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Understanding
Corporate Culture
and Culture Change

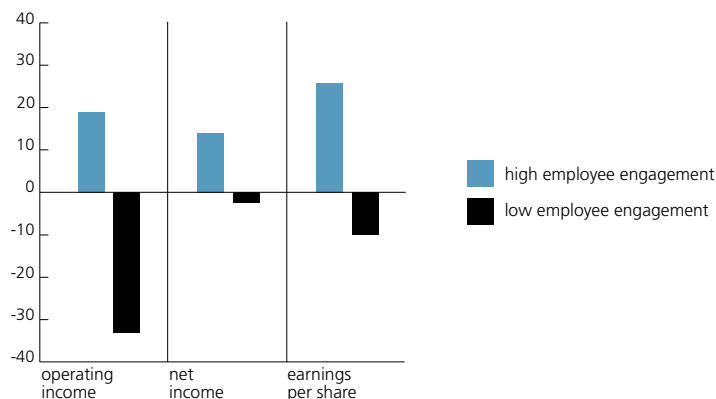
Thoughts and lessons
from 30 years of
experience helping
senior leaders
shift and reshape
corporate culture

John R. Childress, January 2009

“Late in the 1970’s when I began consulting on corporate culture and helping senior leaders reshape their organizations in response to competitive, technology or regulatory changes there was very little hard evidence that culture mattered to the bottom line of a business. Most CEOs just had a gut feel that culture was important. Today the evidence is overwhelming – culture matters!” John R. Childress

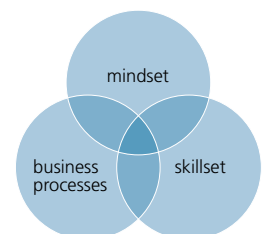
In a 2006 study by Towers Perrin, companies with high culture scores consistently outperformed those with low culture scores on a variety of business metrics. Professor Daniel Denison of the University of Michigan has studied over 1300 global firms, surveying various aspects of their corporate cultures and evaluating the impact of culture on performance (Fischer, C.J. 2000). Notable business academics including John P. Kotter of Harvard, Edgar Schein of Sloan MIT, Terrance Deal and Alan Kennedy have all written best-selling books on the importance of culture on business performance. Jack Welch talks extensively about how a negative or resistant culture can derail even the best business strategy.

People Power
 impact of employee engagement,
 % change over
 12 month period
 source: Towers Perrin 2006



In the 1980’s following the publication of Peters and Waterman’s best selling business book, *In Search of Excellence*, studies began in earnest on corporate culture. Most researchers focused on the behavioural elements in studying and defining culture. Teamwork, attitudes towards management and co-workers, feelings of empowerment and blaming others headed the list.

In everyday terminology corporate culture is often called the “personality of an organization”, or more simply “the way we do things around here”. More recently corporate culture is recognized as more complex than just the collection of shared employee behaviours. A more comprehensive understanding of corporate culture comes from recent work by **the principia project**, which takes into account not only shared behaviours (mindset), but also skills and business processes .



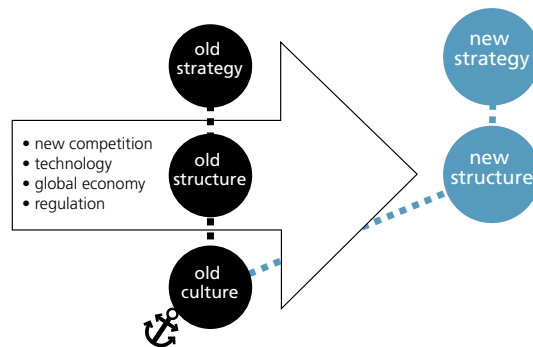
Many business change projects have failed because the old culture rewarded skills that are no longer appropriate in the new business environment. For example, many banks have lost the credit and risk analysis skills they once had in favour of sales and trading

“A negative or resistant culture can derail even the best strategy” Jack Welch

skills, causing major changes in their corporate cultures. Business processes, such as how performance is measured and evaluated, how employees are compensated, how work is organized (silos or cross-functional), have an enormous impact on corporate culture but are often overlooked.

A large proportion of my initial discussions with CEOs and senior executives about culture and its impact on performance seem to come during times of externally induced change (competitive, technology, economic or regulatory changes) where new strategies and corresponding shifts in organization structures must be implemented in order for the company to continue to win in the marketplace. While most businesses are quick to reshape strategy and to reorganize, very little attention is given to reshaping the culture. Yet it's almost impossible to effectively implement a new strategy and organization structure with an old culture, mainly because the mindset, skills sets and processes that suited the old strategy may not be appropriate for the new business environment. In many cases the old culture acts as an anchor and drags the process of change and strategy implementation to a halt.

During times of change an old culture can act as an anchor hindering the change process.



So, if culture matters so much to the bottom line, why is it so difficult for executives to deal with? For three very important reasons:

- 1 **Culture's just not on our radar screen.** Most senior executives are not skilled or trained to deal with culture, having been schooled almost exclusively during their careers in functional excellence and traditional business metrics.
- 2 **Familiarity Blindness.** Executives who have spent several years inside an organization become blind to the culture, mainly because they are a part of it. It's akin to the notion that fish don't have a concept of water since they are always in it! Executives coming in from the outside can tell you exactly what the new culture is like, but soon they become immersed in the culture and lose their perspective – “that's just the way we do things around here!”
- 3 **Leadership Shadows.** And the most difficult reason of all (because it's difficult for senior executives to accept) is that in most cases the corporate culture is a direct reflection of the senior team, a phenomenon called “Shadow of the Leader” (Senn and Childress, 1999). In other words, employees take their clues on how to behave and how to get ahead by watching the collective and individual behaviour of the senior executives. And in most cases the behaviour of the senior team is invisible to themselves – they don't see the shadows they are casting!

All of my experience in culture change over the past 30 years (and all the research that has emerged on culture change during that time) seems to point to a critical ingredient of successful culture change - it all begins with the senior team.

Effective teams at the top build effective corporate cultures (and vice versa).

Change management is the problem... change leadership is the solution

Therefore culture change must be led, not managed, and it must be led by the senior leaders providing the role models and making the new culture (new processes, new reporting lines, new skills and new behaviours) important, with appropriate recognition, rewards and consequences. This involves much more than just walking the talk or giving great speeches. It's carrying over the new culture into all the activities of the senior team: staff meetings, strategy meetings, budgeting processes, the way they treat each other, even the way they treat secretaries and staff.

Lots of consultants these days talk about culture change but very few have 30 years experience in helping shift and reshape culture. With all that experience we've made mistakes and learned from them along the way. While every company and culture is different and unique, there is a set of universal principles for effective culture change. Understand these principles and culture change can be an effective, energizing and financially rewarding process for any company. And in some cases it becomes a survival strategy.

Principles of Culture Change

- Start at the top. Spending the appropriate amount of time getting the senior executives to buy into the new culture is absolutely critical. And they won't get it through a speech or series of PowerPoint presentations. They need to engage in a group or team experience where they have to live the new culture and understand what it means to them, personally and professionally. They must become converts, not just spokesmen. And be prepared for the fact that some won't make it, either by their choice or yours.
- Always tie culture change to a real business objective that will affect all employees. Make it real and tangible!
- Spend an appropriate amount of time understanding the strengths and weaknesses of the current culture before trying to implement a culture change process. Not everything needs to change; great change processes are built around the current strengths of a company and its employees.
- Conduct a culture audit that will give you both a visual "picture" of the culture and that can also serve as a baseline measure, to track the change progress along the way.
- Define a clear picture and vision of what the new culture should be, including behaviours, systems, reporting structures, rewards, skills, communications, core processes.
- Get outside views of your culture from customers, clients, suppliers, bankers, analysts and others who know your organization. Listen carefully because you can learn a lot from them.
- No Need – No Change: there must be a real or perceived need for change, and it must be meaningful to all employees. Implementing change so the executives can keep their bonuses is not a valid enough reason, even though it may inspire you! What will be real and compelling to your employees? In some cases it's a burning platform and in others a hope for a better tomorrow.

Organizations are shadows of their leaders... **that's the good news and the bad news!**

- The process must be led by the senior executives, not the HR or training staff. And especially not outside consultants. If you don't believe you or your team have the commitment nor passion to lead this process (conduct the culture change workshops, coach people on the new culture, visit lower level staff meetings for "fireside chats", have your own culture change blogs on your intranet, and so on) then don't even start the process. You won't get the payback and you will create more cynicism than optimism.
- Culture change requires an open, feedback-rich coaching and personal learning environment at all levels, especially at the top,
- Culture change takes hold faster in natural work groups. And a recent reorganization provides the perfect time to implement a realignment and culture change process at the same time.
- Have a scorecard and let everyone know where the change process stands at all times. Celebrate positive gains and look for "root cause" when things are stuck.

One further principle is perhaps the most critical and the most controversial. It is almost impossible to build an agile, open, healthy, high performing culture in a silo-based organization structure, where each senior team member is more focused on his or her own group's performance than the overall performance and health (culture) of the organization. But we can talk more about this when we meet face to face.

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