Impact of organisational culture on profit performance

Organisational Culture

Based on actual client data, this study examined the relationship between culture at the individual store level and shrink rate, a major driver of profitability in the retail business. The cost of shrink – product unaccounted for (usually stolen) – comes straight off the profit line and is a major concern in any retail business. It is a real measure of how effectively the business is being managed. This study showed a clear relationship – comparing equivalent stores, with up to 300% variance on shrink rate – those stores with the more constructive cultures had significantly lower shrink rates than those stores with more defensive cultures.

Inquiry

Is there a relationship between culture at the store level and profitability? By identifying 'shrink rate' as a key contributor to profitability is there a link between culture and shrink rate?

Research Opportunity

Human Synergistics has been privileged to work for a variety of leading retail organisations in Australia, New Zealand, USA, Canada and England. This data comes from an actual client project, rather than pure research. Thus the information is proprietary data, client confidential and any details cannot be published. The data from this study is however consistent with similar studies in other retail environments, thus although we cannot present the detail, we are confident of what this study shows.

A retail environment offers an excellent opportunity to collect data for research purposes. A large retail company offers several stores, where many variables that usually make inter-business comparisons invalid, can be held constant. This improves the quality of data, as 'other variables' (eg. external forces and company strategy) that may impact on the relationship between the variables being studied (in this case shrink rate and culture) can be accounted for.

Shrink Rate as a Factor in Retail Profitability

Shrink rate is generally defined as retail goods (stock/inventory) unaccounted for. This means it is no longer in stock/inventory and cannot be included in a physical count or accounting for stock/inventory. Nor has it appeared on the sales register, so cannot be accounted for as sales. This generally means that the items have been stolen. Surprisingly, given the security technology available to retailers, shrink rate is often very high and represents a significant amount of money.

Internationally, the national average shrink rate ranges between 10% and 20% of sales. In a large retail store, even 5% can represent millions of dollars. Since the product cannot be identified, it must be accounted for as a cost and comes straight off the bottom line.

Since most international research indicates that up to 65% of shrink is 'staff related' (ie. the store staff are involved in the disappearance of the products), then shrink rate has always been seen as a strong indicator of how effectively a store is being managed.

Any efforts to reduce shrink rate can make immediate impact on a retail company's profitability. In one of our clients, the reduction in shrink rate in 12 months represented a $15 million increase in profit! (What was

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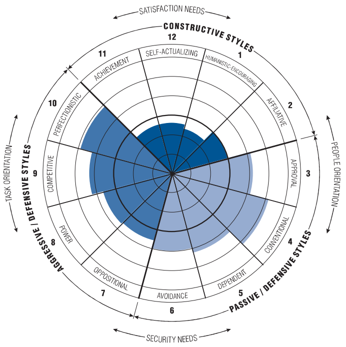
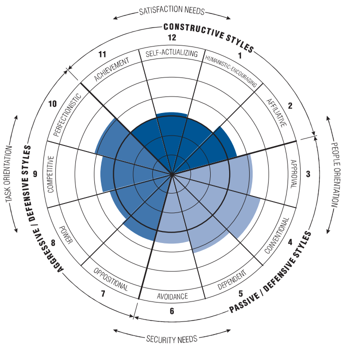
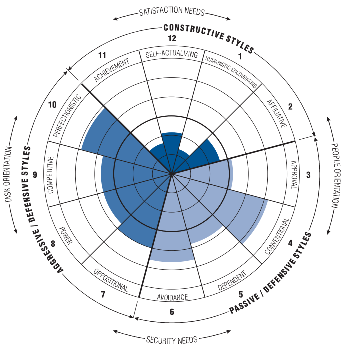


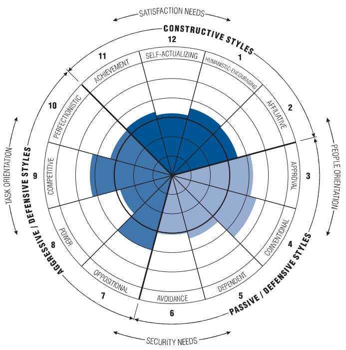
Shrink rate above the average



Shrink rate below the average



Highest shrink rate



Lowest shrink rate

particularly interesting in this case was that this was achieved through a management development intervention rather than a security/technology one).

Methodology & Results

This data comes from a culture survey assignment undertaken for a leading retail business, involving multiple stores in multiple locations (cities/states). The Human Synergistics Organisational Culture Inventory was used to measure culture throughout the organisation and a variety of financial performance figures were obtained from Head Office. The stores were then matched into categories in terms of size and customer demographics, to ensure we are comparing like stores with like.

A particular 'cluster' of stores was then identified as being very similar, allowing us to hold all other factors constant and focus on the relationship between store culture and shrink rate. Shrink rates within this cluster varied by up to 300% amongst the stores. An average rate for the cluster was calculated and became the comparison point. The profiles opposite show those above and below this average.

The difference in the two profiles lies in the Constructive Styles. Those stores with the lower shrink rate have significantly more Constructive behaviours within their cultures. The similarities in the Passive/Defensive Styles represent the strong culture that permeates throughout this organisation, typical (although not desirable) of retail. Although the Aggressive/Defensive Styles look the same, those stores with lower shrink rate have significantly lower scores in these behaviours. The difference becomes particularly marked when the cultures of the store with the highest and lowest shrink rates are compared.

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