## Value of organisational culture

### Culture's value relative to all organisational priorities



- Top 1
- Top 3
- Top 5
- Top 10
- Not in the Top 10

0% 10% 20% 30% 40% 50%

88% of leaders in organisations with 50+ employees rank culture among the top three value drivers, similar to all NFPs. More NFPs with 50+ employees rank culture as the top factor (41% vs. 34%).

## Value of improving culture

### Improving culture will increase value to primary beneficiaries



2%

98%

■ Yes ■ No

98% of leaders believe improving culture will increase value for the primary beneficiaries they serve, compared to 94% across all NFPs.
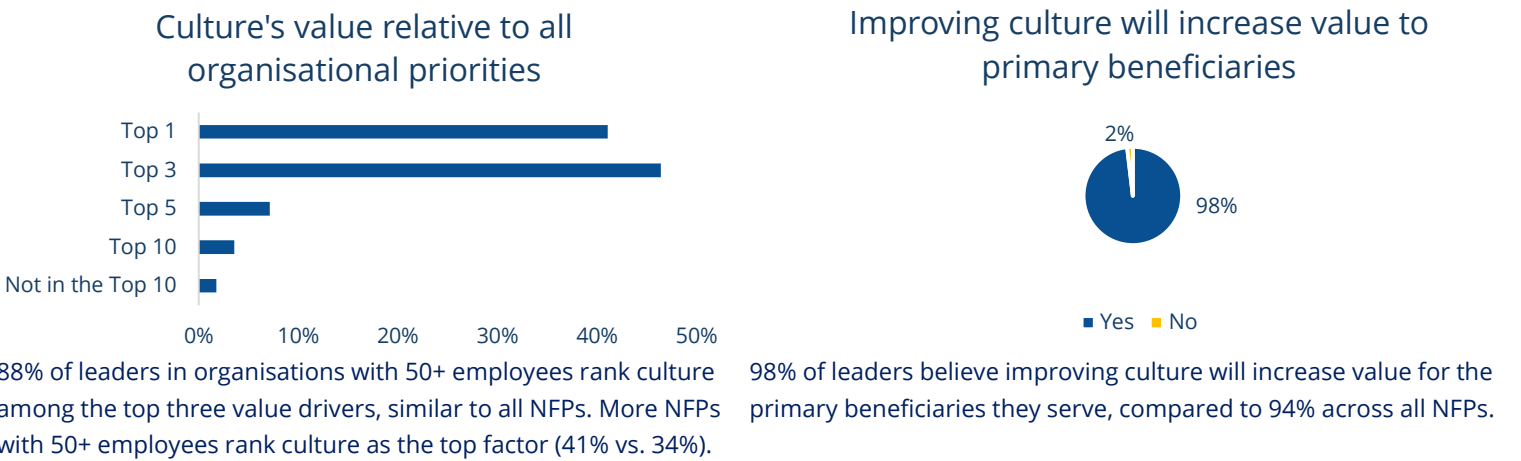
## Current state of culture

### Strategy and organisational culture are



- Exactly aligned
- Nearly there
- In progress
- Evolving significantly

0% 10% 20% 30% 40% 50% 60%

96% of leaders say they need to improve strategic alignment between culture and strategy, compared to 85% across all NFPs.

## Changes to culture

### Expected culture efforts over next three years



- Stable, other priorities
- Stable maintenance
- Increase Moderately
- Significant Increase

0% 20% 40% 60%

88% of leaders rank culture among their top 3 priorities, and 98% believe enhancing it adds value, yet only 79% plan to improve it - more than the 65% of all NFPs.

## Culture and strategy alignment: leaders' perspectives on misalignment

### Alignment of culture with strategy: agreement levels on key statements



- Culture is continuously evolving in response to internal/external factors
- We intentionally align organisational culture with our strategy
- Leadership capability needs to be strengthened
- Leadership needs to invest more time to develop the culture
- Cultural values are not fully aligned with our operating needs
- Inefficient workplace interactions (time spent building consensus, etc.)
- Culture has not caught up with changes in the operating environment
- Insufficient allocation of resources to support cultural initiatives
- Ineffective change management slowing down cultural adaptation
- Insufficient learning and development opportunities hinder culture
- Communication practices do not effectively support cultural values
- Employees are not fully committed to the culture
- Policies work against culture (e.g., compensation, reward, etc.)

■ Agree ■ Neutral ■ Disagree

0% 20% 40% 60% 80% 100%

Of leaders whose culture is not aligned with strategy, 85% intend to align it. Another 85% cite evolving external and internal factors, while around 70% emphasise the need for leadership to invest time in culture and strengthen leadership capabilities - about 10% more than the all NFP cohort.
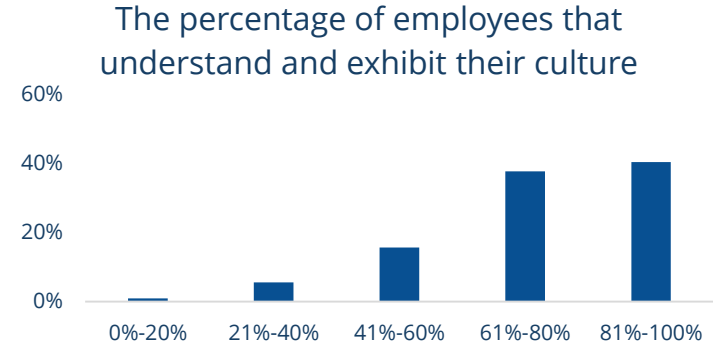
**Authors:** Susanna Lee (Leadership and Governance Collective), Associate Professor Claire Matthews and Dr Jeffrey Stangl (Massey)

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## Why is organisational culture important

### Key factors in determining the effectiveness of organisational culture



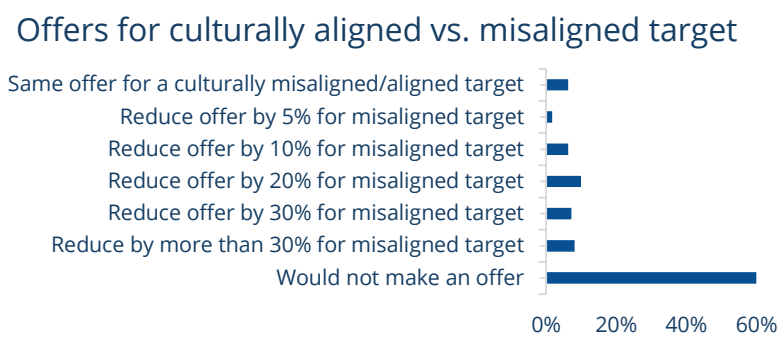- Trust among employees
- Broad agreement about goals and values
- Continuous improvement/excellence in behaviours
- Adaptability and ease of adjusting to change
- Action-orientation and employees taking initiative
- Training, promotion and retention decisions
- Willingness to report compliance and ethics issues
- Coordination among employees
- Employees' comfort in suggesting critiques
- Decision-making reflects long-term interests
- New ideas develop organically
- Consistency and predictability of employees' actions
- Risk-taking and tolerance for failure
- The urgency with which employees work

Legend: ■ Key factor ■ Little or no effect ■ Works against

Trust among employees is key to cultural effectiveness, along with broad agreement on goals and values, and continuous improvement. Between 10%–20% note that risk-taking, tolerance for failure, and urgency of work hinder cultural effectiveness. Training, promotion, and retention decisions are seen as key by 81% of leaders in 50+ employee organisations, compared to 69% across all NFPs.

## Exhibit and understand culture

### The percentage of employees that understand and exhibit their culture
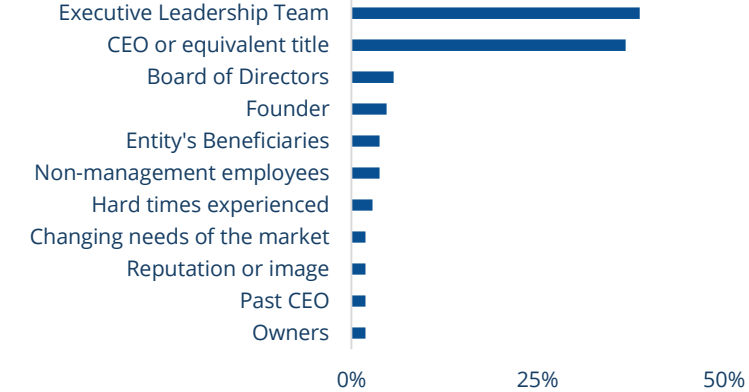


0%-20%, 21%-40%, 41%-60%, 61%-80%, 81%-100%

60% of leaders report staff misunderstand or act against the desired culture, compared to 42% across all NFPs - likely reflecting greater organisational complexity.

## Identical M&A targets, one misaligned

### Offers for culturally aligned vs. misaligned target



- Same offer for a culturally misaligned/aligned target
- Reduce offer by 5% for misaligned target
- Reduce offer by 10% for misaligned target
- Reduce offer by 20% for misaligned target
- Reduce offer by 30% for misaligned target
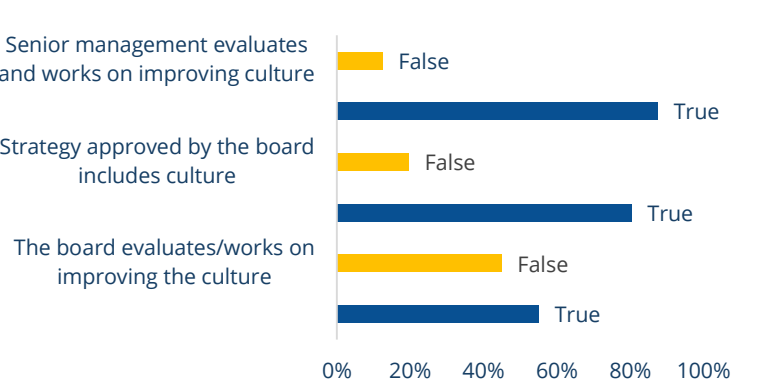- Reduce by more than 30% for misaligned target
- Would not make an offer

60% would not make an offer on the culturally misaligned target and another 34% would reduce an offer between 5% and more than 30%, slightly higher than in all NFPs.

## Most influential factor setting culture



- Executive Leadership Team
- CEO or equivalent title
- Board of Directors
- Founder
- Entity's Beneficiaries
- Non-management employees
- Hard times experienced
- Changing needs of the market
- Reputation or image
- Past CEO
- Owners

## Annual assessment of culture



- Senior management evaluates and works on improving culture — False / True
- Strategy approved by the board includes culture — False / True
- The board evaluates/works on improving the culture — False / True

Leaders in 50+ employee organisations view the Executive Leadership Team as the most influential in setting culture, while in NFPs, the CEO is seen as the key driver.

**Authors:** Susanna Lee (Leadership and Governance Collective), Associate Professor Claire Matthews and Dr Jeffrey Stangl (Massey)

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## Exemplifying values: performance reviews, discretionary pay, & promotion

### Employee behaviours reflect values included in performance reviews

- Yes
- No

### Employee behaviour linked to discretionary pay

- Yes, for senior staff
- Yes, for senior & middle management
- Yes, for all staff
- No

0% 20% 40% 60% 80%

### Behaviour a key criterion to advance to senior role

- Yes
- Usually & technical expertise
- Sometimes & other factors
- No

0% 20% 40% 60% 80%

99% of organisations include whether employees exemplify their values in performance reviews, and 41% link discretionary pay to employee behaviours (compared to 28% of all NFPs). A further 76% consider exemplifying values a key criterion for moving into senior management (compared to 61%). Larger organisations more frequently assess employee values and tie both discretionary pay and job progression to the demonstration of these values.

## Investment style

### Project investment style

- Growth Higher Risk Strategy
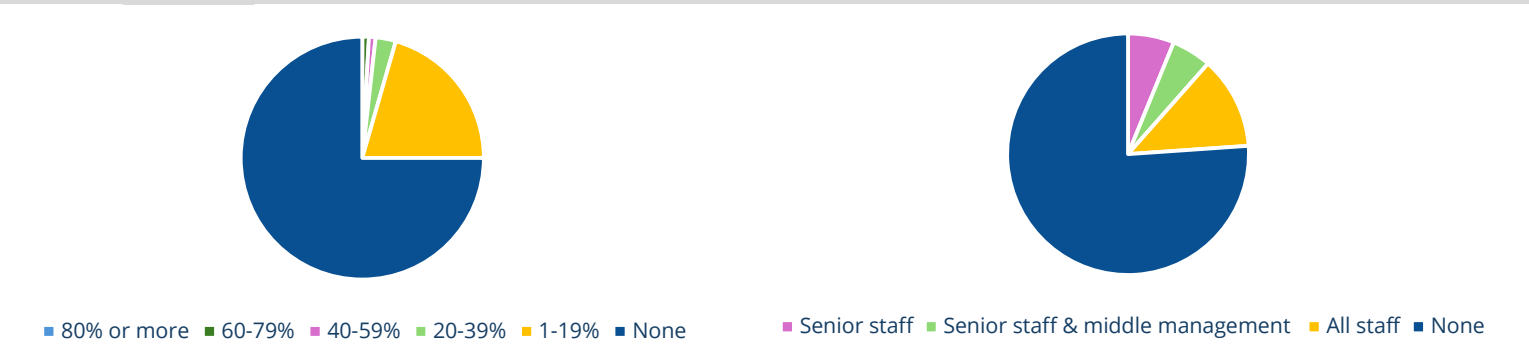- Stewardship Strategy

48% of leaders prefer a growth or high-risk strategy compared to a stewardship approach. 83% agree that culture drives project selection versus 81%, in the overall NFP cohort.

## Culture: risk, long-term and ethics

- Culture influences orientation towards the near or long term — No / Yes
- Culture influences how projects are chosen/invested in — No / Yes
- Culture influences how investment risks are taken — No / Yes
- Ineffective culture raises the risk of unethical/illegal behaviour — No / Yes

0% 20% 40% 60% 80% 100%

80%+ of leaders agree culture impacts long-term orientation, project investment style, how calculated risk is taken, and ethical behaviour, marginally higher than the overall NFP cohort.

## Short-term leader incentives

- 80% or more
- 60-79%
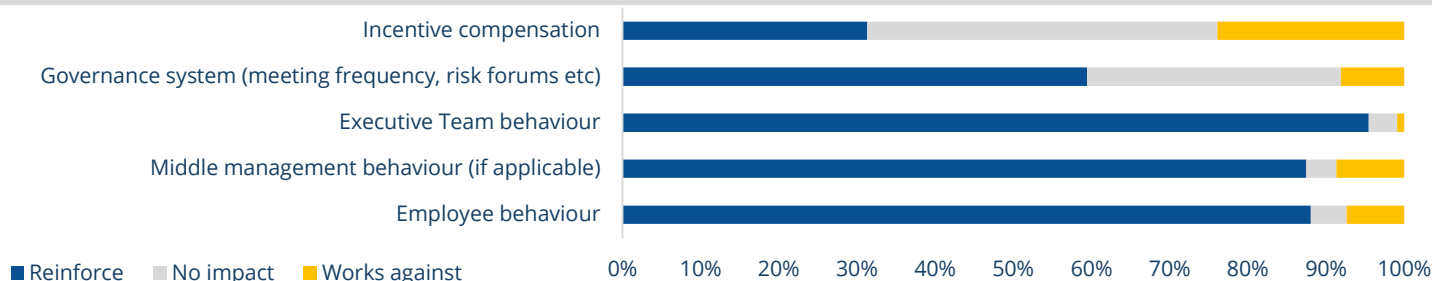- 40-59%
- 20-39%
- 1-19%
- None

CEOs noted that, while they are not motivated by monetary incentives, they see incentives as signals. Despite 48% investing with a growth style, only 25% have STIs, higher than overall NFPs.

## Short-term staff incentives

- Senior staff
- Senior staff & middle management
- All staff
- None

Staff incentives align with those of leaders. While aligning incentives with a growth mentality can strongly signal support for the 48% with a growth approach, it is not always feasible for this sector.

**Authors:** Susanna Lee (Leadership and Governance Collective), Associate Professor Claire Matthews and Dr Jeffrey Stangl (Massey)

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## Impact of various factors on organisational culture effectiveness

Incentive compensation
Governance system (meeting frequency, risk forums etc)
Executive Team behaviour
Middle management behaviour (if applicable)
Employee behaviour

0%  10%  20%  30%  40%  50%  60%  70%  80%  90%  100%

■ Reinforce  ■ No impact  ■ Works against

Leadership and employee behaviours are the strongest reinforcers of culture. However, the impact of incentive compensation is mixed only 31% view it as reinforcing, while 24% believe it works against organisational culture.
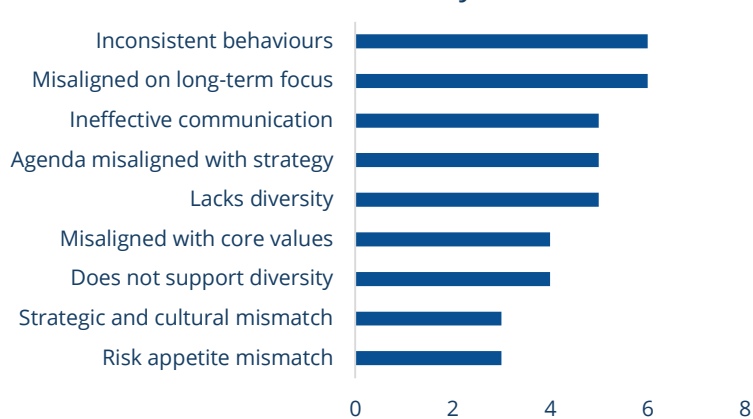
## Reasons incentive compensation and governance work against culture:

### Incentive compensation

Focuses on short-term objectives
Incentivises the wrong behaviour
Undermines teamwork/insufficient for performance.
Leads to fear of failure/insufficient risk-taking
Attracts/retains wrong people
Focuses on imperfect metrics

0          10          20

13 leaders say incentive compensation focuses on short-term objectives, 12 note it incentivises the wrong behaviour, and 10 cite that it undermines teamwork or is insufficient for performance.
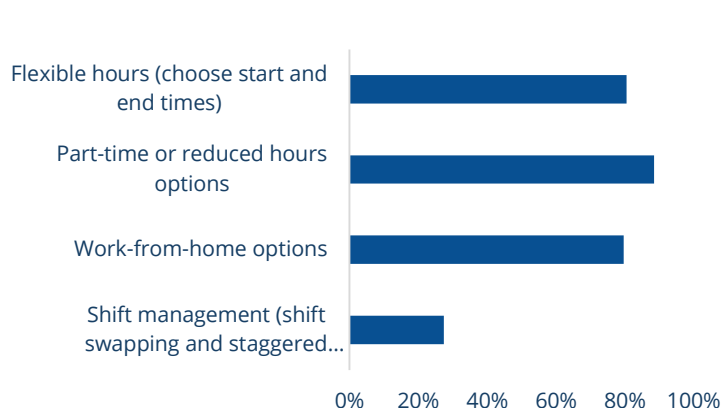
### Governance system

Inconsistent behaviours
Misaligned on long-term focus
Ineffective communication
Agenda misaligned with strategy
Lacks diversity
Misaligned with core values
Does not support diversity
Strategic and cultural mismatch
Risk appetite mismatch

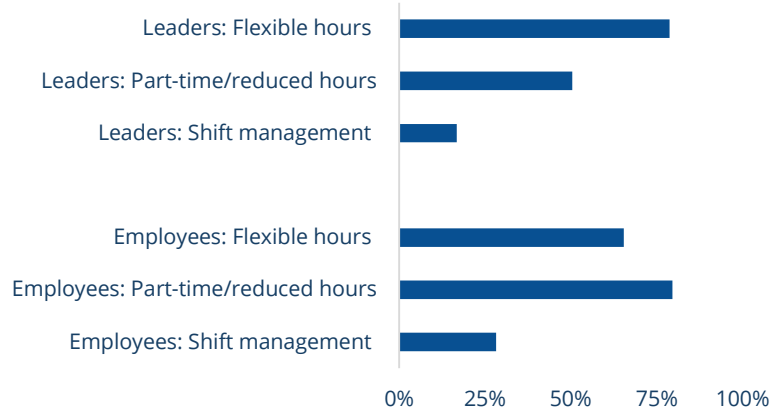0       2       4       6       8

6 leaders say inconsistent behaviours in governance work against culture, another 6 note a mismatch in long-term focus and strategy, while 5 separately cite ineffective communication, lack of diversity, and a strategy mismatch.

## Support for flexible work arrangements

### Flexible work options provided

Flexible hours (choose start and end times)
Part-time or reduced hours options
Work-from-home options
Shift management (shift swapping and staggered...

0%  20%  40%  60%  80%  100%

### Flexible work arrangements

Leaders: Flexible hours
Leaders: Part-time/reduced hours
Leaders: Shift management

Employees: Flexible hours
Employees: Part-time/reduced hours
Employees: Shift management
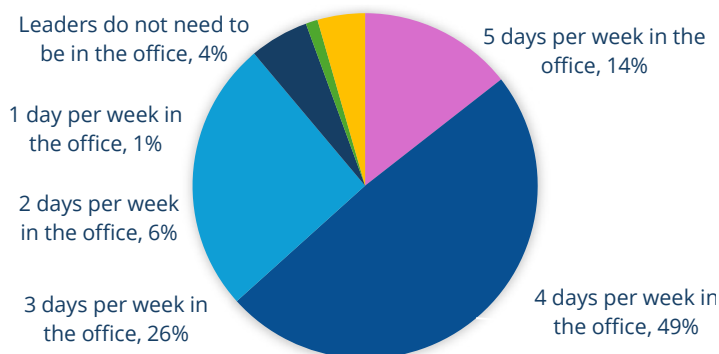
0%  25%  50%  75%  100%

Leaders widely support flexible work arrangements. For employees, part-time or reduced hours are most popular, followed by flexible hours. Among leaders, flexible hours lead followed by part-time options. Working from home options are also supported (next page).
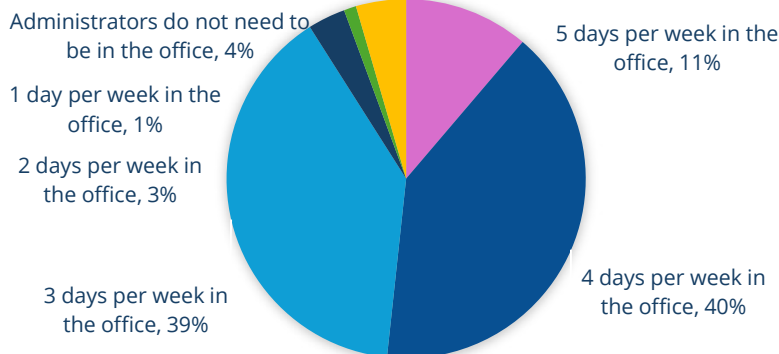
**Authors:** Susanna Lee (Leadership and Governance Collective), Associate Professor Claire Matthews and Dr Jeffrey Stangl (Massey)

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## Optimal in-office days to support and nurture organisational culture

### Leadership teams

- Leaders do not need to be in the office, 4%
- 1 day per week in the office, 1%
- 2 days per week in the office, 6%
- 3 days per week in the office, 26%
- 4 days per week in the office, 49%
- 5 days per week in the office, 14%

### Administrators

- Administrators do not need to be in the office, 4%
- 1 day per week in the office, 1%
- 2 days per week in the office, 3%
- 3 days per week in the office, 39%
- 4 days per week in the office, 40%
- 5 days per week in the office, 11%
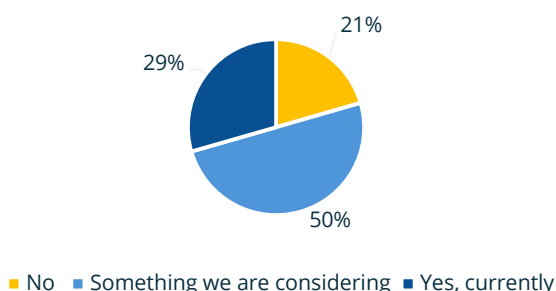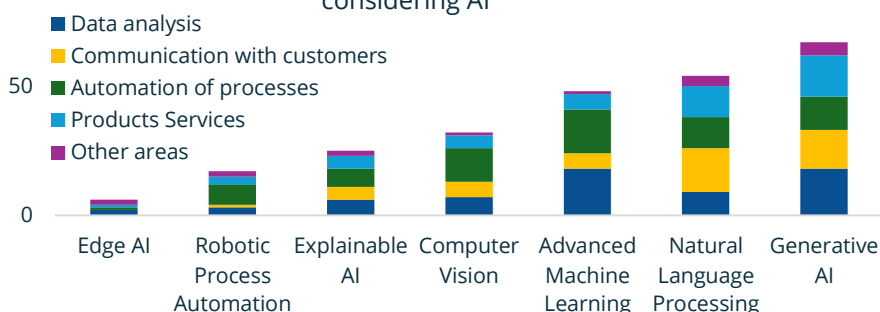
Leaders and administrators in 50+ employee NFPs are more likely to require more in office hours to maintain culture, compared to the overall NFP cohort. Around 10% of leaders and administrators in larger NFPs are in the office two days or less per week, versus over 20% across all NFPs. In both cohorts, leaders are required in the office more frequently than administrators, indicating a need for leadership visibility.

## Applications of AI technologies across organisational functions

### Organisations using AI

- 29%
- 21%
- 50%

No ◼ Something we are considering ◼ Yes, currently

### Investments in AI by function by those using and considering AI

- ◼ Data analysis
- ◼ Communication with customers
- ◼ Automation of processes
- ◼ Products Services
- ◼ Other areas

Edge AI, Robotic Process Automation, Explainable AI, Computer Vision, Advanced Machine Learning, Natural Language Processing, Generative AI

In larger NFPs, AI adoption is slightly higher, with 29% using it compared to 27% across all NFPs, and 50% considering it, above the 39% in the overall cohort. Among responding leaders, generative AI is the most frequently selected focus area, particularly for data analysis, communication, and products and services.
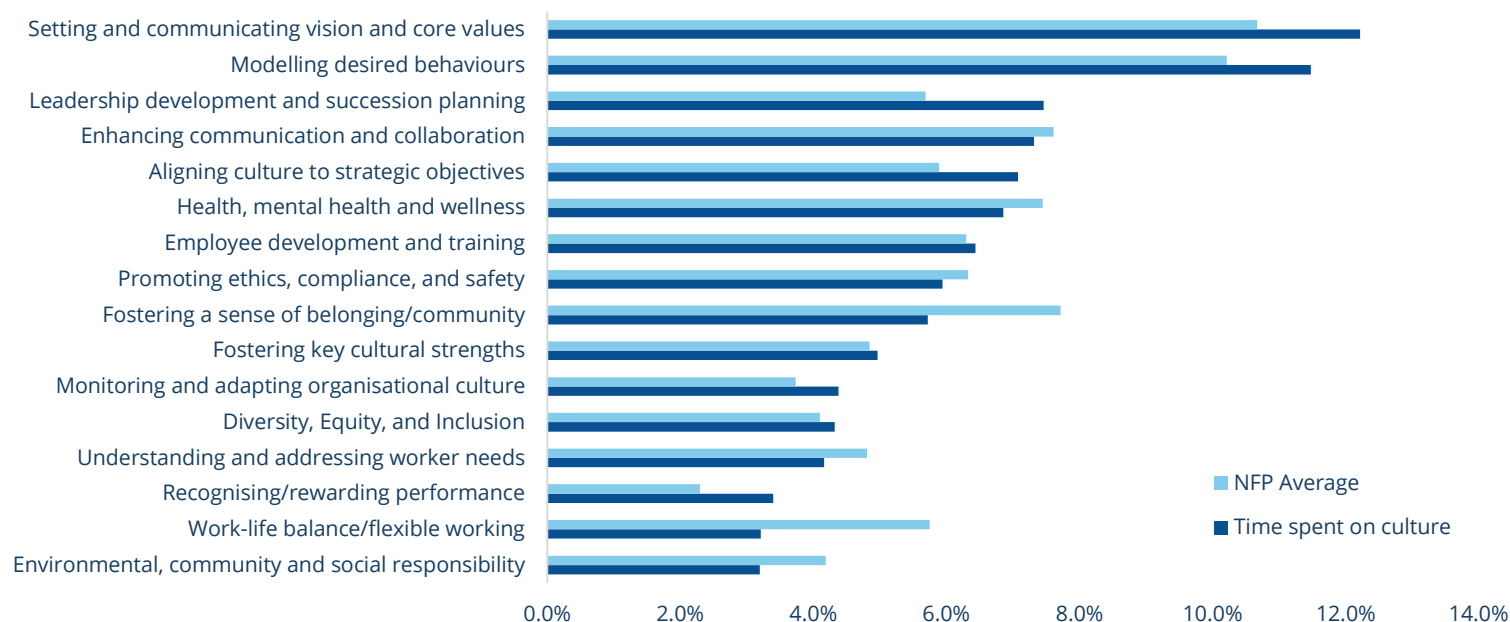
## How AI adoption is expected to influence organisational culture

- Enhanced collaboration tools and platforms
- Increase data-driven measurement of organisational culture success…
- Shift towards more innovation and adaptability across roles
- Adaptability and resilience through predictive analytics, strategic…
- Empowerment and autonomy
- Monitoring staff (e.g. communications for wellness)
- Flatter organisational structure (e.g. removing roles)
- Reducing human bias in hiring, promotion and incentivisation
- Employee concerns over job security
- We do not expect any significant changes
- Less interpersonal engagement for employees

Leaders adopting or considering AI most commonly expect its cultural impact to enhance collaboration tools and platforms, improving communication and teamwork. This is followed by an anticipated increase in data-driven success measurement, likely leading to more informed decision-making based on productivity and performance. This cohort is more likely to expect changes from AI's impact on culture.
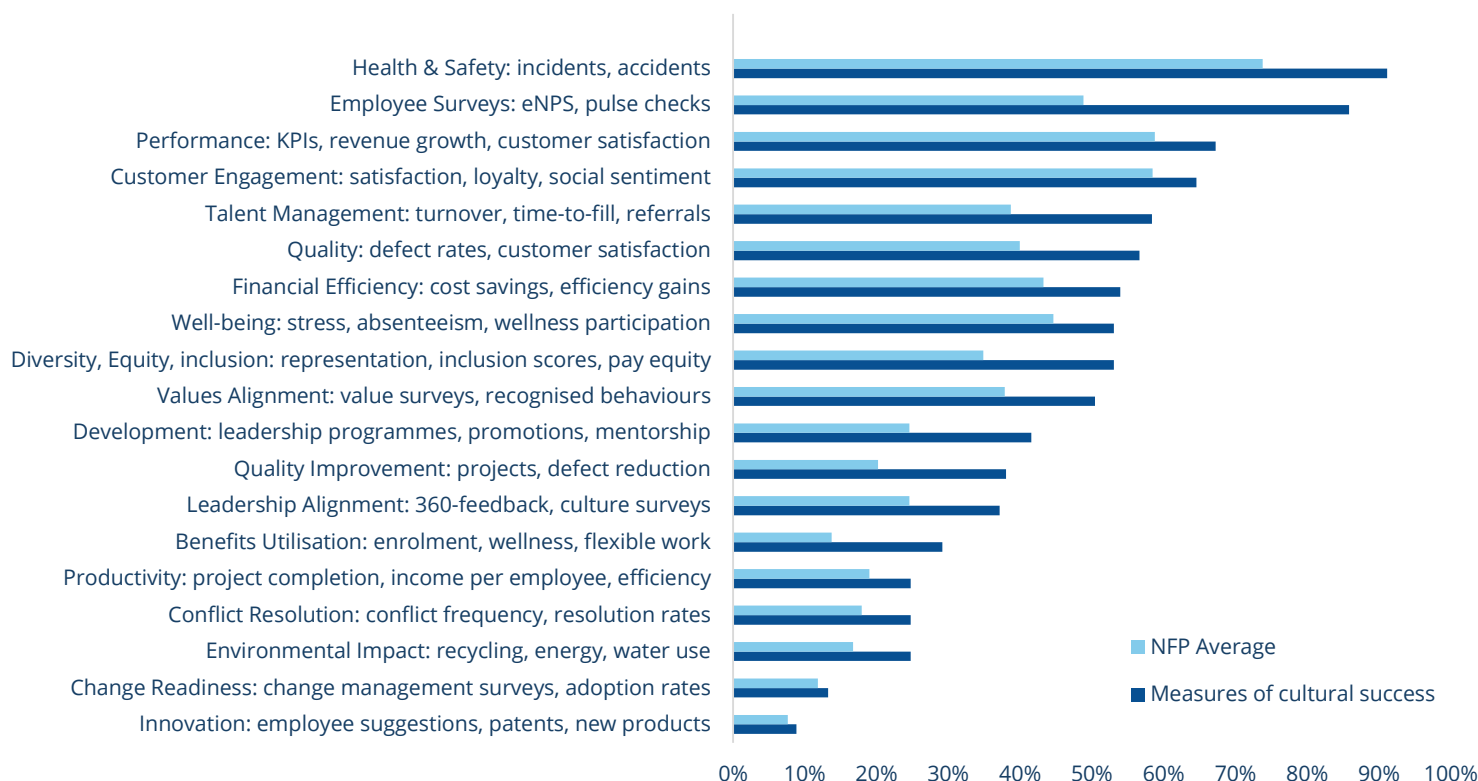
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## How leaders spend their time on organisational culture

| | NFP Average | Time spent on culture |
|---|---|---|
| Setting and communicating vision and core values | | |
| Modelling desired behaviours | | |
| Leadership development and succession planning | | |
| Enhancing communication and collaboration | | |
| Aligning culture to strategic objectives | | |
| Health, mental health and wellness | | |
| Employee development and training | | |
| Promoting ethics, compliance, and safety | | |
| Fostering a sense of belonging/community | | |
| Fostering key cultural strengths | | |
| Monitoring and adapting organisational culture | | |
| Diversity, Equity, and Inclusion | | |
| Understanding and addressing worker needs | | |
| Recognising/rewarding performance | | |
| Work-life balance/flexible working | | |
| Environmental, community and social responsibility | | |

50+ employee NFPs spend more time setting and communicating vision and values, modelling desired behaviours, and focusing on leadership development and succession planning. In contrast, the overall NFP cohort places greater emphasis on fostering a sense of belonging, work-life balance, and environmental, community, and social responsibility.

## How leaders measure outcomes and value from organisational culture

| | NFP Average | Measures of cultural success |
|---|---|---|
| Health & Safety: incidents, accidents | | |
| Employee Surveys: eNPS, pulse checks | | |
| Performance: KPIs, revenue growth, customer satisfaction | | |
| Customer Engagement: satisfaction, loyalty, social sentiment | | |
| Talent Management: turnover, time-to-fill, referrals | | |
| Quality: defect rates, customer satisfaction | | |
| Financial Efficiency: cost savings, efficiency gains | | |
| Well-being: stress, absenteeism, wellness participation | | |
| Diversity, Equity, inclusion: representation, inclusion scores, pay equity | | |
| Values Alignment: value surveys, recognised behaviours | | |
| Development: leadership programmes, promotions, mentorship | | |
| Quality Improvement: projects, defect reduction | | |
| Leadership Alignment: 360-feedback, culture surveys | | |
| Benefits Utilisation: enrolment, wellness, flexible work | | |
| Productivity: project completion, income per employee, efficiency | | |
| Conflict Resolution: conflict frequency, resolution rates | | |
| Environmental Impact: recycling, energy, water use | | |
| Change Readiness: change management surveys, adoption rates | | |
| Innovation: employee suggestions, patents, new products | | |

In larger NFPs, there is a stronger focus on measuring cultural impact, with greater emphasis on health and safety, employee engagement through surveys, talent management, diversity, equity and inclusion, development, leadership alignment, quality improvement, and benefits utilisation.

**Authors:** Susanna Lee (Leadership and Governance Collective), Associate Professor Claire Matthews and Dr Jeffrey Stangl (Massey)

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## Ethics-centric policies and processes



Larger organisations have more formalised ethics-centric policies, leading in areas such as codes of conduct and ethical guidelines, diversity, equity and inclusion, employee engagement, and ethical leadership development.
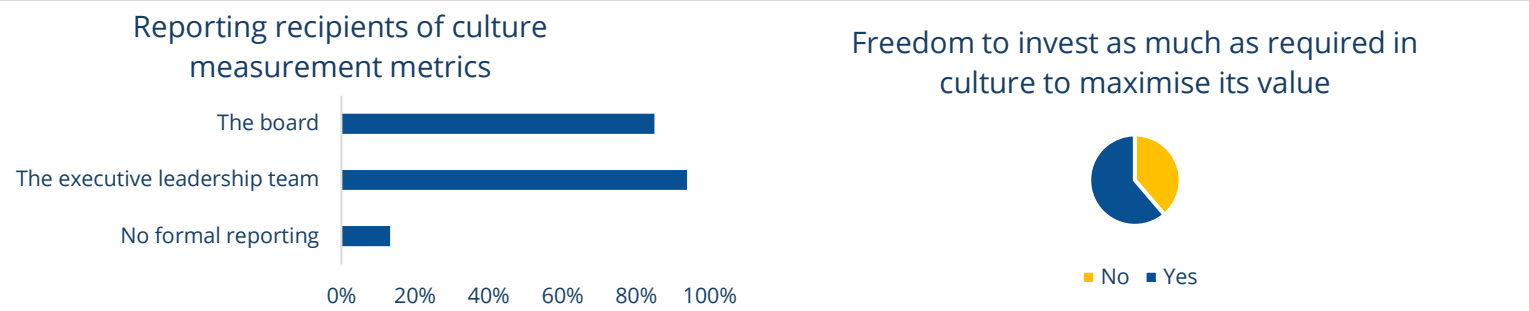
## People-centric policies
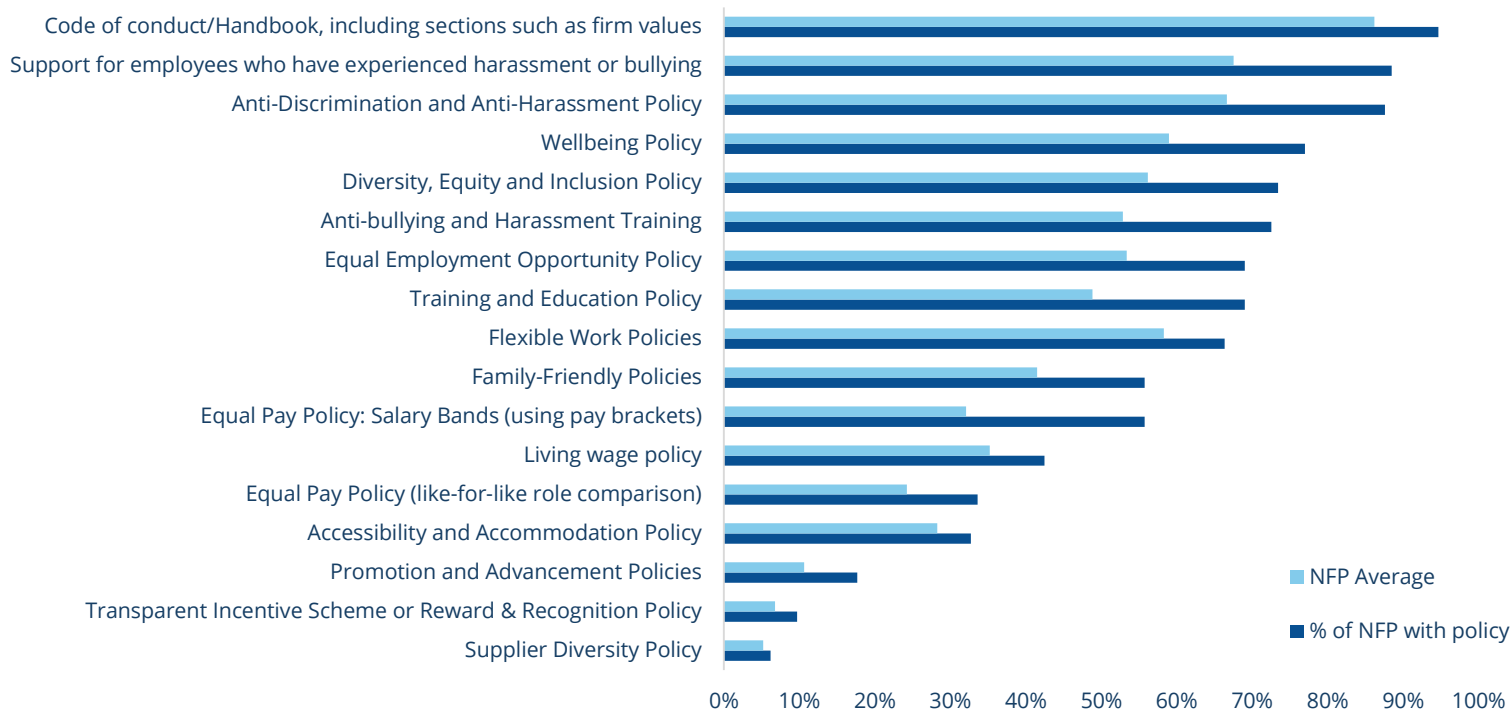


Larger NFPs typically have more formalised people-centric policies, particularly anti-harassment, anti-bullying, well-being, equal opportunity, education and training, equal pay, and family-friendly policies.
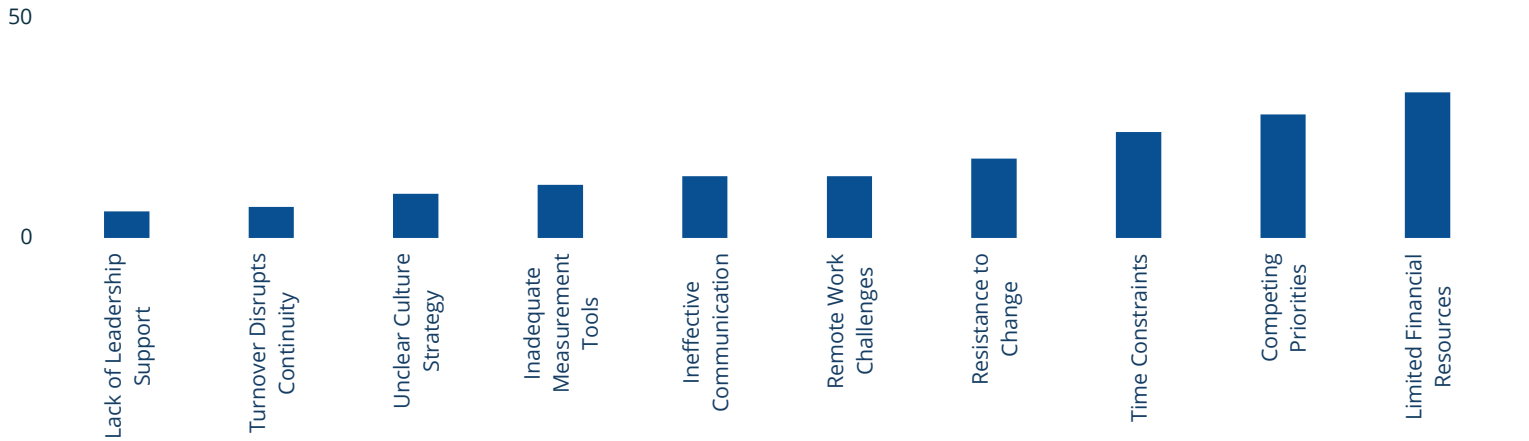
**Authors:** Susanna Lee (Leadership and Governance Collective),
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## Formal channels for reporting culture · Ability to invest in culture

### Reporting recipients of culture measurement metrics

| Category | |
|---|---|
| The board | |
| The executive leadership team | |
| No formal reporting | |

0%  20%  40%  60%  80%  100%
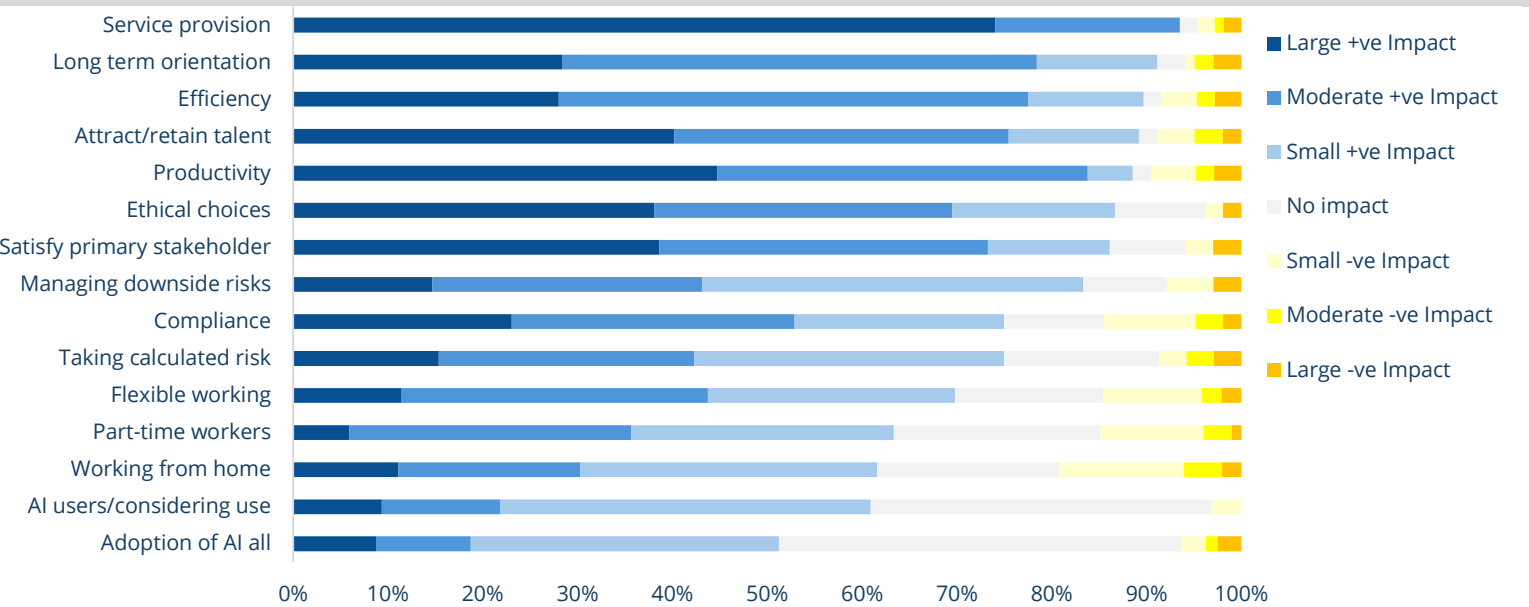
Culture metrics are primarily reported to executive leadership and the board, with 13% having no formal reporting.

### Freedom to invest as much as required in culture to maximise its value

■ No  ■ Yes

61% of leaders feel they can invest enough in organisational culture to realise its full value (compared to 55%).

## Barriers to investing in organisational culture to maximise value

50

0

- Lack of Leadership Support
- Turnover Disrupts Continuity
- Unclear Culture Strategy
- Inadequate Measurement Tools
- Ineffective Communication
- Remote Work Challenges
- Resistance to Change
- Time Constraints
- Competing Priorities
- Limited Financial Resources

Based on selection frequency, limited resources, and competing priorities are top barriers to investing as much as needed in culture. For larger organisations, competing priorities is a more significant issue than time constraints.

## Summary of culture and its impact on various factors

| Factor |
|---|
| Service provision |
| Long term orientation |
| Efficiency |
| Attract/retain talent |
| Productivity |
| Ethical choices |
| Satisfy primary stakeholder |
| Managing downside risks |
| Compliance |
| Taking calculated risk |
| Flexible working |
| Part-time workers |
| Working from home |
| AI users/considering use |
| Adoption of AI all |

0%  10%  20%  30%  40%  50%  60%  70%  80%  90%  100%

Legend:
- ■ Large +ve Impact
- ■ Moderate +ve Impact
- ■ Small +ve Impact
- No impact
- Small -ve Impact
- Moderate -ve Impact
- Large -ve Impact

Blue shades indicate varying degrees of positive impact, grey is neutral, and yellow shades varying degrees of negative impact.

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