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Culture: The Main Ingredient in Corporate Outperformance

Private company board members must recognize the strategic importance of culture and make it a priority.

By Anthony Abbatiello

Although podcasting has been around for a decade, it was the serialized narrative of a 15-year-old murder case that dominated the digital world. This story unfolded over 12 episodes and generated 100 million downloads through the podcast "Serial." It became a runaway hit in part because its creators knew how to reach a broad audience, keeping them hooked through storytelling and emotion.

The trajectory of "Serial" holds lessons for private companies and the leaders who govern them, too. Businesses can thrive by understanding the culture that forms within a company, tapping into the emotions of employees and other audiences, and acting on those feelings.

Among private companies, directors hold wide-ranging authority to help businesses succeed—through input on strategy, financial oversight, direction over resources such as plants and equipment, and reputation management. Increasingly, boards are adding culture to that list. In Deloitte Consulting LLP's annual Global Human Capital Trends report, 87% of executives surveyed listed "culture and engagement" as a critical challenge, ranking it as the highest of all HR-related issues.

Cultural alignment, in which an organization's system of values, beliefs, and behaviors is directly connected to business plans, is one way private companies can address this challenge and potentially outperform the market. For instance, our research found that "mission-driven" companies tend to have 30% higher levels of innovation and 40% higher levels of employee retention. Leaving culture to chance, therefore, is a recipe for stagnation and decline.

Broad Implications

Culture is at the core of every major organizational change. It dictates how two entities perform as a single unit after a merger. It can indicate a company's likely response to adjustments in the regulatory environment. In the digital age, prospective hires don't have to wait for an interview to learn about a company's culture. Reviews of what a workplace is really like are readily available online, placing candidates at an advantage in the recruitment process and forcing companies to examine their practices.

Boards also have a wealth of information available to them about the implications of culture on the mechanisms within their companies. Millennial workers are among the most reliable sources of information on culture. Among the respondents in the Deloitte Millennial Survey 2016, 70% said they believe their personal values are shared by the organizations where they work. One quarter of respondents said they felt that businesses should have a solid foundation of trust and integrity. Just over

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one quarter said that businesses should put employees first.

We understand that urgency. At Deloitte, more than half of our employees are millennials, workers who are roughly 35 years old and under. If we don't promote a culture that reflects the core values of millennial workers, we are sabotaging our own long-term success.

That's why we emulate several key tactics embraced by boards that clearly value the role of culture in driving success for their companies.

Shape Your Culture, Drive Your Strategy

The podcast "Serial" was a blockbuster in part because its creators combined the appeal of storytelling with massive distribution. Private companies can be similarly successful when they align their organizations' culture with the business strategy. When culture and strategy are aligned, companies can show as much as 50% improvement in performance. Strategy matters more than ever—it helps boards decide where to invest, how to measure performance, and how to design the organization's structure.

When strategy suffers, the cause could be attributed to a misalignment with the organization's culture. If a new strategy within a firm conflicts with entrenched practices, for instance, employees may struggle to adapt to these changes. Company leaders have long had ways to measure and interpret such developments. But culture is harder to define, and many assessments have not been able to make the connection between culture and business plans.

Favorable corporate environments lead to better business success. In Deloitte's survey of executives and professionals for the Core Beliefs & Culture Survey, 91% of respondents whose company has a strong sense of purpose also said their company has a history of strong financial performance. And better cultivation of culture can transcend business strategy. A strong, sustainable culture helps create a powerful employment brand. Engaged employees are more productive and loyal, and much more likely to recommend the company to people in their networks.

Release the Power of Emotions

In today's transparent workplace, companies can't afford to get culture wrong. Boards are recognizing that leaders must make emotional connections with their workforces. Moving beyond mugs, posters, and sayings, companies must identify meaningful ways to appeal to employee emotions, as consumer marketers do on a daily basis.

Companies can make emotional connections with their workforce in a few ways. First, it's essential for boards and leaders to understand how their own actions influence the behaviors of their teams. That goes beyond making rational appeals. It's showing how leaders themselves are making personal changes to improve the culture, even when it's not easy. A hint of vulnerability from the top can have much more impact than top-down directives when companies want to enhance their culture.

Also, companies must recognize that they serve a goal that's greater than maximizing returns. By focusing on the value that employees create in their communities, leaders can inspire changes to increase that value. If employees take pride in a task or mission, that can help boost commitment to the organization as a whole.

Making those emotional connections also requires active participation across teams. Every behavior by every individual should be viewed as a contribution to the organization's higher purpose. This builds employee pride in the mission of the company. And with committed and engaged employees, companies can also be more profitable.

Manage and Measure Like Never Before

Like finance, marketing, or any other traditional business function, culture must also be actively managed in order to be successful. It's hands-on work. To generate success, private company leaders must look under the hood to manage behavior and processes. Our 2015 Global Human Capital Trends report found that only 12% of executives believe their organizations are excellent at effectively driving the desired culture. No board should be satisfied with those numbers.

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Traditionally, companies have viewed cultural change as a two-part process. First, they identify current trends and decide how to achieve a culture that's more supportive of that strategy. Then, they cultivate fresh ideas and behaviors as the basis of the new culture. Leaders must add a third step: elevating their organizations with emotional appeals and active management in order to move in a new direction. The problem is, many companies have abandoned their efforts to optimize their culture. Executives may make a point of investing in areas from human resources to sales. But those intentions may not match the company's culture. As a result, business performance suffers.

In order for such efforts to be successful, though, everyone must be involved. Board members need to recognize the strategic importance of culture and make it a priority. Leaders need to acknowledge that their culture can be stronger and more aligned with their strategy. Employees need to buy into those changes so their contributions are aligned with management's goals. And external stakeholders—from customers to business partners to future employees—need to see evidence that the company's culture is strong and a dominating force in its success. Put all of that together, and culture will quickly become one of an organization's valuable and most transformational assets. ■