Why Every Executive Should Be Focusing on Culture Change Now

To make transformation a reality in their businesses post-pandemic, leaders must build a strong culture to support it.

Rose Hollister
Kathryn Tecosky
Michael Watkins
Cindy Wolpert

Why Every Executive Should Be Focusing on Culture Change Now

Rose Hollister, Kathryn Tecosky, Michael Watkins, and Cindy Wolpert

To make transformation a reality in their businesses post-pandemic, leaders must build a strong culture to support it.

As the global community emerges from the COVID-19 pandemic, business leaders must lay the foundation for their organizations to thrive in a very different world. The pandemic accelerated three interlinked types of transformation affecting every industry: the adoption of digital technologies, the development of new business models, and the implementation of new ways of working. Most companies are now engaged in one or more of these types of transformation. Businesses that aren't — whether because they have ignored the signals or have failed to adapt quickly enough — risk becoming obsolete.

While most executives recognize the transformation imperative, far fewer understand the essential connection between business transformation and culture change.

Companies cannot realize the true potential of digital transformation, embrace new business models, or implement new ways of working without supporting changes in organizational behaviors and norms. A recent study by Boston Consulting Group found that companies that focused on culture were five times more likely to achieve breakthrough results in their digital transformation initiatives than those that didn't.

Focusing on culture change also can help companies that have not yet embarked on transformation journeys. An adaptive culture provides a foundation for transformation. It also helps organizations overcome cultural fragmentation due to the incomplete integration of acquisitions or a legacy of growth across multiple geographies.

Leaders also need to understand that culture is dynamic and that change will happen in their organizations even if they do nothing to guide it. Employee values, mindset, and behaviors have evolved rapidly in the past year. These changes may or may not be the ones your organization needs, or necessary changes may not be progressing at the right pace.

For these reasons, leaders must take a proactive approach to build the right culture now and avoid the need to reshape culture in parallel with large-scale organizational transformation.

What Is Organizational Culture?

We define *culture* as a shared set of values (what we care about), beliefs (what we believe to be true), and norms of behavior (how we do things). Cultures exist to align effort, engender shared sensemaking, increase predictability, and encode organizational lessons about what does and doesn't work.

Intuitively, we know that a strong culture is essential for a company's overall health and competitiveness. As the famous phrase attributed to Peter Drucker points out, "Culture eats strategy for breakfast." Having the wrong culture undermines the best-laid strategy and organizational development plans. While leaders have been reminded repeatedly that people and culture are essential determinants of success and failure, they haven't necessarily accepted the need to be proactive in building the types of culture required for their strategies to succeed.

It can be challenging for leaders to "see" culture up close. Like fish unaware of water, senior leaders may become too accustomed to their own perspectives regarding culture. Here, newcomers and front-line employees can help identify cultural beliefs and behaviors that are deeply woven into the organization's social fabric.

How Does Culture Need to Change to Support Transformation?

All companies are different, so leaders must adjust for the specific contexts in which their organizations operate. However, we also see a high degree of consistency in the elements of culture required to achieve the full potential of organizational transformations, whether digital or driven by changing business models or new ways of working.

At the risk of promoting a "one best way," we have identified seven elements of adaptive culture that we consistently see in businesses that have transformed successfully. (See "The Seven Elements of Adaptive Culture.") Together, they

provide the cultural foundation necessary to support rapid adaptation, innovation, and organizational resilience.

Customer centricity and ecosystem focus are the critical reference points for defining organizational strategy and priorities. These elements are the "North and South Stars" by which the organization orients itself and pursues opportunity through focusing on the customer and the network.

Four other elements — analytical orientation, collaborative reflex, bias to action, and a learning mindset — concern the capabilities and "habits of mind" that shape employees' day-to-day work experiences. Finally, leader as enabler is the essence of *how leaders add value* when working with their people and teams — by empowering and developing them while holding them accountable.

These seven elements, which we distilled based on our combined experience changing cultures and transforming organizations, are comprehensive and mutually reinforcing. Together, they constitute the foundations of adaptive culture — one that is able to rapidly adopt new technologies and business models and respond to changing business and social environments.

While these elements are unlikely to all be equally important for your organization, they are all likely to be relevant to some degree. The place to start is to assess your organization's current culture. (See "Elements of Adaptive Culture Assessment.") From there, it's helpful to think about the relative importance of these elements for your organization's future and identify the most significant cultural gaps.

How Do You Change Culture?

If your culture needs to change, how should you approach working on it? The first step is to recognize that culture change is hard work. It's challenging enough to change one's own habits, never mind those of thousands of employees. For many companies, cultural norms have become deeply ingrained over many years, even decades. While some people may welcome change, others may see current norms as part and parcel of the organization's success. Absent a real "burning platform" driving change, why bother?

To illustrate the challenges, consider the case of a financial services firm's CEO who embarked on a culture transformation that started well and then hit some roadblocks. The company was a dominant player in a rapidly changing industry. The rules of the game were shifting in fundamental ways. Some company units also suffered from the strains of adapting to rapid growth and expansion into new markets.

It had become clear to the CEO, who had been promoted from within, that the business lacked the customer focus, innovation, and nimbleness in execution required to sustain success. The solution seemed straightforward: Change the culture.

So she mobilized her leadership team to take on culture transformation. They defined the desired culture in the form of a compelling set of leadership principles and supporting behaviors. Then they committed to adjusting their ways of working as a team to reflect it. They were mostly successful in being intentional in their actions to serve as role models for the desired culture.

The team also launched an intensive communication campaign to support the new leadership principles. Through a series of individual, team, and large-group discussions, they cascaded the desired culture down through the organization.

After a few months, despite all this effort, the CEO and her team could see that the new culture wasn't "catching" in the company. After some diagnostic work, it became clear why. While the leadership team was committed to the change, the rest of the organization was still being measured and rewarded based on the old cultural norms, such as demands for perfection in new products. So there was an understandable lack of enthusiasm among middle managers, which translated into confusion among the employees who reported to them.

The problem boiled down to incentives. The change management process had not embedded the leadership principles and supporting behaviors into the performance management and reward systems that would reinforce them. Recognizing that this was the issue, the leadership team launched a concerted effort to embed the new culture into

goal-setting and people processes. Doing so helped managers understand why and how they needed to change their focus and priorities and the consequences of not doing so. By aligning people processes with the desired culture, managers had incentives to behave differently, hire differently, and develop new competencies.

Through our work with client organizations like this one, we developed a set of culture transformation principles that maximize the likelihood of success.

Recognize that responsibility for culture can't be delegated. As in the case of the CEO and her team in the example above, senior executives must be the face and voice of culture change. If top leadership does not authentically and genuinely support the desired culture transformation, change efforts will likely fail. Senior leadership must align, balance, empower, articulate, communicate, and demonstrate their own growth and development, encouraging even the most nuanced cultural shifts.

Start with the "why." Failing to involve critical stakeholders and have them understand why change is necessary can seriously hamper change efforts. Anxiety, cynicism, and resistance inevitably build when people don't understand the case for change. Even if you've done a great job explaining why digital transformation is needed, for example, you still must provide a rationale for the (often most difficult) supporting culture changes and the impact they will have on individuals and teams. The CEO and her team could have done a better job with this. In retrospect, they realized that they had not focused enough on communicating the need for change.

Define the target cultural values and behaviors. Creating a clear picture of the desired future state is an essential early step in cultural transformation, and one that the CEO and her team embraced. The definition of the desired culture must be specific yet flexible enough to shape and influence an organization's performance, from the front lines to the executive suite and in all units and geographies. The place to start is defining the target front-line culture and working from there to identify the other forces (leadership and organizational systems and processes) that will support and reinforce it. In doing this, be sure to get input from front-line employees about what they value and how they see culture

impacting their ability to perform at their best.

Engage and get input. Broader inclusion engenders acceptance, if not total commitment. People tend to own what they help to create. Establishing what we call "culture coalitions" and networks of passionate, highly engaged culture champions is the path to reaching every employee. And that's what it takes to embed new cultural norms throughout an organization. These networks of employees are front-line managers and workers who advocate for the change. This was an area where the CEO and her team did an excellent job as part of a comprehensive change management process.

Build a bridge to the future desired culture. No organization wants to ignore the foundational elements of culture that propelled it to success. The financial services firm's CEO knew that aspects of the company culture, such as collaboration, were strengths that she needed to preserve. However, other deeply embedded elements of the culture had to change if the business were to compete successfully in an industry that was becoming more customer-centric, nimble, and data-driven. The key is to think of the transformation as building a bridge from the past to the future by identifying the aspects of the existing culture to be preserved and leveraged. The enduring strengths of the legacy culture must be recognized and woven into the culture of the future.

Build a culture road map. For the desired cultural shifts to become a reality, the future path must be visually depicted, and every function, division, and discipline across the enterprise must be represented. Ongoing, active communication is a crucial enabler. Extensive communication strategies that invite every level of the organization to hear, interpret, and clarify their roles' cultural impacts can further activate the cultural shifts.

Reinforce the desired culture in all organizational systems. This was the area that caused the culture transformation effort in the example case to stall. Leadership paid insufficient attention to the many ways incentives needed to change in order to reinforce the desired culture. A strong focus on changing behaviors is a necessary condition for success. It is not enough to try to shape attitudes or develop and communicate a set of values; leaders must ensure that incentives reinforce desired behaviors. To support the desired culture, therefore, all key systems must be revised to reinforce the behaviors. All of the important people processes — recruiting, assessment, performance management, and development — must be carefully assessed and consistently modified to drive the desired culture.

Rapidly reward the emerging culture. Empowering managers and leaders to immediately recognize and reward people for showing up differently is vital. When people break down barriers, take risks to work together differently, and begin to live the desired culture, leaders must take notice. Encouraging just-in-time creative and personal recognition that employees appreciate accelerates the new behaviors. If consistently applied, these actions quickly build the belief that an emerging culture is "real," and "the way we've always done things" is no longer the way we will be doing things.

Finally, recognize that culture change is a marathon, not a sprint. Like most things that feel new, people are more likely to be energized about such change efforts if they are part of creating the desired culture in the beginning phase. However, the work will need to be adequately resourced for the long haul. Depending on their breadth and depth, culture change initiatives may take 18 to 36 months. Measuring progress and celebrating breakthroughs along the way are essential.

Cultural transformation is enormously challenging. Yet, by following a model for success, marshaling the right executive support, ensuring the proper clarity and focus, and recognizing and rewarding desired behaviors, successfully transforming your organization's culture is not only possible but highly probable.

About the Authors

Rose Hollister is managing director at Hollister Associates. She teaches courses on global leadership and change at Northwestern University, and she led the Leadership Institute at McDonald's from 2010 to 2017. Kathryn Tecosky is a leadership consultant at Genesis Advisers. Michael Watkins is a professor of leadership and organizational

change at IMD Business School, cofounder of Genesis Advisers, and author of *The First 90 Days: Proven Strategies for Getting Up to Speed Faster and Smarter* (Harvard Business Review Press, 2013). Cindy Wolpert is an executive coach and a senior partner at Modern Executive Solutions.

The Seven Elements of Adaptive Culture

1. Customer centricity: Understanding and prioritizing the needs of customers rather than focusing on products or profit.

2. Ecosystem focus: Prioritizing the well-being of the entire multiorganizational system and not just the company.

3. Analytical orientation: Fully embracing the power of data and analytics in decision-making rather than relying only on experience or judgment.

4. Collaborative reflex: Proactively engaging in cross-organizational collaboration and teamwork rather than working in silos.

5. Bias to action: Valuing speed, not risk minimization, over perfection.

6. Learning mindset: Engaging in experimentation and rapid learning.

7. Leader as enabler: Empowering and energizing people while holding them accountable.

Elements of Adaptive Culture Assessment

Assess the extent to which your organization is ready to adopt digital technologies, embrace new business models, or implement new ways of working on these seven dimensions. Then sum up the scores to get an overall Culture Readiness Score for your organization.
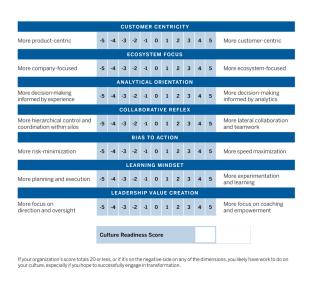
Download Scorecard

Elements of Adaptive Culture Assessment

Assess the extent to which your organization is ready to adopt digital technologies, embrace new business models, or implement new ways of working on these seven dimensions. Then sum up the scores to get an overall Culture Readiness Score for your organization.

CUSTOMER CENTRICITY

| More product-centric | -5 | -4 | -3 | -2 | -1 | 0 | 1 | 2 | 3 | 4 | 5 | More customer-centric |

ECOSYSTEM FOCUS

| More company-focused | -5 | -4 | -3 | -2 | -1 | 0 | 1 | 2 | 3 | 4 | 5 | More ecosystem-focused |

ANALYTICAL ORIENTATION

| More decision-making informed by experience | -5 | -4 | -3 | -2 | -1 | 0 | 1 | 2 | 3 | 4 | 5 | More decision-making informed by analytics |

COLLABORATIVE REFLEX

| More hierarchical control and coordination within silos | -5 | -4 | -3 | -2 | -1 | 0 | 1 | 2 | 3 | 4 | 5 | More lateral collaboration and teamwork |

BIAS TO ACTION

| More risk-minimization | -5 | -4 | -3 | -2 | -1 | 0 | 1 | 2 | 3 | 4 | 5 | More speed maximization |

LEARNING MINDSET

| More planning and execution | -5 | -4 | -3 | -2 | -1 | 0 | 1 | 2 | 3 | 4 | 5 | More experimentation and learning |

LEADERSHIP VALUE CREATION

| More focus on direction and oversight | -5 | -4 | -3 | -2 | -1 | 0 | 1 | 2 | 3 | 4 | 5 | More focus on coaching and empowerment |

Culture Readiness Score

If your organization's score totals 20 or less, or if it's on the negative side on any of the dimensions, you likely have work to do on your culture, especially if you hope to successfully engage in transformation.

MITSloan
Management Review

PDFs ■ Reprints ■ Permission to Copy ■ Back Issues

Articles published in *MIT Sloan Management Review* are copyrighted by the Massachusetts Institute of Technology unless otherwise specified at the end of an article.

MIT Sloan Management Review articles, permissions, and back issues can be purchased on our website: **shop.sloanreview.mit.edu**, or you may order through our Business Service Center (9 a.m.-5 p.m. ET) at the phone number listed below.

To reproduce or transmit one or more *MIT Sloan Management Review* articles **requires written permission.**

To request permission, use our website
shop.sloanreview.mit.edu/store/faq,
email **smr-help@mit.edu** or call 617-253-7170.