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Transforming Organizations: Why Firms Fail

By any objective measure, the amount of significant, often traumatic, change in organizations has grown tremendously over the past two decades. Although some people predict that most of the reengineering, restrategizing, mergers, downsizing, quality efforts, and cultural renewal projects will soon disappear, I think that is highly unlikely. Powerful macroeconomic forces are at work here, and these forces may grow even stronger over the next few decades. As a result, more and more organizations will be pushed to reduce costs, improve the quality of products and services, locate new opportunities for growth, and increase productivity.

To date, major change efforts have helped some organizations adapt significantly to shifting conditions, have improved the competitive standing of others, and have positioned a few for a far better future. But in too many situations the improvements have been disappointing and the carnage has been appalling, with wasted resources and burned-out, scared, or frustrated employees.

To some degree, the downside of change is inevitable. Whenever human communities are forced to adjust to shifting conditions, pain is ever present. But a significant amount of the waste and anguish we've witnessed in the past decade *is* avoidable. We've made a lot of errors, the most common of which are these.

Error #1: Allowing Too Much Complacency

By far the biggest mistake people make when trying to change organizations is to plunge ahead without establishing a high enough sense of urgency in fellow managers and employees. This error is fatal because transformations always fail to achieve their objectives when complacency levels are high.

When Adrien was named head of the specialty chemicals division of a large corporation, he saw lurking on the horizon many problems and opportunities, most of which were the product of the globalization of his industry. As a seasoned and self-confident executive, he worked day and night to launch a dozen new initiatives to build business and margins in an increasingly competitive marketplace. He realized that few others in his organization saw the dangers and possibilities as clearly as he did, but he felt this was not an insurmountable problem. They could be induced, pushed, or replaced.

Two years after his promotion, Adrien watched initiative after initiative sink in a sea of complacency. Regardless of his inducements and threats, the first phase of his new product strategy required so much time to implement that competitor countermoves offset any important benefit. He couldn't secure sufficient corporate funding for his big reengineering project. A reorganization was talked to death by skilled filibusterers on his staff. In frustration, Adrien gave up on his own people and acquired a much smaller firm that was already successfully implementing many of his ideas. Then, in a subtle battle played out over another two years, he watched with amazement and horror as people in his division with little sense of urgency not only ignored all the powerful lessons in the acquisition's recent history but actually stifled the new unit's ability to continue to do what it had been doing so well.

Smart individuals like Adrien fail to create sufficient urgency at the beginning of a business transformation for many different but interrelated reasons. They overestimate how much they can force big changes on an organization. They underestimate how hard it is to drive people out of their comfort zones. They don't recognize how their own actions can inadvertently reinforce the status quo. They lack patience: "Enough with the preliminaries, let's get on with it." They become paralyzed by the downside possibilities associated with reducing complacency: people becoming defensive, morale and short-term results slipping. *Or,* even worse, they confuse urgency with anxiety, and by driving up the latter they push people even deeper into their foxholes and create even more resistance to change.

If complacency were low in most organizations today, this problem would have limited importance. But just the opposite is true. Too much past success, a lack of visible crises, low performance standards, insufficient feedback from external constituencies, and more all add up to: “Yes, we have our problems, but they aren’t that terrible and I’m doing my job just fine,” or “Sure we have big problems, and they are all over there.” Without a sense of urgency, people won’t give that extra effort that is often essential. They won’t make needed sacrifices. Instead they cling to the status quo and resist initiatives from above. As a result, reengineering bogs down, new strategies fail to be implemented well, acquisitions aren’t assimilated properly, downsizings never get at those least necessary expenses, and quality programs become more surface bureaucratic talk than real business substance.

Error #2: Failing to Create a Sufficiently Powerful Guiding Coalition

Major change is often said to be impossible unless the head of the organization is an active supporter. What I am talking about here goes far beyond that. In successful transformations, the president, division general manager, or department head plus another five, fifteen, or fifty people with a commitment to improved performance pull together as a team. This group rarely includes all of the most senior people because some of them just won’t buy in, at least at first. But in the most successful cases, the coalition is always powerful—in terms of formal titles, information and expertise, reputations and relationships, and the capacity for leadership. Individuals alone, no matter how competent or charismatic, never have all the assets needed to overcome tradition and inertia except in very small organizations. Weak committees are usually even less effective.

Efforts that lack a sufficiently powerful guiding coalition can make apparent progress for a while. The organizational structure might be changed, or a reengineering effort might be launched. But sooner or later, countervailing forces undermine the initiatives. In the behind-the-scenes struggle between a single executive or a weak committee and tradition, short-term self-interest, and the like, the latter almost always win. They prevent structural change from producing needed behavior change. They kill reengineering in the form of passive resistance from employees and managers. They turn quality programs into sources of more bureaucracy instead of customer satisfaction.

As director of human resources for a large U.S.-based bank, Claire was well aware that her authority was limited and that she was not in a good position to head initiatives outside the personnel function. Nevertheless, with growing frustration at her firm's inability to respond to new competitive pressures except through layoffs, she accepted an assignment to chair a "quality improvement" task force. The next two years would be the least satisfying in her entire career.

The task force did not include even one of the three key line managers in the firm. After having a hard time scheduling the first meeting—a few committee members complained of being exceptionally busy—she knew she was in trouble. And nothing improved much after that. The task force became a caricature of all bad committees: slow, political, aggravating. Most of the work was done by a small and dedicated subgroup. But other committee members and key line managers developed little interest in or understanding of this group's efforts, and next to none of the recommendations was implemented. The task force limped along for eighteen months and then faded into oblivion.

Failure here is usually associated with underestimating the difficulties in producing change and thus the importance of a strong guiding coalition. Even when complacency is relatively low, firms with little history of transformation or teamwork often undervalue the need for such a team or assume that it can be led by a staff executive from human resources, quality, or strategic planning instead of a key line manager. No matter how capable or dedicated the staff head, guiding coalitions without strong line leadership never seem to achieve the power that is required to overcome what are often massive sources of inertia.

Error #3: Underestimating the Power of Vision

Urgency and a strong guiding team are necessary but insufficient conditions for major change. Of the remaining elements that are always found in successful transformations, none is more important than a sensible vision.

Vision plays a key role in producing useful change by helping to direct, align, and inspire actions on the part of large numbers of people. Without an appropriate vision, a transformation effort can easily dissolve into a list of confusing, incompatible, and time-consuming projects that go in the wrong direction or nowhere at all. Without a sound vision, the reengineering project in the accounting department, the new 360-degree performance appraisal from human resources, the plant's quality program, and the cultural change effort in the sales force either won't add up in a meaningful way or won't stir up the kind of energy needed to properly implement any of these initiatives.

Sensing the difficulty in producing change, some people try to manipulate events quietly behind the scenes and purposefully avoid any public discussion of future direction. But without a vision to guide decision making, each and every choice employees face can dissolve into an interminable debate. The smallest of decisions can generate heated conflict that saps energy and destroys morale. Insignificant tactical choices can dominate discussions and waste hours of precious time.

In many failed transformations, you find plans and programs trying to play the role of vision. As the so-called quality czar for a communications company, Conrad spent much time and money producing four-inch-thick notebooks that described his change effort in mind-numbing detail. The books spelled out procedures, goals, methods, and deadlines. But nowhere was there a clear and compelling statement of where all this was leading. Not surprisingly, when he passed out hundreds of these notebooks, most of his employees reacted with either confusion or alienation. The big thick books neither rallied them together nor inspired change. In fact, they may have had just the opposite effect.

In unsuccessful transformation efforts, management sometimes does have a sense of direction, but it is too complicated or blurry to be useful. Recently I asked an executive in a midsize British manufacturing firm to describe his vision and received in return a barely comprehensible thirty-minute lecture. He talked about the acquisitions he was hoping to make, a new marketing strategy for one of the products, his definition of "customer first," plans to bring in a new senior-level executive from the outside, reasons for shutting down the office in Dallas, and much more. Buried in all this were the basic elements of a sound direction for the future. But they were buried, deeply.

A useful rule of thumb: Whenever you cannot describe the vision driving a change initiative in five minutes or less and get a reaction that signifies both understanding and interest, you are in for trouble.

Error #4: Undercommunicating the Vision by a Factor of 10 (or 100 or Even 1,000)

Major change is usually impossible unless most employees are willing to help, often to the point of making short-term sacrifices. But people will not make sacrifices, even if they are unhappy with the status quo, unless they think the potential benefits of change are attractive and unless they really believe that a transformation is possible. Without credible communication, and a lot of it, employees' hearts and minds are never captured.

Three patterns of ineffective communication are common, all driven by habits developed in more stable times. In the first, a group actually develops a pretty good transformation vision and then proceeds to sell it by holding only a few meetings or sending out only a few memos. Its members, thus having used only the smallest fraction of the yearly intracompany communication, react with astonishment when people don't seem to understand the new approach. In the second pattern, the head of the organization spends a considerable amount of time making speeches to employee groups, but most of her managers are virtually silent. Here vision captures more of the total yearly communication than in the first case, but the volume is still woefully inadequate. In the third pattern, much more effort goes into newsletters and speeches, but some highly visible individuals still behave in ways that are antithetical to the vision, and the net result is that cynicism among the troops goes up while belief in the new message goes down.

One of the finest CEOs I know admits to failing here in the early 1980s. "At the time," he tells me, "it seemed like we were spending a great deal of effort trying to communicate our ideas. But a few years later, we could see that the distance we went fell short by miles. Worse yet, we would occasionally make decisions that others saw as inconsistent with our communication. I'm sure that some employees thought we were a bunch of hypocritical jerks."

Communication comes in both words and deeds. The latter is generally the most powerful form. Nothing undermines change more than behavior by important individuals that is inconsistent with the verbal communication. And yet this happens all the time, even in some well-regarded companies.

Error #5: Permitting Obstacles to Block the New Vision

The implementation of any kind of major change requires action from a large number of people. New initiatives fail far too often when employees, even though they embrace a new vision, feel disempowered by huge obstacles in their paths. Occasionally, the roadblocks are only in people's heads and the challenge is to convince them that no external barriers exist. But in many cases, the blockers are very real.

Sometimes the obstacle is the organizational structure. Narrow job categories can undermine efforts to increase productivity or improve customer service. Compensation or performance-appraisal systems can force people to choose between the new vision and their self-interests. Perhaps worst of all are supervisors who refuse to adapt to new circumstances and who make demands that are inconsistent with the transformation.

One well-placed blocker can stop an entire change effort. Ralph did. His employees at a major financial services company called him "The Rock," a nickname he chose to interpret in a favorable light. Ralph paid lip service to his firm's major change efforts but failed to alter his behavior or to encourage his managers to change. He didn't reward the ideas called for in the change vision. He allowed human resource systems to remain intact even when they were clearly inconsistent with the new ideals. With these actions, Ralph would have been disruptive in any management job. But he wasn't in just any management job. He was the number three executive at his firm.

Ralph acted as he did because he didn't believe his organization needed major change and because he was concerned that he couldn't produce both change and the expected operating results. He got away with this behavior because the company had no history of confronting personnel problems among executives, because some people were afraid of him, and because his CEO was concerned about losing a talented contributor. The net result was disastrous. Lower-level managers concluded that senior management had misled them about their commitment to transformation, cynicism grew, and the whole effort slowed to a crawl.

Whenever smart and well-intentioned people avoid confronting obstacles, they disempower employees and undermine change.

Error #6: Failing to Create Short-Term Wins

Real transformation takes time. Complex efforts to change strategies or restructure businesses risk losing momentum if there are no short-term goals to meet and celebrate. Most people won't go on the long march unless they see compelling evidence within six to eighteen months that the journey is producing expected results. Without short-term wins, too many employees give up or actively join the resistance.

Creating short-term wins is different from hoping for short-term wins. The latter is passive, the former active. In a successful transformation, managers actively look for ways to obtain clear performance improvements, establish goals in the yearly planning system, achieve these objectives, and reward the people involved with recognition, promotions, or money. In change initiatives that fail, systematic effort to guarantee unambiguous wins within six to eighteen months is much less common. Managers either just assume that good things will happen or become so caught up with a grand vision that they don't worry much about the short term.

Nelson was by nature a "big ideas" person. With assistance from two colleagues, he developed a conception for how his inventory control (IC) group could use new technology to radically reduce inventory costs without risking increased stock outages. The three managers plugged away at implementing their vision for a year, then two. By their own standards, they accomplished a great deal: new IC models were developed, new hardware was purchased, new software was written. By the standards of skeptics, especially the divisional controller, who wanted to see a big dip in inventories or some other financial benefit to offset the costs, the managers had produced nothing. When questioned, they explained that big changes require time. The controller accepted that argument for two years and then pulled the plug on the project.

People often complain about being forced to produce short-term wins, but under the right circumstances that kind of pressure can be a useful element in a change process. When it becomes clear that quality programs or cultural change efforts will take a long time, urgency levels usually drop. Commitments to produce short-term wins can help keep complacency down and encourage the detailed analytical thinking that can usefully clarify or revise transformational visions.

In Nelson's case, that pressure could have forced a few money-saving course corrections and speeded up partial implementation of the new inventory control methods. And with a couple of short-term wins, that very useful project would probably have survived and helped the company.

Error #7: Declaring Victory Too Soon

After a few years of hard work, people can be tempted to declare victory in a major change effort with the first major performance improvement. While celebrating a win is fine, any suggestion that the job is mostly done is generally a terrible mistake. Until changes sink down deeply into the culture, which for an entire company can take three to ten years, new approaches are fragile and subject to regression.

In the recent past, I have watched a dozen change efforts operate under the reengineering theme. In all but two cases, victory was declared and the expensive consultants were paid and thanked when the first major project was completed, despite little, if any, evidence that the original goals were accomplished or that the new approaches were being accepted by employees. Within a few years, the useful changes that had been introduced began slowly to disappear. In two of the ten cases, it's hard to find any trace of the reengineering work today.

I recently asked the head of a reengineering-based consulting firm if these instances were unusual. She said: "Not at all, unfortunately. For us, it is enormously frustrating to work for a few years, accomplish something, and then have the effort cut off prematurely. Yet it happens far too often. The time frame in many corporations is too short to finish this kind of work and make it stick."

Over the past few decades, I've seen the same sort of thing happen to quality projects, organization development efforts, and more. Typically, the problems start early in the process: the urgency level is not intense enough, the guiding coalition is not powerful enough, the vision is not clear enough. But the premature victory celebration stops all momentum. And then powerful forces associated with tradition take over.

Ironically, a combination of idealistic change initiators and self-serving change resisters often creates this problem. In their enthusiasm over a clear sign of progress, the initiators go overboard. They are then joined by resisters, who are quick to spot an opportunity to undermine the effort. After the celebration, the resisters point to the victory as a sign that the war is over and the troops should be sent home. Weary troops let themselves be convinced that they won. Once home, foot soldiers are reluctant to return to the front. Soon thereafter, change comes to a halt and irrelevant traditions creep back in.

Declaring victory too soon is like stumbling into a sinkhole on the road to meaningful change. And for a variety of reasons, even smart people don't just stumble into that hole. Sometimes they jump in with both feet.

Error #8: Neglecting to Anchor Changes Firmly in the Corporate Culture

In the final analysis, change sticks only when it becomes "the way we do things around here," when it seeps into the very bloodstream of the work unit or corporate body. Until new behaviors are rooted in social norms and shared values, they are always subject to degradation as soon as the pressures associated with a change effort are removed.

Two factors are particularly important in anchoring new approaches in an organization's culture. The first is a conscious attempt to show people how specific behaviors and attitudes have helped improve performance. When people are left on their own to make the connections, as is often the case, they can easily create inaccurate links. Because change occurred during charismatic Coleen's time as department head, many employees linked performance improvements with her flamboyant style instead of the new "customer first" strategy that had in fact made the difference. As a result, the lesson imbedded in the culture was "Value Extroverted Managers" instead of "Love Thy Customer."

Anchoring change also requires that sufficient time be taken to ensure that the next generation of management really does personify the new approach. If promotion criteria are not reshaped, another common error, transformations rarely last. One bad succession decision at the top of an organization can undermine a decade of hard work.

Poor succession decisions at the top of companies are likely when boards of directors are not an integral part of the effort. In three instances I have recently seen, the champions for change were retiring CEOs. Although their successors were not resisters, they were not change leaders either. Because the boards simply did not understand the transformations in any detail, they could not see the problem with their choice of successors. The retiring executive in one case tried unsuccessfully to talk his board into a less seasoned candidate who better personified the company's new ways of working. In the other instances, the executives did not resist the board choices because they felt their transformations could not be undone. But they were wrong. Within just a few years, signs of new and stronger organizations began to disappear at all three companies.

Smart people miss the mark here when they are insensitive to cultural issues. Economically oriented finance people and analytically oriented engineers can find the topic of social norms and values too soft for their tastes. So they ignore culture—at their peril.

The Eight Mistakes

None of these change errors would be that costly in a slower-moving and less competitive world. Handling new initiatives quickly is not an essential component of success in relatively stable or cartel-like environments. The problem for us today is that stability is no longer the norm. And most experts agree that over the next few decades the business environment will become only more volatile.

Making any of the eight errors common to transformation efforts can have serious consequences (see figure 1–1). In slowing down the new initiatives, creating unnecessary resistance, frustrating employees endlessly, and sometimes completely stifling needed change, any of these errors could cause an organization to fail to offer the products or services people want at prices they can afford. Budgets are then squeezed, people are laid off, and those who remain are put under great stress. The impact on families and communities can be devastating. As I write this, the fear factor generated by this disturbing activity is even finding its way into presidential politics.

FIGURE 1-1

Eight errors common to organizational change efforts and their consequences

Common errors

- Allowing too much complacency
- Failing to create a sufficiently powerful guiding coalition
- Underestimating the power of vision
- Undercommunicating the vision by a factor of 10 (or 100 or even 1,000)
- Permitting obstacles to block the new vision
- Failing to create short-term wins
- Declaring victory too soon
- Neglecting to anchor changes firmly in the corporate culture

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Consequences

- New strategies aren't implemented well
- Acquisitions don't achieve expected synergies
- Reengineering takes too long and costs too much
- Downsizing doesn't get costs under control
- Quality programs don't deliver hoped-for results

These errors are not inevitable. With awareness and skill, they can be avoided or at least greatly mitigated. The key lies in understanding why organizations resist needed change, what exactly is the multistage process that can overcome destructive inertia, and, most of all, how the leadership that is required to drive that process in a socially healthy way means more than good management.

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Anchoring New Approaches in the Culture

After years of work, the results were impressive. A once inwardly focused and sluggish aerospace organization was now producing innovative new products at a rapid pace. Not all the offerings were winning in the marketplace, but enough were succeeding that over a five-year period divisional revenues had gone up 62 percent, while net income rose 76 percent; comparable figures for the previous five years were 21 percent and 15 percent, respectively. The division general manager retired, proud that he had helped make an important contribution to the business. He could have stayed a few more years but chose not to: The changes had been made, the results were impressive, the work was done.

At the time of the GM's departure, I don't think anyone fully realized that the new style of operating had never been firmly grounded in the division's culture. If people did, they judged it to be a minor problem. After all, they would say, look at all the change. And look at the results.

Within two years of his retirement, both the new product introduction rate and the success of those products in the marketplace dropped precipitously. Nothing happened suddenly; the regression was all very incremental. At first, no one seemed to notice. After a year, the only top executive who expressed much alarm was a recent arrival from outside the company. Other top executives mostly ignored him.

Here is my postmortem. Some central precepts in the division's culture were incompatible with all the changes that had been made. Yet that inconsistency was never confronted. As long as the division GM and the transformation program worked day and night to reinforce the new practices, the total weight of these efforts overwhelmed the cultural influence. But when the division GM left and the transformation program ended, the culture reasserted itself.

The primary shared value in that organization, a value firmly established in the business's early years, was "developing our technology will solve all problems." Like so much of corporate culture, this idea was never formally stated or written down. When confronted with the belief, most people would readily admit it wasn't entirely true. But give a group of managers three or four beers and then listen to what they had to say, and you heard a lot that sounded like "developing our technology will solve all problems."

Because this core value wasn't diametrically in conflict with the change effort, the two coexisted, although uncomfortably. New practices forced attention first and foremost on customers. The core value would direct it to technology. The new practices were aimed at helping the firm move faster than competitors. The core value said to move at a pace dictated by rational internal technological development.

Someone sensitive to culture would have seen this tension in the company. But because the conflict was so subtle, most people wouldn't have noticed anything. The communication of the vision, the reinforcement by management, the altered performance appraisal, and other influences strongly supported the new practices. You would have had to listen very closely to hear the underlying culture trying to assert itself: "Yes, but, blah-blah blah-blah, technology, blah-blah blah-blah."

Because no one confronted this problem, little if any effort was made to help the new practices grow deep roots, ones that sank down into the core culture or were strong enough to replace it. Shallow roots require constant watering. As long as the GM and other change agents were there daily with the garden hose, all was well. Without that attention, the practices dried up, withered, and died. Other greenery that had been cut back, but that had deeper roots, took over.

Within six months of the division GM's retirement, managers began to more frequently raise questions about business priorities and management practices. Evidence of technological inferiority was nonexistent, yet people said: "I'm afraid that we have been neglecting our technology. If we do that too long, we'll really be in trouble." Meetings among engineers, marketing personnel, sales personnel, and customers became controversial. "The engineers are spending so much time in committees outside their work groups, they're losing their edge." A competitor that ranked seventh in a group of ten on most performance measures suddenly became a standard for comparison. "I recently heard that they spend nearly 20 percent more than we do per employee on R&D. We've got to do something about this."

Within twelve months of the GM's retirement, dozens of little adjustments had been made in how the organization conducted business. Few of those changes were explicitly discussed and affirmed by top management. But the senior executives, with the notable exception of the recent hire, gave tacit approval. Within twenty-four months, some practices regressed to where they had been four years before. Shortly thereafter, the first major performance problems began to emerge.

Why Culture Is Powerful

Q: How could an intelligent group of top executives allow something like that to happen?

A: Because their electrical engineering educations, their MBA programs, and their corporate mentors didn't teach them much about organizational culture, especially its powerful influence on behavior. Living in an overmanaged and underled company for most of their careers just reinforced this blind spot, because culture (and vision) tends to be more the province of leadership, just as structure (and systems) is more of a management tool.

Culture refers to norms of behavior and shared values among a group of people. *Norms of behavior* are common or pervasive ways of acting that are found in a group and that persist because group members tend to behave in ways that teach these practices to new members, rewarding those who fit in and sanctioning those who do not. *Shared values* are important concerns and goals shared by most of the people in a group that tend to shape group behavior and that often persist over time even when group membership changes.

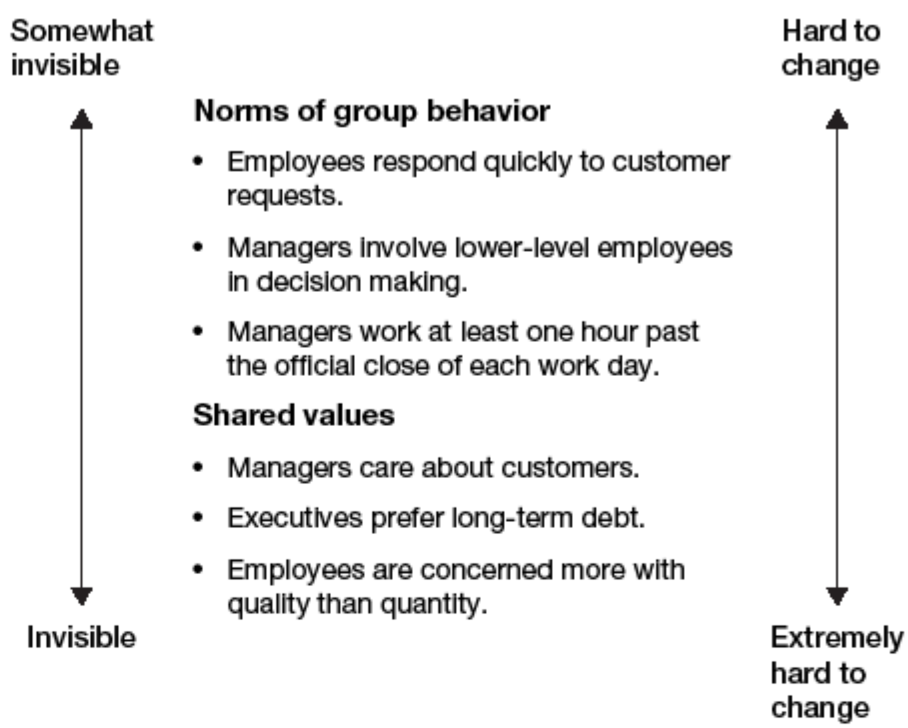
In a big company, one typically finds that some of these social forces—the so-called corporate culture—affect everyone and that others are specific to subunits (for example, the marketing culture, the Detroit office's culture). Regardless of level or location, culture is important because it can powerfully influence human behavior, because it can be difficult to change, and because its near invisibility makes it hard to address directly. Generally, shared values, which are less apparent but more deeply ingrained in the culture, are more difficult to change than norms of behavior. (See figure 10–1.)

When the new practices made in a transformation effort are not compatible with the relevant cultures, they will always be subject to regression. Changes in a work group, a division, or an entire company can come undone, even after years of effort, because the new approaches haven't been anchored firmly in group norms and values.

To understand why culture can be so important, consider this scenario. You graduate from college, apply for jobs, and get three offers. One of the three companies is so enthusiastic about you, and you feel so comfortable with its employees, that you decide to go work there. As a naive twenty-one-year-old, you assume that you have been selected because of your track record, skills, sterling personality, and promise. You also assume you accepted their offer because the company, in an objective sense, was an excellent corporation. You are mostly oblivious to another major screening criteria: culture.

FIGURE 10-1

Components of corporate culture: Some examples



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Few if any of the people recruiting you explicitly said: "One of the big reasons we're hiring you is because we think you will fit in, that you share our implicit values and beliefs, and that you will adjust easily to our norms." They probably didn't say this because they are unaware of how strongly they apply cultural criteria in hiring. In accepting their offer, you may also have been oblivious to the weight you were putting on value fit. The net result is that you and probably all your recently hired peers are easy candidates for what is called "socialization"—the inculcation of the company's norms and values.

During your first year on the job, you're eager to do well and so are particularly alert to clues about how people are accepted and promoted. As long as those practices don't seem foolish or unethical, you try to adopt them. Often, the biggest lessons don't come in a training session or a manual for new employees. The day your boss goes up in smoke over something you do—that is influential. The day you say something in a meeting and a stony silence comes over the group—that is influential. The day an older secretary pulls you aside and reads you the riot act—that is influential. The net result is that you learn and assimilate the culture.

For the next twenty years, you are promoted once every thirty to fifty months. During this time, the culture becomes more and more an instinctive part of you. Indeed, one of the reasons you've gotten promoted is because you fit in and get along with the people who decide on promotion. After a while, although you may not be aware of it, you are teaching the new hires the culture. Indeed, at age fifty, as a senior-level manager, you may be almost oblivious to the culture. You have lived in it for so long, and found it so compatible from the beginning, that you relate to the culture as a fish does to water. Because it is everywhere yet invisible, you just don't think about it, despite the big influence it has on you. Fish get air and food from the water. You get a certain pleasing predictability, lots of positive reinforcement, and a strong emotional attachment to your organization through its culture.

To a large degree, most of the people of your generation in the firm have had similar experiences. Most of these men and women were selected for cultural compatibility. Most had hundreds or thousands of hours of experience in which the norms and values were taught and reinforced. Most now teach the younger employees.

Culture is powerful for three primary reasons:

1. Because individuals are selected and indoctrinated so well.
2. Because the culture exerts itself through the actions of hundreds or thousands of people.

3. Because all of this happens without much conscious intent and thus is difficult to challenge or even discuss.

Consultants, industrial salespeople, and others who regularly see firms up close without being employees know well how much culture operates outside of people's awareness, even rather visibly unusual aspects of a culture. I can still remember going into a major publishing company about twenty years ago and finding that eight of the top eleven male officers were under 5'8" tall. (The firm's founder was 5'6".) When I commented on that fact in an off-hand remark that certainly wasn't meant to be disapproving, the others in the room looked at me as if I were a space alien. At another big company where the first major product had been an explosive and where safety had been an obsession for more than a century, I found that virtually all executives walked up or down stairwells clutching the handrail as if they were all ninety-nine years old.

Because corporate culture exerts this kind of influence, the new practices created in a reengineering or a restructuring or an acquisition must somehow be anchored in it; if not, they can be very fragile and subject to regression.

When New Practices Are Grafted onto the Old Culture

In many transformation efforts, the core of the old culture is not incompatible with the new vision, although some specific norms will be. In that case, the challenge is to graft the new practices onto the old roots while killing off the inconsistent pieces.

For one leading manufacturer of industrial equipment, a "customer-first" attitude had always been at the center of its culture. During the early years, the practices surrounding this attitude were created by the founder and mimicked by everyone else. In the middle part of the twentieth century, with the founder long dead and the firm having a hundred-year history in helping customers, senior management decided to turn this knowledge into explicit procedures that could be taught more easily to an ever-increasing employee base. By 1980, these procedures filled six notebooks, each nearly three inches thick. At that point, "doing it by the book" was a deeply ingrained habit and cultural norm.

In 1983, a new CEO put the company through a major transformation process that was successful. By 1988, the old procedure manuals were no longer used, replaced by far fewer rules and a set of customer-first practices that made more sense in the 1980s. But the CEO realized that the old manuals, while not on people's desks, were still very much in the corporate culture. So here is what he did.

When he took the stage for his keynote address at the annual management meeting, he had three of his officers stack the old manuals on a table next to the lectern. In his speech he said something like this:

> *These books served us well for many years. They codified wisdom and experience developed over decades and made that available to all of us. I'm sure that many thousands of our customers benefited enormously because of these procedures.*
>
> *In the past few decades, our industry has changed in some important ways. Where there once were only two major competitors, we now have six. Where a new generation of products used to be delivered once every two decades, the time has now been cut to nearly five years. Where once customers were delighted if they could receive help from us in forty-eight hours, they now expect service within the course of an eight-hour shift.*
>
> *In this new context, our wonderful old books began to show their age—they weren't serving customers as well. They didn't help us adapt well to changing conditions. They slowed us down. The first evidence we saw of this was in the late 1970s. Although we continued to try to do the right thing, those buying our products didn't perceive it that way, and it began to show up in our financials.*
>
> *In 1983, we decided that we had to do something about this—not only because the economic results were looking poor but even more so because we were no longer doing what we wanted to do and had done so well for so long: serve our customers' needs in a truly outstanding way. We reexamined their requirements and in the last three years have changed dozens of practices to meet those needs. And in the process, we set these guys [pointing to the books] aside.*
>
> *I think at times all of us worried about whether we were doing the right thing. Well, the evidence is pretty clear now.*

He went on at length at this point to review customer satisfaction surveys that showed both improved ratings and clear linkages between those ratings and the new practices.

> *So I think we are living up to our heritage, despite a difficult competitive situation. I'm taking time to tell you all this today for a number of reasons. I know that there are a few of you in this room, each new to the company in the last couple of years, who think the books over here are a joke, bureaucratic mindlessness in the extreme. Well, I want you to know that they served this company well for many years. I also know that there are people in this room who hate to see the books go. You might not admit it—the logical case for what we've done is far too compelling—but at some gut level, you feel that way. I want you to join with me today in saying good-bye. The books are like an old friend who's died after living a good life. We need to acknowledge his contribution to our lives and move on.*

The speech, in its totality, took about thirty minutes. The tone was that of a eulogy. Here we see a man trying respectfully to bury an old set of practices while making sure that their replacements are firmly connected to the group's core values. The analytical side of our brains has trouble seeing the need for this. If we were only analytical, such a speech wouldn't be necessary. But human beings are also emotional creatures, and we ignore that reality at our peril.

From all I've seen, that speech and associated follow-up measures have been very successful. An almost kneejerk reaction to "do it by the book," especially among older employees, has been replaced with support for a more sensible set of practices. That's not a small accomplishment.

In the next few decades, I think we'll have to be doing a lot more of this sort of limited cultural modification. The increased globalization of enterprises will present one variation on this problem a million times over. The new Korean (or Russian) subsidiary doesn't have the same customer orientation (or attention to costs) as called for in the corporate vision. The problem is not that the new foreign entity is anticustomer (or anticost), and the solution is not to try to re-create New York in Seoul. The challenge will be to graft some key values onto already well-formed cultures.

Today, I don't think there are many companies that are very good at this kind of activity. We either ignore norms and values or become cultural imperialists, trying to shove our practices in detail down people's throats. In a globalizing economy, most of us will be forced to confront this issue in the not so distant future.

When New Practices Replace the Old Culture

Anchoring a new set of practices in a culture is difficult enough when those approaches are consistent with the core of the culture. When they aren't, the challenge can be much greater.

Consider a firm founded in 1928. The key experience that shaped its culture was the Great Depression, and as a result, conservative—if not risk-averse—norms and values permeated the company. When the firm stumbled badly in the late 1980s and a new top management team engineered major changes, the tensions between its take-a-risk practices and the old culture were gigantic. Even after top management communicated 100 percent support for the new methods and the evidence began to accumulate that they were working, the old culture refused to die, especially in one part of the company.

What did these managers do? Briefly:

1. They talked a great deal about the evidence showing how performance improvements were linked to their new practices.

2. They talked a great deal about where the old culture had come from, how it had served the firm well, but why it was no longer helpful.

3. They offered those over fifty-five an attractive early retirement program and then worked hard to convince anyone who embraced the new culture not to leave.

4. They made doubly sure that new hires were not being informally screened according to the old norms and values.

5. They tried hard not to promote anyone who didn't viscerally appreciate the new practices.

6. They made sure that the three candidates being considered to replace the CEO had none of the Depression-era culture in their hearts.

Even with all of these efforts, killing off the old culture and creating the new one was difficult to accomplish. Shared values and group norms are persistent, especially the former (see figure 10–1). When shared values are supported by the hiring of similar personalities into an organization, changing the culture may require changing people. Even when there is no personality incompatibility with a new vision, if shared values are the product of many years of experience in a firm, years of a different kind of experience are often needed to create any change.

And that is why cultural change comes at the end of a transformation, not the beginning.

Cultural Change Comes Last, Not First

One of the theories about change that has circulated widely over the past fifteen years might be summarized as follows: The biggest impediment to creating change in a group is culture. Therefore, the first step in a major transformation is to alter the norms and values. After the culture has been shifted, the rest of the change effort becomes more feasible and easier to put into effect.

I once believed in this model. But everything I've seen over the past decade tells me it's wrong.

Culture is not something that you manipulate easily. Attempts to grab it and twist it into a new shape never work because you can't grab it. Culture changes only after you have successfully altered people's actions, after the new behavior produces some group benefit for a period of time, and after people see the connection between the new actions and the performance improvement. Thus, most cultural change happens in stage 8, not stage 1.

This does not mean that a sensitivity to cultural issues isn't essential in the first phases of a transformation. The better you understand the existing culture, the more easily you can figure out how to push the urgency level up, how to create the guiding coalition, how to shape the vision, and so forth. Nor does this mean that changing behavior isn't a key part of the early stages of a transformation. In step 2, for example, you are typically trying to alter habits and create more teamwork among a guiding coalition. Nor does this mean that some attitudinal changes are not a part of step 1, where complacent worldviews are attacked. But the actual changing of powerful norms and values occurs mostly in the very last stage of the process, or at least the very last stage in each cycle of the process. So if one of the change cycles in a larger transformation effort is associated with a reengineering project in department X, that project will end with an effort to anchor the work in the department's culture.

A good rule of thumb: *Whenever you hear of a major restructuring, reengineering, or strategic redirection in which step 1 is "changing the culture," you should be concerned that it might be going down the wrong path.*

Both attitude and behavior change typically begin early in a transformation process. These alterations then create changes in practices that help a firm produce better products or services at lower costs. But only at the end of the change cycle does most of this become anchored in the culture.

I've seen a dozen cases over the past decade in which the senior VPs of human resources were assigned to "change the culture" in firms with no overall transformation process or in firms with a project that was run independently or ahead of bigger change efforts. Typically, these HR managers struggled along for a few years trying hard to do something useful. They would produce statements of desired values or group norms. They would hold meetings to communicate this information. Sometimes they would launch training programs to "teach" the values. But as staff executives, they were in a weak position to introduce a major change that would affect the entire organization. And the basic conception of the proposal—to get in there and hammer that culture into shape—made success virtually impossible from the outset.

TABLE 10-1

Anchoring change in a culture

- *Comes last, not first:* Most alterations in norms and shared values come at the end of the transformation process.
- *Depends on results:* New approaches usually sink into a culture only after it's very clear that they work and are superior to old methods.
- *Requires a lot of talk:* Without verbal instruction and support, people are often reluctant to admit the validity of new practices.
- *May involve turnover:* Sometimes the only way to change a culture is to change key people.
- *Makes decisions on succession crucial:* If promotion processes are not changed to be compatible with the new practices, the old culture will reassert itself.

Some observers are dismissive of these cases and the people associated with them. But I've found these executives are usually smart, dedicated, and hard-working individuals. Their failures tell us less about them than about the extraordinary difficulty of changing corporate culture. (See table 10–1, which sums up the key features of anchoring cultural change.)

It is because such change is so difficult to bring about that the transformation process has eight stages instead of two or three, that it often takes so much time, and that it requires so much leadership from so many people.