



# Introducing A Performance-Based Culture **Successfully** in Portfolio Companies



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A company's culture creates value when it is performance-based. A terrific analogy is a sports fan supporting a favorite team. Sports fans are elated when their team wins. When a company has a performance-based culture, employees are elated when the company wins by improving performance.

Let's take a look at a company's culture and its creation and how to make its culture performance-based.

## What is company culture?

A company's culture is its identity comprised of its employees' attitudes, beliefs, and values.

A company's culture is somewhat intangible because it derives from formal rules in combination with the informal understanding of the people who work there. Culture encompasses knowledge, know-how, official rules, and agreed-upon norms of behavior.

The rules do not drive the culture. The culture arises from how individuals and groups within an organization respond to both the official rules and non-official yet compelling norms.

## How does a company's culture affect employees?

Glassdoor reports the top three predictors of employees' satisfaction are: 1) culture; 2) the quality of senior leadership, and; 3) career

opportunities within the organization. Surprisingly, compensation and benefits rank as much less important than culture. One insight from the Glassdoor study is that compensation will not overcome a company's inferior culture. No matter how much pay there is, if the company's culture is toxic, the workers will not be satisfied.

## How to Introduce a Performance-Based Culture

Performance-based culture is established by getting an organization's efforts in alignment with increasing velocity, EBITDA improvement, and value creation.

### Velocity

This factor is a measurement of how fast things are moving. When many things happen sooner, without negative issues, it is better. This concept can be applied to project development, bringing a product to market, and sales. The goals are better, faster, and more. For example, software project development speed can be improved using Agile methods that focus on accelerating the intermediary steps.

Innovation, combined with a faster time-to-market, allows a company to potentially capture a larger market share ahead of competitors who offer alternatives. This is called the first-mover advantage. Success comes from speeding up the tempo of work methods following the adage of time equals money.

Sales velocity is how fast deals move through the sales process to generate revenues. It is calculated using the number of sales opportunities, the average deal value, the average win rate, and the length of the sales cycle. This performance metric estimates how much revenue can be generated during a specific

period.

Analysis and improvement are possible for any time-influenced efforts, including logistics, inventory management, account receivables collection, employee onboarding, and many more.

## EBITDA Improvement

Earnings before interest, taxes, depreciation, and amortization (EBITDA) are common performance metrics used to evaluate a company's success. It considers the dual goals of increasing revenues by increasing the speed of sales and lowering costs with process efficiencies.

## Value Creation

The creation of value is typically thought of as increasing the EBITDA of a private company or the market cap of a public company's stock; however, it is much more than just that. It also includes all efforts to build value for customers and employees.

Businesses define value according to their priorities. Some businesses, such as B-corporations, include providing a public benefit as part of their efforts. Many consumers are more willing to support companies with a policy of corporate responsibility in terms of societal and environmental issues.

Tradition value comes from buying and/or building assets, innovation, increasing sales revenues, and improving profits. Contemporary value also comes from brand awareness built through social media influence and being a good corporate citizen.

Having a positive company culture attracts the best employees. If the company's goals are

performance-based, having the best employees should improve the outcome and increase company value. Effective employees want to have a good purpose result from their work, not just a paycheck.

Businesses need to be clear about what is valued by them, and then businesses can use performance-based metrics to analyze their success in the creation of that value.

## The Foundational Elements of a Performance-Based Culture

A performance based-culture is designed for the creation of value. It is built upon eight foundational elements of leadership, company motto, people, operational structure, workflow design, technology, and management systems.

### Leadership

Leadership means constantly reinforcing the company's performance-based culture while encouraging employees to do the same.

C-level executives set an example for others to follow. Mid-level managers and project team leaders do the same. If the rules say one thing and the leaders make a public example of not following them, they will not be followed. The worse thing leaders can do is to have one set of rules for themselves and another set of rules for the other workers. If one wants a business to operate at a higher level, the leader must operate at that level.

To effectively drive a company's culture, the rules must align with the behavior of the key executives. The executives act in such a compelling way for other employees to admire and follow.

One word of caution; do not take performance-

based measures too far. The late Steve Jobs was thought of as a tyrant as the founder of Apple. He pushed employees to the breaking point in pursuit of his goals. In the early years, Apple was exciting to work at, and yet many employees were miserable. Ultimately, his behavior got Jobs thrown out of the company he founded. Later, as he matured and returned to save Apple, he realized his previous mistakes.

After his somewhat humbling, Jobs was more pleasant to work with. That motivated everyone. The result was a continual line of successful Apple products, including the iMac, iPod, iPhone, and iPad, which made history and saved the company from bankruptcy to become one of the world's most valuable companies.

A company's culture must be relevant to the long-term business strategy by prioritizing behaviors that are essential to business success. The culture must be resilient and strong in that everyone within the organization follows it, employees trust it, and it is real so that it has true value to everyone involved. It is enthusiastic, highly motivational, and not abusive to any stakeholders.

## Company Motto

Powerful company culture is defined in a few words. An example of this is the Ford Motor Company's old motto of "Quality is Job One." Ford used this in the 1980s when American cars were thought to be poorly-built compared to imported Japanese autos. This motto was very powerful. The buy-in to its value impressed the employees to work with attention to quality detail that they could personally be proud of achieving. The company's customers were impressed by the results, which improved sales.

Values may change over time. Google's motto was, "Don't be evil." It became "Do the right thing." when Google became part of the

conglomerate Alphabet in 2015. After 17 years of using "Quality is Job One," Ford changed its motto to "Better ideas. Driven by you." Both of these changes created controversy. Such is the power of a company's motto.

If you do not have a company motto, it is a good idea to create one. Be prepared for it to have a profound meaning over time, so choose a motto carefully to use it for at least a decade.

## People

A company is only as good as its people. Talented employees make a difference. Investing in human resources is a terrific way to increase performance. The people create the company's culture. They are the most valuable asset a company has.

Get rid of naysayers and those with a poor attitude because pessimism and negative thinking is contagious. Fill a company with positive people, and it gains a competitive advantage. Encourage personal development and offer a career path that is challenging, as well as interesting. Reward employees based on merit, not based on personal favor.

Eliminate inherent bias by neutralizing hiring decisions using technology to pre-screen candidates without personal bias involved. Embrace diversity in the workplace. Pay an equal wage for equal work regardless of the person's characteristics. Praise in public. Reprimand in private.

## Operational Structure

Many companies grow in fits and starts, and then, if they get large enough, become so bloated that they almost become dysfunctional. This may have resulted in a company that desperately needs an organization overhaul. The

pandemic created a perfect opportunity to refocus company efforts with a better operational structure that aligns with long-term goals.

Ask yourself if the company is doing things a certain way just because it has always done those things that way, and if the company is operating in the most efficient way possible. The disturbance of businesses caused by the pandemic gives the perfect opportunity to make fundamental organizational structures.

An example of this dynamic occurred in many organizations when suddenly everyone had to work remotely. Proximity to headquarters no longer mattered. Someone who lived one block from corporate headquarters had no distinct advantage over someone who lived far away. Online meetings and online collaborations became a great leveler for employee participation. The opportunity to form new collaborative teams came up among previously unavailable participants to work with each other.

## Workflow Design

Workflow design is often given only a passing afterthought. This area has many possibilities for improvement. Every company is a multifaceted assemblage of integrated workflows. For smaller companies, start by mapping the workflows as diagrams. This helps to gain insights into how improvements can be made. If a company is very complex, using artificial intelligence modeling may be an effective way to uncover insights into improving workflows.

To gain perspective on process improvement, it is usually beneficial to hire outside consultants who have the expertise to make the analysis. They can be neutral in their recommendations without undue influence or personal attachment to previous system workflow designs. This review of the existing systems and

recommendations for improvements can be used to set goals for increasing revenues and lowering costs.

## Technology

The technology used for the production of goods and services and to manage operations has a serious impact on company culture. Process improvements using technology are supported if companies first make a serious analysis of the impacts of introducing the technology, what the installation process will be like, and what value the company will gain. The key is to accurately predict the full cost of implementing the technology versus what is gained by using it.

Technology comes in three forms, hardware, software, and wetware. Hardware is the equipment. Software is the programming. Wetware is the people. A predictive construct needs to be made that estimates what will be added to make the technology implementation and what will be removed for all three categories.

Hardware advancements include things like 3D printing technology used for just-in-time personalized manufacturing. With 3D printing, there is no need to maintain a large inventory of replacement parts if customers' orders can easily be printed upon demand.

Software advancements are moving ahead at a tremendous pace with software as a service (SaaS) offerings running on cloud computing data centers. Software that used to cost a small fortune and require enormous investment in IT equipment and staff can now be accessed on a cost-effective, monthly, or annual subscription basis.

Companies can effectively move to a cloud services solution using a staged methodology and integrating cloud solutions with existing

systems. Even smaller companies can now take advantage of this trend by using powerful customer relationship management systems and enterprise resource planning systems that used to be only available to huge enterprises.

Human beings (wetware) are being displaced en masse by technology. In isolation, this continual march towards technological advancements seems like a wise business decision. The robotization of many tasks previously performed by a human increases efficiency. However, on a large scale, companies may inadvertently create a type of self-annihilation when replacing their workers with technology that ultimately results in the company losing tens of millions of their customer base. There is no easy answer to this dilemma, only a need to be aware of the ramifications of eliminating human jobs with technology and its overall impact on a company's culture.

## Management Systems

Management systems that improve communication and support better decision-making to improve business performance create a vibrant company culture. Dysfunctional management systems do the opposite. They cause problems due to lacking accountability, especially when working with misguided assumptions about operations. It is useless to monitor operational metrics that do not engage the employees' participation in process improvements.

The goal is to have a management system that creates robust communications that clarify company objectives to all involved throughout the organization and rewards participation in making improvements. Such a system converts strategic business goals into actionable items and delegates the responsibility to those who can take action, thus creating accountability.

A vibrant management system communicates excellent outcomes and uncovers the problems causing underperformance combined with action steps to make improvements. Leaders set an example by their behaviors. They use the management systems to communicate clearly what needs to be done and reinforce desirable employee behaviors in alignment with the company culture.

## Keys to Successful Performance-Based Culture

The keys to having a successful performance-based culture include adaptability, transparent communications, hiring change agents, and instilling positive meanings in everything.

### Adaptability

Adaptability reflects a company's ability to respond to crises and innovate rapidly to make the most of new opportunities. The global pandemic showed the importance of adaptability. Dramatic changes included remote meetings, no travel, more working from home, combined with massive layoffs.

Companies that could adapt can withstand the challenge. Companies who are not able to adapt, even through no fault of their own, perish. The excellent performers were not only able to adapt to the challenge of continuing operations but found new ways to conduct business that helped them thrive, even during a pandemic. An example is the liquor distillers, who reduced making drinkable alcohol when demand went down and made hand sanitizer instead.

### Transparent Communications

Glassdoor ranks companies in terms of the strength of their positive culture. Surprisingly,

the highest company culture rankings over the past five years occurred during the global pandemic's early days (March and April 2020).

Employees were suddenly ranking some companies higher than ever before for company culture. The factors making a strong positive impact were company leaders' ability to communicate clearly and honestly to employees in a transparent fashion.

Companies were highly appreciated when there were transparent communications from the top team leaders in the company. Companies that responded to the pandemic with clear policies that resolved serious issues scored well. Other companies who failed to communicate effectively with their employees score very poorly.

This factor is interesting because, before the pandemic, transparent communication between the company's leaders and its employees was not given nearly as much weight when ranking for positive company culture. Employees could even handle bad news as long as the leaders were honest and open with communications about what was happening.

## Change Agents

Hiring people to be change agents is one way to increase performance-based success when progress seems stalled. Change agents are energetic and resilient people who can handle stressful situations with calm, centered, optimism to motivate people in a new direction. They are ever-curious and willing to try novel solutions to create a break-through. Empower them with the tools they need to make a positive change.

An example of a change agent is hiring an instructional designer to create an online training program for onboarding employees,

training, and continuing education. Not only is this a safer method to use during a global pandemic, but these systems should also continue to be useful permanently. For many job skills, online training is more efficient than other training methods. Tie the training program to job advancements within an organization. Encourage cross-training, and this provides a stronger workforce to draw from for filling open positions.


## Instill Positive Meanings in Everything

Employees with a positive attitude encourage others. Companies realize that the attitudes of all employees influence their customers. Any interface with a consumer, even an indirect one, is a chance to let the meaning of the company's values shine. Companies that operate with a transcendental philosophy gain ground by letting that philosophy integrate with all the work they do.

For example, customers respond well to personalization. One example of using personal touch is a loyalty program that reaches out to their best customers with a surprise benefit or gift on a "customer anniversary" to thank them for their patronage for the past year of being a customer. Customers are delighted by such a surprise.

## Conclusion

Communication is the most significant factor in performance-based company culture. It is the underlying factor is all of the eight foundational elements. Transparent communication is superb leadership. Having a motivational company motto is a powerful message both to employees and customers. Collaborative communication improves working with people to support an efficient operational structure, workflow design,



appropriate technology, and management systems.

Start by analysis of your company's culture. Then, compare the analysis against your competitors. Monitor and investigate to see if the company's culture meets your expectations. Is your company's culture something you are proud enough to brag about? What are the anonymous reviews of your current and past employees saying on Glassdoor?

Are you constantly losing your most talented workers to your competitors, even you pay the same or more? If you are, it is a sign that your company's culture is a bit off, and you need to focus on discovering the places where you can make meaningful changes that positively impact the company culture.

When you succeed in improving company culture, which aligns with performance-based goals, you create real value. You can then afford to reward your employees accordingly, and you can attract and keep top talent as your company thrives.

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