The Benefits of Framing Culture as a Management System

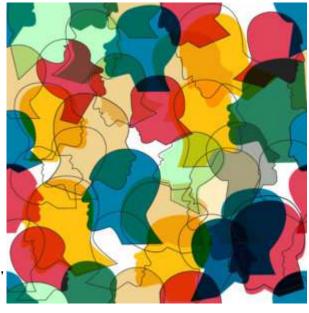By approaching managerial decisions through the lens of culture, leaders can make a bigger impact for the organization and its employees.

Jason Korman • October 09, 2019

READING TIME: 4 MIN

Corporate culture is undergoing a transformation. As organizations evolve and reinvent themselves in response to societal changes, new technologies,

and competitive disruption, they're finding that hierarchical cultures of the past must change as well.

And while the shape and impact of corporate culture is changing in the 21st century, the role it can play as a determinant of success is not waning anytime soon. As the researchers of the *MIT SMR/*Glassdoor Culture 500 put it, "To survive and thrive in today's market, a healthy corporate culture is more important than ever."

My company, Gapingvoid, helps businesses of all sizes design, build, and update their cultures. (Full disclosure: MIT Sloan School of Management is a client.) Unfortunately, my colleagues and I often find that, despite all the talk about culture, many business leaders remain confused about what it really boils down to. Some mistake culture for a set of lofty statements or goals made by executives. Others try to project a certain kind of culture externally that is at odds with what employees inside the company experience.

Culture runs deeper than that. As a 2012 study defines it, organizational culture is "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."

Often, executives ask me how to instill assumptions, values, and beliefs in a way that will be communicated throughout the entire organization. One approach I've found that helps is to think of culture as a management

system. To many, this makes the idea much more concrete. They know that their entire staff, including managers, has to make all sorts of decisions every day — and that those decisions, in aggregate, determine what the experience is like for employees.

When you frame culture as a management system, you see how quickly the assumptions, values, and beliefs at the heart of the organization can translate into actions.

For example, managers need to know whose needs and interests take precedence in any given situation — those of customers, shareholders, employees, or other stakeholders. They need to know how much free-flowing debate they should encourage about corporate initiatives. They need to know how much support to give for work-life integration and flexibility. All of these questions, and many more, have answers when you look through the lens of culture.

The Financial Rewards

For years, I've seen anecdotally that when companies build cultures as management systems, they prosper. At Gapingvoid, we recently sought to quantify that through new research.

For our study, we focused on businesses with the kinds of cultures that we've found to be most successful. We call these *High-Purpose Cultures* because they've done the best job of motivating employees with what Julian

Birkinshaw of London Business School and his coauthors once described as a "sense of purpose that transcends making money."

Companies with High-Purpose Cultures are focused equally on the needs of employees and customers. They clearly communicate internally what the organization stands for, and they work actively to engage everyone in the organization. In these companies, it is established that all operational decisions must balance the needs of employees, customers, and other stakeholders.

We combed through extensive data from Glassdoor in which employees review and rate their companies and their CEOs. Focusing on the best- and worst-rated companies (in which employees praise or trash the corporate culture), we selected a group of the best-rated organizations that had corresponding companies in the same industry among the worst-rated. These covered industries including health care, communications, and automotive.

Matching this data by collaborating with Baker Foundation Professor Leonard Schlesinger at Harvard Business School, we found that companies with High-Purpose Cultures see substantially greater results. They had an average of 11.5% on stock returns annually over a 17-year period, compared with an overall market average of 6.4%. They also had employee turnover rates approximately 50% lower than competitors in their own industries. With average turnover costs estimated at 90% to 200% of the exiting employee's base salary,

these lower rates result in significant cost savings as well as knowledge retention within the organization.

These results make logical sense. Employees want to work at places that make them feel valued, and they're more productive for it. When companies make grandiose statements about valuing employees but fail to instill that sense of connection into the management system, employees know the difference.

Microsoft exemplifies the difference. When CEO Steve Ballmer was in charge from 2000 to early 2014, the company was struggling, and employees criticized the company culture. The BBC named Ballmer one of the five worst CEOs in 2013, saying culture was a "big problem at the company."

When Satya Nadella took over, he focused on building a new corporate culture. Microsoft's share price skyrocketed from about $28 under Ballmer to $137 in September 2019. (Gapingvoid has also done some projects with Microsoft.) Earlier this year, in announcing a change to how the company investigates HR disputes, Nadella wrote, "Each of our over 16,000 managers needs to be an effective culture champion dedicated to improving the experience of our employees."

Executives' decisions can set a business on the right path. But for any organizational culture to succeed, managers must stay on the path and avoid veering off. When they see the culture as a system by which to weigh all managerial decisions — hiring, firing,

promotions, and more — they can lead the company to greater success.

Topics

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TAGS: Corporate Culture, Corporate Values, Employee Turnover, Management Strategy, Organizational Culture