Corporate Culture and Performance

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Agenda

- Will discuss today:
  - How is corporate culture defined?
  - Does culture impact performance?
  - How can we assess culture?
  - A new framework for corporate culture
  - How are cultures changed?
  - How do HR practices drive culture change?
What is Culture?

The shared set of assumptions, beliefs, values, and behavioral patterns of a group that guide that group’s perceptions, judgments, and actions.

How we do things around here.
Culture is like the “operating system” of the organization. It guides what people value and how they think, act, and feel.
Guiding Principles: Leadership and Culture

- Leadership shapes culture, and senior leaders have the most direct and visible impact on culture.

- Culture drives financial performance.

- Organizations need to understand the culture and to be intentional about the culture they want to create.

- HR practices are a major force in shaping culture.
Impact of Culture on Performance
Kotter and Heskett studied...

- Economic performance
  AND
- Strong Cultures
- Strategically Appropriate Cultures
- Adaptive Cultures

Impact of Culture on Performance

Kotter and Heskett, *Corporate Culture and Performance*, 1992
Performance Enhancing Cultures

- Attend to customers, employees and stockholders
- Are aligned around common goals
- Are strategically aligned
- Are run by strong leaders who win employee hearts and minds and provide a **high trust** environment
- **MOST IMPORTANT:** Are responsive to the environment and **adaptive**
Correlations of Culture Items & Financial Results – Top Items

- **External Focus:** Aware of market trends and opportunities and adapts strategy .67

- **Nimbleness:** Organization responds rapidly to trends, opportunities, and threats. Consistently fast in getting new products to market. Flexible and not tied down to predetermined approach .61

- **Competitor Awareness:** Information about competition influences decisions .60

- **Aggressiveness:** Aggressively seeks out and takes advantage of opportunities .58

- **Teamwork at Top:** Management is cohesive and aligned team .58

- **Vision:** Employees excited about vision and future .58

Hagberg Consulting Group
“Cultural Assessment Tool” 2003
Correlations of Culture Items & Financial Results

- **Long-term Time Horizon**—Takes long-term, proactive approach .54
- **Confidence in Management**—the company is well-managed .53
- **Trust in Employees**—Actions of management demonstrate employees are trusted .52
- **Learning Organization**—Continuous learning is a high priority .51
- **Risk Taking**—Risk taking is supported and encouraged .50
- **Customer Driven**—Management spends good deal time with customers & partners .49
- **Broader Meaning**—Employees are motivated and inspired by the organizations goals .48
Leadership Integrity & Trust Pay Off

- Study by Tony Simon reported in HBR in 2002
- Studied Holiday Inns and measured trust in management
- When trust was high:
  - Revenue was high
  - Profitability was high
  - Customer satisfaction was high
  - Occupancy rate was high
SMD-HR Research – What Drives the Bottom Line?

- SMD-HR looked across companies at relationship between employee survey items and outcome measures.
- The two categories that drove financial performance in most organizations were
  - Management (especially direct management)
  - Senior Management.
Individual items most predictive of bottom line results:

- In the Senior Management Category: “Senior management’s actions support this organization’s mission and values” and “I have confidence in senior management’s leadership.”

- In the Management category: “The person I report to creates an environment of trust” and “I receive useful feedback from the person to whom I report.”
Leadership Character Model™
Assessing Culture
Assessing Culture – How?

• Edgar Schein (Father of Corporate culture) model
  - Anthropological: Observation, Interviews and Focus Groups
  - Review of documents, reports, values statements, HR practices, physical settings, artifacts, etc.

• Surveys (which may be combined with anthropological model)
  - Denison
  - Competing Values
Assessing Culture – Quick ideas

• “Edgar Schein” model (see next slides)
  • Collect Legends and Stories, etc.
  • Ask, How do we behave when...?

• Surveys:

• Meeting “Word Cloud”
  • 10 Cards for each person – one word per person
  • Type all into a document and paste into wordle.com
As an anthropologist...

**Voice of the Elders:** Who are the elders? How are they treated? What do they say? How does one become an elder?

**Legends and Stories:** What stories and legends do people hear when they first join our village? Whom do they hear the stories from? What new stories have they heard lately?

**Communications:** What are the formal channels of communication? What informal communication channels exist and who uses them?
How we behave when...

- We want to be promoted?
- We need to confront a difficult issue?
- We want to celebrate?
- We want our teammates to like us?
- A policy is handed down that we don’t understand?
- We have a deadline that’s too tight?
- Someone doesn’t meet a deadline?
- A decision has got to be made?
A New Model of Culture

Five Key Parts of the Culture House

- Sustainability
- Feedback & Development
- Agility & Adaptability
- Strategy & Business Model
- Alignment
- Brand & Personality
- Foundation
- Organization Character
The Culture FOUNDATION

- Stems from the character of the organization, which stems from the character of leaders
  - What are our values? Are they lived?
  - Is there a sense of Mission and Purpose?
  - Are leaders trusted? Are managers trusted?
  - Is there a BALANCE of Responsibility and Respect?
    - Is there psychological safety?
    - Is the culture accountable and courageous?
FOUNDATION – WHY?

- Right thing to do
- Better outcomes
- And:
  - Volkswagen
  - General Motors
  - Wells Fargo
  - Enron
FOUNDATION: Why?

FRIDAY of last week

Wells Fargo Fined for Sales Scam

Bank to pay $185 million as regulators say its selling tactics included creating fake accounts without customers' knowledge, federal and local authorities said.

Employees at the bank, which has 40 million retail customers, in some instances issued debit cards without customers' knowledge and assigned personal identification numbers without telling them, according to the U.S. Consumer Financial Protection Bureau. They also transferred funds from authorized customer accounts to temporarily fund ones without customer permission, according to the allegations, sometimes resulting in fees for insufficient funds.

Staffers also allegedly created fake email addresses, such as "noname@wellsfargo.com," to enroll unknowing consumers or people who don't exist in online-banking services to hit sales goals, the Los Angeles City Attorney's office said.

Wells Fargo neither admitted nor denied the allegations but agreed to pay the fine and submit to a consent order to settle civil claims brought by the U.S. Office of the Comptroller of the Currency, the CFPB and the city attorney. In a release, the bank said the agreement was reached “consistent with our commitment to customers and in the interest of putting this matter behind us.”

In detailing the widespread nature of the bank’s alleged missteps, CFPB said Wells Fargo has “terminated roughly 5,300 employees for engaging in improper sales practices.” The bank, the nation’s largest by market value, wouldn’t comment on the “levels of leadership” involved in the firings, but bank spokeswoman Mary Eubanks said “both managers and team members were affected.”

She said the firings should be seen in the context of the bank’s size—it had 268,000 employees at the end of June—and that they happened over five years. Please see WELLS page A6
And SATURDAY
FOUNDATION – HR PRACTICES

- Clear Values – behaviorally specified and integrated into HR systems (Competency models, Selection practices, Onboarding, Performance management, 360, HiPo Identification, etc.)
- Values in meetings, team training, etc.
- Leadership Development – especially for senior leaders – grounded in character and values
Southwest Airlines - Recruiting

Purpose and Vision

Values

Southwest Citizenship

Culture in Action

Live the Southwest Way

Warrior Spirit

- Work Hard
- Desire to be the best
- Be courageous
- Display urgency
- Persevere
- Innovate

Servant’s Heart

- Follow The Golden Rule
- Adhere to the Principles
- Treat others with respect
- Put others first
- Be egalitarian
- Demonstrate proactive Customer Service
- Embrace the SWA Family

Fun-LUVing Attitude

- Have FUN
- Don’t take yourself too seriously
- Maintain perspective
- Celebrate successes
- Enjoy your work
- Be a passionate Teamplayer

Work the Southwest Way

- Safety and Reliability
- Friendly Customer Service
- Low Cost
FOUNDATION: Character in Leadership

Leadership Character Model™
Cultural capabilities must fit the strategy and the business model. Examples:

- Safety
- Innovation
- Speed
- Efficiency
- Collaboration
- Customer Focus
ALIGNMENT: Change the process?
This is the OUTSIDE-IN view of cultural alignment that HR guru David Ulrich has popularized:

- Who are your target customers?
- How do we want to be viewed by our target customers? (How are we viewed?)
- **FOR HR:** How does the INSIDE brand reflect the OUTSIDE brand? How will brand alignment affect selection, training, etc.?

**Question:** How does a Costco employee differ from a Nordstrom employee?
ALIGNMENT – HR Practices

- Capabilities must be behaviorally specified and integrated into HR systems (Competency models, Selection practices, Onboarding, Performance management, 360, HiPo Identification, etc.)
  - Hiring: What kinds of education? Personality and competencies? Where do we source? What’s the “feel” of our portal? Who will we attract?
  - Onboarding, Training, Development: How do we translate strategic capabilities and customer expectations into **behavioral expectations**?
ALIGNMENT: Changing the Business Model or Strategy

Means Changing the Culture
Development and Feedback:

- Keeping people growing
- ... and keeping people
- Assuring the next generation of leaders and employees – especially now

Agility and Adaptability:

- What do these names have in common? Blockbuster, Kodak, Blackberry
- ALL leaders recognize the need – all leaders are not ready
SUSTAINABILITY – HR Practices

- Development and Feedback:
  - Development must be a core strength and focus
  - Feedback must be “normalized” – means balancing courage and empathy – continuing conversation, not once a year

- Agility and Adaptability:
  - Huge challenge – bottom up information flow? Connectivity throughout the organization? Speed of change?
  - Selection of leaders very key here
Changing Culture

- Assess Current Culture and Articulate Desired Culture
- Use an appreciative approach – honor the past as you assess and as you create the desired culture
- Start change at the top but communicate and involve
- For the “center section” – strategic and brand alignment – change processes, structure, decision-making, and shifts will follow  [Lorsch & McTague, HBR April 2016]
- HR processes – competency models, selection, development, performance management, succession - provide great leverage
- Involve top talent in creating new culture – team projects in Leadership Development design
Turknett Leadership Character Model™

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