Grant Thornton

Beyond measure: Making culture count

A winning culture keeps score

We live in a KPI-driven world.
Today's organizations are intently focused on measuring what matters. And what matters more than organizational culture?

In fact, you'd be hard pressed to find an organization today that doesn't have culture near the top of its list of priorities. To learn more about the importance of culture, CEOs and CFOs from 1,400 organizations were surveyed; this research pointed out that 92% note that improving culture can increase their organizational value.

Too often, culture is perceived as an intangible, something that can't be measured. But, in fact, corporate culture can be actively measured, monitored and managed. This article discusses a few ways to measure the impact of culture.

What exactly is culture?
For some, company culture conjures up images of foosball tables, Segways cruising down corridors and employees plugged into their favorite tunes while glued to their laptops. But the reality is that culture is, above all else, a business issue which should be prioritized and measured like any other organizational objective.

Simply defined, culture is the identity and personality of an organization consisting of a shared way of being, thinking and making decisions that are aligned with its core values and goals. Far from being static, culture is ever-changing, evolving with time, new experiences and business challenges. Whether by design or default, culture exists in every organization, and it can either drive or detract from the success of the business.

Culture financial performance

	Average increase for 12 firms with performance-enhancing cultures	Average increase for 20 firms without performance-enhancing cultures
Revenue growth	682%	166%
Employment growth	282%	36%
Stock price growth	901%	74%
Net income growth	756%	1%

Source: Corporate Culture and Performance, John P. Kotter and James L. Heskett

Culture: Who cares?

The answer is simple. Employees and customers care. According to Gallup, more than 87% of the world's workforce is not engaged, yet engaged workplaces are 21% more profitable than those with lower levels of engagement. And research shows that customers show a clear preference for culture-driven companies.

Customers of organizations where employees are more engaged use the company's products and services more often and are more satisfied than customers of companies with less engaged employees.

Strong corporate cultures that facilitate adaptation to a changing world are tied to strong financial results. In particular, those cultures that encourage leadership throughout the organization and that place a high value on employees, customers and owners net positive business results. In their book, *Corporate Culture and Performance*, John P. Kotter and James Heskett report that their research found that over an 11-year period, revenue growth in companies that strongly valued all key constituencies and leadership from managers at all levels grew an average 682% compared with 166% for firms that did not.

Indeed, organizational culture matters for a host of good business reasons including:

- **Competitive advantage** – Companies with aligned cultures generate better performance. Thirteen companies that have been counted among Fortune's annual 100 Best Companies to Work For list every year see higher average annual returns, with cumulative returns as high as 495% instead of 170% (Russell 3000) and 156% (S&P 500). Companies with strong cultures also experienced a 4× increase in revenue growth. Moreover, mission-driven companies experience 30% higher levels of innovation and tend to be first or second in their market segment.
- **Bottom line success** – An aligned organizational culture impacts the bottom line. According to a Gallup meta-analysis of 1.4 million employees, companies in the top quartile of employee engagement are 22% more profitable than those in the bottom-quartile. The study also confirms that engagement leads to improved customer relations.

Making the case for culture

8 reasons why it matters

Competitive advantage
Companies with aligned cultures generate better performance.

Bottom line success
Companies with high employee engagement not only are more profitable but also benefit from improved customer relations.

Engagement
Employees who are engaged are a powerful asset both in terms of customer satisfaction and sales.

Recruitment
Businesses are competing for the best talent. Building an aligned company culture helps companies hire and recruit the right people.

Retention
Employee turnover is expensive, costing companies time and money. An effective organizational culture can help retain engaged employees.

Brand identity
Businesses that are known for their aligned culture can reap the rewards in increased sales, customer loyalty and a well-regarded business reputation.

Quality
Effective organizational cultures result in workers delivering higher quality products and services.

Productivity
Positive cultures result in improved employee morale which, in turn, leads to increased productivity.

- **Engagement** – Employees who are engaged are a powerful asset and they require a positive workplace culture that fosters collaboration, opportunities and other foundational aspects of organizational culture. Significantly, according to Gallup, highly engaged workplaces see a 10% increase in customer ratings and a 20% increase in sales.
- **Recruitment** – Businesses are competing for the best talent and today's applicants are prioritizing culture as a key employment consideration. In fact, highly educated job seekers are prioritizing cultural components such as company values and growth opportunities. Consider Netflix's popular culture code which has gone viral and was originally published as a recruiting asset. Building an employer brand and company culture helps companies hire the right people (55%), get a greater number of qualified candidates (49%), increase employee referrals (41%), and have more diverse candidates (32%).
- **Retention** – Employee turnover is expensive, costing companies time and money for recruitment, hiring and training. It also negatively impacts morale. When companies have a poor culture, 48% of employees start planning their exit. Considering it costs between 30 and 150 percent of an employee's salary to fill a vacant position, it pays for companies to invest in their culture. A positive culture can help retain engaged employees. When people feel like they belong to the organization, they're more likely to stick around.
- **Brand identity** – Organizational culture can contribute to a strong brand identity. Businesses that are known for their positive culture can reap the rewards in increased sales, customer loyalty and a well-regarded business reputation.
- **Quality** – Healthy organizational cultures result in workers delivering higher quality products and services. Cultural standards of excellence required are critical to creating a brand reputation for high quality.
- **Productivity** – Positive cultures result in improved employee morale which, in turn, leads to increased productivity. When workers increase productivity, they contribute to the financial health of the organization and help drive growth in profits.

Measurement matters

Despite the clear value that a strong culture brings to an organization, many still struggle to measure culture's financial impact. In fact, a study on the impact of culture on business strategy revealed that although culture is widely viewed as important, many organizations are still not investing in the level of measurement needed to assess their culture. Consider these findings:

- Fewer than 12% of companies believe they truly understand their culture.
- Only 19% of companies think they have the "right culture".
- Sixty-four percent of organizations only measure employee engagement annually.
- Nearly one in five employees report that their companies don't formally measure employee engagement at all.
- Only 46% of companies report they're prepared to tackle the engagement challenge.

Measuring the ROI of culture can be challenging for a number of reasons. First, it requires a real commitment of time, resources, dollars and leadership buy-in. Second, it requires building an organization that rewards risk-taking, curiosity and employee autonomy. Third, it calls for the recognition that building a healthy culture doesn't happen overnight; typically, it takes 2-3 years for a new culture to really take effect. Changing how people think and behave simply takes time. Finally, it requires organizations to confront their values and humanity head-on.

These challenges are perhaps a few reasons why 73% of C-suite respondents to the Culture Quantified survey said their organizations had no formal process in place for measuring company culture. Even in today's metrics-driven world, top-performing companies believe that culture is best measured by the merits of its purpose rather than the bottom line.

Yet, what cannot be measured cannot be managed and culture is no exception. Without tangible measurement, it is virtually impossible for organizations to assess where they are on the culture journey. As noted in a Grant Thornton International study, "the key to success in measuring culture is to observe how each of the elements of your 'cultural web' manifests itself within different areas of the business. Many current methods focus on repurposing or re-interpreting data already available (such as complaints data and customer feedback). While these are good as calibration, calling them 'culture' is missing the point. Observing behaviors in the normal course of business is critical to truly understanding culture."

Five key phases to the process

Phase 1
Assess current state

- Clarify the scope of the culture component review
- For each culture component, use document review, observation, survey and interviews to assess culture components against the following categories:
  - Artifacts
  - Employee perspective
  - External output

Phase 2
Index components

- For each component, identify the aligned culture type
- Identify misalignment within the Organizational Component Matrix
- Develop an impact prioritization map for components

Phase 3
Design future state

- Conduct design thinking sessions with key stakeholders to identify future state culture prototype
- Design desired culture across impacted components
- Identify structure, roles, responsibilities, and changes that are essential to enable success
- Develop culture success KPIs

Phase 4
Plan transformation

- Develop roadmap for relevant components with inventory of necessary projects
- Build a change plan identifying quick wins to gain momentum
- Create a change leadership team model
- Develop timeline and milestones capturing all projects addressing dependencies, constraints, etc

Phase 5
Transform & monitor

- Activate culture transformation roadmap projects
- Develop culture issue protocol and periodic reporting
- Create a monitoring process for culture KPIs

Dr. Tiffany Yates, Grant Thornton senior manager, Organizational Strategy, explained that it is critical to align culture to business performance in a way that is customized to organizational goals. "You can't take somebody else's playbook and utilize it," she said. "You really have to know what organizational components create your culture and understand who you want to be before starting to pull levers on culture change."

When it comes to measuring the ROI of culture, Yates said there is no such thing as a one-size-fits-all metrics strategy. Rather, metrics must be distinct to the type of culture the organization is seeking to create. "For example, if you're trying to drive a highly innovative culture, your key performance metrics might include levels of risk taking, R&D and speed to market," Yates explained.

Historical metrics for culture might be culled from traditional employee engagement surveys, job satisfaction and employee net promoter scores or retention rates. However, Yates suggested that organizations should look beyond these traditional metrics and consider an "outside-in" perspective of culture performance. "Organizations should make sure who they say they are and how they're perceived in the marketplace is the same," she said. "Most organizations have more assets of data pools on customer centricity topics. So how do you connect the dotted line between the customer perception of your culture and what your culture really is? The answer is to create new data sets instead of relying on the same employee survey."

Traditional assessment tools like engagement surveys can help reflect key characteristics of the organization's culture, but they don't really gauge the effectiveness of high-level culture change efforts. Instead, culture metrics must map to business imperatives in order to offer real value. Understanding whether your organizational components are aligned to your desired culture is critical to measure the effectiveness of your culture. For example, organizations need to evaluate key components including: environment, customer, technology, leadership, performance management, training and development, rewards and recognition, financial investments and financial results.

Making culture measurement count

Best-in-class organizations understand that effectively measuring the impact of culture on business performance requires more than building a dashboard. The process itself requires adopting a data-driven mindset. Consider these guidelines when building your culture measurement strategy:

- **Align culture and behavior**
  At all levels of the organization, do individual behaviors support the defined culture? High-performing companies take into account standard measures everyone deploys but also gain a deeper understanding of how these measures connect to the day-to-day working behaviors of employees. Consider the case of Walmart, a company that was founded on a "Culture First" mentality with a focus on frugality. Employees are expected to own expense control for anything within their authority, as though it was their own money. Expected behaviors include reusing and recycling paper clips, envelopes and rubber bands.

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- **Adopt a long-view approach to cultural measurement**
  Organizations with strong cultures understand that culture measurement is an ongoing process, not a short-term project. There was a time when companies would conduct a check-the-box measurement activity once or twice a year via employee surveys which often took months to generate and report results. Instead, companies today are embedding the way they measure and improve culture throughout the regular cadence of the organization. This might mean discussing people and culture quarterly to map to budgeting and sales planning sessions.

  Grant Thornton CEO Mike McGuire noted that the firm began its new culture journey a few years ago with the objective of increasing employee engagement in order to deliver premium client service. “We started seeing results in about two years,” he explained. “In 2016, our retention improved by 500 basis points year over year—something that’s unprecedented in our industry. I think that got people’s attention.”

  With significant improvements in retention and employee engagement, McGuire acknowledged that the firm’s long-view approach to culture has netted high ROI. He advised other organizations to approach their culture journey with a long-term mindset. “It is a journey, not a project,” he said. “If it just becomes a project or an initiative, people will start wondering when it is going to be done.”

- **Cultivate employee commitment**
  Best-in-class companies recognize the importance of gaining the commitment of employees to their business and values. In so doing, they measure the day-to-day work behaviors of employees and evaluate those behaviors to determine how to drive business success. Adopting “Culture First” behaviors requires effort, commitment and patience.

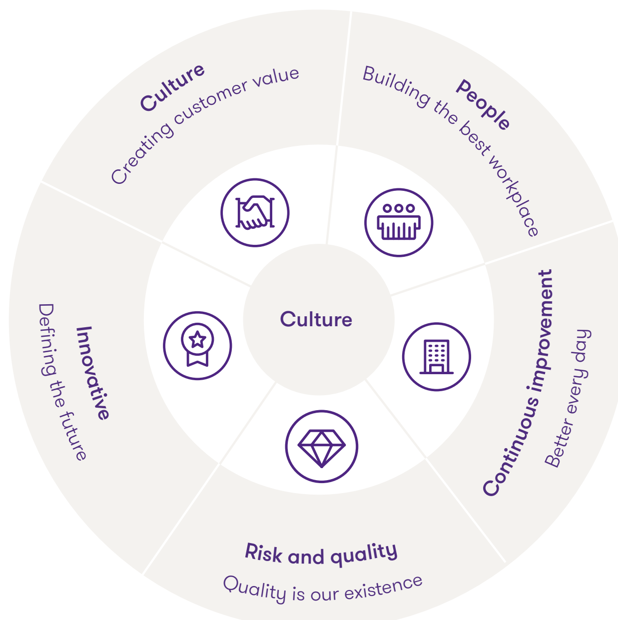
  Dina Gray noted in her book, *Measurement Madness* that too often measures end up driving the wrong behaviors. Employees might focus on the measure rather than the true objective of the organization. “The resulting behavior varies from gaming the measure to downright unethical behaviors to ‘hit targets’”, she stated. “Measurement becomes not about learning and improving business results but about judgment of people.”

Organizational culture is about core values—and valuing the right things could mean a significant positive impact on business performance. Grant Thornton defines five distinct culture types that enhance or detract from an organization's strategic execution:

- **Innovative (defining the future)**
  An innovative culture strives to create transformational products and services. A company with an innovative culture can change the world and accepts failure as part of doing business.
- **Customer (creating customer value)**
  Every decision is made with the customer in mind and everyone in the organization knows how they impact the overarching customer service strategy, as well as the entire customer experience.
- **Employee (building the best workplace)**
  Even as technology advances and capital shifts, it is the leadership and personal contributions of the individual employees who comprise an organization's workforce that ultimately set it apart from competitors.
- **Continuous improvement (better every day)**
  Creating a culture of continuous improvement is an exercise in demonstrating continuous improvement—you need serious commitment and sustained energy.
- **Risk and quality (quality is our existence)**
  A culture of quality is one in which everybody in the organization, not just the quality controllers, is responsible for quality.

Building a sustainable, aligned culture of performance requires measurable and demonstrable behavior. Yet, while every organization's culture journey is unique, all companies share the same reality—investing in culture pays dividends for years to come.

Types of cultures



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