

HOW TOXIC ORGANISATIONAL CULTURES EMERGE - AND TURN DESTRUCTIVE

If organisational cultures turn toxic, what drives their emergence? Equally important, what sustains them despite their devastating consequences?

No founder of an organisation sets out to create a monster; yet toxicity can emerge from an initially exciting, shared vision. At the outset, one or more founders rally around a dream, transforming it into practical goals and actions within a specific environment. To bring that vision to life, they uphold deeply held values and beliefs—without this alignment, the dream struggles to survive. As success ensues, those founding values ossify into an unspoken code: “This is how we do things here.”

Any challenge to the prevailing mindset is met with scepticism or outright rejection. Charles Handy, the internationally renowned Irish author and philosopher specialising in organisational behaviour and management, encapsulates this dynamic in his “spider at the centre of a web” metaphor, illustrating how a dominant individual or small group can entrap an organisation within a rigid power culture. While such centralisation can propel early growth, it often impedes necessary evolution, leaving the organisation vulnerable to stagnation, ethical decline, and toxicity.

Consequences of a Toxic Culture

A toxic culture corrodes every corner of an organisation, sapping its strengths and amplifying its vulnerabilities. The primary areas of impact are outlined below; each illustrated with typical symptoms and supporting data:

- **Performance and Productivity: Stagnation or Decline**
Teams become risk-averse, deferring decisions and innovation. Time-to-market slows, and organisations often absorb a 10–20 percent reduction in annual revenue due to lost efficiency and wasted effort.
- **Detachment from Mainstream Developments and Growth**
Insular thinking blinds leadership to emerging trends. Strategic missteps multiply as competitors adopt new technologies and business models while toxic organisations cling to outdated playbooks.
- **Employee Disengagement and Increased Turnover**
Disengaged staff go through the motions, reducing discretionary effort. High-potential employees leave for more supportive environments, pushing voluntary turnover rates above industry benchmarks and driving up recruitment costs.
- **Erosion of Innovation and Adaptability**
Groupthink and a fear of failure stifle creative problem-solving. New product and service pipelines dry up, leaving the organisation poorly equipped to pivot when market conditions shift.

- Reduced Talent Attraction and Employer-Brand Damage
Negative reviews on Glassdoor and LinkedIn deter top candidates. Lengthy hiring cycles and unfilled vacancies become the norm as employer-brand scores decline.
- Health, Well-Being and Legal Exposure
Chronic stress and burnout fuel absenteeism and medical claims. Bullying, harassment and discrimination complaints rise, generating costly investigations and potential litigation.
- Worsening Financial and Operational Costs
Constant firefighting of interpersonal conflicts diverts leadership from strategic priorities. Increased Human Resources and legal expenditures, combined with productivity losses, can erode 10–20 percent of annual earnings.
- Reputational Damage and Stakeholder Distrust
Publicised culture scandals undermine customer, investor and partner confidence. Funding valuations dip and share prices can tumble as stakeholders question leadership integrity.
- Organisational Extinction
When toxic dynamics go unchecked, culture-driven paralysis or scandal can drive companies into bankruptcy or force them out of their markets entirely.

From Relentless Drive to Poison Pill: Five Stages of Cultural Collapse

An organisation goes through a number of stages of collapse. These stages are:

- Unshakeable Resolve
Early grit and urgency unite the team behind bold visions. Very little reality checks take place. Visions start to become tunnel visions, disallowing any opposing views.
- Turn Toward Dogmatism
Original playbooks become sacred texts, blocking new approaches. Typical examples of these are Marxist/Leninist philosophies, Radical Economic Transformation.
- Cultural Gatekeeping
Hiring and promotion hinge on conformity; dissent is penalized. Recruitment takes place from a pre-determined pool of potential candidates, like-minded people, 'one-of-us' an inbreeding of ideas.
- Leadership Blind Spots
Executives dismiss warning signs, trapped by their own success stories. The organisation becomes a closed-system, disallowing any 'harmful ideas'.
- Point of No Return
Entrenched values override market signals, making course-correction impossible, "there is death in the pot", signifying that the situation has become lethal.

Clinging to these outdated values undermines future viability, leaving the organisation ill-equipped for new realities.

Warning Signs of Cultural Misalignment

An organisation's culture is its invisible architecture. When that framework cracks, the whole system destabilises. Spotting misalignment early lets you course-correct before deep fissures form.

- Employee Disengagement and Turnover
Employees lose energy when culture drifts away from what they expect.
- Steady decline in engagement survey scores
Rising absenteeism or “sick days” as people avoid the office starts creeping in. High voluntary turnover—especially among high performers leaving for values that feel more authentic becomes more prevalent.
- Erosion of Trust and Psychological Safety
When people don't feel safe, honest dialogue evaporates. They become reluctant to speak up in meetings or challenge decisions. Resurgence of gossip, hidden agendas, and shadow conversations become more frequent while teams avoid cross-functional collaboration for fear of judgment.
- Siloed Teams and Fragmentation
Culture misalignment often shows up as walls between groups. Consequently, Departments hoard information instead of sharing best practices. Duplication of work because groups aren't communicating becomes the norm. “That's not my job” becomes a default response.
- Gap Between Espoused Values and Day-to-Day Behaviours
Stated values lose meaning when leadership fails to model them. Leadership messages celebrating “innovation” while punishing risk-taking. Code of conduct on the intranet clashes with observed shortcuts and workarounds. This flows into recognition programs that reward outcomes over behaviours.
- Resistance to Change and Innovation
A misaligned culture clings to the status quo even when it's failing. New initiatives stall at the pilot phase with no clear reason, increasing the sense of mistrust in senior leadership. The normal consequence is people who default to “we've always done it this way” instead of asking “why not?” Proposals for improvement are met with indifference or passive push-back, leading towards stagnation on all fronts.
- Declining Performance Metrics
Financials and customer feedback often reflect cultural health. Quality metrics start to slip, and delivery deadlines are not met. Spike in customer complaints or churn rates and budget overruns because teams aren't aligned on priorities.

- Escalating Conflict and Toxic Behaviours
Unchecked resentment breeds negativity and conflicts will start escalating over small issues. A blame culture will develop, and employees will start finger-pointing in stead of learning when mistakes occur. Cliques started to form, leaving newcomers to feel excluded.
- Increased Compliance or Safety Incidents
When people feel misaligned, they bypass rules to get things done. This will result in an increase of more near-miss safety reports or even actual incidents. Compliance audits revealing gaps in policy adherence while whistle-blower alerts signalling deeper cultural breakdowns.

Examples of Toxic Cultures on International Organisations

Many examples can be found internationally. The most common examples:

Enron (2001): Collapse of a Corporate Giant

- Toxic Driver: An obsession with short-term stock prices and relentless risk-hiding.
- Cultural Symptoms: Aggressive “rank-and-yank” performance reviews; punitive treatment of dissenting voices.
- Outcome: Accounting fraud unravelled, wiping out \$74 billion in market cap overnight, triggering one of the largest bankruptcies in U.S. history and eroding investor trust worldwide.

Theranos (2018): Devastation Through Deception

- Toxic Driver: Founder’s cult of personality and “move fast, break things” ethos applied to medical testing.
- Cultural Symptoms: Secrecy, intimidation of whistle-blowers, data manipulation.
- Outcome: Patient safety risked by inaccurate tests; company dissolved; founder criminally indicted; billions in investor losses.

Volkswagen “Dieselgate” (2015): Engineering Dishonesty

- Toxic Driver: Unrealistic emissions targets and “win at all costs” management pressure.
- Cultural Symptoms: Top-down directives to cheat on regulatory tests; internal fear of questioning senior mandates.
- Outcome: 11 million vehicles globally equipped with “defeat devices”; over €30 billion in fines, recalls, and reputational damage; CEO resignation.

NASA Challenger Disaster (1986): When Safety Culture Fails

- Toxic Driver: Schedule imperatives and management overruled engineers’ safety concerns.
- Cultural Symptoms: Normalization of deviance: accepting known risks as “just the way things are done.”
- Outcome: Seven astronauts lost; major overhaul of NASA’s risk-assessment protocols; a stark lesson in how silencing technical objections can cost lives.

BP Deepwater Horizon (2010): Environmental Catastrophe

- Toxic Driver: Cost-cutting and schedule shortcuts in pursuit of offshore drilling targets.
- Cultural Symptoms: Under-reporting of safety incidents; marginalising of engineers who pushed for more conservative protocols.
- Outcome: Four lives lost, the largest marine oil spill ever, \$65 billion in cleanup and legal liabilities, and lasting ecological harm in the Gulf of Mexico.

The most known downfall of a South African company as result of a toxic organisation culture as the major enabler of Steinhoff International's collapse. Beyond the accounting fraud itself, a set of entrenched behaviours—hubris, groupthink and ruthless growth-at-all-costs—created an environment where dissent was punished and oversight mechanisms failed.

Steinhoff's leadership glorified "P/E magic (price to earnings) and relentless expansion, believing that sheer force of will, could override any challenge. This created a culture of invulnerability in which employees who questioned aggressive deals or accounting shortcuts were silenced or sidelined.

Internal whistle-blowers never emerged, and dissenting voices were effectively stamped out by a combination of charismatic authority and implied threats—classic symptoms of groupthink and moral disengagement.

The company's two-tier board structure compounded these cultural flaws. Management largely operated in isolation from the supervisory board, which lacked the information flow and assertiveness needed to raise red flags. These accountability holes in governance were symptomatic of a toxic deference to authority rather than healthy scepticism.

While fraudulent accounting was the immediate trigger, it was Steinhoff's toxic organisational culture—anchored by unchecked ambition, groupthink and weak governance—that created the fertile ground for misconduct and ultimately led to its downfall.

The relentless consequences of a Toxic Culture at Steinhoff

Steinhoff lost over 97% of its market capitalization between August 2017 and March 2019, resulting in its delisting from the JSE and Frankfurt exchanges.

The former CFO was sentenced to 10 years' imprisonment, five suspended, for insider trading.

An Ex-Director, facing charges including racketeering and financial statement manipulation—surrendered to the Hawks, one day after founder died by suicide.

Civil litigation by investors and pension funds seeks to recover billions in losses, while forensic and regulatory inquiries continue. Today, with its brands largely sold and its share price a fraction of former highs, Steinhoff endures as a cautionary exemplar of corporate governance failure triggered by a Toxic Organisational Culture.

Stages of Cultural Collapse

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Lessons to be learnt from examples of a toxic organisational culture

- Leadership Sets the Tone
- Build Psychological Safety
- Communicate Transparently
- Align Words with Actions
- Spot Warning Signs Early
- Invest in Continuous Culture Assessment
- Take Holistic, Human-Centred Action

Resolves to Identify and Address Toxic Organisational Culture

A four-phased approach is proposed:

Phase 1: Diagnose Cultural Toxicity

- Conduct anonymous surveys and confidential interviews to surface “red-flag” themes.
- Analyse exit interviews and turnover data for patterns of cultural misfit.
- Review HR metrics (absenteeism, conflict cases, whistle-blower reports) for hotspots.
- Map culture through the Four P’s (Payoff, People, Processes, Purpose) to reveal misalignments.

Phase 2: Target the Three Key Drivers

Research converges on three critical levers of toxic culture:

- Toxic leadership
- Dysfunctional social norms

- Poor work design

Focusing interventions here yields the highest impact.

Phase 3: Design Targeted Interventions

Driver	Intervention Examples
Leadership	<p>Secure commitment via external coaching, 360° assessments with Senior Leadership group, including the following:</p> <ul style="list-style-type: none"> - Chief Executive Officer (CEO): Defines vision, makes high-level strategic decisions and serves as the public face of the company. - Chief Operating Officer (COO): Oversees day-to-day operations and ensures that the executive strategy is executed smoothly. - Chief Financial Officer (CFO): Manages financial planning, reporting, risk analysis and investor relations. - Chief Information Officer (CIO): Directs internal IT infrastructure and ensures technology supports business goals. - Chief Technology Officer (CTO): Focuses on external technology strategy, product development and innovation. - Chief Marketing Officer (CMO): Shapes brand strategy, customer outreach and marketing campaigns. - Chief Human Resources Officer (CHRO): Leads talent acquisition, development, culture initiatives and succession planning. <p>These executives collaborate to steer the organisation, each bringing specialised expertise while jointly owning overall performance and culture.</p>
Social Norms	<ul style="list-style-type: none"> - Launch co-created values workshops that translate abstract ideals into daily rituals - Spotlight role models who embody desired behaviours in town-halls
Work Design	<ul style="list-style-type: none"> - Shift from blame cultures to error-management practices: encourage reporting and learning from mistakes - Realign incentives to reward collaboration and ethical compliance

Phase 4: Embed and Sustain Change

- Establish quarterly “culture health” dashboards combining engagement, turnover and innovation metrics.
- Create confidential whistle-blower channels with non-retaliation guarantees and red-flag reporting to the board.
- Rotate “culture champions” across functions to prevent new silos and dogma from forming.
- Refresh interventions annually, leveraging pulse surveys and focused “culture hackathons” to adapt to evolving challenges.

By systematically diagnosing, focusing on core cultural drivers and embedding accountability, organisations can break toxic cycles and build resilient, adaptive cultures.

Further discussion

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