

October 28, 2008

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**First Bulgarian Conference on Organizational Culture**

**Managing Talents and Achieving Business Results by  
Creating High Performing Organizational Cultures**

**Organizational Culture is a key component of a company's value  
A Private Equity Perspective**

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**GLOBAL FINANCE**

# Agenda

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- **Global Finance overview**
- What is organizational culture
- Case studies
- Conclusions

# Global Finance

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- Leading private equity firm in South Eastern Europe
  - €850 under management
  - 65+ investments in the region since 1991
  - 20+ professionals operating seamlessly from offices in Athens, Bucharest, Sofia and Belgrade
  - Over 100 years of combined private equity related experience in the region
- Exceptional investment track record outperforming stock market returns and peer funds
  - annualized returns of 49%
  - 2.6x invested capital

# Global Finance – Investment philosophy

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- Invest primarily in
  - Dynamic, extrovert companies with regional development/expansion plans
  - Mature, cash-flow generative companies, enjoying strong market dominance in sectors with barriers to entry
- Control buyouts or alongside strategic partners
  - Control or substantial minority positions with clear governance rights in companies
  - Support professional management
  - Clear and pre-determined investment time horizons
- Equity investments: €10 to €50 million range
  - Ability to mobilize significant further investment resources from co-investors

# Global Finance – Value added

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- Native to the region
  - Part of local business tissue
  - Extensive local network creates proprietary dealflow
- Proven investment style of active ownership
  - Value adding on multiple levels
- Multi-sector experience
  - Accumulated knowledge in retail, consumer goods, healthcare, IT, telecom, manufacturing
- Expertise in financial engineering
  - Experience with a range of instruments
  - Flexible regarding structures
  - Ability to meet partner's priorities (control, tax, consolidation)

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# What is organizational culture?

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- Complex set of values, beliefs, assumptions, and symbols that define the way in which a firm conducts its business (Deal & Kennedy, 1982)
- A pattern of basic assumptions – invented, discovered, or developed by a group as it learns to cope with its problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (Schein, 1985)

# Compare national and organizational cultures

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## National culture

- Shared meanings
- Unconditional relationship
- Born into it
- Totally immersed

## Organizational culture

- Shared behaviors
- Conditional relationship
- Socialized into it
- Partly involved

Source: Thomas (2002)

# Is organizational culture linked to financial performance?

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- Evidence in analytical studies that organizational culture can influence financial performance
  - Abraham Carmeli (2004)
  - Jay Barney (2001)
  - Christian Homburg (2000)
- A valuable, rare, and not imitable organizational culture can be a source of sustained competitive advantage; a company with such culture will enjoy the fruits of the positive economic consequences

# Valuable culture

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- Must enable the company to do things and behave in ways that lead to:
  - Higher sales
  - Lower costs
  - Increased productivity
  - Higher margins
- A company that fosters a supportive, sales oriented, customer oriented, innovative culture has some of the traits of a valuable culture

# Rare culture

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- Employees must have unique personalities with unique experiences that create an idiosyncratic social culture (Barley 1983)
- Companies are historically bound reflecting the unique circumstances of their founding

# Not imitable culture

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- Significant evidence that valuable and rare organizational cultures are difficult if not impossible to imitate
- The characteristics that make an organizational culture rare also make it difficult to imitate
  - Values, beliefs, symbols are notoriously difficult to describe and categorize let along to imitate
  - Unique history and heritage defy easy imitation

# IKEA's CEO on IKEA's culture and its contribution to superior performance

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*“It takes its roots from the Swedish way of managing businesses which is different from the way they do it in many countries. The history, the heritage itself is of importance to any company. You have a base, and it is not just any anonymous company. The Swedish or “Smalandish” history of the company has contributed a lot”*

*“...it is based on a few values like informality, cost consciousness and a very humble and down to earth approach. Also letting people have responsibilities and creating a diverse workforce”*

# The IKEA concept

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- Provide functional well-designed furniture...
- At prices so low...
- That as many people as possible will be able to afford them...
- Creating a better everyday life for the many people...
- By using simple cost-cutting solutions that do not affect the quality of the products. (Ingvar used every opportunity to reduce costs, and he scraped and saved in every way possible - except on ideas and quality)

# IKEA – Low price but not at any price

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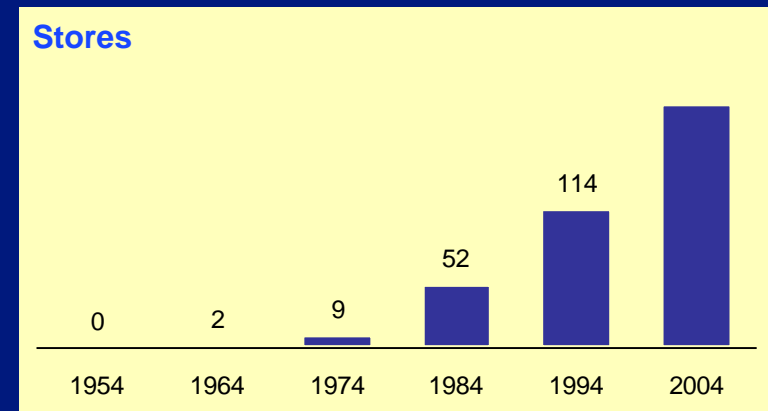
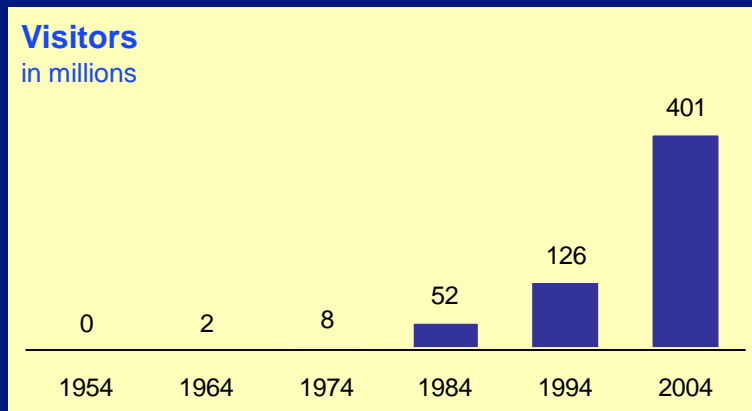
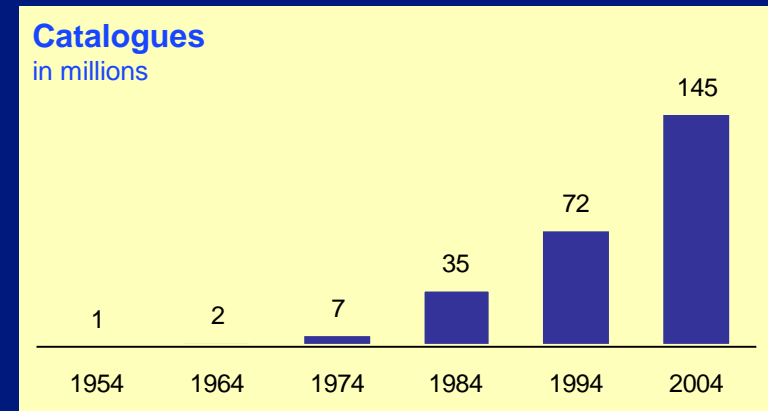
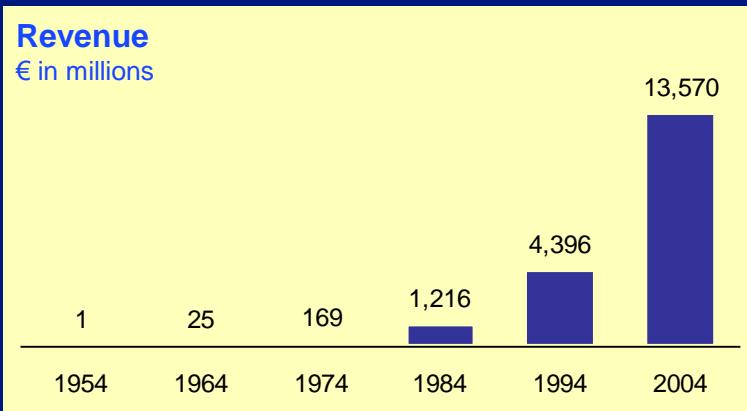
*“For more than 60 years IKEA has been working on ways of creating low prices – purchasing as inexpensively as possible, building our own stores, flat-packing furniture for customers to put together themselves.*

*But our ambition does not stop there. We also want the products we sell to be free from hazardous substances. And we don't want the wood in bookcases, tables or other products in the store to come from areas where forests are being devastated.*

*All IKEA suppliers must follow certain fundamental rules. Working conditions must be acceptable, child labour is not tolerated and suppliers must adopt a responsible attitude to the environment.”*

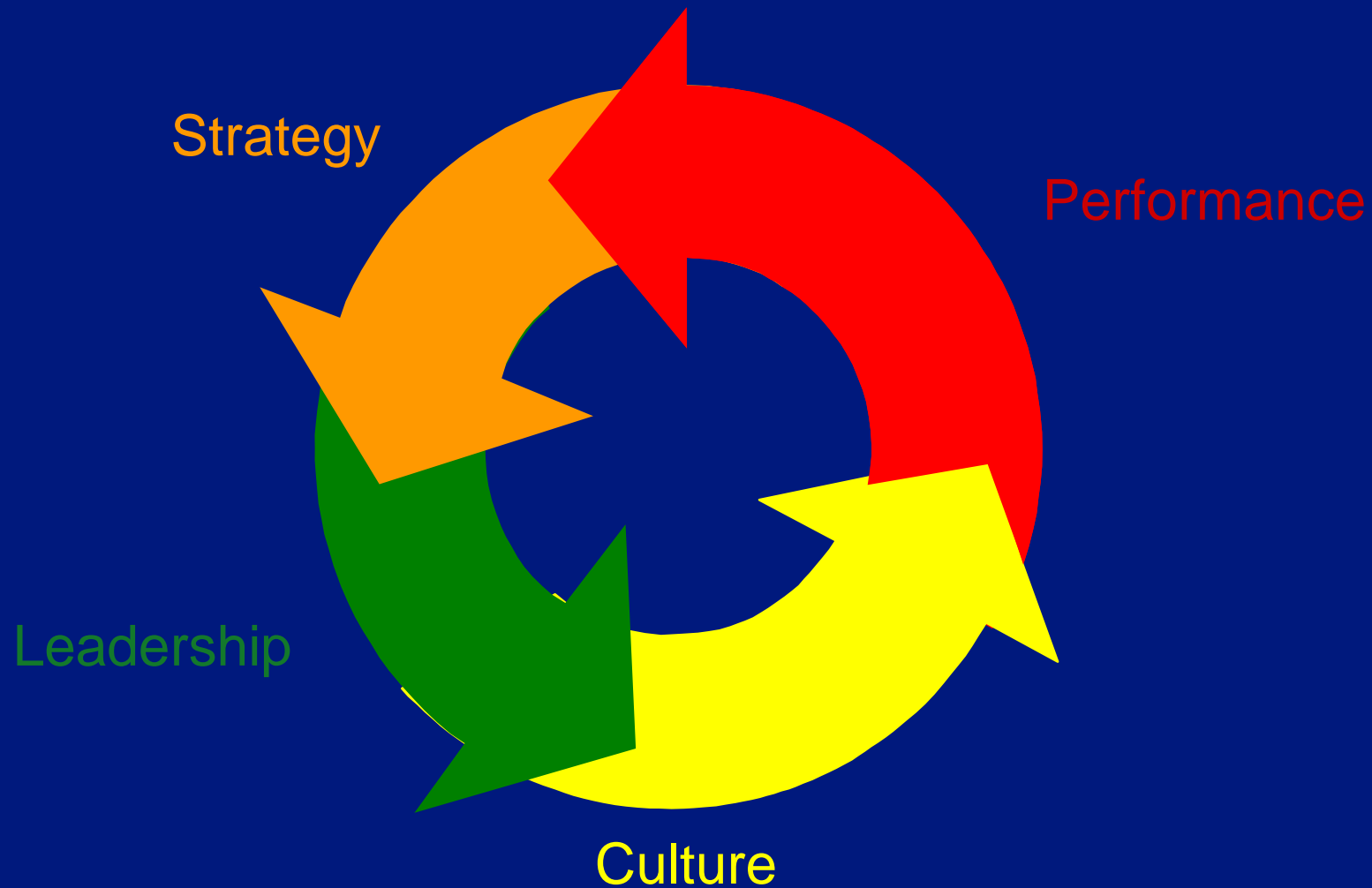
# IKEA superior performance

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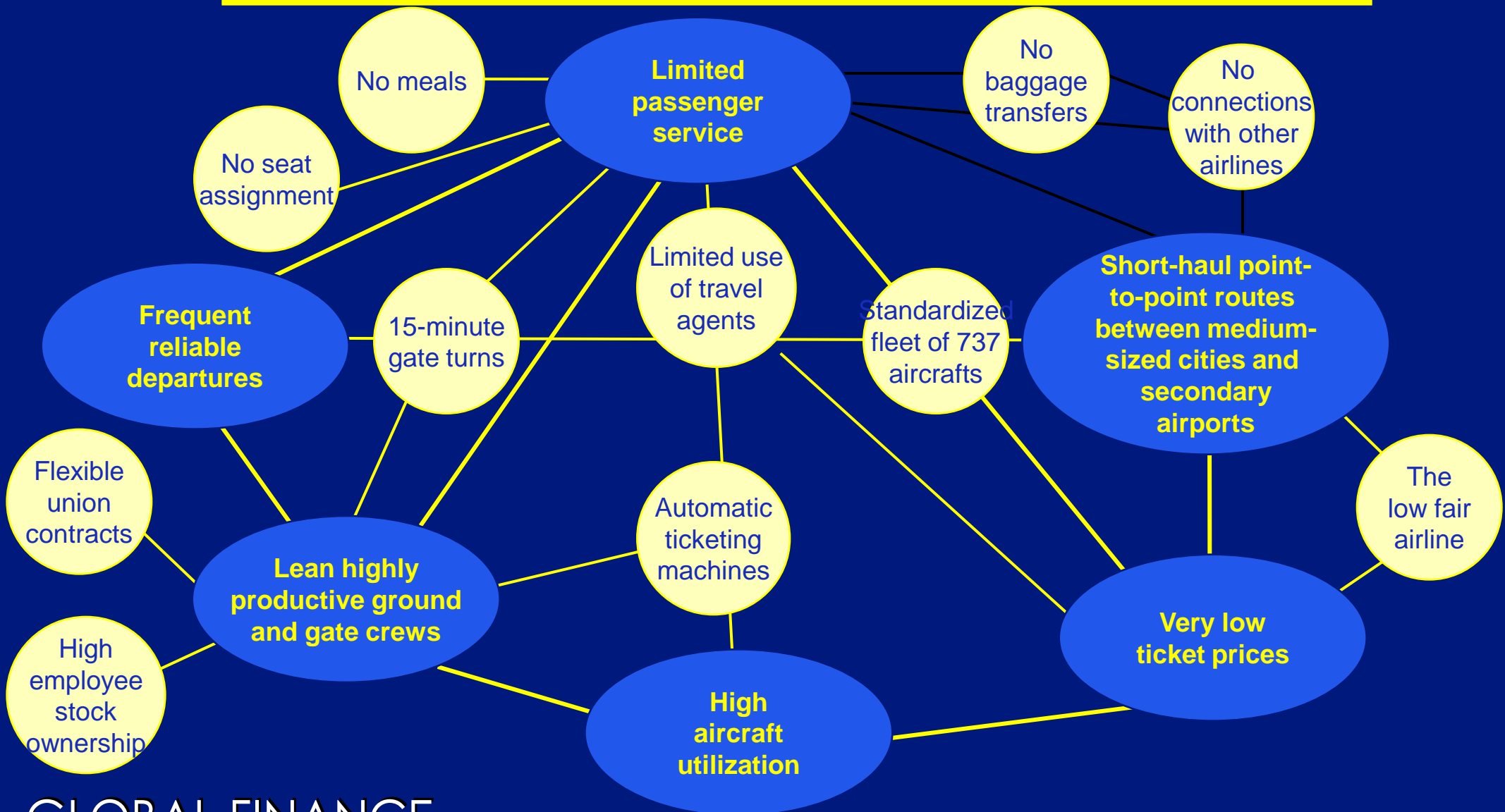


# Elements that shape a successful organization

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# Southwest Airlines strategy



# Southwest Airlines organizational culture – Key values

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- Customer service
- Belief in people
- Cost consciousness
- Keep it simple
- Having fun and working hard
- Equality

Family or a Cult?

# Southwest Airlines organizational culture

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- Employment stability / Job security
  - Highly selective based on attitude/fit rather than job-related skills
  - Minimal use of temporary/part-time employees
  - Retirees recalled on occasion
- Flexible deployment
  - Broad jobs, few work rules
  - Team work but supervisors also important
- Training oriented towards culture and skills very specific to Southwest; all training internal
  - Managers go through it first

# Southwest Airlines superior performance

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- Profitable for 30 consecutive years
- Record-setting profit sharing in 1999-2000: 14% of annual salaries
- Share price up 300% during 1995-2000
- Rated as among the top five US firms to work for every year 1998-2001
- Has won the DOT Triple Crown 11 times in a row. No other airline has won this award
- The aftermath of September 11, 2001: only US airline not to lay-off people and stay in the black

# Southwest Airlines – Key success factors

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- Tight alignment between business strategy and organizational culture (external adaptation/fit)
  - The lower costs, enhanced productivity, and higher service achieved through their culture provides a greater competitive advantage
- The elements/value of the organizational culture are consistent, complementary and reinforcing (internal integration)

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# Case Study - Sicomed

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	Before	After
Leadership	Hierarchical Command & Control	Consensus & Thought leadership
Vision	Survive one more day?	Become #1 generics company in Romania
Strategy	Sell what we produce	Focus on new Rx products with high value for the consumer
Communication	Everything was a... “well kept secret”	Information flow throughout the company
Employees	Over 2000	Less than 900
Remuneration System	Seniority based	Merit Based

# Case Study - NIKAS

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	Before	After
Management Team	There was no team Low competence managers	Highly driven and competent
Companies	8	3
Employee Loyalty to	Owner	Company
Remuneration levels	Very diverse	One
Operations	Product focus	Customer focus

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# Conclusions – Changing culture

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- Get help – the fastest man on earth has a coach
- Measure culture and leadership
- Develop leaders and systems
- Engage the whole organization
  - Always remember that people will act only upon their own conclusions

# Conclusions – Changing culture

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- Change starts with the CEO
  - The message has to be sent by a trusted and respected leader

*“Everyone thinks of changing the world but no one thinks of changing themselves”* Leo Tolstoy

*“You change your financials by changing the behavior of your people”* Dick Brown

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**THANK YOU**

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