RETURN ON CULTURE

Proving the connection between culture and profit.

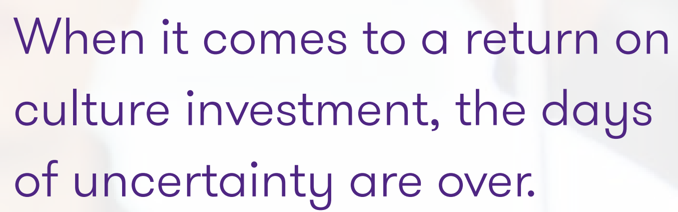
Introducing the hard data behind investing in culture.

Culture drives business performance. It's a simple concept, and one that most executives believe in. But few actually understand how to act on it. Why? Because we live in an ROI-driven world, and no one has ever taken the time to quantify return on culture.

Until now.

Grant Thornton's Return on Culture report is a groundbreaking study that **provides quantifiable evidence that investing in culture leads to measurable financial gains.**

Culture can no longer be seen as a soft extra. Culture is now a proven science. And understanding how to invest in it is critical for executives who truly care about their bottom line.



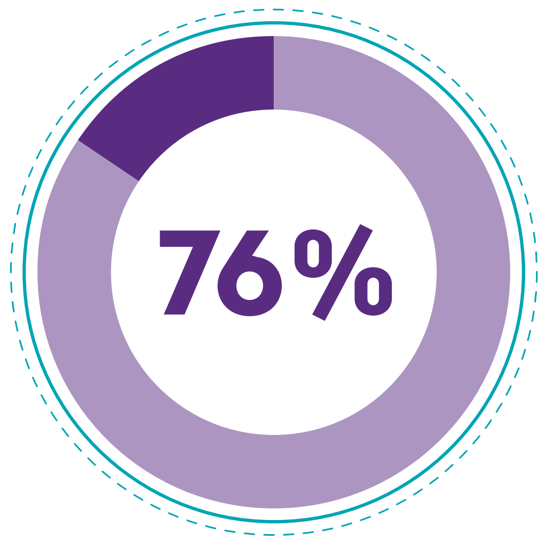
When it comes to a return on culture investment, the days of uncertainty are over.

The missing link between culture and capital.

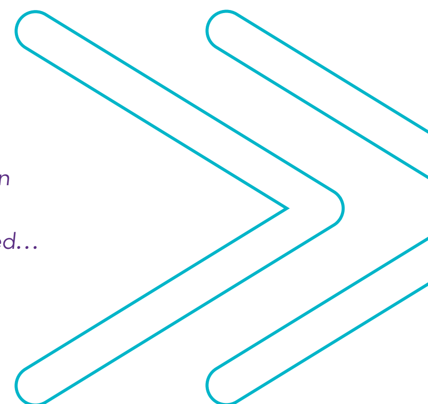
Company culture has always been a priority for executives — at least as a talking point. Though 93% of executives say they are attuned to company culture and have taken steps to strengthen it, a staggering 69% of executives don't actually measure culture. Without data to track culture-building initiatives, executives largely rely on guesswork to determine how investments are — or aren't — paying off.

The resulting perception gap between executives and employees has measurable consequences. While executives think they are clearly communicating with employees, **just 51% of employees say they understand the vision and goals of their organization.**

While

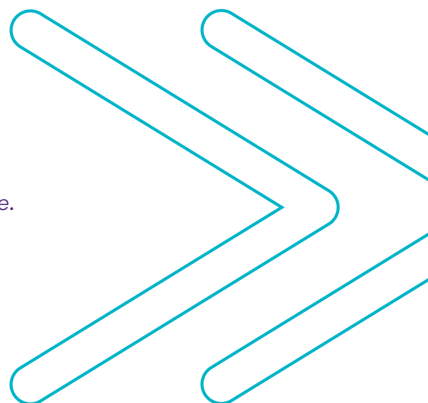


of executives say their organization has a defined value system that is understood and well communicated…



…Only

of employees believe this to be true.



These disparities speak to an all-too-common truth: **most executives lack the data necessary to understand and improve their culture — and their employees know it.** This disconnect presents itself in a host of consequences, from decreased employee engagement and retention to a lack of ROI on culture-building initiatives. The commonality between these ramifications? The risk of a negative impact on a company's bottom line.

The way executives invest in culture is about to change — in a measurable way.

To empower executives to start thinking differently about culture, Grant Thornton first needed to prove that corporate culture shows linkages to financial performance. That's why we partnered with Oxford Economics to determine if there is quantifiable evidence to support this connection.

Combining Grant Thornton's 94 years of consulting and advisory expertise with Oxford Economics' best-in-class analytical tools and research methods, our study surveyed 1,000 executives and employees across five industries in the United States. The findings attach hard data to an assertion we've long held to be true: **organizations that make the right investments in culture are more likely to see stronger business performance.**

Companies with extremely healthy cultures are

1.5X

more likely to report average revenue growth over 15% for the past three years.

Public companies with extremely healthy cultures are nearly

2.5X

more likely to report significant stock price increases over the past year.

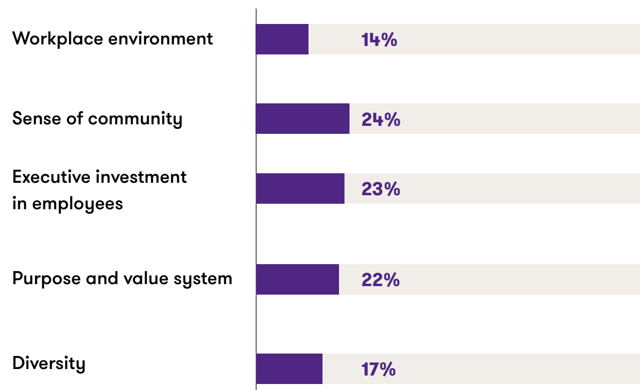
> "We have far too often blamed not investing in culture on a lack of data, or culture being impossible to tie to financial performance. With the data that has been unsurfaced in this study, there are no more excuses: now you can."

Chris Smith, Managing Principal, Grant Thornton Strategy & Transformation Practice

Healthy cultures, healthy business performance.

We approached our study with a clear hypothesis, but left behind preconceived notions regarding the most influential aspects of culture. Oxford Economics analyzed several elements of culture to better understand their relation to business performance. The following values indicate the weights we determined for each aspect of culture; the higher a given weight, the greater the importance to overall culture.

Weight of culture inputs in relation to business performance



To connect these seemingly intangible culture inputs to financial performance, we first had to understand their connection to non-financial performance outcomes. Our research identified **effective collaboration, customer satisfaction,** and **employee engagement** as the non-financial outcomes linking culture to financial performance. The following graphic represents our findings:

The culture equation

Culture Inputs

- Workplace environment
- Sense of community
- Executive investment in employee development and career paths
- Purpose and value system
- Diversity

Performance Drivers

- Effective collaboration
- Customer/client satisfaction
- Employee engagement + retention

High Financial performance

> "Culture isn't an unmeasurable thing. It's all about performance. It's all about productivity. At the end of the day, your share price shows that you've performed or you haven't."

Ann Rhoades, co-founder of JetBlue, former Chief People Officer of Southwest Airlines and Promus Hotel Company

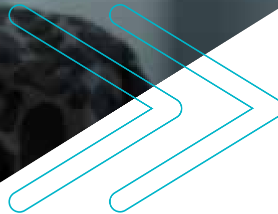
Understanding the culture-to-cash correlation.

Effective collaboration, customer satisfaction, and employee engagement all sound like desirable outcomes, but how do they actually contribute to a company's bottom line? Our study quantified these outcomes by connecting them to the following KPIs, all of which correlate with stronger financial performance:

Non-financial outcome		KPI
Employee engagement/ retention		Low turnover rate
Effective collaboration		Cross-company teamwork
Customer satisfaction		Repeat business

Erica O'Malley, an Organizational Strategy Partner at Grant Thornton, sees a direct connection between all three non-financial outcomes.

As O'Malley explains:

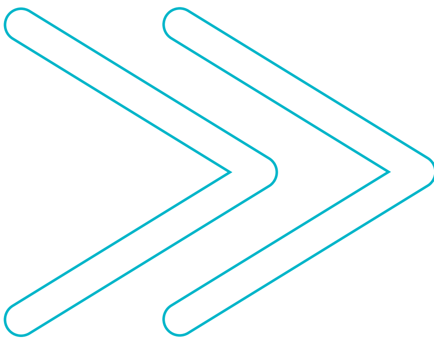


Employee retention is driven by **employee engagement**. "Most employees show highest engagement in their earliest stages of employment," says O'Malley. "Retention depends on keeping engagement levels high."

Engaged employees not only work with a higher level of discretionary effort — meaning they regularly exceed minimum expectations — they prioritize company goals over individual goals.

Driven to achieve overall company success, engaged employees are significantly more likely to **collaborate** with other teammates to win business — even if they receive less individual credit in doing so.

Such a team-oriented approach enables a company to not only consistently win business, but also deliver on client promises, which ultimately results in **repeat business.**



Our statistics connect O'Malley's logic to the necessity of investing in culture. We found that employees who describe their culture as healthy are:

1.7X

more likely to say their team collaborates effectively

1.3X

more likely to say their company effectively wins repeat business

2.4X

more likely to say they are unlikely to leave their job in the next year

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Our findings on increased retention show that the average S&P 500 company would see a savings of $156M in turnover costs annually if employees were to describe its culture as healthy.[1]

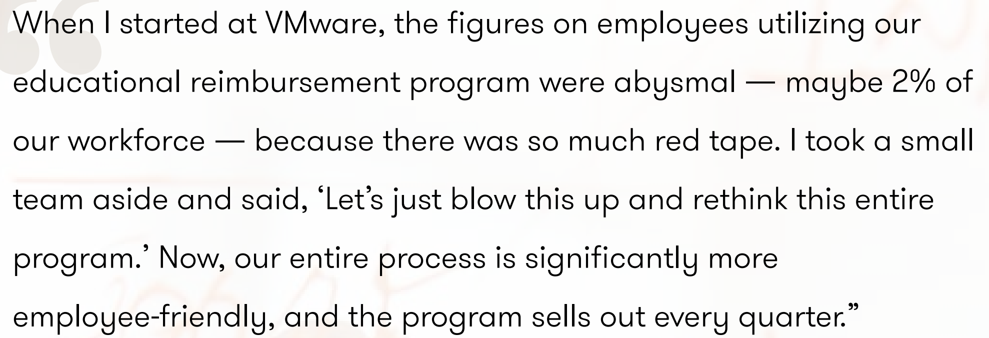
$156M

Investing in employees is a bottom-line necessity.

When executives take the time to invest in their employees, the gains can be significant. Our study found that elements of professional development — such as training and education opportunities or clearly defined career paths — are highly correlated with performance metrics like employee retention, which in turn help drive financial performance.

By providing employees with education support, mentoring, promotions, and flexible work arrangements, executives have a higher likelihood of increasing employee engagement and retention, and, correspondingly, client satisfaction — all KPIs associated with higher productivity, and thus stronger financial results.

> "It isn't that you get your employees engaged the first day — you have to keep them engaged."
>
> **Ann Rhoades, co-founder of JetBlue, former Chief People Officer of Southwest Airlines and Promus Hotel**



> "When I started at VMware, the figures on employees utilizing our educational reimbursement program were abysmal — maybe 2% of our workforce — because there was so much red tape. I took a small team aside and said, 'Let's just blow this up and rethink this entire program.' Now, our entire process is significantly more employee-friendly, and the program sells out every quarter."

Betsy Sutter, Chief People Officer at VMWare

Despite the potential payoffs, our findings indicate that **most companies are underachieving in employee professional development.** Fortunately, our research identifies **investing in employee education** as a key tactic for reversing this trend. Across all five industries we tested, employee education consistently showed a correlation to stronger business performance.

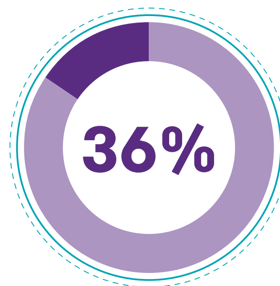
External statistics on the ROI of educational investments back up our findings. According to a 2016 Lumina Foundation study, Cigna Corporation saw a staggering 129% ROI on employee education programs. Financial payoff was driven not only by skills employees gained through education, but by the increased likelihood that employees were promoted, retained, or transferred within the company — thus eliminating the high costs associated with employee turnover.

Betsy Sutter, Chief People Officer at VMware, understands the importance of creating opportunities for employee education. Citing firsthand experience, Sutter conveys the necessity of understanding employee needs when implementing culture-building initiatives such as education reimbursement.

Efficiently investing in culture is more about where than how much.

Just as executives appear to undervalue employee development, they disproportionately emphasize other areas of investment. One such area is the physical workplace. Our study indicates that the link between workplace design and key business outcomes is relatively limited — **but executives significantly overvalue its importance.**

of executives believe a pleasing workplace environment is critical to employee loyalty



of employees agree that the physical workplace is critical to their loyalty

> The 69% of companies that don't measure culture are still spending money on culture initiatives they feel are valuable to their employees. My suggestion to them: stop spending money until you know whether it's paying off."
>
> **Erica O'Malley, Organizational Strategy Partner, Grant Thornton**

$39.5K

average cost of workplace renovation per employee[2]

$29B

annual revenue of the commercial property remodeling industry[3]

Misguided investments in the physical workplace are not only inefficient: they are astronomically expensive. Consider some of the costs associated with workplace redesign.

These figures reveal an essential truth about investing in culture: When it comes to achieving financial gains, *where* executives invest is more important than *how much* they invest. Investing in areas that aren't prioritized by employees will result in misspent dollars and minimal, if any, tangible results.

Therein lies the necessity of developing metrics to monitor areas of need — **something 69% of companies don't currently do.** The most effective metrics are those tied to corporate goals and values. By quantifying the relationship between cultural inputs and business outcomes — a key objective of our research — executives can determine which elements of their culture are paying off — and which are wasted investments.

Building culture begins with benchmarking current performance.

For executives looking to adopt an intentional approach to culture, determining where to start may feel like an insurmountable task. Fortunately, Grant Thornton's culture benchmarking tool jump-starts the process by helping executives identify current areas of strengths and weaknesses.

Designed to accommodate any given company's unique profile, the benchmarking tool tests current performance against five drivers that lead to healthier culture, including:

Workplace environment

Executive investment in employees

Diversity

Sense of community

Purpose and value system

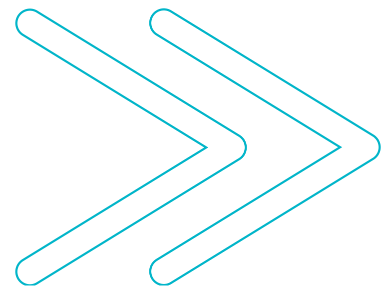
> “Grant Thornton’s benchmarking tool is really going to help executives learn what to focus on — and more importantly what not to focus on — as they start to improve their culture. After self-assessing against our five drivers of culture, they’ll understand where they sit relative to some of the best companies in the world.”

Chris Smith, Managing Principal, Grant Thornton Strategy & Transformation Practice

As Grant Thornton Strategy & Transformation Practice Managing Principal Chris Smith notes, our benchmarking tool will not only help executives start internal conversations on improving culture—it will offer perspective on how a company compares to the overall competition.

From evaluation to execution: taking the long view to improving culture.

Though Grant Thornton's benchmarking tool can provide executives with invaluable early-stage insights, creating a profit-optimized culture is not an overnight process. Executives who are serious about improving culture should adopt the following techniques for long-term success:



01 Listen and connect. Companies with healthy cultures understand how their mission, vision, and values are aligned with their strategy, and whether or not their leaders and workforce reflect those ideals. Executives should investigate how technology, workplace environment, compensation structure, and leadership styles are contributing to the kind of culture they want to build. Asking employees for their opinions, either informally or through surveys and regular reviews, is a key tactic executives can use to understand specific culture needs.

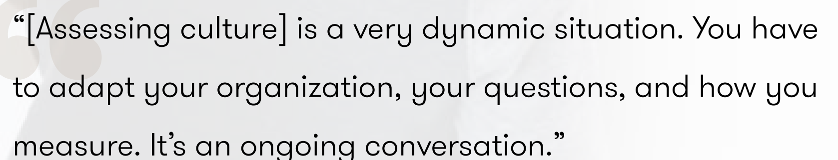
02 Invest wisely. Successfully investing in culture depends on differentiating between areas of strength and areas of need. Smart executives do not throw money at nonexistent problems—or ones that do not matter to employees. Developing a set of metrics enables executives to measure where culture investments can result in financial gains.

03 Be intentional. Culture is dynamic and can quickly evolve in the wrong direction if not intentionally shaped by company leaders. Executives who create healthy cultures are careful to align all workforce decisions with their company's core values and goals.

04 Communicate—constantly. Behind every healthy company culture are executives who regularly communicate organizational goals and values—and do so in a way tailored to the unique needs of their employees and customers. The most effective executives are authentic leaders, meaning they communicate with emotional intelligence and a constant awareness of their audience.

05 Measure outcomes. Metrics are an invaluable asset not only for understanding areas of need, but for tracking the efficiency of investments in those areas. Successful executives are able to measure softer business outcomes—such as collaboration and employee satisfaction—along with more tangible ones, like productivity, retention, and financial returns.

06 Be flexible. Formal and informal methods of advancing and preserving positive cultures need time to pay off, and must be adjusted over time to maximize value. Creators of healthy culture regularly modify strategies based on what works—and what doesn't.



"[Assessing culture] is a very dynamic situation. You have to adapt your organization, your questions, and how you measure. It's an ongoing conversation."

Betsy Sutter, Chief People Officer at VMware

The time for educated investing in culture is now.

In today's highly competitive hiring landscape, executives who ignore the power of company culture do so at their own peril. Fortunately, building healthy company culture is no longer a guessing game, but a measurable science, backed by rigorous research and statistical analysis. The fact that businesses can now establish a quantifiable link between culture and financial performance unlocks incredible potential for revenue growth.

The only question that remains: how will you use company culture to improve your business?

Footnotes:

1. Figures based on average S&P 500 company size of 54,000, according to Fortune(approximately 27 million employees divided by 500 total employees); and turnover cost of 33% per employee, as reported by Work Institute 2018 Retention Report; and $79,000 average salary for all employees in the S&P 500, as reported by the Wall Street Journal in 2018 19% turnover for company with unhealthy culture (according to OE report) x 54,000 avg # employees (according to Fortune) = 10,260 employees change jobs annually per S&P 500 company 33% cost of turnover per employee salary x $79,000 average salary per employees = $26,333.33 cost per employee x 10260 employees =$270,179,965.80

   8% (according to OE report) turnover for company with healthy culture x 54,000 avg # employees = 4,320 employees turnover annually 33% cost of turnover per employee salary x $79,000 average salary per employees = $26,333.33 cost per employee x 4,320 employees = $113,759,988.62
   $270,179,965.80
   - $113,759,988.62
   = $156,419,977.18
   Total saved annually by S&P 500 company with healthy culture: $156M

2. Figure according to **IBIS World Industry Market Research Report, 2017**

3. Figure based on average of 250 square feet per employee, as reported by **CBI Insights**, multiplied by cost estimate of $158.23 per square foot of renovation **according to JLL**

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