ORGANIZATION & CULTURE

Leading with Culture

Driving Organizational Performance through the Alignment of People, Strategy and Culture

Leaders increasingly recognize that cultural dysfunction can impede organizational performance, and that poor cultural fit is the most common reason why newly hired executives fail in their first year. And most people can point to organizations where a distinct culture seems to be the "secret sauce" behind their success. Yet, despite the growing appreciation for the importance of culture, few executives can describe what drives the organization's culture or whether the current culture supports or works against its strategic priorities.

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For many leaders, culture feels "soft" and ambiguous. Most organizations lack a shared vocabulary or approach for understanding culture or diagnosing the elements of culture that may need to evolve. As a result, leaders don't know where to start and often define culture by the outcomes they hope to achieve — a customer-oriented culture or a results-oriented culture, for example. But culture is not outcomes. Rather, culture is the mindsets, assumptions and behaviors that produce those outcomes. Different cultures can produce similar outcomes. For example, publicly listed multinationals, whose cultures tend to prioritize adaptability and results-focus, and state-owned companies, which tend to value order and stability, are equally likely to score well in measures of financial performance, employee engagement and customer service, despite their different cultures.

Confusing things further, culture is often mistaken for formalized organizational values (the ones that show up on the website) or employee engagement levels. Efforts to define and communicate values are important, but often have more to do with high-minded principles that reflect what the organization aspires to be rather than how people really behave. And while improving employee engagement can be a powerful force for driving organizational performance, engagement tends to rise and fall quickly in response to more transient business choices, such as a cut in overtime pay or investment in career development programs. Finally, the most common culture approaches don't use an integrated framework for assessing culture and individual styles, making it difficult to apply insights about the culture to leadership and talent decisions.

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Defining culture: the need and challenge

Unlike an organization's vision, mission and strategy, which are explicitly articulated by leaders with the goal of guiding the organization's activities, culture is pervasive and invisible, working silently in the background to direct how people throughout the organization think, make decisions and actually behave. Culture represents the "unwritten rules" for how things really work in the organization: It is the manifestation of the shared values, beliefs and hidden assumptions that shape how work gets done and how people respond to one another and to marketplace developments.

The elusive nature of culture is both a challenge and an opportunity for organizations. Defining a culture is difficult because the underlying drivers are usually hidden, built upon unconscious sets of shared assumptions that have developed over time. If you can't see it, describe it or measure it, it's hard to manage and it's hard to know if the culture is helping or hurting the organization. Yet the right culture can capture the imagination and energy of people in the organization and ignite their potential — make them more or less collaborative, more creative and open-minded or more cautious and planful — without even realizing it.

An organization's cultural patterns can encourage innovation, growth, market leadership, ethical behavior and/or customer satisfaction. In fact, research has shown that the extent to which employees align with an organization's culture has a significant impact on business performance, explaining as much as 25 percent of performance variance. In his book *Good to Great*, Jim Collins argues that companies with strong, well-aligned cultures are six times more successful than their competitors. Other research has found that companies with an aligned culture reap two times the return on investment and significantly better sales growth and return on assets than those with weaker or misaligned

1 Denison, Daniel R., and Aneil K. Mishra. "Toward a Theory of Organizational Culture and Effectiveness." *Organization Science* (Mar.-Apr. 1995): 204-23. Print.

cultures.[1] On the other hand, an unhealthy or misaligned culture can impede strategic initiatives, erode organizational performance, diminish customer loyalty and discourage employee engagement. Lack of culture fit is responsible for as many as 68 percent of executive new hire failures, research has found.

Furthermore, culture has staying power. Once it's established, it can be hard to change. If everyone knows that the way to be successful in the organization is by avoiding risks and staying under the radar, a new strategy that prioritizes risk-taking and innovation will face resistance unless the culture is addressed. That's why it is so vital to diagnose the underlying drivers of the culture — not just the visible behaviors and outcomes — when assessing how the culture aligns with the business strategy. Fortunately, with the right methodology, culture can be assessed and translated into actions that lead to results.

A framework for thinking about culture

An organization's culture determines and is defined by how it responds to the external environment — the continually evolving customer demands, competitive pressures, technology advancements and macroeconomic developments that affect every organization — and how individuals within the organization interact and coordinate to accomplish their work. To really understand an organization's culture, then, the most important dimensions to consider are how the organization responds to change — particularly in the environment ("orientation toward change") — and whether it tends to think of its people as individuals or groups ("orientation toward people"). Decades of research on culture and the drivers of individual and collective success confirm the primacy of these dimensions on culture, which apply regardless of industry or geography.

In practice, an organization's orientation toward people will fall on a spectrum from highly individualistic to highly collectivistic. Cultures can be more independence-focused or more group-focused. Cultures — and individuals — that skew more toward independence place greater value on autonomy and individual action. Those that are more group-focused emphasize managing relationships and coordinating collective effort; people are more prone to collaborate and to see their success through the lens of the group.

Similarly, an organization will be more or less open to change. People and cultures can be more comfortable with stability — focused on maintaining consistency and predictability and controlling exposure to the external environment — or flexibility, where being adaptable is emphasized. Cultures that favor change tend to value innovation, openness and a longer-term perspective. Those that favor stability tend to follow rules, build control structures and prefer hierarchy.

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Applying this fundamental insight and observations from more than 120 of the best, most recognized socio-cultural models, we have identified eight distinct socio-cultural styles or "basic assumptions," which apply to cultures and leaders. Together, these styles can be used to describe and diagnose highly complex and diverse behavioral patterns in a culture and understand how an individual executive is likely to align with and shape that culture.

Each style represents a distinct and valid way to view the world, solve problems and be successful, both as individuals and as organizations. While no single style can fully depict a culture or personal style, individual styles and organizational cultures tend to be more heavily weighted in two to three styles that reflect their orientation toward people and change. A culture that emphasizes learning and enjoyment, for example, will be characterized by a greater tolerance for risk-taking and exploration, and individuals who thrive there will value their autonomy and constantly seek the next new thing. By contrast, a culture that emphasizes safety and order will prioritize risk management, efficiency and

stability, and the individuals who thrive there will be careful and concerned about how their actions affect the organization and their co-workers. An organization's dominant cultural styles invisibly drive individual behaviors and decision-making and reflect "what it feels like" to work there.

What does this look like in real organizations? Consider the examples of three retail businesses, each with distinct cultures but all extremely successful and growing — and known for exceptional customer service. At the global luxury retailer, tradition and the brand heritage reign supreme; employees view themselves as guardians of the brand who must live up to time-honored customs in customer service and image. This is a cautious culture where few people have the authority to make decisions that affect the global brand. By contrast, enjoyment and exuberance are the prevailing characteristics of the culture of the pure-play online retailer, which is in keeping with its youthful clientele who want to buy fun, fashionable and affordable accessories. Employees socialize together and are highly engaged in their work. They treat customers as friends. The third, a department store, has more of a learning culture that emphasizes empowerment and flexibility in meeting customer expectations. Employees have only one rule to follow — make customers happy — and have the authority as frontline representatives of the organization to do what it takes to maintain an exceptional customer experience.

How top leaders shape culture: translating insights into action

There is no one "right" culture. The right culture for an organization is a function of the outside environment in which it operates as well as its mission and strategy. Ideally, the culture will allow the organization to both respond to the opportunities and threats it faces in its environment and support the internal requirements of the organization itself, such as engaging people, motivating the right behavior, and aligning with the strategy and organizational structure. The culture may need to evolve if it prevents the organization from responding effectively to marketplace changes or if internal dynamics become toxic.

Applying insights about culture to critical leadership decisions is one of the most effective ways to reinforce the elements of culture that are working well and evolve those that are not.

Selecting leaders to inject new capabilities

Executives of a software company transitioning its business model from pure software sales to a combination of software and consulting services were looking to increase the diversity of styles in the management team when hiring a new CFO. The company had a highly collaborative and purpose-driven culture, which was closely tied to the mission of the business. While the CEO and head of human resources were able to articulate the characteristics of the culture, our model provided a more rigorous understanding of the compatible and contrasting styles and how to look for those qualities in candidates. Ultimately, the company used the insight to select an executive with a more aggressive and results-focused style who could help challenge and improve the culture.

Assessing underlying drivers of behavior

The venture capital investor of a popular social networking site had concerns about a finalist candidate after preliminary referencing seemed to indicate that the candidate was a very hands-on manager who seemed to delve too deeply into the minutia — and potentially was not strategic enough for the role. We evaluated the candidate's individual culture profile and found that her top style was learning. An additional round of referencing confirmed that her inquisitive and hands-on style reflected a desire to learn and explore rather than an overly tactical orientation. Identifying the underlying drivers of the behaviors alleviated the concern of the investor, and the company offered the candidate the position.

An organization's culture is not simply the sum of the styles of all of its employees. In most organizations, the CEO and other top leaders have a disproportionate influence on the culture through what they emphasize and the examples they set. For this reason, applying insights about culture to critical leadership decisions is one of the most effective ways to reinforce the elements of culture that are working well and evolve those that are not. This is much easier to do when the framework directly connects individuals to the culture by using the same language to describe both organizational culture and the personal styles of individuals.

CEO succession and talent development

In most organizations, no one has as much influence on the culture as the CEO. The style of the CEO, the way she behaves and communicates, what she underscores in speeches and meetings, and the executives whom she recognizes and promotes, all send signals to the rest of the organization about the culture. A new CEO can preserve the culture or take actions that have the effect of changing the culture, for example, defunding programs, publicly praising executives with different personal styles and moving the rising stars of the old regime into less influential roles.

The way an organization identifies, promotes and develops future leaders communicates a lot about the culture an executive team is trying to build, so the board and CEO should think carefully about how the organization is developing and promoting emerging talent, especially those who may be contenders for the CEO role. To make sure that the next generation of executive talent aligns with the culture that the organization wants for the future, talent management and development programs and employee evaluations must reflect the mindsets, behaviors and capabilities that will be needed. For example, if the organization needs to move to a more

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Merging organizations

The newly selected CEO of a consumer products joint venture determined that the culture of the new company should be results-focused, collaborative and creative, drawing on the strongest elements of the cultures of the two parent companies with the additional goal of encouraging innovation. The CEO concluded that the best lever for encouraging the development of a culture with those attributes would be to select executives whose styles were compatible with the target culture. Spencer Stuart assessed candidates for the top 300 roles based on their past performance, experience, capabilities and the degree to which their personal styles aligned with the target culture. Based on the assessments, the organization selected a top executive team with the required capabilities and the personal styles to reinforce the desired culture for the new company.

Transforming the organization

A professional services firm undergoing a multiyear transformation of the business engaged us to assess a group of its top leaders, which involved establishing a culture benchmark for the organization and mapping the culture styles of individual executives. Following a review of the findings of the culture assessment, the board and CEO concluded that evolving the culture to become more collaborative and purpose-driven would support its transformation to a more customer-focused business. They placed culture change on the strategic agenda and will be conducting culture workshops with top leaders across the firm.

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driven, results-focused culture, then training, development programs, the way meetings are run and how executives communicate all may need to evolve to signal to emerging leaders how to be successful in the future culture.

Leadership selection, hiring and onboarding

Leaders both shape and are shaped by the culture, so it's important to understand how candidates for top roles align with the current or ideal culture. A very aggressive, results-focused culture will bring out those behaviors in leaders or push out people who don't like that culture. Clarity about the culture can enable smarter hiring, reducing tissue rejection in organizations where the culture is a strength or aiding in the selection of new leaders who might serve as change agents where the culture needs to evolve.

When strategic or cultural change is on the agenda, organizations can hire and promote leaders who will serve as catalysts for change. These leaders should possess the style preferences of the ideal culture, but also have the influencing skills to model and bring along others in the organization. The ability of individuals to influence cultural change also depends on the structure of the organization and how established the culture is.

In healthy, well-aligned cultures, understanding how a new hire's style does and does not reflect the culture can help shape onboarding plans by illuminating how his or her strengths may complement the culture of the existing team and the organization as a whole — and flagging how certain actions could be perceived negatively by others. An executive who tends toward risk-taking and flexibility joining a team that is orderly and planful may find that the team appreciates his or her new ideas but becomes frustrated at what they view as a lack of planning. Meanwhile, the new leader may become frustrated by how careful and slow-moving the team is.

Onboarding plans will vary based on the role, the characteristics of the organizational culture and the extent to which the individual's style differs from the culture. However, the mere act of helping a newly hired executive understand the key elements of the culture can make a tremendous difference in his or her ability to be successful. Executives of one top company we worked with told us that the number-one determinant of an individual's success in the organization was the ability to integrate with the culture. Yet the CEO never discussed the culture with new executives even though new executives participated in numerous meetings to discuss strategy.

Developing effective top leadership teams

Another area organizations can struggle with is how to design teams with both the appropriate diversity of skills and the cultural "glue" to work together effectively. Teams are most effective when members have high levels of mutual trust and a sense of belonging. Depending on the function of the team, having a diverse array of behaviors and styles can be more or less important. In functions where everyone is doing the same thing and the tasks are straightforward, for example, greater uniformity of styles can be an asset. In a very complex environment with lots of changing tasks and challenges, more diversity of styles is in order, but the diversity of styles should be paired with higher levels of trust, understanding and communication.

Organizations can improve the effectiveness of their senior teams by helping individuals build self-awareness, teaching them how to get the best out of their colleagues and equipping executives to model the desired cultural characteristics.

Conclusion

Culture has a powerful effect on organizational performance, helping to make or break even the most insightful strategy or the most experienced executives. It can encourage innovation, growth, market leadership, ethical behavior and customer satisfaction. On the other hand, a misaligned or toxic culture can erode organizational performance, diminish customer satisfaction and loyalty, and deflate employee engagement.

Despite its influence on organizational performance, culture is notoriously difficult to manage because the underlying drivers are usually hidden. Truly understanding the culture and diagnosing the elements of the culture that do or do not support the strategic priorities can unlock the full potential of the organization. Because the senior leadership team tends to have a disproportionate influence on the culture, selecting and developing executives and teams that reinforce the current culture — or help to evolve it — is one of the most important ways to make sure the culture is supporting the organization. This is much easier to do when the framework directly connects individuals to the culture by using the same language to describe both organizational culture and the personal styles of individuals.

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About Spencer Stuart

At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 55 offices, 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment and many other facets of organizational effectiveness. For more information on Spencer Stuart, please visit www.spencerstuart.com.

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