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Culture's role in enabling organizational change

Survey ties transformation success to deft handling of cultural issues

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Contacts

Berlin

Carolin Oelschlegel
Principal
+44-7825-67-6472
carolin.oelschlegel
@strategyand.pwc.com

Buenos Aires

Ariel Fleichman
Partner
+54-11-4131-0432
ariel.fleichman
@strategyand.pwc.com

Delhi

Gaurav Moda
Principal
+91-124-499-8719
gaurav.moda
@strategyand.pwc.com

Dubai

James Thomas
Principal
+971-4-390-0260
james.thomas
@strategyand.pwc.com

Mexico City

Carlos Navarro
Partner
+52-55-9178-4209
carlos.navarro
@strategyand.pwc.com

New York

Rutger von Post
Partner
+1-212-551-6090
rutger.vonpost
@strategyand.pwc.com

San Francisco

DeAnne Aguirre
Senior Partner
+1-415-653-3472
deanne.aguirre
@strategyand.pwc.com

Shanghai

Tony Tang
Principal
+86-21-2327-9800
tony.tang
@strategyand.pwc.com

Sydney

Varya Davidson
Partner
+61-2-9321-2820
varya.davidson
@strategyand.pwc.com

Tokyo

Kenji Mitsui
Partner
+81-3-6757-8692
kenji.mitsui
@strategyand.pwc.com

About the authors

DeAnne Aguirre is a senior partner with Strategy& based in San Francisco. She is the co-leader of the global Katzenbach Center and an expert in culture, talent effectiveness, leadership, and change management. She advises senior executives globally on organizational topics.

Rutger von Post is a partner with Strategy& based in New York and is head of the Katzenbach Center in North America. He specializes in culture transformation and organizational design and effectiveness in the financial-services industry.

Micah Alpern is a senior associate with Strategy& based in Chicago and is a member of the Katzenbach Center's operating team. He is an expert in culture transformation and change management.

Executive summary

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For all the money and effort that go into corporate change initiatives, they have a decidedly mixed success rate. Only about half of transformation initiatives accomplish and sustain their goals, according to a survey on culture and change management by the Katzenbach Center.

Among the biggest obstacles to successful change are "change fatigue" (which occurs when workers are asked to follow through on too many changes at once) and a lack of the capabilities needed to make major changes last. Sixty-five percent of survey respondents cited change fatigue, and only about half felt their organization had the capabilities to deliver change. Another problem is the tendency for management to exclude lower-level employees in developing and executing the change plan.

The role of culture was a particular focus of the survey. Although 84 percent of all respondents think culture is critically important, a far smaller percentage (less than half) believe their companies do a good job of managing culture. The same respondents who see their companies' change programs as falling short tend to say that culture isn't a priority in their companies' transformation initiatives.

The survey points to the need for companies to take a more holistic approach to change and to find ways to work with and within the organization's culture during change initiatives. This is not to say that culture-enabled transformation removes the need for formal change management processes or techniques. It doesn't. But it does mean that leaders need to rethink how to drive and sustain change if they want to materially increase the success of their transformation programs.

Why transformations typically fall short

When they embark on transformation efforts, companies put their credibility and reputations on the line — not to mention a lot of financial capital. Are the effort and money well spent? A wide body of literature suggests that many change initiatives fail, typically in areas such as process improvement, cost reduction, digitization, and quality improvement. Even when they initially succeed, their benefits may not last.

To learn more about what goes wrong with transformation efforts and what might be done to make them more successful, the Katzenbach Center conducted a survey of more than 2,200 executives, managers, and employees (*see Methodology, page 11*).

Transformation efforts face three major obstacles, according to the study. The first is "change fatigue," a dynamic that comes into play when employees feel they are being asked to make too many changes at once. Sixty-five percent of survey respondents say they have experienced some form of change fatigue. The second obstacle relates to companies' skill at driving transformation; 48 percent of respondents say their companies don't have the necessary capabilities to ensure that change is sustained. The third issue is the way transformation initiatives are selected, planned, and implemented — by senior managers, without much input from lower-level employees. This limits understanding and buy-in. When asked to select the top three reasons people resist change, 44 percent of employees say they don't understand the change they're being asked to make, and 38 percent say they don't agree with it.

When employees are faced with too many change priorities, aren't sure how to proceed, and aren't even sure that an initiative is good for the organization, they take a wait-and-see attitude, looking to their bosses for direction and to their co-workers for clues about which aspects matter the most. This sort of uncertainty, deep down in an organization, can keep a change initiative from gaining momentum. (A later-stage obstacle to change comes in the form of the "boomerang effect," in which initial changes start to fade when leadership stops paying attention and moves on to other priorities.)

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A change plan may be especially hard to implement if employees see the transformation as being contrary to the company's culture — to the many things, such as feedback and peer and manager behavior, that determine (as people often put it) "how we do things around here." It is for these reasons that a high proportion of change initiatives fail. Only a little more than half of all respondents — 54 percent — say change initiatives at their companies are adopted and sustained.

Turning to culture, it is clear that people understand its importance. Eighty-six percent of C-suite executives and 84 percent of all managers and employees say culture is critical to their organizations' success, and 60 percent see it as a bigger success factor than either their strategy or their operating model (*see Exhibit 1*). Still, culture doesn't seem to be a priority when companies are trying to drive change, and a deeper analysis of the data — pinpointing culture's place in successful change programs and its place in unsuccessful change programs — reveals some striking correlations.

Exhibit 1
Key Findings - The Importance of Culture in Enabling Change

84%	…agree that their organization's culture is critical to business success
60%	…say culture is more important than strategy or operating model
45%	…do not feel their culture is being effectively managed
47%	…do not feel culture is an important part of the leadership team's agenda
51%	…think their organization's culture is in need of a major overhaul
44%	…say culture change should take less than one year
48%	…think, other than communications and leadership alignment, they do not have the capabilities to effectively deliver change
#1	…barrier respondents said prevents sustainable change is there are too many competing priorities, creating change fatigue
#1	…reason respondents resist change is they are skeptical due to past failed change efforts
#2	…reason respondents resist change is they do not feel involved in the change process

Source: Strategy& Global Culture and Change Management Survey 2013

In particular, when transformation initiatives fall short, it usually appears that corporate culture was an afterthought. Among the survey respondents who said the changes at their companies weren't adopted and sustained over time, only 24 percent said their companies used the existing culture as a source of energy and influence during the change effort. Only 35 percent of respondents who said change efforts hadn't succeeded saw their companies as trying to leverage employees' pride in, and emotional commitment to, their organizations.

By contrast, cultural levers were at least twice as likely to have played a role in change programs that had succeeded. Seventy percent of respondents who said change efforts at their companies were adopted and sustained also said their companies leveraged employees' pride in the organization and their emotional commitment. Fifty-six percent of respondents at companies where changes had worked said the existing culture was used as a source of energy and influence.

It seems clear that there's a disconnect between what many companies say about culture and how much they attend to it. Only about half of all employees say their leaders treat culture as a priority on a day-to-day basis. Fewer still (45 percent) say culture is effectively managed at their companies. A full 96 percent of respondents say some change to their culture is needed, and 51 percent think their culture requires a major overhaul. Putting all of this together, there would seem to be an opportunity, indeed a need, to evolve culture itself so that it can be used as more of a change lever and, in some cases, to have culture lead the transformation.

Leading change with culture

As an enabler of change, culture remains stubbornly underleveraged. Both the survey data and our years of experience observing a wide range of companies trying to transform some aspect of their business or operations suggest that culture is usually pretty far down the priority list.

Most business transformations are at least loosely based on an eight-step process first codified by John Kotter of Harvard Business School. In practice, many change programs disproportionately emphasize two of the levers he cites — communications and leadership alignment. Culture is the last step in Kotter's formula, something that can be addressed only after new practices have taken hold and proven their value. And as our data suggests, culture is often not addressed at all.

These priorities need to be rethought. This is not to denigrate traditional change levers — including top-level diagnostics, organizational design, performance management, metrics, and incentives. Depending on the change initiative, these may all be crucial. But a change effort needs to lead with culture as part of a more holistic approach if a transformation program is to have the best possible chance of success. In particular, the change needs to draw on whatever positive cultural attributes are embedded in the organization. It also needs to minimize any negative cultural attributes that might get in the way.

There are several levers that companies should employ as they use culture to lead transformation — or when they are trying to transform their own cultures. Among the most important are the following:

- *Culture diagnostic:* Before you can use culture in a transformation or change your culture, you need to know your culture's strengths and weaknesses. Effectively tapping into the strengths can give your change initiative the momentum it needs to overcome obstacles.

- *The "critical few" behaviors:* Setting a small number of clear behavioral change goals, which we call the critical few, is a

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crucial way of showing workers what you want them to do differently. By focusing on only a few behaviors, you avoid a situation in which workers become overwhelmed and as a result do nothing, hoping the new requirements will just go away (*see "Focusing on the Critical Few," page 9*).

- *Employee pride and commitment:* The odds of a successful transformation plummet when morale is bad. Companies must find ways to connect workers to something larger that they can believe in — including customer benefits or the satisfaction of beating a benchmark.

- *Informal peer networks and motivators:* Culture might start at the top, but it is reinforced at every level. Having a peer point out the benefits of change, instead of an executive or manager, is very powerful and leads to improved behaviors that continue even when nobody is looking (*see "The Power of a Peer," page 10*).

- *Storytelling:* How did we get here? At companies with strong cultures, there are usually widely known stories that answer this question, often about the boldness of a leader or some decisive moment in the company's history. These stories can be a source of pride and a natural way of reinforcing desired behaviors.

Focusing on the Critical Few

A strong example of putting the "critical few" concept into practice involves a global consumer and industrial company that wanted to change the culture in its financial shared-services organization. Morale at the organization was low. Employees tended to point fingers rather than accept responsibility and to be reactive in solving problems. The organization rarely looked into root causes, so the same problems kept cropping up again and again. Because of these issues, the financial shared-services group lacked the respect and trust of other departments in the company. A feeling that bordered on hostility hung over the organization's interactions with its internal partners.

The organization had a long list of new behaviors that it could have addressed. Instead, it focused on a critical few that everyone could remember and understand. Among them were taking ownership for results, soliciting and providing constructive feedback on performance-related issues, and treating an outsourcing firm with which relations had become contentious as a partner instead of an enemy.

Of course, it is one thing to set goals for a transformation and another to achieve them. Recognizing this, the shared-services organization broke down its short list of priorities into a set of specific behaviors that varied depending on the actor. The organization's leaders, for instance, were instructed to push employees to come up with longer-lasting solutions and to praise them when they did. Internal partners were asked to be respectful and collaborative when presenting issues. And the outsourcing firm — along with the shared-services organization's own employees — was encouraged to look for the root causes of problems as part of an overall effort to find longer-term solutions. In an upcoming phase of the change plan, that inquisitiveness will be formalized in a "Five Why" campaign, in which workers will be trained to ask why something has happened in five different ways, if necessary.

The change initiative is starting to reinvigorate the department and generate an enthusiasm that had long been absent. A competition for operational improvement ideas elicited 288 suggestions from people in the department. The ultimate vote of confidence came about a year after the transformation initiative started. In an internal survey, 70 percent of the staff said they believed that the new model for shared services was essential to making the department more efficient.

Change imperatives

Culture is not a shortcut to successful corporate change. Nor is culture-led transformation less rigorous than more conventional types of transformation — it involves just as much time and effort. Culture-led transformations require a fundamentally sound set of change objectives and discipline in the sense of setting priorities. Performing a culture diagnostic, identifying a critical few behaviors, capitalizing on employee pride and commitment, engaging in effective storytelling, and leveraging informal peer networks are just a few of the ingredients in the change recipe. We will dig more deeply into these and other factors in a subsequent paper.

The Power of a Peer

Informal peer networks help an organization take advantage of employee pride and emotional commitment. One way to utilize these networks during a transformation effort is to identify and leverage certain people as "pride builders." These are highly respected individuals, usually middle and frontline managers with leadership qualities who excel at helping colleagues feel good about their work. The role of pride builders during a transformation effort is to show how a new way of doing something connects to the bigger picture of the organization's goal. These individuals also encourage their fellow employees and direct reports to embrace the new behaviors and requirements and to take responsibility for meeting them. Finally, pride builders challenge others to come up with innovative ways to meet the new standards, and to spread those innovations and ideas throughout the enterprise.

The tactics employed by pride builders depend on the initiative and the audience, but it is often helpful for the tactics to go beyond the ordinary. Consider the case of a global technology company, which identified about 2,000 pride builders to help translate senior leadership directives into actions through a focus on the company's distinctive culture. Different tactics were used in different geographies. In Asia, the pride builders created a game show to remind employees of the company's many assets and cultural strengths. In Europe, the pride builders set up a photo contest focusing on the cultural attributes that were most important at the company. The company also held a global contest, in which senior leaders — and eventually all employees — were encouraged to make videos about the company's culture and how they tried to embody it every day. (The videos were voted on by employees.)

These and other tactics boosted employee engagement scores by roughly 12 percent in less than a year. They have also contributed to measurable improvements in a variety of areas where the company's performance had suffered, including product quality, market share, and top-line growth.
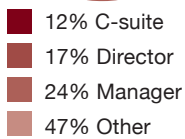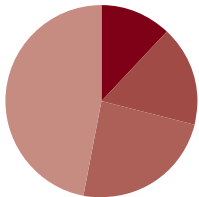
Methodology

The survey was conducted in May 2013 by the Katzenbach Center, through an online questionnaire. We received responses from 2,219 participants, with a variety of titles and from many different industry sectors (*see Exhibit A*).

Exhibit A

The survey drew more than 2,000 responses from participants in a range of industries and geographies

Seniority
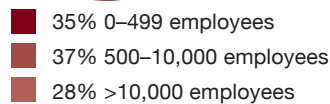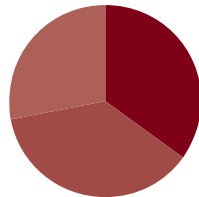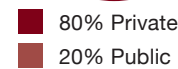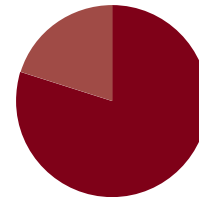
- 12% C-suite
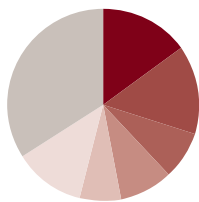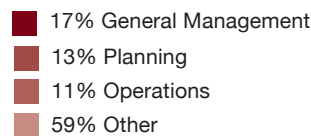- 17% Director
- 24% Manager
- 47% Other

Company Size

- 35% 0–499 employees
- 37% 500–10,000 employees
- 28% >10,000 employees

Sector

- 80% Private
- 20% Public

Industry

- 15% Retail
- 15% Consumer
- 8% Healthcare
- 9% Finance
- 7% Energy
- 12% Engineered Product Services
- 34% Other

Function

- 17% General Management
- 13% Planning
- 11% Operations
- 59% Other
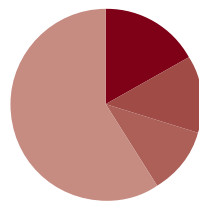
Region
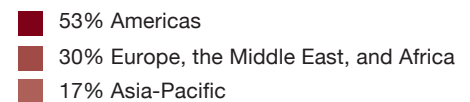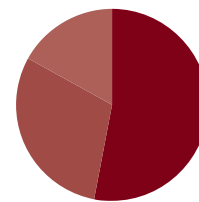
- 53% Americas
- 30% Europe, the Middle East, and Africa
- 17% Asia-Pacific

Source: Strategy& Global Culture and Change Management Survey 2013

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