



Organizational culture

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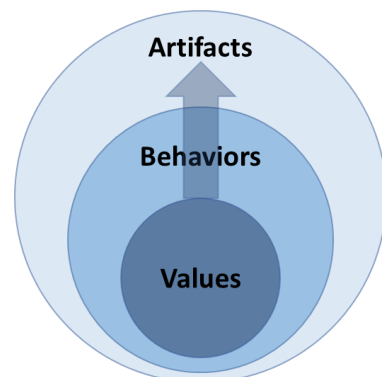
For decades, organizations have been measuring profitability, turnover, customer satisfaction, etc., but only recently has organizational culture become a focus for leaders across industries. Why all this fuss about culture? Every company has a culture, and this culture influences the behaviors of every employee, every day. An organization's culture acutely impacts business results, from process efficiency, to customer loyalty, to achieving strategic goals. As our workforce becomes increasingly skilled, culture is a relatively cost effective way for an organization to differentiate itself as an employer and retain and engage top talent.

Organizations focus (and excel) on what they measure. Companies have learned to expertly analyze financial metrics and improve process efficiency. However, organizational culture – which is often ignored because it seems vague and hard to quantify – has proven time and again to be a powerful force that can topple otherwise well thought out corporate strategies. It is time to start measuring culture.

What is organizational culture?

Organizational culture is often described as “the way we do things around here.” While culture is invisibly shaped by the collective values of organizational members who keep social norms in place, it can also be observed in everything from employee attitudes, business policies, decision making, and leadership style, to performance measurement, rewards, use of language, dress code, business hours, organizational structure, and more.

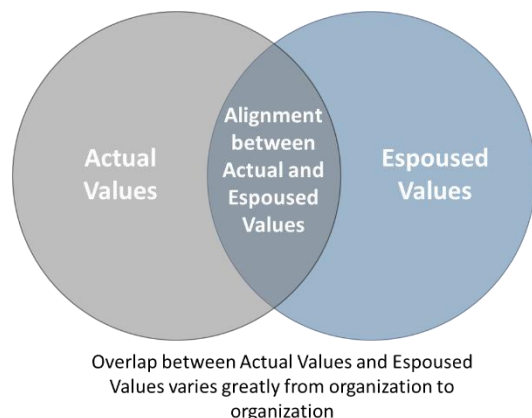
At the root of any organizational culture are the values held by organizational members. These values often manifest in observable employee behaviors and artifacts (such as office layout, decor, and dress code). For example, when the majority of organizational employees and leaders value making decisions by consensus, a culture will naturally develop in which employees regularly work together to reach agreement and harmony, whether or not there are specific policies around how to make decisions. Artifacts may be created to support these behaviors, such as numerous spaces to support group work (round tables, “open-office” spaces, conference



rooms, and easily transportable chairs and desks.) In such a culture, employees who make important decisions without involving others will likely experience friction from their colleagues. The uneasiness experienced when deviating from social norms (in this case, seeking consensus) motivates employees to align their behavior to the organizational culture.

Every organization has a culture, either by design or by default. If your organization has not purposefully defined, established and nurtured a desired culture, then an unintentional “way of doing things” has developed. Humans are social creatures – we look toward the actions of others, often subconsciously, to understand how we should behave. In this way, the perceptions and behaviors of employees becomes pervasive across entire departments and offices, guiding the behaviors of all employees, regardless of age, gender, location, role, or rank. Because of culture’s pervasive impact on the perceptions and actions of all employees, culture has a profound ability to either advance or obstruct strategies and goals.

Often, organizations define the values and culture they hope will guide their workforce, but the behaviors they see in their leaders and employees do not support the values and culture they have identified. In these cases, the espoused or desired values may not reflect employees’ actual values and behaviors.



Culture has a profound impact on business results

When intentionally developed and nurtured, corporate culture can be a huge competitive advantage, resistant to imitation by competitors. Organizations with strong workplace cultures report more than five times the revenue of organizations with poor cultures. Companies with positive cultures also significantly outperformed other organizations in workforce growth, stock prices and net income¹.

Think of the most successful organizations in your industry. Do they have a distinctive culture that you can define? Most industry leaders – Amazon (and its subsidiary Zappos), Apple, Disney, General Electric, Google, Microsoft, Nike, Nordstrom, REI, Southwest Airlines, and Starbucks – have cultures that employees and customers alike recognize. It’s no coincidence that companies with strong cultures have made it to the

top of their industries. When surveyed, the vast majority of leaders and employees report that culture is critical to business success; yet, almost half of leaders and employees feel that their organization mismanages culture (see the table below).

% of all employees (including leaders)

84%	...agree that their organization's culture is critical to business success
60%	...say culture is more important than strategy or operating model
45%	...do not feel their culture is being effectively managed
51%	...think their organization's culture is in need of a major overhaul
44%	...say culture change should take less than one year

From Strategy& Global Culture and Change Management Survey 2013 ⁱⁱ

Despite its importance to bottom-line success, culture is often ignored because people have difficulty recognizing the culture that surrounds them every day. When culture is not measured and managed, it can influence the behaviors of employees in unplanned ways – often devastating employee engagement and retention, obstructing corporate strategies and goals, and ultimately eroding the bottom line.

Purposefully shaping your company culture is an investment in your long-term success. Odds are, your competitors are focused on short-term wins and near sighted shareholder reports. This makes building a strong culture, whatever it is based on – innovation, customer-centricity, informality, etc. – overwhelmingly resistant to being knocked off by your competition and more powerful than almost any other competitive advantageⁱⁱⁱ.

The advantages of focusing on your organizational culture:

Advantage #1: Achieve your strategies and goals

When a strong organizational culture is aligned to a company's strategy, the culture encourages employee behaviors that facilitate the achievement of organizational goals. For example, if a company's strategy centers on innovation, building a culture that encourages creativity, adaptability, and risk taking will encourage employees to envision and suggest new and novel ideas. However, a culture rooted in values of stability and conformity may discourage employees from sharing innovative ideas. For example, in an office where leaders and employees alike value creativity and continuous

improvement, an employee who suggests a way to improve upon a process created by leadership will likely receive praise for her ingenuity, encouraging her to continue to think of creative improvements and share ideas that support the firm's innovative strategy.

Take Patagonia as an example. Patagonia is an outdoor apparel company that doubled its scale of operations and tripled its profits since 2008, with about \$600 million in revenues in 2013^{iv}. How did they do it? By focusing on their values, even more so than their profit. In the words of Patagonia CEO Rose Marcario, "we don't give profit primacy over our other values, like building the best product or using business to implement solutions to the environmental crisis".^v To build the best products and find solutions to the environmental crises, Patagonia has created a culture where it is safe for all employees, regardless of their position, to share ideas on how to do things differently. Jason McCaffrey, the head of Patagonia's surf division says "you can say wacky stuff in front of the whole company if you want. It's a very open place, where people say crazy things... What I've learned from working here is that both good and bad ideas can come from anywhere in the company and all positions and levels. The guy running the company can have a bad idea, and the guy who's the shipper or janitor can have a great idea and vice versa. At Patagonia, everyone has the same opportunity to work through that idea"^{vi}. Patagonia has even intentionally slowed its own growth to make sure that it does not lose its culture by becoming too big, too fast^{vii}. As a result of this focus on innovation, Patagonia was the first company to produce a polyester fleece jacket in 1977^{viii}, they recently rolled out advancement in wet suit technology and a line of seamless clothes^{ix}, and in 2014 Patagonia was awarded the GT Nexus award for Supply Chain Innovation. ^x

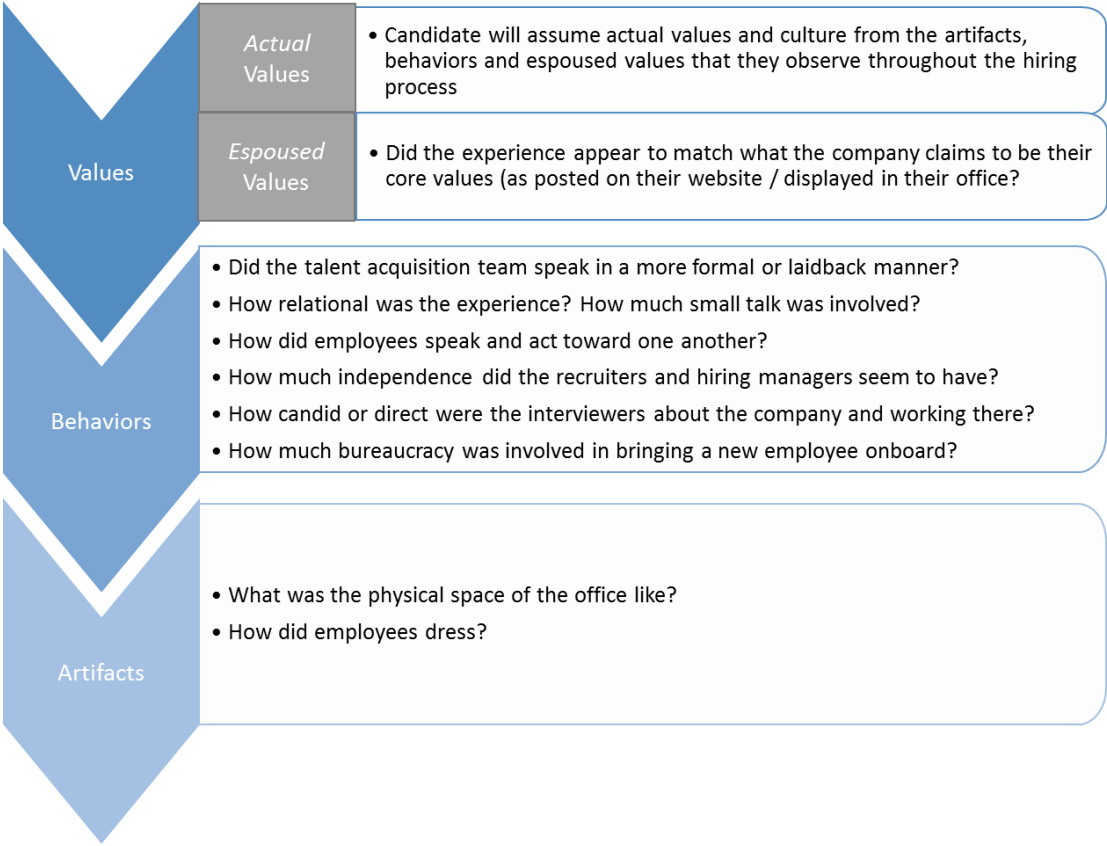
However, in a corporation with a strategy that depends on innovation but a culture that is rooted in stability, consistency and order, an employee may feel uncooperative, out-of-line, or disrespectful for making a well-intended and innovative suggestion. On a small scale, the latter example shows one missed opportunity on the part of the company. In reality, culture touches every employee in an organization, causing countless opportunities to improve processes, products and services to go unspoken, motivating the most innovative talent to take their creativity to competitors, and likely moving recruiters and hiring managers to hire employees who do not support the innovative strategy – potentially diluting the workforce with employees who are less creative.

Advantage #2: Hire top talent

The best candidates have the freedom to be picky when it comes to choosing a job and deciding whether or not to join *your* organization. You know this. Before the most

desirable professionals even speak with your talent acquisition team, they have already learned a great deal about what it is like to work at your company. People at the head of their game are well networked, connected through social media, and familiar with employer review websites such as glassdoor.com. These resources will offer candidates a glimpse of – or at least someone else’s perspective on – both the good and the not-so-great aspects of the work environment offered by your organization.

When candidates begin the hiring process, they are exposed to more demonstrations of your culture that will likely influence their decision of whether or not to accept your offer. Even before their first day on the job, candidate’s observations inform how they will behave once they join your team. Candidates will interpret your expectations for employee behavior based on their observations and judgments during the hiring process; for example:



Equally, as an employer, you may consider evaluating a candidate for “culture fit” based on how well you predict they will function in your work environment. You can increase the accuracy of these predictions by evaluating how closely a candidate’s values align with the values and culture of your organization. Candidates who share your organizational values are likely to stay employed with you longer and demonstrate

higher levels of performance than employees whose personal values do not align to your organizational values^{xi}. Even when a candidate possess all of the hard skills you are looking for, their fit to your culture will still be instrumental in helping you predict their success at your organization.

Advantage #3: Engage and retain employees, especially Millennials

Candidates who fit the organizational culture well are 20% more likely to be top performers once hired.^{xii} If you are not hiring for culture fit, you may onboard exceptionally qualified candidates who underperform due to the demotivation of dissonant cultural compatibility, affecting both your employee engagement and retention.

Only 30% of employees are engaged^{xiii}. This means that 70% of our nation's workers are holding back their skills and energy, wasting productivity on negative behaviors, and quitting before they physically resign. Imagine how you could move the needle on your performance goals with 100% of your employees engaged, motivated, productive and functioning at their personal best. The most direct way to engage your workforce is to develop a strong company culture based on values that resonate with your employees' ideals and ignite their passion.

Odds are, a large portion of your workforce – especially top performers and Millennials – are planning on leaving and taking their skills and knowledge elsewhere. In 2012, 32% of employees were “planning on leaving” their employer and only 55% of employees believed their employer was a sound “long-term” place to work. Millennials (born between 1980 – 1999)^{xiv} are twice as likely to be looking for new work as older workers^{xv}. As more Millennials enter the workforce, increased employer effort will be required to retain talent. As Millennials are more prepared than the generations before them to leave an employer that does not align with their values, one of the easiest ways to keep Millennials in your workforce is by consistently and transparently aligning organizational operations (such as policies, procedures, performance management and work environment) to your company's core values. Research shows that Millennials expect every action of their firm to represent their values. They are quick to react negatively to perceived disconnects between their employer's stated values and actions.^{xvi}

Advantage #4: Increase customer loyalty

We often think of culture as something that exists inside an organization, but the actions, attitudes and behaviors of employees shape our customers' experiences. This is even true when a customer's main interaction with the organization is online or

mobile. Culture will determine the extent to which employees dedicate their energy, ideas, innovation, and time to developing the websites, processes, and products that interface with the customer.

For example, consider these industry leaders:

- **Amazon** has earned top placement of all online retailers on the American Customer Service Index.^{xvii} This online empire's mission is to be "the world's most customer-centric company" and calls one of its values "customer obsession". Many companies claim to be customer-centric, but still do not make it easy for customers to contact them with issues. Amazon, however, will call you directly when you submit a complaint and the company's leader, Jeff Bezos, has made his email address public to encourage feedback (jeff@amazon.com).
- **The Cleveland Clinic** has long had a reputation for medical excellence, and recently undertook a large effort to provide exceptional patient satisfaction as well. The Clinic opened an Office of Patient Experience staffed by over 110 employees tasked with creating a unified culture in which all employees – including janitors and food service employees – work together to do what's best for the patients. Cleveland Clinic became the first major provider in the US to offer same day service – mandating that all patients be given the option of getting an appointment the same day they called. They also created one phone number for booking appointments and a centralized scheduling system across the enterprise. Cleveland Clinic's overall ranking in the Centers for Medicare & Medicaid Services (CMS) survey of patient satisfaction jumped from about average to being one of our nation's top hospitals.^{xviii}
- **Nordstrom's** culture of exemplary customer service has earned them many obsessively loyal consumers. At Nordstrom, "customer service" isn't just a department or a set of policies, it involves empowering employees to use their own good judgment to exceed customer expectations. Customer service is a top value that guides the behaviors of every employee. Nordstrom reinforces its value of customer services through customer centric policies and procedures – they even place customers at the top of their organizational chart^{xix}.
- **Starbucks** is known for taking excellent care of its customers. In doing so, Starbucks has created an entire industry of highly customized beverages. If you order a "tall, one-pump vanilla, nonfat, half-caff latte", they will deliver it with a smile. And if you say this highly customized drink doesn't taste just right, they'll make you a new drink for free while still smiling. The unique pride Starbucks partners take in delivering exactly what the customer wants has created incredible brand loyalty.

Whether for good or for bad, a strong company culture can be much more powerful than stated values, processes, and procedures in influencing the customer experience that your employees provide. When your organization's approach to customer service isn't embedded in your culture, leaders and managers are left to rely on superficial measures and costly incentives to persuade employees to create the desired customer experience. However, when employees observe that their colleagues and managers truly value the customer experience, and that these values are supported by official company policy, they will experience a sense of pride and connection to something bigger than themselves by enacting this value.

Advantage #5: Reduce the risk of restructures, mergers, and acquisitions

The most frequently cited reason for the failure of organizational restructures, mergers, and acquisitions is a failure to develop change methodologies around the cultures involved or to adjust the cultures to support the change^{xx}. Organizations too often track the financial and operational aspects of restructures, mergers and acquisitions much more closely than the cultural integration of the people who will begin working together^{xxi}. However, executives who have managed mergers and acquisitions retrospectively realize that culture is a powerful enough force to counteract the value of economies of scale, increased market presence, or seemingly strategic restructures. Culture is often not considered during organizational change efforts because, like breathing, we do not realize we are doing it until it is brought to our attention, but it is vitally important. It is not until after different groups of employees are brought together through organizational restructures, mergers and acquisitions that the discomfort created by clashing cultures makes us consider that our own "way of doing things" is both unique and powerful.

Even during organizational restructures, when members of different teams within one organization are brought together to work side-by-side for the first time, culture clashes can cause otherwise strategically sound restructures to fail. It is very common that within the larger corporate culture, departments, functions, geographic sites, or individual teams have developed their own customized way of functioning. For example, the marketing team may value consensus driven decision making while the sales department values quick decision making. A company with multiple offices may find that more established locations value stability and order while newer offices find stability and order obstructive and limiting – the newer offices may be comfortable with fewer rules, less formality, and more risk. Even though the two units or teams may actually share a number of unifying values and corresponding behaviors, those that are different, or are not mutually understood, can adversely impact their ability to assimilate into a collaborative unit.

By performing culture assessments in advance of restructures, mergers and acquisitions, you can determine the level of compatibility – and topics of potential conflict – before different groups of employees are brought together. This information can be invaluable in determining the level of risk associated with the transformation and in developing a change management plan that mitigates the anticipated areas of resistance. Taking a longer term view, you may compare the baseline culture information to the organization’s desired culture, and create a roadmap to transform areas of misalignment that limit employees’ ability to work together to achieve strategic goals.

How an organization may start leveraging culture

A key place to start leveraging culture within your organization is to start using metrics to purposefully modify or leverage their culture to achieve strategic goals. This approach helps to quantify the values of individual employees, teams, and the workforce as a whole to understand the organizational culture. From there you can start to identify values that support business goals, develop a culture from these values, and track progress with value-based metrics.



Step 1:

Measure your current culture

Capture your organization’s culture with hard data to ensure a concrete understanding of where you are today. By utilizing a brief culture assessment survey, determine your employees’ personal core values that drive their behavior and the culture of your company. Employees’ values may be aggregated across the entire employee population (and may also be broken-down by departments, geographies, etc.) revealing the alignment between your employees’ values and your organization’s aspirational culture. In addition to identifying the values held by your organization, determine how intensely and consistently these values are held across your workforce and if there are potential conflicts that may impact business results.

Measuring Culture at Company X

Company X is a rapidly growing consumer and packaged goods company. In the war for talent, Company X tried to create a fun work environment by planning happy hours, organizing sports teams, and offering flexible schedules and casual dress codes. They posted values such as Respect, Empowerment, and Perseverance on the wall. Despite genuine efforts to create a culture to keep employees happy, Company X continued to struggle with turnover, customer engagement, and overall strategy achievement.

A culture assessment would reveal that while Company X was fulfilling employees' values of having fun at work, they were missing the mark on other values held by the majority of their workforce. Most employees at Company X valued opportunities for professional growth, credit for good performance, sharing information freely and having ownership for their work. Company X had thought they were purposefully creating a winning culture, but soon realized that they had only defined values, and that these values did not enable the processes and behaviors to support the bottom line.

Step 2:

Define an optimal culture

Your culture vision should articulate what your organization values and why these values matter. Based on the values already present in your workforce, define desired values and culture that will drive employee behavior to align with your strategy. This requires an understanding of how daily employee behavior and perceptions can either support or impair company goals. Does your strategy require employees to work as a team? Be creative? Create order and follow guidelines? Work autonomously? Your aspired culture can be as unique as your strategy; one culture does not fit all; rather, it is about aligning the aspects of culture that affect the attainment of your goals.

To ensure that your efforts make the desired positive impact on your business, identify key performance indicators that can be measured over time. These key performance indicators can range from speed to market, customer or employee retention, and so on. By tracking these metrics, you can more specifically track how improvements to your culture are also generating the desired business results.

Defining an Optimal Culture at Company X

When identifying values to shape Company X's desired culture, consider the values currently held by their workforce and their corporate strategies. To stay ahead of competition, they recognize the need to consistently bring new products to market by motivating the most imaginative talent in the industry. So far, Company X's culture of fun was working for them, but the values on the wall – Respect, Empowerment, and Perseverance – seemed generic and insincere to employees. Based on the values already held by their employees and their needs to be innovative and hire top talent, we may recommend that Company X builds a culture around values such as "Recognize Excellence", "Innovate, Always", "Become the Best You", and "Have Fun". If incorporated into policies correctly, these values would support Company X in hiring, developing and encouraging innovative people; recognizing, rewarding and retaining the people who positively impact the business, and continuing the fun work environment that has attracted talent and enabled creativity.

Key Performance Indicator	Reason for metric
Employee Engagement	Increases productivity and innovation, as engaged employees are more motivated, accomplish more per hour worked, and contribute more ideas to help the company
Employee Retention	Decreases amount of knowledge that walks out of the door with the employee Reduces costs in hiring replacement employees (e.g. advertising, recruiting, training) Increased productivity, as there are fewer unfilled roles
Attraction of Key Talent	Reduce costs in hiring Increases ability to hire key talent

Step 3:

Embed Culture in the organization

To make the desired culture real, your values must be instilled pervasively throughout the organization. Attempts to instill your values in the organization will certainly fail if your efforts are limited to sending a list of values to HR with the order of cascading the new culture down the management hierarchy. It takes much, much more.

Values must be intentionally embedded in every phase of the employee life cycle, from screening candidates to motivating, measuring and rewarding your veteran employees. When hiring new talent, select candidates that support your culture and will be successful in it. After employees are hired, they must be measured and rewarded based on their culture fit. If a company claims to value customer service yet rewards sales associates based on sales quotas but not customer experience feedback, the organization is really telling the sales force that they value sales at all costs, even if it leaves the customer unsatisfied. Similarly, if an organization says they value innovation, but employees are made to feel uncomfortable by peers and managers when they suggest a change in processes or procedures, the message employees receive is that they should keep innovative ideas to themselves – or take them to a competitor who may reward them for their creativity. Designing competencies and performance metrics in support of aspirational values and culture will drive employee behaviors to support the desired culture – making your aspirational culture your actual culture.

To get the largest bang for your buck, focus on managing the specific elements in your culture that will deliver the largest return. This means there may be areas of misalignment that you can choose to selectively ignore, while focusing on maximizing areas of existing alignment and addressing the key areas of misalignment that are the root cause of current organizational pain points.

Embedding Culture at Company X

To infiltrate their newly identified values into the organizational culture, Company X should reexamine their talent acquisition, performance management, training, and workforce communication practices. They may consider including assessments in the talent acquisition process to ensure they hire candidates who are motivated by opportunities for growth and recognition, who are creative, and who are comfortable with change. A formal performance management process should be implemented that provides employees frequent opportunities for recognition and which rewards employees for innovative behaviors and pursuing professional development. All processes should be examined to understand if they support or challenge employees in suggesting and applying innovative solutions in their daily work. The most visible indicators employees look towards to understand what behaviors management expects from employees are the behaviors of leaders themselves. If management at Company X expect employees to have fun at work, leaders will have to smile and enjoy their time at work in order to make employees recognize that “fun” behavior is not only appropriate, but expected.

Step 4:

Transform the way you work

Culture lives in your employees, making it essential to consider how this transformation affects your people. Even more so than other transformation efforts, changing your organizational culture will require purposeful management and leadership attention. You can support this by embedding your new culture and values through performance management program review, talent acquisition process enhancement, strategic communications, stakeholder engagement, role model selection and even leadership coaching, if desired. In other words, it is important to translate your desired values into behaviors, processes and artefacts that drive your organization to literally live the values that are written on the wall. Using real data, will allow you to measure progress as your organizational culture begins to transform. Through metrics, you will know when your optimal culture has been achieved.

Transforming Company X

At Company X, leaders should launch an internal marketing campaign, exciting the workforce by transparently revealing that the new corporate values were created with employees in mind. Company X should clearly and repeatedly explain how the new culture will be better for employees (by providing them with increased opportunities for growth and recognition), how the culture will stay the same (by continuing their fun traditions such as happy hours and sports teams), and how it will help the organization achieve strategic goals (by retaining their employees – who together create the company – and removing obstacles that have prevented innovation). To decrease employee concern, Company X should share what will change (performance management systems, recognition programs, etc.) and how these changes support the values of the workforce.

Be the company you want to be

Your organizational culture touches every aspect of your business, from the candidates that join your team, the behaviors and engagement of your existing talent, to the ability of your employees to innovate, make decisions – and stick to them. Culture impacts the satisfaction of your customers and the perceptions of your stakeholders and investors. Ultimately, culture impacts the success of company strategies and your bottom line. Don't be careless with culture. Measure it, mold it, and make it matter.

About Slalom

Slalom is a business and technology consulting firm with more than 3,000 consultants across 16 offices in North America and London. Our Organizational Effectiveness Practice enables companies to get the most business value from their processes, technology, and each role in their organization through improvements in business strategy, culture, and role clarity.

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