The art of culture change

Culture as a source of competitive advantage

EY Lane4
Workforce Transformation

About
EY Lane4

The combination of EY and Lane4 focusses on harnessing the power of people.

Powered by technology, EY puts humans at the centre of business transformation. Lane4 takes people beyond performance, giving them the skills and mindset to achieve things they never thought were possible.

We've come together to deliver on our purpose – to build a better working world.

We believe that organisations need to put people at the heart of their decision-making. Not only will this create long-term value for stakeholders inside and outside the business, but it will help ensure success across large-scale business transformations. At EY Lane4, we bring together some of the biggest and influential leaders around the world, drawing on their insight to shape how we support our clients with their people and transformation challenges.

Understanding the psychology of learning and knowledge retention is at the heart of our approach. Our people also bring a wealth of experience from performing at the highest level such as in Olympic sport, the military, the arts and business. This unique combination allows us to walk alongside leaders, acting as trusted advisors to challenge and support them throughout their transformation journeys.

However, at EY Lane4 it isn't just about senior leaders. We believe that everyone deserves access to world-class learning and development. Our global reach, digital learning solutions and innovative service delivery allows for consistent development across multiple levels of the organisation.

This means people can develop behaviours that will not only help them to perform at work, but in all parts of their life. It gives people the confidence and belief to try new things and truly thrive.

All this combined allows us to build a better working world.

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Introduction

Organisational culture: All organisations have one and it has an undeniable impact on performance. Yet, despite decades of academic research exploring the topic, many business leaders remain baffled by what it is, what it does and how to change it.

Despite being described by academics as 'a riddle wrapped in a mystery wrapped in an enigma',[1] the topic of organisational culture has shot up the management agenda in recent years. HR practitioners have long banged the drum for culture, given its pervasive influence on performance and engagement, but are now increasingly joined by other stakeholders. These include investors, regulators, board members and non-execs, who now recognise the urgent need to address organisational culture.

With companies like Google, Glassdoor, HubSpot, Wegmen's, Netflix and Linked-In leading the field in how to harness the power of culture, it's unsurprising the topic has rapidly become a top priority for most organisations. Research shows that 87% of business leaders now rate the issue of culture as 'important', with 50% citing it as 'very important'.[2] The time for mulling over culture is gone. It's now a business imperative to get right.

A word of caution though – due to the widespread lack of clarity on the topic, a minefield of myths surrounds the topic of culture change. Many other questions simply remain unanswered.

This white paper tackles some of these unanswered questions, by exploring why culture is important and what the term actually means, before dispelling some of the common myths that surround the topic. Armed with this knowledge we then explore the art of changing culture. We draw on insights from a variety of sources: evidence from the academic research literature, experience from our own client research, and insights from senior leaders of a round table discussion exploring the current cultural challenges faced by managers and practitioners from a range of sectors, including Financial Services, Communications, Oil & Gas, Retail, Manufacturing, and Elite Sport.
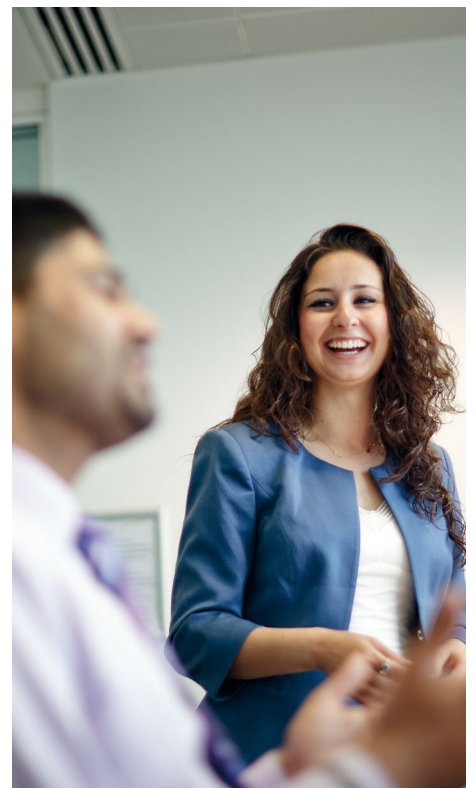
Culture as a source of competitive advantage

The old adage that 'culture eats strategy for breakfast' rings uncomfortably true for many organisations today who find themselves losing both key talent and market share to new culture-focussed companies. The message is loud and clear: cultural winners are winning big.

Evidence gathered over the last few decades reveals culture as a key ingredient of organisational effectiveness and a source of sustainable competitive advantage[3], impacting on various measures of organisational performance, including revenue growth, net income, productivity, employee absence, creativity, and employee retention.[4] And emerging trends suggest that its influence is likely to become ever stronger.

Next generation employees expect much more from their working lives in terms of total experience: flexibility, empowerment, development, work-life integration and enjoyment are all boxes organisations need to tick if they want to attract the best from today's talent pool.[2] Plus, with technology making what's really on offer internally ever more transparent and companies going 'all-out' to demonstrate they really are a 'great place to work', culture is quickly becoming a sink or swim issue. Culture manifestos and value propositions are popping up everywhere, as culture well and truly trumps offers of pay and prestige.[5]

Aside from talent attraction and retention, other key sources of sustained competitive advantage today, such as innovation and collaboration, also link closely with culture.[6] Culture impacts heavily on the knowledge sharing practices essential to both collaboration and innovation[7]; whether sharing knowledge and ideas is actively encouraged or whether expertise is closely guarded and protected. Depending on whether it stimulates employees to learn, take risks and push boundaries or to play safe and avoid failure, culture can strongly foster or hamper creativity.

In sum, the importance of culture has amplified in recent years. Not only is it a strong predictor of business performance, but its importance is becoming increasingly evident for future sources of sustainable competitive advantage such as successful talent recruitment and retention, and effective collaboration and innovation.

> " There's no doubt about the importance of culture, the question is what exactly is it, and what should we do about it?

Understanding organisational culture

Despite the crucial role played by culture when it comes to performance outcomes, there's little academic agreement on what organisational culture actually is.

This lack of clarity results in most leaders either attempting to address culture but with no real success or neglecting culture altogether.[8] In this respect, to many addressing culture feels akin to attempting to catch smoke, as this round table guest explains:

> " What is it? What do we want it to be? How are we going to get there? How will we know when we get there? There's a feeling that it's just all that fluffy stuff that all the HR people are working on. So I find it a real, real challenge. It's the intrinsic things, the things that happen without you really planning for them to happen.

Do we 'have' a culture or are we the culture?

To really understand organisational culture, it's important to be aware of two contrasting perspectives that have long existed in academic circles:

Perspective 1: culture as an entity

Culture as something that an organisation has; an entity that employees acquire when they join. Something that can be predicted, manipulated, and controlled. This suggests that culture can be relatively easily measured, and organisations classified in terms of the type of culture they have, underpinned by a set of clearly defined organisational attributes.

Perspective 2: culture as a social phenomenon

Culture as something an organisation is; a social phenomenon that continuously evolves and shifts as a complex network of people interact and concurrently interpret their experiences. This suggests that culture is less tangible, not so easily measured (at least not with numbers), boxed up and solved. Instead it needs to be explored in a more qualitative way, acknowledging that it is highly complex and constantly evolving.
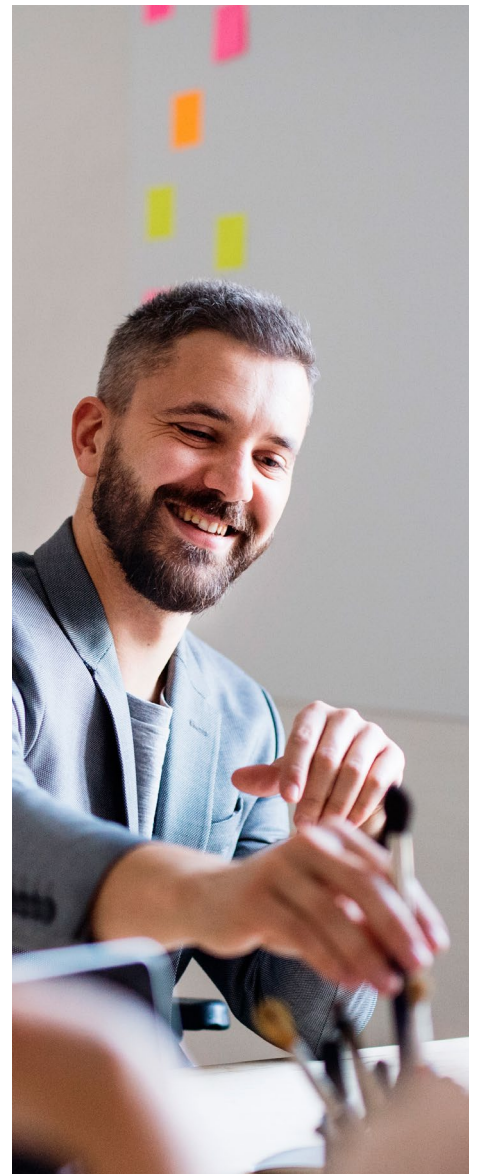
Do we have one culture or many?

It is also important to recognise that organisations don't necessarily have one single, unified culture, since culture is not necessarily the same throughout an organisation. For instance, organisations may have a 'dominant' culture that is loosely shared across separate units in the organisation,[11] but geographical, departmental and functional differences can all lead to separate 'subcultures', each with their own unique quirks and idiosyncrasies.

What's more, don't assume that subcultures will detract from the benefits which a 'unitary' culture can bring.[12] Research has shown that the flexibility and diversity inherent in subcultures can enhance organisational agility.[13] Subcultures help employees to think differently, fuelling innovation during changing market conditions. It is beneficial for certain core characteristics to be embedded within and shared across a whole organisation, such as those that unite people to the common purpose of the organisation for example. However many effective organisations are characterised by cultures which reflect a core consistency across certain areas, but allow for variety in others. For instance, this might be a unitary culture of trust and predictability which promotes information and resource sharing, with subcultures that provide flexibility to determine how best to innovate.[14]

EY Lane4's perspective on culture

All organisations are unique, complex, and dynamic. Each has its own heritage, values, goals, physical environment, challenges and unique pool of employees who in turn each bring their own backgrounds, behaviours, and beliefs. We believe that culture is a living part of the organisation; it ebbs and flows as the different elements of a business change and interact. This is why we embrace the more complex, multifaceted view of culture; one that sees culture as a dynamic social phenomenon and recognises that organisations aren't necessarily well reflected by a simple, neat, unified cultural type.

In brief, EY Lane4 defines organisational culture as: the values, behaviours, beliefs and environments that shape people's experience within a company.

All three layers of culture are influenced by the formal and informal interactions and conversations that happen throughout an organisation on a daily basis.

It's also important to note that culture will consist of both open and hidden elements. Certain aspects of culture are detectable on the surface; the things that you see, hear and experience as soon as you enter an organisation, whereas other elements are more deeply rooted and taken for granted. Inevitably, these elements are less visible, less conscious, hidden from sight and harder for employees to immediately articulate. We refer to these deeply rooted, more hidden aspects as the 'shadow side' of culture. This doesn't mean that this part of culture is inherently 'bad', simply that it is typically unexplored and unspoken; a blind spot.

In accordance with the work of Chris Rodgers,[15] we also see culture as multi-layered, specifically dividing into:

1
What's articulated
The aspects of culture leaders and employees are aware of, openly state, or explicitly aim for.

2
What's experienced
The culture that employees experience day-to-day (for example, the behaviours, rituals, attitudes, stories, language, jokes, and physical environment).

3
Deep culture
The implicit and unquestioned assumptions that underpin and drive the culture that's experienced.

"

I've worked on quite a few culture programmes which were just a disaster really because the difference between the reality and the rhetoric was too divided. People will feel more passionate if they see their leader doing it and it feel it's legit and authentic, and they'll just emulate it.

One of the biggest risks facing organisations in terms of their culture, therefore, is lack of alignment between the culture that is formally articulated by its leaders and the culture that is experienced in reality. Research shows that alignment between the formally expressed strategic aims or stated values and the lived organisation (e.g. the environment as experienced and employees' actual values) is critical for optimal performance.[16] If leaders are articulating something different to what's actually experienced, or what is driving beliefs and behaviours from deep within, you're on a risky collision course. Metaphorically speaking, you're driving in a vehicle with the steering wheel disconnected from the wheels. Until they're connected, this is likely to be a journey that's full of surprises (good and bad), but ultimately one that's confusing and tiring for everyone involved. When these levels of culture are misaligned employees are likely to feel conflicted or disengaged, leaving leaders frustrated since the culture may not be driving people towards the desired destination.

One of the practitioners at our roundtable reflected on their personal experience of the consequences of misalignment:

The regularly cited case of Enron provides a particularly dramatic demonstration of the very real danger of cultural misalignment. Enron's espoused values were: communication, respect, integrity and excellence, yet the values, beliefs, and behaviours later revealed as reflecting the culture in reality were in stark contrast – those of extravagance and deception.

To understand your culture, you need to go beyond the surface, past the culture as it is articulated, to identify the deeper levels of culture; culture as it is truly experienced and drives behaviour in reality. This requires more than just a survey!

4 Myths about culture change

1. Leaders are the sole agents of culture change

It's often implicitly assumed that an organisation's culture is developed and shaped primarily by leaders. This topdown view underestimates the active, and influential, role that all employees have in creating an organisation's culture.[17] Each and every employee shapes culture daily through their behaviours and interactions with other employees.

An organisation's culture extends well below the surface, beyond its public pronouncements, policies or design. As a result, articulating culture is just the first step in achieving it. Formal pronouncements are rarely accompanied by immediate shifts in behaviour, so overestimating the impact of leaders in changing culture at the deeper level creates the risk of a gap developing between culture as espoused and culture as actually experienced.

Culture change requires more than just articulating differing values, beliefs or desired behaviours. In most organisations, key cultural architects exist amongst employees at various levels who can spark significant and unexpected shifts.

In this regard, creating culture is like constructing a building. Some people, most notably leaders, are likely to have a greater influence. Leaders might determine the initial foundation of the building, which has a significant influence on the final structure. However, each and every employee also shapes the organisation's culture, albeit to varying degrees. These employees may have fewer bricks, but are nonetheless still architects of the organisation's culture.

Some employees may even be building the stairs or windows, for example, and therefore have a particularly strong influence on the building in terms of its internal connectivity or links to the external environment.
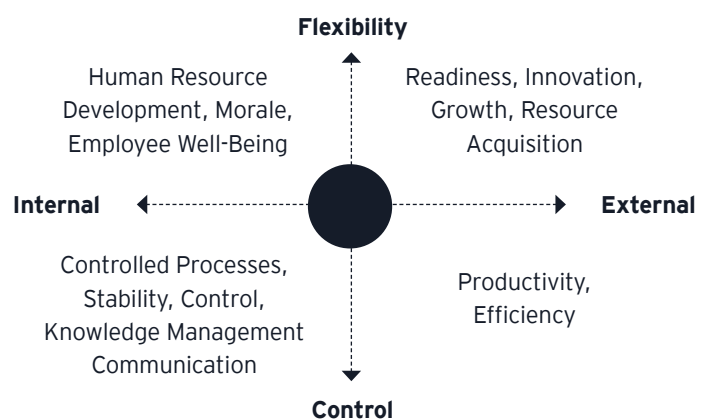
To change culture we need to identify who our key cultural architects are, and involve them in the process to ensure that we're all aligned to building the same thing, working to the same plan.

2. There's a universal recipe for a 'good' organisational culture

Creating a high-performing culture is about bespoke workability: what culture exists in this business, and how is it contributing to or detracting from this organisation's strategic aims? There is no 'gold-standard' culture that will reap success for every business. Arguably, there are some broad concepts – honesty and integrity, for example – which every organisation should surely embrace, but values like these can be supported by cultures of many different types.

At the surface level of culture, Quinn and Rohrbaugh's (1983) Competing Values Framework (CVF)[18] provides a useful framework to articulate how the broad cultural ethos might influence particular performance outcomes.

Figure 1: The Competing Values Framework (Quinn & Rohrbaugh, 1981)

Flexibility

Human Resource Development, Morale, Employee Well-Being

Readiness, Innovation, Growth, Resource Acquisition

Internal ← → External

Controlled Processes, Stability, Control, Knowledge Management Communication

Productivity, Efficiency

Control

As shown in Figure 1, CVF is based on two key dimensions: focus (internal/external) and structure (control/ flexibility). 'Focus', reflects the extent that an organisation focuses on internal capabilities (such as human resource, communication and information management) or external capabilities (such as growth and productivity), while 'structure', explores the extent that it focuses on control and stability (e.g. through robust processes and steady growth) or flexibility (e.g. through discretion, adaptability and innovation).

At this broad level at least, the sector an organisation operates in is likely to have an influence on its culture[19], as this roundtable guest explains:

"

[good culture] depends really what the goals of your company are and what type of sector you're in. I mean if you're in a company that's producing medical drugs and needs to be very responsible, you might want to hold back a bit on things like speed and risk taking. But, if you're in a really fast- moving retail business, for example, you're going to want to have a different type of culture.

So, for example, the high-level culture at Dreamworks Animation needs a high level of creativity from its employees, so tries very hard to create an environment where people are not afraid to take risks and push boundaries.[20] This would translate into an emphasis in the top right quadrant in the framework. However, for an organisation in the manufacturing or energy sector such a culture is likely to have disastrous consequences. Indeed, NASA's Columbia Space Shuttle accident and the Chernobyl nuclear disaster have both been attributed to poor safety cultures.[21] Organisations in these sectors might be better served by an emphasis on the bottom left quadrant of the framework.

Indeed, research using CVF has shown that a focus on particular quadrants influences organisational effectiveness corresponding to that quadrant. For example, organisations focusing on the top left quadrant (flexible/internal) tend to have stronger performance outcomes on metrics relating to employee attitudes such as job satisfaction and organisational commitment, whilst those focusing on the bottom right quadrant (stable/ external) tend to excel in terms of financial effectiveness, reflected by measures of profit and market performance.[22]

Originally these dimensions were thought to be competing, and therefore by excelling in one quadrant you inevitably compromised performance in another. A recent review of data from 94 different organisational samples revealed that this

isn't necessarily the case.[23] Instead, it seems the quadrants can co-exist and work together. In other words, just because a company, like Dreamworks, has a culture which promotes high external flexibility (i.e. innovation) it does not mean that they are doomed to perform less well on internal process.

Instead, it seems that all quadrants help to promote all types of performance outcome to some degree, and therefore what's important is maintaining a healthy balance, or flexing the emphasis depending on the particular challenges facing the organisation at any point in time.

It's also important to remember that this high-level cultural ethos may translate into very diverse looking cultures at the deeper levels, and lack of alignment at those deeper levels will detract from organisational effectiveness. Consequently, although tools such as CVF provide a useful gauge of the impact of an organisation's strategic focus and values on culture at a high level, it's crucial to go beyond this, to shed light on how this translates into the culture as it is experienced in reality, and the taken for granted assumptions that reflect the deeper, shadow side of culture.

3. A 'strong' culture is always better than a 'weak' one

A 'strong' organisational culture is often talked of in research, particularly among researchers in high performance sport, who assume that measuring the strength of a culture can provide a window on performance.[24] However, what does 'strong' actually mean? And is it always the best thing to have? Both academics and practitioners tend to perceive a 'strong' culture as one that's clearly distinguishable and united, as the quotes from practitioners at our roundtable discussion illustrate:

" At the moment we're striving to get a strong culture ... the thinking is that we will be more successful as an organisation if everyone is aligned to the same goal and the same sort of aspirational behaviours.

" [organisation] went from having a very, very strong and distinctive culture, to what I actually think was a very, very weak culture. There was no clarity on how to make decisions or how things got done.

However, the risk of a distinctive and unified culture is that it may result in a blinkered approach, reducing an organisation's adaptability, as this roundtable guest explained:

" We had a really strong quality culture but found that because we were building such high quality products, it was taking so long, so by the time they got to market, they weren't really what customers wanted ... before sometimes people just felt they were working on a product that will never see the light of day, but since the change there's just more fluidity.

A strong culture, in our view, is more about alignment between what is stated and what is actually lived. This may reflect unity on some core elements, or may embrace the diversity within a culture. In either respect, without a sense of the true nature of your current culture as it is experienced and lived, it's impossible to appreciate to what extent it's acting as an accelerator or barrier to you achieving your strategic objectives.

4. Culture change always takes ages

Although a revolution in culture is unlikely to happen overnight, relatively small and low cost behavioural nudges can be powerful catalysts for changes in culture. The 'nudge' philosophy challenges the common assumption that to change behaviour you must first achieve the challenging task of changing opinions and minds. An increasing amount of research demonstrates that carefully designed 'nudges' can change behaviour immediately, without going through a lengthy process of education and persuasion.[25] In addition, changing culture doesn't mean tackling it in its entirety. Cultural impact can be achieved by identifying specific, targeted interventions, as acknowledged by one practitioner at our round table:

" You can't change everything in one go, but you know you can create these little bubbles in the organisation.

Equally, it's wrong to assume that culture remains stable if you don't try to change it. Culture is created and changed by the everyday conversations and behaviours of each and every employee. It's reflected in the physical environment of the workplace, the rituals, the humour and jokes, the stories and myths amongst other things. Although some of these might remain stable over time, many shift without conscious effort from leaders or HR. In this regard, culture is as a moving object which requires almost as much effort to keep stable as is does to change it.

The art of culture change

Changing culture: where to start

Culture change starts with tuning in, getting to grips with where the organisation's culture is currently at, how it's impacting on the organisation's performance, and how this might need to change in future. This enables you to identify any gaps between the current and perceived future ideal culture. As explained by these roundtable guests:

> **"**
>
> The starting point was actually describing what it is you want.

> **"**
>
> You need to frame that [an understanding of current culture] against where you're going. So, what are you trying to achieve and then how do you want to be?

To really understand culture it's essential to explore all three manifestations of culture, namely:

1. **What is openly articulated** – the aspects of culture leaders and employees are aware of, openly state, or explicitly aim for.

2. **What is experienced** – the aspects of culture that employees experience day-to-day. For example, the behaviours, rituals, language, stories, heroes, habits, symbols, jokes and grumbles around the coffee machine.

3. **What is deeply embedded** – the implicit and unquestioned assumptions that underpin the culture.

In other words, exploring and understanding culture is about drawing attention to what is well known as well as unearthing the cultural influences that are hidden, unrecognised or unspoken about within an organisation.

Because fundamentally culture is about experiences, qualitative research methods such as focus groups and interviews provide the richest form of cultural data, with analysis correspondingly focusing on the interpretation of meaning. Quantitative survey data is however also useful as a way of checking findings with a broader sample of employees. In other words, assessing the extent to which the findings resonate with others throughout the business.

Changing culture: how to go about it

Due to culture being such a complex and deeply rooted aspect of a business, it's often assumed that to change it you would have to do something equally as huge and complex. Fortunately, this simply isn't the case. When it comes to culture change, sometimes small changes can have the biggest impact. Successful culture change is about digging down to identify the specific changes will really make the difference. Although these specific changes will be different from business to business, through our research we have identified some general principles for sparking cultural shifts:

Recruit cultural catalysts to create change through informal communication

As discussed, culture isn't only influenced by the leadership team. It is as much bottom-up as it is top-down, created not only by senior leaders and managers, but also by every employee within the business. Both play an important role in successful culture change, influencing through their communication, both formal and informal.

In fact, culture is influenced equally, if not more so, by the informal communication that takes place across the organisation as it is by the more formal leadership speeches. The stories employees pass on and retell, the conversations around the coffee machine, the rumours on the grapevine, the jokes at departmental social events and the chat on social networks all contribute towards shaping culture.

❝
I think where I've seen most power is in the informal activity.

❝
Our intranet. And it's just, it absolutely transformed in the last 12 months because it's just brought the leadership team and everybody closer together, you've got people from every different site talking and sharing ideas.

So, while it's important that the formal, top-down channels are consistent with the change you want to make, it's also vital to identify, recruit and engage the key influential employees across the workforce at different levels, empowering them to take ownership of the cultural change and make it happen through informal interactions. As articulated by one roundtable guest:

❝
It's interesting, there's key people, so you don't have to change everyone. There's certain key people that can make a fundamental difference.

Use behavioural triggers

Behavioural triggers, or 'nudges', can be used to complement more traditional routes to changing behaviour. Nudges are cleverly designed initiatives that target context to prompt an automatic behavioural response and often have greater impact than those which try to prompt behaviour through rational persuasion.[26]

Nudges have been used by the government as part of public behaviour change programmes, and have often been far more cost-effective than programmes which look to consciously change minds.[27] In the context of public policy an example of an effective low-cost 'nudge' initiative to prevent road traffic accidents involved painting white lines closer together on the approach to a dangerous curve.

Rather than further attempts at educating people about the dangers of reckless driving, instead this simply triggers the sensation that driving speed is increasing and prompts the driver's natural instinct to slow down.[28]

Similar approaches can be taken in a business context. To promote more collaboration between employees, for example, rather than extolling the virtues of collaboration, a simple nudge would be to promote everyone taking breaks at the same time, automatically increasing impromptu communication, thereby increasing the likelihood that people will identify opportunities for collaboration.

Consider what's being rewarded and celebrated

What's rewarded, both formally and informally, has a powerful influence on an organisation's culture. It makes an unequivocal statement about what the organisation's values are and what employees can expect to receive in return for their efforts and performance.[29]

Interest in culture and reward came to public attention during the banking crisis, which prompted organisations to pay greater attention to the types of behaviours, values, and ultimately, the culture that their approach to reward and recognition was reinforcing.

In the U.S., Southwest Airlines, for example, has been extremely successful in embedding their value of 'a servant's heart' in their culture using a recognition programme based on customer recognition. Employees who really demonstrate this value are celebrated in newsletter features, on the intranet, by the CEO in videos played at staff meetings, and at dinners hosted in their honour. The pay-off in terms of client and employee satisfaction has been strong, with staff receiving over 43,000 commendations a year, from both inside and outside the company.[30]

As one of our roundtable guests noted, informal rewards and recognition are also important in providing employees with a form of 'cultural shorthand' or informal rulebook as to the type of behaviour that's expected and encouraged:

> Part of culture for us is that it's your survival mechanism basically. You take your cues from people around you, what gets rewarded, what gets accepted, when you get slapped down, when you don't. So you start to learn how to survive. It gives you a shorthand, so you can get to that point quicker.

> Holistic reward, who gets promoted, who gets recognised, who gets the nice assignments, who gets the prestige. It has a big influence on culture because you recognise immediately, they're the things that are important to this company. And they're reinforced much more effectively that way. I mean, doesn't Jack Welch say "tell me your reward system and I'll tell you what kind of company you are"?

Not only is reward and recognition a strong driver of behaviour, but in cultural terms, a consistent reward culture also provides employees with a sense of stability and predictability. The benefits of this are highlighted by neuropsychology research which highlights the brain's aversion to uncertainty. Not knowing what will happen next requires extra neural energy, it diminishes memory, undermines performance, and disengages people from the present.

While many things impact on culture, being a complex and dynamic system with many moving parts, formal and informal rewards play an important role. But this is not to say organisations need to invest huge amounts in lavish rewards for those who live the values. Our own research with clients tells us that organisations shouldn't underestimate the power of informal recognition such as receiving a simple applause from colleagues for a great piece of work.

Conclusion

Culture change is a journey, and one that you shouldn't embark on until you have a clear idea of where you're starting from. For this, you need to create a detailed map of the current home territory – what works, what doesn't, what we want to keep hold of and what we want to let go of.

Then you can have informed conversations about the type of culture you might like to travel towards, how different it is, and as a result, how hard it is likely to be to get there.

Successful culture change requires an understanding of the complex reality of your culture, and any subcultures within it. Focusing only on the surface level of culture, ignores the deeper levels of culture which may be host to a range of conflicting influences on behaviours and attitudes that you are unaware of. Until you acknowledge the reality of organisational culture as a complex, dynamic and deeply-rooted phenomenon, it's likely that you'll struggle to see any significant shifts, since these less visible or unidentified forces could be working against you.

In addition, a huge risk for any organisation is the potential disconnect between the type of culture that is articulated or claimed to exist, and the culture that is actually experienced by employees. This lack of alignment is confusing and exhausting for employees; it provides no clear sense of direction or corporate identity, causing frustration and disengagement. For leaders, it's equivalent to being at the helm of a rudderless ship. With little control over your actual trajectory, don't be surprised if you unexpectedly hit rocks!

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