Executive Summary

Michigan Ross professors Dave Ulrich and Wayne Brockbank have conducted research on the impact of organizations vs. individual employees on a firm’s performance. This paper summarizes results from 1,500 organizations.

Ulrich and Brockbank discuss the importance of organization and culture within an organization, and the role HR professionals can play in helping create an organization’s culture. They outline a three-stage evolution in defining what culture means from the outside in and a five-step process for creating or changing an organization’s culture. The right culture can turn external promises into internal employee engagement and organizational actions.
An Emerging HR Agenda

In 2014 culture was the “word of the year” by Merriam Webster. Deloitte human capital trends for 2015 and 2016 found that organization issues (culture, organization design) were the top HR issues. Some companies are trying to maintain their culture (Disney, Marriott), others want to change it (GE, Apple), and others want to embed it (Google, Facebook). McKinsey’s growth business is organizational health (their cultural assessment). In the last year, we have interviewed dozens of top HR leaders and they share the same message: the war for talent is evolving and needs to evolve toward creating victory through organization.

The vulnerability of the talent paradigm is that it focuses on optimizing individual contributions. The term talent inherently focuses on ensuring that companies have the individual talent necessary to achieve their purposes. Certainly having individual talent is a critically important agenda for any organization. However, by focusing primarily on individual contributions, the talent movement, by definition, succeeds in making the organizational whole equal to the sum of the parts. This overlooks the central contribution of organization to make the organization whole greater than the sum of the parts. It is this integrating and leveraging function of organization that creates sustained competitive advantage. Thus, in this essay, we answer the why, what, and how of culture as an emerging HR agenda.

Why Culture Matters

Individuals can be champions, but it is teams that win championships. As noted, culture makes good people better together. In addition,

- culture is also more difficult to copy than access to financial capital, implementing a new technology system, or even crafting a strategic plan;
- culture ensures sustainability that outlives any one individual;
- culture ensures that employee engagement is not an isolated event, but a sustained pattern;
- culture does not just eat strategy for breakfast (Peter Drucker’s famous quote), but it serves strategy as an on-going diet.
Culture is top of mind for CEOs who want to adapt their organization, future high potential employees who are looking for a cultural fit, and even for Chartered Institute of Auditors who have prepared recent documentation to help auditors monitor culture. Culture is center stage for business success and is becoming an HR priority.

There are relatively few research studies of the impact of organization vs. individuals on firm performance. We recently conducted research on competencies of HR professionals (individuals) and capabilities of HR departments (organizations) and their relative impact on business performance. We found that across 1,500 organizations, organization level activities explained twice as much of the variance in business performance than the knowledge and skills of individuals. The impact of key stakeholders based on individual competence vs. organization capabilities was even more profound, with the organization level issues explaining 3 to 7 times as much stakeholder value as individual competencies (see Table 1).

HR professionals who help organizations create culture add enormous competitive value to their organizations’ long term success.

Table 1: Impact of Competencies vs. Departments on Business Results and Value Created for Key Stakeholders

<table>
<thead>
<tr>
<th></th>
<th>Overall Business Results</th>
<th>1 External Customers</th>
<th>2 Investors/Owens</th>
<th>3 Communities</th>
<th>4 Regulators</th>
<th>5 Line Managers</th>
<th>6 Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Professional Competencies</td>
<td>22.3</td>
<td>24.8</td>
<td>15.3</td>
<td>22.0</td>
<td>33.5</td>
<td>10.0</td>
<td>7.6</td>
</tr>
<tr>
<td>Activities of HR Departments</td>
<td>41.7</td>
<td>59.1</td>
<td>69.2</td>
<td>76.6</td>
<td>39.5</td>
<td>89.2</td>
<td>89.6</td>
</tr>
<tr>
<td>Other Variables (e.g. Strategy, Culture)</td>
<td>36.0</td>
<td>16.1</td>
<td>15.5</td>
<td>1.5</td>
<td>27.0</td>
<td>0.8</td>
<td>2.8</td>
</tr>
<tr>
<td>Multiple Regression adj. $R^2$</td>
<td>0.243</td>
<td>0.481</td>
<td>0.424</td>
<td>0.364</td>
<td>0.283</td>
<td>0.485</td>
<td>0.570</td>
</tr>
</tbody>
</table>

*These rows sum to 100%, representing the percentage of explained variance in the model that can be explained by each variable category*
What Culture Means

One of the challenges of managing culture is that it has become a Rorschach test for those interested in organizations; there are related concepts, terms, and prescriptions that require clarity. Are organization cultures to be thought of as resources, core competencies, health, climate, processes, values, shared mindsets, organization types, or systems? With these confusing concepts, no wonder HR professionals have difficulty in creating competitive organizations. The concept of culture clearly matters, but it seems impossible to articulate or define with any unified precision.

We propose a three-stage evolution of defining what culture means. Phase 1 is culture as seen through symbols, rituals, stories, and other organization events. We experience or see these cultural artifacts when we enter or join an organization. Phase 2 is culture as seen through how it shapes how people think, behave, and feel in the organization. Culture shows up in the values, norms, unwritten rules, emotional responses to, or flows of how things are done in a company. Most of the above current definitions of culture follow this logic. Phase 3 defines culture as the identity of a company. In this phase, culture is the identity of a company in the mind of the best customers, made real to all employees throughout a company. Each of these phases of cultural definition affect employee engagement. In Phase 1 (symbols), employee affect comes from the organizational events. In Phase 2 (values, beliefs), employee engagement comes from enacting the organization’s values. In Phase 3 (outside in), employees are engaged in the right things.

“The concept of culture clearly matters, but it seems impossible to articulate or define with any unified precision.”
By moving to the outside in, customer-centric view of culture, we create a winning culture. The words that are used to describe culture represent categories of behaviors as they are experienced and perceived by observers. In the business setting, customers tend to be the most relevant observers. Thus, Southwest Airlines wants to be known for low price with a fun experience; Marriott for exceptional service; Apple for design and simplicity; Google for innovation. These firm brands or identities should then become infused through the company.

A company’s ideal culture should be defined by its desired external firm brand or identity. The collective way of thinking, behaving, and feeling (employee engagement) within the company is the internal cultural manifestation of external (branding) promises. For HR professionals to leverage culture, it is not enough to have or recognize cultural artifacts (Phase 1) or to shape how people feel, think, and act (Phase 2), but to ensure that people feel, think, and act consistent with promises made to customers and other key stakeholders. As cultural stewards, HR professionals need to have an outside-in perspective where they make sure that the internal culture and the HR processes through which the ideal culture is created and sustained directly reflect the external brand promise.

How to Create or Change the Culture

Defining culture — from the outside in as the identity in the mind of key customers and other key stakeholders made real to employees — enables HR professionals to audit the extent to which an organization has the right culture that will add to most value. We have identified five steps HR professionals can follow to create and sustain the ideal culture:
Step 1: Define the right culture

HR professionals begin to define the firm’s ideal culture by asking the senior leadership team, “what are the top 3 things we want to be known for by our best customers (or investors) in the future?” Creating unity between those outside the company (customers and shareholders) and those on the inside (members of the senior management team) can be a powerful base from which to define the right, or winning, culture.

Step 2: Create an intellectual agenda

The intellectual agenda means that the desired culture is communicated throughout the organization through speeches, town halls, emails and social media. Employees assimilate these messages so that they become conceptually engaged to the right message.

Step 3: Instill a behavioral agenda

The behavioral agenda shows the extent to which all employees behave consistently with the desired culture. As one great leader taught, “we teach people correct principles, we let them govern themselves.”

Step 4: Design and deliver key processes and structures

Process and structures institutionalize the culture through management and organization practices like staffing, training, promotion, measurement, compensation, organization design, information management, physical arrangements and leadership development.

Step 5: Define and implement a leadership brand

Leadership brand occurs when leaders inside a company behave consistently with customer expectations outside the company. Leadership competency models should overlap with firm brand statements. Leadership brand leads to an employee brand where employee engagement becomes the norm.

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Conclusion

When organizations create the right culture, it turns external promises into internal employee engagement and organization actions. HR professionals who understand the why, what, and how of culture will complement a talent agenda with a more sustainable winning organization. While many companies are 60% to 70% up the “s-curve” on talent, many are just embarking on the value created by building winning organizations.
Endnotes

1 We should note that culture has been characterized as the “word” of the year by Webster Dictionary because of how often it is searched with terms like celebrity culture, media culture, pop culture, and company culture. We also see culture gaining attention in leadership writing. http://kevinsheridanllc.com/2015/11/culture-is-merriam-websters-word-of-the-year-for-good-reason/


17 In organizations, we have talked about shared mindset, or culture being the shared cognitions in an organization: Dave Ulrich and Dale Lake. 1990. Organization Capability: Competing from the inside out. New York: Wiley.


Michigan Ross has been named a Top-5 Executive Education provider by the Financial Times. The **Strategic Human Resource Planning** program prepares mid-level HR leaders responsible for designing and implementing HR strategies to transform their HR function through business strategy, and cultural, capability and talent requirements. The **Advanced Human Resources Executive Program** enables more experienced HR executives to deliver value to employees, customers and investors by leveraging HR investment to support and drive the strategic vision of their organizations.