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The Relationship Between Corporate Culture and Performance

Researchers find that a positive culture boosts performance, but performance alone doesn't create a positive culture

ILLUSTRATION: RICHARD BORGE FOR THE WALL STREET JOURNAL

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Corporate culture has long been linked to company performance, but how exactly are the two related? A recent study suggests the relationship is strong, but nuanced.

For instance, a positive corporate culture—one that engages and motivates employees—helps a company's bottom line, according to the study of car dealerships by a group of university and corporate researchers. But the reverse apparently isn't true: A company's success isn't enough to ensure a positive culture, the researchers found—and companies that succeed without a positive culture are likely to see their performance decline.

Corporate culture can be a fuzzy concept, but basically it refers to the way that the values and actions of managers and employees create a unique business environment.

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To better understand the effects of workplace culture, the study looked at the relationship between culture and sales at 95 auto dealerships over a period of six years. To evaluate culture, the researchers asked employees to answer questions about their sense of involvement and mission at work, among other things. "We found that culture causes performance, not vice versa," says Michael Gillespie, one of the researchers and an assistant professor of psychology at the University of South Florida, Sarasota-Manatee.

Companies that got good grades from employees on culture early in the study generally had higher profits in later years, Dr. Gillespie says. The payoff from a positive corporate culture doesn't come quickly, however. "The culture of a sales department right now is going to influence the customer satisfaction from that department two years from now, and that customer satisfaction is going to drive vehicle sales two years from that point," says Dr. Gillespie.

On the other hand, many companies that performed well financially scored low on employee surveys early in the study. The researchers found that companies that didn't show any improvement in culture generally became less profitable.

Experts in organizational change say it can be hard to make sweeping changes in workplace culture, especially for large organizations with complex office dynamics and multiple offices scattered around the globe. What's more, a company's culture can vary across different departments.

Dr. Gillespie says it's best to start small by focusing on individual departments or offices. Targeting the most dysfunctional groups first, for instance, can deliver much bigger results than a more general approach when trying to change an organization, he says.

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David Grossman, a Chicago-based leadership consultant who wasn't involved in the study, says one good reason to strive for a better company culture is that it can provide a unique competitive advantage. "Culture change today is at the heart of winning because it's so difficult for [other] employers to copy," he says.

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