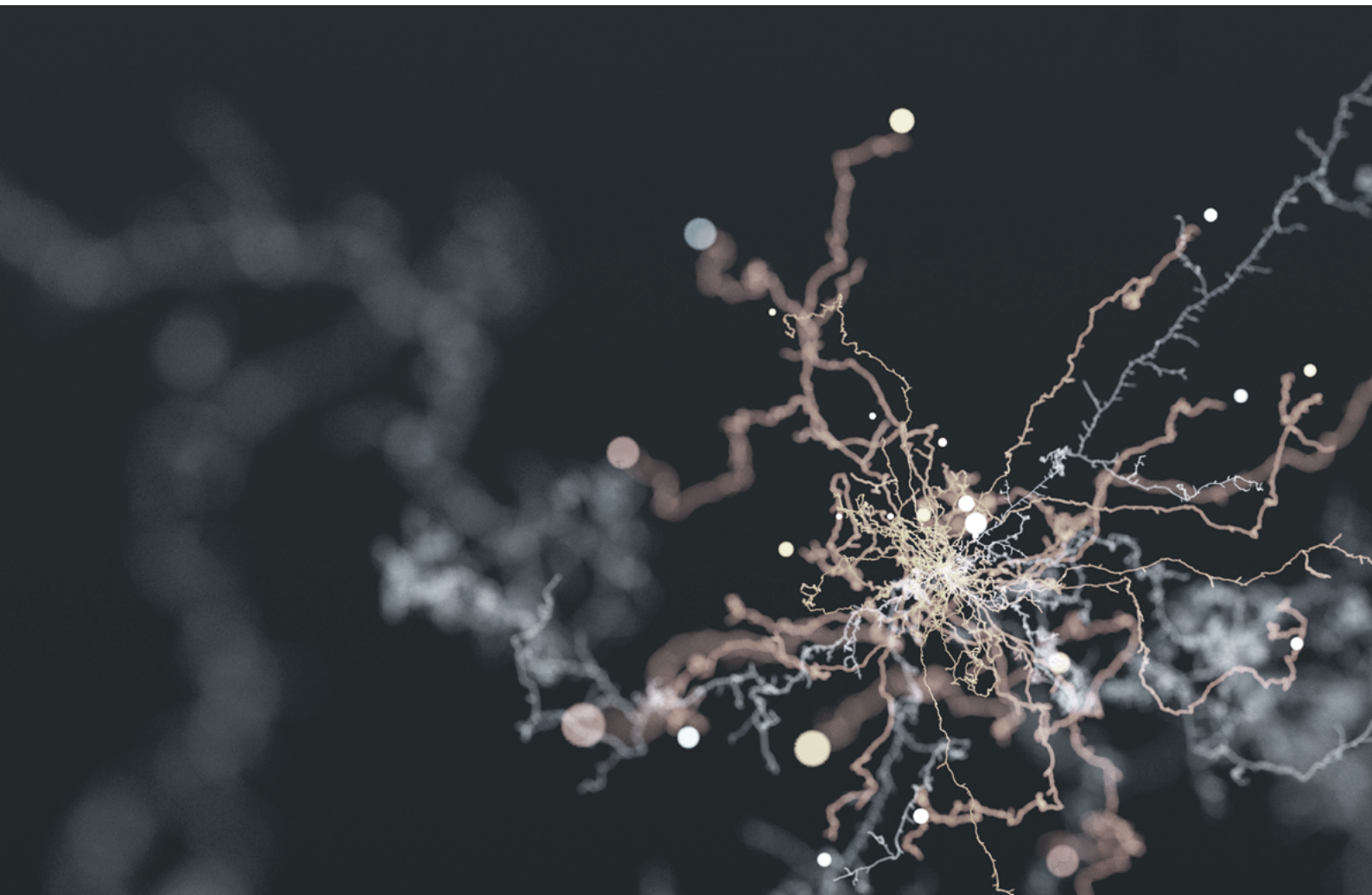


CAPCO

SEVEN STEPS TO SUCCESSFUL CULTURE CHANGE



Culture has always played a role in promoting employee well-being and driving bottom-line value for shareholders. A proactive, enthusiastic sales team will generate much higher revenue than a disengaged, hesitant one. An innovation lab or change team will add more value through cost reductions and new ideas when working in a supportive environment that empowers them to create unique new solutions. And across organizations, lower attrition and higher job satisfaction can be expected when an organization's culture is inclusive, encouraging and rewarding. These are all truisms of corporate strategy.

But now more than ever, wider social developments make understanding and cultivating a desirable organizational culture essential, and urgent. Studies have shown that artificial intelligence and automation will eliminate a significant portion of routine work, leaving complex and creative tasks that require an engaged, highly motivated workforce¹. As these technologies become more integrated into organizations, it's fair to assume that businesses will increasingly rely on technical and cognitive skills to set them apart from other companies, and the ability to attract and retain top talent will be a key differentiator.

Advancing technology has been accompanied by an inexorable march towards flexible working, something likely to be hastened following the global COVID pandemic, jeopardising established ways of working and opening new opportunities for cross-cultural, remotely located teams. As the demographics of the workforce continue to shift with millennials comprising a larger percentage of the workplace², leaders must be willing to tolerate divergent thinking and listen to the voice of employees.

Coinciding with this demographic change is a greater embrace of transparency and social media³ – organizations who fail to develop positive relationships with employees risk their reputation as a desirable place to work. To succeed going forward, organizations must alter their mindset from developing processes to developing people, with culture – the beliefs, values, and customs – being the fabric from which success is woven⁴.

With cultivating organizational culture being beneficial and necessary, why is it so rare to see change projects targeting culture change? One common reason is the perceived ambiguity on how culture can be changed, often leading to culture being dismissed as too intangible to manage.

In this paper, we offer a seven-point framework for analyzing culture change that can lead to concrete actions and improvements for organizations.

1. <https://capco.com/Intelligence/Capco-Intelligence/Workforce-of-the-future>

2. Ibid.

3. Tapscott, D. (2009). *Grown up digital: How the Net Generation is changing your world*. McGraw-Hill. Leung, L. (2013). Generational differences in content generation in social media: The roles of the gratifications sought and of narcissism. *Computers in Human Behaviour*, 29(3), 997-1006.

4. Van den Berg, P. & Wilderom, C. (2004). Defining, measuring and comparing organizational cultures. *Applied Psychology*, 53(4), 570-582. Arnold, J., Randall, R., Patterson, F., Silvester, J., Robertson, I., Cooper, C., Burnes, B., Harris, D. & Axtell, C. (2016). *Work psychology: Understanding human behaviour in the workplace*. Pearson.

1. LISTEN FIRST

Listening to employees is key. Executives and senior management responsible for strategic decision making and direction, who only cascade the decisions made with the assumption that their employees should execute their vision, are making a mistake. Employees on the front lines often have additional knowledge and insights that management teams are not aware of, about various nuances and intricacies⁵. By closing this door, management teams lose access to an important source of data and ideas.

Failing to engage employees also makes employees see any culture change as an instruction, rather than a collaboration. 71 percent of managers in a Harvard Business Review report viewed employee engagement as very important to achieving overall success⁶. If employees are not engaged and their perspectives are not understood, motivation and buy-in will be lower and the change will be an uphill struggle, especially when employees feel that implementing the strategy is not feasible. By listening to employees first, managers can simultaneously create a sense of teamwork and unity, as well as identifying opportunities and threats to the planned strategic and culture change.

The listening exercise does not equate to following employees' proposals. A large part of it may extend to simply understanding what the current culture is and how strategy needs to respond to it. When Louis Gerstner took the helm of IBM, a key challenge he found was the stultifying, bureaucratic culture, and the sense of entitlement many employees had⁷. Had Gerstner not taken the time to understand the culture of the firm and the perspectives of employees, he would have not identified that this was a key challenge to be addressed when formulating a new strategy.

Listening to employees showed Gerstner that culture change was fundamental to saving IBM.

How should managers listen to their employees? We recommend a twofold approach:

1. Gather rich qualitative data through focus-groups or individual interviews to identify themes and explore ideas.
2. Obtain high-volume quantitative data through anonymous surveys. This can test the extent to which people agree with specific statements about the organization or their work (e.g. "Our firm provides good opportunities for training and development").

Keep surveys short to avoid fatigue and vet the questions before they are used. This analysis should be accompanied by clear communication on why the engagement is happening and, afterwards, how the information is being used to formulate the strategy. This ensures employees see the value of participating and feel their voices were heard. Specific examples can be particularly valuable in showing that employees were listened to (e.g. "after listening to your feedback, we are developing a new performance metric to ensure that long-term customer relationship building is properly valued"). But at the same time, executives should not feel constrained by the data but should interpret it within the context of the bigger picture and their wider vision for the firm.

5. Stieger, D., Matzler, K., Chatterjee, S. & Ladstaetter-Fussenegger, F. (2012). Democratizing Strategy: How Crowdsourcing Can Be Used for Strategy Dialogues. *California Management Review*, 54(4), 44-68.

6. Harvard Business Review (2013). The impact of employee engagement on performance.

7. Gerstner, L. (2002). *Who says elephants can't dance?: Inside IBM's historic turnaround*. Harper Business.

2. TELL A STORY

Stories shape our lives and culture every day. Facts and figures are a necessity and can be very useful, but it is often the story of who the customer will be once they have product that makes the sale. The credit card and mobile payment firm Square, which also offers website building capabilities to websites, took an innovative approach to storytelling in marketing by creating a series of short films for its “For Every Kind of Dream” advertising campaign that followed the lives of square customers from all different backgrounds as they pursued their entrepreneurial ambitions. The campaign, which won the 2018 Tribeca X Award for advertising, includes the film “Made in Iowa” showing the trials and tribulations overcome by small-town Iowa residents as they seek to make a life for themselves after being left unemployed. The brand message – Square’s role in empowering people to follow their dreams – is clear and it taps into something bigger. Apple are also experts in crafting a narrative, with a show as well as tell approach that encompasses sleek design, intuitive usability, and an emphasis on simplicity that permeates their advertisements and products.

Whilst marketing executives know the centrality of storytelling to value creation, it applies equally to strategy, operations, and culture. CEOs and executives need to create a shared vision to drive change within their organization. Who will we be as an organization? Why do we want this? What makes us great or unique that we can tap into? The answer to these questions should be shaped into a compelling narrative that will reach people with different interests and attitudes.

For some of the audience, customer service may be essential, whereas for others it may be the firm as a collective or perhaps opportunities for personal development. Weaving in these various threads is vital to ensure the story, and the underlying cultural change, has mass appeal. Facts, figures and business plans play an important role in ensuring the logical consistency of the narrative – similar to a plot hole in a fiction story, logical gaps or

inconsistencies can shatter immersion and make us question the quality of the story. But the emphasis should be the narrative and the vision it creates.

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New challenger banks such as digital and virtual banks are a good case study for this approach. Their narrative is often consumer-focused: helping consumers to manage their financial lives, providing increased flexibility and convenience, as well as offering innovative platforms and tools with a sleek design. Monzo, an early, fully-mobile challenger bank in the UK, offers several benefits including a way to sort your salary into bills, spending and savings, no fees on spending abroad, easily accessible lending services – all with a few clicks on your phone.

Operationally, digital banks emphasise agility and innovation, tapping into a desire to be creative and to disrupt the established players. This complements their agile working practices, flat structure, and inclusive environment where everyone’s voice is heard. This has led to faster development cycles and a higher velocity in launching new features for Revolut, N26, Monzo and other challenger banks compared to established players looking to offer competitive digital services.

Interestingly, many digital banks have also successfully tapped into wider social narratives surrounding the future of banking and democratisation of finance. Through this, digital banks are positioning their employees as pioneers who have the chance to learn and grow whilst reshaping the financial world.

3. CREATE A LANGUAGE

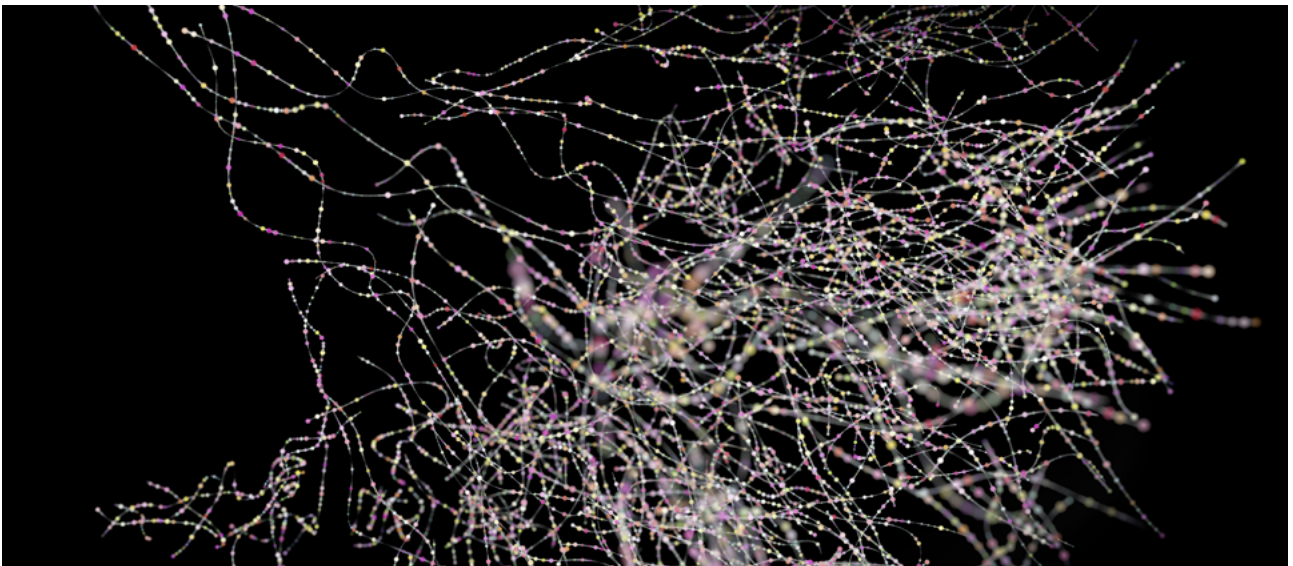
Linguists and anthropologists Edward Sapir and Benjamin Whorf proposed that language can structure thought⁸. It is now well recognised in clinical psychology that labelling of thinking patterns is an important first step in identifying and changing the behavior. Far from being jargon, new terms and phrases can be essential in creating a shared language through which people can express ideas and plan concrete actions. This is integral for culture change which requires a mindset shift for the whole organization. The concepts here are akin to Gadiesh and Gilbert's proposal⁹ for transforming corner-office strategy into action on the frontline by using 'strategic principles' – a short, memorable, action-oriented phrase that can be communicated across the firm to coordinate action.

The idea of creating a language may seem abstract but Diversity and Inclusion (D&I) initiatives are a good example. Diversity and inclusion were recognised as important, with specific

proposals created to put the terms into action. Though different organizations have taken different approaches¹⁰ (some prioritising procedural fairness, others using quota-systems, etc.), they often share the same vision and commitment which is embedded in

“New terms and phrases can be essential in creating a shared language through which people can express ideas and plan concrete actions.”

the language. Technical terms like “unconscious bias” and “neurodiversity” have become part of the normal vocabulary of organizations creating a shared understanding among their employees. As a result, many organizations now have D&I firmly rooted within their culture.



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8. Sapir, E. (1958). Culture, Language and Personality. University of California Press. Whorf, B. L. (1940). Science and Linguistics. *Technology Review*, 35, 229-31, 247-8.
9. Gadiesh, O. & Gilbert, J. L. (2001). Transforming corner-office strategy into frontline action. *Harvard Business Review*, 79(5), 72-79.
10. See Hays-Thomas, R. (2016). *Managing workplace diversity and inclusion: a psychological perspective*. Taylor & Frances.

4. DESIGN ROLES & DEFINE EXPECTATIONS

People often take on various social roles such as employee, partner, or parent. More specific roles in an organization could include transformation agent, sales rep, CEO, etc. These roles carry expectations about how people should behave which implicitly define what success looks like. When a person takes on a new role, or when role expectations change, drastic changes in behavior may occur. This goes beyond the task that people perform – communication style and even personality changes may be witnessed.

In Philip Zimbardo's infamous social psychology experiment¹¹, US college students volunteered to act as either prisoners or prison guards for a two-week experiment that took place in a fake prison. How did the students take to their new roles? The guards started to refer to prisoners using IDs only and not names, made them do physical punishments such as push-ups, and woke them in the middle of the night for roll calls. In turn, the students who were acting as prisoners became subdued, then staged an attempted rebellion by barricading themselves inside a cell. The experiment was abandoned after six-days as the situation quickly went out of control.

This cautionary tale on the power of social roles has some key takeaway lessons for organizations. Firstly, it is vital to build

positive expectations and behaviors into roles. For leadership, this may include emphasising staff empowerment and working across silos whilst discouraging negative traits such as being parochial or micromanaging. For sales teams, this may include building in ethical selling and valuing long-term customer relationships. Secondly, as part of a culture change, creating new roles can add value. In the wake of the financial crisis, many new roles were developed to ensure accountability for the various regulatory changes (continuity planning, transaction reporting, etc.).

In terms of capabilities, many firms we work with have introduced 'champion' or 'ambassador' roles for innovation, diversity and inclusion, and strategic capabilities. The impact of both is to create new behavioral expectations that coincides with clear ownership. Those acting as champions are responsible for, and empowered to, keep their relevant initiative on the agenda and to drive change in this area. In firms we have worked with, innovation champions are better able to challenge the status quo for how things are done and to create new forums to promote ideation and design thinking. This disruption may once have been seen as unhelpful or unnecessary but becomes accepted when it is understood by colleagues to be a key part of the innovation champion's role. As innovation and disruption then becomes embedded in the culture, others are free to challenge ideas and norms.

11. Haney, C., Banks, W. C., & Zimbardo, P. G. (1973). A study of prisoners and guards in a simulated prison. *Naval Research Review*, 30, 4-17.

5. ENGAGE INFLUENCERS

The most frequent reason for organizational change efforts failing¹² is strategic and cultural change resistance by employees. To win over employees, town halls and strategy papers are not enough. It is vital to engage influencers. Influencers are people within the organization who are particularly effective in determining practices and culture. It is useful to think of two kinds of influencers: formal and informal. Formal influencers are those with roles or titles that have decision rights related to some area of the business. Executives understand the need to secure buy-in from management teams for strategic and cultural changes, engaging them early in the process so they can act as role models for adoption of new practices. These formal influencers get their power from organizational rules and reporting lines. This focus from executives is understandable, as negativity from management teams can derail change efforts.

Equally important is to engage informal influencers. Informal influencers are highly influential employees within the organization who act as role models for others, despite not occupying a formal position of power. They may be SMEs, well-liked employees, or sometimes outspoken employees, known

for expressing their perspective openly. Informal influencers can exist at any level of the organization and their endorsement can be disproportionately valuable in getting other employees to support the changes. Identifying and targeting key influencers can win over employees and help to achieve the critical mass necessary to make a change successful.

Whilst not strictly culture change projects, many large system migrations illustrate the importance of psychology in change management and the danger of only targeting formal influencers. Typically, the owner of the area (say the fixed income desk head) will be engaged along with senior IT team members. Whilst the formal influencers are essential, other informal influencers are often not engaged early enough. This could be traders of complex exotic products that will block progress if their trades are not supported. Or it could be the IT SME for the legacy system who will feel threatened by the move and may actively resist progress to decommission the old system. These influencers should be engaged early in the process to secure buy-in and to smooth the transition.

12. Keller, S. & Price, C. (2011). *Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage*. John Wiley & Sons

6. STRUCTURE INCENTIVES & RECOGNITION

We discussed above how new behaviors and expectations should be incorporated in organizational roles as part of culture change, and these should also be reflected in performance review cycles. Formal incentives include the performance metrics used to assess employees, normally during an annual performance review cycle, and the salary and bonus. To ingrain the desired behaviors for organizational roles, new performance metrics should be introduced. A bank seeking to embed continuous improvement in its business as usual (BAU) operations teams may add metrics such as 'number of enhancement proposals' or 'cost-reduction from ideas implemented'. Any metrics created would need to be accompanied by clear communication, messaging and expectations setting as well as being reflected in compensation.

Of equal importance to the formal incentive scheme is informal recognition, yet this is often underutilised. Informal recognition can take the form of a personal thank you, an email to the team or to management congratulating someone on a job well done, an internal award, a bottle of champagne, or any other token of appreciation. The more personalised the better – some people would dread the thought of being called on stage at a townhall to be congratulated whereas others would relish the opportunity. Managers should have informal recognition built into their role expectations and may even be given a budget to promote recognition.

Informal recognition has the benefit of being immediate – employees are recognised when they perform well and encouraged to repeat the positive behavior. The psychologists Edward Thorndike and B. F. Skinner showed that if feedback is delayed too long then it will not be associated with the behavior and so the positive behavior will not be reinforced¹³, a drawback of annual bonuses. The immediacy is especially important when asking employees to perform new behaviors as part of a culture change program. A second benefit is cost – many forms of recognition are free or have a negligible cost.

“Of equal importance to the formal incentive scheme is informal recognition, yet this is often underutilised.”

A good example of this is when we worked with a firm who previously gave all employees a Christmas gift: a new tablet, airline vouchers, shopping vouchers, and so on. The few-hundred-dollar expenditure was nothing compared to the annual bonus pool expenditure, but the gift was talked about long-after the bonus payment was forgotten and it sent the message that all employees were valued for contributing to the success of the firm.

13. Thorndike, E. L. (1911). *Animal intelligence*. MacMillan. Skinner, B. F. (1938). *The behavior of organisms: An experimental analysis*. Appleton Century Crofts.

7. DEVELOP CAPABILITIES

People often find learning new skills and knowledge to be a source of motivation and enjoyment. And organizations are often keen to develop new capabilities, be it design thinking and innovation, process improvement, customer journey mapping, or myriad others. These interests should complement each other, but often organizations encounter a lack of motivation when attempting to develop capabilities. Psychologists Richard Ryan and Edward Deci found that people need three things to feel motivated¹⁴:

- **Competency** – the task must be challenging but not too difficult as to be impossible
- **Autonomy** – the person must have some degree of freedom and control in relation to the task
- **Relatedness** – the person's task and day-to-day schedule must offer engagement with the broader team and strategic vision

Developing competency may seem a straightforward task but classroom training alone is not enough. To be truly successful, training should be accompanied by ongoing support and feedback, as well as opportunities for people to implement their skills in a safe environment whilst learning. The wider support structure is important for both developing competency and for building a level of relatedness that helps employees feel connected to the wider organization. Employees should also be

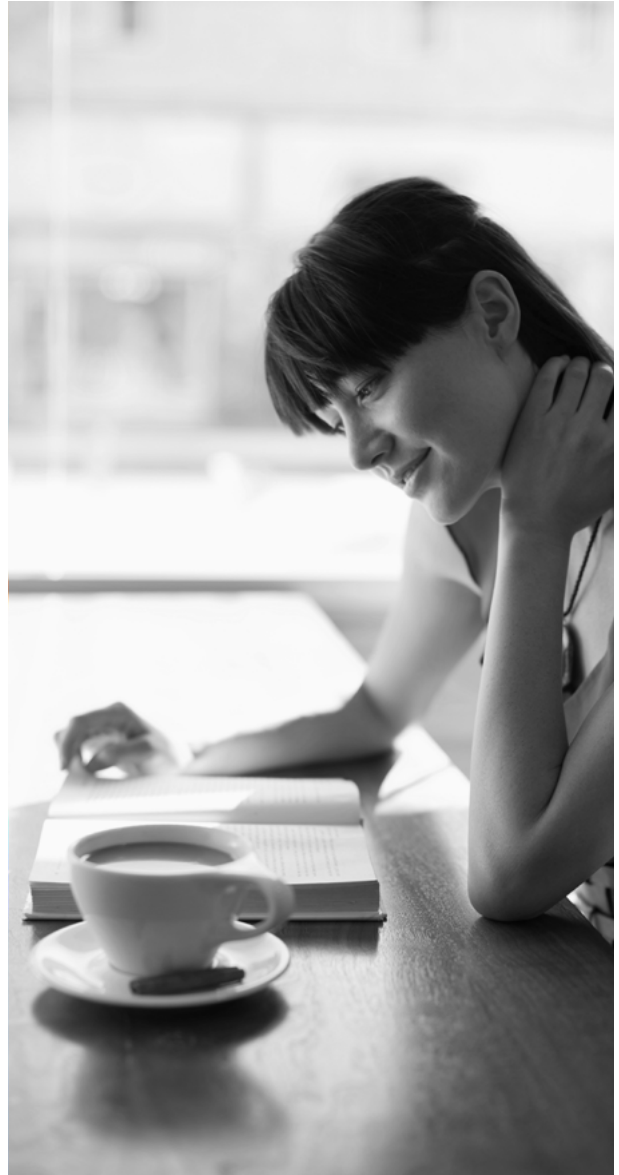
given some freedom to create their own learning journey and decide how they specialise, leading to a sense of autonomy, within the confines of the needs of the organization.

One example of this relates to a client who offered wide-scale training courses to BAU employees on process optimization. Despite excellent feedback from attendees and a surge of enthusiasm, the realised efficiency and cost savings were disappointing. What happened? The problem was that although the attendees were equipped with a valuable new toolkit, once they returned to their normal BAU team environment, they were unsure how to apply their newly acquired skills in practice. In many cases, the BAU teams often had only one person who attended the training course and that person was left isolated and lacked confidence to pioneer their improvement ideas within their BAU teams whose focus remained their day-to-day activities. Whilst training is an important first step, to really develop a capability requires a more holistic and sustainable approach. Current experts should have time allocated to providing ongoing support to colleagues who have recently acquired skills in the same capability, such as acting as a helpdesk for newly trained employees to work through real life ideas and tasks. Creating a regular forum for discussion – a working group call, intranet forum, and so on – helps to generate a sense of relatedness, maintaining engagement and motivation.

14. Deci, E. L. & Ryan, R. M. (2008). Self-Determination theory: A macro theory of human motivation, development and health. *Canadian Psychology/Psychologie Canadienne*, 49(3), 182–185.

CONCLUSION

The human mind and the social dimensions of organizations are complex, but they should not be dismissed as woolly. Often the barrier to culture change is a sense of intangibility and ambiguity that can stifle efforts. Psychology, neuroscience, behavioral economics, and other disciplines have made great inroads in these areas and the insights available can be leveraged to add tremendous value to firms. The framework outlined above provides a map to help navigate the terrain so that your culture change programs can reach the desired destination.



CONTACT THE AUTHOR

Sam Price, Principal Consultant

sam.price@capco.com

Capco Hong Kong

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