Culture Change

Managing Organisational Behaviour to Establish a Competitive Advantage in the Marketplace

"If one wishes to distinguish leadership from management or administration, one can argue that leaders create and change cultures, while managers and administrators live within them."
Professor Ed Schein, MIT

Contents

Everyone's Talking About It

Everyone's Talking About It

Successful business leaders are increasingly recognising that one of their competitive weapons is their corporate culture. They understand that corporate culture is a critical factor in long term economic success.

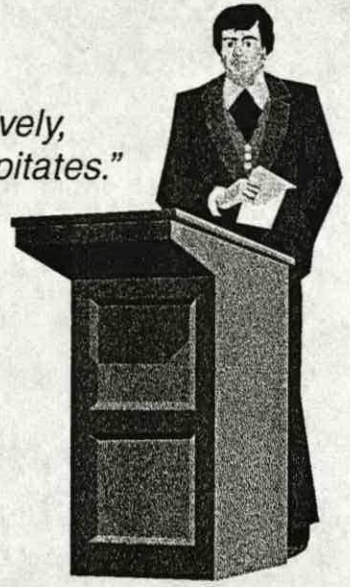
Everyone's Talking About It

"Culture is a mindset. It's the greatest weapon a CEO has. Change culture, and you change the world."
Mike Harper, Chairman and CEO, RJR Nabisco

"A company's internal strength evolves as excellent people are encouraged to develop within a positive culture."
Laurence Hirsch, Chairman and CEO Centex

"Today GE manages by certain values, not by numbers. Everyone knows these values-relish change, advocate boundaryless behaviour..."
Jack Welch, Chairman and CEO GE

"As CEO's we must clearly mark our path. We must deploy our human resources effectively, embrace change, and confront the wrenching strategic and cultural adjustments it precipitates."
Irvine O. Hockaday, Jr., President and CEO Hallmark Cards



"Changing the corporate culture takes time; people don't change overnight. But people will accept change if they believe in it and if they see that they have a personal stake in changing."
Lee Gammill, Jr., Executive Vice President New York Life

"I am firmly convinced that nothing is more crucial to our success than the work we are doing to transform the culture of the company."
Alex d'Arbeloff, Chairman and CEO, Teradyne

The Compelling Need for Change

The Compelling Need for Change

Today's business environment is often characterised as turbulent, unpredictable, and rapidly changing. This type of business environment has established a compelling need for cultural change. The challenge for many organisations is to adapt to change and to do so quickly or lose ground.

The Compelling Need for Change

Today's rapidly shifting business environment has established a need for rapid and dramatic change.

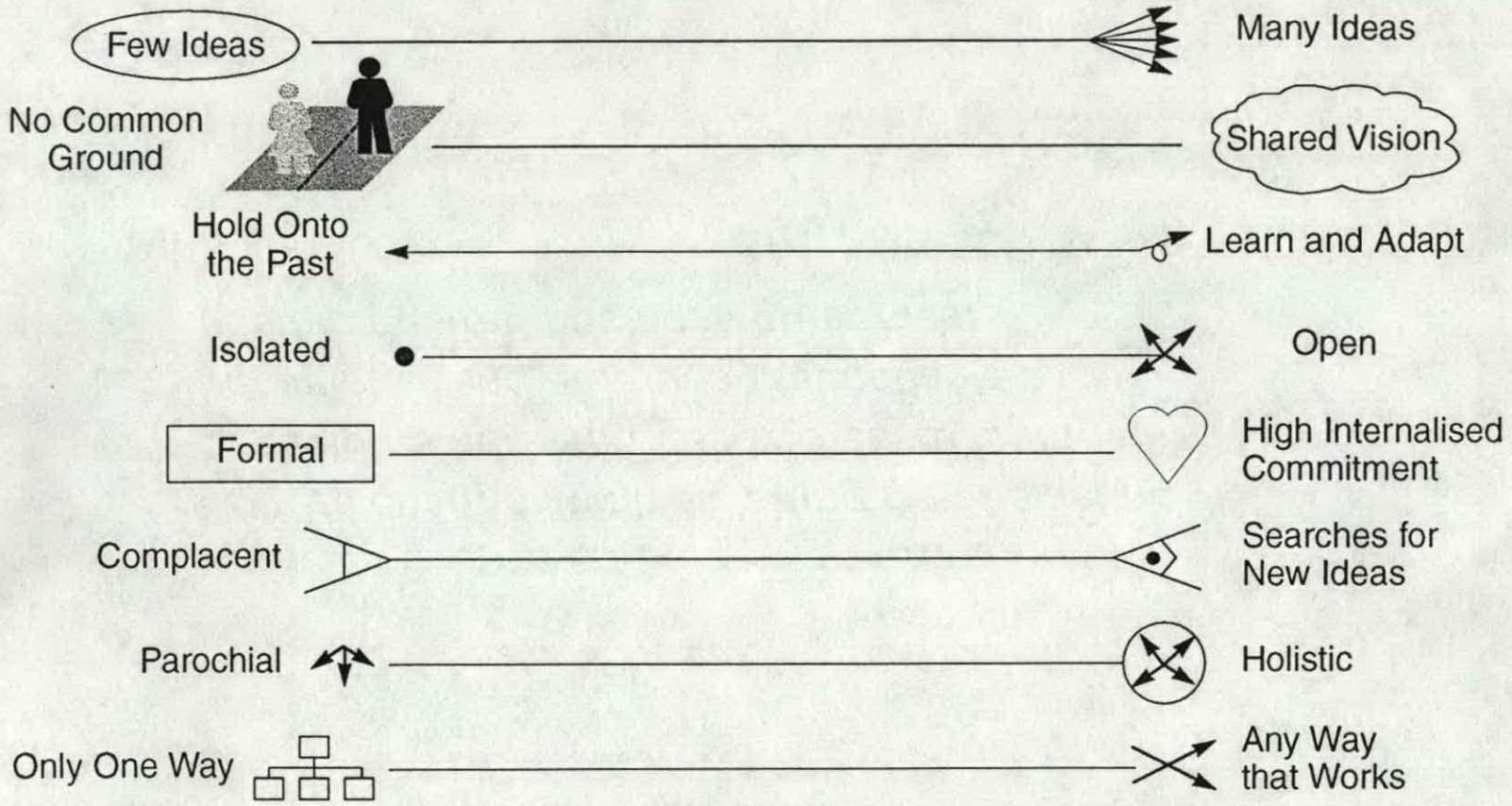
Old Environment		New Environment
Mass markets	➡	Markets of one
Long product cycles	➡	Short product cycles
High volume, low price	➡	High variety, low price
Product determines the process	➡	Process enables many products
Product is king	➡	Customer is king
We produce standard products	➡	We assemble standard components
Economies of scale	➡	Economies of scope
We sell what we make	➡	We sell what the customer wants
We produce to forecast	➡	We produce to demand
Requires buffer stocks	➡	Is just-in-time

What Does the New Culture Look Like?

Culture change involves letting go of existing behaviours and attitudes and establishing new behaviours and attitudes that achieve and sustain desired business outcomes.

Cultures are Shifting

The process of changing the corporate culture will result in many paradigm shifts.



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Cultures are Shifting

The issues facing business in bringing about culture change is not what to do, but how to get the people to do it — the emphasis has shifted from analysis to implementation.

Our Model of Corporate Culture

What Does the New Culture Look Like?

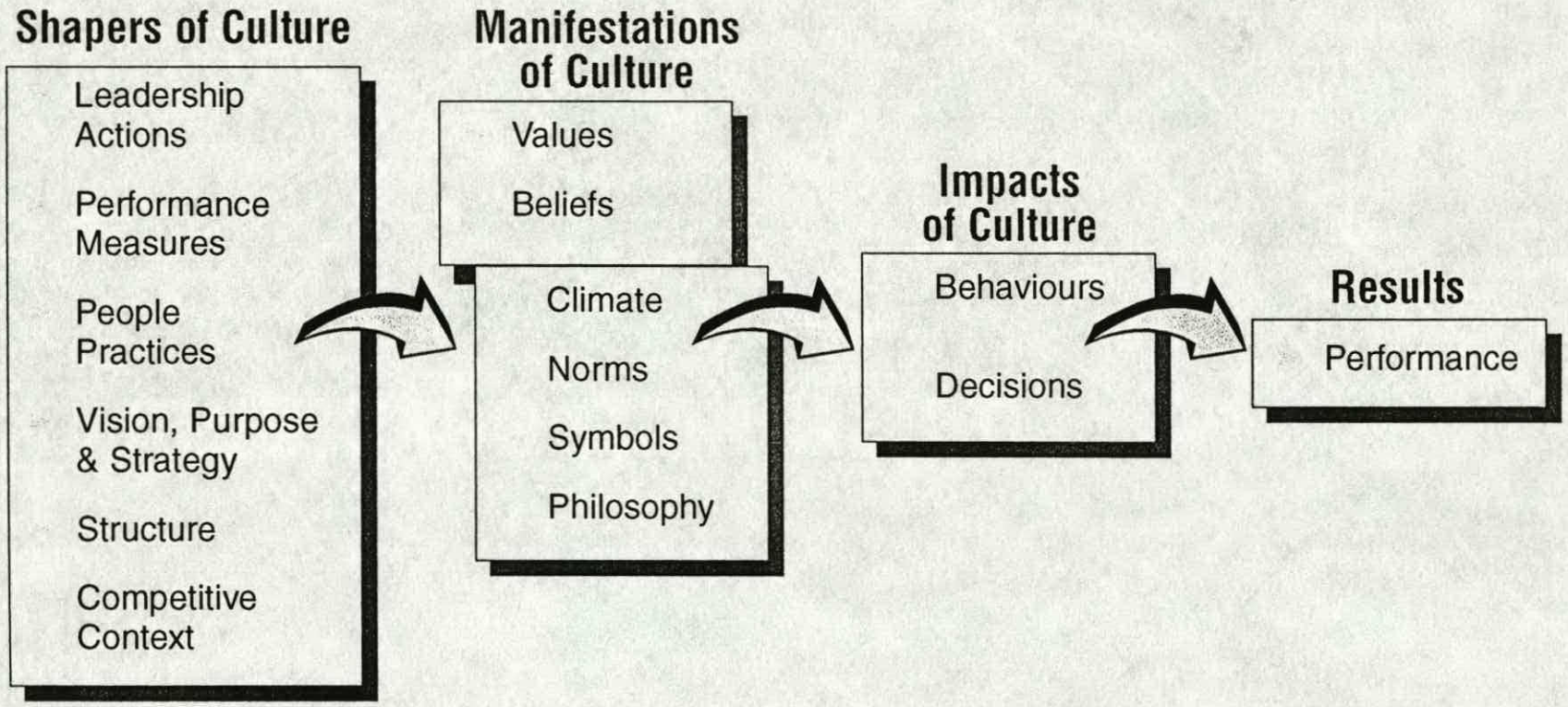
Traditional cultures may limit the organisation's ability to achieve competitive advantage.

Traditional Culture		New Culture
Functional needs tend to dominate decision making.	➡	Customer and process needs dominate decision making.
Functions have minimal interaction with other functions.	➡	Functions have extensive interaction with other functions.
Most people understand only the area in which they work.	➡	People understand the big picture and the business of the other functions and collaborate.
People do not know the identity of and linkages with their internal customers.	➡	Functions are collaborative partners where people understand what links their functions together.
Interactions among functions tend to be confrontational.	➡	Interactions among people tend to focus on "win-win" problem solving and decision making.
Isolated functional measures contribute to competition between functions.	➡	A function's measures reflect the contribution it should make to its immediate customer and to the system as a whole.

Our Model for Understanding Corporate Culture and Its Impact on Performance

Corporate culture is an essential driver of performance, which is in turn shaped by organisational behaviours. One of the most common change management issues is the management of corporate culture. The key to success lies in determining which behaviors must change and in turn which values and beliefs must be aligned.

Our Model for Understanding Corporate Culture and Its Impact on Performance



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Employee Ownership

Employee Ownership

In order to gain buy-in from employees, it is important to understand how people react to change.

Acceptance	Enthusiasm Cooperation Cooperation under pressure from management Acceptance
Indifference	Passive resignation Indifference Apathy; loss of enthusiasm for job
Passive	Making little effort to learn new ways Working to 'rule' Reverting to old approaches
Resistance	Protracted discussion; criticism; protests Non-attendance at meetings/training, etc. Slowing down
Active Resistance	Causing errors/disruption/misinformation Spoilage or sabotage Walkout

Employee Ownership

Employee support for change is critical. People can design and install the most advanced technical solution to improve business processes, but if the organisation's human resources are not in agreement with the desired change, and the culture does not reinforce risk-taking, learning and innovation, then genuine sustained and successful change will not occur.

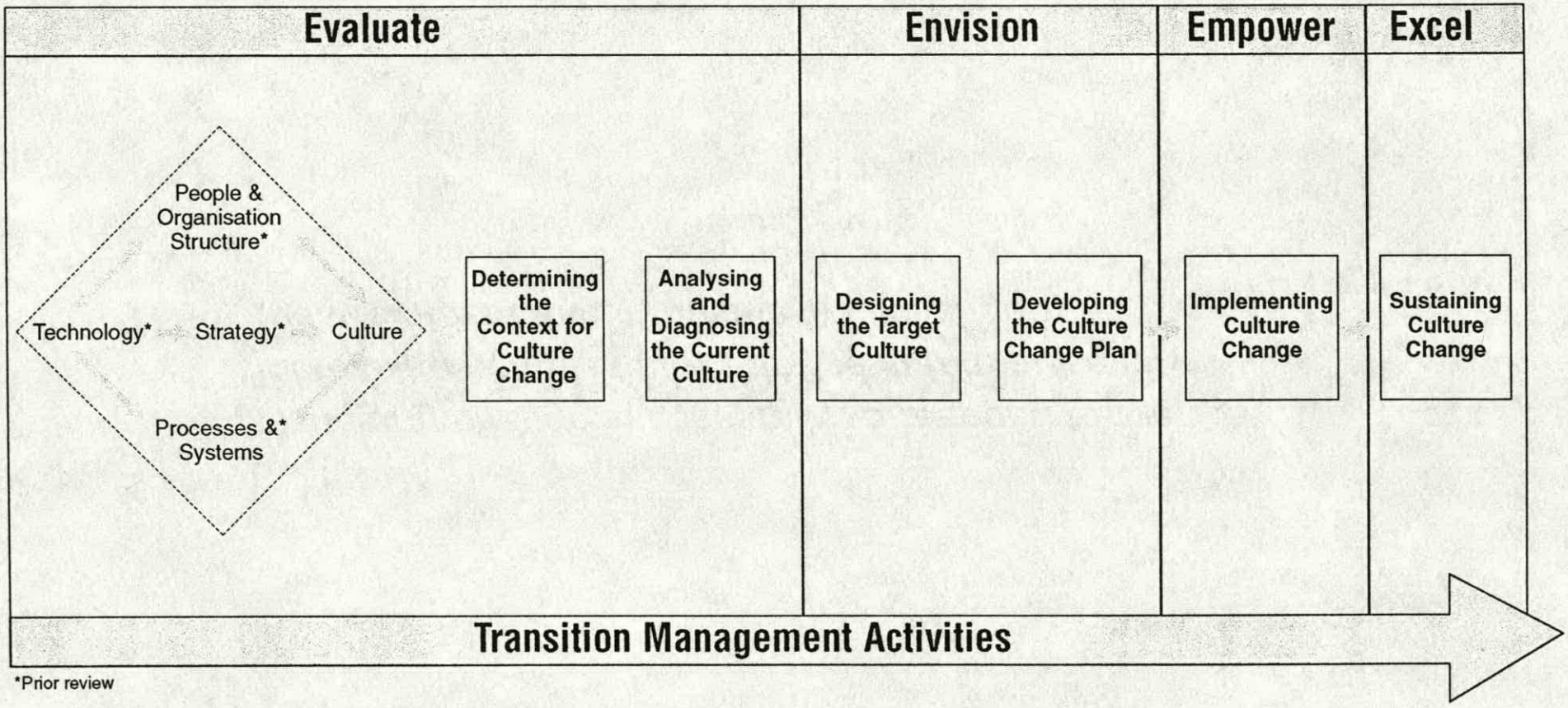
Approach to Culture Change

Our approach to cultural change consists of four stages:

- **Evaluate** — An initial assessment of the context of change, diagnosis of the current culture, and identification of opportunities and constraints.
- **Envision** — A definition of the future culture and development of a tailored change plan.
- **Empower** — The implementation of an integrated and balanced change plan.
- **Excel** — A sustaining phase to capture the target benefits and build future capability to reorient to change.

Approach to Culture Change

four-phased approach:



*Prior review

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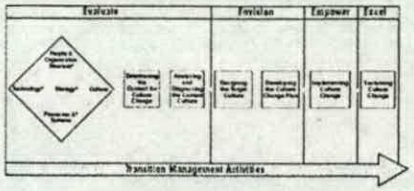
Determining the Context for Culture Change



Managing change successfully to respond to the increasing complexity within the marketplace is today's most difficult business challenge.

Determining the Context for Culture Change

A review of forces impacting the marketplace is critical to understanding whether the culture is aligned with the strategy, organisational structure, and processes currently in place.

CUSTOMER

- Service
- Variety
- Quality
- Low Price

ORGANISATION

- Downsizing
- Reengineering
- Mergers
- Morale

Need for Culture Change

ENVIRONMENT

- Globalisation
- Competition
- Regulation
- Flexibility

INDIVIDUAL

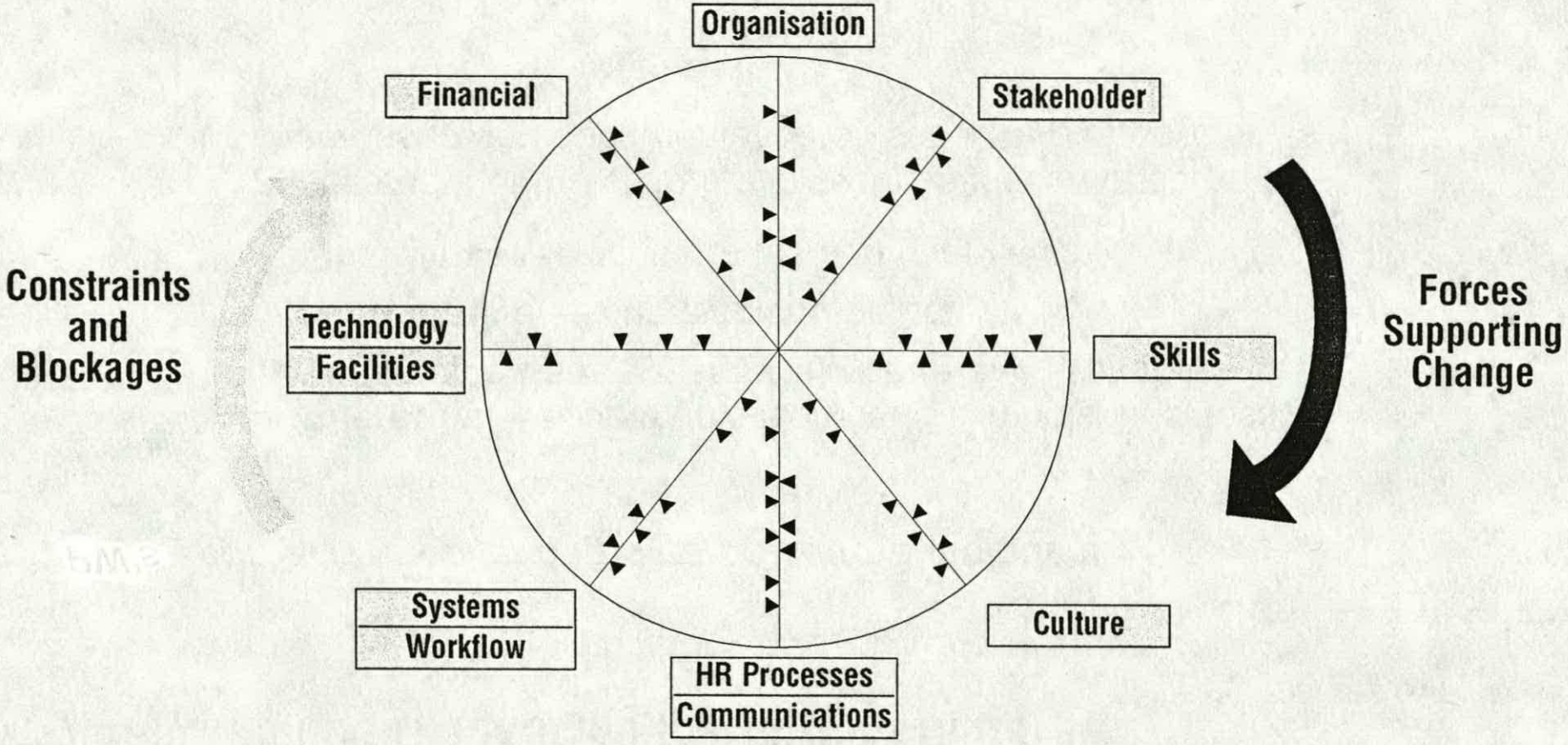
- Autonomy
- Fulfillment
- Career growth
- Continuous learning

Determining the Context for Culture Change — An Example

Business leaders understand that implementing change more quickly than the competition is an important competitive advantage which should be exploited like any other.

Determining the Context for Culture Change — An Example

A forcefield analysis illustrates the constraints which hinder change and the forces which advance the organisation.



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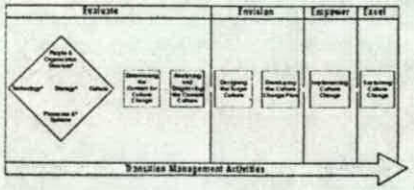
Analysing and Diagnosing the Current Culture



approach to collecting data on culture includes:

- **Inferential** — communications and symbols, business and people issues, history, structure and systems
- **Quantitative** — survey instruments
- **Qualitative** — focus groups and interviews

Assessment of the culture allows for validation of current hypotheses and documentation of issues and opportunities for improvement.

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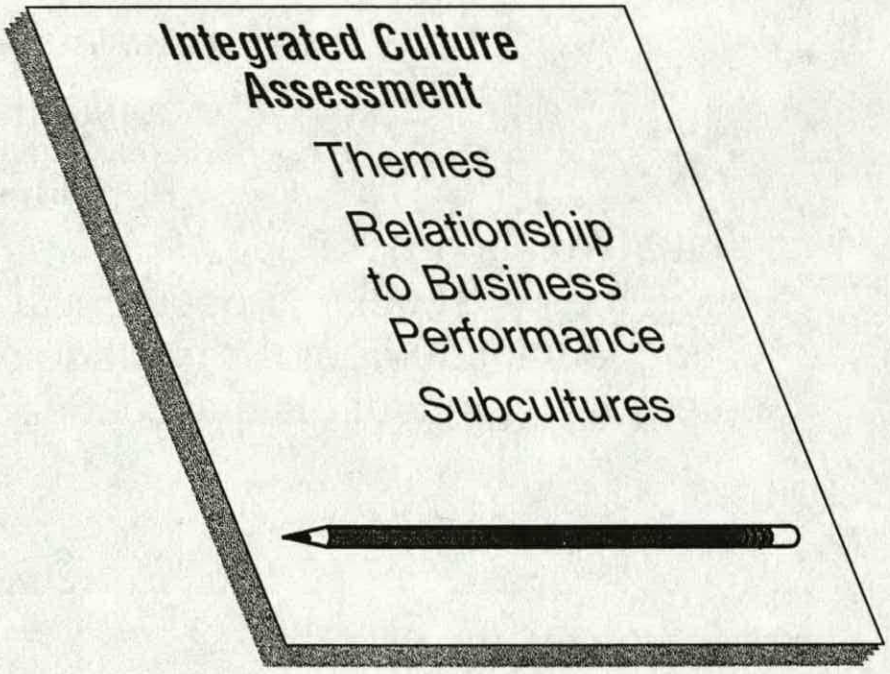
Analysing and Diagnosing the Current Culture

Diagnosing the current culture involves collecting data from several sources.

Management Interviews

Survey

Focus Groups



Analysing and Diagnosing the Current Culture — An Example

Ability to Change and Transform (ACT)

ACT is a highly sensitive diagnostic instrument that facilitates targeted discussion by members of senior management on the areas that are most/least in need of change. Also it provides a baseline for measuring change. The instrument is built around mastery in managing:

Technology

Organisation

Processes

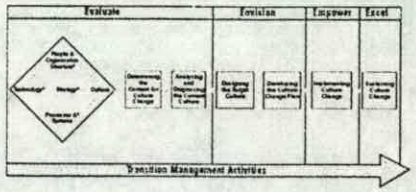
People

Analysing and Diagnosing the Current Culture — An Example

There are six key outcome areas which are related to organisational effectiveness.

		Technology	Organisation	Processes	People
R	Resource Integration	Relevance/ alignment	Structures	Definition and operation	Training and development
E	Effective Resourcing	Introduction/ development	Roles	Measurement	Performance management
S	Satisfying Customers	Applications	Teamworking	Decision making	Reward and appraisal
U	Utilising Talent	Performance support	Job enrichment	Communication	Recruitment
L	Learning Organisation	Information exchange	Flexibility	Continuous improvement	Empowerment
T	Taking Action	Project management	Accountability	Focus	Leadership

Designing the Target Culture



Designing the target culture serves three purposes:

- To align the culture to strategy and organisation effectiveness targets
- To identify patterns of thinking and behaving which are counter to the strategy and undermine long term performance
- To establish the business case for focused change efforts during implementation

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Designing the Target Culture

The target culture is envisioned through a series of senior management workshops.

Current Culture
Target Culture
Gaps Identified

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Designing the Target Culture — An Example

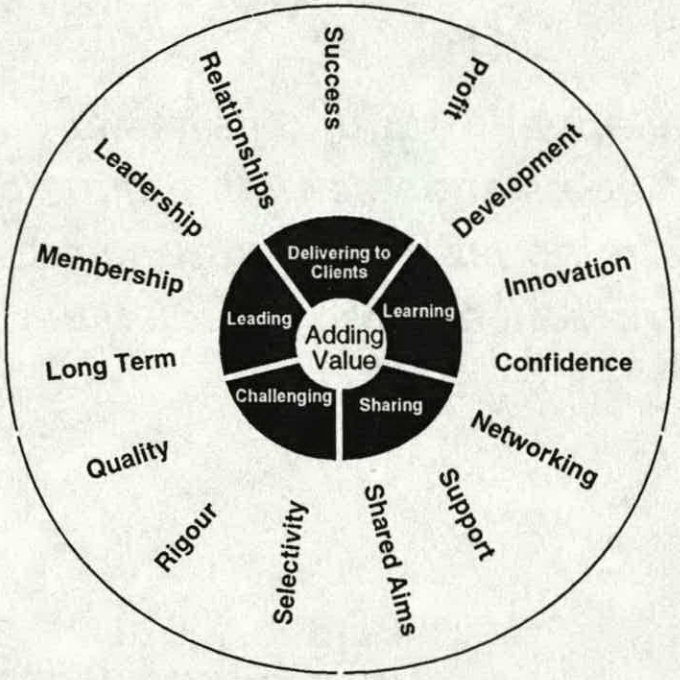
A target culture defines the key behaviours required for the future.

We help our clients succeed

- We build long term relationships
- We develop and deliver successful projects
- We satisfy client needs profitably

We run our business professionally

- We lead our people
- We support the management of our business
- We look to the future



We get better

- We develop our people
- We innovate
- We are confident about what we can do

We push ourselves

- We go for the best
- We question
- We concentrate our efforts

We work as one team

- We share our expertise and experience
- We support each other selflessly
- We share the same aims

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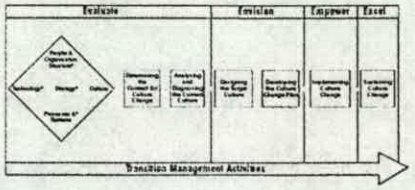
Developing the Culture Change Plan



The change plan helps an organisation to bridge the gap between the current and target culture. The team approach to planning insures consistency, balance, integration and ownership in the change activities.

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Developing the Culture Change Plan

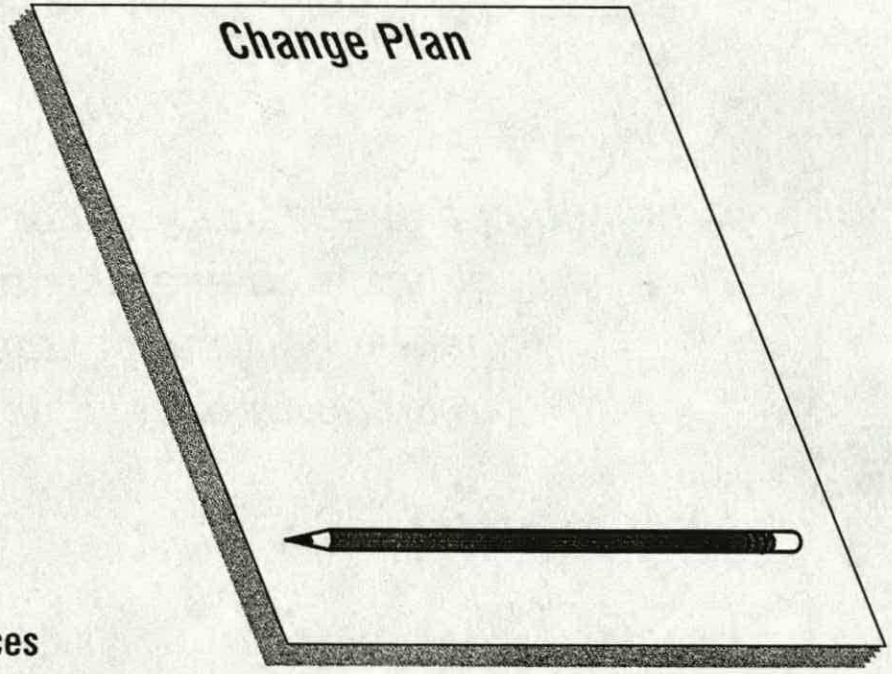
Planning change and operationalising the vision requires inputs from major stakeholders.

Senior Management

Employees

Customers

Human Resources



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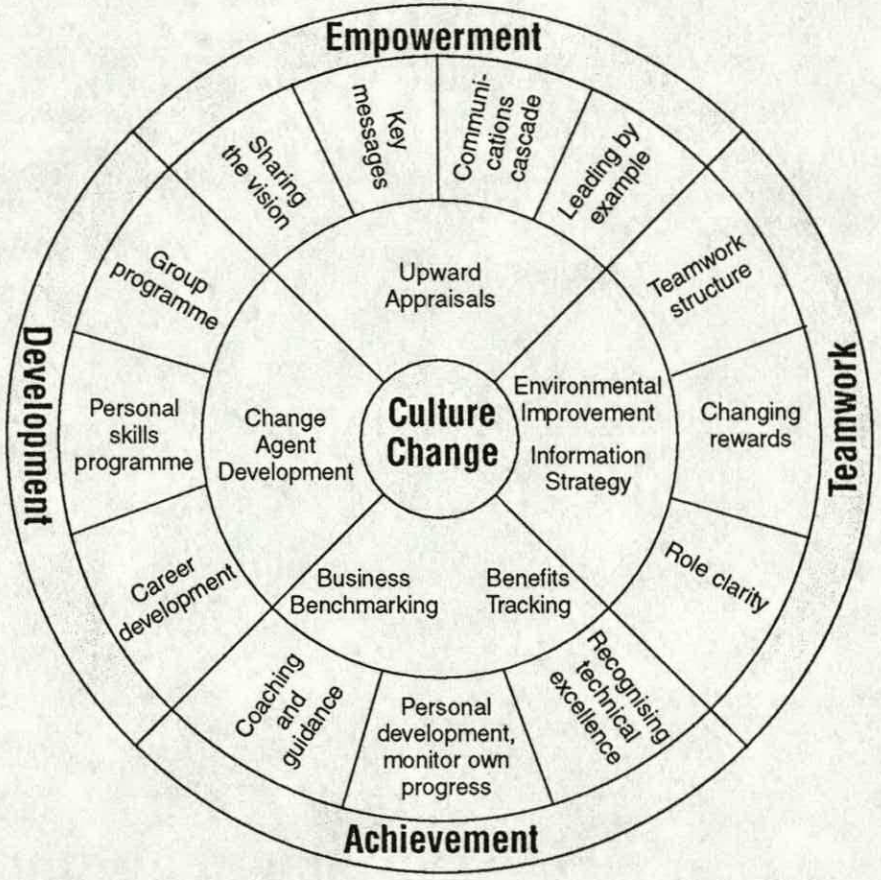
Developing the Culture Change Plan

Planning change is accomplished through operationalising the vision, identifying target behaviours, designing measurement systems and developing approaches to reinforce positive behaviours.

Developing the Culture Change Plan

The wheel illustrates a cultural change plan along four dimensions: Development, Teamwork, Empowerment and Achievement.



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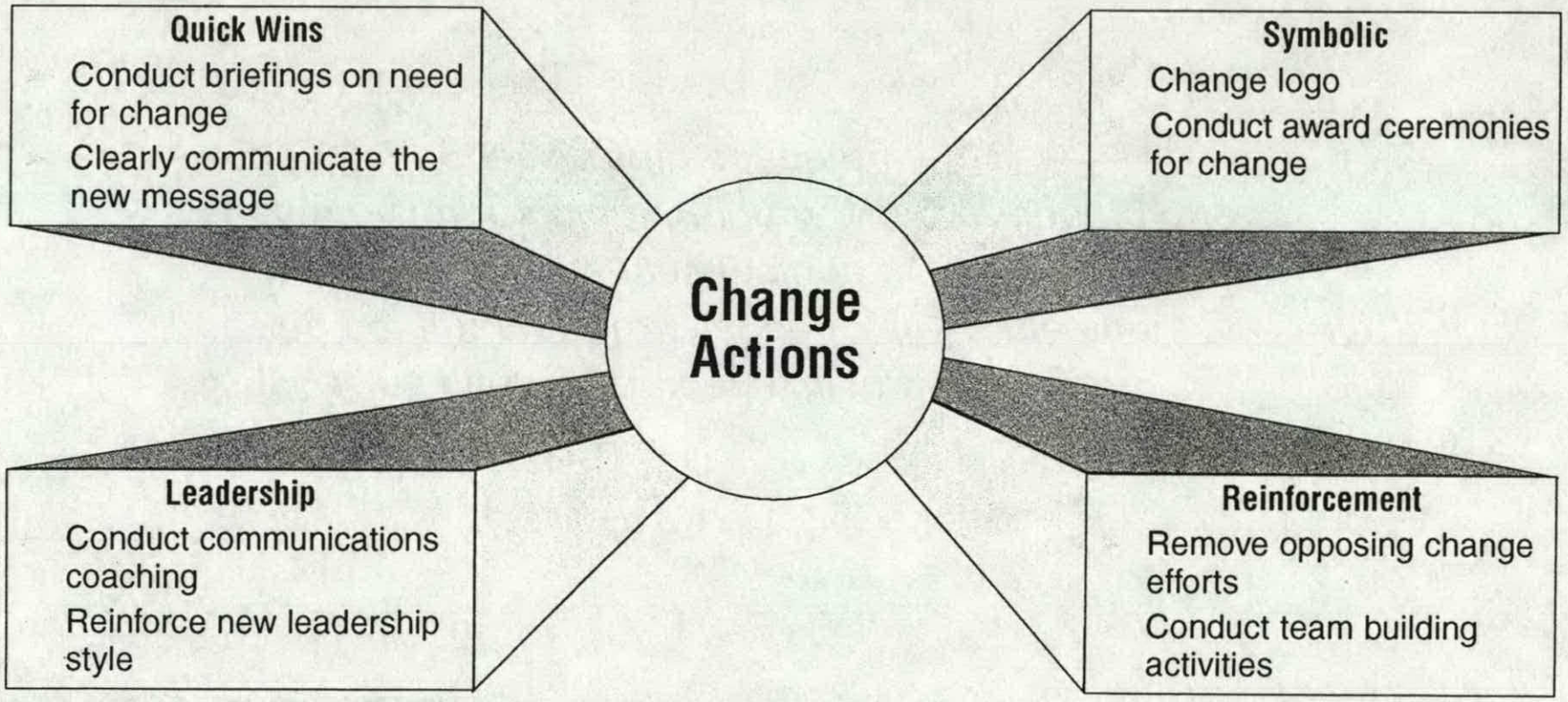
Implementing Culture Change

Quick Wins can be attained which demonstrate a strong commitment to change to all its members. Some of the actions may include symbolic changes, communications planning, removing opposing efforts and initiating leadership coaching.

Implementing Culture Change

Change actions at the organisation, process, and individual levels are used to influence behavioural change.



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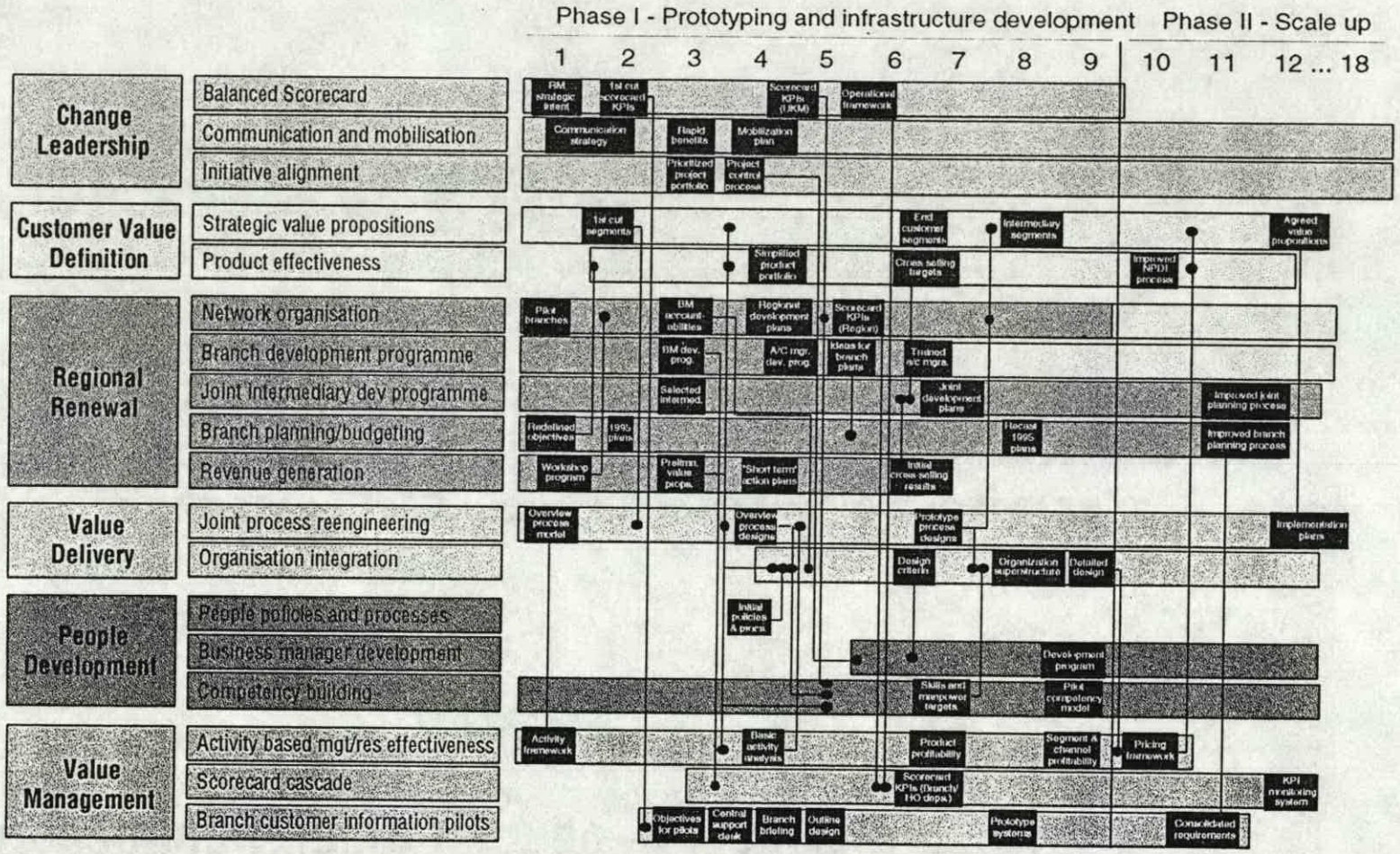
Implementing Culture Change — An Example

Developing the culture includes visible leadership capable of modeling new behaviours combined with an integrated roll out of actions to all workplaces.

Implementing Culture Change — An Example

Relationship Management — Integrated Change Plan



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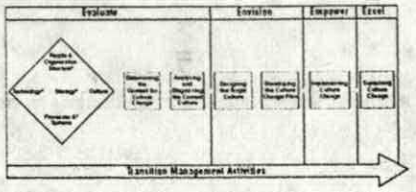
Sustaining Culture Change



Sustaining the change effort allows for the realisation of target benefits as well as the capability to achieve further improvements.

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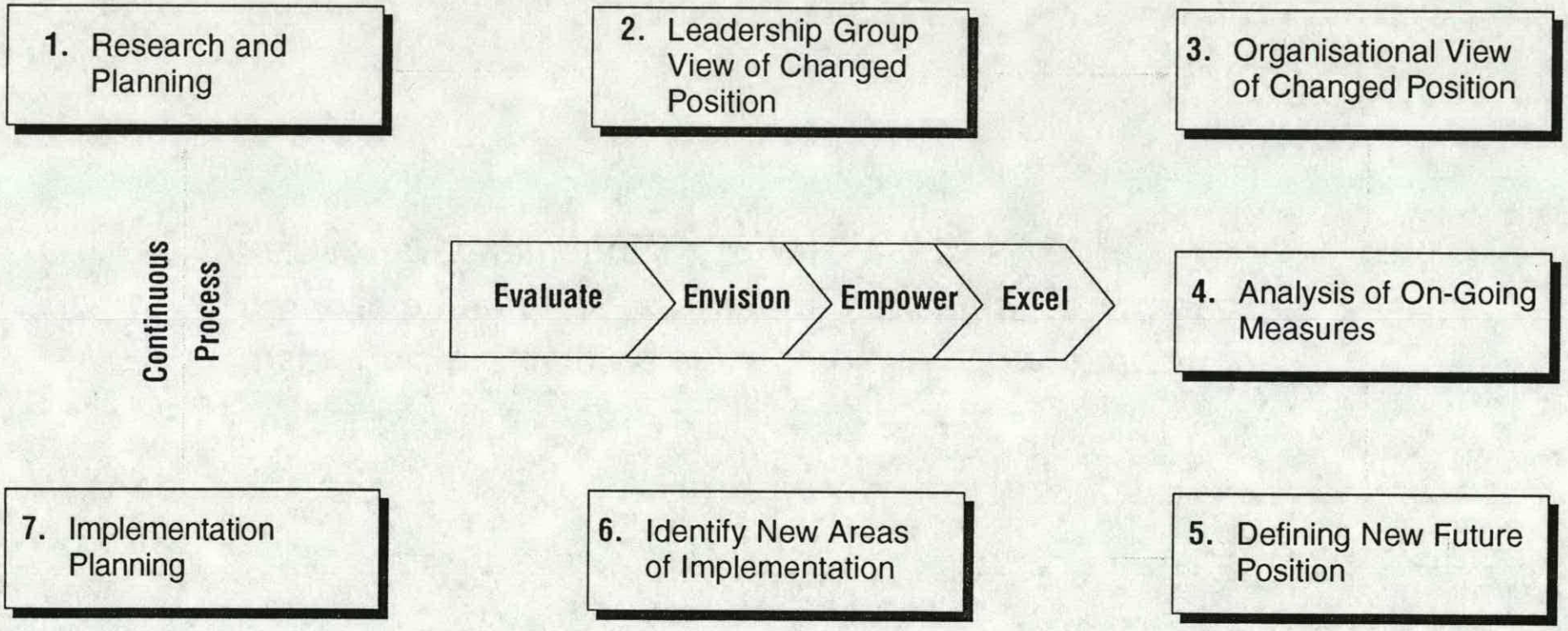
Sustaining Culture Change

The renewal cycle is designed to provide feedback for continuous improvement.



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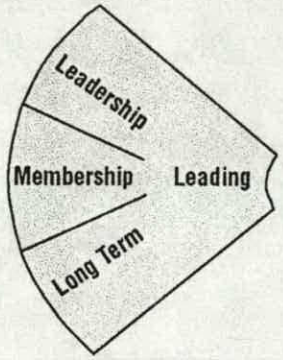
Sustaining Culture Change — An Example

Sustaining positive behavioural change can be reinforced through upward feedback. Evaluation activities identify if the management style is changing, reinforcing attainment of desired target behaviours and motivating movement toward new managerial behaviours.

Sustaining Culture Change — An Example

A culture change program transforms the way managers view their roles. To assist managers in this change process, an upward feedback technique may be used to track their progress toward target behaviours.



Leading

- When tasks were assigned to me, I understood clearly what was expected of me.
- I understood how my work fits into the overall objectives of the assignment.
- I was encouraged to make suggestions on the best way to carry out the work.
- I was kept informed of new developments, issues and changes in deadlines.
- I had freedom to make the necessary decisions to do my work properly.
- I felt I was a member of a well-run team.

Results You Can Expect

Results You Can Expect

Changes in business direction, structure and operation typically demand changes in the behaviours of those who work within the business. Traditionally, organisations have been able to tolerate the disruptions caused by slow changes in these behaviours. However, the rate, volume and complexity of changes required to compete in the 90's demands that we manage change more effectively.

Results You Can Expect

Results you can expect include:

- Alignment of culture to strategy, structure and systems
- Senior management more in tune with organisational capabilities
- Shared ownership and commitment to change
- Team focused problem solving
- Improved capability to manage future change

Top Implementation Issues

Top Implementation Issues

The implementation plan for a cultural change programme is designed to bridge the gap in skills, behaviours and attitudes. The plan provides the opportunity to integrate change issues with current initiatives by involving business units to achieve common purposes, develop organisational capabilities and share in the ownership of the change programme.

Top Implementation Issues

Pitfalls		Delivers
Major problems not previously identified surfaced during implementation	➡	Seasoned team conducts comprehensive diagnosis
Coordination of implementation activities was not effective enough	➡	Integrated approach driven through plan
Competing activities and crisis distracted attention from implementation	➡	Roles and time commitments agreed to in advance
Capabilities of employees involved were not sufficient	➡	Teamworking and skill transfer built into process
Leadership and direction provided by departmental managers was inadequate	➡	Buy-in and commitment sought at all levels through involvement and a targeted communication plan

MULTI

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Corporate Culture: Definition

The way we do things around here...

Culture is a pattern of shared beliefs learned by the members of a group

Resulting in day-to-day actions that are consistent and predictable--norms and behavior

How to Change Culture

- Behaviors
- Attitudes
- Values
- Beliefs

The Kotter and Heskett Studies
Linked Corporate Culture to Performance

- Between August 1987-January 1991 conducted 4 studies. Their question:

Does corporate culture affect long term economic performance?

Their Methodology

- **Study 1:** Studied 207 of the largest firms in 22 industries--does strength of culture affect performance?
- **Study 2:** Examined 22 of those firms in greater depth--what do the most successful do that differentiates them from the least successful?
- **Study 3:** Closely examined 20 firms that had cultures that hurt economic performance
- **Study 4:** Studied 10 firms who dramatically changed their culture in recent past and benefitted economically

Their Methodology

Assessed each company's...

financial performance from 1977-1988

- Avg. yearly increase in net income
- Avg. yearly return on investment
- Avg. yearly increase in stock price

culture strength

- Created an index of perceived strength by outsiders and insiders as having a particular style-a way of doing things

Study 1: Strong Cultures

- Seen as having a very particular way of doing things
- Often have a mission statement or creed
- Culture outstays its CEOs
- Only some correlation with performance--depends on what kind of culture is being promulgated

Study 2: Strategically Appropriate Cultures

What separates those highly successful companies from the rest is:

- Content of culture--not strength of culture
- Cultures that are responsive to industry changes
- Cultures that specify the behaviors/actions needed to achieve a strategic direction

Study 3: Low Performing Cultures

Began with a visionary--strong leader

- Achieved dominance in some markets due to unique offerings
- Had limited competition…

Causing them to...

- Develop arrogance
- Not value customers or employees
- Stifle any new ideas, new leadership
- Become rigid and unwilling to change

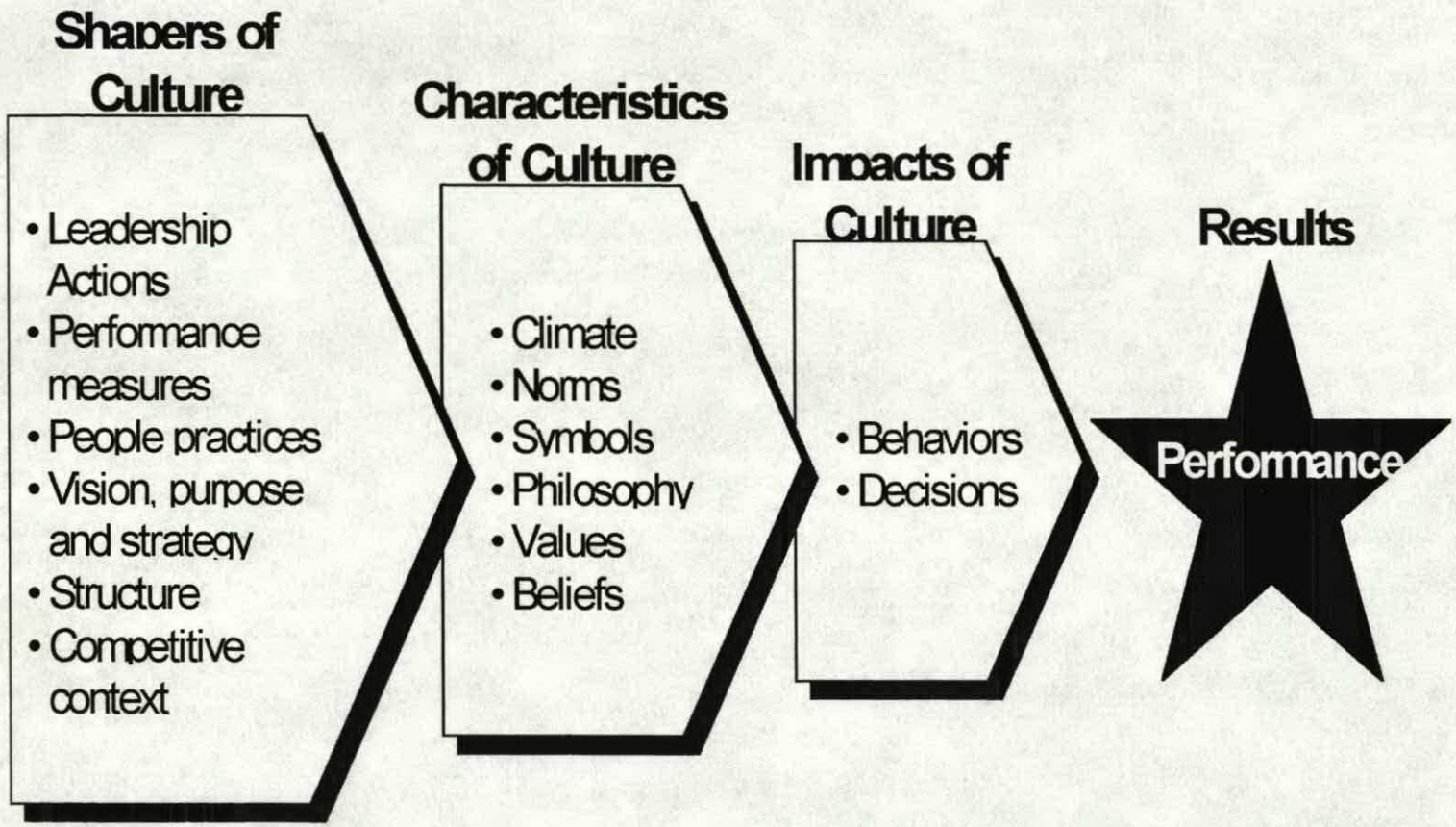
Study 4: Companies who Initiated Major Culture Change

- Adapted to changing industry conditions
- Valued customers, employees and shareholders
- Spread leadership far down into the organization
- Exhibited behavior patterns that fit the real needs of the business
- Placed competent leadership at the top

11 Characteristics of An Adaptive Culture

1. Willingly make changes in culturally engrained behaviors
2. Emphasize problem identification and problem solving
3. Focus on innovation
4. Build confidence about change opportunities
5. Build trust with constituents: employees, customers, shareholders
6. Take risks
7. Create a spirit of enthusiasm--do whatever it takes to succeed
8. Communicate openly and candidly
9. Demonstrate flexibility
10. Speak and act consistently-- words match actions
11. Focus on the long term

Shapers of Culture



Putting People First at British Airways

- Changes at BA
  - BA deeply rooted in British Royal Airforce culture--militaristic, autocratic
  - Deregulation of international air traffic--air fares set by marketplace, BA spun off from Government
  - 80s: Sir Colin Marshall, President and CEO arrived from Avis Rent-A-Car: charged with authority to change BA so it could survive

Putting People First at British Airways

Old Culture

- BA="Bloody Awful"
- Serve with distinction as UK's flagship airline
- Bureaucratic and militaristic

New Culture

- BA="Bloody Awesome"
- Become the "World's Favourite Airline"
- Service oriented and market driven

Putting People First at British Airways

- Steps taken:
  - Reduced workforce from 59,000 to 37,000
  - Developed a strategy focused on marketing and superior customer service
  - Transformed the culture through a series of HR programs that shifted the culture to a service orientation
  - Transformed the Accounting and Finance functions to help managers understand competition in marketplace

Putting People First at British Airways

- **Putting People First:** Vision launched with a 2-day event helping all employees understand the service nature of the airline business. Delivered to 40,000 employees over 2 years
- **Managing People First:** 5-day residential program to help managers manage their people in a service driven manner
- **The Three-Legged Stool**
  - Seat: Customer Service
  - Leg 1: Managing People First program
  - Leg 2: Performance Appraisal (based 50% on achieving results and 50% on HOW results were achieved)
  - Leg 3: Pay for Performance (rewarding managers for their ratings in Leg 2)
- **HR Consulting Skills Program:** To help line managers apply what they learned in MPF in their day-to-day operating environment

Putting People First at British Airways

- Putting People First Program
  - Survival of BA was dependent on CARING--
    - caring for yourself
    - caring for your colleague
    - caring for the customer
  - Removed symbols of rank, random assignment to small problem solving groups (pilots, managers, front line people were all in it together) dedicated to resolving some aspect of airline performance
  - Colin Marshall personally "closed" all PPF programs and laid out the new vision. Focused people singlemindedly on satisfying the customer

Steps To A Service Culture

- First Start with Customers:
  - Create The Burning Platform
    1. Use mechanisms to understand their needs and their perceptions of you, your product and your performance
    2. Put in place mechanisms to track customer feedback
    3. Integrate customer feedback into your performance measurement scorecard
    4. Communicate the need for change to meet raised customer expectations

Steps To A Service Culture

- 2. Can't Treat Your Customers Better Than Your Employees
  - Use survey mechanisms to understand employee perceptions
  - Confront issues that affect their ability to do their jobs and serve the customers
  - Eliminate dysfunctional management practices

Steps To A Service Culture

- 3. Craft your vision of the future customer service driven organization
- 4. Communicate your vision -- many ways, many days.
- 5. Do something symbolic--bust some norms
- 6. Plan for necessary changes in programs/policies -- all aligned with strategic change: Leadership training, performance measurement
- 7. Assign change agents to the change initiatives
- 8. Track your progress, communicate wins

The Culture Change Program

- Senior Executive team to articulate envisioned culture--shared values
- Launch communications plan throughout organization--linking corporate culture to strategic direction
- Establish a formal leadership program throughout the organization giving leaders and managers an opportunity to review their actions/behaviors against the values
- Revamp performance measurement system to reflect/reward demonstration of shared values
- Revamp HR recruiting, orientation, development and evaluation practices to incorporate shared values

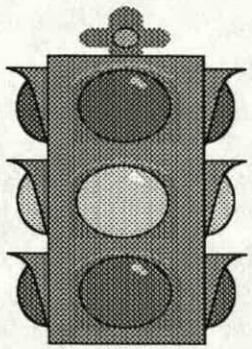
Small Group Exercise #1:

In trios: take some time to do the following:

Make 3 flip charts and list what **behaviors** *do we want to:*

Stop

Start



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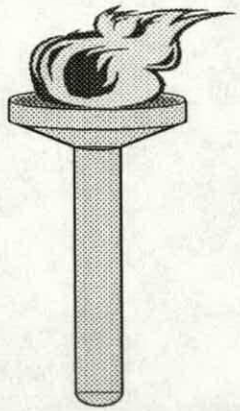

To Ensure That We Are a Responsive Culture

In trios, answer the following questions.

What do we want:

- Our associates to say about us?
- Our customers to say about us?
- Our competitors to say about us?
- What behaviors do we want to see at the leadership level?

Crafting a Strategically Appropriate Culture

- In trios, examine the culture lists and refine the behavior statements further. Do they "fit with" and support our strategy?
- What changes would you make to the behaviors listed?

Envisioning a Target Culture

- BHAG: Big, Hairy, Audacious Goals
- Cultural visions paint a vivid picture of what it would be like to achieve the goals you've established

HBR, 1996, Collins and Porras, "Building Your Company's Vision"

Examples of Strategically Appropriate Cultures

Merck's Purpose:

- To preserve and improve human life

Merck's Culture:

- Science-based innovation
- Honesty and integrity
- Corporate social responsibility
- Unequivocal excellence

More Examples

Walt Disney's Purpose:

- To make people happy

Walt Disney's Culture:

- Preservation and control of the Disney magic
- Creativity, dreams and the imagination
- Nurturing of "wholesome values"
- No cynicism

Cultural Visions are Vivid Descriptions

- "We will create products that become pervasive around the world"
- "We will succeed with innovations that others have failed"
- "Fifty years from now our brand name will be universally known for innovation and quality"

Group Activity

- If you were drafting your vision statement, what vivid descriptions would you need to include?
- What are the words or phrases that would pull at the heartstrings of your associates?