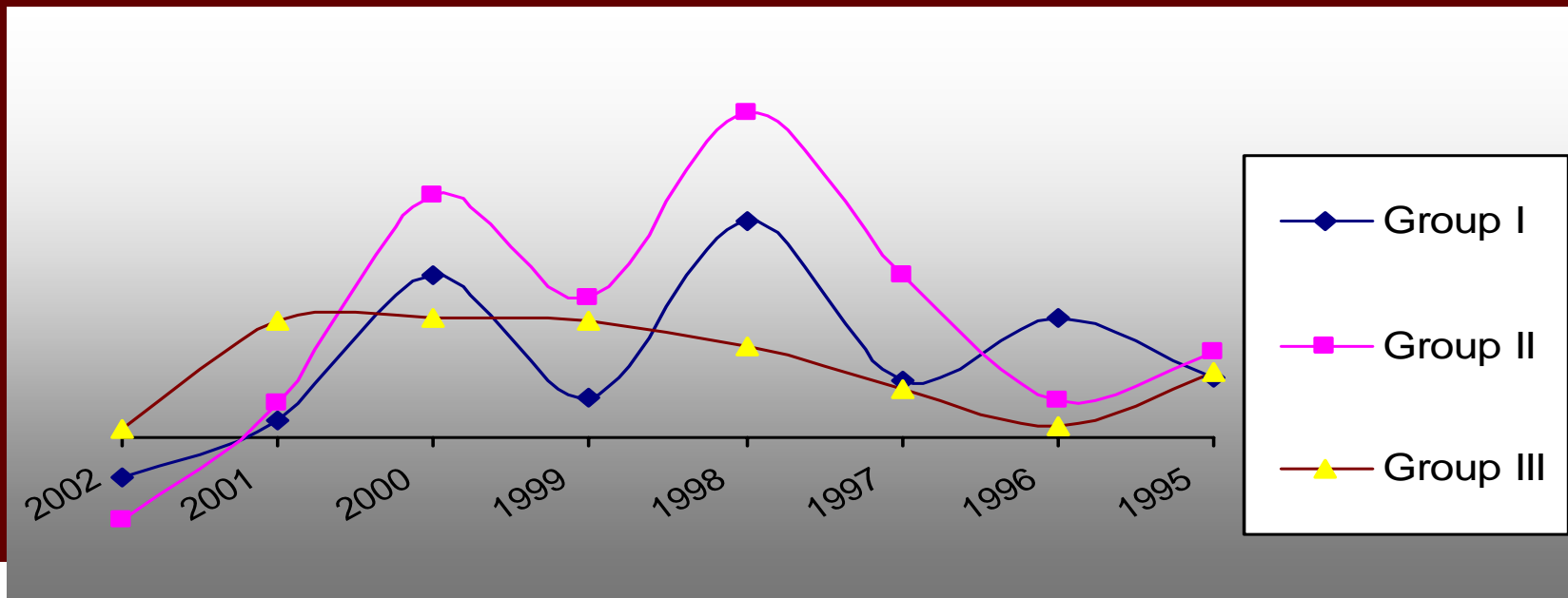
Group Rankings:

Group I - corporations whose average score was less than 3.5 (7 Companies)

**Group II - corporations whose average score was greater than 3.5 and less than 5.5.
(8 Companies)**

Group III - corporations whose average score was greater than 5.5. (17 Companies)

Percent Change in Revenue

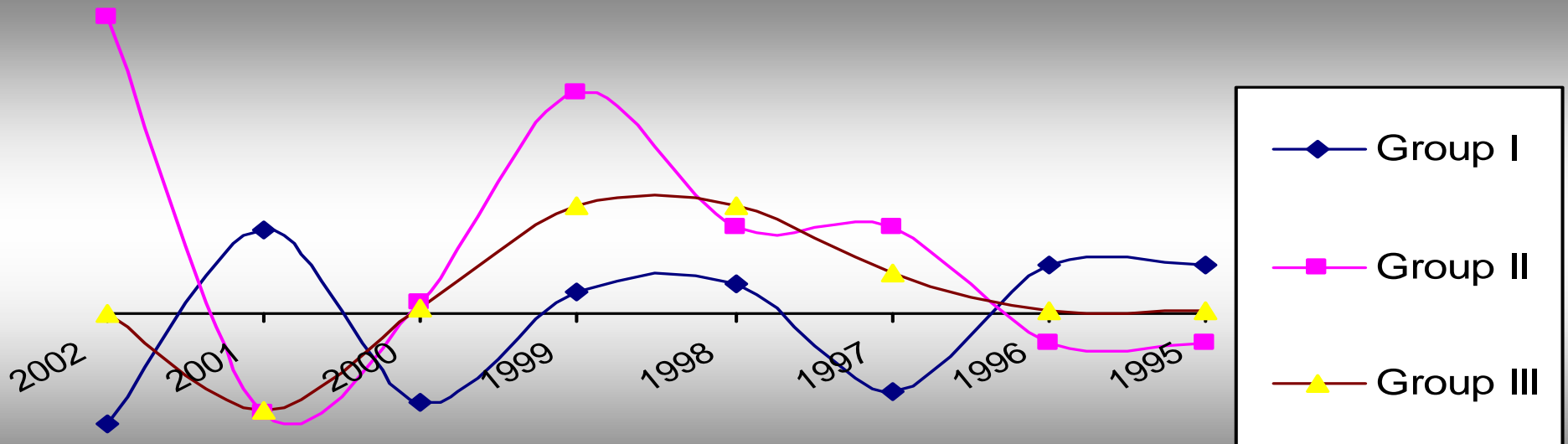


Percent Change in Revenue

	Avg.	2002	2001	2000	1999	1998	1997	1996	1995
Group I Avg.	12.4	(5.9)	2.8	24.4	6.2	32.8	8.6	18.2	8.9
Group II Avg.	18.5	(12.3)	5.2	36.5	21.1	48.9	24.5	5.6	12.9
Group III Avg.	11.1	1.4	17.5	17.9	17.8	14.0	7.5	1.9	10.0
Group I Product Avg.	10.2	(17.0)	2.4	16.8	12.1	37.5	7.6	11.7	2.3
Group II Product Avg.	20.1	(12.8)	7.6	44.3	27.1	42.8	27.7	4.1	18.3
Group III Product Avg.	8.3	0.1	2.8	8.8	17.0	21.8	6.7	1.1	7.7
Group I Services Avg.	14.7	3.1	3.1	31.9	2.7	29.1	9.5	23.5	
Group II Services Avg.	13.5	(10.8)	(2.1)	13.1	3.1	61.2	21.3	8.7	
Group III Services Avg.	12.2	2.8	25.9	30.9	12.5	1.5	9.1	2.8	
Sample Avg.	12.6	(2.7)	11.3	22.4	14.7	24.6	9.2	8.8	10.5
Fortune 500 Avg.	13.7	2.8	8.9	23.2	14.1	16.3	15.6	15.0	14.8
Fortune 1000 Avg.	13.7	2.5	8.4	21.8	13.6	18.9	15.1	15.8	15.9

Note: Red indicates numbers that are below the corresponding sample averages.

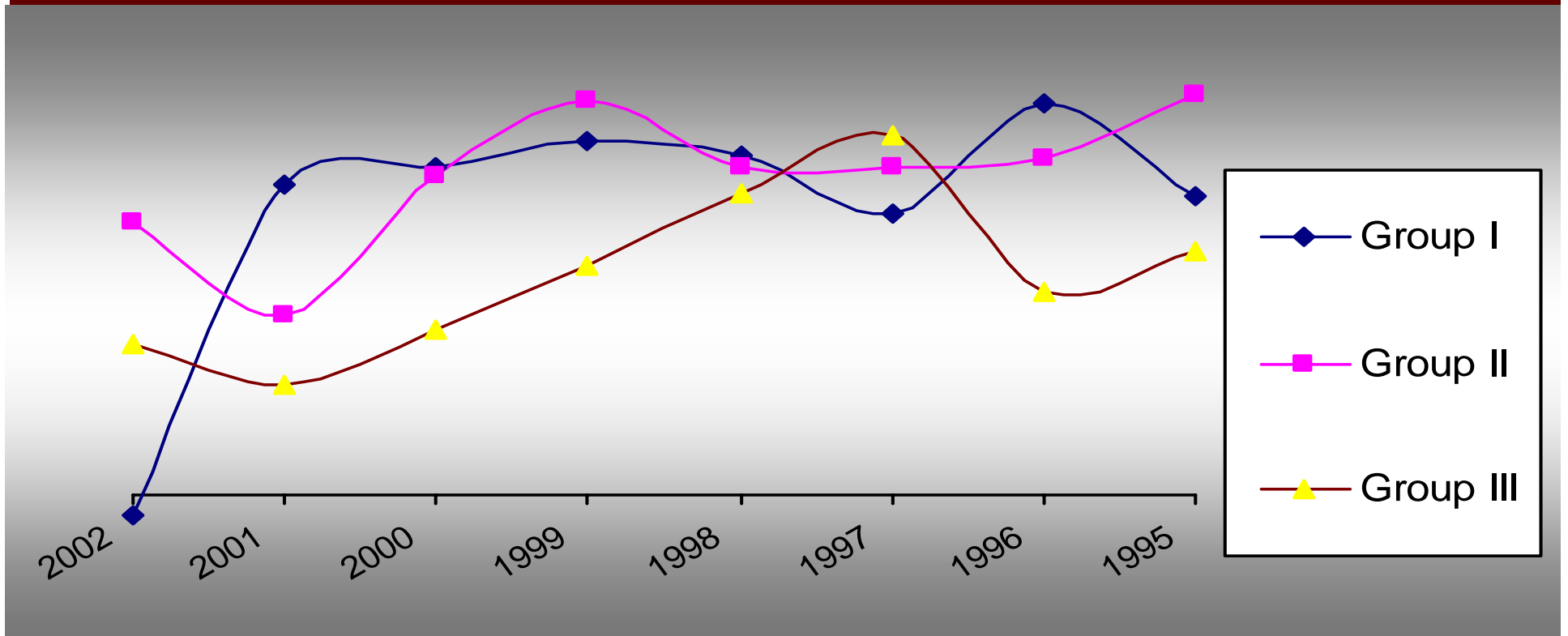
Percent Change in Profit



Percent Change in Profit

	Avg.	2002	2001	2000	1999	1998	1997	1996	1995
Group I Avg.	(42.0)	(66.7)	49.7	(53.3)	11.9	17.2	(47.1)	27.9	27.9
Group II Avg.	43.4	175.4	(59.2)	5.4	131.5	50.2	50.2	(18.5)	(18.5)
Group III Avg.	12.2	(0.4)	(58.4)	2.0	63.2	63.2	23.7	0.4	0.4
Group I Product Avg.	(64.8)	(118.2)	104.6	(87.8)	20.4	2.6	(59.1)	34.8	34.8
Group II Product Avg.	87.7	68.4	(25.4)	16.3	403.7		(24.5)		
Group III Product Avg.	(3.6)	15.7	(75.6)	(36.6)	139.6	(15.1)	26.7	17.8	17.8
Group I Services Avg.	14.9	26.8	(23.1)	11.9	15.2	40.0	4.7	24.1	24.1
Group II Services Avg.	11.0	(3.2)	6.3	(2.4)	36.6	45.5	(12.4)	9.0	9.0
Group III Services Avg.	9.7	5.7	(37.4)	38.4	(28.2)	11.5	18.9	0.9	0.9
Sample Avg.	(12.3)	37.6	(26.1)	(6.9)	59.7	3.4	(0.6)	6.6	6.6
Fortune 500 Avg.	13.9	(43.6)	(65.6)	72.8	38.4	19.7	10.5	52.5	26.1
Fortune 1000 Avg.	(36.4)	(76.5)	(65.7)	167.8	83.8	(44.0)	5.6	40.7	0.8

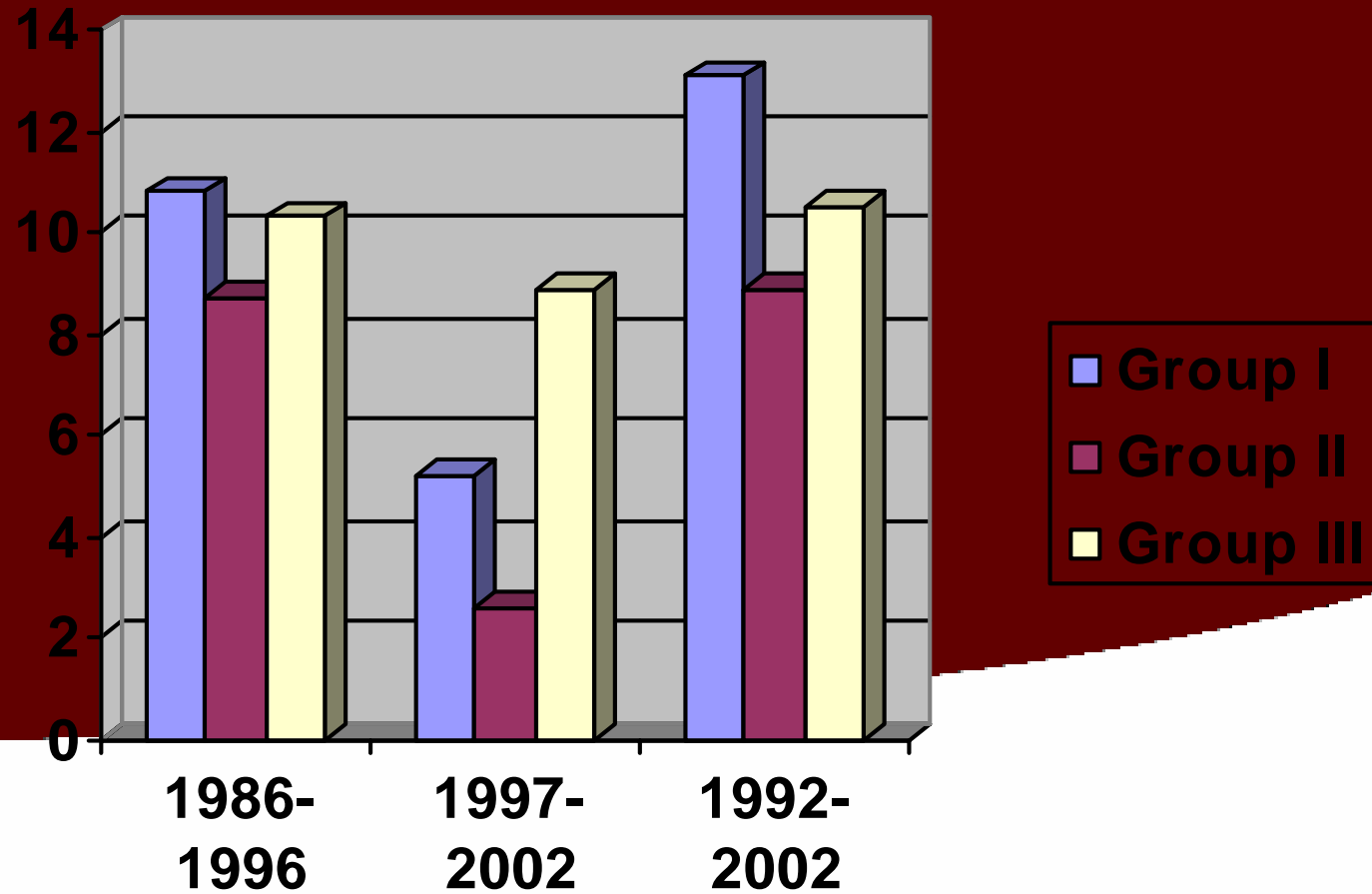
Profit as a Percent of Sales



Profit as a Percent of Sales

	Avg.	2002	2001	2000	1999	1998	1997	1996	1995
Group I Avg.	7.7	(0.5)	8.4	8.9	9.6	9.2	7.6	10.6	8.1
Group II Avg.	8.6	7.4	4.9	8.6	10.7	8.9	8.9	9.1	10.8
Group III Avg.	6.0	4.1	3.0	4.5	6.2	8.2	9.7	5.5	6.6
Group I Product Avg.	7.2	5.6	8.3	6.5	8.9	7.9	6.6	7.9	6.1
Group II Product Avg.	6.0	6.2	3.3	5.9	8.8		5.9		
Group III Product Avg.	8.0	16.3	6.1	5.9	4.5	7.9	8.9	9.4	5.1
Group I Services Avg.	10.7	12.4	10.0	10.6	10.9	10.0	12.0	9.4	10.5
Group II Services Avg.	14.8	17.7	16.3	15.0	17.4	13.1	8.3	15.2	15.1
Group III Services Avg.	7.7	9.1	5.1	3.3	5.8	11.2	9.6	8.6	9.2
Sample Avg.	6.5	3.2	5.3	6.4	7.6	7.6	9.0	6.5	6.9
Fortune 500 Avg.	3.9	-0.1	-0.6	5.8	5.9	5.3	5.5	5.6	
Fortune 1000 Avg.	3.7	-0.7	-0.6	4.8	4.9	5.7	5.4	5.6	

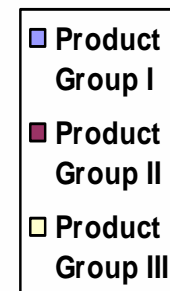
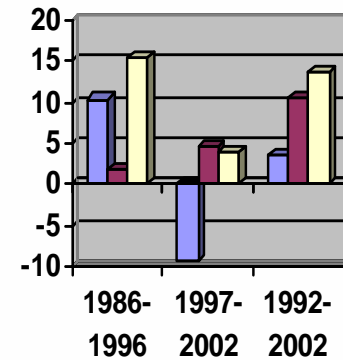
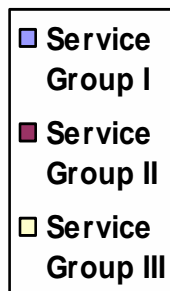
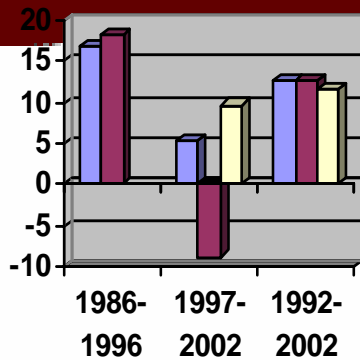
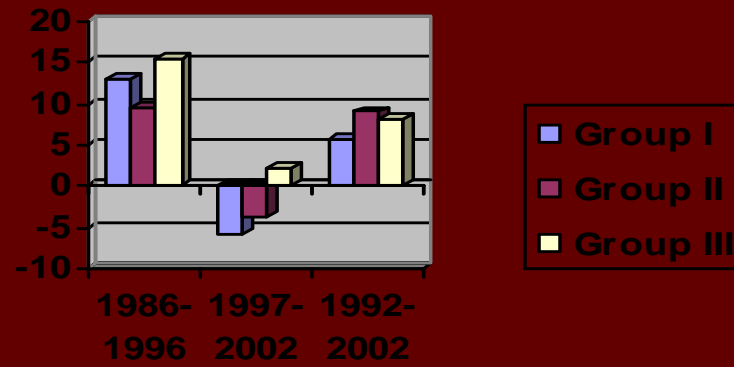
Earnings Growth Rate



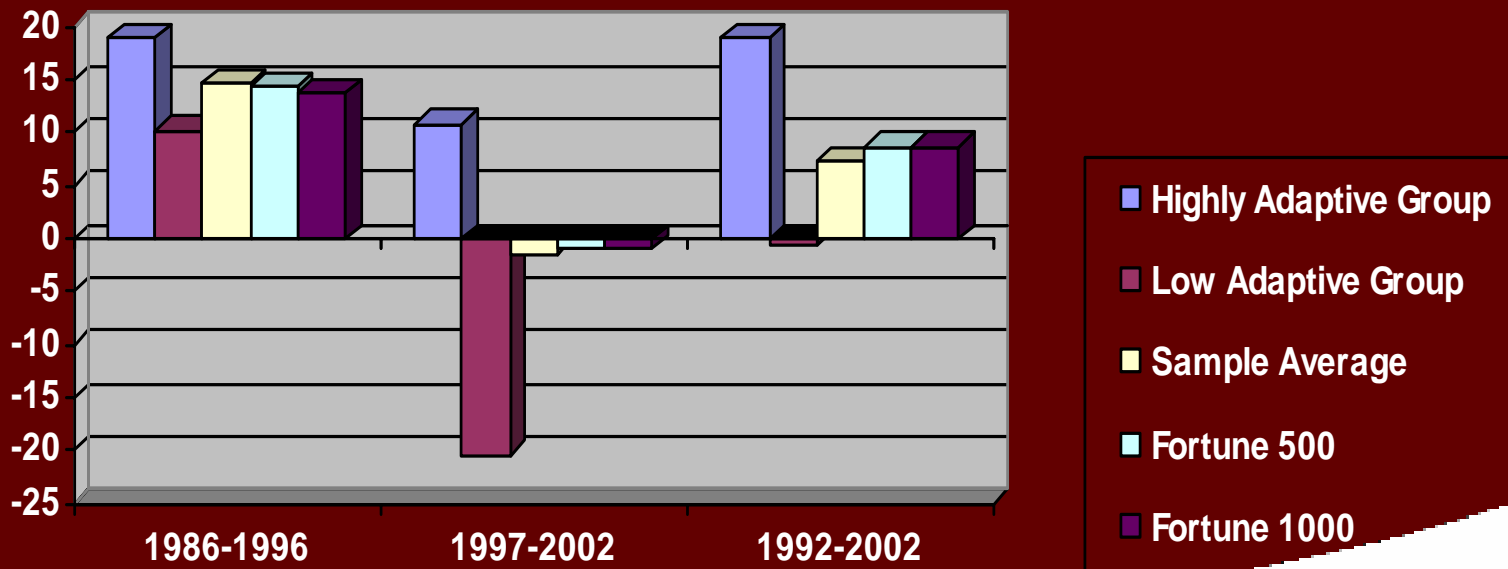
Earnings Growth Rate

	1986 -1996	1997- 2002	1992 -2002
Group I Avg.	10.8	5.2	13.1
Group II Avg.	8.7	2.6	8.9
Group III Avg.	10.3	8.9	10.5
Group I Product Avg.	8.2	(0.3)	11.1
Group II Product Avg.	N/A	2.7	6.8
Group III Product Avg.	21.4	0.5	9.8
Group I Services Avg.	19.3	13.5	17.2
Group II Services Avg.	8.7	2.4	11.0
Group III Services Avg.	7.4	8.1	8.7
Sample Avg.	10.4	7.1	11.2
Fortune 500 Avg.	9.4	9.4	9.8
Fortune 1000 Avg.	9.1	8.4	9.9

Total Return to Investors Annual Rate



Total Return to Investors Annual Rate



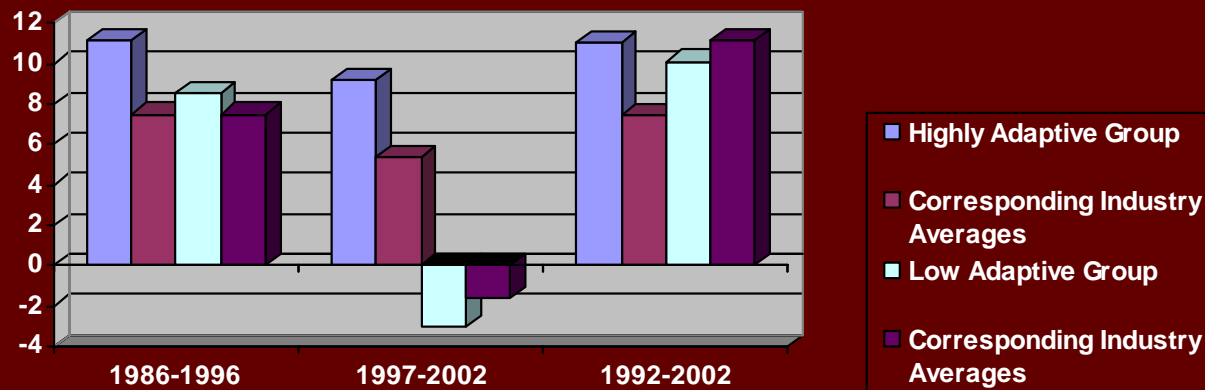
Highly Adaptive Group – companies who allow employees, customers, investors and suppliers to influence their culture. (10 companies) Average score greater than 6.

Low Adaptive Group – companies who limit employees, customers, investors and suppliers from influencing their culture. (5 companies) Average score less than 4.

Total Return to Investors Annual Rate

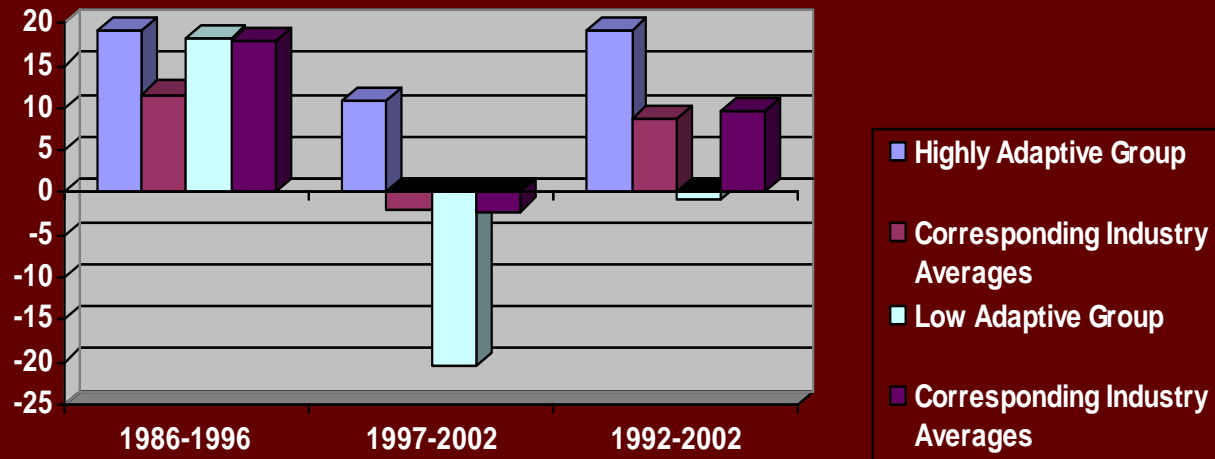
	1986 -1996	1997- 2002	1992 -2002
Highly Adaptive Group Average	19.0	10.9	19.0
Low Adaptive Group	10.2	(20.4)	(0.7)
Sample Avg.	14.7	(1.4)	7.4
Fortune 500 Avg.	14.4	(0.9)	8.7
Fortune 1000 Avg.	13.7	(0.9)	8.7

Earnings per Share Adaptive Groups vs Corresponding Industry Averages



	1986-1996	1997-2002	1992-2002
Highly Adaptive Group	11.1	9.2	11
Corresponding Industry Averages	7.5	5.4	7.4
Low Adaptive Group	8.5	-3	10.1
Corresponding Industry Averages	7.5	-1.6	11.1

Total Return to Investors Adaptive Groups vs Corresponding Industry Averages



	1986-1996	1997-2002	1992-2002
Highly Adaptive Group	19	10.9	19
Corresponding Industry Averages	11.6	-1.9	8.7
Low Adaptive Group	18.2	-20.4	-0.7
Corresponding Industry Averages	17.8	-2.2	9.7

When is Corporate Culture Affective in Financial Performance



When it is influenced by customers, investors, employees and suppliers, an adaptive corporate culture yields positive results over long periods of time.

When is Corporate Culture not Affective in Financial Performance



- Strong or weak cultures
- Cultures in product companies versus service companies
- Fast industries versus slow industries

Thoughts?