Culture in Action

The role of leaders in making culture perform

Gartner

Ask any senior executive what they're doing about managing their culture, and you'll hear a litany of replies: "Human Resources is all over it," "We have new employee training," "We've got a great new communications plan — and we're using digital displays and wall posters to convey the message in every one of our locations."

These views cast culture as a "soft" HR topic — an outdated attitude. In reality, culture has become a key differentiator of how and why organizations outperform.

This is especially the case now that access to other assets — capital, markets and technology — has loosened, making them less effective differentiators than in the past. Bottom line, culture is one of the most important differentiators of company performance today.

We consistently find that companies where employees know what the culture should be, believe that it is the right culture and can engage in the behaviors that are most effective at supporting that culture, grow 9% faster year over year than companies that don't operate in this way.

Culture is the most discussed talent issue on earnings calls, with mentions growing 12% annually since 2010.

CEOs obviously know the importance of culture. More than two-thirds of earnings calls focus on the state of talent at their organizations, with culture being the most commonly discussed talent-related topic.

Beyond the four walls of the organization, institutional investors — also recognizing the impact of culture on company performance — now ask probing questions to gain insight into the culture at companies about which they are making investment decisions. Similarly, job seekers consider the culture of prospective employers and use it to make employment decisions, while current employees increasingly decide whether or not to stay at their current employer based on how the culture is evolving.
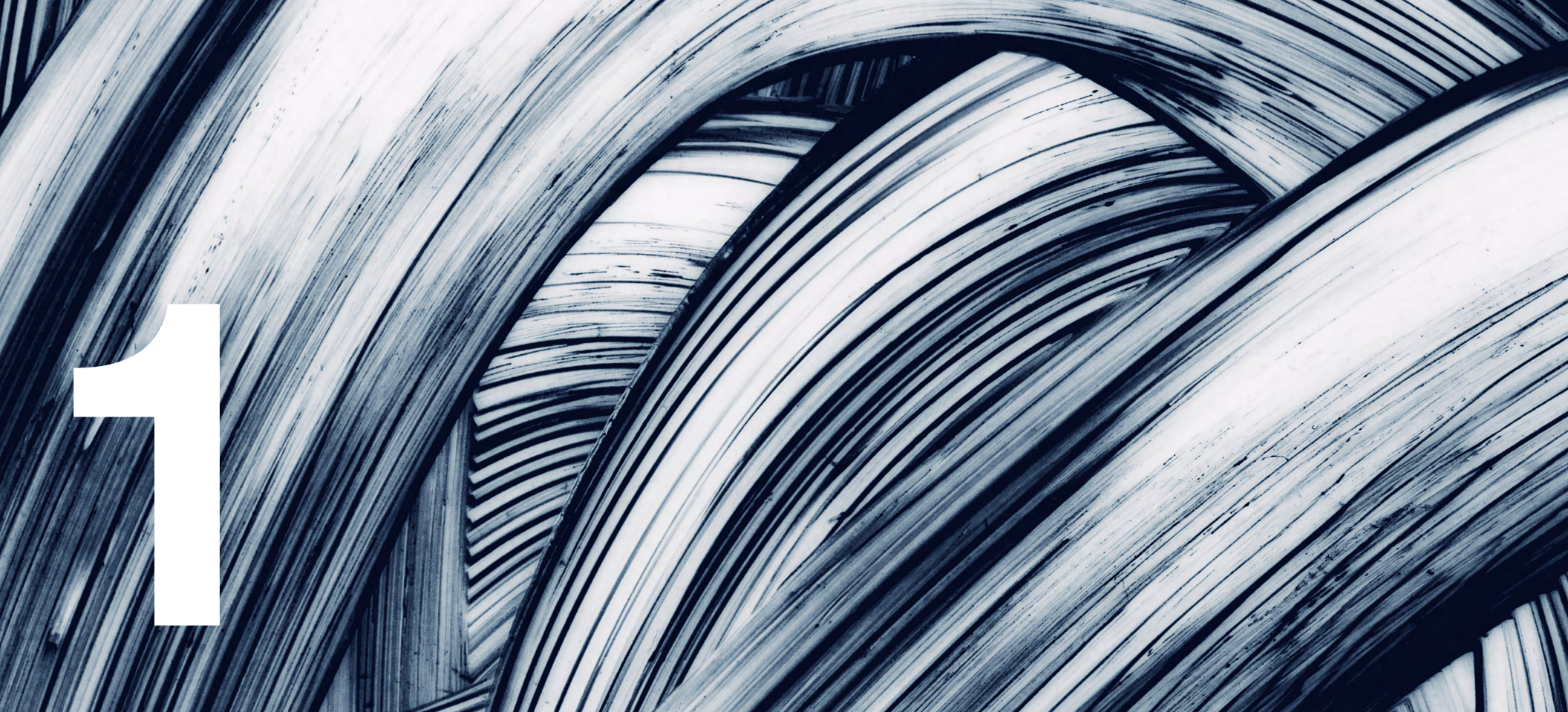
Only 31% of HR leaders agree their organizations have the necessary culture to drive future business performance.

Although the mandate to have a culture that performs is clear to many, far fewer leaders feel like they know how to actually get their culture to perform. By analyzing thousands of leaders and employees at hundreds of organizations, we have identified what differentiates the leaders who create a culture that performs — one that achieves better financial and talent results — and those who aren't able to get their culture to perform.

Three principles differentiate the most successful leaders at achieving these results:

1. Understand the importance of aligning the workforce with the desired culture.

2. Move beyond role-modeling the desired culture, and design systems and processes to embed the desired culture in operations.

3. Help employees resolve the cultural tensions that are created as the organization evolves and grows.

Investors, regulators, prospective and current employees all expect leaders to be responsible and accountable for their organization's culture. In the following chapters, we outline the necessary steps and best practices to build a culture strategy that drives performance.

1

How to Create a Culture That Performs

Leaders across organizations of all sizes and types around the world express frustration with their culture initiatives.

In the words of a VP of HR at a global energy company: "This is just our latest effort to strengthen our culture. We've invested in everything from external consultants to employee training. But when we look at where we were before these efforts and where our culture is now, it's as if nothing has happened, and we are back to square one."

By analyzing the budgets at hundreds of companies, we find that a conservative estimate of how much companies spend on culture is slightly more than $2,000 per employee every year. Even with this investment, fewer than one-third of HR leaders believe they have the culture needed to drive future business performance.

Only 32% of HR leaders agree their organization is effective at embedding culture into employees' day-to-day work.

No one culture is "best"

To be clear, our research shows no cultural type is a consistent predictor of organizational performance.

70% of HR leaders are confident their organization's leaders know what the culture needs to be to align with business strategy.

The three most common cultural attributes that companies pursue are high performance, collaboration and innovation. We tested these and many others against several organizational outcomes, including the ability to meet revenue goals, hit profitability targets and strengthen public reputation. No one type of organizational culture performs significantly better statistically on any key organizational outcome measures. In other words, some organizations that pursue a culture of collaboration get great results; some don't. This reality holds true across all of the cultural attributes we examined.

Furthermore, for most organizations, failure to identify the "right" culture is not a barrier to achieving the culture they need for future business performance. In fact, most HR executives (70%) are confident that their organization's leaders can correctly describe the culture needed to align with their business strategy.

The fundamental challenge most executives face is not what type of culture they should have, but how they get their culture to perform.

Beyond traditional people-based initiatives

Most leaders focus their cultural strategies on the company's employees. More than 80% of the time they either try to:

1. Change the people they already have and generate their buy-in to the culture, or

2. Change the people they bring in, hiring those with the best cultural fit

Counterintuitively, changing people rarely has a significant impact on actually changing the culture. The behavior of existing and new employees is driven by the "old" (pre-existing) way of doing things, which stops cultural initiatives from feeding through to performance improvement.

Rather than simply swapping out old employees for new ones, leaders must fundamentally rethink their approach to culture and build the systems, processes and tools needed to get their culture to perform.

Creating a culture that performs

For culture to actually drive an organization's performance, a multipronged employee strategy is needed. Employees need to:

- Know what the culture is (knowledge)
- Believe in the culture (mindset)
- Behave in a way that supports the culture (behavior)

> **Only 24% of employees report that the culture directly affects the way they do their work.**

In truth, most organizations instead display:

- **Knowledge gap.** Employees lack awareness of the culture the organization needs (at 69% of organizations). "Since the merger, no one is certain what the culture is supposed to be."

- **Mindset gap.** Employees don't believe in the culture the organization needs (87%). "We've tried to change our culture so many times; employees are skeptical that our culture matters to what they do."

- **Behavior gap.** Employees don't engage in behaviors related to the culture the organization needs (90%). "Employees get where we're trying to go, but they still aren't doing what we need them to do."

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Workforce-cultural alignment drives performance

Conventional culture management strategies already focus heavily on making employees aware of the culture and encouraging them to buy into it, but in order to achieve a tangible impact on performance, all three culture gaps — including behavior — must be closed simultaneously.

Prioritizing only one of the three workforce gaps fails to deliver a statistically significant impact on an organization's performance against revenue (or profitability) goals. Focusing on knowledge only relegates culture to an idea that employees neither believe nor act on. A mindset-only approach leaves employees buying into what they think the culture is; they don't actually understand it or act on it. Prioritizing behavior may help employees align their actions to the culture, but they won't understand or believe in it.

In fact, simultaneous action across knowledge, mindsets and behavior is so important that the effect should be considered multiplicative, not additive. In other words, zero movement on closing any one gap results in zero improvements in workforce-culture alignment.

Alignment is also a workforce-level outcome — that is, it must address all employees at once, not just some segments. When knowledge, mindsets and behaviors vary widely across the workforce, employee performance declines (by as much as 12%). When this variation occurs, organizations don't have cultures, they have numerous microcultures that conflict with each other when work is done across the organization. To close culture gaps at scale, organizations have to invest in systems and processes that touch all employees.

Done right, workforce-culture alignment delivers results — regardless of any specific type of culture. The average organization can improve performance against revenue goals by up to 9%, and boost other business outcomes significantly, with an aligned performance culture.

While this certainly seems like a difficult mountain to climb, in our research, we have been able to identify the cultural management strategies that accomplish this goal.

Defining a Culture That Performs

Knowledge

Employees know what cultural attributes senior leaders think the organization needs to be successful going forward.

X

Mindset

Employees believe the culture will make the organization more successful and are personally committed to upholding it.

X

Behavior

Employees incorporate the culture into the way they do their jobs and rely on it to guide them through unfamiliar situations.

=

Workforce-Culture Alignment (WCA)

Action on knowledge, mindset and behavior must be simultaneous. The impact is multiplicative not additive, i.e., zero movement on one results in zero improvement in workforce-culture alignment.

Business outcomes[a]

Impact of up to …

↑ **9%**
on Performance Against Revenue Goals

↑ **8%**
on Performance Against Talent Management Goals

↑ **22%**
on Employee Performance

↑ **16%**
on Reputation Outcomes[b]

(a) Percentages show the standardized impact of moving from average WCA to maximum WCA.
(b) Reputation outcomes include the positivity of customer and general public perceptions of an organization.
Source: Gartner analysis

IN ACTION:
Aligning employees with the culture

The Bill & Melinda Gates Foundation is the world's largest private charitable foundation. Like for-profit organizations, it has struggled with showing employees what behaviors support the culture, as well as helping them understand and believe in the culture.

The CEO drove an effort to define new cultural pillars for the organization. Although the tenets resonated with people, feedback showed that employees didn't understand the practical implications of the pillars. They needed more detail on what to start and stop doing to live the culture.

The Foundation developed a tool to empower employees to make the right decisions and trade-offs to meet their objectives. The tool:

1. Articulates firm-wide goals, including both values (such as 'Show Respect') and behaviors (such as 'Be Transparent'), to ensure a consistent approach

2. Specifies do's and don'ts for specific scenarios. This list serves as a decision-making tool at the moments that are most likely to test cultural alignment. To make it more relevant, the tool can be scaled and customized for different teams to define behavior expectations

3. Spells out positive outcomes. "If we approach relationships with inclusion, kindness, curiosity and humility (show respect for differences), it leads to innovation and collaboration."

This initiative demonstrates how to design an approach that can simultaneously build the knowledge of employees, change their beliefs and enable the desired behaviors. The tool was so successful that Bill & Melinda Gates' leadership team asked for customized versions of their own, helping to guide their own decisions and narratives in high-stakes moments.

To Recap

1.

There is no one "right" culture that always wins. Leaders know what cultural identity they need; the imperative is to provide proper operational support for the given approach.

2.

To achieve a culture that performs, employees need to know what the culture is (knowledge), believe the culture (mindset) and engage in the behaviors that support it (behavior).

3.

It's critical to address knowledge, mindsets and behavior simultaneously and across the entire organization to achieve workforce-culture alignment.

4.

Fully aligning employees with the culture in this way delivers measurable improvements in performance — against revenue, reputational and other measures.

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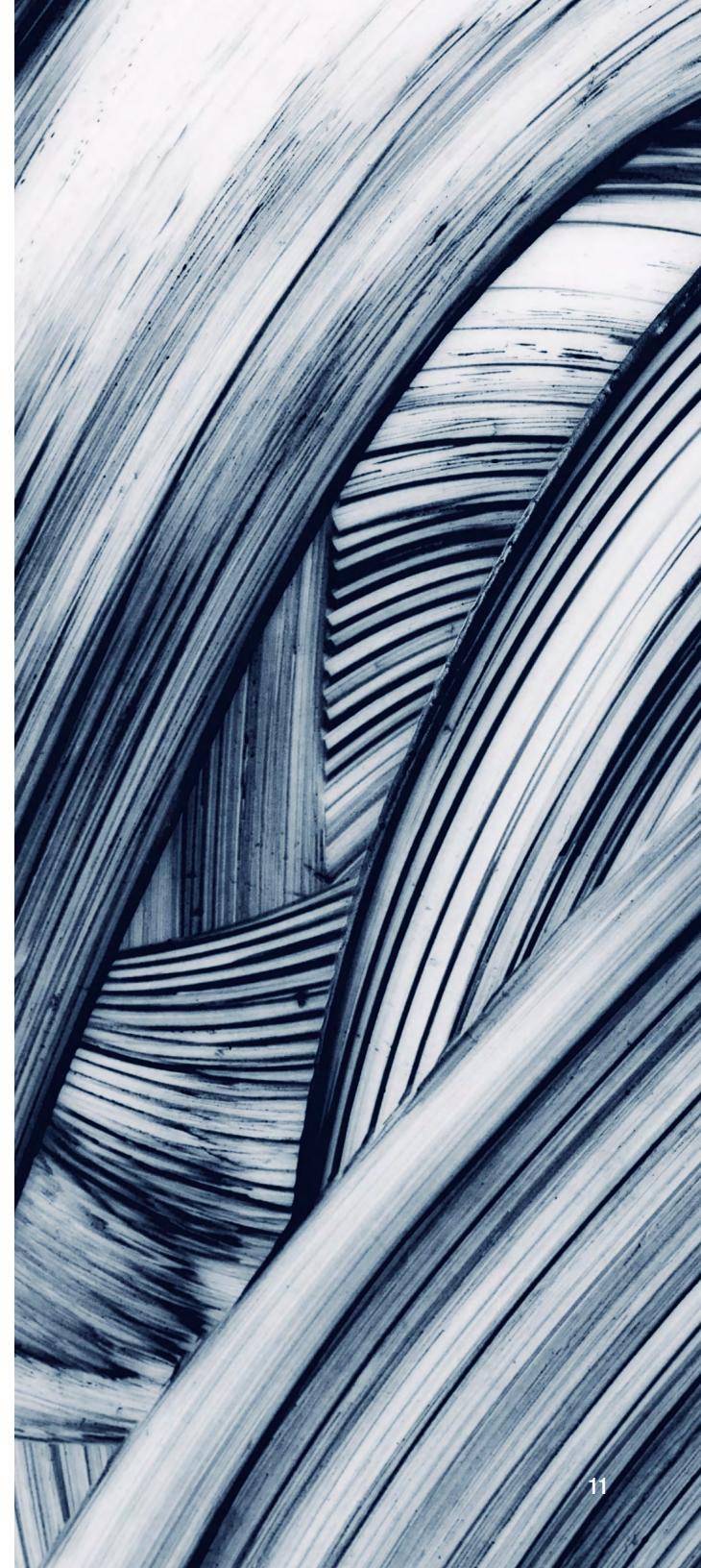
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Maximize Your Impact as a Leader

The CEO of one global technology company was frustrated that the most critical aspects of his company's culture just weren't sticking. He had repeatedly spelled out how and why the culture could drive business goals, but his leadership team still wasn't prioritizing culture management. Frustrated, the CEO upped the ante. He told every member of his leadership team to write a detailed account of what processes (e.g., rewards, decision-making approaches and management strategies), they were creating in their business units to embed the culture. "Winners" earned a spot on an elite council that set strategic culture objectives; others were denied and had to wait to reapply.

By adopting this new policy, the CEO forcefully embedded the culture and its priorities in his own leadership team. He recognized that even if his leaders communicate the importance of the culture (say), and adjust their behaviors to be consistent with the culture (behave), he also needs to ensure his leaders build processes based on the culture (operate). Creating this accountability was a strong tool to ensure that the operate step occurred.

78% of organizations **rely on leader role modeling as a key component of their culture strategies.**

Most organizations rely heavily on leadership to communicate the culture and model it in their behavior. And rightly so. Yet few leaders maximize the impact of role modeling by moving beyond "say" and "behave" to "operate."
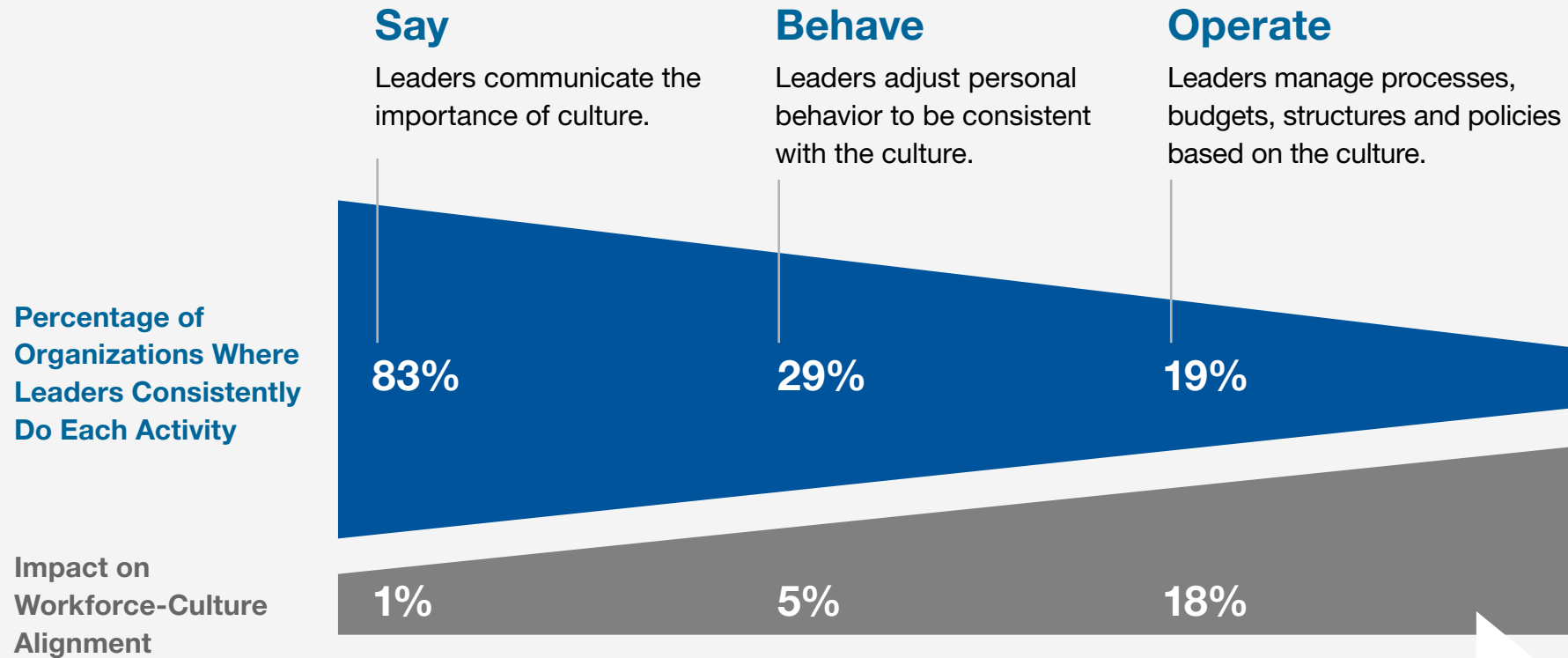
Operate for impact

Senior leaders at the vast majority of organizations (83% in our research sample) consistently communicate the importance of culture. In fewer organizations (29%), leaders consistently behave in a way that's aligned with the culture. At very few organizations (19%) do leaders consistently manage business processes based on the desired culture.

This approach fails to maximize the impact on performance. Setting the right processes, budgets, structures and policies has the greatest impact on workforce-culture alignment, while communication has the least.

To maximize their impact on workforce-culture alignment, leaders should review business-unit processes and budgets to identify areas of culture misalignment and adjust as needed.

What Does Good Role Modeling Look Like?

Say
Leaders communicate the importance of culture.

Behave
Leaders adjust personal behavior to be consistent with the culture.

Operate
Leaders manage processes, budgets, structures and policies based on the culture.

Percentage of Organizations Where Leaders Consistently Do Each Activity

	Say	Behave	Operate
	83%	29%	19%

Impact on Workforce-Culture Alignment

	Say	Behave	Operate
	1%	5%	18%

Many leaders focus on communicating the culture, but processes, budgets, structures and policies have the greatest impact on workforce-culture alignment and simply communicating has the least. To maximize the impact on performance, leaders must say, behave — and operate.

n=7,502 employees; 190 HR leaders.
Source: Gartner 2017 Culture Workforce Survey; Gartner Culture Benchmarking Survey

IN ACTION:

The Art of Culture Hacking

You can complement transformation efforts by hacking your culture to create visible, tangible change. A culture hack is a small change that exploits a single area where your culture is vulnerable to change.

A great culture hack includes four characteristics:

1. **Emotional.** The hack triggers a visceral reaction. Emotional reactions are more memorable than analytical ones. Change is primarily an emotional process, not an analytical one, so you want your hack to incite an emotional reaction (for example, surprise, shock, humor, discomfort, fear or love).

2. **Immediate.** The hack shouldn't take months to manifest. Effects of the hack — the emotional reaction, for example — should be almost immediate.

3. **Visible.** The hack should have high signaling power to the group that you're trying to change. That is, it should reach the whole intended audience, powerfully. Even though the change may be small, it should signal unequivocally to the intended group that something is shifting in the culture.

4. **Low effort.** The work required to prepare the hack should take less than 48 hours. If your hack requires, say, three people to work steadily for a month to prepare it, it's not a hack. However, don't confuse low effort with low courage. Many of the best hacks are simple to prepare, but may require courage to carry out.

A CEO starts a blog to make the culture more open and less formal

One CEO had recently joined a company and was determined to undo the stuffy, formal culture that had permeated and was inhibiting efforts to innovate. She hacked the culture by starting a corporate blog in which the tone was markedly informal. The mere fact of the CEO starting a blog was notably different from prior cultural norms, but she pushed the hack further, ensuring her tone was open and transparent. In fact, her initial blog, directed at all employees of the company, shocked many with its casual tone and informal content. At a stroke, the CEO was able to communicate and embody elements of the new culture she wanted to create.

DO ✓	DON'T ✕
Start today.	Choose something overly complicated, like, "Let's overhaul our governance approach." That's not a hack.
Start small and know what you are hacking toward.	Choose something that you need outside approval or authority for.
Start with a hack that is fun and not too scary.	Use hacking to push your personal agenda. Hacking is not permission to skip due process.
Watch for signs that the hack has backfired, and have a plan to contain damage.	

Actions speak louder than words

Efforts to operationalize the culture also have to be meaningful to the entire organization, as budgets, structures, workflows and policies often speak much louder than words about culture.

It's all very well to create a cross-functional team to boost the impact of culture on performance, but that team must be empowered to build or change existing processes to support the culture. Just as important, this team needs to be able to surface existing processes that may need to be eliminated.

To be effective, try what the leaders of one midsize nonprofit research institute did: They not only assembled a cross-functional team, they gave the team dedicated time and money to get its job done. Team members were told to dedicate 5%-10% of their workloads to the culture efforts, and the team received a dedicated charge code.

Operate the culture all the way to the frontline

To make culture meaningful right down to the frontlines, leaders can't just set the strategy, communicate it to managers and assume they will contextualize it for frontline employees.

Leaders understand that the fidelity of any message weakens as it moves through the organization, but they are often surprised at the degree of decay. Less than 25% of frontline employees indicate they understand and act on the messages they receive from senior leaders.

One diversified multinational business underwent a major transformation effort that involved a long list of new desired cultural behaviors. Instead of talking abstractly about those new behaviors, the company let leaders choose two of six enterprisewide behaviors to promote in their business unit. Those leaders then made concrete plans for how to embed the behaviors into processes to support the chosen behaviors.

Abstract cultural goals can be translated into specific business objectives.

By taking this approach, abstract cultural goals like "collaboration" and "visionary leadership" translate into a specific and compelling business objective like "Design and implement an easy purchase innovation process."

To Recap

1.

To enable the culture to perform, leaders can't just say and behave the culture; they must operationalize the culture — and provide business-unit leaders with support and resources to do the same.

2.

Processes, budgets, workflows and operating approaches have the greatest impact on workforce-culture alignment, and communication has the least.

3.

Culture should be embedded in planning processes, and treated like any other initiative.

4.

Make sure to create metrics that track the culture and how it is performing, and have real accountability metrics against progress.

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Resolve Cultural Tensions

Role-modeling by leaders must evolve, but so too must the guidance leaders provide to employees. One of the most common challenges that employees face is when they are torn between more than one set of cultural norms. For example, a transformational initiative may push speed when the existing culture prioritizes quality.

When employees are pulled in seemingly different directions by these tensions, their alignment with the culture falters. They don't know if they should be high quality or fast, they aren't sure which one is more important to believe in and they aren't sure what behaviors to engage in. These tensions are common — 77% of employees regularly face them in their day-to-day work.

Sources of cultural tension

Tensions occur as companies grow and change, and as business conditions evolve. They also exist within organizations as different stakeholders strive for different goals, even when the organizational endgame is the same. Most important are those tensions that are intentional — aligned with strategic priorities that drive the business. Unintentional tensions should be removed. Intentional tensions must be managed, with guidance given to employees.

Consider large transformative initiatives such as strategy implementation, restructuring or turnaround situations, and digital transformation. Senior executives identify culture as

a top barrier to the success of such initiatives. These situations offer a classic case of the tension dynamic.

Transformative efforts, by their very nature, demand that employees behave differently, and this creates cultural tension. Employees are asked to value and meet new goals — often in ways that conflict with other pre-existing, but still strategically significant, objectives. Employees focused on cost-consciousness might be told it's time to be more innovative.

77% of employees encounter culture tensions in their work that they don't know how to address.

Tensions can arise in numerous situations. For example:

- Different markets and/or industries require different norms

- Stakeholders need different outcomes

- Rapid growth causes organizational priorities to shift constantly

- Business units have different priorities than the rest of the organization

Employees struggle to prioritize these competing mandates. They think: "To compete we have to innovate, but I'm not sure how much room I have for failure when we also pride ourselves on rigor."

Cultural Tension Felt by Employees Who Recently Experienced Significant Organizational Change

Percentage of Employees Experiencing Each Cultural Tension

Quality VS. **Speed**

43%
felt the culture tension between quality and speed (e.g., precision vs. timeliness)

Commercial focus VS. **People focus**

34%
felt the tension between commercial focus and people focus (e.g., financial goals vs. employee satisfaction)

Efficiency VS. **Innovation**

31%
felt the tension between efficiency and innovation

Source: Gartner analysis

Cultural tensions threaten the bottom line

Among employees who experienced a significant organizational change:

- Just over half report 2 or more tensions; most encounter 1-3.

- Encountering cultural tensions worsens an employee's stress, which worsens performance. The impact is cumulative.

- The more stressed employees get, the more poorly they perform. A 1% drop in performance can mean a $6.5 million hit to the bottom line per $1 billion in revenue (at the average company).

- Culture-informed judgment — an employee's ability to navigate and make trade-offs between cultural norms — is the biggest driver of transformation-aligned performance.

Help employees learn what to value most

Most organizations — often inadvertently — fail to help employees understand how to navigate and appropriately resolve these tensions. Executives often forget that their organization's employees have a memory and history of what cultural elements have been valued in the past. That legacy stays in the back of their minds as the organization tries to evolve the culture. The conflict between the historical culture — and the inertia associated with that — and what the organization wants to do is the root cause of the cultural tensions that employees face.

Given historical realities, and in the absence of a clear intent and approach on what to do, employees feel conflicted about their actions in given situations. Is this a time to strive for speed or a time to be more deliberate and ensure quality?

Making clear how to navigate these tensions is critical for translating culture into day-to-day work. It's especially crucial for frontline employees. They may feel less able to manage conflicting imperatives than managers and leaders.

If leaders don't ensure that employees have a clear sense of how to make these trade-offs, they effectively levy a tax on them — not only forcing them to weigh trade-offs in every decision, but causing them to often make the wrong decision. This makes it impossible for the organization to close knowledge, mindset and behavior gaps.

In their everyday work lives, employees need to know:

- How to make trade-offs between competing priorities

- How to translate values into specific work situations

- How to act to support cultural attributes

One global financial services organization faced stagnant customer satisfaction scores despite multiple efforts to give service reps more control over how they resolved customer issues. When business leaders reviewed processes and practices, they found that rigid internal quality assurance criteria kept frontline reps from developing a rapport with customers.

The company's customer service leaders developed a way to eliminate average handling time from the rep scorecard without sacrificing efficiencies, and told reps they would be measured solely on customer survey scores. Monthly incentives were also realigned to be based entirely on customer satisfaction scores. Notably, by using processes to embed appropriate outcomes in the daily work of frontline employees, customer satisfaction improved — and average handling time dropped, even though it was no longer an explicit metric.

IN ACTION:

Articulate good trade-offs and strategic choices

A global pharmaceutical company, integrating several acquired companies, needed to drive a culture that performed under a new unified operating model. Business leaders together:

- Identified the most critical tensions that existed as the culture was evolving — those that were most significant for the business, affected a variety of roles, levels and functions, but could be influenced by the leadership.

- Modeled the trade-offs inherent in the tensions. For example, they examined whether they had pushed so hard to improve customer service and satisfaction that pricing policies had become inconsistent, leaving employees unsure of whether to use price to satisfy customers.

- Developed practical ways to address the tensions. "If we're confusing employees with our inconsistent approach to customization, a pricing strategy would help."

This approach helped leaders visualize trade-offs that had implications for employee decision making so they could develop practical applications. It surfaced problems that leaders could solve with practical actions that helped employees live the culture.

Clearly articulating choices like these at an organizational level reduces the need for employee judgment, which can go awry.

To Recap

1.

The best leaders help employees understand how to translate their culture into day-to-day work.

2.

Employees struggle with two things:

a. **Translation Barrier** — Employees struggle to translate the culture into the specific context of their day-to-day role.

b. **Tension Barrier** — Employees frequently encounter cultural tensions they don't know how to address.

3.

The best leaders help employees make decisions when they are conflicted between two good things (e.g., being cost-focused and customer-centric).

4.

The best leaders articulate strategic choices and align systems and processes to send consistent signals.

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A Leader's Guide to Making Organizational Culture Perform

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HR Leaders
Accelerate culture through D&I, learn how to surface cultural awareness, equip employees to live the inclusive culture, and help leaders role model inclusion.

Finance Leaders
Discover how the top-performing finance teams actively advise key decision makers in the business, and become trusted and respected by business partners.

Communications Leaders
Anticipate and sense cultural tensions during times of change, and develop a communications plan to address them head-on.

Sales Leaders
Learn how sales leaders can create a climate that empowers sales reps to exercise judgment in order to anticipate and adapt to customer reactions and potential roadblocks to deals.

Service and Support Leaders
Create a truly customer-centric culture by focusing on improving the rep experience, learn how.

Research and Development Leaders
Discover how the best R&D leaders build a culture of innovation to drive business growth.

Procurement Leaders
A strong economy encourages business partners to push more buys through Procurement, stressing resources. It's critical for procurement leaders to reduce execution drag.

Audit Leaders
Design and implement a successful culture audit with these key considerations.

Risk Leaders
Create a consistent definition of risk, and implement and measure actions that improve risk culture.

Compliance Leaders
The most effective way to improve culture is by building stronger climates. Understand what a strong climate is and how to take action to create one at your organization.

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