

Connecting Organizational Culture to Performance

In partnership with



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Connecting Organizational Culture to Performance

Executive Summary

The Human Capital Institute (HCI) and PS Culture Matters partnered to conduct this research to gain a deeper understanding about how building and sustaining a performance culture impacts business productivity and financial performance. This research profiles exactly how culture manifests in organizations through the use of 11 key culture metrics, and provides a more comprehensive perspective on what metrics are most important for organizations to capitalize on in order to reap increased financial and performance benefits. Organizational culture is an issue of increasing importance to businesses today, as the benefits of a positive workplace culture continue to grow. Some flagship organizations like Apple and Texas Instruments have worked to create and sustain high-performance cultures that engage their employees, increase productivity, and retain and develop critical talent. Former chairman and CEO of IBM, Lou Gerstner, famously said, "Culture isn't just one aspect of the game, it is the game."¹

Notably, the data reveals a serious problem in that several cultural metrics identified as important are also identified as metrics that organizations struggle to achieve. This is primarily due to organizational leaders neglecting to strategically address culture and implement systems of measurement and continuous improvement. In fact, 73% of the 11 key culture metrics are not actively measured or regularly evaluated in organizations today, which represents a valuable opportunity for organizations seeking to improve to the level of a performance culture. And yet, there continues to be a lack of consensus about how other organizational leaders can work to customize and improve their own corporate cultures. Our research pointedly demonstrates that the development and maintenance of an accountable high performance culture is a continuous process rather than a one-time event. Organizations that have established a means of measuring the facets of culture more frequently, taking corrective actions and measuring again, have experienced the most positive results. While organizations typically expend massive resources to proactively measure and manage financial, marketing and operational assets/resources, such scrutiny is

1.) Meehan, P., Gadiesh, O. & Hori, S. (2006). *Culture as a Competitive Advantage*. *Leader to Leader*, 1 (1), 55-61.

not historically given to the “people metrics” of organizations—despite the obvious power these metrics can have on organizational success. “Companies where leaders successfully cultivate a culture of trust, pride, and camaraderie have a greater probability of generating superior financial results,” one practitioner writes.² “If leaders are able to increase the level of key elements of organizational culture that enable knowledge processes to function effectively then the organizations may gain greater access to that 80 percent of the total knowledge base existing in the minds of members in the form of tacit knowledge.”

The breadth and depth of culture demands that it be analyzed through multiple lenses to reach a clear consensus about how it can be supported most efficiently. We examined respondent organizations in their approach to organizational culture and independently researched the financial and business performance to objectively determine if there were correlations between that approach to culture metrics and business outcomes. Our research closely explored 11 key culture metrics, which are: professional growth & development; organizational agility; innovation; communication; leadership; alignment with organizational values; job satisfaction; operational management; employee engagement; collaboration; and accountability. Among the key findings are: what components of culture are perceived as most important; what elements of culture organizations actively practiced; what components organizations struggle with most; and what business outcomes organizations are most effective at achieving. Most notably, our analysis demonstrated that there are five key culture metrics which drive 14–17% higher financial performance:

- Collaboration
- Job satisfaction
- Employee engagement
- Professional growth & development
- Alignment with organizational values

While all of the culture metrics examined in our survey are important for organizations to achieve, it is helpful to see which metrics are strongly correlated with a company’s fiscal health. Every leadership team must deal with the active management and/or reinvention of their organization’s culture, and in such situations these data can serve as a guide for what areas of corporate culture need to be prioritized. Colleen Barrett, President Emeritus of Southwest Airlines said, “Southwest has two longstanding committees: a company Culture Committee, which is in place to keep an eye on the ball regarding our system-wide culture and to ensure that it is being maintained across all departments, and a Best Place to Work Strategy Committee, which oversees the proper monitoring and measuring of all elements that create and sustain our culture.”

2.) Nold, H.A. (2012). Linking Knowledge Processes with Firm Performance: Organizational Culture. *Journal of Intellectual Capital*, 13 (1), 16-38.

By leveraging the culture metrics that promote a performance culture, organizations can achieve higher levels of business outcomes and financial performance. In an era where companies are being asked to constantly do more with less, cultivating a performance culture allows leaders to effectively leverage the internal talent and skills they already manage, best positioning organizations to achieve increased success now while simultaneously preparing them for the future. Our research confirms some organizations are doing far more than others to create a culture by design rather than a culture by default - which is the more common approach today. However, the trend toward a proactive approach to building a performance culture that drives business impact appears to be growing.

About this Research

HCI and PS Culture Matters partnered to conduct this research to gain a deeper understanding of what defines and drives a performance culture. We created and distributed a 31-item survey to more than 4,000 HCI members in December 2012 and January 2013. The resulting 425 responses that represent more than 250 companies provide the foundational data used to inform this report. The survey respondents are largely based in North America (85%), and nearly a quarter (23%) represent organizations of 1,001–5,000 employees. More than half (61%) of respondents hold a senior manager position or above, including directors, vice presidents, and c-level executives, and the vast majority (77%) work in a functional area within Human Resources.

In addition to our primary data collection and analysis, we reviewed extensive secondary research on the topic of organizational culture, relying on trade publications, scholarly articles, newspaper periodicals, and cases studies to better inform our findings. Many of these are cited in the report and all are referenced in HCI's Talent Development & Leadership Communities, to which interested readers are encouraged to visit for additional reading and online events.

We also spoke with a number of practitioner subject matter experts from several organizations, who shared their experiences with, and insight into, the role culture plays in an organization. These individuals include:

- Joann Russell, *Vice President of Organizational Effectiveness & HR Planning* at Nike
- Steven Kowalski, *Principal in Executive Talent Development* at Genentech
- Colleen Barrett, *President Emeritus* of Southwest Airlines
- Keith Rippey, *Chief Executive Officer* of Area Ambulance Service

“If organizational leaders pay attention to the power of culture, they can use it as an offense. Everyone wins when the opportunities and potential for success are unlimited.”

Joann Russell,
VP of Global
Organizational
Effectiveness & HR
Business Planning,
Nike

3.) Varelas, E. (2009, November). *Sizing Up Cultural Fit*. T + D Magazine, 1 (1), 76-77.

4.) Meehan, P., Gadiesh, O. & Hori, S. (2006). *Culture as a Competitive Advantage*. Leader to Leader, 1 (1), 55-61.

Definition of Key Terms

Organizational/corporate culture

The collective interaction of experiences, environments, coworkers, and behaviors that are authentically and consistently demonstrated and supported within an organization, creating a unique outcome which becomes “the way we work around here.”

Performance culture

An organizational culture that is characterized by growth, engagement, financial performance, and operational productivity. It is a culture that has a positive and obvious effect on achieving specific business outcomes.

Culture metrics/components

Eleven cultural components (identified through secondary research) that are correlated with the building and maintenance of an organizational culture. These include: *professional growth & development; organizational agility; innovation; communication; leadership; alignment with organizational values; job satisfaction; operational management; employee engagement; collaboration; and accountability.*

Business outcomes

Fifteen common organizational goals that include results like “top line revenue growth” in addition to goals that are equally critical, but more difficult to quantify such as *social responsibility, customer loyalty, and innovation, creativity, and entrepreneurship.*

Financial success

Organizations that experienced positive revenue growth in the previous fiscal year.

Introduction

In the midst of growing success among organizations like Southwest Airlines, Google, Zappos, and W.L. Gore, the role of organizational culture is becoming increasingly important—and publicized—in business today. Annual “Best Places to Work” lists, company and thought leader blogs and intranets, and a large body of research and articles on the significance of cultural fit have all helped propel organizational culture into the spotlight—for better or for worse.³ Moreover, the performance and productivity of organizations with well-defined, positive workplace cultures has spurred many companies to further explore how their own organizational cultures are created, maintained and improved.⁴ To this end, there lies a great business need to better understand what elements make up a company culture, and determine what components are most influential. As organizations constantly struggle to increase profitability and success, especially in this era

“Asking about culture is somewhat like asking a fish to describe the water it swims in. The heart of culture is made up of invisible, internal parts like values and passion and clarity, and the external part of culture is created through observable behaviors—words and actions.”

Steven Kowalski, PhD.,
Principal,
Executive Talent
Development Group,
Genentech

of frequent, fast, and often volatile change, one way to achieve competitive advantage is to begin with an organization’s internal culture. As the unwritten, unspoken rule book of employee behavior, words, and productivity, the ability of organizational culture to drive success and actively support business outcomes is unmatched. Moreover, increasing numbers of remote workers, multiple office locations, and globalization are factors that require organizational leaders to find ways to unite those often disparate people and practices. As one group of practitioners writes, “When it is commonplace for enterprises to stretch around the globe, culture provides the glue that creates trust and a sense of shared purpose.”⁵

Despite the innate power found within an organizational culture, it remains a largely elusive topic due to its broad nature. At its core, organizational culture is critical due to its ability to impact overall financial performance and productivity. As a large body of research indicates, the achievements of an organization are only possible through the dedication and work of its employees. Between the lines of financial performance, KPIs, “hitting your numbers,” and ensuring a competitive position in the marketplace, are numerous factors that arm employees with the skills and environment they need to thrive and achieve those goals. In that vein, equal time and effort must be spent to identify, analyze, and understand how an organization’s “people metrics” integrally support the financial success and other business outcomes organizations strive for. As a fundamental part of the employee experience, organizational culture must be examined through an analytic lens to help companies learn what components of culture most strongly support the bottom line—and clearly inform organizational leaders what they can do to address those components.

In order to address this critical area of organizational performance, we focused our primary and secondary research on yielding a better, clearer perspective on what elements of culture are most influential to helping companies achieve their strategic and financial goals. This research helps pave the way for organizations to capitalize on the metrics that lead to the most financial success and provide a framework for improving corporate culture. By concentrating on specific cultural components, organizations and their leaders can cultivate a better, richer environment to actively support employees. As a Leader to Leader article puts it: “A strong culture is a business imperative. It enables you to operate at a lower cost, perform at a higher level, and hence grow more quickly.”⁶

5.) IBID.

6.) Matthews, J. (2007). *Is Your Culture Broken?* Leader to Leader, 1 (1), 12-16.

"[...] A culture left untended rarely results in the culture that you'd hoped for. Such cultures are often scattered, negative, chaotic, and unhealthy."

Jana Matthews,
Leader to Leader

"Clinging to cultural habits that no longer work as a company grows and as markets change is a recipe for disaster. It leads to misuse of talent, rewards leadership styles that have become dysfunctional, and, by force-fitting the new company structure onto the old company culture, undermines both."

Hope Greenfield,
former Chief Talent Officer,
Lehman Brothers

7.) Greenfield, H. (2010). *The Decline of the Best: An Insider's Lessons from Lehman Brothers*. Leader to Leader, 1 (4), 30-36.

8.) Matthews, J. (2007). *Is Your Culture Broken?* Leader to Leader, 1 (1), 12-16.

Conventional Wisdom: Organizational Culture

The nebulous characterization of culture and its broad reach makes it both a difficult subject to isolate and study as well as a necessary one. Within an organization, culture is the one artifact that influences and affects every single member of the workforce, no matter their position, experience, or seniority. Organizational culture is: *The collective interaction of experiences, environments, coworkers, and behaviors that are authentically and consistently demonstrated and supported within an organization, creating a unique outcome which becomes "the way we work around here."* It has a profound effect on everything from the more mundane issues of dress codes and lunch etiquette to the much more significant issues of how organizational conflicts are managed, accountability is enforced, and how individuals behave in any given situation. Keith Rippy, CEO of Area Ambulance Service, likened a company's culture to the sum of the organization. He says, "An organization's culture itself is a key component of the working environment. If you have a culture made up of highly motivated, engaged employees, then interacting with them, respecting their views and allowing them to give their input creates a kind of environment that values those behaviors."

The vast influence an organization's culture can have on business outcomes makes it a subject worthy of more exploration and research. Of particular importance to companies and leaders today is learning what pieces of culture are most advantageous to capitalize on and why. In a business environment that is continually characterized by a staggering pace of change, tumultuousness has become an everyday challenge rather than an occasional concern. This new era of work is commonly labeled *VUCA*—an atmosphere marked by volatility, uncertainty, chaos, and ambiguity. In this environment, an organization's best defense is in the creation and maintenance of a culture that is built to not only withstand this atmosphere, but thrive in it.⁷

In many traditional and older organizations today, the idea of changing a culture or strategically designing one is met with cynicism, hesitation, and worst of all, arrogance. Some firms and their leaders mistakenly believe that an organizational culture is a static thing created simply by saying it is so. But as one practitioner explained, a culture is created through words and action, whether those words and actions are actively managed or passively allowed to occur. "Some leaders make the mistake of allowing an organization's culture to develop on its own, perhaps because they feel it's too difficult to pinpoint specific components or concrete actions that will create the culture they want, or maybe just hoping that a clear focus will eventually rise to the top," Jana Matthews writes. "Unfortunately, a culture left untended rarely results in the culture that you'd hoped for. Such cultures are often scattered, negative, chaotic, and unhealthy."⁸

"It is critical that an organization has a strong sense of self. We know who we are and we don't purport to be all things to all people. That does not mean people within the organization or the union always agree but we respect each others' constituencies. We all sit at the same table, intermingled. We know each other personally. There is a mutual respect."

Colleen Barrett,
President Emeritus,
Southwest Airlines

9.) Ibid.

10.) Matthews, J. (2007). *Is Your Culture Broken? Leader to Leader*, 1 (1), 12-16.

No business is immune to the industry and market shifts that are occurring around the world, and those that refuse to adapt their culture to reflect this new environment will find themselves at a greater risk of failure in the future. One former Lehman Brothers' director considered the role the firm's culture played in its recent downfall. She cited the failure to revise its culture as one of the key shortcomings of the firm, which directly led to multiple and congruent breakdowns across the whole company. "Clinging to cultural habits that no longer work as a company grows and as markets change is a recipe for disaster. It leads to misuse of talent, rewards leadership styles that have become dysfunctional, and, by force-fitting the new company structure onto the old company culture, undermines both."⁹

Thus, as the nature of business shifts, it also compels companies to readjust their culture to better align with the business values of today's age and reward the behaviors and cultural components that actively contribute to success. Some organizations like Google and Genentech are well publicized as having a sustainable and high-performing culture, but **it is a mistake to think that these environments were accidentally or haphazardly created. Instead they must continue to be actively monitored, managed, and changed to reflect what they need to succeed.**

In addition to ensuring an organization's culture is aligned with its values and mission, business leaders must be careful to understand that culture is a customized concept and not a one-size-fits-all approach. While this report identifies certain elements of organizational culture that positively affect business performance, the ways in which these components can be translated and implemented in organizations vary widely. Often, the products an organization develops and sells play a big role in how its corporate culture is designed and maintained. For example, at Southwest Airlines, the core of the mission is to create and support the highest standard of customer service by ensuring airline passengers on Southwest have a positive flying experience. By contrast, consulting firms like Accenture and Bain & Company, whose businesses are more cerebral and abstract, interpret cultural components differently to better align with their mission and values.

Jana Matthews writes, "Culture is the central core of a company. It defines the terms of engagement between the company and its customers, the company and its employees, and the company and its vendors and suppliers."¹⁰ Indeed, the role culture plays in every aspect of a business is critical, but organizations and their leaders must be wary of simply adopting someone else's high-performance culture. What works for one organization will not necessarily work for another. The customers, employees, vendors, suppliers, and end products are different in every company, and an authentic performance culture takes those variations into account and customizes accordingly.

To be effective, culture must be a frequent topic of discussion in the workplace, Keith Rippey from Area Ambulance Service explained. And that frequency is both

“The top leadership in a company has to live the mission, live the values, and live the vision of the organization every single day—verbally and non-verbally through effective use of symbols, words, and behaviors. Leaders have to take a position and own it. When I walk down the hall, I want my employees to know exactly what I stand for.”

Keith Rippy, CEO, Area Ambulance Service

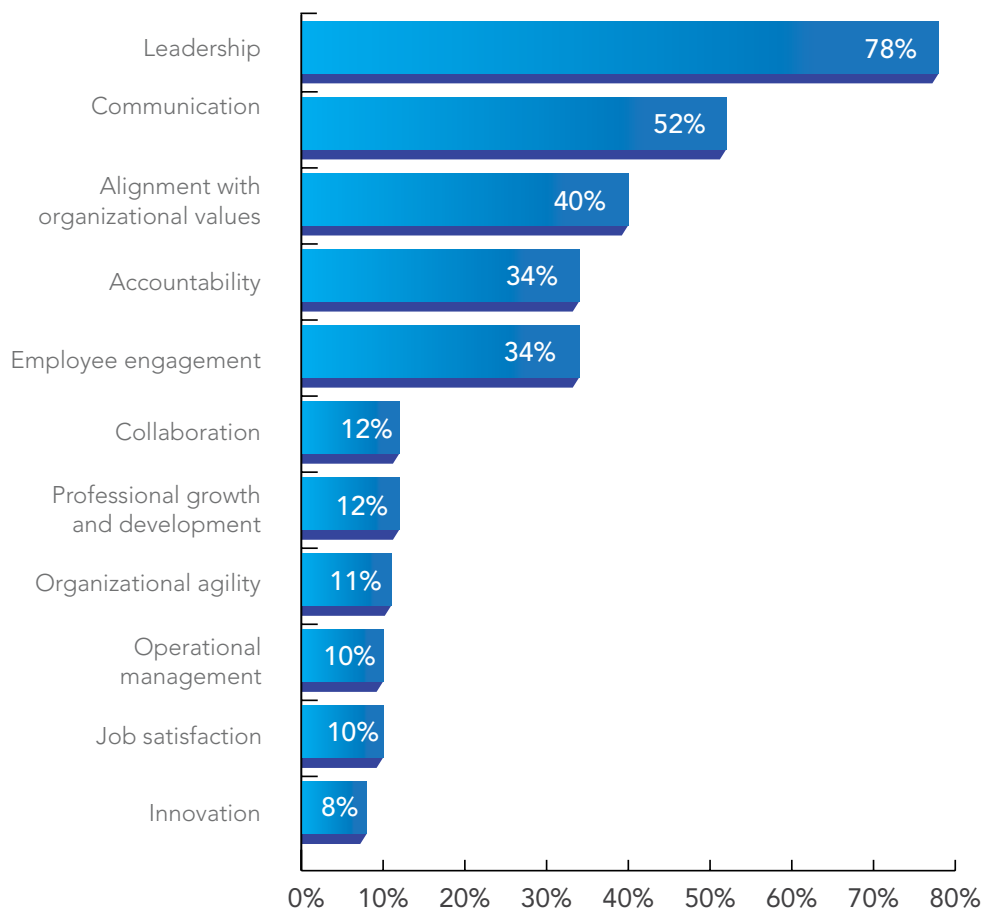
a key challenge facing organizations, as well as an obvious strength for those companies that prioritize it. The development and growth of a corporate culture is a perpetual process for the best and most successful organizations that understand adapting to new ways of work and creating a culture to support those ways is critical to sustained success. These organizations treat their corporate culture as an invaluable business tool, and experience high performance as a result. As a recent *Leader to Leader* article remarked, “Companies have found that they can change their cultures, provided that their leaders are truly committed to change and that they understand the steps involved. But companies shouldn’t have to wait for a crisis to precipitate cultural change. High-performance cultures rarely stand still.”¹¹

Key Survey Findings: Organizational Culture Metrics

In order to identify what areas of culture drive company performance, we conducted secondary research and analysis to determine the key cultural elements at work in business today. Our investigation resulted in 11 *cultural metrics* that help define and develop an organization’s culture. We asked our 425 survey respondents to thoroughly consider the practice and process around these components, and through the lens of these culture metrics, the data gave us a more holistic view of how culture manifests in organizations and how it is perceived by employees and leaders.

Figure 1:

Which of these areas would you say are the most important in terms of building and cultivating a performance culture in an organization? (% ranking in top 3)



11.) Meehan, P., Gadiesh, O. & Hori, S. (2006). *Culture as a Competitive Advantage*. *Leader to Leader*, 1 (1), 55-61.

Cultural metrics refer to 11 key behaviors and practices that help define and develop an organization's culture.

"Culture is a living, breathing experience that must evolve to stay relevant. Culture is not static, it's not still. It will adapt, it will multiply, and it will change. But being strongly rooted in your vision and values are the anchors that allow you to manage those culture shifts. Nike makes a significant effort to connect every employee to the Nike heritage; to be informed of the past so it can better prepare you for the future."

Joann Russell,
VP of Global
Organizational
Effectiveness & HR
Business Planning,
Nike

11 Cultural Metric Definitions

Professional growth & development	Organizations are responsive and open to develop plans and methods, and managers take an active role in providing their employees with the experiences, opportunities, and skills they need for success.
Organizational agility	Organizations are able to effectively implement wide-scale changes and embrace frequent process improvement projects.
Innovation	Outside-the-box thinking is valued and encouraged in the organization; a larger movement away from a risk-averse culture is actively supported.
Communication	Critical information is clearly and frequently shared across teams and throughout an organization; knowledge is openly accessible and not hoarded or misused.
Leadership	Senior leadership and executive teams actively support and live the mission and values of the organization; leaders are given critical feedback and held accountable for their actions.
Alignment with organizational values	Managers and employees consistently demonstrate that they share the same priorities for the organization, and consistently "live out" those values through words and actions.
Job satisfaction	The work environment and internal energy is positive, and directly influences the degree to which an employee is satisfied with his or her role.
Operational management	Organizational managers have a clear and accurate picture of the workplace, spend appropriate and consistent one-on-one time with their employees, providing them with resources for success.
Employee engagement	Employees clearly understand how their position contributes to organizational priorities, have a high degree of trust in their manager, and/or function well with a team of colleagues.
Collaboration	Ideas shared with an organization are acknowledged and acted upon; building effective relationships with colleagues and cross-teams is valued and highly encouraged.
Accountability	Employees within the organization are given critical and frequent feedback about their performance, and are held accountable with appropriate consequences.

“It’s critical to know, specifically, what is valued within a company’s culture. For example, if you value learning and growing and being introspective, you need to embrace that as you consider the criteria you’re looking for in new hires. It’s critical to have that kind of clarity because it helps avoid the ‘antibody response,’ which is when an organization rejects someone. This is very costly and emotionally draining for both the individual and the organization as a whole.”

Steven Kowalski, PhD.,
Principal,
Executive Talent
Development Group,
Genentech

Importance Rankings

Among the key findings revealed by our respondents are: what components of culture are perceived as most important; what elements of culture organizations actively “do” best; what cultural components organizations struggle with most; and what business outcomes organizations are most effective at achieving. The widespread reach of culture demands that it be analyzed through multiple lenses in order to come to a clear understanding of how it can be leveraged most effectively.

Overwhelmingly, when respondents were asked to **rank order the importance of culture metrics and their impact in building and cultivating a performance culture**, *leadership* was far and wide the most important, with more than *three quarters* of respondents (78%) agreeing with that statement. (see Fig. 1). An organization’s culture must be clearly defined and implemented through leadership if it is going to be sustainable, as it is the primary responsibility of leaders to live the values they espouse and reward the behaviors, words, and practices most congruent with the mission of the organization. Leadership becomes significantly more important during a period of cultural transition when employees look even more to the words and deeds of their leaders to determine behavior. As one practitioner alluded, cultural change in an organization must begin with leadership or it doesn’t begin at all.¹² “If the leader and executive team identify the core values and then live the values, talk about them, and use ‘fit with the values’ as a criterion for selecting, rewarding, promoting—or firing—an employee, internal consistency and congruity will enable the company to thrive. If the values are paper values but aren’t practiced, the employees will become discouraged, cynical, and may lose faith in the mission, the vision—and the leadership.”¹³

After citing leadership as the most important driver of a performance culture, respondents agree that *communication* (52%), *alignment with organizational values* (40%), *employee engagement* (34%) and *accountability* (34%) are the next most important components (Fig.1). An organization that is able to communicate effectively across all channels will find itself better positioned to achieve alignment with organizational values as consistent messaging and behavior is critical. By extension, employees are more likely to feel engaged and invested in their work and integrate more effective practices and processes to ensure accountability for their actions.

Beyond modeling the tone and behavior for all employees, leaders play a critical role in eliminating those individuals who are not good cultural fits or do not support the development of a high-performance culture.¹⁴ One study discussed in a recent *Leader to Leader* article describes that 94% of leaders reported working with a “toxic, disruptive, and uncivil person,” which likely contributed to decreased levels of productivity, job satisfaction, and workplace engagement as a whole. The report further asserts that, “Toxicity [in a corporate culture] becomes a systemic

12.) *Ibid.*

13.) Matthews, J. (2007). *Is Your Culture Broken? Leader to Leader*, 1 (1), 12–16.

14.) Varelans, E. (2009, November). *Sizing Up Cultural Fit*. T + D Magazine, 1 (1), 76–77.

The data illustrate that organizations may be aware of their shortcomings, but remain conflicted about how to find an effective solution for them.

problem because coworkers and leaders quickly get drawn into the uncivil web. Toxic systems are particularly resistant to change and have frequently been tolerated for years.”¹⁵

In several case studies outlining cultural change, leaders agree that one of the first symbolic and critical decisions they must make is purging the organization of individuals that do not support the end goal and those that are subversive to the mission and values an organization tries to espouse.¹⁶ Not only does the act of terminating these individuals demonstrate to the rest of the employees the seriousness and commitment a leader has for his/her organizational culture, but it is also a proactive measure to limit the power of disengaged. As Keith Rippy from Area Ambulance Service said, “Negative employees in an organization are just as important to a culture—and sometimes more influential—than positive ones. When the complainers in a company have significant informal leadership roles, they affect the people with good attitudes, and suddenly those good attitudes become bad attitudes.”

Figure 2:
Thinking specifically about your organization, how successful do you think your organization is in terms of performing or achieving each of the following? (% “somewhat”/“not very”/“not at all” successful)



15.) Kusy, M. & Holloway, E. (2010). *Cultivating a Culture of Respectful Engagement*. *Leader to Leader*, 1 (1), 50–56.

16.) Brodsky, N. (2006, April). *Defining—and enforcing—your company’s culture may be your most important job*. *Inc. Magazine*, 1 (1), 61–63.

“Because of our culture—and the continued enrichment of it—people want to work for us. They read about Southwest and see it firsthand and want to be a part of that. We are the star on top of the Christmas tree for most people, and that would not be the case, were it not for the constant display and support of our values and mission.”

Colleen Barrett,
President Emeritus,
Southwest Airlines

Figure 3:

Which of these areas does your organization most struggle with in terms of performance & achievement? (% ranking in top 3)

Effectiveness Rankings

When we asked respondents to consider **what culture metrics their organizations are less than successful at doing**, the results are somewhat surprising. Although specific cultural metrics like *communication* and *accountability* are rated as important, that significance does not necessarily mean that organizations and leaders are achieving or adequately addressing these components (see Fig. 2). This finding demonstrates misalignment between the importance versus performance on a given set of organizational and cultural elements. More than three-quarters of respondents agree that their organizations are only somewhat, not very, or not at all successful at achieving *professional growth and development* (82%), *communication* (81%), *organizational agility* (77%), and *accountability* (77%) (Fig. 2). Thus, there remains a need for organizations to focus on those elements of culture deemed most important in order to achieve higher performance in those areas.

Despite that lack of alignment, when we asked respondents about the cultural metrics they struggle with most, the data illustrate that **organizations may be aware of their shortcomings, but remain conflicted about how to find an effective solution for them**. Nearly half (42%) of respondents agree that *accountability* is challenging to achieve, followed by *leadership* (41%) and *communication* (37%) (see Fig. 3). Most notably, this data illustrates that some cultural components demand a more



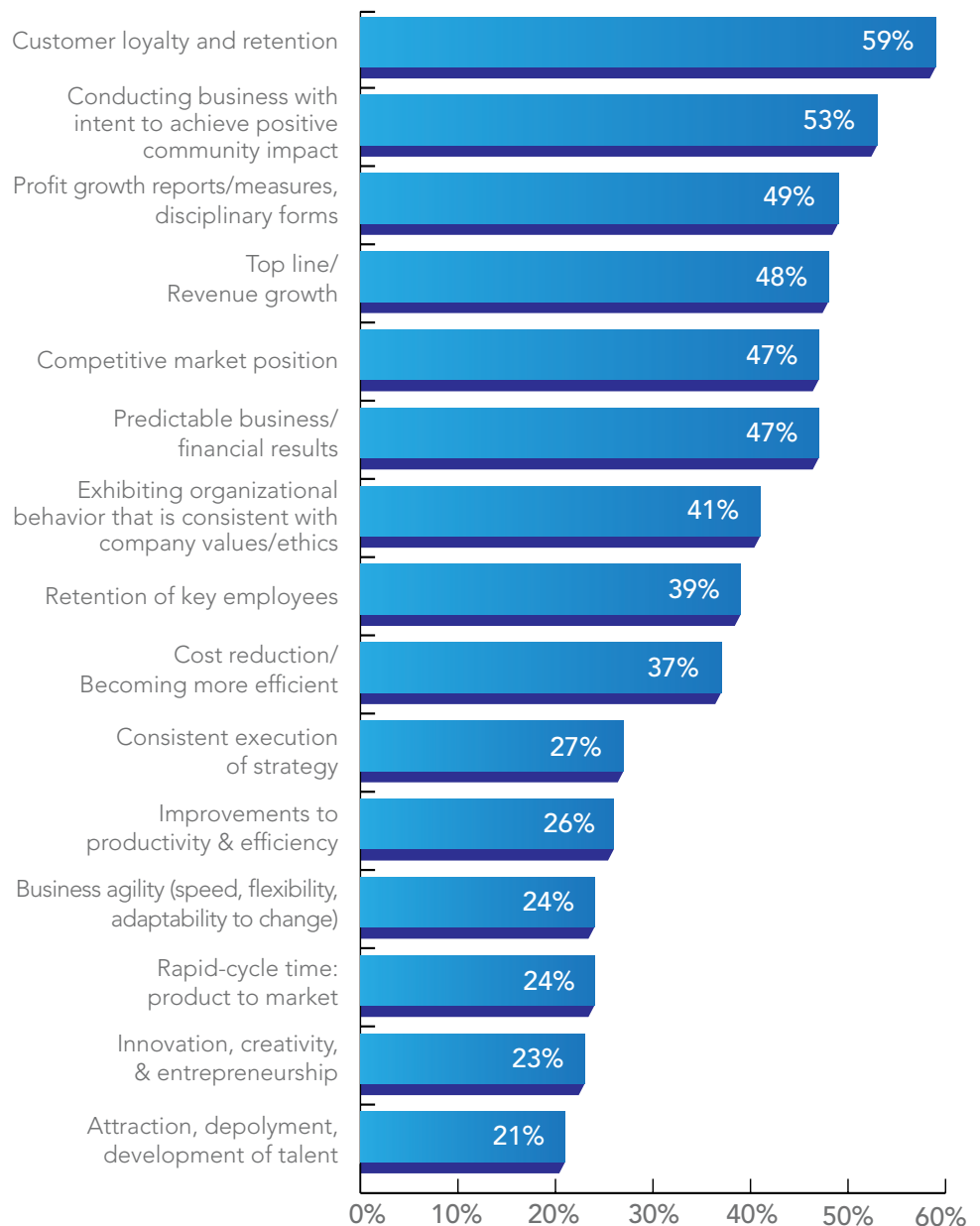
urgent response from leaders. They are perceived as important while they are also identified as an organizational struggle.

Human Capital Implications

At its core, a performance culture is one that has a positive and obvious effect on achieving specific business outcomes. If an organization is unable to capitalize on and accomplish key goals like revenue growth, retention of key employees, and consistent execution of strategy, then its culture needs to be reevaluated. High-performing organizations treat culture as a competitive advantage, and it is essential that that translates to business results (see Fig. 4).

Figure 4:

In your opinion, how effective is your organization at achieving each of the following business outcomes? (% "extremely"/"very" effective)



“Workplace flexibility can be a big challenge to organizations. The world is evolving to a more integrated, open and mobile way of living and working. If an organization is rigid about these evolving ways of working, it will affect the talent they are able to attract.”

Steven Kowalski, PhD.,
Principal,
Executive Talent
Development Group,
Genentech

A performance culture is one that is characterized by growth, engagement, financial performance, and operational productivity.

17.) No author (December, 2010). Interview with Edgar Schein. *T + D Magazine*, 1 (1), 67-67.

18.) Kusy, M. & Holloway, E. (2010). *Cultivating a Culture of Respectful Engagement*. *Leader to Leader*, 1 (1), 50-56.

After determining a comprehensive list of business outcomes through extensive secondary research, we asked respondents to **rate how effective their organization is at achieving business outcomes**. The 15 business outcomes include results like *top line revenue growth*, but also include goals that are equally important, but more difficult to quantify such as *social responsibility* and *innovation, creativity, and entrepreneurship*. More than half of respondents agree that their organizations are extremely or very effective at achieving *customer loyalty and retention* (59%) and *conducting business with the intention to achieve positive community impact* (53%) (Fig. 4). This finding is encouraging as the importance of organizational social responsibility continues to grow in the marketplace, and it would appear that organizational leaders are embracing this shift. Organizational culture expert Edgar Schein has called out social responsibility as one of the four major trends he is seeing in business today and one that organizations should capitalize on.¹⁷ Employees today—especially those within the Millennial generation—are bringing consumer expectations to the workplace. Meaningful work that addresses environmental struggles, supports local communities, and becomes an affirmative presence in the market is quickly becoming a necessity.

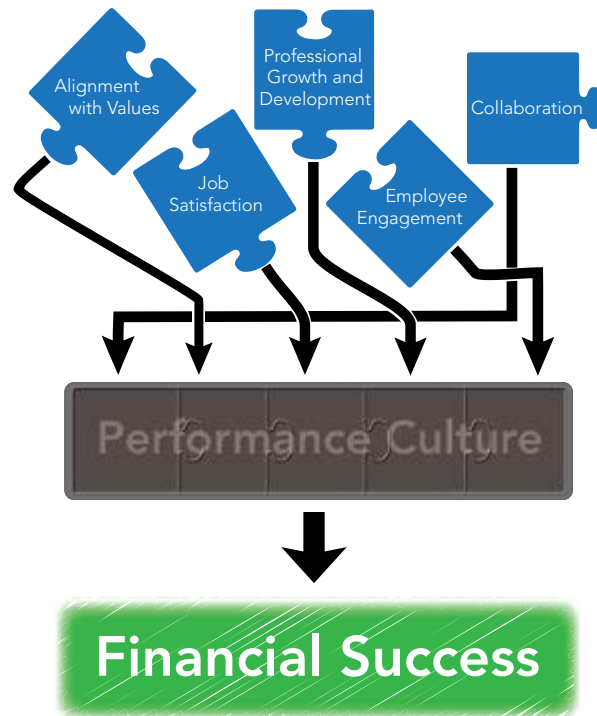
More striking is the low percentage of respondents that indicate their organizations are effective at *business agility* (24%) and the *attraction, deployment, and development of talent* (21%) (Fig. 4). Less than one quarter of companies surveyed are effective at achieving these outcomes, and in the current work environment (and for human capital practitioners) those results are discouraging. The modus operandi of business today requires quick thinking, nimble shifts, and immediate action. Organizational cultures need to be developed to embrace these challenges in order to function most effectively. Moreover, efficiently addressing the *attraction, deployment and development of talent* is integral to any organizations' success. Companies are only as good as the people within them, and as Anne Lindberg from i4cp remarked, “Talented people don’t want to work for a company with a bad reputation,” she said. When an organization is ineffective at talent development, the result is often the loss of high-potential and high-performing employees, and the cost to replace these employees can be upwards of 2.5 times that individual’s salary.¹⁸

Key Survey Findings: Exploring the Five Metrics that Drive a Performance Culture

While our initial data illuminated some significant findings as it relates to the perception of culture in organizations and how cultural metrics are addressed, we wanted to get a more sophisticated and accurate view of which culture metrics are most clearly responsible for driving business outcomes and financial performance.

Figure 5:

Five culture metrics positively correlated with financial performance.



"We demand that employees live the golden rule inside and outside of work. We tell people—customers and employees—what they can expect from us, and then we must deliver. And if we don't, then we need to provide information why—and vice versa. This understanding sets the tone for everything that employees do, no matter their position or their primary duties. They have a whatever-it-takes attitude, not a it's-not-my-job mentality."

Colleen Barrett,
President Emeritus,
Southwest Airlines

To do this, we examined the **differential effects of the 11 culture metrics on business performance** by analyzing how successful organizations are at achieving culture metrics, and cross tabulated that information with the reported data about the revenue growth respondent organizations experienced in the last fiscal year. A public search of company financial records was validated with additional research. Our analysis discovered that some of the culture metrics identified as important do indeed play a role in creating a performance culture, and demonstrates which components are most strongly correlated to success. A gap analysis illustrates the likelihood a specific cultural metric has to influence financial outcomes.

Most notably, there are **five culture metrics that are most positively correlated with financial performance**: *collaboration, job satisfaction, employee engagement, professional growth and development, and alignment with organizational values* (see Fig. 5).

While there is a clear argument that all of the cultural components measured in our survey are important for an organization to do well, it is helpful to understand which metrics have a stronger effect on a company's fiscal performance. Leaders that are looking to reinvent or more strongly develop their cultures can use these data as a guide for what areas of corporate culture they should prioritize.

A closer look at our data illustrate just how effective these cultural components can be at driving bottom-line performance. The gap analysis (see Fig. 6) demonstrates the highest margin of success between organizations that experienced flat or negative growth in the last fiscal year and those that experienced positive growth—based

Figure 6:
Effects of culture on business performance (% reporting positive revenue growth)



“At Nike, a specific imperative we use is framing culture as an offense. It is a catalyst for innovation and creativity. We want to build strategic engagement, and we use culture as a driver and generator for that kind of growth.”

Joann Russell,
VP of Global
Organizational
Effectiveness & HR
Business Planning,
Nike

on their performance of specific culture metrics. Organizations that capitalize on *collaboration, job satisfaction, employee engagement, professional growth and development, and alignment with organizational values* are 14–17% more likely to experience positive financial performance as a result of their commitment to improving these cultural components. By leveraging the key culture metrics that drive performance culture, organizations can achieve the business outcomes and financial performance they desire.

Collaboration is the culture metric most impact financial success, and our secondary research echoed this finding. Because the nature of collaboration is intrinsically tied to other metrics like improved communication, it is a powerful element within an organizational culture that influences other behaviors and activities as well. One practitioner writes, “Collaboration reinforces the sense of family [in an organization]. Having shared goals, being involved in the process, having open lines of communication and sincerely soliciting feedback are all parts of collaboration that help to strengthen relationship and, perhaps, strengthen this sense of family.”¹⁹ As business becomes increasingly dispersed through geographic areas, time zones, and remote work, it is critical for organizations and leaders to find effective ways to maintain and support the relationships formed through teamwork and collaborative pursuits.

19.) Sanchez, M. (2012). A Collaborative Culture. OD Practitioner, 44 (2), 7-12.

“We are keenly aware of the fact that there are a lot of micro-cultures that occur within any company. Some groups and departments are more playful, more thoughtful, more critical, or maybe more introverted than others. These are some of the variations that live within the big umbrella of culture. But in any one of these, the ultimate goal is that every person feels a very strong connection to the core of the organization.”

Steven Kowalski, PhD.,
Principal,
Executive Talent
Development Group,
Genentech

Similarly, *job satisfaction* and *employee engagement* are cultural components with a strong effect on increased revenue. Just as discontented and negative employees can anchor an organization down, positive workers and engaged employees can help lift an organization up. Author Liz Wiseman elaborated on this topic by identifying employees and leaders as either ‘multipliers’ or ‘diminishers.’ Her research showed that diminishers prompt an average of 48% of the brainpower and creativity available through their colleagues and employees. By contrast, multipliers get 97%.²⁰ In an era where business leaders are increasingly asked to do more with less, focusing on improving the cultural components of job satisfaction and employee engagement ensures that organizations are leveraging their talent most effectively and getting the best performance from every employee.

The last two of the five culture metrics that have the biggest effect on financial gains are *professional growth and development* and *alignment with organizational values*. This suggests that employees are better positioned to give more discretionary effort when their skills and abilities are being adequately developed and they feel like their organization is actively invested in their success. A recent *Leader to Leader* article stated, “A hallmark of a high-performance culture is that employees take personal responsibility for business performance... [These organizations] make a point of investing in individuals at all levels of the organization and helping them develop their full potential.”²¹ In conjunction with providing the right development opportunities for employees, it is critical that organizations and leaders consistently work to exemplify the values and mission they espouse. In order to be most effective, a corporate culture must be singular and authentic. Clear and consistent messaging and behavior is crucial. In his own organization, Keith Rippy from Area Ambulance learned this lesson firsthand. “Transparency and authenticity is critical in building a sustainable performance culture. People understand and appreciate the word ‘no.’ What they cannot tolerate is uncertainty.”

Cultural Responsibility

It is clear from our data that an organizations’ culture is made up of many different behaviors that need to be consistently and thoughtfully practiced. To further identify how cultural components are driven in businesses today, **we analyzed how each of the 11 culture metrics are managed and measured.** Organizational culture can be actively regulated and produced but there needs to be clearer recognition around who specifically in an organization is responsible for this task.

We first looked at **who within the organization is responsible for each cultural component—executives/senior managers; business unit/line managers; or HR and L&D.** Those culture metrics that are most highly correlated with positive financial performance are indicated with an asterisk (see Fig. 7). Our findings demonstrate that the responsibility for some culture metrics is shared among executives and senior managers and business/line managers. This finding shows that the management

20.) Heinze, J. (2010). *Multipliers: Liz Wiseman on School Leadership*. *Scholastic Administrator*, 1 (1), 17.

21.) Meehan, P., Gadiesh, O. & Hori, S. (2006). *Culture as a Competitive Advantage*. *Leader to Leader*, 1 (1), 55-61.

Figure 7:

Demonstrates organizational ownership and respective measurement of culture metrics.

Metrics marked with an asterisk (*) positively impact financial performance, and metrics in blue text are measured in more than half of respondent organizations.

Executives/Senior Managers	Business Unit/Line Managers	HR/L&D
Organizational agility*	Job satisfaction*	Professional growth & development*
Alignment with organizational values*	Employee engagement*	Employee engagement*
Leadership*	Operational management	
Communication	Communication	
Accountability	Accountability	
Innovation	Innovation	
Collaboration*	Collaboration*	

73% of the 11 culture metrics are not actively measured or regularly evaluated in organizations today.

of culture is a group effort, and as Steven Kowalski from Genentech noted, senior leaders in an organization are best positioned to be the stewards of culture. Executives, senior managers, and business unit/line managers must work together more cohesively to effectively manage the presence and strength of metrics like *communication*, *accountability*, *innovation*, and *collaboration*. Additionally, there must be cross-team efforts between business unit/line managers and those in the HR and Learning & Development space to provide a better framework for increased employee engagement. Most notably, *collaboration* and *employee engagement* are the two culture metrics most strongly correlated with financial performance, and the responsibility and management of both are shared across several business units and leaders (Fig. 7). This makes the goal of partnering to better achieve success with regard to these cultural components an imperative for any organization.

After determining the ownership and responsibility of each cultural metric, we then looked at **which metrics are being actively measured in organizations today**. Our data indicate that only metrics in blue text (Fig. 7) are measured in 50% or more respondent organizations, largely through the use of annual or bi-annual internal surveys. Unsurprisingly, the culture metrics that are being measured are those that are easier to calculate or obtain information about like *employee engagement*.

However, this data also demonstrates that 73% of the 11 cultural components we analyzed are not actively measured or regularly evaluated in businesses today. Specifically, metrics tied to a performance culture like *organizational agility*, *collaboration*, and *alignment with organizational values* are not being measured. These are opportunities for organizations to become more thoughtful about quantifying the elements that drive a performance culture. Additionally, these

data better inform leaders about the results they can expect if they focus on these areas of organizational culture. Kent Thiry, Chairman and CEO of DaVita, said, "If you track productivity and new product development and sales, why would you not bring this same management process rigor to your culture? If you're not going to talk about how you're doing at living your values, how is it going to happen?"²²

Scatter Plot Analysis

In order to gain a more sophisticated understanding of how culture affects bottom line results, we conducted a cross-tabulation analysis. We looked at what culture metrics are most strongly correlated with financial performance and the metrics that organizations are most successful at achieving. The resulting scatter plot is a guideline to help **organizations and leaders see what culture metrics they need to prioritize and better leverage** (see Fig. 8). On the x axis, *business impact* references which culture metrics drive revenue growth; on the y axis, *performance* references how successfully organizations perform in regards to the culture metrics. The asterisks identify the five culture metrics that are most highly correlated with positive financial performance.

Figure 8:

A cross-tabulation of metrics that influence financial growth (business impact) and metrics that organizations do well (performance) resulted in a scatter-plot analysis. This illustrates what culture metrics should be prioritized by organizational leaders over others.

	Low Performance/High Impact	High Performance/High Impact
	<i>Collaboration*</i>	
	<i>Job satisfaction*</i>	<i>Employee engagement*</i>
	<i>Professional growth/dev.*</i>	<i>Alignment with org. values*</i>
	<i>Organization agility</i>	<i>Leadership</i>
<i>Performance</i>	<i>Innovation</i>	
	<i>Communication</i>	<i>Operational management</i>
	<i>Accountability</i>	
	Low Performance/Low Impact	High Performance/Low Impact
	<i>Business Impact</i>	

Such scatter plot analyses are an effective way to drill down data and identify which culture metrics organizations should focus on. Of particular importance is the upper left quadrant, which demonstrates that *collaboration, job satisfaction, professional growth & development, organizational agility, and innovation* are all areas that organizations struggle to achieve, but all have a high impact on business outcomes and success when properly managed. Company leaders need

22.) Bingham, T. & Galagan, P. (2010, November). *It Takes a Village*. T + D Magazine, 1 (1), 34-41.

“Transparency is key, and it is an ongoing struggle facing performance cultures today. Words have to be backed by action. It’s easy to create and sustain a culture; but it’s very difficult to turn an organization upside down to come up with a new culture. To be successful, a culture must be authentic and embraced by everyone within the organization —i.e., from top to bottom; bottom to top; and sideways.”

Colleen Barrett,
President Emeritus,
Southwest Airlines

Figure 9:
Data sets from Fig. 1, Fig. 2,
and Fig. 3 aligned to each
other for comparison.

to address these components more comprehensively and ensure that the culture they espouse values those practices. By contrast, in the upper right quadrant, *employee engagement*, *alignment with organizational values*, and *leadership* are critical culture metrics that organizations are already effective at achieving. In the lower right quadrant, *operational management* is something organizations are efficient at, but that metric is not as strongly correlated with financial success.

Notably, in the lower left hand quadrant, this analysis illustrates that *communication* and *accountability* are cultural components that are low-performing in organizations and have a low impact on business/financial success. It is important to recognize that this scatter plot focused on the elements of culture that are most strongly tied to financial success. Moreover, it is likely that the demographic profile of our survey respondent population strongly influenced the perception and practice of the culture metrics analyzed. The majority of survey participants work within a functional role in Human Resources. As such, their perception of what culture metrics are tied to business impact and financial performance are likely different than the point of view executive leaders have. In light of such nuances, the scatter plot generates additional questions about how functional areas of responsibility impact the perception and importance of culture metrics. Further research may capitalize on this notion and explore how culture is defined differently by organizational groups and departments.

In that vein, one of the hallmark objectives of this report was to provide more clarity around the drivers of an organizational culture, and how those drivers are perceived among organizational employees and leaders. When the data sets from Fig. 1, Fig. 2, and Fig. 3 are aligned next to one another and analyzed, some

Most Important Metrics	Least Successful Metrics	Greatest Challenge Metrics
Leadership (78%)	Professional Growth and Development (82%)	Accountability (42%)
Communication (52%)	Communication (81%)	Leadership (41%)
Alignment with Values (40%)	Accountability (77%)	Communication (37%)
Accountability (34%)	Organizational Agility (77%)	
Employee Engagement (34%)	Job Satisfaction (74%)	
	Collaboration (74%)	

interesting observations should be noted. When we look at how the culture metrics were rated on these three scales: what metrics are most important; what metrics organizations are least successful at practicing; and what metrics organizations most struggle to achieve, an interesting paradox unfolds.

When looked at in this light, the culture metrics of communication and accountability fall into each category, demonstrating that they are some of the most important and the least successful metrics organizations can leverage. Most notably, our data illustrates that improving accountability and communication is a crucial challenge in organizations today.

While this scatter plot shows that there is not a direct correlation between an organizations' communication and accountability practices and financial performance, respondents do agree that good communication and accountability measures in an organization are critical to helping build a performance culture (see Fig.1 and Fig. 2). Kent Thiry of DaVita elaborated on the challenge of linking every component of organizational culture to the bottom line. Though profit is important, sometimes the reason for driving a particular component is slightly obscured. [Demanding ROI on some elements of culture] "is like asking what's the ROI on giving your kids a good teacher or teaching them manners. What's the ROI on having a happy household or on being a good neighbor? It's not an ROI thing. It's a how-do-you-want-to-live thing. And then to sustain that kind of community, you have to have a profit."²³

23.) Bingham, T. & Galagan, P. (2010, November). *It Takes a Village*. T + D Magazine, 1 (1), 34-41.

Conclusions and Recommendations

The necessity for organizations and their leaders to better understand and manage the internal company culture is quickly reaching its peak. The pace of change in the business environment today, the presence of VUCA, the fierce competition in the market, and the results experienced by organizations like *Nike*, *DaVita*, *Genentech*, *Southwest Airlines*, and *Area Ambulance Service* compels all organizational leaders to pause and consider the kind of culture they foster. Does it support collaboration and skill development? Is there accountability in place? Is it driving high performance from every employee? The potential rewards for effectively managing organizational culture are not just augmenting bottom-line results, but also in increasing the quality of organizational talent, improving retention, and driving individual performance and engagement. “Short-term financial victories please the markets, but a culture that measures success in those terms alone rarely builds long-term value or creates passion for results,” a recent *Leader to Leader* article states. “At high-performance organizations, winning is about exceeding goals on quality, cost, or customer satisfaction—objects that lead to profit but are more real for people on the front line.”²⁴

Equally as important as a culture itself is the effect it has on employee satisfaction, discretionary effort, and working together. This is where the true competitive advantage an organizational culture can provide comes into play. In the same way disengaged employees can hold others back, a negative culture can extinguish the passion and skills of a high-performing employee. One researcher found that, “...if the behaviors of an organization are, for example, hierarchal, rigid, closed, noncollaborative and uncooperative—even if the individual employs the opposite of these traits at a personal level and from the onset of his arrival—employees will, over time, act more like the organization than how they might have behaved prior to joining the organization.”²⁵ The ability that an organizational culture has to impact the engagement, retention, and work ethic of employees makes it a business imperative that leaders cannot afford to ignore.

Perhaps the greatest challenge and opportunity facing organizational leaders today is actively measuring and creating a process to proactively manage a corporate culture, and ensuring that there is constant alignment between the values of the organization and the words and actions of employees. The responsibility of an organizational culture must be shared and supported among all leaders and groups within a company. Moreover, just as a negative culture can poison an organization’s potential, a static culture can be as detrimental. The changes occurring within the workforce and market today demand that companies adapt to this new environment—by way of new products, innovative thinking, and organizational cultures to support it all. Those organizations that fail to address their cultures or are content to rest on their laurels may find themselves at a serious

24.) Meehan, P., Gadiesh, O. & Hori, S. (2006). *Culture as a Competitive Advantage*. *Leader to Leader*, 1 (1), 55-61.

25.) Pontefract, D. (2012, January). *Steer Clear of Organizational Leadership Turbulence*. *T + D Magazine*, 1 (1), 56-59.

“Southwest has two long standing committees: a company Culture Committee, which is in place to keep an eye on the ball regarding our system-wide culture and to ensure that it is being maintained across all departments, and a Best Place to Work Strategy Committee, which oversees the proper monitoring and measuring of all elements that create and sustain our culture.”

Colleen Barrett,
President Emeritus,
Southwest Airlines

disadvantage in the future, as researchers assert, “the more deeply embedded an existing culture, the more urgent and compelling the reasons need to be to motivate employees to participate in cultural transformation.”²⁶

Despite the clear recognition of the power of organizational culture, the factors that truly drive it—and what components most influence the bottom line—have remained elusive until now. Using the data gleaned from 425 survey respondents representing more than 200 organizations, this analysis sheds some much needed light on the presence and practice of organizational culture in business today. The findings demonstrate the depth and breadth of corporate culture and help provide clarity around the business outcomes that organizations can achieve when culture becomes a priority. **Most notably, this research identifies which culture metrics are most highly correlated with financial performance, giving organizations a guideline for what areas of culture they need to prioritize first.**

Ted Garnett, President of PS Culture Matters, said, “Creating a positive, high performance and accountable organizational culture is a process, not an event.” That message, echoed by our respondents, is that organizations that have established a means of measuring the facets of culture more frequently, taking corrective actions and measuring again, have experienced the most positive results. Not only are employees more engaged and invested, but company financial performance increases. Proactive communication is critical as it provides the first level of accountability. When management leaders convey their intention to implement programs and improve the organizational culture, disseminating that message to employees ensures that they will be evaluated on achieving those ends. When well-executed, even the smallest initiatives to improve an organizations’ culture provides a great deal of impact.

Keys to success:

- Obtaining executive sponsorship to support the creation of a performance culture
- Using or developing a system to create repeatable and consistent processes
- Actively and continually measuring the presence and practice of cultural metrics
- Creating a ‘Culture Committee’ to foster communication and execution of such processes
- Clear, honest, and consistent communication from leaders to employees
- Correlating people metrics to the business metrics of most value to the organization

26) Ibid.

27.) Meehan, P., Gadiesh, O. & Hori, S. (2006). Culture as a Competitive Advantage. *Leader to Leader*, 1 (1), 55-61.

“Creating a positive, high performance and accountable organizational culture is a process, not an event.”

-Ted Garnett,
President,
PS Culture Matters

Addressing organizational culture can be an intimidating prospect, but it is a necessary one in today's environment. A strong performance culture helps set the tone of the organization and ensures that positive behaviors and actions are rewarded. This consistency drives every employee and manager to give their all every day, and feel good about putting in extra effort and time. One group of practitioners said it best: “Little else in this age of globalization provides a company with an edge that competitors can't simply copy or buy. Culture—the force that determines how people behave when no one is looking—is one such competitive advantage. When people want to do things right, and want to do the right thing, companies have an invaluable asset.”²⁷



Appendix A: About the Research Partners

PS Culture Matters is a Management Consulting and Business Process Improvement Organization built around people culture and a business impact approach to Human Resources. We drive our customers to align and correlate their people metrics to business metrics by providing both technology and service solutions to better execute the activities your company is doing less efficiently today. By identifying problematic areas within your company culture, you can then take action against your weaknesses. www.peoplestatements.com

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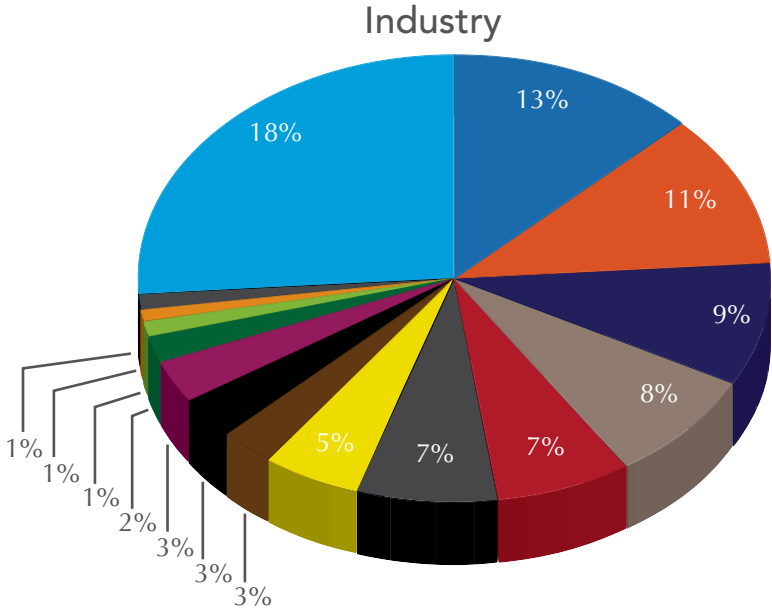


About the Author

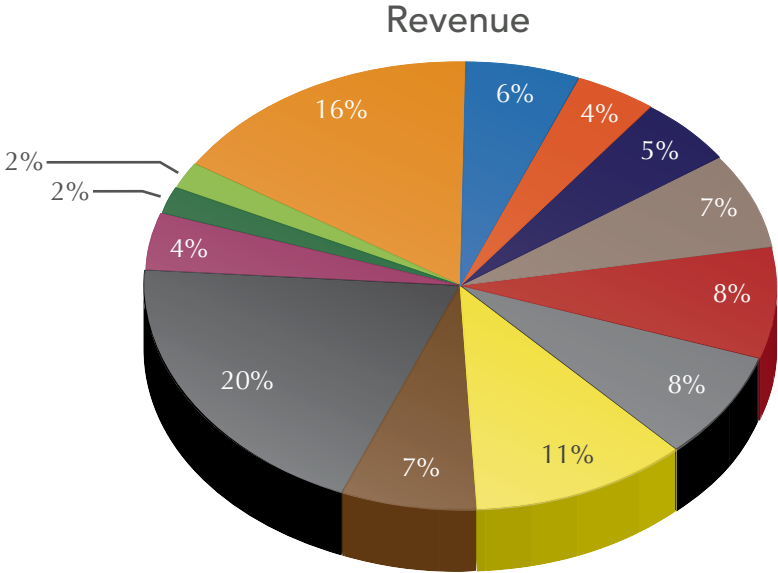
Aubrey Krekeler Wiete, MA is a Senior Research Analyst at the Human Capital Institute in the Organizational Development & Leadership Practice Area. Previously, she worked at the University of Kentucky, where she focused on the organizational use of social media and the business imperative of global English. Most recently, she authored reports about nontraditional drivers of executive development and about the scalability of global coaching programs. Other research topics include exploring the necessity for cross-generational mentorship and coaching, building trust in business to drive collaboration, and understanding the imperative of career development plans to foster employee engagement. Aubrey's other areas of interest include leveraging talent agility to drive high potential performance, and how creative business cultures can be fostered. She earned a bachelor's degree from Saint Louis University and a Master's in Organizational Communication from the University of Kentucky. Aubrey is based in Cincinnati, Ohio and enjoys shoes, writing, Scrabble, (occasionally) running, and spending time with her family.

Appendix B: Respondent Demographics

- Professional Services ■
- Government ■
- Banking/Financial Services ■
- Healthcare ■
- Technology ■
- Education ■
- Retail ■
- Aerospace & Defense ■
- Media/Telecommunications ■
- Oil & Gas ■
- Industrial Goods & Services ■
- Hospitality & Leisure ■
- Life Sciences ■
- Forestry & Paper ■
- Other ■

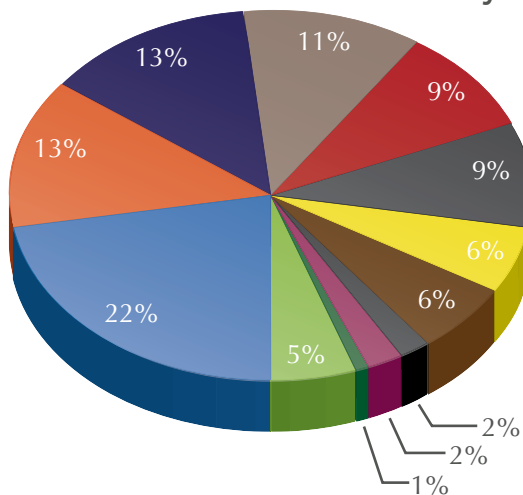


- Less than \$10 million ■
- \$2–5 million ■
- \$5–10 million ■
- \$10–20 million ■
- \$20–50 million ■
- \$50 million–\$100 million ■
- \$100–500 million ■
- \$500 million–1 billion ■
- \$1–10 billion ■
- \$10–50 billion ■
- \$50–100 billion ■
- > \$100 billion ■
- N/A Government or Non-Profit ■



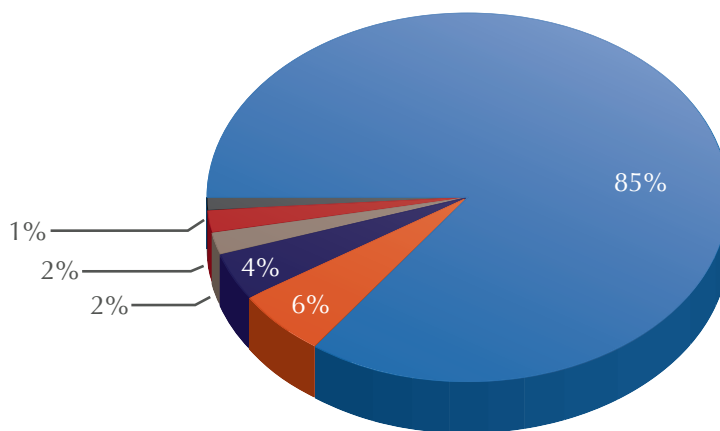
Seniority

- Director ■
- Manager ■
- Senior Manager ■
- Team Member ■
- Middle Manager ■
- Vice President ■
- Senior Director ■
- C-Level (CEO, CIO, CHRO, etc.) ■
- Executive ■
- Senior Vice President ■
- President or Chairman ■
- Other ■



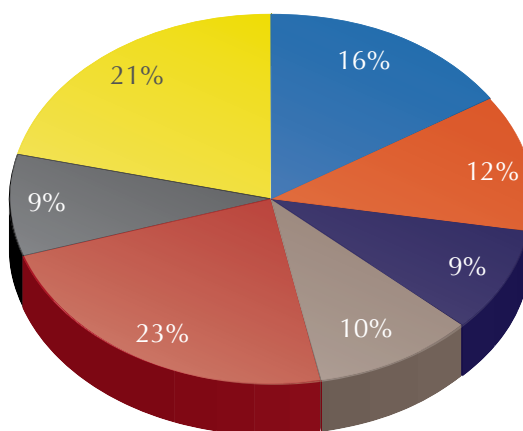
Geographic Region

- North America ■
- Asia/Pacific ■
- Europe ■
- Central/South America ■
- Africa ■
- Middle East ■



Number of Employees

- 1-100 ■
- 101-250 ■
- 251-500 ■
- 501-1,000 ■
- 1,001-5,000 ■
- 5,001-10,000 ■
- 10,001+ ■



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