

## THE EXECUTIVE GUIDE



# Survival of the Most Adaptable

## Becoming a change-ready culture

- In nature, organisms can take generations to evolve into more advanced versions of themselves. In business, companies do not have the luxury of time when it comes to adapting to changing conditions. Now is a time of immense change. Consider that the Internet as we now know it is only some 20 years old and, today, it can be accessed from the palm of a hand. Advancing technology has rapidly reshaped how companies all over the world operate and communicate with consumers. New competitors are arising from unexpected places. In the span of a few short years, a global recession took root, requiring cost-cutting and revised plans for growth.

To survive, some companies have had to dramatically remake themselves, from breaking into entirely new sectors to trading brick-and-mortar stores for an online presence. It is becoming clear that the sheer pace, pervasiveness and variety of change demand that a company's leadership cultivate a culture able to adapt and advance. Day-to-day changes can be subtle but, in sum, can make a significant impact depending on how the organization's leadership addresses (or does not address) them. Some organizations flounder in the midst of change, while others flourish due, in large part, to agile or what some might even characterize as Darwinian cultures — those that are able to quickly evaluate and shed weaknesses and build strength in new areas. From foresight about the potential silver linings of problems to a commitment to ongoing dialogue, change-ready leaders and the flexible cultures they build share certain traits that allow them to progress while others stand still.

## Hallmarks of change-ready cultures and their leaders

Although each company's culture is unique, we have found that leaders of companies that have demonstrated an affinity for adapting tend to share certain characteristics: ability to recognize the opportunity in a challenge; a focus on the right priorities; commitment to clear, candid communication; accountability; and promotion of creativity and entrepreneurship.

### Seeing what others can't

There are numerous cautionary tales about companies that were once market leaders but have faltered or outright failed due to an inability to recognize the need to change and act upon it. Yet, changing conditions can also present an opportunity for growth if a company's leadership recognizes and seizes it. Rather than reacting to external pressure, companies that are most successful are driven internally to get ahead of a change before it happens.

One company that was able to identify a way to succeed amid hardship was Milliken & Company. Industry observers and the company's past and present executives told *The Wall Street Journal* the story of change and innovation behind the company's ability to refocus and succeed at a time when many of its traditional textile industry competitors had shuttered their doors. The company diversified beyond its original niche and its senior leadership invested heavily in scientific research. According to Milliken's CEO, a large number of its management team have advanced degrees, with more than one-third holding Ph.D.s. To foster a culture that promotes and supports innovation, leaders let employees use a percentage of their time to pursue their own projects, with successful innovators given a greater amount of free time, and also brought in external experts to spark inspiration. Thanks to the proactive approach by its leaders, the company did not just weather the economic downturn, it thrived.

Deutsche Telekom, once simply a landline provider with a conservative business philosophy, recognized that the world of communications was changing for consumers. By investing in developing technology, focusing on consumers' changing behaviors and bringing in fresh, new leadership (the company's CEO is one of the youngest chief executives in Europe), Deutsche Telekom reinvented itself as an integrated telecommunications leader with a full suite of solutions for today's digital age.

### Keeping an eye on the prize

Leaders who are able to identify and zero in on strategic goals and guiding principles are often well-poised to promote change. When executives maintain a steady focus on central priorities, it serves as a compass and helps to ensure the organization will not get sidetracked by an unexpected event or evolving market conditions. As a result, energy is channeled, resources are deployed and time is spent on the issues most integral to the organization's strategy.

## Are you really ready for change?

Leaders of companies at a crossroads often say they need a “change agent,” someone who will radically alter the organization’s course for the better. However, when actually presented with a change agent, many will opt for the tried-and-true choice, not the revolutionary.

Before pursuing an executive to spearhead a change, the first step an organization’s leaders should take is to determine if the organization truly is ready for change. Here are a few questions leaders can ask themselves before embarking on large-scale change efforts:

1

What is the level of our organizational readiness? Do we have the capabilities to change? It only makes sense to install a stronger motor if a car is in good shape. As business cycles and decision times shrink, many organizations have shifted toward matrix organizations, which can be more flexible to change than functional structures.

2

Are we doing the right thing? Are we making this change in order to follow the competition or are we acting as industry innovators? Companies that do not consider whether a change suits their strengths risk overburdening the organization, which can undermine efforts for improvement.

3

Does this leader have a track record of saying “no”? Saying “yes” is easy. But in order to successfully drive change, organizations need leaders who are not afraid of making unpopular decisions.

Jim Stengel, former global marketing officer of Procter & Gamble, studied 50,000 companies over 10 years and outlined the results in his book *Grow*. He found that the 50 best-performing companies are those driven by their ideals. Companies that answer the question of “what is our company’s purpose?” and have leaders who clearly articulate those ideals and drive the message throughout the organization tend to enjoy sustained growth.

At Target Corporation, the answer to “why are we here?” is simple: the customer. “The guest is at the center of every conversation, from what happens if you’re standing in line to check out to the starting point for every strategic conversation we’re having in marketing or merchandising or IT,” said Jeff Jones, CMO of Target. Target’s guest-centric culture enables it to both react to and anticipate the evolving demands of its customers — undoubtedly some of the most important changes the retailer faces. To better embrace these developments, one of Jones’ main goals is modernizing the function by employing new data and social media tools, aligning teams and, ultimately, enhancing creativity and accountability.

Understanding what does not need to or should not change can be equally as important as acknowledging areas for improvement when creating a successful and adaptable culture. At times, change is thought of in tandem with a tough challenge or crisis, yet not all change is spurred by the need to fix something. Some companies are not broken at all, but can reach even greater heights with a few adjustments.

“So many times, I think CMOs or many senior executives are brought into a situation that’s in trouble and that’s not the situation I entered,” said Jones. “The culture of the company is by far one of the greatest strengths that make Target Target. When I joined, my challenge was: How do I build on the success?”

Leadership that grasps the nuances of change and takes the time to assess the situation before acting protects and preserves what works well.

However, companies in trouble often require fast and dramatic change. When Daniel Connors took the helm of Physiotherapy Associates, the company was in dire financial straits. The company was 51 days away from breaching its debt covenants, which would have triggered a Chapter 11 filing. Connors immediately took a dramatic approach. He called for the curtailing of all unnecessary and avoidable expenses until the end of the quarter, including clinic consumables and supplies. Any exceptions would need to be approved by him. On a conference call, Connors was asked what exactly those expenses included at the clinic level. He responded, “Everything.” The staff member asked, “What about toilet paper?” He answered, somewhat jokingly, “I said everything!” That toilet paper story became a pervasive inside joke throughout the organization — a member of management even promised to get Connors a bronzed roll once the company was sold successfully. Supported by humor, his message that in both times of crisis and prosperity, the entire organization shares a collective responsibility for its expenditures and overall financial health was a powerful one.

## Conversation, not commands

Although vital to any company culture, businesses that are adaptable typically excel at communication. It’s nearly impossible to adapt to change if there is not universal understanding about what that change is and what the organization is going to do about it. Leaders need to deliver a single, clear and consistent message about their goals and how the entire team can accomplish them. When changes are more dramatic than gradual, said David West, CEO of Del Monte, there also must be an explanation as to why the vision or strategy is changing. However, these messages do not have to originate solely from the top. Leaders of change-ready cultures act as ambassadors, tapping every level of the organization for good ideas.

Matt Shattock, president and CEO of Beam, is an advocate of soliciting feedback from the full range of stakeholders and doing so in a relaxed setting when possible to help inspire honest, candid feedback. “The 100-day plans everybody talks about was a critical exercise for me,” he said. “I got around to as many of the locations in the company and to as many colleagues as possible and I asked them all the same questions: How are we doing? What are the things we are going to keep doing? Are there things you’d like to see us do differently to improve our performance? We also took the pulse of the organization to ask: Are we going too fast, are we going too slow? Is the change of the right nature? Is it serving the right results? The ability to stop, check in, listen and move forward is part of the process.” This kind of open dialogue helps reinforce the culture of communication while garnering support for needed changes. Unscripted Q&A sessions and regularly scheduled get-togethers with small groups within the organization can also help foster a sense of transparency.

## Accountability

A change-ready culture is flexible, but not without structure. Adaptability will only benefit organizations in the short term unless it’s combined with accountability. Organizations that are most successful at evolving treat change as a starting point, followed by the establishment and ongoing measurement of clear objectives. As the drivers of change, company leadership (and their change management skills) should be evaluated thoroughly. For instance, what does the P&L show in the quarters following the change implementation? Do surveys about employee satisfaction reflect greater happiness with the culture?

## Creativity and entrepreneurship

Encouraging creativity and personal ownership among all levels of employees advances the goals of the entire organization. By injecting a sense of entrepreneurship into Beam’s culture, Shattock believed the company could become an industry pioneer. The company’s launch as a standalone public company in 2011 was also a catalyst that galvanized the organization, inspiring a shareholder mindset that helped to unify and energize across ranks.

One of the key ways to instill a sense of entrepreneurship is empowering people to make choices and take actions that help run the business. Adopting best practices suggested by stakeholders, such as tweaking flavor for a food and beverage company or streamlining a retail website, and adopting them company-wide tangibly reflects a commitment to a collective ownership mentality.

Organizations that provide opportunities for their people to learn and expand beyond their comfort zones can also spur creativity and foster a mindset that transcends silos. “When I started my career specializing in finance, someone took a risk on me to give me strategy experience, and later I went from being a CFO to heading sales,” said West. “I thought of myself as a business person first and a finance person second, and that mindset has served me well in my different roles. Take risks on people early in their careers, when it’s less costly and risky, and move them around to different functions.”

In addition, fun at work, though at times dismissed as frivolous, can greatly contribute to a company’s success. The surprise takeaway for Stengel from his research was that employees of the study’s best-performing 50 companies found work enjoyable, including organizations such as IBM, Zappos and Lindt.

## An ongoing pursuit

In the past, companies could follow the same strategy for 30 years. Those days are gone. The pace of change has accelerated — the market once sparked companies to change approximately every seven years, but now that time has been cut in half, or even less in some industries. A major lesson from those who have created a change-ready culture is that there is no end point. One change may be addressed, but others are always emerging. Great cultures do not stay great on their own. They must be maintained through the consistent efforts of the whole organization and its leadership. Even the best companies can become extinct if their cultures are not nurtured.

## Leading a change-ready culture

Strong leadership can help fight organizational inertia, one of the biggest barriers to successful change. Thus, leaders must set the example from the top when establishing and maintaining a change-ready culture. Here are some best practices shared by architects of adaptable cultures:

**Find a guru.** Identify one or more mentors who have been entrenched in the organization and understand the culture. A new leader brought in to spur change does not have long to develop the intimacy he/she needs with the business and its stakeholders’ needs and aspirations. These inside advisers can help newcomers shorten their learning curve and avoid the missteps that come from trying to exact change with too little information.

**Form an alliance.** Align with colleagues to build trust while also obtaining important insights into the internal dynamics and perceptions that may hinder progress. Leaders who partner with senior functional executives, including the top human resources executive, and other key business leaders are in a better position to secure the acceptance and support needed to execute changes. In addition, leaders should check in with their colleagues and mentors on a regular basis to evaluate their performance.

**Avoid a common catch-22 of leadership.** If a leader acts too quickly, he or she is perceived as not listening, but if he or she responds too slowly, the leader can be deemed indecisive. Strike the delicate balance between the two extremes to earn the trust of the organization. A way to bypass this pitfall? Over-communication. Often, leaders design a solution in their office and then announce it to the wider organization. Instead, leaders should take the organization with them throughout the process of change by over-communicating each step of the way.

**Win early.** Accomplishments at the beginning of a transition, such as a successful holiday retail campaign under new leadership or improved savings from the introduction of a cutting-edge technology, can demonstrate the value of change and set the stage for future adjustments.

**Encourage diversity of thought.** Promote collaboration among a variety of parties. Cross-pollinate teams across functions (e.g., finance and marketing) and backgrounds, such as pairing younger staff with more senior executives so as not to miss out on the full range of perspectives.

**Steer clear of the wrong people.** Having the wrong people in key positions poses a great risk. Change cannot happen when leaders do not possess the skills necessary to adapt. Assess and replace habitual resisters with more open-minded individuals.

**Generate buzz.** Get the organization excited about change. Target orchestrated a talk show-style Q&A session with Jones when he first joined the company and shared the video with his team as a unique way to introduce himself and set a tone of openness. Developed with a colleague in a previous role, he also sent a memo outlining his five working principles in inspiring language made all the more striking because it sounds more like a mantra than a typical business communiqué: “Listen, provoke, love, simplify and believe.”

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