

NOVEMBER 2014

Strategic culture change



Business changes are constants nowadays, as accelerating technology, economic volatility, and globalization mean the days of business as usual are over. In response, many businesses have had to pivot, innovate, or rethink their strategies completely.

But leaders are finding that in some cases, those steps are challenging or even impossible to accomplish without changing the culture that underpins the organization. A change in strategy could require a change in the whole culture mind-set of the company: "the way we do things around here." However, executives must own and engage in the process.

Only by such ownership and engagement can leaders ensure their business is fully aligned and that they have the right organizational structure, the most-relevant systems, the best management practices, and the brightest talent in place to move forward.

WHAT DO WE MEAN BY CULTURE?

An organization's culture largely comprises a set of intangibles: the shared beliefs, values, and assumptions that no one questions day to day but that profoundly affect how the people inside the organization think, behave, and react.¹ If leaders want to improve performance or accelerate innovation, for example, they may need to move people from acceptance of one set of shared values to acceptance of a new set, so that they will think and behave differently.

How do companies change those shared values? or their culture mind-sets? What are the levers for culture change?

¹ E. H. Schein. *Organizational Culture and Leadership*, 2nd ed. San Francisco: Jossey-Bass, 1992.



The outside person can skillfully promote good processes so that the team can become better able to grapple with a complex organizational challenge.

The external environment—particularly, an organization's industry—deeply influences that organization's culture. But because it is nearly impossible to change that broader context, it is crucial to identify which internal levers can be pulled to modify culture. The most powerful lever is leadership itself.² And in turn, leadership can cause changes in other important levers in the organization's design, including strategy, systems, structure, and management practices.

THE ROLE OF THE LEADERSHIP TEAM

The role of senior leaders in culture change cannot be overstated. Although tactical plans and work streams can be delegated, leadership must take ownership of up-front alignment work and continued sponsorship. As a first step, the CEO and executive team must work together to create a shared understanding and direction. They also need to tackle the way the organization is designed, if they find that reward systems, for example, or even the structure itself fails to support, or indeed even opposes, the kind of culture needed to reach the new goals or apply the new strategy.

Once they're aligned on the way forward, the executives become the culture carriers and have the following responsibilities:

- Cascading the alignment process through the management ranks
- Explaining the reasons for change
- Communicating the vision
- Outlining what will be involved in effecting change
- Maintaining an active sponsorship role for the work involved in the new strategy, the new goals, and the organizational design changes

This will mean learning on the job. A leadership team that is intentionally and actively learning as it goes along is much more likely to fail fast by catching problems quickly and immediately adjusting; a learning leadership team is also much more likely to pick up and reward early new behaviors and in doing so, model the behaviors of high-performance cultures.

Plus, to keep on top, leaders need to stay in touch with the organization's external stakeholders by seeking feedback, experimenting, and scanning for both mistakes and successes.

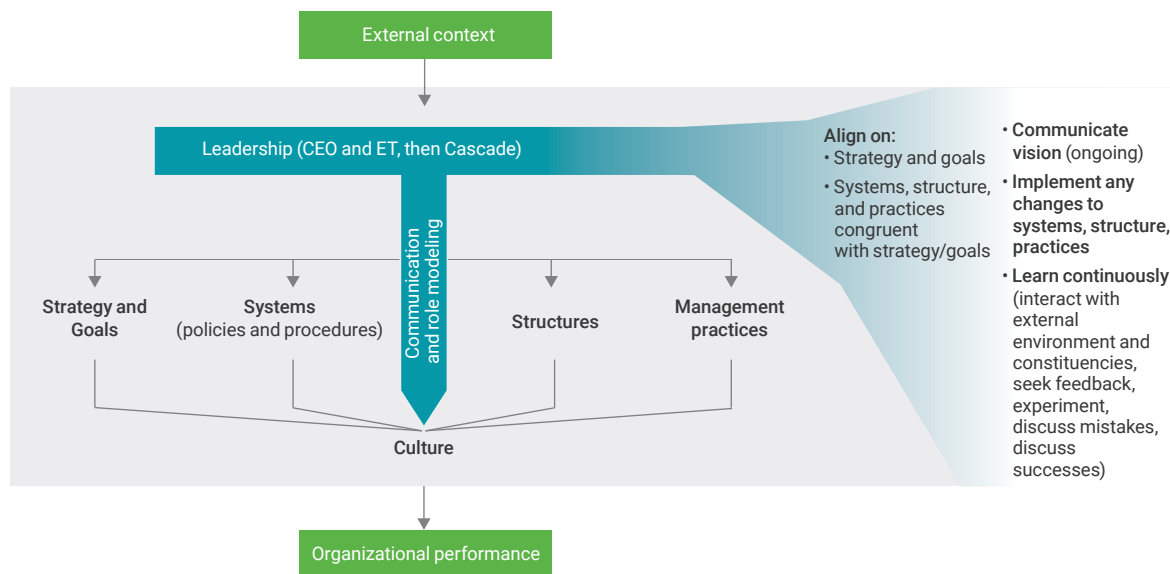
DRIVING ALIGNMENT

Figuring out the strategy and changes needed to support a new direction is tough enough, but getting everyone on board and aligned can be even tougher. A joint process for developing a shared mind-set within the leadership team itself is essential. If executives engage in this collaborative work, commitment to the process throughout the organization will be more robust. A shared mind-set about what kind of culture would best support the company's future direction serves as a means whereby leaders can ensure that systems, structures, and management practices are in line with strategy and goals. Thinking systemically like this is vital if leaders are intent on changing the company's culture.

If a leadership team isn't already good at managing the kind of robust but messy dialogue that considers divergent perspectives before arriving at a shared view, then it should consider bringing in an outside facilitator or team coach. The outside person can skillfully promote good processes so that the team can become better able to grapple with a complex organizational

² W. W. Burke and G. H. Litwin. "A Causal Model of Organizational Performance and Change." *Journal of Management* 18(3) (1992): 523–545.

FIGURE 1: TRANSFORMING CULTURE THROUGH LEADERSHIP



challenge such as aligning systems in support of a new culture. Moreover, promoting effective team processes and alignment stimulates improved team performance in general.

WHAT SHOULD THE NEW ORGANIZATION LOOK LIKE?

Once the leadership team has done the hard work of agreeing on a new direction and on the culture required to support that direction, the team will be ready for the next stage, which is assessment of the degree to which the existing organizational design is already aligned with desired culture changes. Organizational design includes structures, systems, and management behaviors. Do they support the desired culture—or do they need to change? Changes to those variables can prompt shifts in the culture—influenced, of course, by the behavior of and communication from the leadership team (figure 1).

As an example, a medical device company experienced a drop in sales across a diverse range of its products and realized it needed to shift from a product-focused sales strategy to a customer-focused sales strategy. Some of the salespeople were selling operating tables to surgeons, and others were selling anesthesia systems to anesthesiologists. The company knew it needed to meet a health system’s multiple needs through one sales rep or an integrated sales team. And it had to navigate product-review committees and procurement departments. This change in sales strategy required a major culture shift: from a competitive, individualistic

culture built around one-to-one relationships to a collaborative, strategic culture built around client systems. To support that change and that culture shift, the sales force was restructured, and targets were changed from individual-only targets to a mix of individual and shared targets. Rewards followed suit.

In addition, management talked frequently about its vision of a sophisticated, integrated company and the specific behaviors needed to achieve it. There was some attrition because of the new sales skills required, but over time, new values and behaviors took root. More-complex sales lengthened the sales cycle, but volume and revenue per sale increased significantly, and the company reversed its declining numbers, even as the culture was transformed.

We will now examine **structure, systems, management practices**, and **talent** in more detail as well as the key questions around each for leaders to consider.

Structure

An effective structure is crucial: it stipulates where decision-making authority lies, sets forth levels of responsibility, and implements the communication networks through which information gets shared and work gets done. No one structure fits all, so leaders must consider their own company’s unique requirements in light of their current setup.

Questions to answer about structure

- How are we currently organized, and what would be the optimal arrangement to support our new strategy and goals?
- What are the essential roles currently, and what would be the major roles for the new work that will be required?
- How is work managed today, and how would future work best be managed?
- Who has power and authority now, and who should have it to promote the new goals?

Leaders should take a look at frameworks that have helped support change in other organizations, with an eye to whether any are applicable to their own company. For example, research has shown that so-called ambidextrous organizations may be effective for hosting innovation streams, which include both incremental innovations in existing products and, simultaneously, more-disruptive innovations. Organizations designed this way also tend to perform better at improving innovation outcomes than do organizations with functional, cross-functional, and spinout designs.³

For example, a company could dedicate some units to exploitative work, structured to emphasize efficiency, and other units could focus on exploratory and experimental work. The units would be separate and differentiated so as to avoid the emergent units' becoming overly influenced by the dominant, exploitative units. Broader integration would be driven at the senior team level.

Another approach to structure for innovation is to ask, first, how well the new project fits with existing processes, and second, how well it fits with prevailing values (e.g., the criteria for setting business priorities). The range includes "poor fit" to "good fit," which determines position in the organization (e.g., "autonomous" or "part of the mainstream organization") and type of team needed.⁴

Questions to answer about systems that support strategic culture change

- How do we make decisions currently, and is this adequate to support the new outcomes we require?
- How are goals and budgets developed? Does the current approach support the new goals?
- How are individual and team goals set? How is performance measured and rewarded? Are the mechanisms adequate to support our culture strategy?
- What is the current resource-allocation process, and what is it reinforcing? Will that same process and the criteria for making decisions support—or inhibit—the outcomes we intend? What would an ideal process look like?
- How is information shared? What are the implications of this? How should information be shared to promote desired behaviors and results?
- What behaviors, responses, and priorities do our systems reinforce, and is that what we need going forward?
- What is the impact of those various systems on employee morale, engagement, and creativity? What systems would best harness the thinking and in some cases, the increased flexibility we need to support our goals?

For example, an initiative that is a good fit with both the existing processes and values would merit a mainstream organization's using a functional team, whereas an initiative that is a poor fit with both processes and values would merit autonomous organization with a heavyweight development team.

Another way of changing the company structure to support strategic culture change is to colocate different functional teams so as to promote collaboration. For example, colocating development personnel and manufacturing personnel can lead to more favorable manufacturing outcomes, including performance enhancement and higher yield. Another benefit is speedier shared learning.⁵

³ M. Tushman, W. K. Smith, R. C. Wood, G. Westerman, and C. O'Reilly. "Organizational Designs and Innovation Streams." *Industrial and Corporate Change* 19(5) (2010): 1331–1366.

⁴ C. M. Christensen. *The Innovator's Dilemma: The Revolutionary Book That Will Change the Way You Do Business*. New York: HarperCollins, 1997.(1992): 523–545.

⁵ J. T. Macher and D. C. Mowery. "Managing Learning by Doing: An Empirical Study in Semiconductor Manufacturing." *Journal of Product Innovation Management* 20(5) (2003): 391–410.

Questions to answer about management practices

- How do managers behave today, and is this aligned with our direction?
- What specific behaviors do managers engage in that promote or inhibit the behaviors and values we want to see in our employees and culture?
- What are managers communicating explicitly? What are managers communicating implicitly—even without being aware of it—through modeling and the choices they make?
- How aligned are all managers with the strategy and change effort? Does it need to be corrected?

Questions to answer about talent and capabilities

- What talent is needed, and how do we best use our talent?
- How can we make best use of teams and groups both separately and interdependently?
- How are we selecting, developing, and promoting managers and leaders? What experiences do they have to have had in order to be successful in our new reality? How can we select for and/or develop those experiences? What training might managers and leaders need to more skillfully leverage their people in support of the strategy?

So, there are a range of options that can be applied either across an entire organization or differentially across units; the important point is that leaders engage in a process that thoroughly explores all of them in light of the organization's specific context and goals. That exploration process will deepen leaders' understanding, broaden their perspectives, and, as a leadership team, align them on what's best for their company. The process in itself provides a mechanism for dealing with complexity beyond anything any one leader could alone manage in today's organizations.

Systems

When we talk about systems we mean the policies, procedures, and mechanisms that facilitate the work we do. Systems—including performance management systems, compensation and reward systems, information systems, and the budget development process—are clearly connected to culture because they promote certain behaviors and discourage others.

Xilinx Inc. offers an example of a system that supports innovation. Every year, the company holds an Innovation Day, which gives company engineers the chance to present innovative business plans to an evaluation board—and, potentially, to the executive staff. The winning proposals get funded and staffed, sending a powerful message to employees about the level of company support for innovators.

If the leadership team is willing to be open about its own opinions and assumptions that are aspects of the existing culture, the team will become more aware of

its own, unintended role in maintaining the status quo. And simply working through each of these questions will equip leaders with the rationale for change that they need to be able to explain to employees. Many employees may have a perfectly normal, cautious response to change if they don't understand the reasons for it. But once they see the connection between current systems, prevailing behaviors, and disappointing results, they might get on board more readily.

Management practices

Management practices are the things managers do day in and day out to make sure employees get the job done. Managers are important in both individual and team outcomes: what they say and do can either support or block a desired culture and the behaviors the culture supports. Managers are key sources of information, and they communicate a company's vision and goals through a cascading leadership network. They are culture carriers in much the same way as the executive team is. For example, managers have key roles in developmental cultures by coaching and promoting career development. Key management behaviors include supporting specific changes and goals and modeling the behaviors expected of employees, such as exploration, experimentation, and feedback.

Collaboration and cross-fertilization of ideas are also common culture-related goals in contemporary organizations. Managers can play important roles in modeling collaborative behavior and explicitly encouraging and rewarding it. And they're vital in promoting team-level processes—for example, by setting

team goals related to the strategy, by communicating the vision, and by promoting cohesion. Alignment is as important among managers as it is among members of the senior teams: managers can promote a shared understanding of one another's skills, experiences, knowledge, roles, and potential contributions.

IBM provides a good example of the value of management practices like these. Examination of a high-performing IBM R&D team identified two main influences on the team's success: commitment and community. Those cultural attributes were heavily influenced by (1) managers' recognition of individuals and (2) managers' development of a shared technical agenda.⁶

Talent

All of the foregoing would amount to nothing without the talent to achieve change. That talent consists of the people on the teams, who carry out the work; the managers, who nurture the environment; and the leaders, who set the strategy, communicate the vision, model the behaviors, and align the organization. The war for talent means many companies are forced to (1) strive to be great places to work and (2) create cultures that not only grow business but also grow people.

The recruitment choices leaders make should be governed by the type of culture they're seeking to nurture:

- A high-performance team culture must hire people who not only are high achievers and technically excellent but also have solid team process skills like conflict management.
- A more customer-centric culture looks to hire people with emotional intelligence and the ability to see an issue from multiple perspectives.
- An innovation culture seeks to hire creatives who have flexibility, persistence, and learning agility.

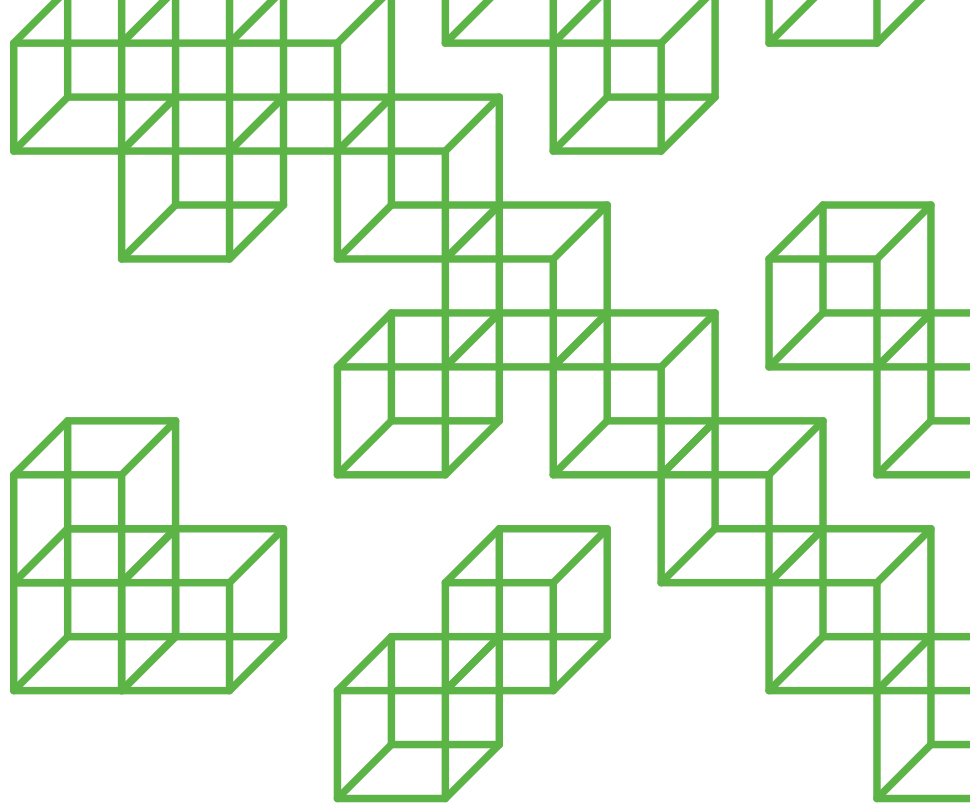
Plus, company leaders should form and develop teams while keeping the desired culture change in mind. For example, an organization promoting innovation would want to draw on such team skills as collaboration, problem solving, and the ability to diverge and converge in group dialogue.

Leaders have to remember it's not just executing the strategy that is important but it's also promoting the culture to further that strategy, which could involve leading the culture change and keeping the whole organization aligned throughout.

TRANSFORMING CULTURE

The extent to which an organization will have to change its culture to support a new strategy will depend on where the organization is starting from: clearly, the greater the gap between where the entity is now and where it wants to be will affect the level of transformation. Root and branch change in underlying values and beliefs is a huge project, not least because values and beliefs are held in place by so many interconnected forces within the system. Attempting culture change simply through a new strategy, a vision statement, or a human resources initiative will only end in failure. The fundamental changes required and sustained attention to the change over time demand the active engagement and leadership of the CEO and executive team first and foremost. Successful culture change leaders implement new values and beliefs not just by their own behavior and communication but also by mechanisms that promote or inhibit behavior in the organization. Working together as a team to mold and apply mechanisms for the good of the future business is a key role of leadership. **A**

⁶ L. J. Daniel and C. R. Davis. "What Makes High-Performance Teams Excel?" *Research Technology Management* 52(4) (2009): 40–45.



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