

CULTURE & ENGAGEMENT

Getting Real About Creating a High-Performance Culture

By Ken Oehler

KINCENTRIC A Spencer Stuart Company

Introduction

Key Priority

46%

of organizations identified defining or aligning culture as a key priority.

“How can we fix our culture?” “How do we address the cultural issues behind systemic risk and regulatory fines?” “How can our culture better support growth through agile innovation?” These are questions asked by leaders more and more frequently – and they are coming from CEOs as a strategic priority. According to Kincentric’s research of Chief Human Resources Officers,¹ 46% of organizations identified defining or aligning culture as a key priority.

Banks are paying unprecedented regulatory fines and are under fire for cultures that do not appropriately manage systemic risk. Manufacturers are trying to understand and change the cultural issues behind catastrophic operational safety failures. CEOs are tired of making acquisitions that fail due to “cultural misalignment.” Leaders are struggling to grow their businesses while managing cost and minimizing risk. Even if employee engagement is high, there can be a nagging feeling that something else is off within an organization. In many of these cases, there is insufficient attention paid to aligning culture with value creation.

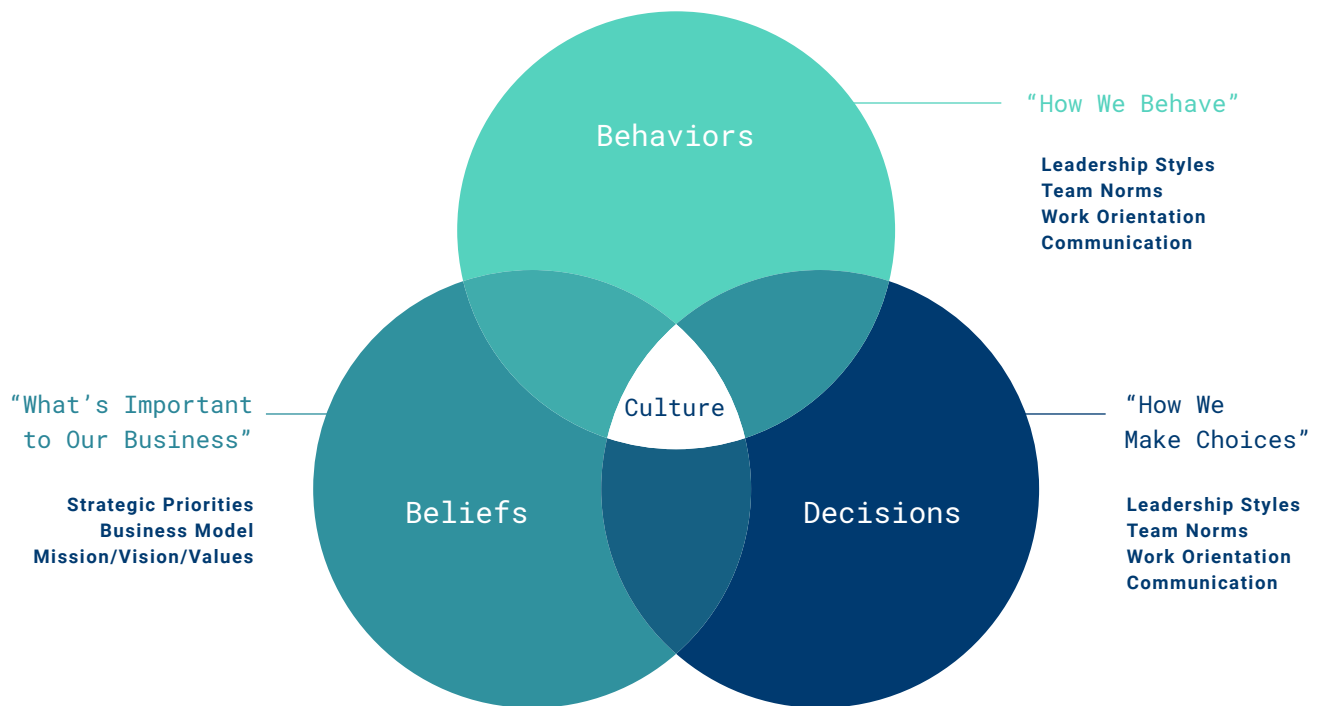
In order to create a high-performance culture, leaders must start with a useful definition of culture, define a culture that uniquely connects with value creation, align their team around that required culture and, most importantly, set a practical plan in motion to create and sustain the culture needed for organizational success. In an age when tremendous value is created and sometimes lost by the people who make up our organization, it is time to get real about high-performance culture. The stakes are too high to have our cultures be a liability.

Drawing on Kincentric’s extensive research of leaders and employees in North America, Europe, and Asia Pacific, this article sheds light on the culture challenges organizations are facing around the world and the proven solutions that can help turn culture into a significant organizational value.

¹ web: <https://insights.humancapital.aon.com/talent-rewards-and-performance/chro-as-revenue-growth-leader>

Real Clarity... What Is Culture?

CULTURE DEFINED: THE WAY WORK GETS DONE



Organizational culture is often defined as a set of shared assumptions about how to think, feel and act.² Pragmatically speaking, though, culture is the way work gets done. From thousands of leadership interviews conducted by our consultants asking "describe your culture," we know that people do so with traits.

These traits fall into three interrelated themes that include:

- Beliefs about the business strategy (e.g., bold and innovative, risk tolerance, cost-focused)
- How decisions are made (e.g., consensus-driven, analytical, bureaucratic)
- Behaviors and personal interactions (e.g., collaborative, candid, political, passive aggressive)

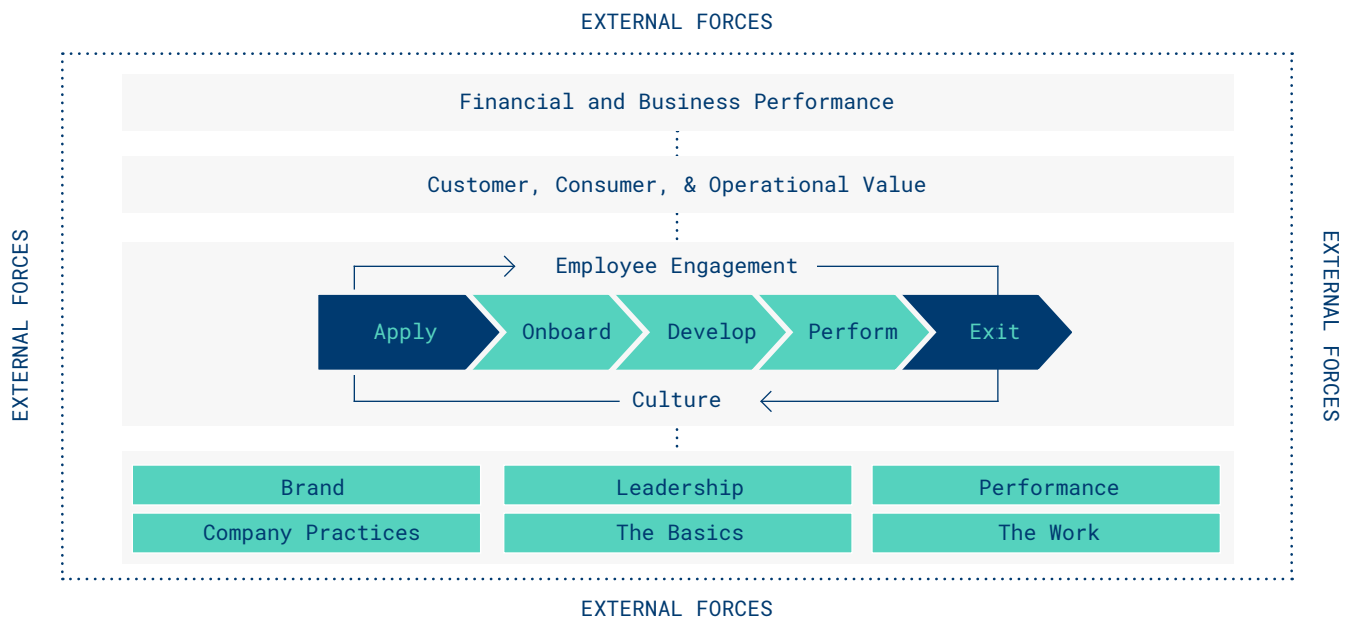
² Schein, E. Organizational Culture and Leadership

Real Value: How Can Culture Align with High-Performance?

The framework below shows culture as part of a larger organizational value chain. High-performance cultures are marked by shared beliefs, decision-making, and behaviors that align with operational and customer value creation. The culture of any organization is a function of the people within and the behaviors in which they engage across their

employee lifecycle. A culture and engagement feedback loop flows through recruitment, selection, onboarding, development, promotions, performance, job searches and even after someone leaves the organization. Thus, people and their level of engagement are a critical part of the discussion on culture.

CULTURE DEFINED: THE WAY WORK GETS DONE



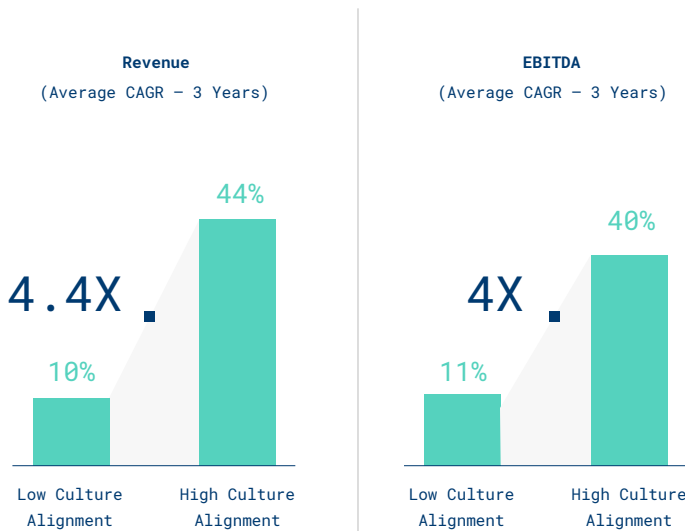
In companies where culture is aligned with strategy, 44% more employees are engaged, and twice as many employees will stay.

Real Value: How Can Culture Align with High-Performance?

The engagement-culture relationship can create virtuous or vicious cycles; culture can be engaging or disengaging. In companies where culture is aligned with strategy, 44% more employees are engaged, and twice as many employees will stay. In companies with misaligned cultures, 71% of employees are either passive or actively disengaged and 75% of employees are likely to leave. Conversely, employee engagement creates and reinforces culture through the behaviors people engage in. These reinforcing mechanisms can create optimal performance conditions where great culture creates engagement in value-creating behaviors – and vice versa. Or, these dynamics can set companies on the death spiral where an unhealthy culture disengages good people, who leave, or causes them to engage in value-destroying behaviors that propagate the unhealthy culture.

Aligning culture with business objectives results in more than just higher employee engagement. The outcomes can be extraordinary. Employees engage in value-creating behaviors. Our research also shows that companies with highly aligned cultures experience 29% lower overall turnover and 35% lower early turnover due to values mismatches and unmet expectations. These aligned companies also have 27% higher rates of Net Promoter employees (those who advocate for their company as a best employer) versus companies with low cultural alignment. Finally, the graphics below demonstrate how a strategically aligned culture can have significant financial impact on revenue and margin performance.

COMPOUND ANNUAL GROWTH RATE (CAGR)
– Low Culture Alignment vs. High Culture Alignment



Companies with higher culture alignment had **4 times higher sales and returns** as compared to companies with low culture alignment.

Real Trouble: When Does Your Culture Become Dysfunctional?

Two-thirds of companies say that their cultures do not align with business objectives. This misalignment is the definition of a “dysfunctional” culture. The most frequent traits employees use to describe underperforming cultures are short-term oriented, indecisive, reactive, secretive, task-oriented, indirect and low accountability. A company’s culture does not become dysfunctional overnight, so it is hard to detect. In many cases, dysfunctional culture emerges when the business strategy is not fully articulated down to the behaviors required for success.

Furthermore, when employees hear high-level business imperatives, the immediate question that follows is “How will we do that?” Without clear answers, employees fill in the white space with behaviors they are comfortable with, or worse, behaviors that are motivated by fear of uncertainty. Those behaviors can vary widely, thus exacerbating culture diffusion and misalignment.

Dysfunctional cultures also occur when the market and external environment put pressure on the existing business model without the needed shift in culture – beliefs, decisions and behaviors stay the same, creating a value gap, and this is not tolerated by customers, end consumers and/or regulators. For example, mobile phone customers over the years have evolved from wanting flip phones with simple text messaging to demanding powerful mini-computers that integrate phones, Internet, music, maps, and other apps. Once-dominant mobile companies that failed to change their belief systems and adapt were devastated. Or consider the pressure regulators are bringing to the culture of risk in financial services – essentially, regulators are saying that beliefs, decisions and behaviors that have driven past success are creating too much systemic risk and they have to change, or there will be increasing penalties.

Additionally, culture dysfunction frequently arises in merger and acquisition situations. The problem is compounded by bringing together two organizations with differences in business models, cultures and people. For example, Company A acquires Company B, with the goal of assimilating Company B. Company B assumes its business model is still valid – and potentially the reason for the acquisition, so it continues to drive current model and supporting culture. Company B’s culture is no longer valid, and therefore becomes dysfunctional under Company A’s business-model assumptions.



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Real Alignment: What Do High-Performance Cultures Look Like?

There is no one definition of high-performance culture. Cultural alignment depends on your strategic priorities. For example, consider a culture that is described as “process-driven” and “risk-averse”. These may sound like undesirable culture traits, but in organizations like airline, or the military, where safety is a priority, these culture traits drive and protect organizational value. Similarly, “innovative” generally sounds like a positive culture trait, but consider some of the “innovative” financial practices and value destruction behind the financial meltdown and continued regulatory scrutiny.

According to our research with over 100,000 employees from over 60 companies across North America, Europe, and Asia Pacific, high-performance cultures have some traits in common, regardless of an organization’s strategy or business model. Kincentric’s Global Culture & Engagement Practice examined the differentiating culture traits for companies. Employees in these high-performing organizations describe their company as more open/transparent, decisive, people-oriented, long-term-oriented and proactive than employees in average or underperforming companies.

Although many of the traits of high-performance cultures remain the same regardless of the organization’s strategic priority, the relative importance of the traits changes depending on whether the primary focus is innovation, customer intimacy, cost leadership, quality or risk management. Furthermore, companies that excel at certain strategies are marked by some unique culture traits. For example, high-performing innovative companies are described as more risk-tolerant and growth-oriented, in addition to common traits like decisiveness. By contrast, high-performing cost leadership companies are most differentiated by being more enterprise-focused, results-oriented and cost-focused, in addition to other common traits.

Real Alignment: What Do High-Performance Cultures Look Like?

HIGH-PERFORMING CULTURE PROFILES – COMMON AND UNIQUE TRAITS ACROSS STRATEGIC PRIORITIES

<p>“How We Behave”</p> <ul style="list-style-type: none"> Decisive Long-Term-Oriented Risk-Tolerant Proactive Growth-Focused 	<p>Customer</p> <ul style="list-style-type: none"> Decisive Open/Transparent People-Oriented Long-Term-Oriented Action-Oriented 	<p>Cost Leadership</p> <ul style="list-style-type: none"> Enterprise-Focused Long-Term-Oriented Results-Focused Cost-Focused Decisive
<p>Quality</p> <ul style="list-style-type: none"> People-Oriented Open/Transparent Decisive Proactive Long-Term-Oriented 	<p>Risk</p> <ul style="list-style-type: none"> Long-Term-Oriented People-Oriented Proactive Decisive Open/Transparent 	<p>Common to All High Performing Companies</p> <ul style="list-style-type: none"> Open/Transparent Decisive People-Oriented Long-Term-Oriented Proactive

No single trait can fully describe the profile of high-performance cultures. It is the complete profile of traits, the relative order of traits and unique traits that define these high-performance cultures. For example, decisiveness on its own is a strong culture trait that we find across every profile. However, it is the combination of decisiveness, long-term-orientation and risk tolerance that sets apart high-performing innovative companies. One pharmaceutical

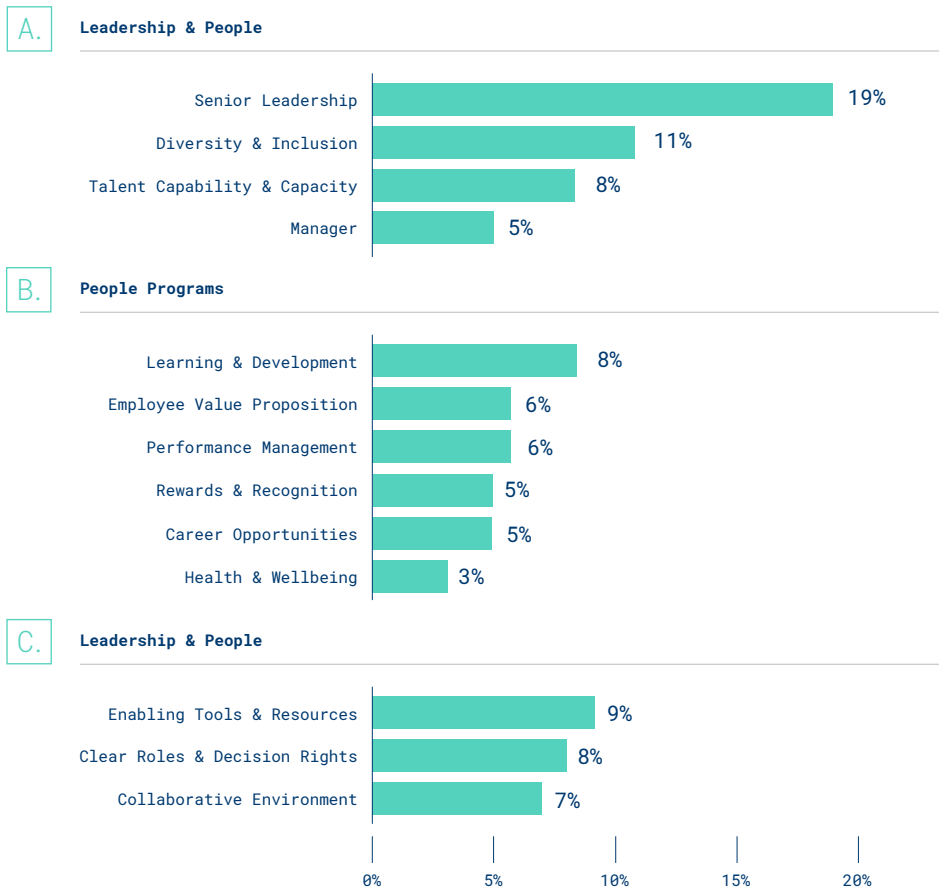
company we worked with transformed its innovative processes to decisively reduce the number of drug projects in the pipeline in order to take risks on a smaller number of projects that would have the highest likely ROI. As another example, a global retailer with a cost leadership strategy makes many decisions based on enterprise synergies and cost consciousness with the belief that the cost savings must flow through in lower customer prices.

Real Impact: How Can We Create and Sustain a High-Performance Culture?

Changing the behavior of people cannot be done through one-time training, special incentives, or any other silver-bullet strategy. It requires a holistic approach. Our research below shows that the areas that matter most to creating a high-performing culture are: **Leadership & People, People Programs, and Enabling Infrastructure.**

We see that senior leadership clearly has the highest relative impact on culture, but leaders alone will not create and sustain the culture you need. If you want to change an organization’s culture, you have to change the behaviors of the people in your organization – or even change the people in your organization.

RELATIVE IMPACT ON CREATING A HIGH-PERFORMANCE CULTURE



Real Impact: How Can We Create and Sustain a High-Performance Culture?

A. Leadership & People

Senior leaders have the greatest relative impact on creating a high-performance culture. Leaders' behaviors set the tone for the beliefs, decisions and behaviors that are expected and tolerated of others. Leaders must clarify the strategic direction and what it means for employee behaviors, what is expected and what is not tolerated – this is a prerequisite to having a decisive, long-term-oriented, growth-focused culture. Second is senior leadership's focus on people – caring, visibility and accessibility are prerequisites to creating a people-oriented, proactive and open/transparent culture. Managers play a role too, but to a much lesser extent. This finding is not surprising in that senior leaders, not typically managers, ultimately have the control to design, keep or change the rest of the culture drivers of leadership, people programs and infrastructure.

The staffing levels, capabilities and makeup of talent coming into the organization are also critical. Staffing and selection systems are powerful culture levers that often over-focus on role and miss the opportunity for macro-level culture impact. This means that people who are selected, advanced, retained or dismissed send a tremendous cultural signal to the company. One high-performing company we work with created a leadership competency model based on articulated culture traits that drove reinforcing development, advancement and rewards decisions.

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Real Impact: How Can We Create and Sustain a High-Performance Culture?

B. People Programs

People programs play two critical cultural roles: **Developing talent through career and learning opportunities and motivating talent through rewards systems.** People cannot act in line with cultural expectations without the right skills and opportunities and they will not be motivated to demonstrate required cultural behaviors without a clear value proposition, the right goals, and the right rewards. Performance management plays an integrating role in creating a high-performance culture. This seems intuitive, since this is where expected competencies and behaviors are typically articulated for employees. Performance management also ties competencies to pay decisions, incentives, training and career advancement. It is next to impossible to create a high performance culture without adequately articulating behavior and performance expectations. Organizations need to ensure that required culture traits inform competency models, tie these competencies and performance expectations into performance management and then reward and develop people appropriately based on performance assessments. Unfortunately, we know many organizations struggle with current or reimagined performance management — 46% of employees think performance management is effective according to Kincentric’s Workforce Mindset study.³ High-performance organizations effectively differentiate rewards for top performers — both the “what” and the “how.” In doing so they reinforce the behaviors needed to build and sustain the required culture.

C. Enabling Infrastructure

This area describes the processes, policies, structure and technology that enable people to do what is expected of them. The highest-impact item in this area is ensuring that employees have the tools and resources to do what needs to be done. This sounds obvious, but we continue to hear from many employees about policy, process and technology barriers to performance. Clear roles, governance and decision-making authority are also required — these are prerequisites to building the high-performance traits of transparent, decisive and proactive culture traits. One financial services organization we worked with had done a lot of work aligning leaders and people programs with the future business direction, but found it still needed to close culture gaps in enterprise focus, decisiveness and proactivity. Further investigation uncovered that the gaps were largely due to structure and processes that did not focus people on the larger enterprise and unclear governance that allowed executive decisions to easily get undone by looping back to other leaders with a stake in the decisions. Structure, process and decision-making alignment with clear strategic objectives allowed the leadership team to break through these cultural barriers.

³ web: https://www.aon.com/attachments/human-capital-consulting/18787_Consumer_Workforce_Mindset_Report_2016_v8_LR.pdf

Get Real: Taking Action



Take Action

Make it business-relevant

Make it practical

Make it stick

Building a high-performance culture can feel overwhelming and many leaders struggle getting started, thinking that culture change is too big, too hard, or can take too long. As noted above, culture is a function of the people within an organization and the behaviors in which they engage. Without a critical mass of the right people doing the right things, organizations face a math equation that will never produce high performance. With reasonable turnover and a different hiring profile, a culture can be purposefully and meaningfully changed within three years or less.

Changing a culture requires organizations to get very pragmatic. Where to start? First, make it relevant by defining the cultural traits required by the strategy and business model. Answer these important questions for employees: “What are we trying to do?” and “What do we have to be really good at to deliver our value proposition to our customers?” Avoid the plaques on the wall about “integrity” and “customers first” unless you are willing to keep going and embed these values behaviorally. Second, make it practical. Translate required culture traits into behaviors for different roles. For example, if a required cultural trait is “decisive” or “risk-compliant,” define what that means for executives, procurement, R&D, sales, customer service, etc. Finally, make it stick. Using the cultural levers we identified – Leadership & People, People Programs, and Enabling Infrastructure – create the system that reinforces the behaviors you need. Silver bullets don’t work. Leadership, performance management, rewards, training, policies, talent systems and resources have to all align to send the same message to people about the required cultural beliefs, decisions and behaviors. With this type of organizational alignment, you can then attract, retain, develop and promote the right people who engage in the right behaviors that make high-performance culture real.

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About Kincentric

Kincentric, a Spencer Stuart company, approaches human capital differently – we help you identify what drives your people so they can drive your business. Formerly a part of Aon, our decades of expertise in culture and engagement, leadership assessment and development and HR and talent advisory services enable us to help organizations change from the inside. And our global network of colleagues, our proven insights and our intuitive technologies give us new ways to help organizations unlock the power of people and teams – fostering change and accelerating success. For more information, please visit kincentric.com.

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