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Views from the C-Suite: *Aligning Culture and Strategy*

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The University of Virginia Darden School of Business Institute for Business in Society held its Strategic CFO Roundtable on September 8, 2016 in Arlington, Virginia.

Since 2008, these roundtables have provided a confidential forum for corporate financial leaders representing the varied industries of the Washington D.C. region to discuss and debate global and U.S. economies as well as corporate financial strategies and performance. In addition, each roundtable has focused on a Top of Mind (ToM) topic, a specific issue of immediate interest to the members.

For the September 2016 roundtable, the ToM topic was *Aligning Culture and Strategy*.

DISCUSSION OF THE ECONOMY

As of the morning of the September roundtable, the Dow stood at 18,526, up 6.3 percent for the calendar year. The market had dipped upon the announcement of “Brexit” on June 23, but rebounded quickly and continued a slow growth until recording an all-time record close of 18,636 on August 15. At the time of the roundtable, substantial speculation was focused on the Federal Reserve’s September decision about the federal interest rate. After months of postponements, the market was bracing for a rate hike: if not in September, then surely in December.

With two months remaining in the U.S. presidential campaign, market volatility continued to be influenced by speculation within the market regarding the impact of the respective domestic and foreign economic policies. The market was also digesting the news that the U.S. economy had produced only 38,000 jobs in May, the lowest job growth since September, 2010. On the international stage, the economic health of China and Europe were key drivers of volatility in the markets. The Brexit vote occurred in June and although many collectively expected a close vote in part because of the discontent with the refugee crisis in Europe, there was little expectation that the UK would actually choose to leave the European Union.

In the midst of these political and economic uncertainties, the roundtable CFOs reported reduced levels of optimism for the U.S. economy and particularly for their own companies.

Darden Regional Business Outlook Survey

Before each roundtable, the members participate in a survey designed to elicit insights into their business views relative to national counterparts. We compare members’ responses with those of the Duke University/CFO Magazine Global Business Outlook Survey, which has polled senior finance executives nationwide over the past 81 quarters. The comparison of results serves to generate conversation regarding member expectations of the financial condition and outlook for the U.S. and global economies and their own companies.

Economic Outlook

The September, 2016 Darden Strategic CFO Roundtable Survey revealed a drop in the level of optimism regarding the U.S. economy since the June survey. The national survey reported a sustained level of optimism after a sharp decline for Q4 2015. Figure 1 depicts how the respective CFO groups rated their optimism about the U.S. economy on a scale of 0 – 100%. Both the Darden Strategic CFO Roundtable Survey (dashed line) and the national survey (solid line) reported optimism levels of 60%.

Figure 1: Optimism for the U.S. Economy
(Scale of 0 – 100%)

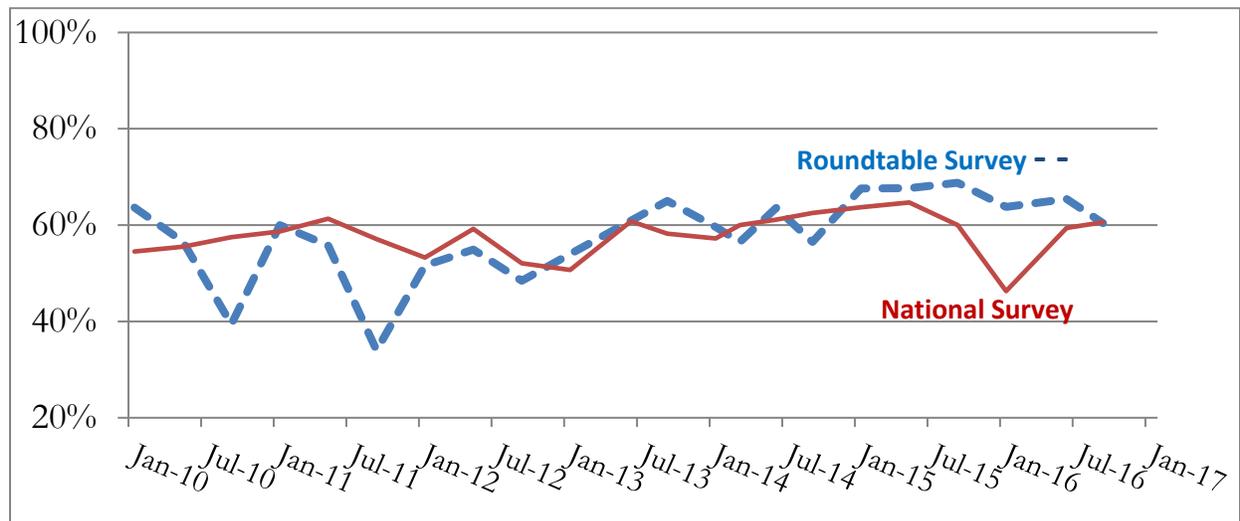
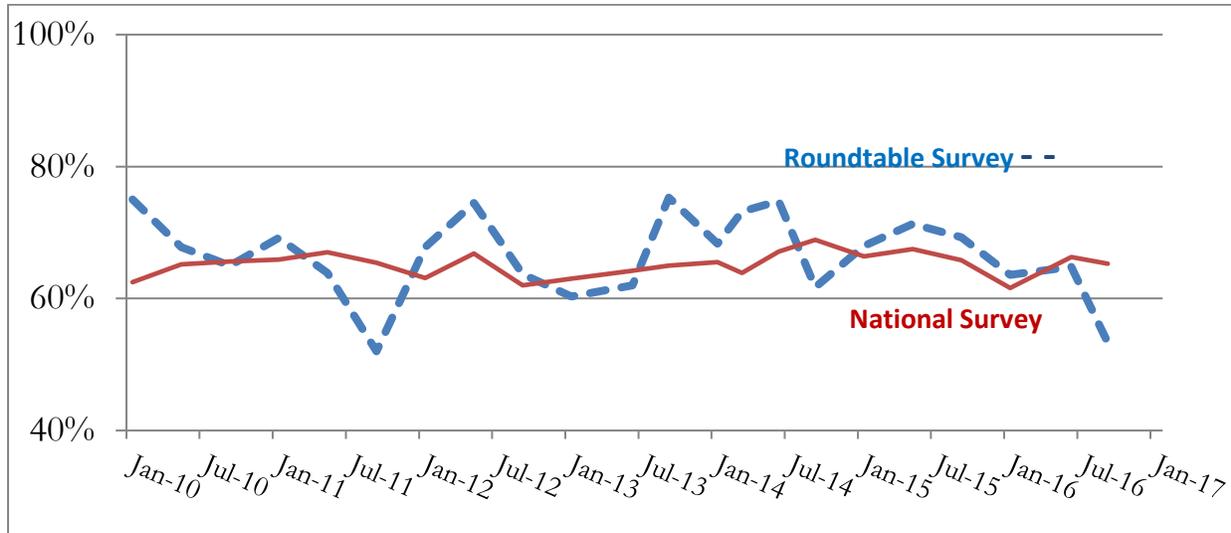


Figure 2 compares the CFO Roundtable group with the national survey regarding optimism about their own companies. The national survey’s (solid line) Q3 2016 results continued to fall in the mid 60’s at 65.3%, whereas the September roundtable survey (dashed line) reported an optimism level of only 53%.

The dip below 60% is the first time we have seen optimism levels so low since 2011 for our roundtable members. It is also the largest difference between optimism levels for the U.S. economy and the CFOs’ own companies. Historically, both surveys have reported higher levels of optimism for respondents’ own companies relative to the U.S. economy. That trend has persisted for the national survey, but each of the roundtable surveys for 2016 has reported lower optimism for their own companies than for the overall economy.

Figure 2: Optimism for Their Own Company
 (Scale of 0 – 100%)



The discussion about optimism began with a dialogue about specific examples that might have contributed to the modest level reports for the U.S. and noticeably lower level reported for own companies.

When asked about his thoughts, one CFO pointed to Brexit:

Brexit's a problem that's hurting us. In fact, we have about 10% reduction in our U.K. revenue, which is highly profitable revenue...we're in the process of doing our planning and we have been fortunate to have double-digit growth, but we don't think this year's going to be double-digit growth, so we're in the process now of (telling managers) that the raises are going to be 2.5% and we're going to tie down anything that's controllable and let's really talk about how many people you need to work on the pipeline of things that you have to work on. We're still growing and I think we've still got some degree of optimism, but our board of directors is less than satisfied that the growth is now like that and the world economy is hurting us.

Another CFO included Brexit is his list of concerns:

I think if I look at the U.S. economy, I think we're okay, not stellar, and in part, the reason we're okay is the rest of the world isn't in large regard. I think for the U.S. economy to really heat up, the world needs to have its economies improve and I don't see that happening in the short term. Maybe it's a little less scary than it was a couple of quarters ago, but it isn't bright and sunny and rosy and everything is good. You just look at commodity-based countries, the whole Euro zone and Brexit and there's a lot of uncertainty that people really don't know what's happening yet and the Asian tigers haven't decided to roar and South America is still sort of just muddling along, so I think we're doing well by comparison but the overall world economy is just still kind of maybe - not ill, but it's certainly not out running a marathon.

A third CFO pointed to the capital markets as providing contradictory signals:

If you look at the bond market and you look at the stock market, they're both doing phenomenally well. That's impossible. Someone's wrong, because if you're investing heavily in the bond market, it's because you're worried about what's going to happen in the stock market, so you run to security. If you're investing heavily in the stock market, it's because you think the economy is going to be booming and doing well for a long time, so that tells me that a lot of people don't really know what's going on and they can't really pick a horse - so people are picking both.

He then turned his attention to the real estate market:

Also, this isn't like 20 to 30 years ago. The U.S. is heavily tied to the global economy, so in my point of view, we're kidding ourselves if we think we're going to hold out if the rest of the globe is really not. So I think that's why I'm a little bit more pessimistic. It's been a long time since we've had a real estate downturn. For those who track real estate, you know that has a cycle and you can go back 30, 40 years. Every 8 to 12 years there's a real estate bust. Now, some are more than others, but there's a real estate bust and then the stock market follows.

The members ended the conversation with a quick survey around the table about the Federal Reserve's upcoming decision on interest rates. Will we see a rate hike this month? The strongest voices argued that there would be no increase before the election, but perhaps in December. In the spirit of continuing his perfect record of missing the call of rate changes, the moderator of the roundtable, Professor Ken Eades, took the opposite side of the wager by predicting that September would be the meeting where the Federal Reserve followed through on its own guidance by increasing the rate by 25 bps.

TOP of MIND TOPIC DISCUSSION

The Darden Strategic CFO Roundtable addressed the Top of Mind (ToM) Topic of *Aligning Culture and Strategy*. Sparked by the classic quote from Peter Drucker that "Culture eats strategy for breakfast," the members began the discussion by prioritizing strategy vis-à-vis culture.

The members confirmed the perspective that positive cultural impact occurs only when the strategy is sound. The strategy determines what businesses to be in and the value proposition for each business. "Strategy needs to be developed in light of the culture."

"Obviously you do have to have strategy to make money and stay in business or otherwise your culture's sort of moot, but I think that strategy is better developed in different cultures."

Strategic analysis, planning and decisions were considered paramount to but not independent of culture when managing the business, whether executing on a strategy, changing a strategy as a result of external factors (technological advances or industry shifts) or experiencing significant corporate events (C-suite changes, acquisition, integration of acquisitions, financial turnaround, of market share defense against new/disruptive competitors).

"Once you're in a given business, then does culture matter in terms of your ability to generate performance? I think it does."

The members recalled positive effects of specific, now historic, strategy-culture alignments, including among several others, Southwest Airlines that set a corporate strategy of friendly, reliable, and low-cost air travel measured by reduced gate times and increased on-time performance. Integral to the strategy's success was a culture imbued with doing whatever it took to improve these measures, including a flight attendant team who cleaned – happily and enthusiastically – the airplane cabins during turnarounds. They shared their own experiences when strategy and culture were both aligned and misaligned at their organizations as well as within their financial departments.

“. . . to have more people feel like they have involvement in where the company's going . . . strategy evolves quicker and is more dynamic than when you just have the senior people sitting in their offices doing their 3-year planning or 5-year planning on a rolling basis.”

“I've got the legacy culture within the finance organization right now. The business has changed enough so that the operating culture is to a certain extent swapping out so now I have to bring a bunch of finance folks along from the old world into the new world. . . I have had to swap out a bunch of people . . . it is a function of seeing who is willing to step up.”

“They [the individual business units] adopted relatively simple straightforward strategies and tried to implement them...there was never an overriding [strategy] because of the culture...people just didn't think about things that way.”

“We really can't do our jobs around financial investing without having a core understanding of the business leaders and CEO of the business.”

The impact of misaligned culture and strategy is dramatically apparent in the wake of strategic business changes or significant corporate events.

“There's this whole [industry-wide] culture. Very careful. Basically, over-staffing things so that nothing slips up...Now, not only the company, but the entire industry is changing so the question is how to get that culture to support dramatic business change. That is where the [importance of aligning] culture and strategy is very clear.”

“...we want to be number one in terms of the results [of our industry performance measures]...our business philosophy and culture is based on that...It's a little harder now with [new business lines that] we've acquired. It's harder to...instill that [philosophy and culture]...it's always been our belief that by having people who care about their customer and wanting the best regardless of the economic outcome that we'll end up having both...we attract a different sort of people now that [our business strategy has changed]. . and that's a little bit of a problem.”

As the conversation came to a close, the members began to explore the strategic CFO's role in aligning strategy and culture, within their own finance departments but more importantly throughout the corporation as a whole.

“If culture is an impediment to developing strategy in the right way...you have to make some adjustments...a culture tweak.”

This topic, the HOW of aligning strategy and culture by the C-Suite as a whole and the specific approaches available to the strategic CFO, will be the ToM Topic when the roundtable reconvenes in January, 2017.

The Darden Strategic CFO Roundtable will re-convene Thursday, January 5, 2017.

About the Authors

[Kenneth M. Eades](#), Professor of Business Administration, is the Chairman of the Darden Finance Department and serves as Interim Academic Director for Darden's Richard A. Mayo Center for Asset Management, as well as Affiliated Faculty with the Darden Institute for Business in Society. The author of numerous academic articles, more than 70 Darden cases and three books, Eades has received both research and teaching awards.

[Jane-Scott Cantus](#), Managing Principal and General Counsel, The ILEX Group, has worked with and advised Board and C-Suite members on strategy, culture, organizational design, leadership and talent for over 20 years. She co-founded the Strategic CFO Roundtable with Professor Eades and is a Fellow with the Institute for Business in Society at Darden.

About the [Darden Strategic CFO Roundtable](#)

The Darden School Institute for Business in Society Strategic CFO Roundtable is an invitation-only peer-to-peer forum for leading chief financial officers in the Washington D.C. metropolitan area. The roundtable members discuss, debate and share best practices surrounding the strategic role of the CFO. Representing a collective 300+ years of strategic, financial and leadership experience, the roundtable members share their views on the challenges and opportunities facing their companies and themselves. They discuss the lessons learned from triumphs and trials that led to their becoming recognized as strategic CFOs. Founded in 2008 by Darden Professor Kenneth M. Eades and Jane-Scott Cantus of The ILEX Group, the Strategic CFO Roundtable became a branded initiative of the Institute for Business in Society at the Darden School of Business of the University of Virginia in 2013.

About the [Darden Institute for Business in Society](#)

The Institute for Business in Society is a Center of Excellence at the Darden School of Business at the University of Virginia. Its mission is to be a leading global catalyst and convener of thought, information and action at the convergence of business and society. To achieve that mission, the institute unites leaders in business education with top industry executives, regulators and other thought leaders in discourse on the role and responsibility of business to make lasting positive impacts to better an increasingly complex global society.

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Darden Strategic CFO Roundtable Survey Results

September 2016

	N = 6 CFO RT Sept 2016		N = 6 CFO RT June 2016		N = 8 CFO RT Jan 2016		N = 6 CFO RT Sept 2015		N=483 Duke Q3 16		N= 622 Duke Q2 16		N= 626 Duke Q1 16	
	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median	Average	Median
1. Compared to last quarter, are you more or less optimistic regarding:- U.S. economy (Less =1, More = 3)	1.7	2.0	2.2	2.0	1.9	2.0	2.2	2.0	1.9	2.0	1.9	2.0	1.8	2.0
1. Compared to last quarter, are you more or less optimistic regarding:-Financial prospects for your own company (Less =1, More = 3)	1.7	3.0	2.2	2.0	1.9	2.0	2.0	2.0	2.1	2.0	2.1	2.0	2.1	2.0
2. Rate your optimism regarding: (Drag the slider to assign a number.)- U.S. economy	60.4	60.0	65.4	65.0	63.8	68.5	68.8	70.0	60.6	60.0	59.4	60.0	58.6	60.0
2. Rate your optimism regarding: (Drag the slider to assign a number.)-Financial prospects for your own company	53.3	55.0	64.8	62.5	63.6	62.5	69.3	72.5	65.3	70.0	66.3	70.0	66.0	70.0
5. How would you rate...-Your employees' morale level? (Poor =1, Satisfactory =3, Excellent = 5)	3.3	3.0	3.7	4.0	3.5	3.5	3.2	3.0						

Darden Strategic CFO Roundtable Survey Results

September 2016 (Continued)

	N = 6		N = 8		N = 6		N = 4	
	CFO RT June 2016		CFO RT Jan 2016		CFO RT Sept 2015		CFO RT May 2015	
(Weaker =1, No change = 2 Stronger = 3)	<u>Average</u>	<u>Median</u>	<u>Average</u>	<u>Median</u>	<u>Average</u>	<u>Median</u>	<u>Average</u>	<u>Median</u>
6. Recent quarter's financial results vs. previous quarter: - Income Statement	2.2	2.5	2.0	2.0	2.0	2.0	2.0	2.0
6. Recent quarter's financial results vs. previous quarter: - Balance Sheet	2.2	2.0	2.1	2.0	2.5	2.5	2.0	2.0
6. Recent quarter's financial results vs. previous quarter: - Cash Balance	2.0	2.0	2.1	2.0	2.3	2.5	1.5	1.5
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8. Expected change over the next 4 quarters vs. last 4 quarters: - Income Statement	2.4	3.0	2.1	2.0	2.3	2.5	2.3	2.0
8. Expected change over the next 4 quarters vs. last 4 quarters: - Balance Sheet	2.3	2.0	2.0	2.0	2.3	2.0	2.0	2.0
8. Expected change over the next 4 quarters vs. last 4 quarters: - Cash	2.2	2.0	2.1	2.0	2.0	2.0	2.0	2.0
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(Reduced =1, No change = 2, Higher = 3)								
9. Expected change over the next 4 quarters vs. last 4 quarters: - Headcount	2.5	2.5	2.4	2.0	1.7	1.5	2.3	2.5
9. Expected change over the next 4 quarters vs. last 4 quarters: - Capital Spending	2.0	2.0	2.3	2.0	2.2	2.0	2.3	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - Compensation	2.0	2.0	2.3	2.0	2.0	2.0	2.0	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - Pro develop/training	2.0	2.0	2.3	2.0	2.3	2.0	2.3	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - Prob (new mkt/product)	2.3	2.5	2.5	2.5	2.2	2.0	2.3	2.0
9. Expected change over the next 4 quarters vs. last 4 quarters: - Prob (Acquisition)	2.2	2.5	2.0	2.0	1.7	2.0	1.5	1.5