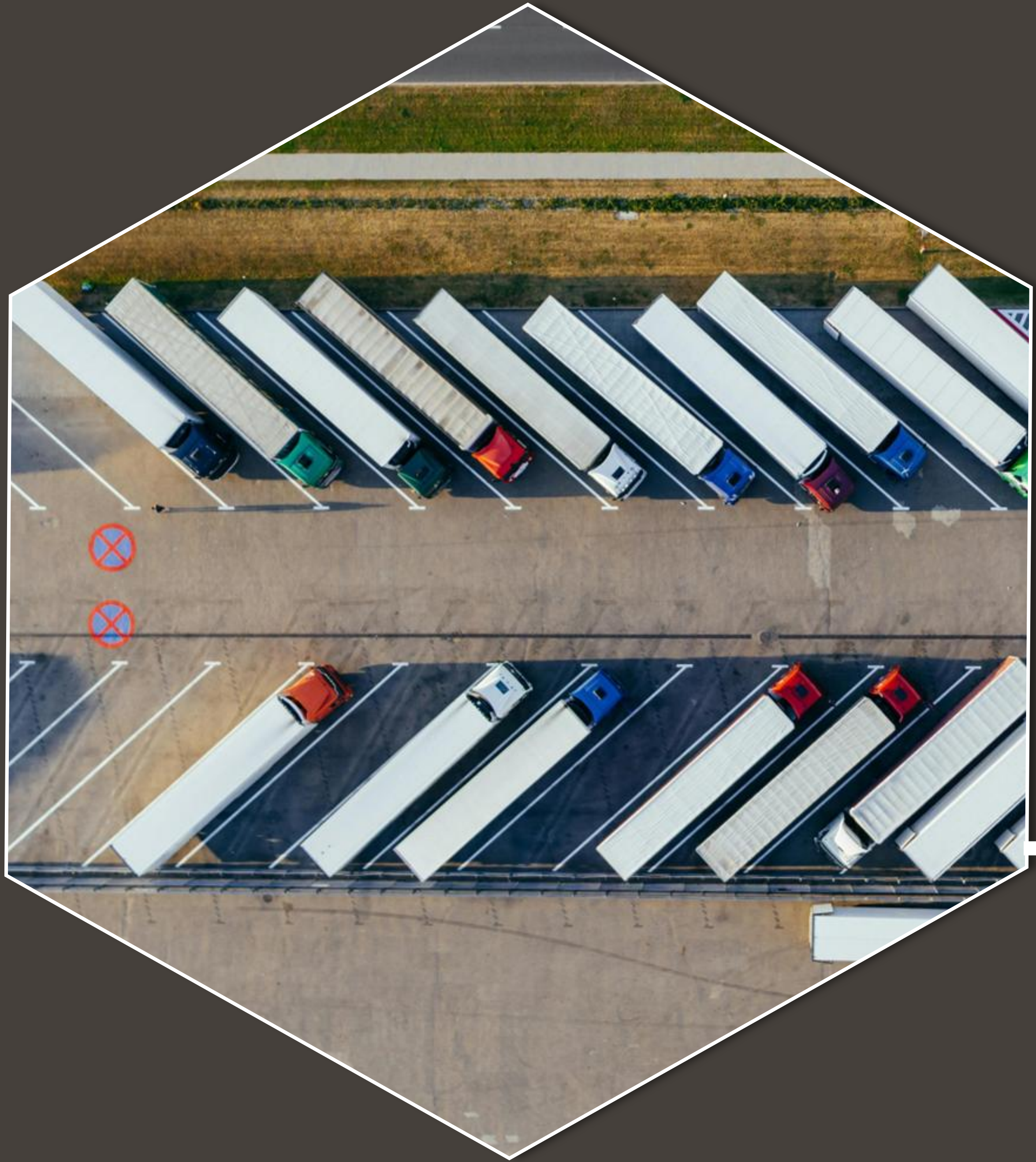

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The bi-directionality of business structures :

Why nice guys finish last and how they can avoid the risks of a slow painful bleed

Global, 2025

Limited Circulation

Across sectors we find two types of business cultures – “Stable-middling” and “high-stress-high-performing”

Organisational culture Type #1

STABLE - MIDDLING

Happy places to work, Culturally adept, Milder focus on growth and individual ambition

Organisational Culture Type #2

HIGH-STRESS, HIGH-PERFORMING

‘Tougher’ places to work, Culturally direct, Relentless focus on growth and individual ambition

"Stable-middling" cultures can demonstrate "frog in a boiling pot" syndrome and need to be monitored for it

Organisational culture Type #1

STABLE - MIDDLING

Happy places to work, Culturally adept, Milder focus on growth and individual ambition

Characteristics

- These firms are typically well-run and between 50th to 90th percentile on the growth curve index.
- They demonstrate marked-to-market growth and stable growth trajectories
- They have innate cultures that are built around 'doing the right thing, saying the polite thing'
- These firms have long runways and do create shareholder wealth, even if it is not the top tier
- These firms also typically don't make breakthroughs in market access or in product innovation.

Where do they go wrong

- Over time, in these firms, the need to be polite over-rides the need to be efficient and effective. As a result, the premium on nicety outweighs the value of business effectiveness
- Over time, these firms tend to build cultures that are 'kind' but not very demanding of employees
- Slowly but surely, even at inter-personal levels, employees are groomed to accommodate persistent underperformance
- Additionally, with time, these firms start experiencing a creeping drop in EBITDA margins leading to slow erosion of shareholder value. Often in such circumstances, the firms behaves like a "frog in a slow boiling pot of water" – ie with scepticism on its underperformance and actions that are too late to arrest the slow kill.

What can CEOs do when in such a situation

- At a measures pace, effect a change in top management to a more aggressive market-success oriented model. When effecting this change, don't make it too rapid or too slow.
- Key an eye out for creeping margin erosion and go after it like the plague on a constant basis.

"high-stress-high-performing" cultures need to manage risks to avoid burning the house down

Organisational Culture Type #2

HIGH-STRESS, HIGH-PERFORMING

'Tougher' places to work, Culturally direct, Relentless focus on growth and individual ambition

Characteristics

- These firms can often exhibit variability in performance and demonstrate high risk-taking ability
- However, with some financial controls, they typically are always above the 70^{th} percentile on the growth curve index.
- They demonstrate faster than marked-to-market growth and the ability to occasionally take big leaps, make big bets and have more than a fair share of them come through
- They have innate cultures that are built around 'doing the right thing, but also saying the right thing'
- These firms create substantial shareholder wealth, however with their risk-taking ability they also can have episodic erosion of wealth as some of the bets may go wrong

Where do they go wrong

- Over time, in these firms, the urge to take riskier bets can sometimes be an end to itself and can eclipse business logic
- Additionally, they may not have the best reputation for culture in the market-place leading to missing out on all but the high-achievement mentality employment pool
- Often with time, these cultures can become political and lead to factionalism

What can CEOs do when in such a situation

- A firm like this needs a strong CEO who has the ability to rein in personalities
- These firms need extremely strong and robust risk management approaches that balance risk taking and compliance.
- Additionally, these firms need a baseline business that can provide the base level of profitability and scale that the investors need to enable the risky market plays to occur

To know more about these journeys, please reach out to

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