



RYP Quarterly

Common Business - Uncommon Performance (The X Factor is Culture)

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Back in the 1920s one of the most successful investors was Phil Fisher. He wrote a best-selling book for its time titled Common Stocks and Uncommon Profits.

In it he outlines 15 attributes he looks for in which to invest. They are summarised below. Note of these 15 attributes, 10 could be described as cultural. In fact, his screening filters have been quoted and referred to by Warren Buffet. Can you identify the 10?

Common Stocks and Uncommon Profits – By Phil Fisher, 1920s

1. Does the company have the products or services with sufficient market potential to make possible sizeable increases in sales for at least several years?
2. Does management have a determination to continue to develop products or processes that will further increase total sales potentials when the growth potentials of current attractive product lines have been largely exploited?
3. How effective is the company's research and development efforts in relation to its size?
4. Does the company have an above average sales organisation?
5. Does the company have a worthwhile profit margin?
6. What is the company doing to maintain its profit margins?
7. Does the company have outstanding Labor and personnel relations?
8. Does the company have outstanding executive relations?
9. Does the company have depth to its management?
10. How good are the company's cost analysis and accounting controls?
11. Are there other aspects of the business, somewhat peculiar to the industry involved, which will give the investor important clues as to how outstanding the company may be in relation to its competitors?
12. Does the company have a short range or long-range outlook in regards to profits?
13. In the foreseeable future, will the growth of the company require sufficient equity financing so that the larger number of shares then outstanding will largely cancel the existing stockholders benefit from the anticipated growth?



14. Does Management Talk freely to investors about its affairs when things are going well, but then “clam up” when troubles and disappointments occur?
15. Does the company have a management of unquestionable integrity?

Culture More Relevant Today:

Interestingly, when considering a stock to invest in, or a potential M&A target, one key area that is often overlooked is the **cultural alignment** of the organisation. This could be argued as being the key and critical element for the likelihood of any potential investor success.

In a recent interview **Kurt Winrich, Co-CEO of WCM Investment Management** says, “*There is no one culture that is best for every business. What you must look for is whether the culture is aligned to their competitive advantage.*” **It gets back to everyone in the organisation wanting to make a difference and feel as though they matter. This is what gets them to go above and beyond.**

Cultural Alignment Is Nurtured Over Time... by Everyone.

Leaders have a key role to coach and manage their staff to work together to either produce a product or deliver a service. Managing the social relationships staff have with each other is a fundamental aspect to any business’ success.

Building a team culture takes time, effort and above all persistence. Like raising children, just when you get sick of saying the same thing to them, often they are just starting to get it! **Culture forms the epicentre of everything a team does and is formed under a series of unwritten guiding attributes by their leaders.**

- How team members communicate with each other (feedback loops)
- How decisions are made (independently vs. interdependently)
- How problems are solved – as and when they arise (empowerment)
- How difficult customers are managed (expectation management)
- The upfront promises made to customers is their lived experience (authenticity)
- How suppliers are treated in line with stated organisational values (integrity)
- The professional development undertaken (capability)
- The standards and issues that staff act on or ignore (disciplines and volunteerism)
- *The type of new staff teams attracts and recruit (business network)*
- *How success and failures are celebrated, debriefed, and learnt from (learning)*
- *What is measured and monitored (what is deemed important)*
- *The social team rituals that make the team tick (disciplines)*
- *The way staff act and behave when they are unsupervised (learnt behaviours)*
- *What the agenda items are for any team meeting (symbolism)*
- *How staff are incentivised: Customer outcomes vs. financial targets (Mission Centred)*
- How toxic staff are managed, no matter how good their performance (Leadership)
- The feeling you get when you walk into the place (First Impressions)



How to Observe Cultural Alignment:

Simple observation of the behaviours, narrative and stories through staff, customers, suppliers, front line leaders and the management team will reveal the unwritten guiding cultural attributes of any team. The moment cultural alignment is deferred away from the executive team and toward the likes of HR should sound warning signs. Cultural Alignment is everyone's responsibility. A parent cannot defer the responsibility for raising their children to a teacher or school. It requires the collective effort of the community to educate, raise and develop well rounded and resilient children ready to face the world they live in. Likewise, it is the responsibility of all members of any organisation to shape their culture in accordance with what is desired. This should be self-evident in how the staff act and behave.

Shaping a Culture Kept Simple:

When raising a family there is no requirement to have long lists of personal competencies, team rules, family mission statements or family engagement audits. It is usually well understood on what is accepted or not, which is because parents role model and nurture what is expected and desired. Typically, this falls under three nurturing pillars:

1. **Simple Shared Rules** fuel local customs, rituals, and behaviours
2. **Enforced codes of the “modus operandi”** reveal what is important, how success is measured, what is unacceptable, and how to communicate (methodology, frequency, language, tone)
3. **Consistently Apply Cultural Norms and Evolve and grow over time** thus ensuring new team members integrate and value add or introduce something extra to the team culture, whilst preserving and protecting the agreed way of doing things

Osmosis works. Any good macro-organisational culture will always have a diversity of micro cultures, linked by a common commitment and cultural alignment to the organisations purpose, vision and values. Staff will soon come to act, behave and mirror image the way their co-workers perform as **demande d by their local leadership team.**

It is this cultural alignment that determines whether your business will produce an uncommon performance.

Facta Non Verba – Deeds Not Words

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