

Achieving ROI from Organization Culture Development

The right approach to culture change and human capital development can produce 2000% to 10,000% returns on the investment.

Background

Can you describe your organization's culture and identify precisely how it enables or hinders the accomplishment of your business' goals?

Many leaders who do see their culture clearly are interested in transforming aspects of it that are limiting or ineffective. Culture change processes are usually then aimed at producing the kinds of organizations these leaders long to lead: a more involved and productive work force, perhaps; more highly skilled, or more team-based. Some leaders want a self-managed work force that is adept and fluid in the face of change. Others strive to create a "learning organization."

Each of these concepts has something about it that invites support, at least initially. Each has been carried out successfully by some companies. But they seldom generate the levels of returns on investment (ROI) that their leaders typically had in mind at the outset.

Culture change efforts often fail to generate significant improvement in business results, and sometimes fail altogether. Often, this is because the seed idea is not developed into a comprehensive vision and strategy that reflect the required relationship between the culture and business results.

Where Organization Culture Fits

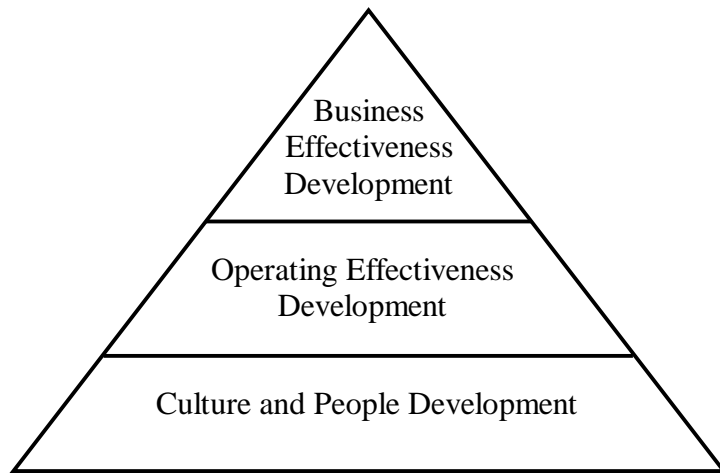
Culture development is not the appropriate focus of a change effort, in and of itself. It should represent the developmental process that underlies two other strategic thrusts:

- Improving operating effectiveness
- Improving and extending business results

The role of cultural development in this three-pronged approach is to represent the values, mental frames of reference, thinking and action-taking capability that people need to develop and apply to all work.

Normally, an effort to make real change in these three areas begins with a focus on one of the three. The appropriate sequence or staging of progress through these three areas depends upon the specific needs of the business.

Three-Tiered Approach to Culture Change



Example #1:

In one business, the appropriate mission, business strategy and objectives may not be in place. Work on culture in the absence of a compelling business strategy often strikes people as arbitrary and controlling. This is especially so if operations seem to be relatively smooth and efficient. Resistance to change will tend to be strong.

Good work on business strategy may produce a well-defined future with needed changes in products, costs, markets, customer relationships, etc. When the strategy is communicated fully, the resulting understanding tends to evoke spirited support. Changes in operations and culture to meet the strategic need are then easier to understand and pursue.

Example #2:

In another company, a terrific business strategy may be in place, but the need for culture development is both highlighted and obscured by operational ineffectiveness. In this case, the operating problems—product or service quality, delivery timing, costs, and/or other operating results—must be addressed first for the real cultural issues to surface fully.

People down through this organization would not be likely to agree that the prevailing culture is a problem. This is particularly so when they can produce a long list of grievances such as needed equipment upgrading, suppliers' product quality, or other things they believe are out of their control. Once the causes of operating problems are uncovered and operations improve somewhat, then everyone can support other changes more readily. The need for culture change can then be addressed, but in a more balanced and acceptable light.

Example #3:

A company's leaders might feel they have an excellent business strategy and terrific operational improvement programs in place. Yet current results and future growth are being stymied by the existing organization culture. Thus, a real change in culture should be first and foremost among their priorities.

In all three cases, as in every business, there are direct, definable, systemic relationships among these three arenas—business, operations, and culture. They must be intelligently addressed in a phased process of overall improvement for a business to succeed at transforming itself and its future.

Thus, for a culture change effort to have the greatest probability of success, it has to be an integral part of a larger and more systemic effort. It begins with work to increase the value that the business attempts to provide to customers, and then reflects back into needed evolution in operations and culture.

Culture Change: A Poor Investment?

Even slow-growth growing companies typically require at least 40% per year projected return on capital projects. Several surveys of returns on organization change initiatives have been conducted over the past two decades. The average returns on investment from the initiatives surveyed were about 20% per year, with many achieving 30% or more and others failing altogether.

Research groups returned to the companies in the years following their first surveys. They typically learned that only about one-third of the companies had been able to sustain their advances, and the rest were losing ground once again. Thus, the average ongoing return from all culture change efforts surveyed is somewhat lower than 20% per year. This is unacceptable to most business leaders. It is no wonder that they are reluctant to invest further in their people's capabilities.

The Foundation for Higher Targets and Greater Success

The causes behind the low returns start with the leadership's beliefs. Every organization change strategy begins with one or more leaders' beliefs about people—about their mid-level leaders, the mid- and lower-level managers and supervisors, and the work force. Those beliefs form the leaders' concepts of the cultures they want to lead and their approaches to creating those cultures. Their beliefs also limit what is possible to achieve in terms of business results.

For example, most leaders say, when asked, that what they want from their work force is efficiency and quality. That is, the people on the “firing line”—those who are employed to add value in the producing process and deliver it to customers—are *limited* to the achievement of efficiency and quality. They are not trained, organized, or led to create additional value for their customers or other stakeholders.

Their supervisors and managers have similar limitations in the way their roles are defined and their contributions planned and reviewed. The very definition of managing is restricted to the lowest level—usually expressed as some form of keeping things running smoothly, people motivated and productive, and results improving slightly—basically a “maintenance” role.

A new paradigm is needed for generating extraordinary returns from human capital.

Here is a multi-dimensional belief that has been behind extraordinary change efforts that returned 500%, 1000%, even 10,000%, measured over several years, on the investment in organization culture change:

The vast majority of employees at every level of a company will apply themselves conscientiously to the success of a major change effort when:

- They have reason to believe that they are valued as people
- They feel they are being treated fairly in all employment concerns
- They understand how their company's products add value to their customers' endeavors, and find meaning in it;
- They understand how their work contributes to the value provided to customers
- They have an overview understanding of how revenues, costs, and profits interrelate for their business
- They have at least a cursory understanding of their company's relative competitive position, and the reasons why
- They are actively supported toward becoming more value-adding and more valuable to the company through:
 - ongoing development of their knowledge and skills,
 - development of their problem solving, decision making, planning, and creative capabilities, and
 - the application of those capabilities to improve the effectiveness of operations, the organization, and the business.
- The change effort is aimed at increasing the value the company contributes to all stakeholders: customers, shareholders, employees, community, and the environment.

Leaders of the most successful change efforts believe (or come to believe) that all people have latent potential beyond their current capabilities, as well as the capacity to be motivated by the needs of all the groups of stakeholders of which they are parts. The adoption of the belief above can release the shackles on the entire organization, and start it moving to regenerate a more growthful and profitable business.

The Path to Extraordinary Returns

The process of generating this high-potential belief within the leadership is often just that—a process. It often requires group learning and testing of each others' beliefs, as well as proven examples of the belief in action. Once they commit to leading a more developmental organization, a vision of extraordinary business results, operational excellence and innovation, and organizational capabilities can be created.

The vision is then articulated in a compelling business story for communication throughout the organization. This sets the stage for generation of a “developmental internal strategy.” This is

the path of development that will be followed to bring every group, team, and employee in the business to the new levels of skill, knowledge, and capability required to live out the vision.

The journey may take three years or more, but results begin to accrue almost immediately. Long-standing problems will be “put to bed.” Barriers to the fulfillment of the vision will be addressed and overcome. New ways of organizing to plan, train, and implement will come into existence. Everyone’s job will be redefined to include their role in improving, innovating, and creating new value. Unsuccessful ways of leading, managing, and doing will drop away as everyone gains energy and spirit from successes, big and small. Every success will become a springboard, and every missed step a profound learning.

Those businesses whose leaders suspect there is more potential in their organizations than is currently being tapped are positioned to pursue this new avenue for increasing business growth, profitability, and value. Their next step is to learn to see and articulate needed changes in the way they do business, the way they improve operations, and the way people are developed.

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