

MANAGEMENT SUMMARY

CULTURE EATS SUSTAINABILITY FOR BREAKFAST

The importance of culture in the sustainable transformation of companies

in the Food sector

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March 14, 2019

1. Background and research goals

Between January and November 2018, Erwin Oosterhuis and Muriel Arts, researchers at RSM Erasmus University, conducted research with 9 companies in the Dutch Food Value Chain. **The objective of this research was to find out if there is a relationship between the culture of the organization and the capacity of the organization to successfully integrate sustainability into the core strategic framework of the organization.** From earlier research we know that culture is an important condition for success for sustainable value creation, and that cultural development, strategy formation and sustainable value creation can go hand in hand¹, but the exact relationship between culture and sustainable strategy is not yet fully understood.

The difference between strategy and culture might be described as follows: *strategy* offers a formal logic for the company's goals and orients people around them. It provides clarity and focus for collective action and decision-making, and relies on plans and sets of choices to mobilize people and can often be enforced by both concrete rewards for achieving goals and consequences for failing to do so. *Culture expresses goals through values and beliefs* and guides activity through shared assumptions and group norms. *Culture is the social order of an organization*: It shapes attitudes and behaviours in wide-ranging and durable ways. Cultural norms define what is encouraged, discouraged, accepted, or rejected within a group. When properly aligned with personal values, drives, and needs, culture can unleash tremendous amounts of energy toward a shared purpose and foster an organization's capacity to thrive.

However, while the importance of strategy and culture alignment seems necessary, *the exact composition of the culture that supports the sustainable strategy is not well researched*. The elements of a sustainability culture are not fully known. Therefore, the goal of this research is to discover the composition of a sustainability-oriented culture and the role it plays in sustainable strategy formation. Specifically, we want to understand both the 'how' and the 'what' of organizational culture development in support of the company's transformation towards Sustainable Value Creation or Triple Value Creation (TVC) as we call it. Thus, we have asked ourselves the following research questions:

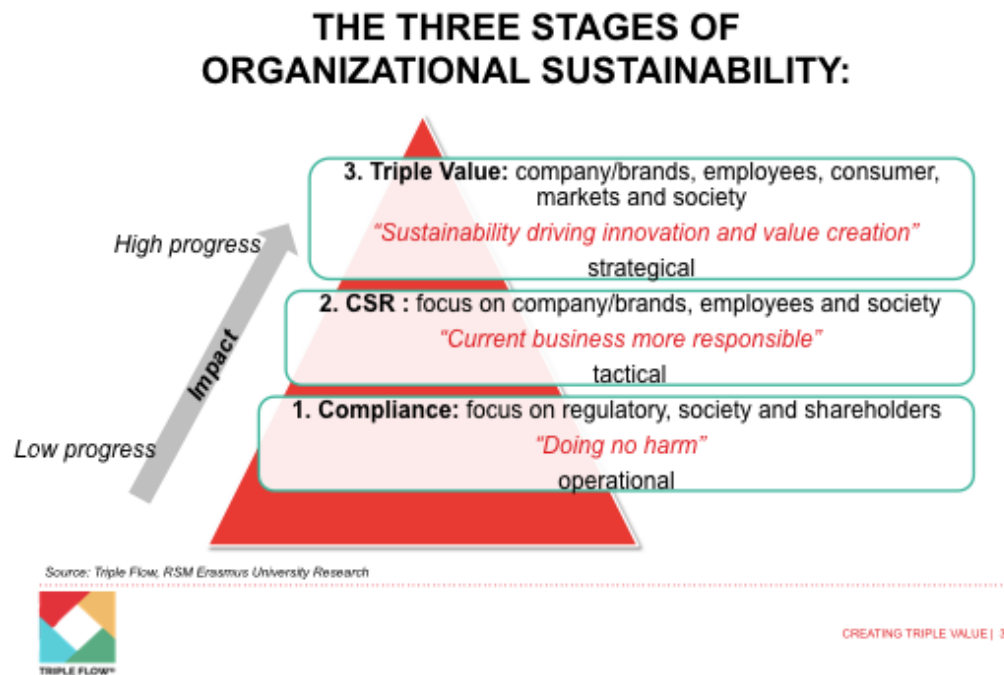
- (1) *How does organizational culture evolve when progressing towards TVC?*
- (2) *Which values in an organizational culture belong to a TVC intended strategy?*

2. Research method

Between January and November 2018 we conducted theoretical research and field research with 9 companies in the Dutch Food Value Chain. Subsequently, we have assessed the organization's progress on the three-stage journey integrating sustainability into the strategic framework of the company – figure 1- and linked this assessment to the organizational culture by using the Competing Values Framework and the Seven Levels of Consciousness model.

¹ Lueneburger 2014, MacKay & Sisodia 2013

Figure -1- integration of sustainability into the strategic framework of the organization



3. Conclusions

It is common wisdom that organizations wishing to anchor sustainability within its core strategy have to engage in a process of fundamental change of many aspects of its business.² Sustainability tends to be viewed not as an endpoint but as a journey from a current state that is *unsustainable*, to something *sustainable*, for example by aligning business goals with the UN Sustainable Development Goals. Sustainability thus requires a new vision of the future with new ways of value creation and new capabilities and mindsets for an organization. This is not a simple process of gradual change but a process of *strategic transformation*, which includes redesigning, reengineering and redefining of the value creation system of an organization including its underlying values and paradigms.

If the cultural dimension is lacking, any effort to transform the organization into sustainability will be jeopardized.³ As management guru Peter Drucker once wrote, "Culture eats strategy for breakfast", this phrase also applies to the sustainability strategy of the organization. In other words: "*Culture eats sustainability for breakfast*". Any companies disconnecting the two are putting the success of their sustainability strategy at risk.

The following conclusions can be drawn:

(1) How does organizational culture evolve when progressing towards TVC?

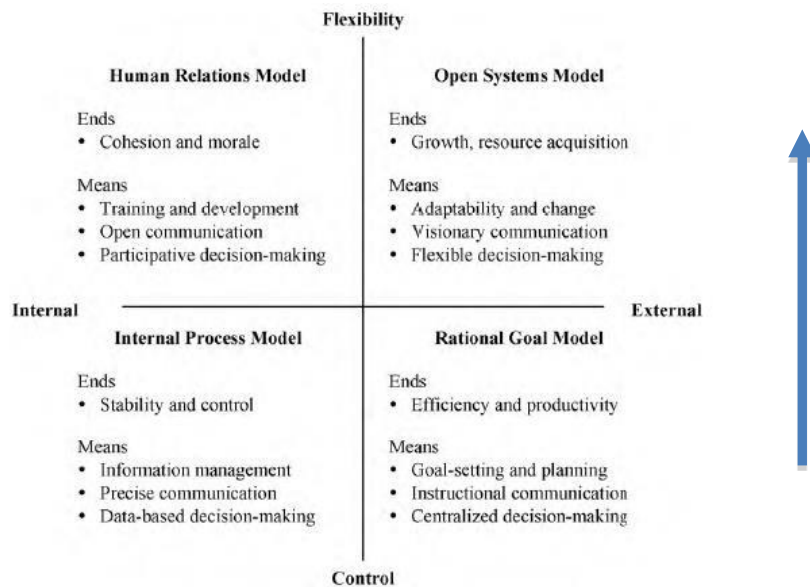
The central finding of this research is that *organizational culture changes when progressing towards TVC*. A clear link exists between the values that are strongly held within an organization and the integration of sustainability into the strategic framework of the organization. There are clear differences *between organizations low in progress towards TVC and organizations far in progress towards TVC*.

² Post & Altman, 1994

³ Hart & Milstein, 2003

Hence, if an organization is gradually progressing towards Triple Value Creation, it should undergo cultural change in alignment with the intended sustainability strategy. *When aligned with strategy organisational culture drives positive organisational outcomes and impact.*

Figure 2: The Competing Values Framework (CVF)⁴



More specifically, the values of such TVC supporting culture will move from control to flexibility oriented. A stronger focus on “human relations” and “open systems” values, moving away from “rational goal” values. This is the most significant trend and a key finding of our research. There is also a cultural shift from an internal to an external orientation, but this is a less strong trend. There is no change in the internal control value when companies move towards TVC.

Companies with “*human relation*” values emphasize on staff development, building long-term relations, attracting innovative and entrepreneurial employees. Employees tend to be long-term committed to organizational goals. Tradition and trust are important, resulting in individual alignment with organisational goals. At the same time, TVC companies develop a culture of flexibility and discretions, which means decentralization of authority, reduction of bureaucracy and empowerment of staff. This culture change of the company will boost staff morale and lower staff turnover, while also making the company an attractive employer. On the downside, a one-sided human-centred and flexible culture will lose focus economic and financial interests, which may cause staff to be reluctant to also focus on a healthy financial performance of the organizations.

The *open systems* values, results in an organizational culture emphasizing innovation, engagement and collaboration with external stakeholders, meaningfulness, shared purpose and an enhanced understanding of the interlinkages and opportunities in the external and market environment. Typically they emphasize growth and new market development, making adaptability, change and readiness, and flexible decision-making important characteristics. Meaningful tasks, emphasising the why of things, is an important motivator for individuals. Organizations with open system values recognize these motivators and will place emphasis on developing new markets with the aim of achieving sustainable value for all stakeholders.

(2) Which values in an organizational culture belong to a TVC intended strategy?

⁴ Jones et al., 2005; Zammuto et al., 2000

The research shows that when an organization shifts its direction towards higher levels of sustainability, up to the TVC stage, it should transform its organizational culture accordingly by emphasizing the values of *flexibility, decentralization, empowerment, human relations* and *open systems*, while moving away from the values of *stability, control* and *rational goals*. More specifically, TVC organizations are characterized by *adaptability, employee empowerment and continuous learning*. These organizations foster the capacity for collective action *with a strong sense of external connectedness with multiple stakeholders*, and the ability to seize opportunities in this context. They build effective partnerships with all kind of stakeholders, for example nongovernmental organizations and local communities. See table 1 for the research results.

Figure 3 the Seven Levels of Consciousness model (Barrett Values Centre).

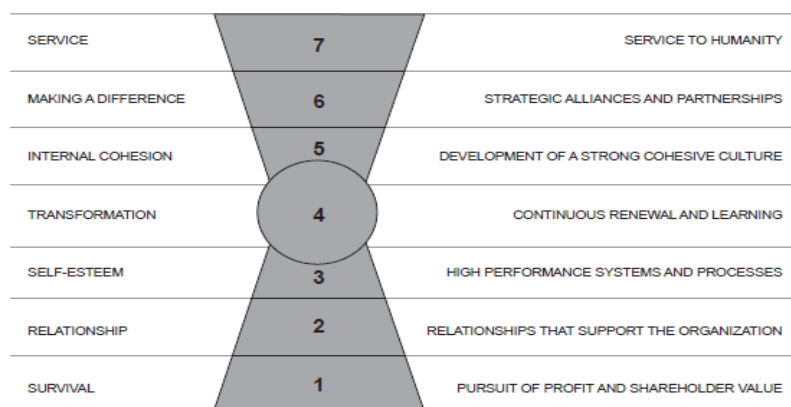


Table 1: Top 10 values of far and low progress towards TVC

Top-10 values of far progress	Top-10 values of low progress
Social responsibility	Profit
Involvement	Entrepreneurial
Quality	Customer satisfaction
Innovation	Quality
Close cooperation with customers	Result-oriented
Future generations	Involvement
Full employee development	Close cooperation with customers
Societal involvement	Organizational growth
Making a difference	Safety
Shareholder value	Strategic alliances

The most frequently mentioned values for *far progress*-organizations are 'social responsibility' and 'involvement', and for *low progress*-organizations 'profit' and 'entrepreneurial', which clearly shows a difference in orientation of the respective organizations. Additionally, the *far progress*-organizations show a strong focus on society with values such as social responsibility, societal involvement, co-creation, innovation and close cooperation with customers. Environmental consciousness, future generations, and long-term perspective are also important but to a lower degree than the connection with societal and customer needs.

In contrast, organizations only focusing on values such as *shareholder value, customer satisfaction, quality, profitability* and *day-to-day results*, are too internally focused and self-absorbed, preventing them from being able to adapt and transform towards TVC.

But this is not simply a matter of moving from lower to higher values. Organizations only focusing on higher values will be lacking internal systems and processes, which enable organizational effectiveness, efficiency and performance. It is interesting to note that organizations in the CSR phase maintain an equal focus on both sides of the spectrum between lower and higher values, while organizations in the TVC phase tend to exhibit more higher-level values. Clearly, TVC requires companies to transform quite significantly by recognizing external stakeholders, which may represent a degree of over-compensation, shifting (too) radically from an internal to an external focus.

We can conclude with the statement that while it may be true that “culture eats sustainability for breakfast”, our research indicates that the statement should be reframed as: “**culture and sustainability strategy can share breakfast together**”. When they are developed in parallel and alignment with each other, culture and sustainability will mutually support each other, without the risk of one cannibalizing the other.

In fact, the data shows that while culture needs to support the sustainability strategy, it is the development of an aligned sustainability vision with societal challenges and market needs that can build a culture of shared purpose within the organization, which can turn the company into the brand of choice for the consumer and a preferred employer for the employee.

4. Practical implications for business leadership

The study has a number of practical implications for business leadership. First and foremost, company leaders should read that culture *can* and *should* be changed for strategic sustainable transformations. Subsequently, we have a number of practical suggestions as to what business leadership can do:

TO DO:

1. **Put culture on the agenda of the leadership.** While HR has an important role to play in culture development, the overall responsibility for culture cannot be delegated to HR. This is a critical leadership responsibility where the ‘tone at the top’ will make all the difference.
2. **Define your desired sustainable culture.** The leadership team can initiate discussions and hire culture experts to define the culture desired for a sustainable future, as well as to assess the current culture so as to define culture development gaps.
3. **Espouse higher values.** Sustainability requires more emphasis on higher values of service for humanity, making a difference and a creating a vision for sustainability. Leaders can openly live these values and role model them in behaviour.
4. **Show flexibility in decision-making.** Take measures to decentralize of authority, enhance the empowerment of staff, and lessen the burden of bureaucracy.
5. **People development.** Promote stronger focus on human and open system values in HR policies and learning & development practices, such as training and talent recruiting.
6. **Open innovation.** Include an external focus into innovation by inviting stakeholder dialogues, co-creation with stakeholders etc. Open the door for input from external parties.
7. **Map and measure values.** There is nothing ‘vague’ about culture, it can and should be mapped and measured in assessments. Develop clear benchmarks and targets for values development in line with the sustainability strategy.

NOT TO DO:

1. **Don't buy into the assumption that culture cannot be changed.** Define culture development as a core task of your leadership, and measure your leadership performance against cultural development objectives.
2. **Don't give up the internal control.** Control remains important for effective performance, as a function of good governance and compliance with rules and regulations. The first phase of sustainable compliance (SC) remains important for the next phase of CSR and TVC. These are embedded systems, not mutually exclusive zones.
3. **Don't lessen your focus on business performance.** While higher values are important to awaken an external focus and human value orientation, higher values may distract people away to pursuing economic and financial interests. Maintaining focus on key business performance indicators should mitigate this risk.

Follow up

This research on culture is a part of a larger research project on Sustainable Business Models by Flow Impact Fund and Rotterdam School of Management, Erasmus University. In this context, we have developed a comprehensive method which can help leaders to transform their organization to the Triple Value Creation stage: the Six Step Triple Value Framework. This method has been developed over a period of ten years studying different companies, including DSM, Unilever, Patagonia, Triodos Bank, Rabobank, SHV, Philips, Ben and Jerry's, Greyston Bakery and Tony Chocolonely's. The method integrates the dimensions of strategy, leadership, culture, and performance, and therefore can be regarded as one of the few truly integrated methods for sustainable business transformation.

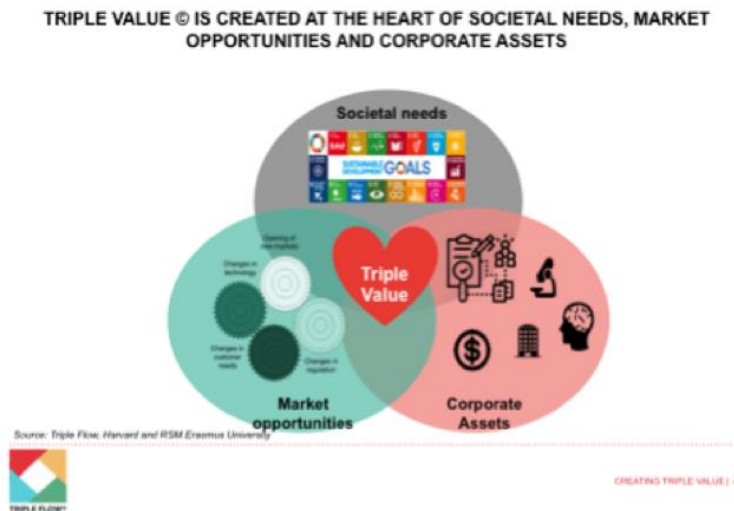
The three stages towards TVC

Most companies follow a progressive path towards Triple Value Creation. When progressing towards Triple Value Creation, organizations progress through three different stages.⁵ Moving from stage to stage, organizations approach so-called 'tipping points' for change, which are 'critical milestones beyond which the whole (value creation) system changes'.⁶ At the final stage of TVC, companies have embedded sustainability within their organizational strategy and business model. While doing so they become gradually more engaged with all stakeholders in the value chain, become more innovative, will be more strategically aligned around a shared intention, vision and strategic activities and develop a transformative way of incorporating sustainability in *their strategy and business model* - the operating model of a strategy. Leadership sets the organization on this journey of transformation and actionability, driven by a shared purpose, which gives direction towards a new future with a deep commitment towards solving societal issues. Their way of interacting with stakeholders becomes reciprocal and co-creative. The ultimate goal is to find the 'sweet spot' between company assets, market opportunities and societal challenges. This sweet spot is what we call the heart of Triple Value Creation.

⁵ Arts, Tideman & Van Tulder, 2018

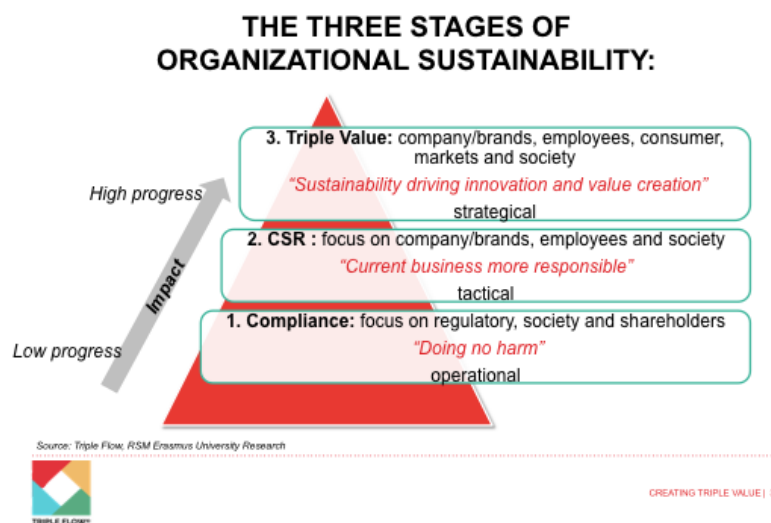
⁶ Van Tulder et al., 2014

Figure 3: Triple Value; the sweet spot between company assets, market opportunities and societal challenges.



In the process toward TVC, three stages can be identified. The first stage is the so-called *sustainability compliance* (SC) phase. In this phase, activities related to sustainability take place outside the firms immediate business, such as charitable activities. Companies in this phase focus on preventing financial loss, for example by building a good (sustainability) reputation, comply to legislation and preventing reputational damage. The second stage is the *corporate social responsibility* (CSR) phase. Organizations actively challenge environmental or social issues. Although managers react to demands from stakeholders, they also actively formulate their own sustainability policy. This means that the issues that are being addressed are close to the organization's core business. The third and final stage is the *Triple Value Creation* (TVC) phase. Co-creation with multiple stakeholders and innovation for new sustainable markets plays an important role within this stage. Because of innovation, new sustainable products and services can be created which actively tackle environmental and societal issues. In this phase, organizations search for issues in their environment that they impact strategically and develop innovative business models to solve these issues.⁷ This is a win-together approach, where all stakeholders are involved sustainable value creation.

Figure 3: Three stages of sustainability and organisational transformation



⁷ Visser, 2011

The TVC Practice Framework

The TVC Framework that we developed provides a step-by-step approach of 6 fundamental iterative steps, which starts by **Context Awareness**. This first step entails identifying the relevant shifts in your context and value chain. As a business leader, your ability to make sense of the changes in the company's relevant societal context will make the critical difference between success and failure of your business. As a leader, then, you need to know what view of the world are you making a case for? How do you determine and shape a coherent context for the changes you seek?

The next step of **Collective Mind** deals with the development of a TVC supporting culture and concordant values throughout your company. This is the subject of the above-described study. The third step of **Core Being** is to install what we define as a 'shared purpose' between your business and society. The fourth step of **Collective Vision** literally means to develop a collective vision of the future including impact for society, customers and the company.

Working with the key strategic stakeholders signifies the fifth step of **Connectedness**, which indicates the degree to which your firm is connected with the needs of society and customers, which allows you to work with more stakeholders in the value chain in a reciprocal and co-creative way. Finally, there is the step of **Creative Focus**, which entails choosing the best activities and capabilities that lead to concrete results and measurable performance. This includes a performance measurement system that captures the value creation for your organization, your customers and society – the Triple Value Creation.

All together, these six steps will turn your company into a Triple Value company, where societal challenges will have become your new markets and opportunities for new and sustainable growth. At that stage ***winning with the customer will become winning with the society.***

TVC Framework

