Organizational Culture Is a Competitive Advantage

People, talent and culture issues dominate the agenda in boardrooms and C-suites, making it imperative for companies to embrace a culture-first approach.

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If culture eats strategy for breakfast, why do some organizations continue to respond to labor shortages and economic contractions with salary increases, staff reductions and other snack-sized, often short-sighted actions?

That's an increasingly important, time-sensitive question for board members and C-suite leaders to ask themselves as they scale back capital expenditures and consider cost optimization steps and operating expense reductions in response to economic uncertainties.

As they evaluate these issues, leaders need to take a fresh look at the long-term value that high-performing organizational cultures generate. A first-rate culture diminishes workforce backlash to cost reduction measures, drives a range of favorable short- and long-term business outcomes, and bolsters recruiting and retention activities amid a systemic long-term talent shortage that corporate leaders can expect to outlast near-term economic gyrations. Strong organizational cultures also play a pivotal role in helping companies accelerate out of economic downturns faster than their competitors, which should make culture-building a priority right now.

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Most leaders at the top of the organization recognize the importance of people and culture: These issues now receive top billing in many boardrooms and C-suites. Yet traditional talent management mindsets and strategies still pervade in many organizations. As we've noted, many human capital game plans lurch from hiring sprints and salary increases to slashing benefits and instituting layoffs in response to external conditions and revenue forecasts.
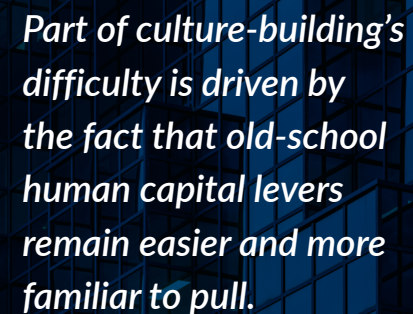
Developing and sustaining a best-in-class organizational culture represents a much larger and more difficult endeavor than performing any individual workforce-related behaviors (e.g., staff reductions or salary increases). Culture-building requires genuine buy-in among all business leaders along with the alignment of cultural values and decisions at every level of the organization. Harmonizing stated cultural values and individual organizational behaviors throughout the enterprise demands a grasp of the interrelated influences elevating the value of organizational culture. Equipped with that understanding, board and C-suite leaders can design a game plan for strengthening the culture. This begins with taking a hard look in the mirror.

Culture's often unseen value

Part of culture-building's difficulty is driven by the fact that old-school human capital levers remain easier and more familiar to pull.

Here's an example that illustrates the challenge. In a large organization headquartered in a Sun Belt state, the company's CFO had greenlighted a series of sizeable salary increases in an attempt to counteract waves of staff attrition that spiked, like clockwork, toward the end of each spring. Three years of compensation bumps (costing several millions of dollars all told) had done little, if anything, to staunch the annual exodus of key team members. Management wanted to figure out why. It turns out that these highly sought-after professionals were leaving not because of their compensation, but because of parking. As temperatures soared into the triple digits each June, the lack of covered parking drove employees to organizations where they could have a better parking experience.

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It was as simple as that. Rather than spending millions on salary increases, the company would have been better served investing a fraction of that cost into improving their understanding of the employee experience and, based on this feedback, upgrading to covered parking.

This example illustrates the downside of reaching automatically for the money lever (whether it triggers salary increases, staff layoffs or other types of takeaways) without understanding what employees value — knowledge that is immediately accessible within high-performing cultures that place a premium on transparency and open communications. As part of this focus, it's vital that leaders avoid assuming they have all the answers. Asking questions of employees and listening to their responses as well as other feedback mechanisms they deploy is critical to identifying what is most important to them.

An organizational culture is the collection of behaviors that each employee throughout the organization performs every day. Within the best organizational cultures, the vast majority of employees — from the CEO down to the most junior employee — row the boat in the same direction: Their decisions and behaviors align with each other while reflecting the company's guiding principles.

CEOs drive the culture by setting the company's strategic direction and modeling the behaviors all employees should execute in the pursuit of strategic objectives. Chief human resources officers (CHROs) and HR functions generally are responsible for monitoring and maintaining the culture through a variety of capabilities and mechanisms, including performance management, training and development, and recruiting and retention activities. They also administer human capital metrics that track the health of the organizational culture. Those metrics should be continually monitored, refined and replaced as needed.

While building and sustaining an organizational culture is a journey, there are points in an organization's growth when a full-scale culture transformation is called for. These endeavors — shedding a risk-averse culture to become more innovative, for example — typically require work over a two- or three-year period.

Culture's rising relevance

Culture issues dominate the current risk agenda in boardrooms and C-suites. A majority of the top 10 risk issues global business leaders identified for 2023 in the latest Top Risks Survey from Protiviti and NC State University's ERM Initiative relate to people and culture. Furthermore, in this same study's 10-year outlook, nearly half of the top risks tie to concerns related to organizational culture and talent. These priorities show that board members and C-suite leaders recognize the value — and risks — that the organizational culture creates.

There are several reasons behind the growing awareness of an organizational culture's links to performance, resilience and agility. The remote-work transformation that the global pandemic triggered and the flexible and remote working models that companies subsequently adopted

have raised important questions about organizational culture: *How do these new working models affect our culture? How do we define flexible scheduling — and who defines it? What is the optimal mix of home- and office-based work?*

Longer-term trends, including the entrance into the workplace of new generations of workers, as well as new technologies, also have increased attention on organizational culture. The two generations of workers who have entered the job market most recently often hold substantially different expectations of their employers compared with their Gen X and baby boomer counterparts. For example, while pay level remains important to newer labor market entrants, it often takes a back seat to

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other considerations, such as the alignment of personal and organizational values, a company's mission, meaningful work, organizational purpose, and authentic and transparent leadership communications. These may be generalizations, but they are also rooted in survey data. Today, more so than in the past, an organizational culture must address an increasingly diverse set of employee priorities and expectations.
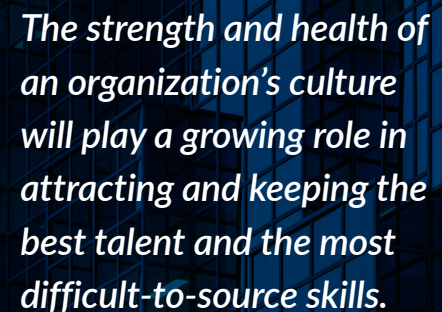
Organizational cultures are also in the spotlight, literally, thanks to employer feedback sites like Glassdoor, Fishbowl and others on which workers can share their experiences, often in real time, for all the world to see. These sites frequently are the first resource a prospective employee consults to get a feel for a company's culture. Transparency is raising the stakes.

The pivotal role of organizational culture in recruiting and retention also reflects a fundamental math problem in the labor market. Demographic realities and the ever-increasing need for technologically skilled professionals mean that the talent shortage that has persevered through a global pandemic and soaring interest rates will continue to be a persistent challenge long-term. The strength and health of an organization's culture will play a growing role in attracting and keeping the best talent and the most difficult-to-source skills.

Reflect and rethink: 5 ways to build a better culture

Organizations typically struggle with building a strong culture for two reasons.

First, the organization's executive team does not agree on how to define their culture and/or which leadership behaviors should be prioritized and consistently exhibited in support of the culture. Consider this example: A Boston-based company that espouses a collaborative in-person

culture might require employees to work in the office at least three days a week. However, if the company's newly hired CIO lives in Dallas and does not work in the office three days a week, that's a problem. Such inconsistencies in behavior send mixed messages to employees, who may wonder whether top executives get a pass from the in-office requirement or even how important in-person collaboration actually is in practice.

A second common misstep arises when cultural values conflict with strategic objectives. A culture centered on efficiency and operational excellence may not be the best match for a healthcare provider, for example. Or, to present an example based on actual events, a global bank's culture that promotes a disproportionate emphasis on incentive compensation to drive cross-selling and support strategic objectives to generate significant growth may result in staff undertaking unethical business practices.

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Leadership teams should be cognizant of these common missteps while considering the following culture-building actions:

- **Begin by looking in the mirror.** CEOs and their fellow executive leaders set the tone of the organizational culture. Assess a dysfunctional organizational culture and there's a strong chance you will find a dysfunctional C-suite. CEOs and their colleagues should get comfortable looking in the mirror to evaluate the degree to which their behaviors — more so than their words — embody the cultural values they are promoting. As a starting point, the entire C-suite should align on what the culture truly means and then document those principles for all employees to see. In addition, C-suite leaders need to exhibit the behaviors that reflect these principles.

- **Parse the short- and long-term implications of talent management decisions.** Increasing salaries might strengthen retention rates over the short term, but retention challenges will linger, and perhaps worsen, if the organizational culture is subpar. Talented employees will only tolerate a negative working environment for so long. Layoffs can improve bottom-line performance; however, if the reductions are communicated and/or performed in a manner that does not reflect cultural values, they can lead to costly recruiting and retention issues down the road.

- **Measure (to manage) your culture.** In recent years, the science of measuring organizational culture has made evolutionary leaps. Strong correlations have been established between positive workplace cultures and a range of financial performance outcomes. "The explosion of digital trace data such as emails and Slack communications — together with the availability of computational methods that are faster, cheaper and easier to use — has ushered in a new scientific approach to measuring culture," according to a *Harvard Business Review* article centered on breakthroughs in "people analytics" that reveal "novel insights about how managers can harness culture as a strategic resource." Common KPIs used to measure the health of the culture include employee engagement scores, attraction and retention measures, success rates of new hires, and more. Some companies track *customer* satisfaction as an indirect, yet important, measure of *employee* engagement and satisfaction. Others analyze employee sentiment based on internal surveys and external sources, such as websites and social media apps that feature candid assessments of employment brands and workplace cultures.

- **Rethink how managers are selected and groomed.** Many companies adhere to the longstanding convention of rewarding high-performing individual contributors with higher-paying management roles, despite a growing body of evidence that those roles are not necessarily similar or compatible. As one example, rainmakers may or may not become strong managers and leaders. That outcome is determined, in great part, by the depth and quality of management training they receive. As such, CHROs and their C-suite colleagues should assess the efficacy of management training programs.

- **Cultivate and sustain transparency, especially when communicating bad news.** *How* reductions in benefits, staff and overall costs are communicated typically matters more from a cultural health perspective than the content of communications. Informing 12,000 employees by email that they no longer have jobs creates far greater long-term risks to the culture than conveying the news personally while laying out the strategic rationale for the staff reductions. We've witnessed starkly different approaches to how recent staff reductions in the technology industry were conveyed to affected employees and the remaining workforce. Contrast an impersonal mass-email notification such as the one described above with Microsoft CEO Satya Nadella's blog post on his company's decision earlier this year to lay off 10,000 employees. In his post, Nadella conveys the news while framing it as one of several actions the company is taking to address three strategic priorities: aligning cost structures with revenue and customer demand; investing in strategic areas to drive future growth (hiring will continue in these areas, for example); and treating "our people with dignity and respect," while "acting transparently."

Call to action: Build a better culture blueprint

In a rundown of companies that have downsized their workforces in 2023, The *Wall Street Journal* emphasizes that announcements of layoffs are often misleading: "While these announcements make waves, they can serve more as a message than a blueprint. Some companies that have announced big cuts in the past have ended up employing nearly as many people a year later."

While those messages tend to target investors to signal that the leadership team is serious about responding to worsening market conditions and preserving financial health, they also communicate to employees the degree to which leaders' decisions, behaviors and communications align — or fail to align — with cultural values. That's not to dismiss the need for layoffs or other individual measures with workforce implications (e.g., salary increases). These actions can yield crucial and plentiful benefits and, of course, can become necessary. But they need to be executed in ways that reflect the organizational culture and build trust while also supporting business objectives that align with shared values. This is the path to building an organizational culture that will create long-term competitive advantage.

About the Author

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