NATIONAL CENTER FOR
THE MIDDLE MARKET

A REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET

HIGH-PERFORMANCE CULTURE

How Middle Market Executives View & Harness the Power of Culture

IN COLLABORATION WITH

The Ohio State University
Fisher College of Business

Grant Thornton

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About This Report

THE U.S. MIDDLE MARKET

The U.S. middle market comprises nearly 200,000 companies that employ 44.5 million people and generate more than $10 trillion in combined revenue annually. The middle market is defined by companies with annual revenues between $10 million and $1 billion. In addition to their geographic and industry diversity, these companies are both publicly and privately held and include family-owned businesses, sole proprietorships, and private equity-owned companies. While the middle market represents approximately 3% of all U.S. companies, it accounts for a third of U.S. private-sector GDP and jobs. The U.S. middle market is the segment that drives U.S. growth and competitiveness.

UNDERSTANDING EXECUTIVES' PERSPECTIVE ON CULTURE AND ITS IMPACT

Culture is a notoriously squishy concept. Some define it as a vibe or an essence that permeates an organization and helps establish what it's like to work for or with a specific company. However, culture, while it can be difficult to pin down or measure, can and does have an impact on company performance.

In this study, the National Center for the Middle Market and its partners set out to understand middle market executives' perspectives on culture, highlight the key dimensions that define a high-performance culture according to middle market leaders, and uncover how culture can drive (or stymie) company performance by helping companies attract and retain both high-value customers and employees.

This study is based on the executive perspective of culture and is designed to provide middle market leadres with perspective from their peers. While the researchers acknowledge that executives may have some blinders on when it comes to culture—i.e. there may be gaps in what executives perceive in regard to culture vs. employees' views—(see Executive vs. Employee View of Culture sidebar, p. 25), the data provide interesting insight into the importance and the potential impact of the strength and type of company culture on critical performance metrics. The study also reveals best practices executives can adopt to help establish and maintain the type of high-performance culture they desire within their organizations.

HOW THE RESEARCH WAS CONDUCTED

The Center and its sponsors surveyed 400 executive-level leaders from middle market businesses across a range of industries and geographies to learn more about executives' attitudes and behaviors related to culture. Survey questions explored the types and strengths of cultures that exist within middle market firms and assessed leaders' perceptions of the importance and potential impact culture has on various aspects and metrics of performance. Respondents completed a 15-minute, self-administered online survey November 14–23, 2018.

Special thanks to our academic and business partners for their contributions and support in developing this report: Deborah Mitchell, Clinical Associate Professor of Marketing, The Ohio State University Fisher College of Business; and the team from Grant Thornton, including Erica O'Malley, Partner, Organizational Strategy; Nancy Pekala, Associate Director, Content; Chris Smith, National Managing Principal, Strategy & Transformation; and Carole Andrew, Manager, Strategy & Transformation.

Executive Summary

Middle market executives prioritize culture and invest considerable resources in managing it. On average, they spend nearly a quarter of their time in this area. And well they should. Our data show that a strong culture is clearly linked to company performance, including revenue growth, customer acquisition and value, and attracting and keeping talent. Other quantifiable but less tangible outcomes that can be tied to culture include employee engagement, customer satisfaction, and corporate resilience, i.e., the ability to exploit an advantage or rebound from a setback.

The ***strength*** of a culture matters. A defined, established culture is associated with much faster rates of revenue growth than an unclear one. Executives who describe their corporate culture as deeply ingrained saw company revenue grow at a rate of 10.8% over the past year. Executives who say culture is not clear or is inconsistent saw year-over-year revenue decline 2.7% on average.

The ***type*** or focus of a company's culture has an impact on revenue growth as well. Nearly all of the middle market executives we surveyed matched up their company's culture with one of seven different types. The most common is a customer-centric culture; the six other types are all about equally prevalent, according to executive perceptions.

We found the fastest growth in companies where executives believe the culture encourages innovation and creativity (9.4% year-over-year revenue growth) followed by those that are defined as technically focused, emphasizing the quality of products and services (9.0%). Companies with risk-averse cultures grew slowest (4.1%). Interestingly, companies with customer-centric cultures grow relatively slowly (5.9%) compared to their peers. [See p. 11 for more details.]

Executives of businesses with a culture that encourages innovation and creativity are also the most likely to believe that culture plays a critical role in their companies' ability to attract and retain talent and customers, both essential drivers of growth. It's not surprising that leaders who believe their companies emphasize making the business a great place to work also find their cultures give them an edge in the talent arena, but these leaders of these companies believe their cultures attract customers, too. In other words, from executives' point of view, being a great place to work not only appeals to potential employees; it also helps make the registers ring. In general, a company gets an edge in growth when it has a culture that sets the bar high for top-notch, innovative offerings and that establishes an environment where people are treated well and encouraged to keep getting better.

On the other end of the performance spectrum, risk-averse companies are least likely to believe their cultures positively affect talent and customer metrics. Risk aversion, it's important to note, is quite different from risk management. The latter often supports innovation and creativity by identifying risks to be managed, mitigated, or embraced in order to help a company flourish. A risk-averse culture, by contrast, is often characterized by fear or an unwillingness to confront unpleasant realities; it often arises in environments where people fail to understand real risks and opportunities or where management punishes failure and, as a result, stifles initiative. Many of these companies' leaders view their corporate cultures as having a negative impact on their organizations' abilities to attract and keep both employees and customers. It's not surprising that executives at these companies are the most likely to want to try to change the culture.

Culture change is not easy, however. Direct interventions to alter culture have led to mixed results at best. For all middle market companies, culture-related challenges become particularly acute in times of change, such as when the competitive landscape or business shifts, when a company grows significantly, and especially following a merger or acquisition.

But there is evidence that executives can positively influence a culture, and help it toward high performance, through several key efforts, including modeling culture from the top down, setting clear expectations for employees, and celebrating and rewarding behavior that is consistent with the culture the company desires. Given the importance of culture and the strong correlation between certain types of cultures and company performance and growth, executives of companies with all types of cultures stand to benefit from investing in culture best practices and focusing on creating a high-performance environment that motivates people to move the business forward.

Key Findings

IN MOST MIDDLE MARKET COMPANIES, CULTURE IS STRONG, DEEPLY ROOTED, AND, ACCORDING TO MOST EXECUTIVES, WORKING WELL.

There are seven primary types of culture found in middle market firms: customer-centric, innovative and creative, great-place-to-work, continuous improvement, highly efficient, technically oriented, and risk-averse. More than three out of five (63%) middle market executives say they are highly satisfied with their organization's current culture. A similar percentage (65%) describe that culture as stable or deeply ingrained.

ESTABLISHED CULTURES LEAD TO FASTER REVENUE GROWTH THAN ILL-DEFINED OR MUDDLED CULTURES.

Culture needs to take some kind of defined shape. Companies with established, ingrained cultures experience much faster revenue growth than companies with muddled cultures, where revenue growth is actually negative. A strong culture helps companies more effectively attract and retain both customers and employees.

SOME TYPES OF CULTURE LEAD TO FASTER GROWTH AND HIGHER PERFORMANCE THAN OTHERS.

The specific focus of the culture matters, too. Companies where culture focuses on innovation and creativity, product quality, and creating a great place to work grow faster than other firms and are much more likely to believe their cultures are a boon when it comes to both customer and employee metrics. Conversely, companies with risk-averse cultures report the slowest growth and frequently believe their cultures put off potential employees and customers.

CULTURES CHANGE ALL THE TIME; BUT IT IS DIFFICULT TO MAKE A CULTURE CHANGE.

All cultures evolve. Younger, fast-growing companies tend to focus on innovation or on creating an exciting work environment. As a company becomes more established and larger, and growth tapers off, the focus naturally shifts to meeting customers' needs or to operating efficiently. Culture also changes in response to shifts in industry dynamics and, especially, to transitions such as a merger or change of leadership. But initiatives to drive change can be quite difficult and often fail. More than 75% of companies experiencing M&A report significant challenges with integrating culture. Among companies that have made direct attempts to alter culture, only about a third say the effort was extremely successful.

MIDDLE MARKET LEADERS PRIORITIZE CULTURE, AND, ON AVERAGE, SPEND NEARLY 25% OF THEIR TIME MANAGING IT.

Middle market leaders clearly understand the importance of culture. More than seven out of 10 leaders rank culture as a top priority; that number is higher among the fastest-growing middle market companies. As a result, executives and leaders devote considerable time to managing culture. They engage in a variety of activities to align employees with the culture and to better understand and measure its impact on customer and employee retention, acquisition, and referral numbers.

PROMOTING A HIGH-PERFORMANCE CULTURE REQUIRES A TOP-DOWN COMMITMENT, A CLEAR SET OF VALUES, AND STRONG COMMUNICATION.

Having a strong culture with the right focus can help companies achieve growth and performance goals faster. While culture can be hard to budge, leaders can influence it and help create the high-performance culture they desire through several activities, including modeling the culture from the top-down, clearly communicating a core set of values and expectations for employees, and making efforts to reward employees who embody culture-based values and meet or exceed expectations.

INSIGHT 1

Most Middle Market Executives Are Satisfied with Corporate Culture, which Comes in Seven Different Variations

Most middle market executives pride themselves on leading organizations that have a unique and distinctive corporate culture. However, while no two companies are exactly alike, the vast majority of middle market executives identify with one of seven cultural types.

CUSTOMER-CENTRIC

Define themselves by emphasizing a customer-first approach to business. Nearly a quarter (22%) of middle market leaders align their organizations with this camp.

INNOVATIVE & CREATIVE

Encourage finding new ways to create value through new channels.

RISK-AVERSE

Focus on minimizing risk and avoiding situations that appear to be risky.

GREAT PLACE TO WORK

Foster an employee-centric mentality to create a stimulating environment for workers.

CONTINUOUS IMPROVEMENT

Emphasize achieving steady gains in customer offerings and company processes.

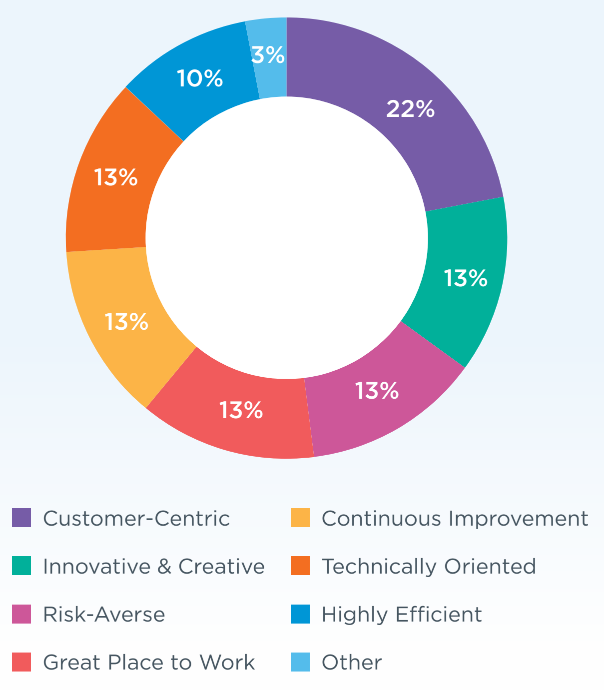
TECHNICALLY ORIENTED

Focus on developing highest-quality products and services through engineering of all kinds.

HIGHLY EFFICIENT

Are dedicated to eliminating inefficiencies and becoming and staying lean.

TYPE OF COMPANY CULTURE

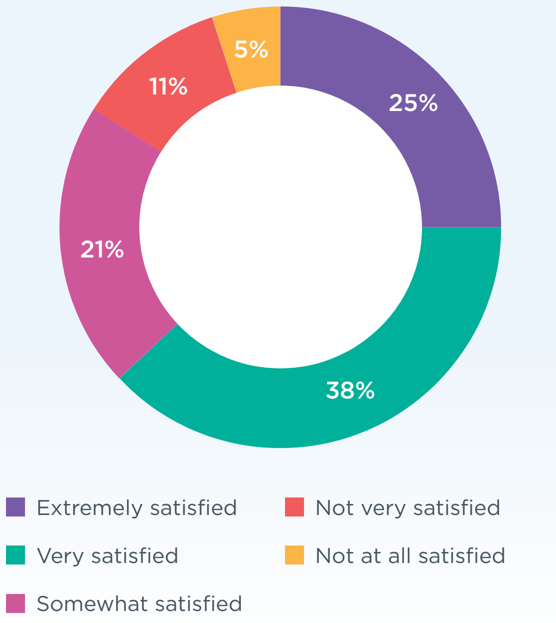


For the most part, middle market executives are satisfied with their current corporate culture. Twenty-five percent are extremely satisfied, while another 38% are very satisfied. Asked to describe the culture that permeates their organizations, many middle market executives emphasize its positive attributes. They talk about a family-like atmosphere, an environment of collaboration and mutual support, or the progressive and innovative nature of their organizations. Executives see culture as a generally positive force and a source of motivation for the people who work for them.

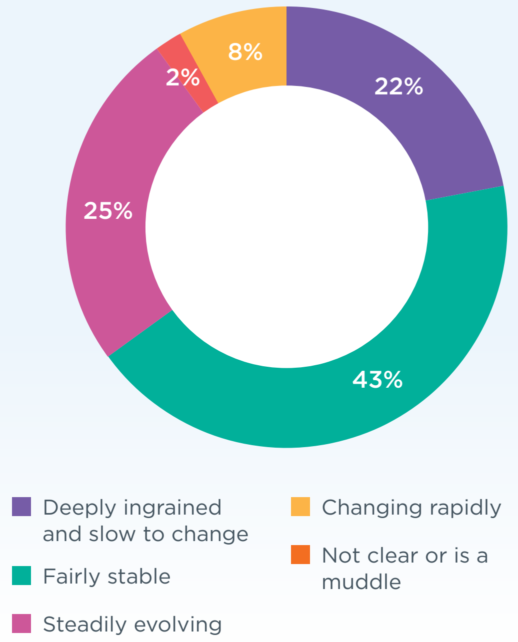
However, one out of six—a significant minority—is dissatisfied with their company's culture. These leaders speak to tribal divisions within their companies, divides between the corporate, sales, and operations groups, and the presence of an us vs. them mentality that can potentially stymie company performance.

Good or bad, a majority of middle market leaders believe their culture is fairly well set. Executives are most likely to define their cultures as stable, and 22% believe their companies are firmly entrenched in their ways and slow to change. Only 3% of middle market executives say that culture in their businesses changes rapidly. However, a quarter of companies describe culture as steadily evolving.

SATISFACTION WITH CULTURE



STABILITY OF CULTURE



INSIGHT 2

Some Types of Culture Are More Clearly Linked to High Performance than Others

While middle market leaders are generally satisfied with the cultures in their firms, data clearly show that both the stability of culture and the specific type of culture have an impact on overall satisfaction and, more importantly, company performance, including revenue growth. Type of culture also heavily influences how well companies acquire and retain both customers and talent.

FIRST, IT IS CLEARLY IMPORTANT FOR CULTURE TO TAKE SOME KIND OF DEFINED SHAPE, NO MATTER WHAT IT IS.

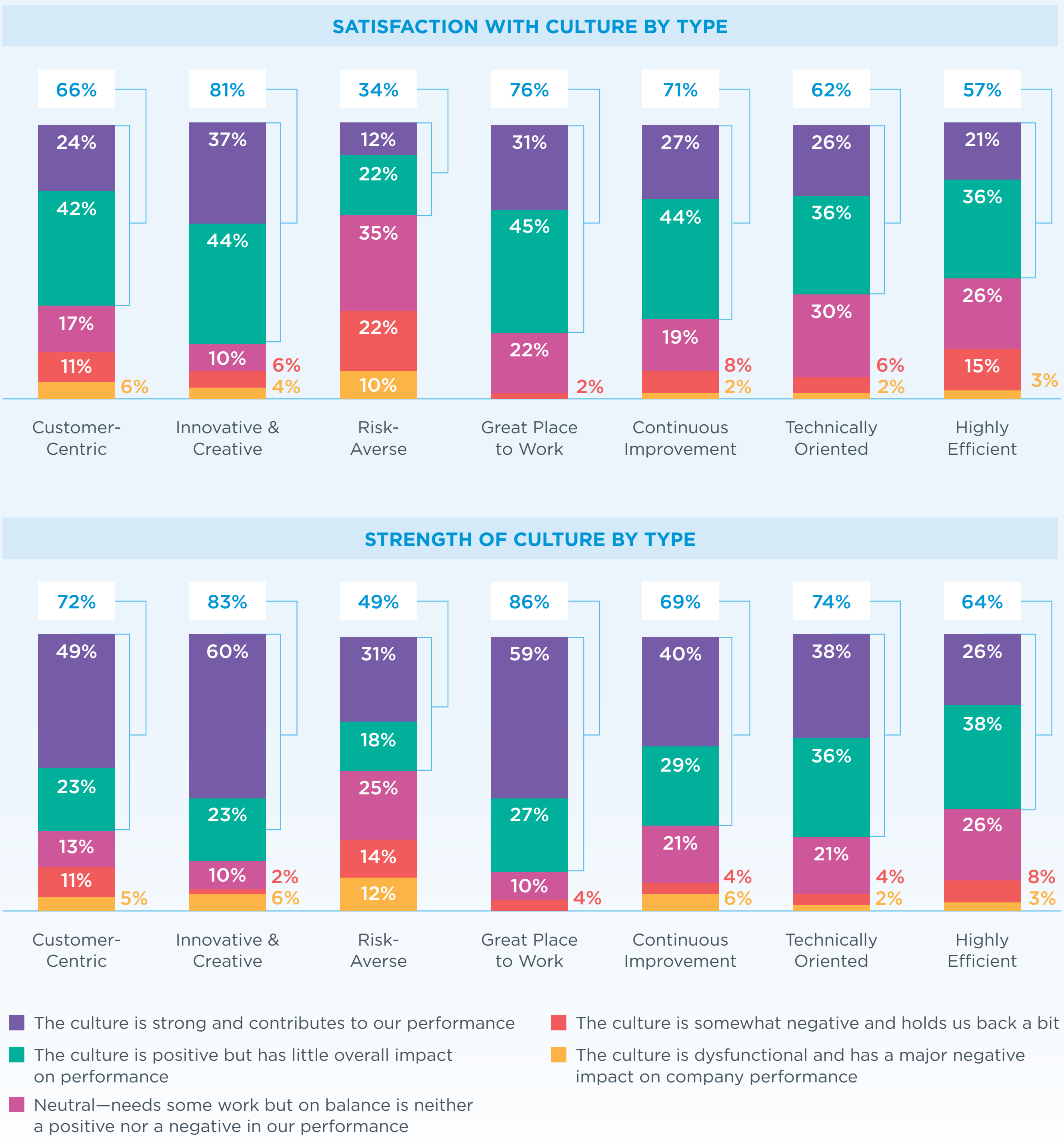
In companies where culture is ingrained or stable, executives are significantly more likely to be satisfied with culture. Among companies where culture is a muddle, only 12% report any level of cultural satisfaction at all. A culture without definition gives no guidance to leaders or employees as they make day-to-day decisions, or even strategic ones. Consequently, leaders of nearly four out of five of these businesses say the company culture has a negative impact on performance: 24% say that corporate culture holds the business back at least a little, while 55% describe the culture as dysfunctional with a major negative impact on performance.

SECOND, THE TYPE OF CULTURE MATTERS GREATLY.

Executives at companies with cultures oriented toward innovation and creativity or creating a great place to work are most likely to be satisfied with corporate culture. These executives are also most likely to say their culture contributes to company performance. Companies with technically oriented cultures that emphasize quality are somewhat less satisfying to executives—but their financial performance matches the creative/innovative and employee-centric types, as does the performance of cultures that emphasize continuous improvement. On the other end of the spectrum, companies with risk-averse culture are the least likely to be satisfied with culture and the most likely to say that culture is negative or dysfunctional and a hindrance to company performance.

Overall, high-performing culture types have one thing in common: They emphasize and give guidance about what employees can control and what they can do versus what they cannot or should not do. Develop new offerings, think creatively, accept only the best, get involved—these cultural norms lead to better performance. Watch your step, wait for the boss to decide, waste-not-want-not—guidance like this may dampen initiative and hamper growth.

EXECUTIVE PERCEPTIONS OF COMPANY CULTURE



Culture's Impact on Revenue Growth

When it comes to the impact of culture on revenue growth, there are two things to consider. The first is the strength of the culture—how ingrained and stable it is. The second is the type of culture—what kinds of behavior it encourages from leaders and staff. We will consider each in turn.

INGRAINED CULTURE DRIVES FASTER REVENUE GROWTH.

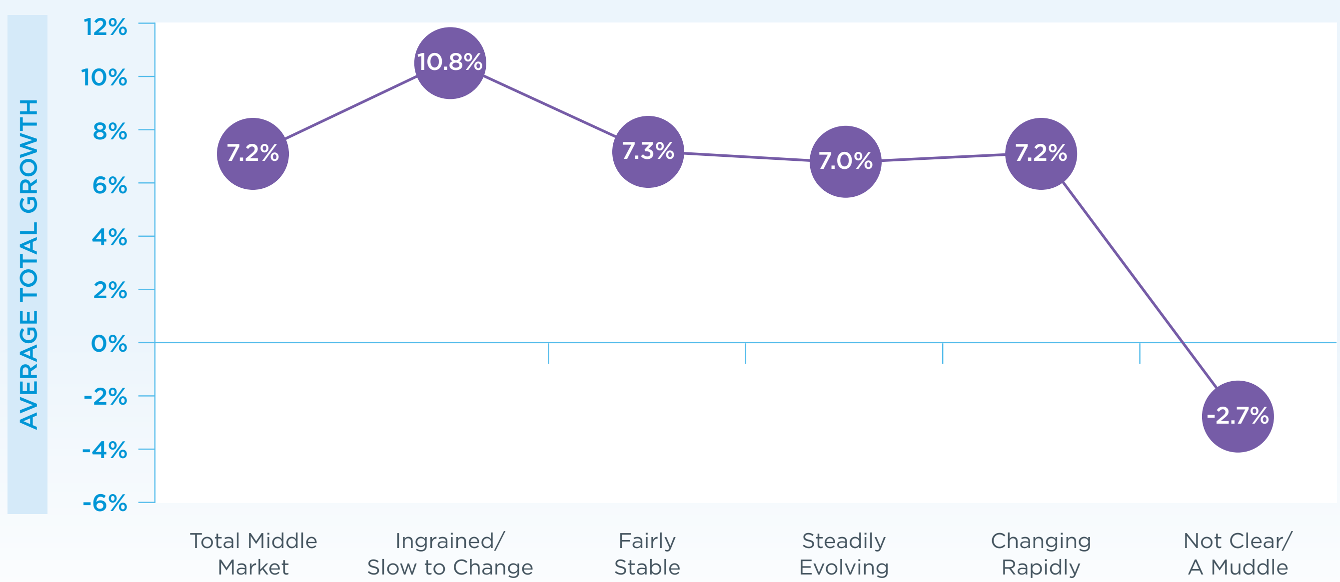
In terms of the malleability of culture, companies with deep-rooted culture grow the fastest (10.8% year-over-year revenue growth). On the other hand, those without a clear sense of culture report negative year-over-year revenue growth (-2.7%). Companies with cultures in the remaining three categories—fairly stable culture, steadily evolving culture, and rapidly changing culture—experienced similar rates of growth over the past 12 months.

COMPANIES WITH CULTURES THAT PROMOTE INNOVATION, QUALITY, IMPROVEMENT, AND WORK ENVIRONMENT GROW FASTEST.

When looking at revenue growth rates by the seven cultural types, those with an innovative/creative culture experienced the fastest rate of revenue growth over the last 12 months. This isn't surprising, considering that leaders at these companies also voice the highest satisfaction with company culture and are most likely to believe culture is a strong contributor to performance. Those with a technical focus on quality come in second in past-year growth, yet they are in the middle of the pack in terms of cultural satisfaction and perceptions of culture's impact on performance.

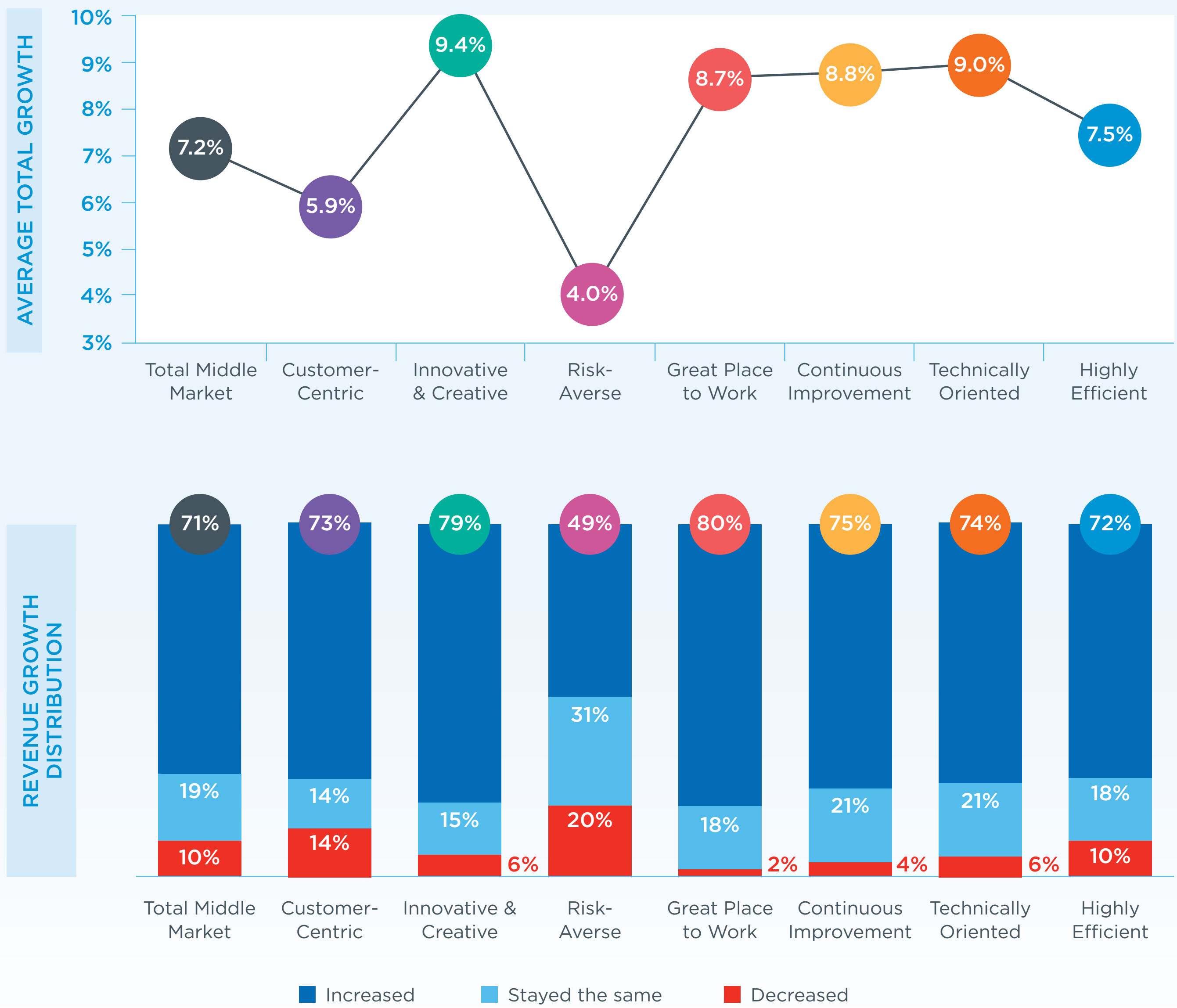
Not surprisingly, companies in which executives describe culture as risk-averse grew the slowest. But those with a customer-centric culture also grew notably more slowly than their peers. This may be a factor of company age or a shift in focus. (See *Is Customer Centricity a Problem?* sidebar, p. 18)

REVENUE GROWTH BY STABILITY OF CULTURE



Some types of culture are associated with much faster growth than others. Companies with innovative or technically-oriented cultures grow fastest. Companies with risk-averse or customer-centric cultures grow slowest.

REVENUE GROWTH BY CULTURE TYPE



Four Cultural Paths to Superior Growth

Middle market executives identify with seven types of culture, and four appear to offer paths to rapid growth. Collectively, companies that exhibit one of these four cultural types, according to their executives' perceptions, experienced average annual revenue growth of 9% compared to 5.2% for companies that fall into the other cultural types. They grew their workforce much more quickly than their peers as well (6.7% vs. 3.6% annual growth), and they come from virtually any and every industry segment. Our sponsor, **Grant Thornton**, has done extensive work on culture that, together with our data, helps give deeper insight into the decidedly unique growth paths of firms with these four cultural types:

INNOVATIVE AND CREATIVE

Of the four rapidly-growing cultural types, these companies are the pacesetters. They seek to define the future and even change the world through transformational products and services. They are not afraid of failure; indeed, they accept it as a part of doing business. They can come from any industry; however an innovative and creative culture is more prevalent in younger and somewhat larger companies.

TECHNICALLY ORIENTED

These companies grow nearly as fast as their innovative and creative peers. They, too, seek to offer expectational products and services. But they are more focused on ensuring the quality of their offerings, via a focus on engineering acumen, than on providing something novel. These companies are a bit older, and while they can come from any industry, they tend to be clustered in the services and manufacturing sectors.

GREAT PLACE TO WORK

These companies are younger and smaller than many of their peers. While they can also come from any industry, they tend to be most prevalent in the technology and business services sectors. Companies with this type of culture believe that, even as technology advances and capital shifts, the leadership and personal contribution of individual employees are the key to competitive edge and ousting the competition. They work hard to keep employees engaged. Studies by Gallup and others show strong positive correlations between employee engagement and performance measures such as customer satisfaction, profitability, and productivity.

CONTINUOUS IMPROVEMENT

Toyota made this concept famous, based on W. Edwards Deming's 14 principles, several of which speak directly to culture (e.g., driving out fear and mistrust and establishing an environment where people can identify and solve problems on their own). Teresa Amabile's work reinforces the importance of small victories and allowing people to make progress in meaningful work on a regular basis. Companies with a continuous improvement culture embrace these concepts and work to improve products and processes every day. They are commonly found in the services, manufacturing, and construction industries.

PROFILE OF CULTURES WITH HIGHER VS. LOWER AVERAGE GROWTH

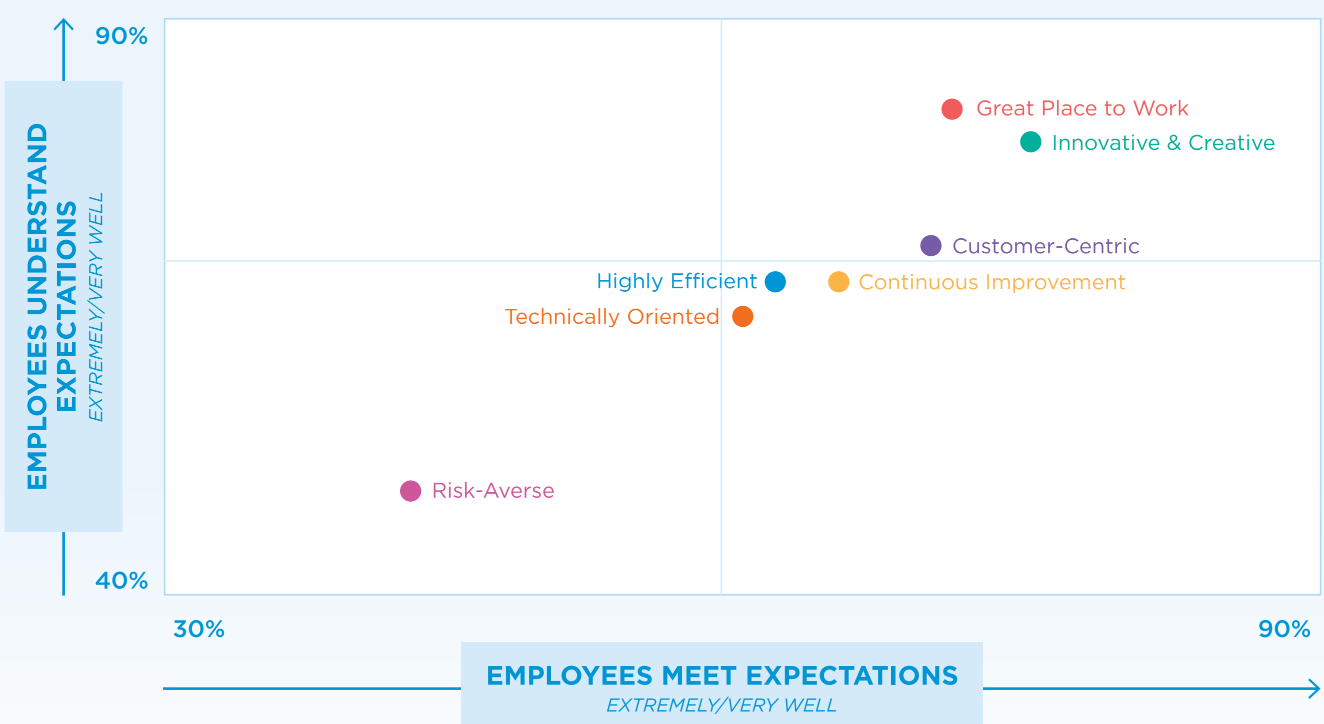
Culture's Impact on Talent

Culture plays a crucial role in a company's ability to attract and retain talent. Most executives believe that their culture has a positive or even definitive impact in these areas. Not surprisingly, executives at companies that are focused on creating a great place to work are most likely to believe their culture makes a difference for recruiting and retention. Leaders at companies with innovative/creative cultures feel similarly.

Culture is also instrumental in engaging employees and helping them understand and meet expectations for their roles. It is perhaps the most powerful way to help employees internalize and deliver on expectations. Even the best policy manuals can't cover every eventuality; but a strong culture, or a sense of "it's the way we do things around here" empowers employees to understand and do what the company expects of them.

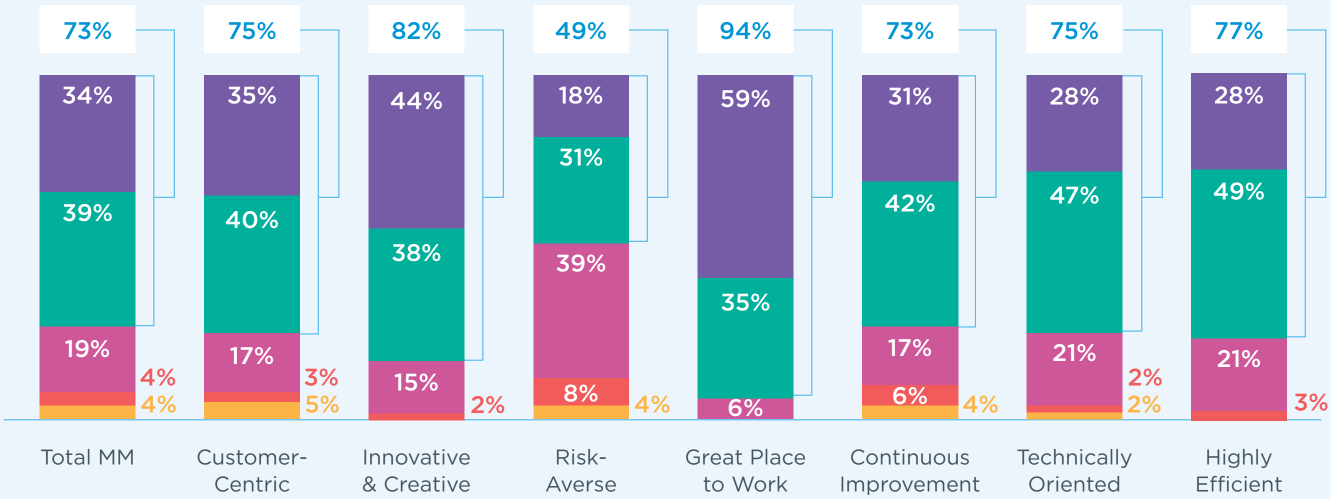
In companies where the focus is on making the workplace great or encouraging innovation and creativity, leaders believe their employees understand the charge and are up to the task. Executives are less confident in employees' ability to understand and deliver on expectations when the focus is on the customer, or (even more so) when the cultural focus is on continuous improvement, efficiency, or technology. Leaders of companies with risk-averse cultures are the least likely to believe their culture supports talent management and the most likely to believe that their culture has a negative impact on employees. They lag considerably behind all their peers in their perception of how well employees understand and meet expectations.

EMPLOYEE ENGAGEMENT WITH COMPANY CULTURE

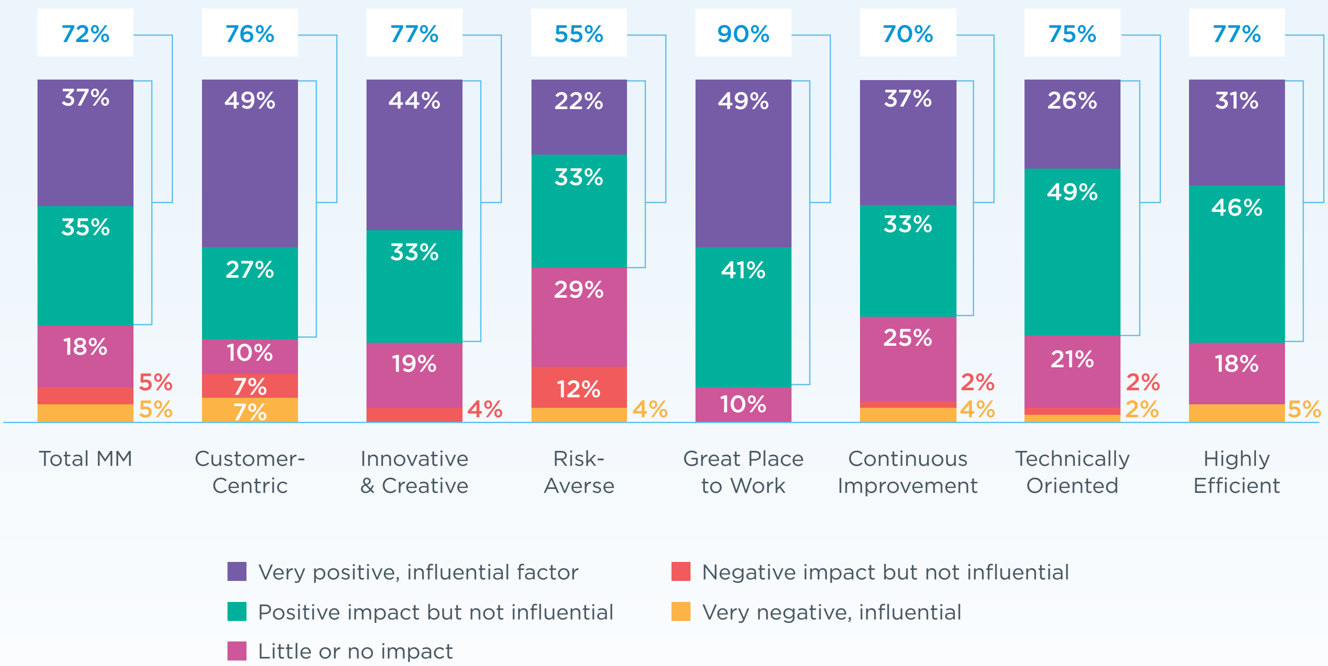


IMPACT OF CULTURE—EMPLOYEES

IMPACT OF CULTURE ON ATTRACTING EMPLOYEES



IMPACT OF CULTURE ON RETAINING EMPLOYEES



Culture's Impact on Customer Acquisiton and Retention

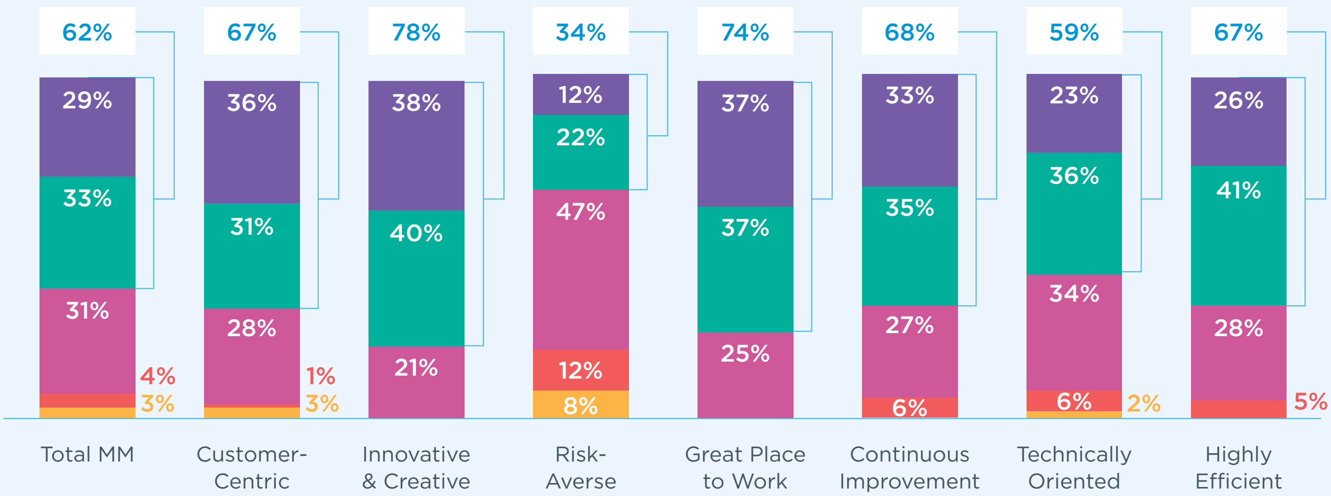
The majority of middle market executives agree that company culture affects the organization's ability to win and retain customers. Curiously, those with a customer-centric culture are not the most likely to agree with this proposition; and they are not the most likely to believe their customers have a solid understanding of their cultures or would recommend their business to others.

As with talent, companies with an innovative/creative culture rise to the top in all of these areas. Nearly four out of five executives at such companies say their culture is key to acquiring new business; three-quarters say their culture is important for keeping those customers long-term. These executives are also the most likely to believe their customers have a handle on their culture, mission, and vision, and that those customers would recommend them to others.

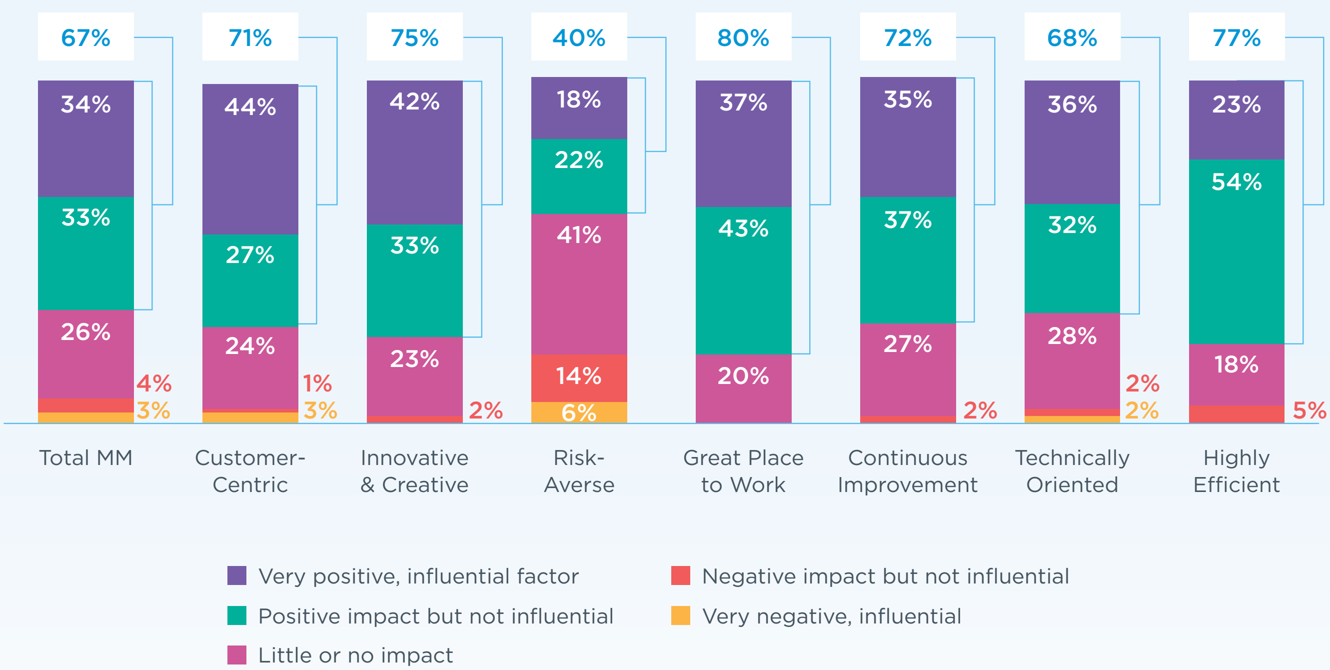
Companies with risk-averse cultures bring up the rear in all four of these metrics. Leaders at these businesses are least likely to believe their cultures positively affect customer acquisition and retention and most likely to say their culture could alienate current or potential customers.

CULTURE'S IMPACT ON CUSTOMER METRICS

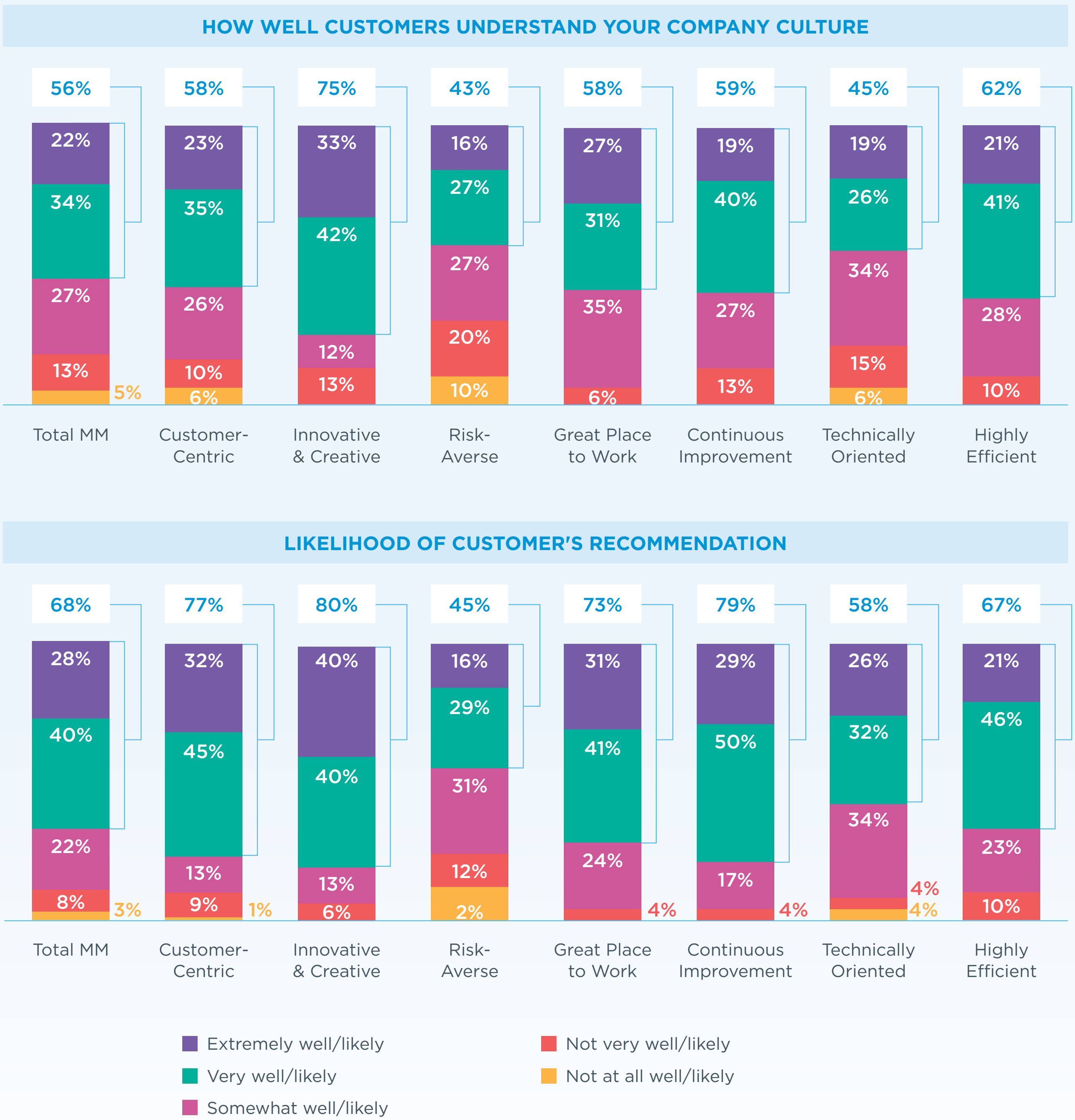
CULTURE'S IMPACT ON CUSTOMER ACQUISITION



CULTURE'S IMPACT ON CUSTOMER RETENTION



CULTURE'S IMPACT ON CUSTOMER METRICS



Is Customer-Centricity a Problem?

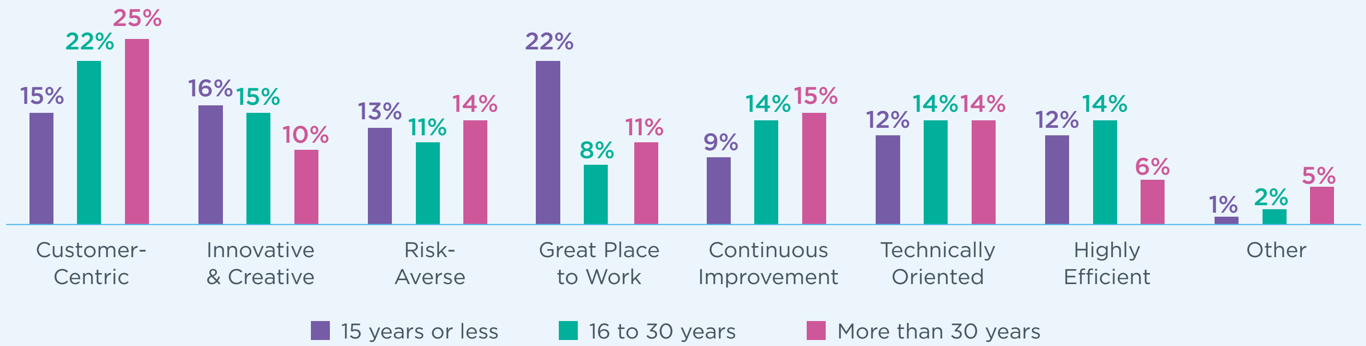
What are we to make of the fact that these data show customer-centric cultures ranking below average in company growth and in the middle of the pack when it comes to customer acquisition and retention? Customer-centricity in and of itself isn't the problem. Indeed, it's a good thing to be in tune with your customers' wants and needs and to organize your business around meeting them. However, the data suggest some problems in how middle market companies create and execute customer-centric cultures.

Somewhat surprisingly, those companies in our survey that identify with a customer-centric culture do not perform as well on customer acquisition and retention metrics as companies that associate with innovative/creative and great-place-to-work cultures. This may simply be because executives claim customer-centricity for companies that, in reality, are not. This can happen when companies fail to make clear connections between culture and specific behaviors and expectations for employees. Indeed, compared to leaders of innovative or great-place-to-work companies, survey respondents with customer-centric cultures were more likely to tell us that employees had difficulty understanding what is expected of them. Experts concur that customer-centricity delivers its full potential when everyone—even operators and staffers who do not interact directly with customers—understands how their work serves customers. Culture, after all, *is* behavior.

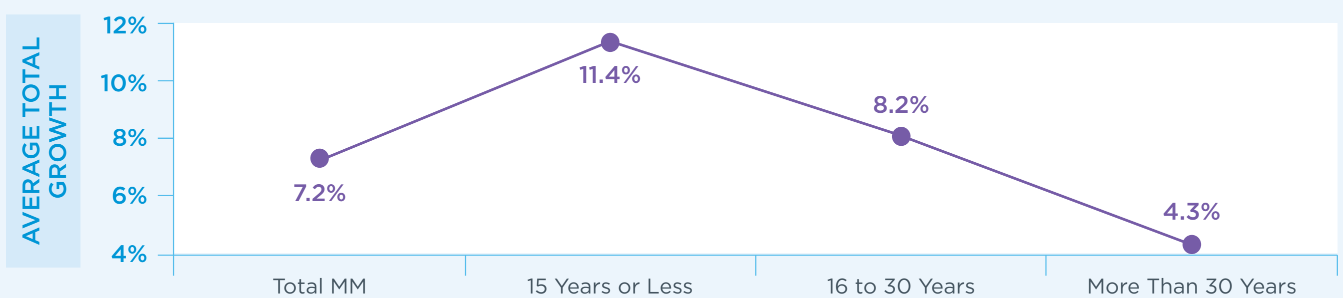
It's also possible that the data in this survey are affected by firmographics. The companies that identified as customer centric are both older and larger than the innovators and employee-centric companies we surveyed. In general, older companies grow more slowly than younger ones—a fact we have learned through seven years of Middle Market Indicator data. As they become more established and larger, and, perhaps, more in tune with who they are, what they do best, and the specific customers they exist to serve, the rate of growth may taper off. In these cases, the focus naturally shifts to the existing customer base and its needs. It may also be that some companies turn their focus to customers as a way to revive stalled performance. ("We've become too bureaucratic and inwardly focused. Let's get customer-centric!")

The data suggest that folks who want to design culture-change interventions might start with innovation and engagement, i.e., work from the inside out, rather than from the outside in. Companies that are truly the most customer-centric (Zappos, Hilton, Amazon, and Nordstrom, for example) have historically been innovative in some dimension. And those that have continued to succeed as customer-centric businesses continue to pursue innovative means to meet evolving customer expectations in a new, more digital world.

TYPE OF COMPANY CULTURE *(AMONG COMPANIES OF DIFFERENT AGES)*



REVENUE GROWTH BY COMPANY AGE



Culture in Family-Owned Businesses

JOHN E. MESSERVEY
NFBC Private Family Advisor, Lake Forest, IL
John@privatefamilyadvisor.com

In a family business, the question of high-performance culture is complicated by questions about the family itself. The success of the business can be boosted or bashed by what's going on in the family. There are plentiful examples–Smucker's for example–where the values and effectiveness of a family have created a culture that has kept a company strong for generations, just as there are examples of the opposite.

From many years of observing and working with families and their businesses, we've learned a few things about family relationships that can positively shape its culture. These factors include:

1. **BUSINESS SAVVY,** or a lifelong commitment to hard work, to persevere and overcome frequent obstacles, and to act as problem solvers. Families that are best at this have the ability to create and sustain relationships that inspire trust and respect.
2. **A HEALTHY FAMILY SYSTEM.** While no family is perfect, some are better than others at working toward healthy relationships every day. They have a motto: no matter what, we can work it out. And they display mutual respect for differences.
3. **SELF-AWARENESS,** or the ability to manage a relationship with yourself and to manage setbacks and obstacles without negativity or aggressive impulses. Members of families with strong self-awareness have a keen sense of their strengths, weaknesses, and limitations.
4. **LEADERSHIP SKILLS THAT ARE EARNED,** not given. Leaders serve as an example to others and know how to inspire the willing and enthusiastic efforts of all toward mutually agreed upon goals.
5. **THE ABILITY TO CREATE AND SUSTAIN RELATIONSHIPS** by discussing and resolving differences and being willing to have "difficult conversations."
6. **THE ABILITY TO SUSTAIN LIFE IN BALANCE** and focus on the business while also focusing on marriage, parenting, community, and self.

The impact of these factors is different in different industries and different types of businesses. They are most important in industries like technology and logistics, where there are many decisions to be made and made quickly, and teamwork and agility are musts. They are also critical in industries such as manufacturing that require big bets, major capital expenditures, and long-term commitments. Entrepreneurial businesses characterized by rapidly changing markets and high risk also require a greater degree of family harmony.

From a business perspective, healthy family dynamics tend to be less important in businesses that are more "annuitized" or that own a brand. They are also less imperative in industries such as real estate that don't change as rapidly and where it's easier to divide up the business if and when a family is dysfunctional.

Needless to say, long-lived family enterprises vary greatly in individual competence, commitment, risk, business savvy and the ability to resolve inevitable differences. In each family, there are high and low performers and a ceiling of competence, at which point outside professional managers and board members must be added to grow.

In all cases, Darwin was right…the family business that adapts, survives!

CASE STUDY

Growth For and By the People

Seer Interactive is a great place to work. Just ask anyone who currently works for the Philadelphia-based digital marketing agency, or has in the past (Seer maintains an impressive alumni network of previous employees with whom the company continues to collaborate). In part, Seer's culture results from a hefty investment in its people. The company's all-in cost of its team (salaries, benefits, gifts, and conferences) adds up to 67% of its revenue, compared to an industry average of 40%. This investment clearly pays: Seer has grown from a one-person search-engine-optimization firm founded in 2002 into a company of about 200 employees with offices in Philadelphia and San Diego. Revenues have grown at double-digit rates each year, and Seer accelerated from a $1 million company in 2002 into a $20+ million company today.

This growth has come from an intense focus on a core set of capabilities—search engine optimization, pay-per-click marketing, and analytics—and the right team to deliver on those capabilities. For Seer, it's really about hiring, developing, and enabling the most intelligent, talented people, and then ensuring that the business opportunities it accepts are in line with the team it has built.

"We've turned down opportunities to work with large brands over the years and expand our services because it wasn't the right fit for our people or it would overburden our team," says Seer President, Crystal O'Neill. These types of decisions, and every decision the executive team makes, illustrate a rock-solid commitment to the company's core values and culture, which are based on the principle of ETHIC: Empowerment, Transparency, Humility, Intelligence, and Collaboration.

The values not only guide business decisions, which the company discusses at regular open-book company-wide meetings, they also shape policy decisions, such as salary transparency, and the values are front-and-center in every employee and executive review. Still, it can take new employees a few weeks to understand just how deeply the organization is committed to its culture.

"New people will tell us it can take a little time for them to trust the company as much as the company trusts them," says O'Neill. "A lot of times companies say they have strong values, but they don't see it through in practice. Once our people see that they are truly empowered and trusted to make decisions and run with things that align with our culture, they say, 'wow, we've never seen a company really do this before.' Here, they see it every day."

Ultimately, Seer's business model is based on the idea that the happiness and success of the team translates directly into the happiness and success of its clients. The company enjoys an 80% employee retention rate. Those employees who do choose to take their careers in another direction often come back, become clients themselves, or stay engaged in the business through the alumni network. The investment in people also significantly reduces Seer's overhead costs, specifically the cost of the sales team. Because they retain their clients and benefit from a lot of referral business, Seer maintains a sales team of just five people.

By sticking to its values, taking care of its team and continually building people's skills, Seer has found a path to growth that shows no signs of slowing anytime soon.

INSIGHT 3

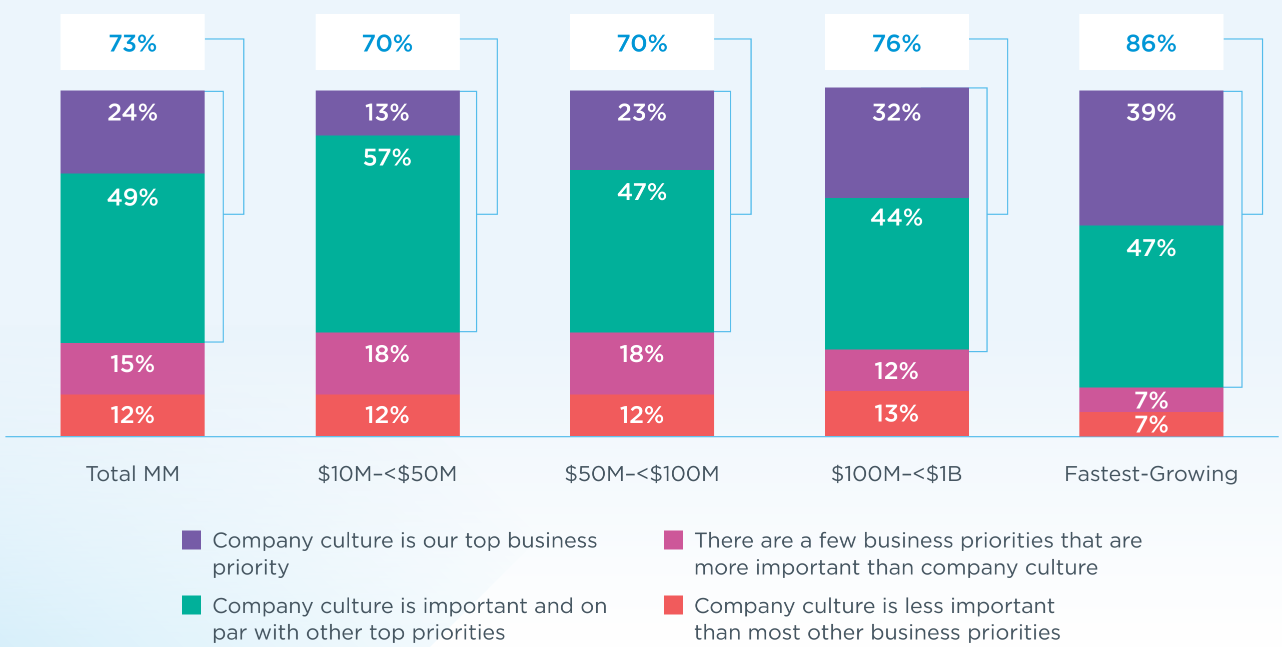
Middle Market Leaders Recognize the Importance of Culture and Devote Significant Attention to Managing It and Measuring Its Impact

Given that most middle market leaders believe culture strongly affects company performance and the acquisition and retention of employees and customers, it's not surprising that nearly three-quarters (73%) say culture is a top priority for them. That percentage increases with company size. But it also rises with growth rates: Among companies growing revenue at a rate of 10%+ annually, the percentage rises to 86. And a remarkably high 39% of leaders of the fastest growers say culture is the number-one company priority.

As a result, managing culture is typically the domain of senior executives and leaders of the company. On average, those executives and managers spend nearly a quarter (22.8%) of their time on that task. In companies with a great-place-to-work culture, those in charge of managing culture invest even more time (28.5%).

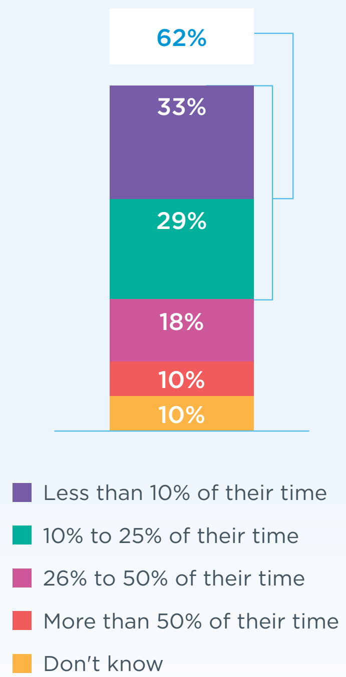
However, a substantial minority (33%) of companies spend less than 10% of time on culture. These businesses tend to be smaller ($10–$50 million in annual revenue with fewer than 1,000 employees), older (16+ years in business), and slower-growing firms. Executives of manufacturing businesses also spend significantly less time on culture. Interestingly, companies with a culture focused on eliminating inefficiencies or continuous improvement also tend to spend less time managing culture. But in most cases, these businesses have someone specifically assigned to that task. Conversely, in nearly a quarter (22%) of companies with a risk-averse culture, no one in the firm is responsible for staying on top of culture.

IMPORTANCE OF COMPANY CULTURE

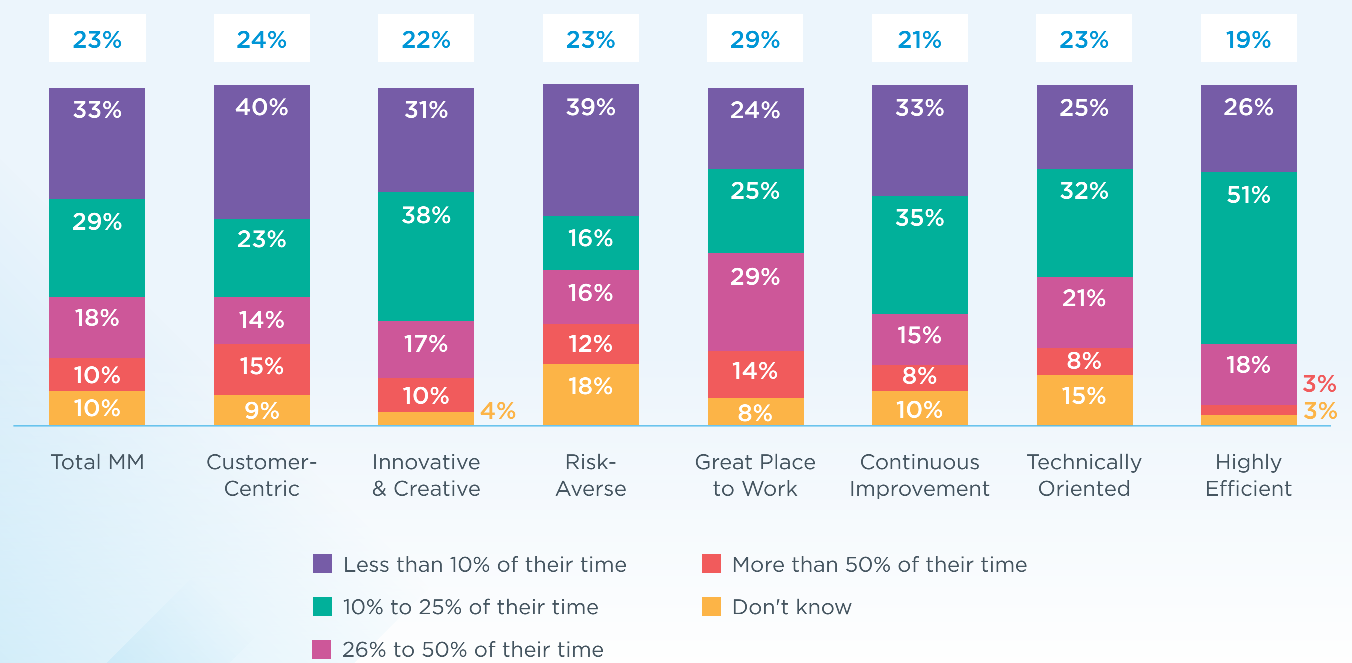


WHO MANAGES COMPANY CULTURE?

TIME SPENT BY THOSE MANAGING CULTURE



TIME SPENT BY THOSE MANAGING CULTURE



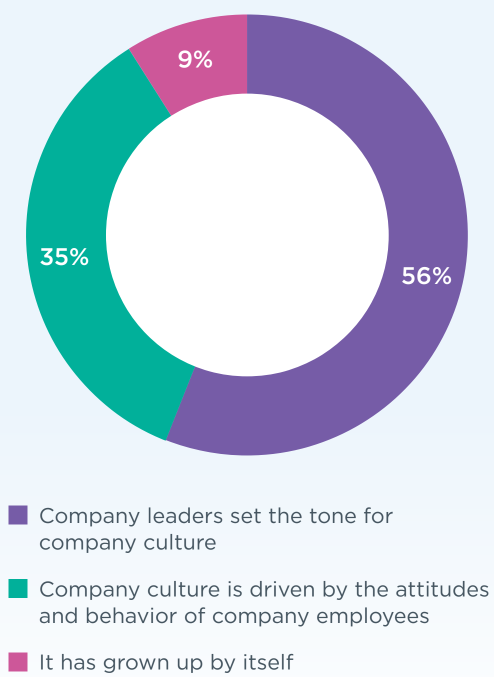
How Culture Is Managed and Measured

In a majority (56%) of middle market companies, leaders say they set the tone for company culture. Whether culture is a top-down initiative or it is driven by employees, those in charge of managing it must make sure the entire workforce is on board and aligned with the desired culture. They pursue this in a variety of ways, which include communicating the culture through a stated set of core values, facilitating ongoing training and team building exercises, and rewarding employees who uphold the culture, through promotion, pay, and public recognition.

Of course, some companies do more than others. Those with a great-place-to-work culture appear to be most active in initiating a wide variety of activities designed to align people with culture, while companies focused on minimizing risk do the least; 29% of risk-averse organizations do not take any steps at all to align culture with company goals and values.

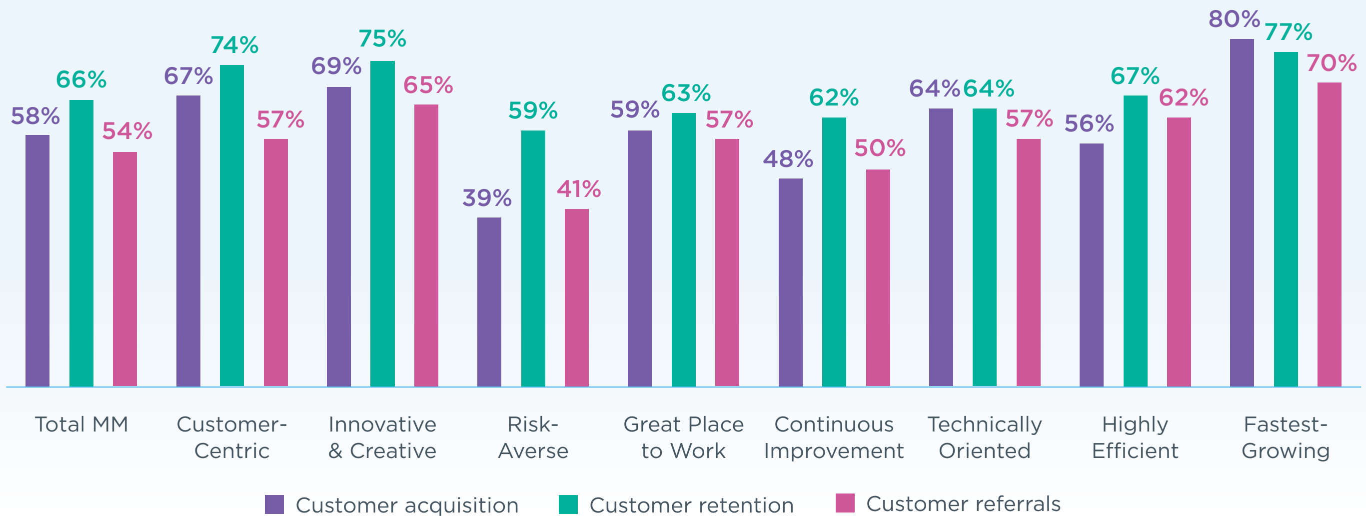
Companies also vary in the extent of their efforts to measure the impact of culture. Even though culture is a notoriously “squishy” concept, many middle market firms find ways to keep tabs on its impact. A majority of companies, and especially larger companies and those growing revenue at 10%+ per year, collect statistics on both customer and employee retention, recruiting, and referrals. Companies with a focus on innovation/creativity or a customer-centric culture are the most likely to collect customer statistics, and those focused on a great place to work are mostly likely to collect employee-related stats. Companies use customer and employee surveys as well as sales, marketing, and personnel data to assess the impact of company culture in these areas.

WHO SETS THE TONE?



HOW COMPANY ALIGNS CULTURE

STATISTICS COLLECTED TO MEASURE IMPACT ON CUSTOMERS



STATISTICS COLLECTED TO MEASURE IMPACT ON EMPLOYEES

Executive vs. Employee View of Culture

Given that this report is based exclusively on executive perceptions and does not include input from employees at other levels, it's important to note that members of the C-suite may have some blind spots when it comes to culture. Much evidence supports the widespread belief that executives have a rosier view of culture and employee engagement than their employees do.

Studies, including a recent survey by **VitalSmarts**®, suggest that employees' view of culture is more negative than their bosses, and that the higher a person rises in the ranks, the better that view becomes. Another **study from the UK** reveals a disconnect between leaders and the rank and file when it comes to the level of trust in the organization. And, according to Grant Thornton's Return on Culture survey of 1,000 executives and employees across five industries, conducted in partnership with Oxford Economics, leaders and staff don't always see eye to eye when it comes to efforts to promote a positive culture. Specifically, the study shows that 76% of executives believe they have a defined value system that is communicated and understood, compared to just 31% of employees. And while about 50% of executives believe they are rewarding positive behavior related to the culture, only about half as many employees feel the same.

Despite these variations in perspective, the data in our study still clearly point to relationships between certain types of culture and critical metrics associated with high-performance. And it shows that the importance of culture is clearly on leaders' radars. In order to get a better understanding of employee sentiment, executives may be wise to make the effort to get out from the executive floor and talk to employees as much as possible. And they should view that communication as a two-way street, ensuring they are sharing news and company information widely with employees. Executives can also make a more concerted effort to measure employee engagement, at the very least as a gut-check to see if, and by how much, employee views of culture differ from their own.

https://www.vitalsmarts.com/press/2016/07/corporate-culture-chasm-employees-view-their-culture-much-more-negatively-than-management/
https://engageemployee.com/serious-disconnect-between-leaders-and-staff/

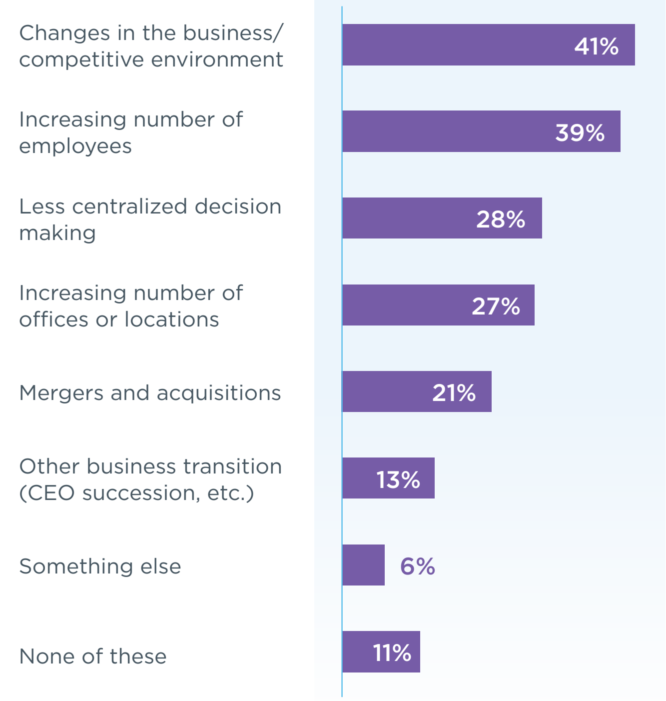
INSIGHT 4

Culture Change Is Hard

Overall, middle market executives are happy with company culture, and, in most cases, that culture is solid: Executives say it's either deeply ingrained or, at least, fairly stable.

Still, culture change or shift can and does happen in all companies from time to time. Perhaps the company has grown substantially or must address changes in the competitive environment. Maybe employees are starting to make more and more decisions on their own rather than simply taking orders from the top. Or maybe the company has undergone a major transition, such as onboarding a new CEO, restructuring, or acquiring or merging with another firm. When these kinds of changes alter the corporate environment, culture responds. More often than not, the process can be difficult and challenges related to culture arise.

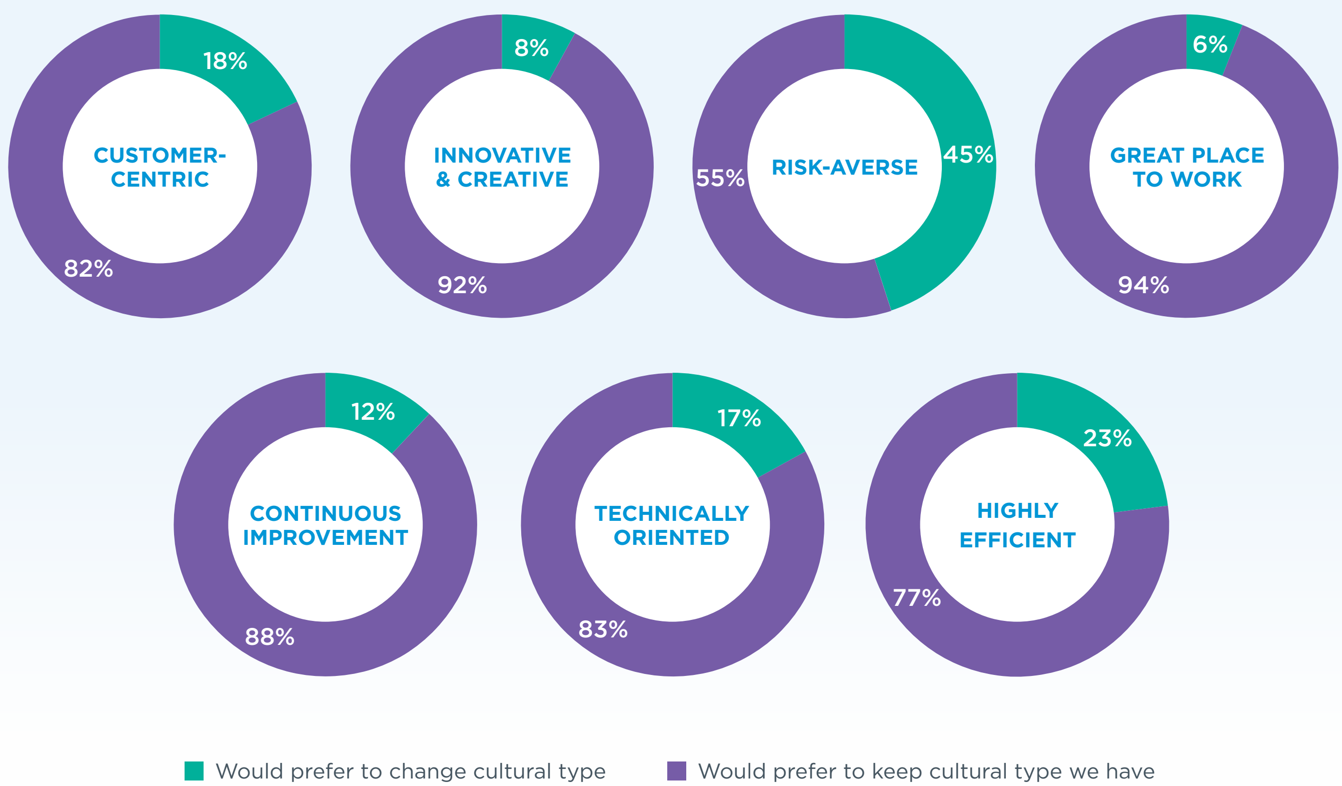
DRIVERS OF CHANGE IN CULTURE



Direct Intervention Leads to Mixed Results

Overall, 20% of middle market executives say they would prefer to have a different culture. Sometimes, middle market leaders make focused efforts to intentionally change culture. Companies that are least satisfied with their current culture tend to be focused on minimizing risk or, to a lesser degree, eliminating inefficiencies. Those that seek change are most interested in establishing a culture that is focused on a great place to work or that is customer-centric.

DESIRE TO CHANGE CULTURE TYPE

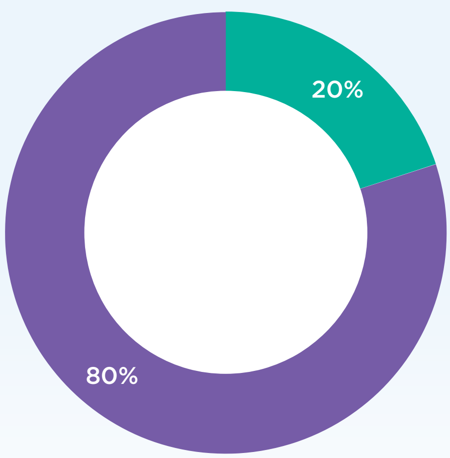


Among those that have made an effort to make a culture change, about a quarter say the effort was only somewhat successful, and one in 10 companies say it was not very successful at all. A key reason why culture change is difficult is that people naturally resist being project-managed into new ways of working and interacting. Ideally, culture change needs to come from the rank and file, so employees can play a part in developing solutions rather than having them thrust or imposed upon them.

Culture change works best when it makes sense for the business as well as the people being asked to make the change, and when the change is clearly connected to outcomes that will make the business better and work easier and more fun. Richard Pascale's piece on **Your Company's Secret Change Agents** discusses the importance of engaging employees in change early on and identifying and leveraging the "positive deviants" in an organization who are already doing the types of things that are associated with the cultural change a business seeks.

SATISFACTION WITH CULTURE TYPE

TOTAL MM



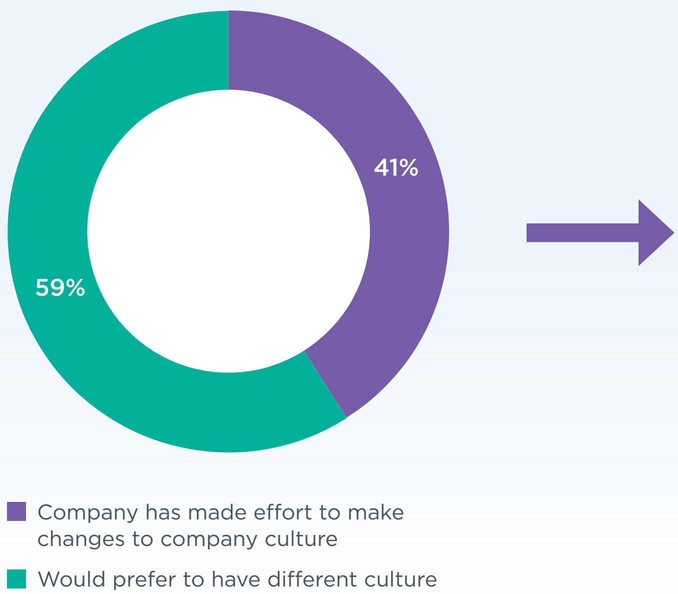
- Would prefer to change cultural type
- Would prefer to keep cultural type we have

TYPES OF CULTURES YOU WOULD LIKE TO HAVE
(PREFER TO HAVE DIFFERENT CULTURE)

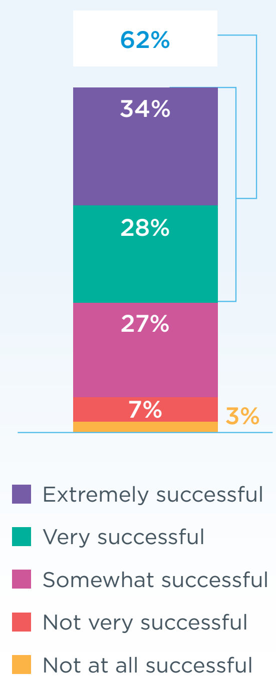
Great place to work	27%
Customer-centric	18%
Innovative & creative	13%
Continuous improvement	10%
Highly efficient	9%
Risk-averse	6%
Technically oriented	2%
None of these	15%

SATISFACTION WITH CULTURE TYPE

CHANGES TO COMPANY CULTURE



SUCCESS OF EFFORTS

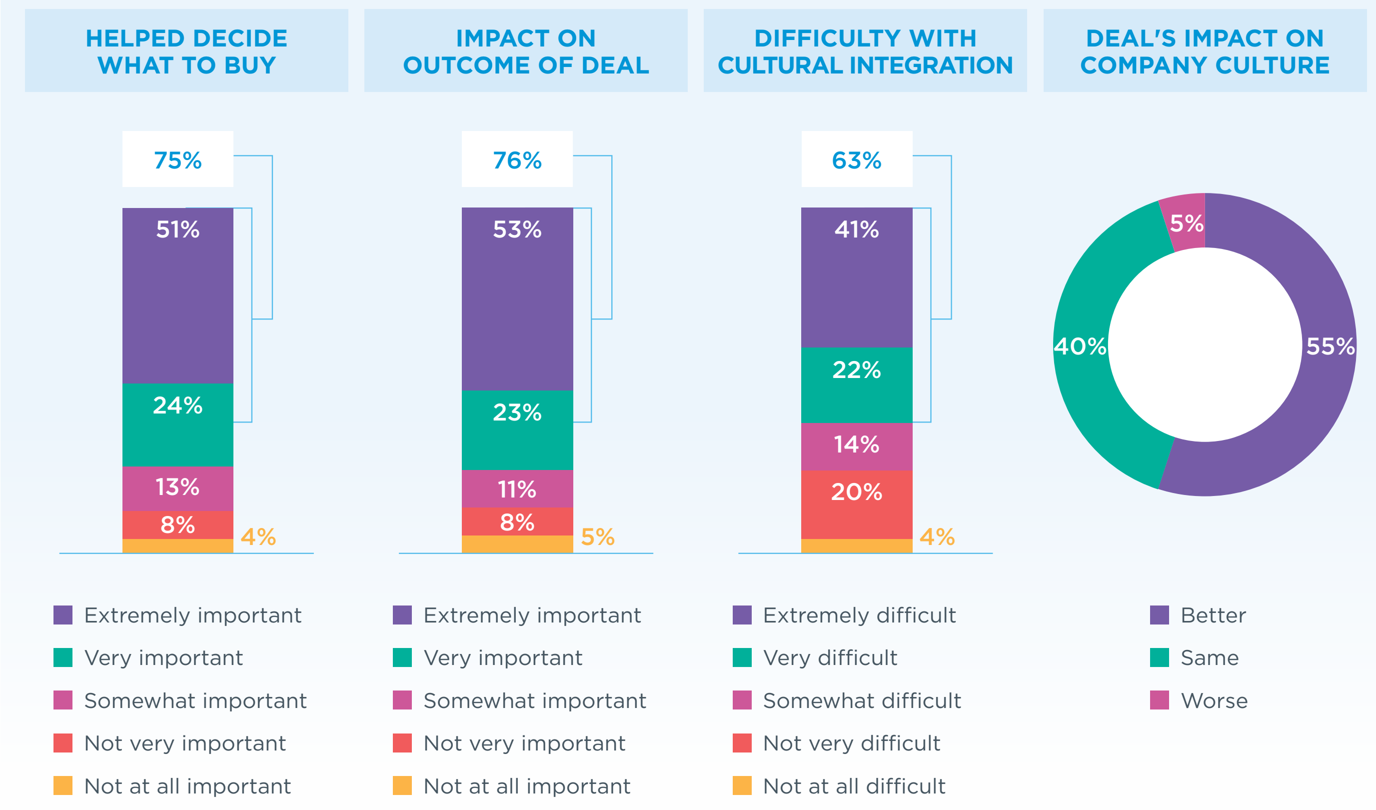


Following a Merger or Acquisition, Cultural Issues Can Be Specifically Challenging

Middle market executives say that culture is a critical consideration in M&A activity. Culture heavily influences their decision on what to buy as well as the outcome of the deal. While the vast majority of middle market leaders who have completed an acquisition consider the transaction to be a success overall, that success does not always come easy. Indeed, more than three-quarters (77%) report some level of difficulty with culture integration in the aftermath of M&A, and 62% say cultural integration was very or extremely difficult.

These data show that cultural change can be more challenging than many executives anticipate and suggest that managing culture across a changing or evolving organization may demand additional time and resources.

IMPORTANCE AND IMPACT OF CULTURE ON AN ACQUISITION DEAL

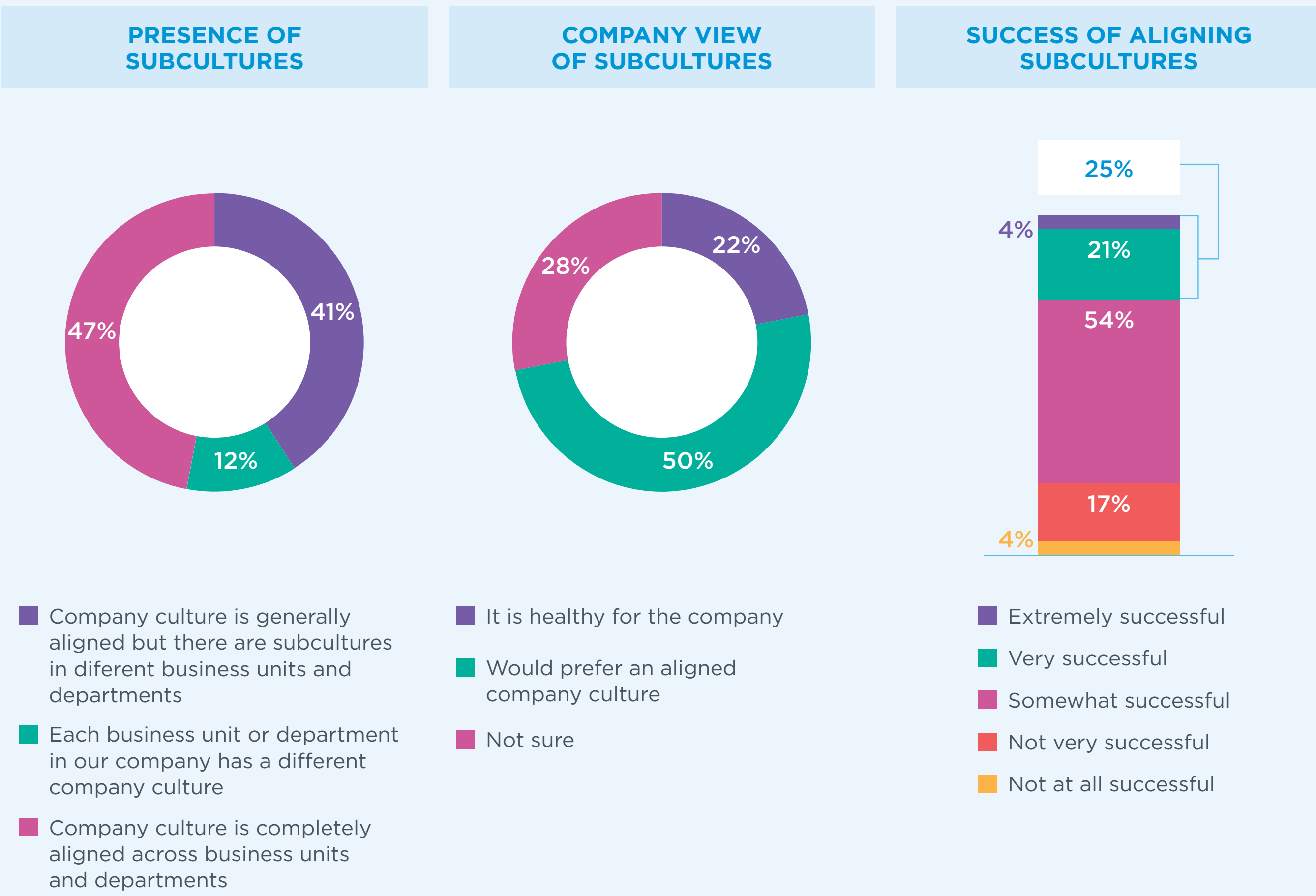


Addressing Subcultures

Even in companies that are satisfied with their cultures overall, subcultures can exist within different departments or business units. Those subcultures are often in conflict with the predominate corporate culture. Sometimes, this isn't a bad thing. Almost a quarter (22%) of executives consider subcultures healthy for the organization, perhaps because they challenge the status quo and encourage employees to think differently on how to solve challenges or achieve growth goals.

However, half of executives in companies where subcultures exist would prefer to see greater alignment across their organizations. To that end, 33% of companies with subcultures have made an effort to bring them together, and a quarter have done so successfully. In most organizations that have gone this route, however, the alignment is only somewhat successful, and 21% have fallen short of objectives. The data reinforce the notion that culture is difficult to change and likely deserves the ongoing attention of executives and leaders in order to nurture the desired culture.

PRESENCE AND IMPACT OF SUBCULTURES



INSIGHT 5

How to Promote a High-Performance Culture

While the data suggest that culture is not easy to change, they also show that culture has a significant impact on company performance, including revenue growth and talent and customer acquisition, retention, and satisfaction. Innovative/creative and great-place-to-work cultures are particularly associated with fast growth and superior employee and customer metrics.

Sometimes, middle market executives feel culture could be improved by monetary increases and performance recognition. In 34% of companies where executives set the tone for culture, compensation and bonuses are used to reward the behavior they want. However, studies show that employees will often take less pay to move to a workplace that has a better culture, indicating that money, while part of the answer, is far from the only factor that matters.

Companies looking to invest in and improve their cultures can take several actions that can help ensure high-performance culture—the type of culture that creates the buzz and vibe that generate growth, engage and attract high-value talent and customers, and help move critical metrics in the right direction.

High-Performance Culture Best Practices

1. TAKE A DEEPER DIVE

While our data show that most middle market executives have positive perceptions about culture in their company, other studies and literature suggest that employees might not feel the same or might not be engaged as executives perceive them to be. Indeed, Grant Thornton's *Return on Culture* survey reveals significant variances between executive and employee perceptions when it comes to the organization's efforts to promote a high-performance culture. Further, the Grant Thornton survey showed that executive and employee priorities related to culture vary too. Executives are much more likely than their employees to believe that things like on-site amenities, workplace design, educational opportunities, and even rewards and incentives contribute to the desired culture.

Anonymous employee engagement and attitude surveys can be a first step toward closing the gap between executive and employee attitudes. It is at least equally important, subsequently, to involve employees in initiatives to improve culture.

2. MODEL THE DESIRED CULTURE THROUGHOUT MANAGEMENT RANKS.

Promoting a high-performance culture needs to be an ongoing commitment, especially if a company wishes or finds the need to make culture change. In all companies, it's critical for culture to be modeled by the organization's executives but also by supervisors and middle managers.

Ironically, executives are more likely to try to change culture by training employees than by changing their own behavior. (See chart page 33.) Executives must also ensure that they factor culture into key company decisions.

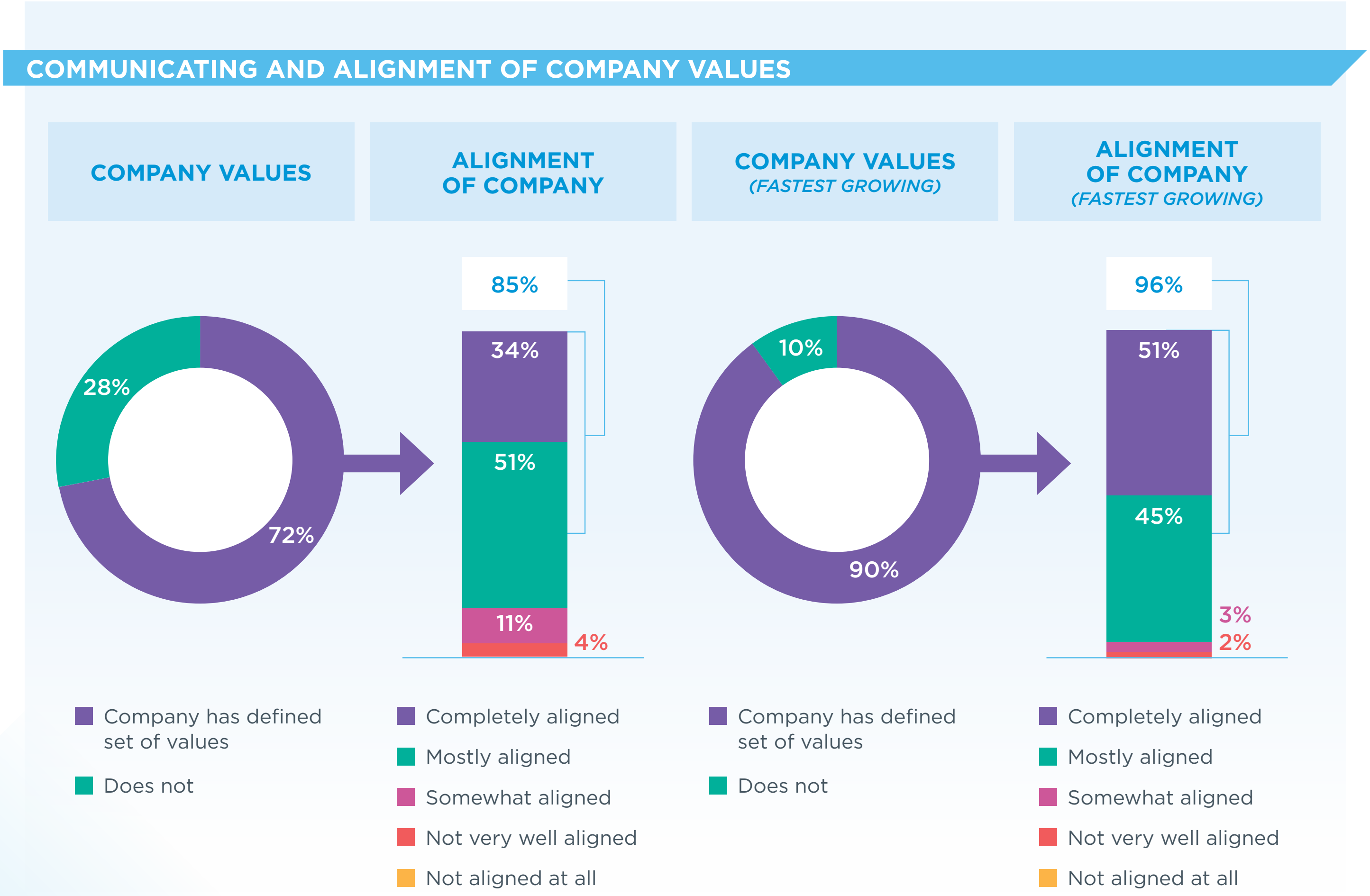
IMPORTANCE OF FACTORS FOR PROMOTING HEALTHY CULTURE

3. SET CLEAR EXPECTATIONS.

After modeling, communicating a clear set of expectations for employees is the next most important factor in promoting the culture a company wants, with 77% of the executives we surveyed citing this as very or extremely important. This often includes communicating a set of core values to employees.

The majority of middle market companies, and larger and fast-growing companies in particular, report that they do have a defined mission statement as well as a defined set of core values that are in alignment with company culture.

Executives say that clearly communicating values helps them better define employee expectations, helps ensure that employees follow best practices, and enables the company to work together toward goals. Note, however (as Grant Thornton's Return on Culture survey shows), that employees often don't hear (or don't believe) what employers are trying to say. But when actions reinforce values—when values figure in promotions, bonuses, and other rewards—the values message is more likely to be heard.



4. MEASURE THE IMPACT.

The fastest-growing middle market companies are more likely than their peers to collect statistics on both customer and employee acquisition, retention, and referrals. Companies with a focus on innovation/creativity or a customer-centric culture are the most likely to collect customer statistics, and those focused on a great place to work are mostly likely to collect employee-related stats. (See pages 23-24.)

These statistics can be combined with analytics and survey results to give executives deeper insight into the true impact of culture on measures that drive the performance outcomes executives desire.

5. REWARD BEHAVIOR CONSISTENT WITH THE DESIRED CULTURE.

It makes sense that companies that want to see their employees live and breathe a high-performance culture need to make a concerted effort to recognize and reward that behavior. This can start with hiring employees who share the values and culture of the company and includes training, development, and mentoring in these areas. Executives contend that culture should factor into both promotion and disciplinary decisions and agree that company leadership must deal with cultural compliance problems effectively. To a lesser degree, the majority of executives agree that it’s important to tie bonuses and other incentives with culture, but monetary rewards are clearly not the driving factor in creating high-performance culture.

But in the Grant Thornton survey, only half of executives said their companies reward culture-related behavior—and only a quarter of the rank-and-file agree. Making it clear how and why the company is celebrating culture-related behaviors will help send the message that culture is a priority and that employees who help promote it stand to reap the rewards.

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