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Four Steps CEOs Can Take to Change Organizational Culture

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Culture has always been a key driver of business performance.

Recent studies show that companies listed among the best places to work – based on their corporate culture – deliver 20% higher returns to shareholders than comparable companies over a five-year period[1]. While CEOs have long been aware of the impact culture has on performance, over the last two years, the world has become more complicated with the great reshuffling, a greater emphasis on diversity and inclusion, increasing employee expectations and the urgency to upskill talent. This complicated environment has raised culture to the very top of executives' priority lists, with a recent study by MIT Sloan identifying toxic culture as the leading predictor of employee attrition[2].

The increasing importance of culture requires the C-suite to take on more ownership and ensure the right culture is in place to attract and retain their people to achieve higher performance. More ownership means intentionally defining, creating, managing and evaluating culture to create a competitive

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advantage. Many companies today are feeling the effects of the changing world. Executive teams and CEOs, in particular, can play an important role in evolving their internal culture to improve the employee experience and business results.

Leading from the front

A set of values displayed on the company intranet site, on the walls of the office, on a card in employees' wallets or on the mousepad at someone's desk at home does not constitute a culture. A culture is much more that a set of words. Culture is a collection of shared behaviors, which means changing culture is about changing behaviors. Behaviors are changed by ensuring that they are clearly defined, modeled by leaders, reinforced by organizational levers, spread by a network of influencers and tracked by a set of metrics.

While culture change can germinate in many ways across an organization, the journey can be accelerated when championed from the top, while still owned by everyone. This article explores four practical actions CEOs can take to lead from the front along the culture change journey.

1. Define the values and behaviors

2. Live the behaviors everywhere and every day

3. Put weight behind adjusting organizational levers

4. Track progress and impact

Define the values and behaviors

The best CEOs and leaders think of defining culture as a core part of an overall leadership framework. This framework consists of an inspiring purpose, clear strategic direction, compelling values and clearly understood behaviors. Values and behaviors are the guideposts of culture that enable organizations to achieve stated business objectives. Employees look to clearly articulated values and behaviors to provide direction for every action; whether making decisions, helping customers, working with colleagues or advancing new ideas.

> **While employees need to have the opportunity to provide input in defining the values and behaviors, ownership ultimately resides with the executive team and the CEO. Words matter, and the CEO must feel confident in each word.**

CEOs should be intimately involved throughout the process of defining values and behaviors, which includes setting aside time to review the values and behaviors in detail, even to the level of wordsmithing. They must also be able to articulate and embody the company's values with conviction for the desired culture to take root and spread throughout the organization.

For example, a CEO leading a merger set out to establish a new culture that integrated the best from each of the merged entities. Findings from a company-wide employee survey and focus groups across multiple employee levels resulted in an initial draft of values and associated behaviors. The CEO and CHRO spent numerous hours together crafting each individual word. The CEO's personal involvement and attention to detail throughout the process signaled the significance of the values to the entire organization, resulting in widespread acceptance and adoption.

Live the behaviors everywhere and every day

Behavioral science research proves that, on average, it takes more than two months before a new behavior becomes a habit[3]. Once the values and behaviors are defined, the CEO and the executive team must make an ongoing commitment to consistently model the desired behaviors to ensure adoption.

Employees will only fully embrace the culture if they see their leaders living it.

The C-suite must demonstrate the culture by prioritizing a set of actions they can consistently do with ease. Executives should:

- Routinely discuss the culture in leadership and company-wide meetings

- Stop bad habits that are counter to the desired behaviors and create new daily habits aligned with the culture

- Hold skip-level sessions to discuss the culture with mid-level managers and front-line employees

- Ask leaders what actions they are taking with their teams to live the culture and regularly follow up to hold them accountable

- Spotlight individuals who demonstrate the desired behaviors

For example, one CEO conducted 89 sessions over 300 hours, discussing company habits with 28,000 employees around the world[4]. At Microsoft, Satya Nadella took specific actions around the value of empathy. He made a conscious effort to never raise his voice, write angry emails or tolerate raised voices in executive meetings[5]. These actions demonstrate how CEOs can live the desired behaviors everywhere and every day.

Put weight behind adjusting organizational levers

Defining and living the desired behaviors is just the start of the culture change journey. For behaviors to take root and spread throughout the organization, they must be reinforced through key organizational levers. These include:

- **Motivation** – Engaging communications, activating an influencer network and reconfiguring incentives to excite and motivate people to adopt new behaviors. *Example: Reward team members for introducing or advancing new ideas.*

- **Capabilities** – Introducing new skillsets to equip and empower team members to exhibit the desired behaviors. *Example: Teach leaders design thinking and how to inspire others to be creative and curious.*

- **Environment** – Adjusting structures, processes, policies, systems and the work environment to reinforce new behaviors. *Example: Create a process to encourage new ideas from any and all team members and reduce the number of approvals needed to advance new ideas.*

Adjusting organizational levers is one of the most challenging aspects of the culture change journey. However, new behaviors must be reinforced to bring about lasting change. Re-engineering the performance management process, creating a new rewards program or setting new decision rights requires a significant amount of work and buy-in. This instantly becomes easier with support from executive leadership. The CEO must put the full weight of the position behind the necessary changes to accelerate the journey.

For example, a global insurance company undergoing a digital transformation set a goal of being more customer-centric as the foundation of its new culture. In reviewing organizational levers, the leadership team prioritized changes to the pre-existing customer insights process:

1. Customer insights were collected by and shared only within marketing

2. The call center team, who were closest to the customer, did not produce insights

3. Employees expected customer insights from the leadership team, who were furthest from the customer

As part of the culture change journey, the CEO personally oversaw the redesign of the insights collection process. Insights were soon collected,

consolidated and shared across the full organization. The CEO's direct involvement resulted in swift implementation of the new process and significant progress toward the company's goal of focusing on the customer.

Track progress and impact

There is often a perception that multiple years are required for culture change to occur. In reality, change can take hold within a matter of months.

> **To drive culture change at pace, executives should monitor progress to create momentum and energy around achieving and celebrating quick wins.**

As culture is a collection of shared behaviors, immediately start looking for evidence of employees exhibiting the desired behaviors. This can be tracked through employee and customer surveys, the number of rewards given to people exhibiting the behaviors, testimonials and/or a behavior nudge tool through which employees acknowledge they lived the behaviors.

However, the mere existence of the behaviors is not enough. The main purpose of changing culture is to positively impact customers, employees and business performance. It is therefore crucial that CEOs continually reinforce the correlation between culture and business performance. This impact can be tracked through measurement frameworks that focus on elements such as:

- Growth or successful delivery of a strategy (e.g., enhanced productivity, access to quality talent, higher talent retention and quality of product/customer satisfaction)

- Lower costs to achieve goals (e.g., lower churn, customer retention)

- Strengthened ability to deliver sources of

growth (e.g., improved innovation, reputation)

A company seeking to foster a more innovative culture might track the number of new ideas generated, the number of new ideas brought to market, where ideas come from within the organization and employee happiness related to the creative environment. Meanwhile, a company that desires to be centered on the customer might track customer insights, satisfaction and retention. In both examples, each data point contributes to a holistic view of the impact of the culture change on business objectives.

In practice, a global tech company embarked on a culture reset focused on product quality. The executive team created a dashboard with 10 key metrics, including customer complaints and returns, product defects and related costs, and employee engagement and attrition. Over the first year, the team reported more than $100M in cost savings due to improved product quality, a 10% reduction in customer complaints and a 19% increase in employee engagement. The dashboard kept the full team focused on priorities and produced tangible evidence of the positive impact of culture change on the company and its customers.

People perform differently when the score is being kept. A simple dashboard with a few, select metrics can help CEOs monitor progress, inform necessary adjustments and provide real-time results to motivate employees and inform other key stakeholders.

Summary

While culture is owned by everyone, CEOs are encouraged to take a personal and active role in defining the values and behaviors that underpin the culture; live out the desired behaviors in a consistent and visible manner; implement organization-wide levers that allow the culture to flourish; and monitor the progress and impact of the culture shift. Executives who take the actions described in this article will find that culture change is both possible and fulfilling. And, when done well, it can result in more productive and engaged employees and enhanced business performance.

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