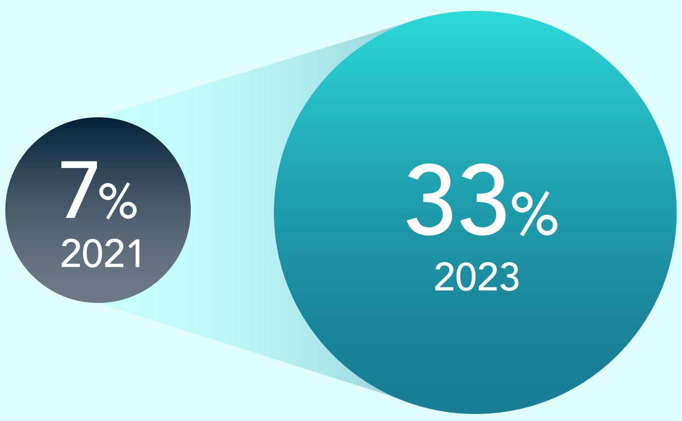
Aligning culture with the bottom line: Putting people first

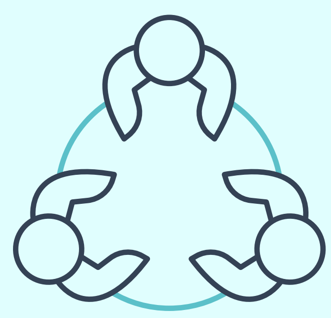
A survey of CEOs from nine markets around the world, across sectors, finds that when it comes to improving financial performance, they are more focused on culture's impact on employee mindsets and behaviors as a critical driver of business outcomes.

CEOs are doubling down on linking culture to performance…

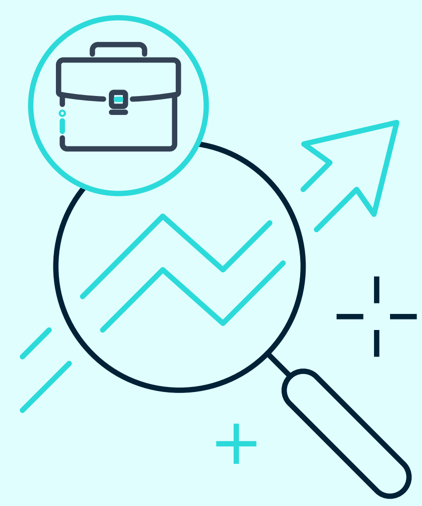
One-third of CEOs rank **culture as the number one most important influence on financial performance**, up from 7% two years ago.



Culture is also cited as a **top three positive influence on retention rates**, along with compensation and benefits and flexibility in work rules and locations.



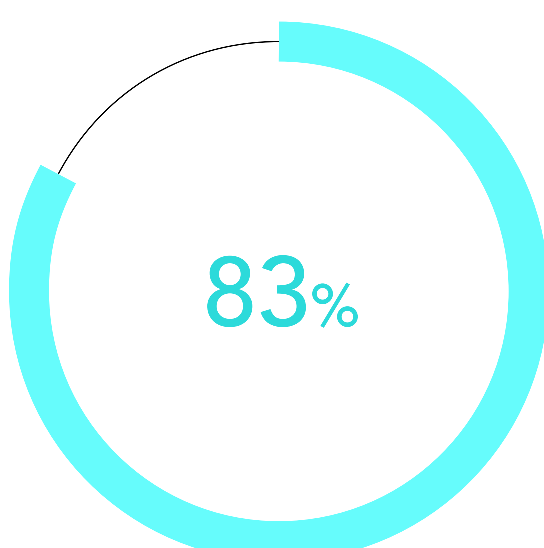
Most also see culture as a driver of success in their **business and talent management strategies**.



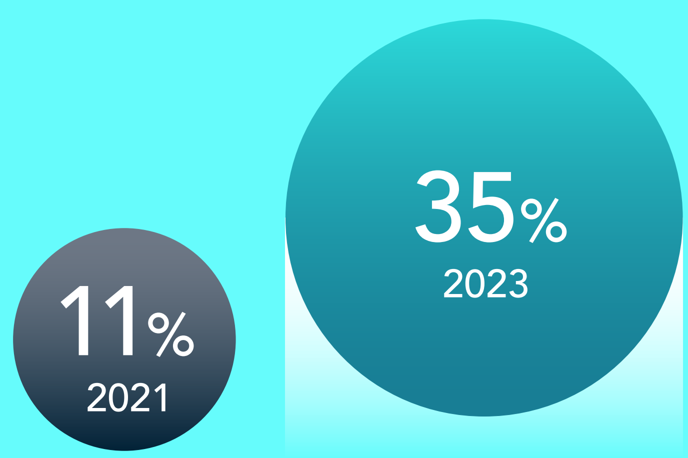
Compared to 2021, when 50% of CEOs viewed culture as a **strategic business imperative,** in 2023, that number has risen to 59%.

CEOs who say culture is very important or crucial to link culture to strategy to see financial benefits

And almost all **had worked on culture**—83% are doing so currently.



Taken together, all this means that the share of CEOs who indicate their companies are taking an intentional, rigorous approach to culture in relation to financial performance—CEOs we call **culture accelerators**[1]—has tripled in the past two years.



1. Rose Gailey, Ian Johnston, and Andrew LeSueur, *Aligning Culture with the Bottom Line: How Companies Can Accelerate Progress*, Heidrick & Struggles, heidrick.com.

...and the impact is significant

Extent focus on culture affected company's...

Financial performance

Somewhat improved 35%

Significantly improved 49%

Retention rates

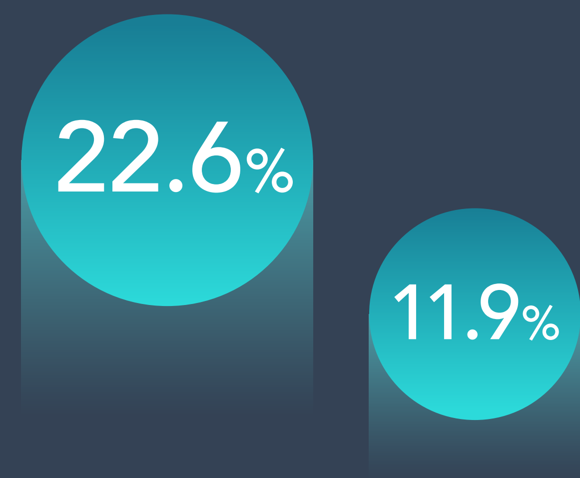
Somewhat improved 41%

Significantly improved 53%

Another angle on culture and financial performance

We conducted a separate survey last year of more than 3,000 employees at all levels of the top- and bottom-performing companies[1] on the Financial Times 500 about the degree to which 84 positive aspects of culture, such as talent excellence, simplicity, and resilience, were present in their company's culture. We then connected the results for the top 25 and bottom 25 companies[2] directly with corporate financial performance.[3] The top 25 companies had nearly double the revenue growth of the bottom group.

Average growth (5-year CAGR)

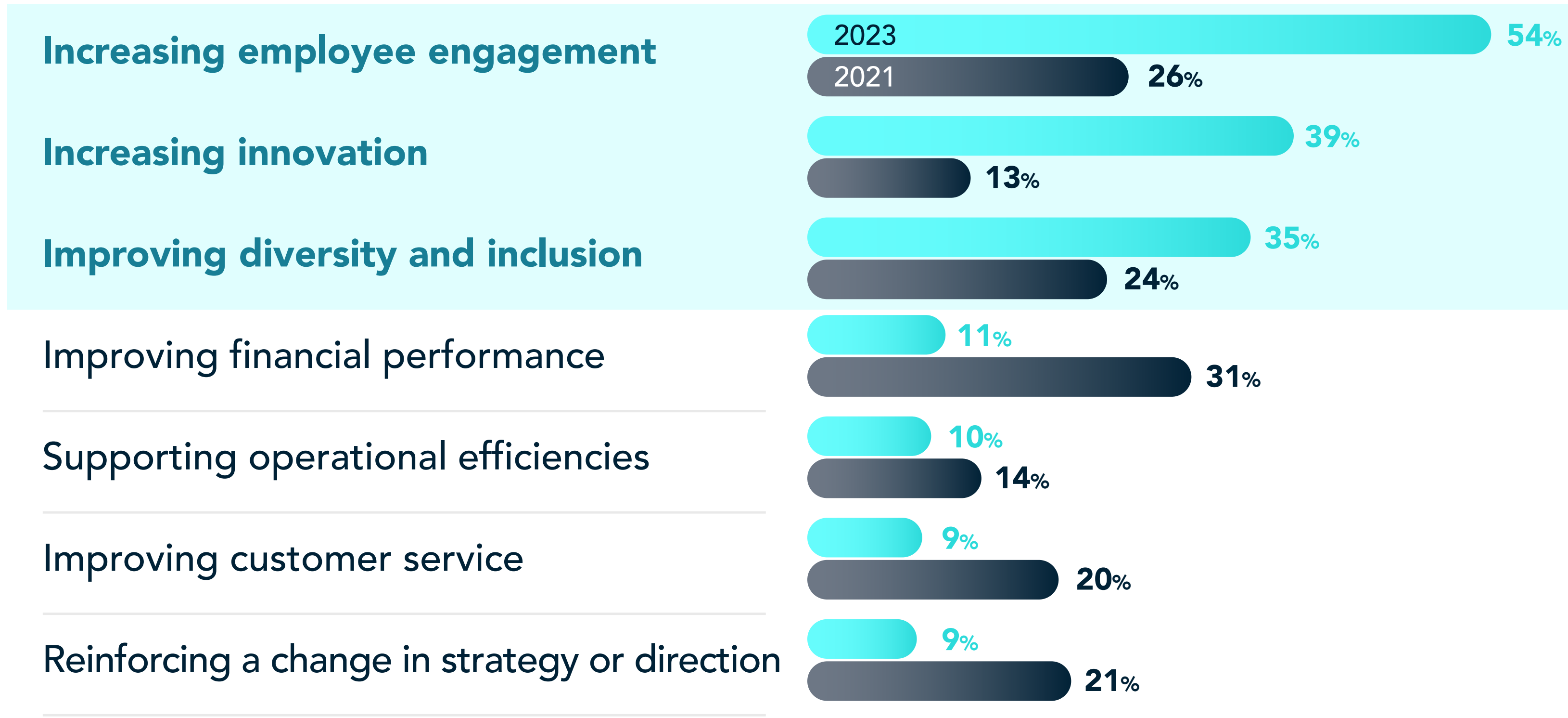


The largest differences in scores between the high- and low-performing groups are in just a few of the aspects of culture. They relate to employees' experience of the culture: talent excellence, simplicity, resilience, challenge, and clarity of direction.

1. Based on being in the top 20% in 3- and 5-year revenue CAGR (normed by industry); no more than 20% reduction in profit margin in the same periods; no more than 20% inorganic growth in the same periods; no more than 20% ownership by the home-country government; and being on the MSCI ESG Index, as an indicator of sustainable performance. Unpublished research.
2. The average score of the companies with the 25 highest-ranked cultures put them roughly in the 90th percentile of all scores, while the scores of the 25 lowest-ranked companies put them in about the 10th percentile.
3. Financial performance from 2017–2021 as reported in public company regulatory filings.

CEOs are taking a people-centered approach

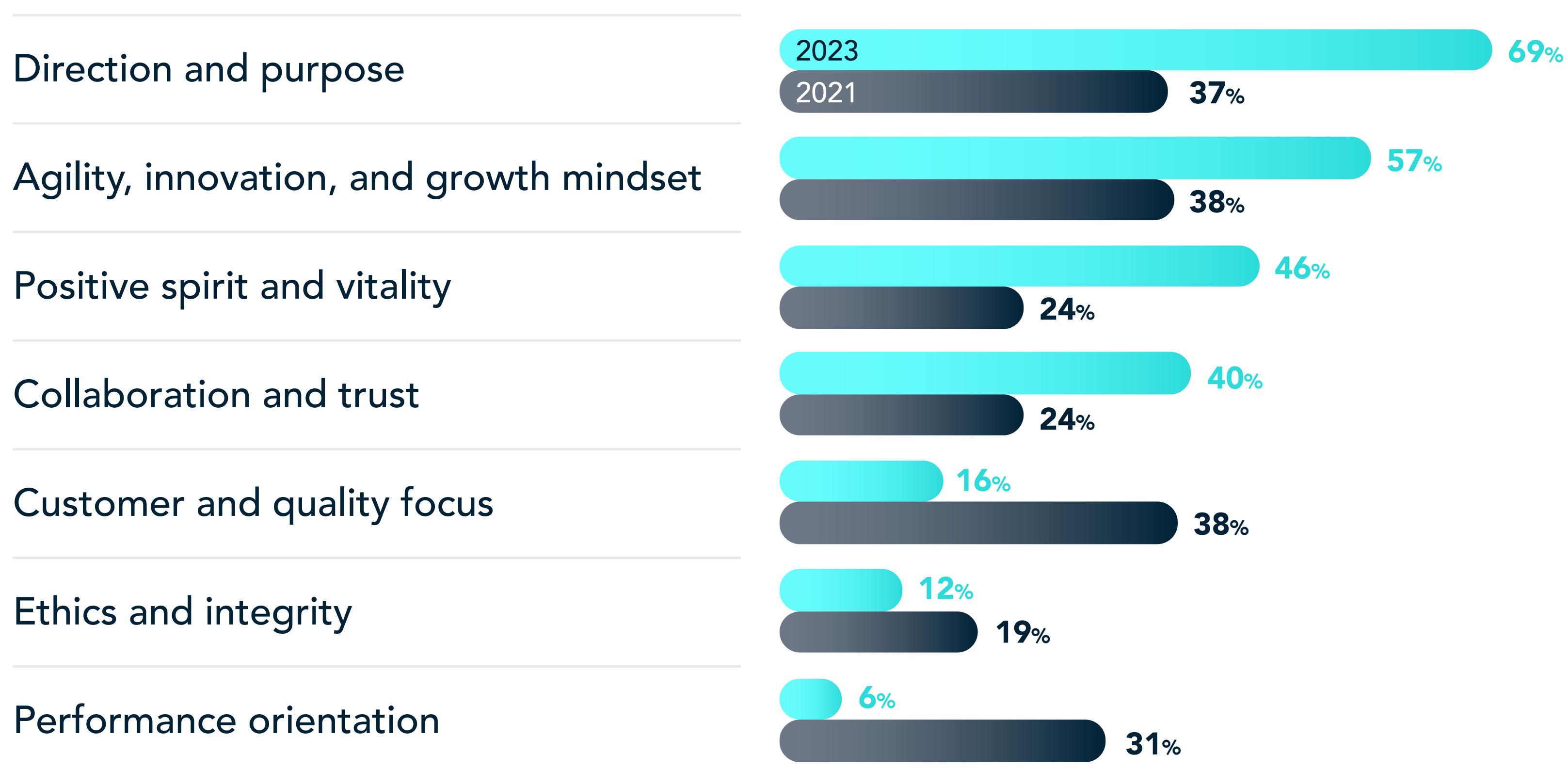
CEOs' reasons for focusing on culture have shifted over the past two years, in ways that highlight an increased focus on inspiring and engaging people.



Note: Selected reasons shown.

BUT that focus on people does not come instead of a continued focus on financial performance. Rather, it's a shift away from a focus solely on specific performance outcomes and toward a better balance with the mindsets and ways of working that ultimately underlie strong performance.

Most important culture elements to creating a positive impact on financial performance



Note: Selected reasons shown.

That shift continues in how CEOs think **about the impact of intentionally focusing on developing a thriving culture as a positive driver of financial performance.**

2021 2023

Note: Selected reasons shown.

Furthermore, many aspects of culture that CEOs say **create a positive influence on financial performance** are related to those our other survey found were most pronounced in **companies with the strongest cultures *and* financial performance**.

CEOs see complementary roles for culture and purpose

The ways in which CEOs say purpose positively influences financial performance are similarly people focused and related to some aspects of culture highlighted in our other survey.

CEOs' views suggest a **strong complementary relationship** between how culture and purpose drive financial performance.

Purpose is why people show up

- Enabling resilience in times of crisis
- Enabling organizations to achieve their goals for diversity, equity, and inclusion
- Accelerating accountability for delivering on strategic goals
- Encouraging people to put in effort beyond what is normally expected

Positive impact on financial performance

Culture is how people make change happen

- Improving our ability to attract and retain the best people
- Enabling an enhanced customer experience
- Driving alignment for effective decision making
- Creating a competitive advantage through a differentiated reputation
- Driving innovation
- Supporting good relationships with external stakeholders

Considerations for leaders

Are you focusing on culture as a strategic priority in order to drive financial performance and retention?

Most CEOs focused on people in early 2020. Culture accelerator CEOS are increasing that focus and continuing to see strong benefits. What are you doing to keep your people at the center?

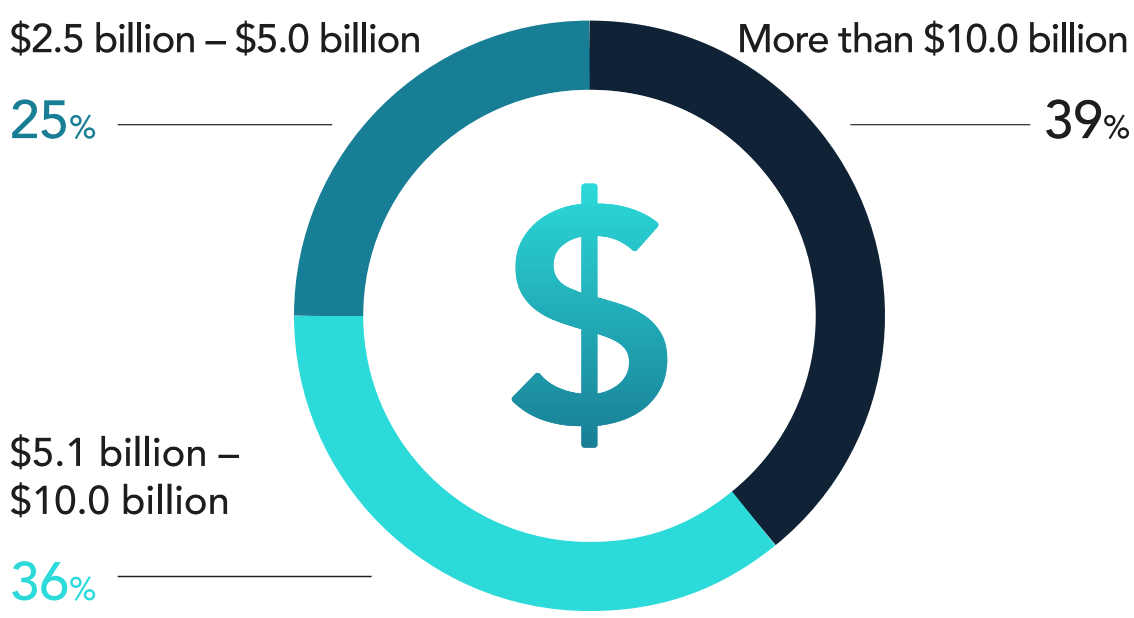
Would better alignment between your culture and your purpose multiply the good results each creates?

About the research

We surveyed 500 CEOs in Australia, Brazil, Canada, France, Germany, Hong Kong, Singapore, Spain, the United Kingdom, and the United States.

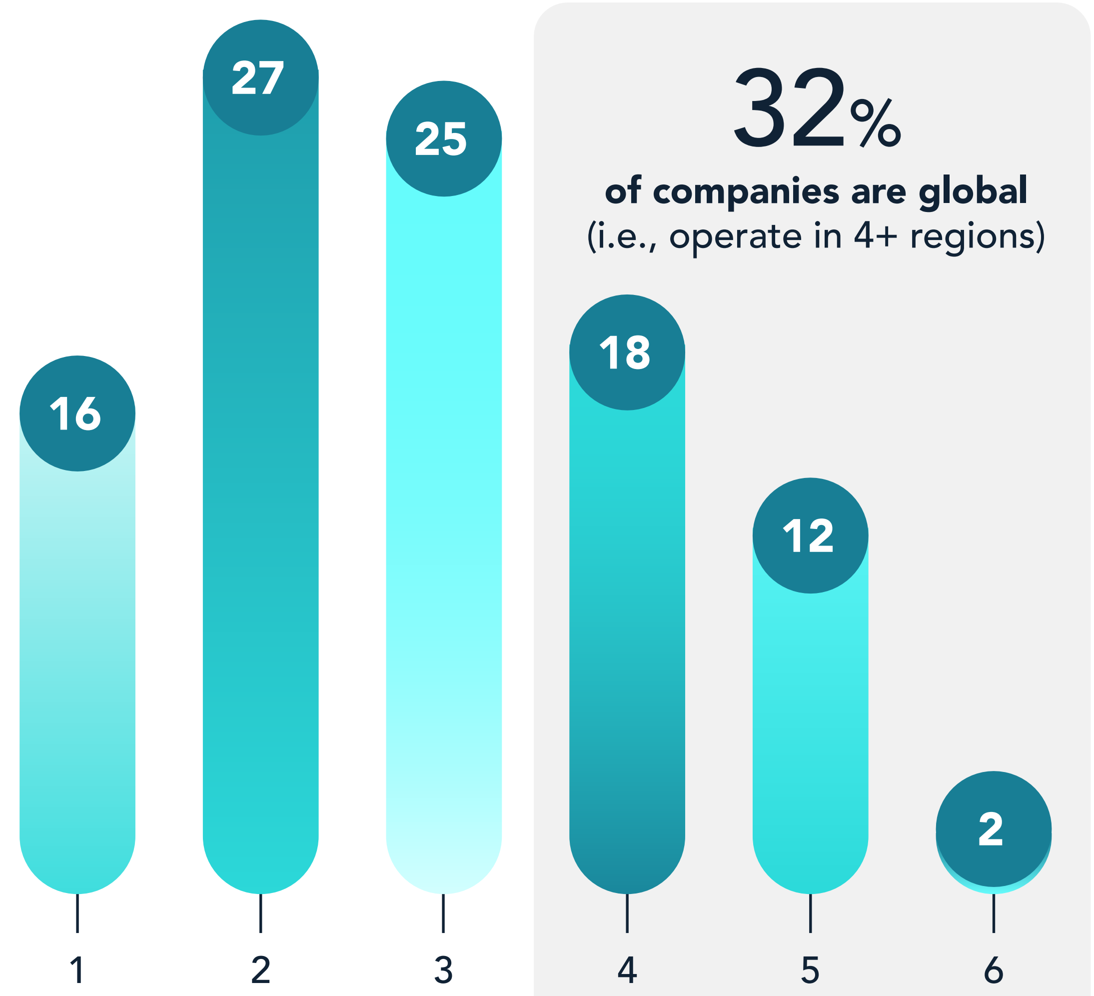
They lead companies in consumer goods, financial services, industrials and energy, healthcare and pharmaceuticals, and technology and telecoms.

Annual revenue (USD)



The survey was conducted online in spring 2023.

Number of regions in which companies operate (%)



On average, companies have operations in **3** regions

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- **CEO, board, and team acceleration**
- **Organization acceleration and culture shaping**
- **Building diverse organizations and inclusive cultures**
- **Digital acceleration and innovation**