



## LEARNING, CULTURE, AND CORPORATE CHANGE PART TWO: CHANGING CORPORATE CULTURE

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### **The Leadership Challenge: Darwinism And Successful Evolution**

Changing deeply embedded habits, values, customs, and practices is a daunting leadership challenge. The world has changed, the environment has become extremely Darwinian, and the company is threatened. The CEO and senior leadership must define and lead a successful process of adaptation. The challenge is to tell an honest and inspiring story that people can believe in, become committed to, and then make real.

### **Change The People To Change The Culture**

Culture is embodied in the people. When they go home at night, it's just empty buildings; when they come back in the morning they bring the culture with them. There's a saying: "You have to change the people—or change the people. Fast, effective change is created by bringing people willingly to the change effort. Easier said than done. To create willingness and commitment to change, leaders must help people understand the challenges facing the company and the need for change. How, then, do we do this?

Leaders must somehow provide employees with answers to these questions:

1. Why do we have to change? They need a big picture answer and a more personal answer.
2. What's our direction? What's the goal? Where are we headed? What changes are required? What are the non-negotiable stakes in the ground?
3. Is this real? Are you truly serious, or is this another "go-through-the-motions" initiative?
4. How am I going to be affected? What's in it for me?
5. How do I control my own destiny?

### **Why Do We Have To Change? The Big Picture.**

To become willing partners employees must have some understanding of the big picture. What happened? How is our world different? What is the impact on our company? What are the implications? The *deeper and fuller* the understanding, the easier it is to become a willing and committed partner. In old line companies—what we call legacy companies such as steel, automotive, airlines—getting employees to fully understand is a challenging task. In these legacy companies most of the arrangements between employees and employers were formed during the 1950s and 1960s when America seemed to own the world and constituted the bulk of the global market. During this era General Motors earned its nickname Generous Motors, and unionized airline pilots became a protected group earning in the top 1% of income earners in America (more than the average physician).

Those arrangements are no longer sustainable, and the companies saddled with such legacy costs tend to be in slow motion death spirals that have gone on for decades. Not only do we

have the challenge of getting employees to understand how radically the business and economic world has changed, but we also have the challenge of getting employees to *accept* that reality and do something about it.

### **Why Do We Have To Change? The Personal Picture.**

Similarly, to become willing and committed partners, employees must understand the radically changed world from a personal perspective. This means laying out clear choices, and walking them through those choices to their logical, predictable conclusions. It's here that we truly must make the choices *personal*. "If we continue to operate with this culture, these habits, these operating values, and these arrangements, we'll continue our death spiral. Your jobs and benefits will continue to be seriously at risk."

It doesn't take a genius to put GM and Toyota side-by-side to see that things aren't working very well for General Motors in North America. Overturning historical values may be gut wrenching, but doing so is the doorway to future success. It's been several decades now since companies began breaking the promise of lifetime employment, a change that's instrumental in many turnarounds. IBM is a good example of such a company, having changed its values and culture, and completely re-built its business model, setting the stage for its present success.

### **Direction: Where Are We Headed?**

Asking people to abandon much of the past and to make dramatic changes, without a pretty good sense of the new direction, is asking too much. If we're going to ask people to leave Point A, then we need to show them a Point B that they can direct themselves toward. If we want them to be committed and aligned we have to give them something to align with. It is more easily said than done to craft a new direction in the middle of threat, turmoil, and uncertainty. While it may be obvious that what we're doing isn't working, it's not always equally obvious where we should put the stake in the ground for our future. Nevertheless, it's a primary responsibility of leadership to get the future vision, mission, and goals defined as rapidly and completely as possible, and to cascade the implications of those new goals as fully and rapidly as possible to all employees.

### **What Changes Are Required?**

Along the same lines, we need to tell people—at least in general terms—what changes are needed. If done in the right way, asking employees what changes are needed is very helpful. In every company we've consulted to, employees proved capable of defining at least 80% of the changes needed on their own. These are not stupid people. They may not get it 100% right, but they get most of it right. It's a lot easier to bring people along if they help define the changes needed. Here are examples from some Cruxpoint Consulting clients:

"We have a history and culture of being completely siloed, with executives running their own little fiefdoms. We're getting killed by companies that take an integrated approach. We have no chance to compete successfully until we break down the barriers between units, and integrate our end-to-end processes."

“We have a fifty year history of adversarial relationships between union and management, and we’re getting beat by companies that have all employees focused on the customer and committed to the entire enterprise. We cannot win with these sorts of arrangements.”

“We’ve had a slow-paced and complacent culture, characterized by an entitlement mindset. We haven’t adapted to the pace and demands of the de-regulated environment, and we’re losing to fast, fierce, adaptable competitors. We need to pick up the pace, the focus, and the intensity of our efforts.”

While it’s important to clearly articulate what must change, it’s equally important to articulate which aspects of company history, tradition, culture, and operations must be preserved and not discarded. For example, a company may choose to preserve a rich tradition of friendly personal service while simultaneously picking up the pace of its analysis, decision-making, and implementation. And if asked, employees are pretty adept at sorting out and articulating what should be abandoned and what should be preserved.

### **What Are The Non-Negotiable Stakes In The Ground?**

When companies reach the point that they are compelled to change, it’s because there are *true alpha crux issues* that are not resolved and are killing the company. The alpha issues are the ones that—left unresolved—will continue to overwhelm and defeat the best efforts and accomplishments in other areas of the company.

The non-negotiable stakes are put in the ground to assure that the company addresses the *absolutely critical issues* affecting the long-term viability of the entire enterprise. The purpose here is to clearly articulate the *alpha issues* that keep the company vulnerable, and to demonstrate resolve in dealing with them. Generally speaking, employees will respond pretty well when leadership does a great job of laying out the alpha issues that must be successfully addressed. It’s not easy because—even though it’s necessary—addressing the alpha issues creates substantial risk, or pain and loss, for some within the company.

For example, in the legacy companies within the U.S. automotive industry, some of the alpha issues are bloated and sluggish corporate culture, isolated fiefdoms, hideously expensive redundancies, sprawling and undisciplined structure, unsustainable labor costs and labor relations, excessive legacy costs, misplaced strategic bets, and forced cost-cutting that results in many models that are less competitive in the marketplace. All of these must be addressed in order to assure success.

### **Is This Real?**

This too shall pass? The old TV commercial is an apt metaphor, “Is it real, or is it Memorex?” Employees have been involved in endless initiatives. They’ve watched dozens of expensive and pointless projects come and go. Again, they’re not stupid. They wonder if this is the flavor of the month, and they’re pretty skilled at watching the executive-level signals. Leaders must display seriousness of purpose. Someone—usually the CEO—must demonstrate that this is a dead-

serious commitment.

Many moves by senior leadership can get employees' attention. People notice when leaders demonstrate seriousness of purpose, consistency in message, commitment, resolve and willingness to do what it takes:

- The CEO cleans house and replaces the executives that are “just going through the motions”.
- The CEO confronts the nonsense and refuses to accept the indefensible.
- The leaders have a consistent and persistent message, and they speak with one voice.
- They attack sacred cows and dismantle unworkable traditional arrangements.
- They lead the development and application of new metrics and performance management.
- They make visible examples of major resisters to the change process.

Most employees wait and watch to see if this is the real deal. It's up to leadership to clearly and quickly show that, yes, it is. As quickly and firmly as possible people must be shown that “whatever went on before, it's now a new day.” There must be visible and relevant breaks with the past, and it's critical that leaders not make bad compromises that signal confusion or inconsistency.

### **How Am I Affected? How Will This Land On Me?**

Honesty and candor will pay off in this area. Uncertainty kills trust, focus, and motivation. The better and faster we can let people know how they will be affected, the more easily and more quickly we can create a committed, aligned group of employees. This is not the time or place for waffling, placating, or sugar coating. When treated like adults, people are more likely to behave like adults.

There are a number of traps to avoid in addressing this issue. One is the *fairness trap*. It's critical to make it known, up front, that the pain and rewards will not be distributed equally. There will be *serious winners and losers*. This is not a matter of fairness or shared sacrifice. The winners and losers will be determined—as much as is possible—by the marketplace of competitors and customers, and the circumstances produced by that marketplace. Sometimes entire categories of jobs must go away, resulting in some people—regardless of length of service—losing their jobs or careers with the company. Many will find their pay and benefits reduced. Is this painful and scary to those affected? Yes, and especially so when others in the company may be untouched or may benefit by the changes.

In the case of executive compensation, it's best to be up-front that competition for executive talent is very high and that executives will be heavily rewarded for turning the company around—regardless of the pain and loss that others may suffer. This is not, in our view, a subject to be avoided or postponed.

Another trap to avoid is defending against or ignoring deeply held grievances. It's not uncommon today to find companies where past leaders made terrible strategic decisions, caused serious harm to their companies and sometimes put the company's survival at risk—and walked out the

door with pockets full of cash. These sorts of things really stick in employees' craws and make it hard for them to be future-focused. It's best to deal with this sort of thing up-front. At the same time leaders must be clear and firm about the totality of how the company got in trouble. In most cases it took labor and management—*together*—to create the unsustainable conditions that they now face. There's no way to avoid dealing with those unsustainable arrangements without reaping the consequences of such avoidance.

### **What's In It For Me?**

Here's where the rubber truly meets the road. Again, candor should be the word of the day. For some people the answer to the question "What's in it for me?" is "Nothing." If I work in a call center and it's outsourced or sent overseas, I lose. For some employees there will be a job, but with less pay and benefits. Maybe there'll be the opportunity to take a buy-out package. For others, if they come to the party and help build the company, they have a chance at a continuing job or career in a newly transformed company that can survive and thrive in the future. And for some others, due to their abilities and contribution, there will be a very bright and rewarding future. It's important to be clear that the pain will not be distributed equitably, but it will be distributed based on company survival and success.

Beyond the financial implications linked to jobs and benefits are human drives and emotions that must be touched and tapped. People have deeply felt needs to belong, to be accepted, and to contribute. They deeply identify with groups, and they belong to many formal and informal "clans" of like-minded and like-identified people. "I'm a Michigan Wolverine." All but the most cynical seek meaning and purpose through their work and relationships. Most people want to be recognized for their character and contribution. They want to help build something, make a difference, and feel pride of accomplishment. They want to be part of a happy-ending story. They want the company to continue into the future beyond their own careers and lifetimes. Much of "What's in it for me?" can be found in honestly addressing these very human needs.

As leaders we need to give thought to the question: How are we going to appeal to our people, and do so without being dishonest, superficial, or manipulative? It's in addressing these deeply felt human needs that we elevate people out of the present pain, help them get over the past, and bring them to focus on a possible future. At a minimum a wise leader appeals to purpose, pride, and identity. It's pretty hard to inspire people by asking them to commit to cost-cutting and shareholder value as their primary corporate goals.

In the legacy companies in legacy industries, especially those that are unionized, these issues are paramount. Unions and management will be faced with a continuing death spiral or will create a company with a future. The unions have the choice of "bleeding the thing out" or addressing present realities and helping to build a company for another generation.

### **How Can I Control My Destiny?**

In companies in trouble people become unfocused, dispirited, resentful, and resigned. All the research shows that people do not do well when they feel out of control, especially on matters that are important to them. The sense of being out of control can trigger very bad mindsets,

emotions, and behaviors. People need to be shown that they can regain control of their destinies. They need to believe that their company can regain control of its destiny.

The message to them should be: “To control your destiny you become part of the solution, by getting over the past, and by being future-focused in re-building this company. If you refuse to commit to the future we’re trying to build, you lose control. You’re either a contributor or you’re a drag on the others who are trying to change the company. If you’re the latter, your future here is in jeopardy. It’s really that simple.”

However, becoming one of those contributors is a bit more complex. Each employee who decides to be such a contributor will be working to overturn company culture, individual and group habits, some of the historic operating values, and routines that are deeply embedded in structure, systems, processes, and other arrangements. Moving from Point A (the old way) to Point B (the new way) is a muddled, confusing, conflicted, and sometimes protracted process. There is no magical process that moves everyone instantly from Point A to Point B. In the middle of this turmoil, each employee will have to choose whether to put his or her stake with the old group and old culture, or the new group and new culture.

No matter how well leadership makes the case and tells the story, at the end of the day there must be teeth in the process. It will have to be made unmistakably clear that there’s only one way to win, and that’s to join the party and become aligned and committed. The more clearly the choices can be laid out and the more obvious we can make the implications of those choices, paradoxically the easier it is for employees to choose the route that gives them control.

### **Reaching A Tipping Point**

The goal is to reach a tipping point, to make it over the hump and arrive at a critical mass of employees committed to and focused on the right things—changing the company and producing business results. When that tipping point is reached, the new direction and the new culture become dominant, and the old way and the old culture become marginalized. New hires are acculturated into the new culture, not the old. The momentum shifts, and bleakness gives way to real and honest hope. The numbers start moving in the right direction as the accumulated efforts start yielding real returns. This is the happy day in the turnaround process.

### **The Continuing Challenge**

Arriving at this juncture is not the end, but the beginning. The company remains in a tremendously competitive environment, and every day it must go forth and win the wallet of the free customer making choices in the marketplace of competitive offerings. The need to be nimble, adaptable, and dynamic does not go away. Change is the constant. This means that we repeatedly renew ourselves as a company and make obvious those things that are critical to continuing success.