

# The Link Between Organizational Culture And Organizational Performance



Richard Barrett, a pioneer in organizational values measurement has teamed up with Hewitt, a global leader in employee engagement measurement to see what their respective measurement tools would reveal when looking at data from Best Employers.

This Best Employers research identified those organizations whose people practices distinguish them as outstanding places to work. Research is ongoing in numerous countries around the world including the United States, Asia, Canada, Europe and Latin America, Australia and New Zealand.

In summary, the link between high performance and a great organizational culture continues to grow. What follows is a compilation of some of the most compelling evidence of that link.

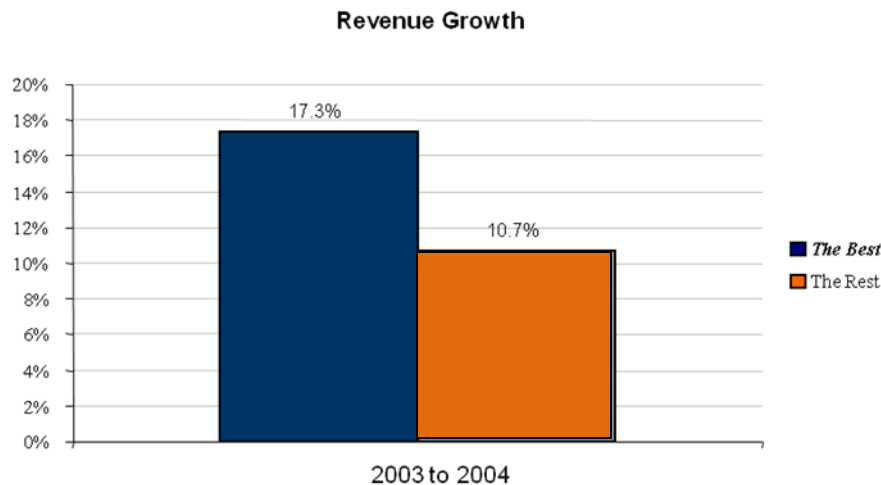
### Best Employers Attract and Retain More Employees

They have significantly lower levels of turnover:

- Asia 40% lower
- Australia 45% lower
- Canada 54% lower
- Europe 30% lower
- U.S. 50% lower

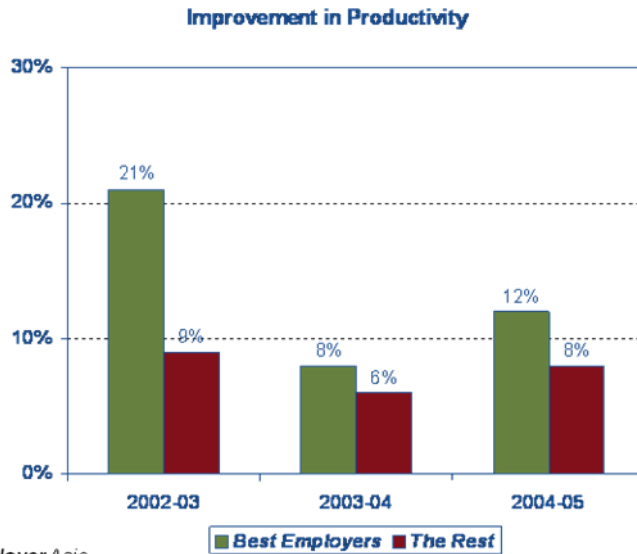
They enjoy larger pools of talent—attracting nearly twice as many applications per employee in most studies.

### Best Employers Have Faster Revenue Growth



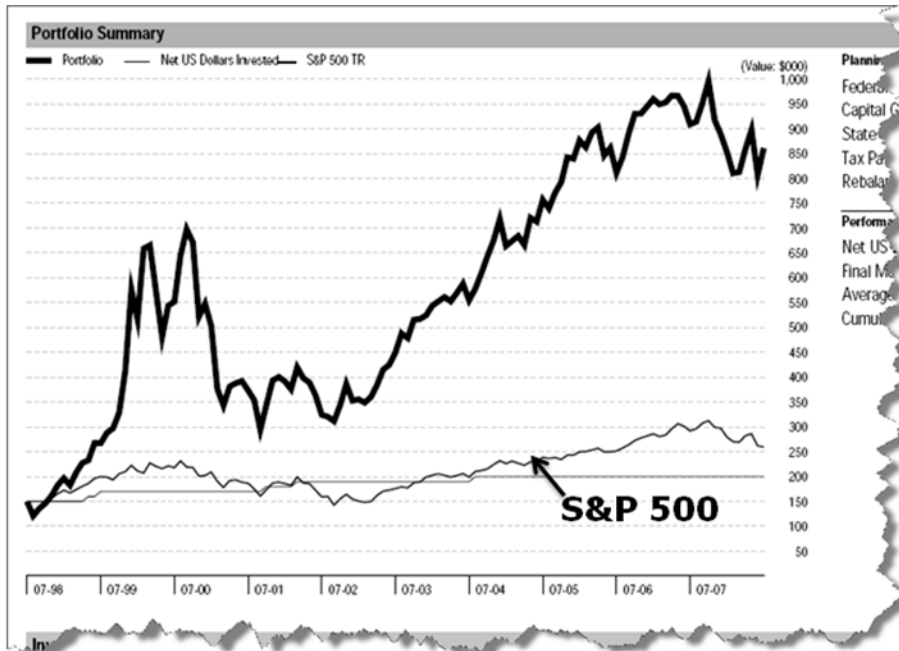
Source: Hewitt **Best Employer Asia**

**Best Employers Have Consistently Higher Sales per Employee**



Source: Hewitt *Best Employer Asia*

**This Translates into Greater Returns as Proven by Fortune Magazine’s “Great Places to Work” Survey**



A portfolio of the top twenty publicly listed best companies to work for in the USA in 2008 would have returned an average annualized return of 16.74% over the past ten years – compared to 2.83% for the S&P 500.

### Corporate Earnings Are Correlated with Corporate Culture

Since 1976, Dr. Eric Flamholtz, Professor at the University of California, Los Angeles (UCLA), has focused on this fundamental question: What does it take to continue to build successful organizations over the long term? From his 2001 article, Corporate Culture and the Bottom Line:

**“The basic hypothesis is ... that the greater the degree of agreement between the desired corporate culture and the culture perceived to exist, the better the financial performance.”**

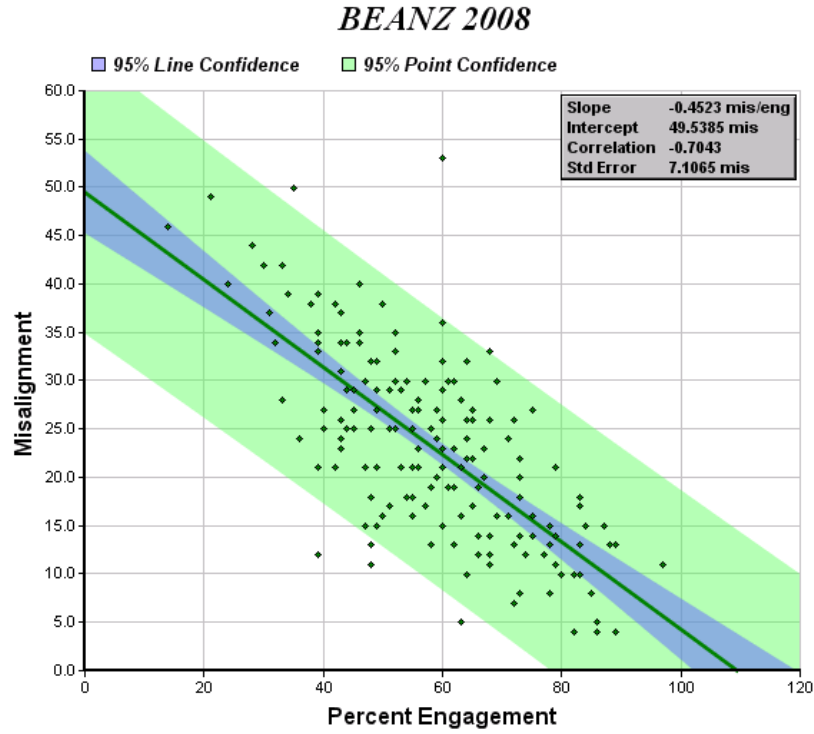
Dr. Flamholtz's study found that *favorable responses by employees to values statements regarding their work culture correlated directly with earnings before interest and taxes; organizational culture does have an impact on financial performance.* Dr. Flamholtz's theory regarding cultural alignment was supported.

The Barrett Values Center is a pioneer measuring organizational values. With their values measurement tools, we can survey employees to examine such things as:

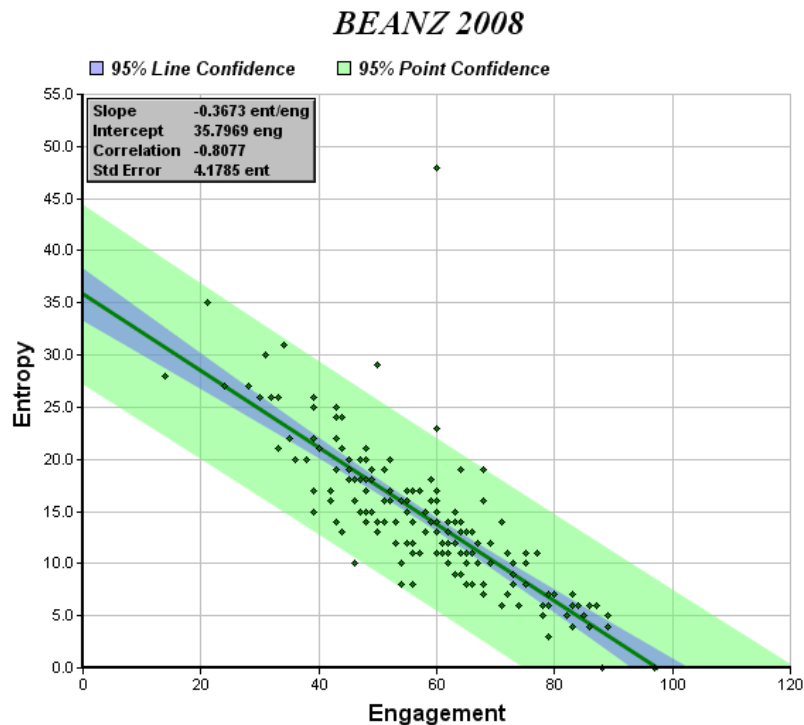
- **The alignment and gaps between the perceived current and desired cultures**
- **The potentially limiting values present in the culture**

Limiting values can consume energy in an organization in nonproductive activities. The presence of values such as blame, manipulation and control can result in this energy vacuum called entropy.

**Best Employers Have High Alignment between Current Culture Values and Desired Culture Values as depicted through Best Employers Australia and New Zealand (BEANZ)**



**Best Employers Have Low Occurrence of Entropy, a Measure of Potentially Limiting Values**



Examples of potentially limiting values that can lead to entropy are:

<ul style="list-style-type: none"><li>• bureaucracy</li><li>• hierarchy</li><li>• confusion</li><li>• long hours</li><li>• silo mentality</li></ul>	<ul style="list-style-type: none"><li>• blame</li><li>• tradition</li><li>• internal competition</li><li>• information hoarding</li><li>• exploitation</li></ul>	<ul style="list-style-type: none"><li>• caution</li><li>• control</li><li>• short-term focus</li><li>• risk averse</li><li>• job security</li></ul>
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There is also a strong correlation between values alignment and lack of entropy. We surmise that cultures with less entropy are healthier and therefore, meet employee's values expectations.

In summary, we can confidently say this about the link between culture and financial performance:

1. Better current to desired culture alignment leads to better performance (Revenues)
2. Entropy or wasteful behaviors are a drag on performance (Expenses)
3. Therefore, profits are maximized through stronger cultural alignment and elimination of entropy (wasteful behaviors)