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CULTURE

Click-by-click: Using Alternative Data to Make a Business Case for Culture

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New technology can help executives to quantify how culture impacts value and to sustain an effective culture.

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The Importance of an Effective Culture

Imagine going to interview for a job or spending a day at your competitor's firm or that of a new upstart rival. It's likely the firm is using comparable tech to offer similar products and services, but your experience that day may leave you refreshed or feeling jarred and unsettled. Why? Because sometimes it's easy to forget the value (positive or negative) about the unspoken truths at your firm, the implicit assumptions underlying the way things are done.

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Culture is valuable. Culture helps generate more cash flows and it reduces the risks that make investors reluctant to give capital in the first place.[1] So, it should be no surprise that hedge funds and even thematic index funds like "HAPY" are popping up to invest their capital in firms with effective cultures and engaged and happy workers. Add to this the fact that jobseekers as part of the "Great Resignation" and "Great Rebellion" are disproportionately seeking to move to firms with strong cultures, and it seems clear that executives need to improve culture.[2,3]

While it may be obvious that culture is important, does it really require an outright investment? Can't you just throw a bunch of respectful, hardworking people together with the right resumes and goals and watch the magic happen? No. Even employees with the best intentions enter the workplace with different priorities and boundaries that they'll naturally expect to be upheld. As an organization grows, relying on a bottom-up culture becomes even more challenging to maintain and scale.[4]

So, how much is culture worth? A lot. Evidence from a survey of 1,348 corporate executives indicates they believe that corporate culture is the #1 long-term value driver, more so than strategy or operations.[5] While culture is clearly valuable, executives face challenges justifying seemingly costly investments in culture without having a way to quantify the returns to investments in culture. In the rest of this article, we show how executives can make a business case for culture using advances in recent technology.

Finding Data

Data needs to drive every business decision. Thankfully, the Internet provides us with more than enough data to make decisions – sometimes, it's information we don't need or even want. When trying to sift through a seemingly endless sea of information, finding the *right* data to answer a question or support a decision is often the most frustrating. In making business decisions, this means finding financial data that slaps a value on a project.

But what if the project is less concrete, like for a firm's culture? It would be nice if managers knew exactly how much it would cost to "buy" a positive work environment. According to our interviews with C-suite executives and top-level managers, they most often evaluate culture qualitatively (e.g., conversations) or indirectly, such as through news stories. Unfortunately, there's no catalog of cultures to help put a price on the investment.

So, what's a manager to do when trying to find financial data to support their case for investing culture, something that is so critical to a firm's value? Fortunately, and perhaps unexpectedly, they can pick up a firm's financial statements. Even though culture doesn't explicitly show up in a company's financial statements as an asset entry or its own standalone line item, its impact is embedded in multiple areas, including revenues, labor costs, and administrative expenses. To dig into these effects, firms and managers can turn to modern technology and machine learning for a new set of techniques to explore and really pinpoint a culture's financial impact.

Management vs. Labor

Just like any other asset, culture should be put to work for the benefit of the company. Different businesses have different strategies and thus different cultural priorities; a given workforce attribute, like the scrappiness of a tech start up, may create an effective culture at one firm but not necessarily at another. Unlike that of many companies, Amazon's business model fosters high employee turnover to regularly refresh the labor force. Amazon's hourly warehouse employee turnover rate of 150% per year is so high that the company essentially replaces that labor force every eight months.[6] This level of attrition may be unusually high for the industry and unheard of in other businesses, but it's consistent with Amazon's business strategy and aligns to an aspirational culture oriented around results.

Research shows "good" bosses raise the productivity of teams with formerly "bad" bosses by as much as adding another body to a nine-person team.[7] Unsurprisingly, those working under elevated supervision are also less likely to jump ship. According to our interview evidence, a disparate "tone at the top," however, can overrun even the most positive employee-boss relationships, well-meaning managers, and any plucky clusters of effective culture. Such messaging can be especially pervasive in hierarchical and insulated cultures and erode the trust between management and employees.

Consider the case of Exxon: according to a recent *Bloomberg Businessweek* article, Exxon's attrition rate was nearly twice that of its peer average at the end of 2021. The article details how many of the company's former employees are fed up with Exxon's seemingly sleepy approach to innovation and hierarchical structure that appears to subtly push "agreeability" with leadership. The system not only fosters a hyper-competitive culture but also works against the development of norms that are accretive to value by discouraging employees from bringing up issues or challenging their superiors. The article also describes how employees felt jilted by Exxon's move in 2020 to lay off

15% of its workforce and halt some salary increases shortly before granting more than $20 million in restricted stock units to executives. This, as well as employee skepticism of management's refusal to cut the dividend to save money out of apparent concern for retail investors who depend on it, seems to have intensified the divide between management and labor.[8]

When trying to reshape a culture, how do you figure out which culture is best? By ensuring that it reflects *your* company's strategy. This also means that if your strategy changes based on what's happening in the world, your culture needs to roll with the punches and change too.

Take the Straumann Group (Straumann), a dental equipment and supply developer and manufacturer based in Switzerland. After the financial crisis, Straumann's clients, like many around the world, pinched pennies and sought out more cost-effective product options. At the time, Straumann was a "premium" product provider, and as the shift toward value threatened business, leadership recognized the direness of the situation.[9] A new mindset was critical to righting the ship. With new CEO Marco Gadola at the helm, Straumann's culture evolved to stress higher performance.[10] During Gadola's tenure, the stock price, which had fallen in the period following the financial crisis, rose more than 400%, and revenues and profits doubled.

When investing in culture, how do you know you're not flying blind and just throwing money out the window trying to implement changes that won't stick anyway? Thankfully, we live in an exciting time. The applications of artificial intelligence (AI) are truly endless, as are the insights. For managers looking to make a case for culture, just like any other business decision, it's about finding the right technology and the right data to put a spotlight on culture's *financial* impact.

The Revenue Perspective: Potential to be Released

Unfortunately, many people know the dance of poor client service, and these interactions don't typically inspire repeat business. Firms with ineffective corporate cultures, especially, often fail to elevate quality customer service as a key cultural value of the firm. Concerned stakeholders who don't have direct insight into these interactions, however, may find it difficult to pinpoint the problem. That's why alternative data, like that provided by Medallia, can be so valuable.

Medallia is a software-as-a-service, client experience company that uses a proprietary platform to constantly track customer feedback. It goes far beyond the typical "please take a short survey at the end of this call" request by seeking out customer feedback in the form of "experience signals" generated in real time across countless mediums, such as social media or smart devices. Companies cherry-pick and customize the data they want to track, and Medallia uses advanced data science and AI to boil the data down into digestible insights for companies.

Managers can also leverage Medallia's technology to read between the lines for cultural insights: can you claim your firm fully embraces integrity if representatives are consistently dodging calls or making empty promises? Medallia's AI-generated reports have gleaned insights from millions of data points so managers don't have to and provides a unique, valuable perspective on how culture impacts the top line.

The Cost Perspective: Efficiency Gains from a Culture Aligned with Strategy

To see the same job opening posted and taken down repeatedly over time usually means it's time to back away (slowly) from that posting. Of course, there are legitimate reasons as to why this could happen, but excessive employee turnover at a company is often a huge red flag that multiple people simply didn't want to continue working there, and an ineffective culture is often to blame.

Revelio, a workforce analytics firm, provided data for a 2020 research paper that links higher employee turnover to lower future financial performance. This negative association is even more prevalent for some types of companies, including small and young firms.[11] Turnover data, however, makes up only a drop in the Revelio's data bucket: Revelio's technology scours for information on public and private companies from multiple corners, including professional websites, government databases and job review boards to highlight not only turnover but also hiring, salary, sentiment, geographic, skillset and demographic trends within a given workforce. With data aggregated at their fingertips, stakeholders can quickly spot labor trends, like decreasing average tenure or negative employee sentiment, that suggest an ineffective culture.

What if your firm's turnover is already low, your employees are content, and your culture is giving off good vibes all around? Unfortunately, you're not done. Even the healthiest cultures and bottom lines can't avoid the high costs associated with hiring the wrong candidate. Background and reference checks only do so much to assess an applicant's character, and even a candidate who looks great on paper, they may turn out to be a less successful in group settings. But what if you could protect your culture and get a better sense of someone beyond the typical checks before hiring?

Fama Technologies uses AI algorithms to track an applicant's "online footprint" by sifting through their digital profiles and web activities on behalf of hiring companies. Fama's technology does this quickly and can be customized to hone in on your firm's deal-breakers, like violent or racist posts. Fama's algorithm also has the power to throw up blinders and avoid disclosing confidential personal information (e.g., a pregnancy) that would likely be stumbled upon in a manual search. Although culture flows from the top down, modern technology makes a huge difference in helping managers reduce the risk of an incoming "bad fit" who could threaten a healthy culture.

The Compliance Perspective: The Price of Integrity

The accounting scandal at Toshiba that resulted in a record $60 million dollar fine in Japan, the movement to form a shareholder class action against Wynn Resorts for the alleged denial of sexual misconduct claims, or viral social media content revealing inappropriate treatment of passengers on a United flight are stark examples of how ineffective cultures can be a breeding ground for misconduct and lower a firm's profitability.[12] Scandals like these don't inspire confidence in a company, and to attract capital from investors such as lenders, firms with checkered pasts often need to sweeten the pot and offer to pay a higher interest rate for the borrowed funds. This higher cost of capital makes it more difficult to justify raising funds and effectively puts a fork in many new company projects. In fact, academic research shows companies with higher environmental, social and governance (ESG) metrics have lower average costs of capital[13] and the same argument can be made for the risk-mitigating impact of an effective culture.

Investing in Culture

Sustaining the Flywheel

Making the decision *how* to invest in culture is just as critical as *why*: should you add cash every year to support the initiatives, or flood the pool with a big one-time sum that's meant to last? When choosing between making regular payments or putting forth a lump sum now, it makes sense, especially when interest rates are rising, to spread out and budget for the payments over time. Spreading out the cost of investment over the years has a smaller impact on the bottom line and leads to higher profitability, especially when that investment simultaneously boosts sales or lowers other costs.

How long, though, do investments in culture pay off? Do these investments have a "half-life"? And what can leaders do to sustain the culture in those moments academic research shows to be critical like economic downturns or when battling activist investors?[14] Any of the technologies mentioned can help a manager keep tabs on a firm's culture during such a transition, but another platform, Meltwater, is particularly useful to those who want to look for clues in their firm's reputation. Meltwater is a media monitoring and intelligence company with a specific focus on supporting those in public relations and marketing roles. Meltwater tailors its platform to comb through thousands of media sources, including online and print news outlets, social media, and podcasts, for mentions of a given company. Meltwater's technology does virtually all of the heavy lifting for stakeholders who want to keep a constant pulse on the impact of their firm's brand.

If you've been burned by change efforts in the past or perhaps are a victim of "overpromising" and "underdelivering" on cultural investment, you're not alone. Trying to move people toward a common goal or shared mindset can often feel like herding cats, but to enact change, first senior management needs to be honest with themselves and self-reflect about the cultural goal. Does everyone truly believe in the culture that you're trying to build, or is groupthink just pushing people through the motions? The need for complete and unwavering commitment from senior leadership to the proposed culture cannot be overstated.

Second, management needs to track the progress of your initiatives,[15] and this is where modern technology helps. Many of the platforms discussed can be tailored to track what's important to and makes sense for your firm, but there's another technology that can be levered to keep a pulse specifically on perhaps one of the more difficult indicators to track in cultural overhauls: employee sentiment. Pipoll is a company that uses "Slack bots" to continuously gather and monitor employee feedback (anonymous or not) through various questionnaires. Pipoll also coordinates meetings and gathers and analyzes feedback from participants. Pipoll reports back on the findings, including any observed patterns and how your company stands. Managers can leverage Pipoll's technology to more quickly assess if their cultural initiatives are making an impact.

Third, it's crucial to make the extra effort and take the time to attract the right people. As mentioned previously, the cost of hiring the wrong candidate can be quite high, but what if you could encourage the perfect fits to come to you? Empion has set out to do just that. The Germany-based company uses AI to enable "automated headhunting" that connects candidates and organizations with compatible cultural values. This recruiting technology, combined with that of Fama Technologies, would considerably strengthen the protective moat around an effective culture.

Public vs. Private

Perhaps you're thinking it's easier to justify cultural investment when a company is established, stable, and can call on the markets for more capital. Smaller, younger, private companies often don't have that luxury. The truth is, though, that with the right plan, these companies don't have to choose between growth and cultural investment. When money is tight, the most attractive initiatives are usually those that are free: defining culture in actionable terms and acknowledging the behavior that you want to see can go a long way in cementing the type of culture you're going for.[16]

If you do, however, see the value of investing in culture, you could leverage technology like that of Summery to help track your cultural investments. Summery uses targeted AI to "quantify" a company's culture from both stakeholder and organizational perspectives. To evaluate the stakeholder perspective, Summery offers "The Kind Quiz," or "KindQ," to individuals that creates a "value profile" for each participant. To gauge the firm perspective, Summery evaluates an organization's "aspirational" cultural values from public sources and derives a "Net Culture Score." Summery's technology then reconciles the values and scores from the stakeholder and organizational viewpoints to check for misalignments in the company's cultural message and stakeholder beliefs.[17] Summery's technology helps firms and their managers quickly see if the culture is resonating and if they and their stakeholders, including employees, are on the same page.

Conclusion

Making a case for investing in culture shouldn't stop at the ethical argument. An effective culture supports sales growth and lowers costs, thereby improving the bottom line. Importantly, an effective culture also reduces the cost of capital as creditors, typically privy to greater soft information, recognize the power of softer elements like culture. Managers need to understand that culture is a powerful tool in driving long-term value. Medallia's customer feedback, Revelio's workforce data, Enaible's productivity analysis, Fama's screening, Glassdoor's reviews, Meltwater's monitoring platform, Pipoll's surveys, Empion's AI-driven recruiting and Summery's analytics are all examples of exciting new technologies that can provide new perspectives into how culture is affecting a firm's business, reputation, emp

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