

Culture as a Management System: How CEOs Who Lead High-Purpose Organizational Cultures Deliver Remarkable Business Performance.

A Retrospective Analysis and Prediction That
Connects High-Purpose Culture to Higher
CEO Compensation, Increased Shareholder
Returns and Positive Media Coverage,
Utilizing Metric-Based Frameworks.

A LANDMARK CEO STUDY

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Culture Design Group

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March 12, 2020

This Study demonstrates that High-Purpose organizational culture is a powerful driver of CEO success resulting in higher enterprise returns, greater personal influence and significantly increased compensation. The study finds that the process of designing and executing a High-Purpose culture can be utilized as an effective management system to drive organizational outcomes.

Media Contact:
Laura Viberti
culture@gapingvoid.com

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Organizational Culture may be defined as "the shared basic assumptions, values, and beliefs that characterize a setting and are taught to newcomers as the proper way to think and feel, communicated by the myths and stories people tell."¹

It has been previously demonstrated, on a sample of publicly traded companies, that workforce engagement - a cultural outcome - significantly predicts organizational financial return on assets, net margin, and customer satisfaction. ²

What has never been explored is whether CEOs who drive high levels of positive culture are rewarded with personal success. In this study, we conclude that the answer is yes.

We investigated our observations that well-executed organizational cultures are powerful drivers not only of value creation, but influence, status and of personal income to CEOs. Our research team was able to validate these findings:

1) High-Purpose Cultures™ are at once employee- and customer-focused. They're well defined and make clear exactly what the organization stands for. Organizations that engage employees consciously through a High-Purpose Culture system realize:

- Higher financial returns
- Better customer satisfaction scores
- Increased employee retention
- Greater innovation
- Greater competitive advantage

Moreover, CEOs of High-Purpose Culture companies personally achieve:

- Higher compensation
- Greater number of positive media mentions

¹ Schneider, Benjamin; Ehrhart, Mark G; Macey, William H. "Organizational Climate and Culture." Annual Review of Psychology, volume 64:361-388, January 2013.

² Schneider, Benjamin; Yost, Allison B.; Kropp, Andrea; Kind, Cory; Lam, Holly. "Workforce Engagement: What it is, What Drives it, and Why it Matters for Organizational Performance." Journal of Organizational Behavior, 2017

- Increased respect in their industry, communities and by employees as indicated by their presence atop “Most Admired CEOs” lists

Based on these findings, we can reliably conclude that deliberately designed organizational cultures can be a new form of management system that drives operational outcomes and successful careers of CEOs.

Key highlights from the study are:

- The CEOs we analyzed who instill and oversee High-Purpose Cultures earned total compensation of about .16% of company revenues. At the other end of the spectrum, CEOs from companies with poor culture scores, overseeing low-purpose cultures, earned about .07% of total revenues.
- The CEOs of the best High-Purpose Culture companies command revenue growth of an average of 10.5% YoY while the worst suffer revenue declines at an unsustainable average of -4.4%. This is a 15 percentage-point difference.
- The best-rated CEOs are “loved” by traditional media. The research shows that they enjoy more favorable coverage and higher numbers of positive-toned mentions in media channels with broad reach.
- These companies averaged stock returns of 11.5% annually over a 17-year period, compared to a market average of 6.4%.
- Companies with High-Purpose Cultures have employee turnover rates about 50% better than industry competitors. With average costs of turnover estimated at 90% to 200% of the exiting employee’s base salary, lower turnover rates result in significant cost savings, as well as knowledge retention.
- When CEOs make higher salaries than their industry peers, their reputations can take a hit -- but the data shows that this effect is mitigated when the companies have High-Purpose Cultures.

Theory and Research Approach

For over ten years, Gapingvoid has worked with scores of organizations designing positive, productive cultures. This work has spanned numerous fields, from government to tech, healthcare and higher education. This work helped determine the crucial role of chief executives in creating culture.

The CEO is the instigator of a High-Purpose Culture, not the recipient of prior goodwill. CEOs who lead a conscious cultivation of organizational culture have sustainable success. This is not a one-time action. Successful CEOs understand culture as an “invisible human operating system” – a management system – that is felt in everything the company does.

We refer to the leaders who do this well as “culture-centric CEOs,” observing they enjoy remarkable success in the following ways:

- Engaged and loyal employees
- Often, fanatical customers
- More innovative processes, products and/or services
- Above-market-average financial returns
- Higher personal compensation
- Outstanding recognition in the media, both industry-specific and nationally

These remarkable connections are recognized by only a tiny percentage of CEOs.

Some of the best third-party studies are quoted and summarized in this report. We also compiled data with proprietary analyses with our own insights.

Introduction – How Culture Ties to CEO Success

CEOs need to set strategies that deliver extraordinary shareholder returns. To accomplish this, the CEO must drive organizational performance, build and grow a satisfied customer base, maintain optimal productivity, and put forth a favorable public image. This is viewed as a complex set of requirements, driven by outstanding products, loyal customers, great margins, etc.

The phrase 'organizational culture' does not often factor into their list of priorities. Our research indicates that all things being equal, culture becomes the category killer - the unifying factor that enables all of those objectives to be met. In short, it's a virtuous cycle that starts with employees and radiates out in all directions, affecting all aspects of the business.

High-Purpose Cultures are functional, well defined, employee-enhancing work environments that are at once employee- and customer-focused and high performing by financial measurements. They are characterized by levels of high trust of leadership, alignment to clear beliefs, and connection to well understood purpose. Having a unifying purpose drives culture. As Larry Fink of BlackRock Investments wrote in his 2019 letter to CEOs:

“Purpose is not a mere tagline or marketing campaign; it is a company’s fundamental reason for being – what it does every day to create value for its stakeholders. Purpose is not the sole pursuit of profits but the animating force for achieving them.”³

³Fink, Larry. "Larry Fink's 2019 Letter to CEOs. Purpose & Profit." Retrieved from <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

High-Purpose CEOs Attract Top Talent

On the path to maximizing profits, the most successful CEOs recognize the value in cultivating a meaningful work environment where employees feel valued. Employees' perception about their work matters, and it shows in the bottom line.

Culture is frequently viewed as too “soft” to warrant concern. However, CEOs who focus on purposeful culture increase the workforce's ability to produce extraordinary, sustainable results.







Glassdoor, an employment website that gleans insights provided by employees, maintains a database of company information,- including reviews by employees. Past or current employees are asked to rate the CEO of the company as positive, neutral or negative. The Glassdoor chief economist's statistical analysis of CEO approval ratings concluded that satisfied employees are an essential driver of the approval rating of CEOs. It also found that one of the components of company culture with greatest impact is the employees' opinion of senior leadership.

For this research, we assume that the CEOs at the top of the Glassdoor best-rated list are successfully fostering High-Purpose Cultures. In the absence of great work experience and environments, employees will be unlikely to approve of the CEO. Given the high correlation between CEO approval rating and likelihood of recommending a friend to work there (see Figure 1), these two concepts go hand-in-hand.

For purposes of comparison, we chose six companies from the top of the best-rated CEO list that had corresponding companies in the same industry among the worst-rated companies in Glassdoor. The companies and CEOs illustrating the points are as follows in the table below, as rated by thousands of current and past employees.

⁴ While the Glassdoor ratings have certain limitations, such as anonymity of responses, lack of control, and the permanence of the reviews in spite of improvement, they provide the most robust set of data on employee opinions of CEOs. Companies' own surveys are notoriously inaccurate on such matters due to assessment bias and employees' fear of repercussions.

Table 1: Comparison of Select Best-Rated and Worst-Rated CEOs, by Industry

BEST			WORST			
Best Companies to Work For	Highest- Rated CEO	CEO Approval Rating	Industry Name and Symbol	CEO Approval Rating	Lowest- Rated CEO	Worst Companies to Work For
St. Jude Children's Research	James Downing	98%	 Healthcare services	29%	George V. Hager, Jr.	Genesis Healthcare
HEB	Charles C. Butt	98%	 Grocery	28%	Larry Appel	The Fresh Market
LinkedIn*	Jeff Weiner	97%	 Employment services	38%	Ashok Vemuri**	Conduent
E & J Gallo Winery	Joseph E. Gallo	96%	 Food and drink	57%	Bernardo Hees**	Kraft Heinz
T-Mobile	John Legere	94%	 Wireless telecom	17%	Daniel James McCarthy	Frontier Communications
Enterprise Holdings	Pam Nicolson	94%	 Rental cars	51%	Kathryn V. Marinello	Hertz
AVERAGE OF BEST RATED		96%		37%	AVERAGE OF WORST RATED	

NOTE: Companies were selected from "best" and "worst" lists based on comparable industries. *LinkedIn operates as an independent subsidiary of Microsoft since 6/16. Conduent was formed in 2017 as a divestiture from Xerox. **Vemuri and Hees are no longer with Conduent and Kraft Heinz, respectively.

A full version of our
“CEO Culture Study” is available
upon request using your
business email.

Email: culture@gapingvoid.com
