How Effective Leaders Build Organizational Culture
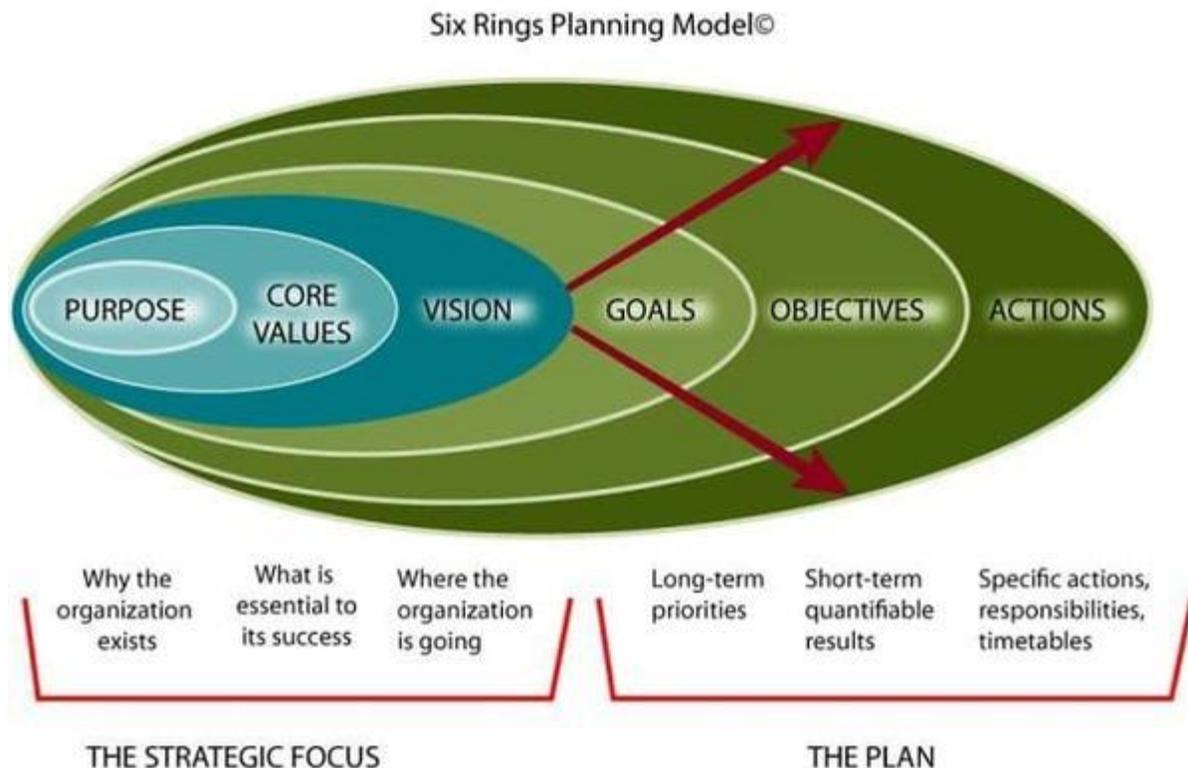
Building or reinforcing a great culture can require a lot of work. But investing in your company's culture will have a major impact on performance.

What do we mean by **organizational culture**?

Organizational culture is a set of ingrained behaviors or norms that employees display instinctively. It's the extraordinary customer service you receive. It's the focus on quality you depend upon. When employees "get" the company's culture, they're going to make the right decisions – even in stressful or unfamiliar situations.

An **organization's culture** is composed of its behaviors, beliefs, traditions, values, and ideals, all manifested in how people in the organization interact each day with each other and with customers and other stakeholders. The stories and narratives people share and pass around about the organization are also part of its culture.

Effective leaders intentionally design company culture to encourage alignment with the organization's strategic focus, which then informs the strategic plan:

Six Rings Planning Model©

| PURPOSE | CORE VALUES | VISION | GOALS | OBJECTIVES | ACTIONS |

| Why the organization exists | What is essential to its success | Where the organization is going | Long-term priorities | Short-term quantifiable results | Specific actions, responsibilities, timetables |

THE STRATEGIC FOCUS   THE PLAN

Here are some of **benefits** of investing in your company's culture:

Being clear about organizational culture helps employees understand how to respond in any situation, especially when employees know that they will be rewarded for demonstrating the organization's values.

- Companies with strong cultures will be able to attract **talented employees**.
- **Hiring decisions** are easier when managers can assess if candidates will be a good fit with the company's culture.
- Managers have an **easier time delegating** if they trust that their employees know the values that should guide their decisions.
- **Morale is boosted** with a greater sense of cohesiveness and connection.
- Companies with strong cultures receive more **positive media** attention.
- **Customers identify** with strong company cultures – making them more likely to give positive "word of mouth."
- In times of disruptive change, a strong culture will display more **resilience**.

Growing companies are often so focused on revenues and profits that culture can slip to the bottom of their list of priorities. Even a large, established company can make the mistake of neglecting culture. But as I discuss in my book, The Leadership Equation, effective leaders know that investing in a strong culture will pay off decades into the company's future.

What are the **elements** of organizational culture?

Here are six elements of organizational culture that leaders can be intentional in creating:

1. **Purpose**: Why the organization exists. (How to Develop a Purpose Statement)

2. **Core values**: What the organization deems essential to its success. (Developing an Organization's Core Values)

3. **Goals, strategies, priorities**: Where the organization aims to go and how it plans to get there. (The Six Rings Strategic Planning Model)

4. **Leadership behaviors**: How its leaders behave day to day. (The Leadership Equation)

5. **Operating principles**: How people communicate and work together, including how they make decisions. (Team Operating Principles)

6. **Stories, traditions**: How people talk about the organization including, for example, its founding story or important traditions.

Within a large organizational culture, various "sub-cultures" may exist.

People in sales and marketing may have a different sub-culture than those in operations or accounting. While these various sub-cultures may exist, it is important that they align with the overall organizational culture.

There is also the question of alignment between aspiration and actuality.

An organization may aspire to be nimble and innovative, but in actuality be slow-moving and reactive. In high performing cultures, leaders work hard to build an aligned culture, where the words match the reality. And they are intentional in celebrating when the aspirations mesh with reality e.g. when innovation occurs organically.

What are the **keys** to creating a leadership culture?

Every company aspires to – or should aspire to – create a culture where employees are highly invested in the company's success and run it like they own it. But unless you have the right formula, you can make many missteps and blunders. I've spent years helping companies build effective organizational cultures. I've found the key is using the following equation: **Trust + Spark = Leadership Culture.**

In my book, The Leadership Equation, I expand the equation into the 10 most important practices for building trust and spark.

Trust:

- Trust hinges on a sense of **reciprocity** – that everyone's doing his or her fair share. It's the leader's job to set the tone. He or she must demonstrate a willingness to listen, to act fairly, and to consistently make decisions in the best interest of the company, not in personal self-interest.
- To get the best performance from employees, leaders need to encourage **open communication**. When leaders share more information with employees on all levels, it opens the door for tough but important conversations, honesty about issues, and an exchange of ideas.
- **Compensation** is just one element of reciprocity – but it's an important one. If people perceive equal pay for equal work, trust will grow.
- Giving people **goals** to aim for, with positive consequences if they succeed, will help build trust.
- Trust continually needs **replenishment and reinvestment**. Even when levels of trust are high, leaders need to keep reinforcing these habits.

To learn specific strategies for leaders and managers to build trust, we recommend our virtual workshop "[The Neuroscience of Leadership](#)"

Spark (or Innovation):

- **Innovation works hand-in-hand with trust** to be a major driver of organizational success.
- Leaders should **encourage employees to experiment**, try new things and embrace the possibilities inherent in innovation.
- Leaders and managers can help **spark innovation by removing structural roadblocks** or policy-related barriers.
- Leaders should **shine a spotlight on any efforts to improve systems**, increase sales, and out-perform the competition – whether successful or not.

To learn more about creating a culture of innovation, check out our article on "[Leading Innovation](#)" compiling recent data and insights on the subject.

When trust and spark are working in concert, people experience an increased sense of work satisfaction and creative flow. Together, they result in a culture where people all become leaders. In this kind of "leadership culture," everyone runs it like they own it.

What are the **stages** of organizational culture?

STAGE 1: THE HIERARCHICAL CULTURE	A culture in which decisions are made by a boss or series of bosses. Communication, for the most part, is one-way, top to bottom.
STAGE 2: THE GOAL-DRIVEN CULTURE	A culture in which people are encouraged to achieve common goals. Communication is more dynamic, because goals are being articulated and tied to performance measures.
STAGE 3: THE VALUES-BASED CULTURE	A culture in which people make decisions based on shared understanding of what is essential to the company's success and related performance information. Communication is complex, because people are empowered to make decisions.
STAGE 4: THE LEADERSHIP CULTURE	A culture in which the "we/they" dichotomy dissolves, and everyone is united in a seamless system of communication and performance. Communication is highly complex, because everyone feels empowered to lead and follow simultaneously.

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This is a key frame to keep in mind as you strive to evolve culture and communication practices. (Download the infographic here)Decision-Making and Organizational Culture

Decision-making and organizational culture

Decisions are the atoms of every organization. Every new product launched, every new service offered, every process made more efficient and reliable is a result of hundreds of decisions. Effective leaders view their worlds through this lens, rather than through the lens of hierarchies, org charts, or chains of command. To build high levels of trust, teamwork, and innovation, effective managers focus on clarifying decision-making responsibilities. (Note that I didn't say "roles and responsibilities," a common mistake.) Once you know the decision-making responsibilities, you've defined the role.

- **Effective leaders and managers are constantly on the lookout for opportunities to clarify decision-making authority**. This means difficult conversations often need to occur. First of all, it means clarifying for people their precise decision-making role, which sometimes translates into less responsibility than they think they have. The manager of a large publishing company asked me to lunch one day and said: "I need help learning how to be a better leader. What do you see as the most important thing I need to do?" Without missing a beat, I replied: "Be clear about delegation. Which decisions do you want to make? Which are you delegating to others? You can't be afraid to have those discussions."

- **Our research shows few leaders pay much attention to managing decisions**. They don't know the appropriate [vocabulary of decision-making](#)—for example, they confuse collaboration with consensus. They fail to design decision processes with the right sequence of goal setting, data collection, input gathering, stakeholder engagement, and brainstorming. As a result, they fail to leverage themselves as leaders. Either they go too far or not far enough in empowering others. They fail to achieve the optimum balance of engagement and efficiency in making the decision.

- **Leaders and managers who want to build high levels of trust as they delegate need to clearly define their expectations**. If you have a specific outcome in mind, communicate it. Don't expect people to develop telepathic powers! If you have a particular expectation in terms of how a report will look, provide an example. If you know the data you want, explain what it is. You shouldn't expect people to understand intuitively what you want unless you've worked with them for many years.

- **Part of laying out expectations is defining a timetable**. It's not fair to leave people guessing whether something is due next week or next month. You should also identify the *critical path decisions* (decisions upon which other decisions are contingent and dependent). For example, in opening a new store, the construction schedule will affect hiring, promotions, acquiring inventory, and so forth. Sharing the timetables for critical path issues and sharing updates of those timetables will build trust. You may worry you're micromanaging. But you're not.

You're doing what's necessary to ensure alignment of expectations and strong levels of trust.

- **A key part of clarifying expectations is giving people context so they understand why a given decision is important**. Why are we focusing on this customer segment now? Or this location? Or this timing? As a middle manager for a large retail chain told me: "My job is to communicate the rationales for our decisions, enlarge understanding, and provide light through the trees."

As you start to manage decisions well, delegate decisions downward, and clarify expectations, you move away from a hierarchical culture and begin building a leadership culture, where people focus on the overall goal and their role in achieving it. The "we/they" distinction disappears. What emerges is a culture in which people act both like leaders and followers simultaneously.

Contact us to schedule a virtual workshop on How Leaders Build Organizational Culture.

Organizational Culture Consulting

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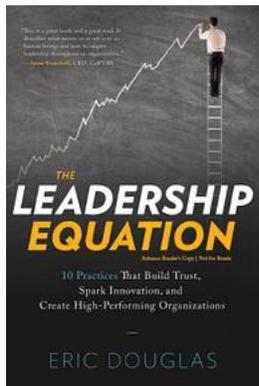
What do leaders and managers need to focus on to build high performing cultures?

LRI spent ten years researching the underlying dynamics of successful organizational cultures. The result is The Leadership Equation, 228 pages of the best leadership practices that build trust, spark innovation, and create high performing cultures. (Check out Chapter 1)

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