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Creating Sustainable Cultural Evolution

**Katzenbach Center
Global Culture Survey
– 2019 Australian
Viewpoint**



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Introduction

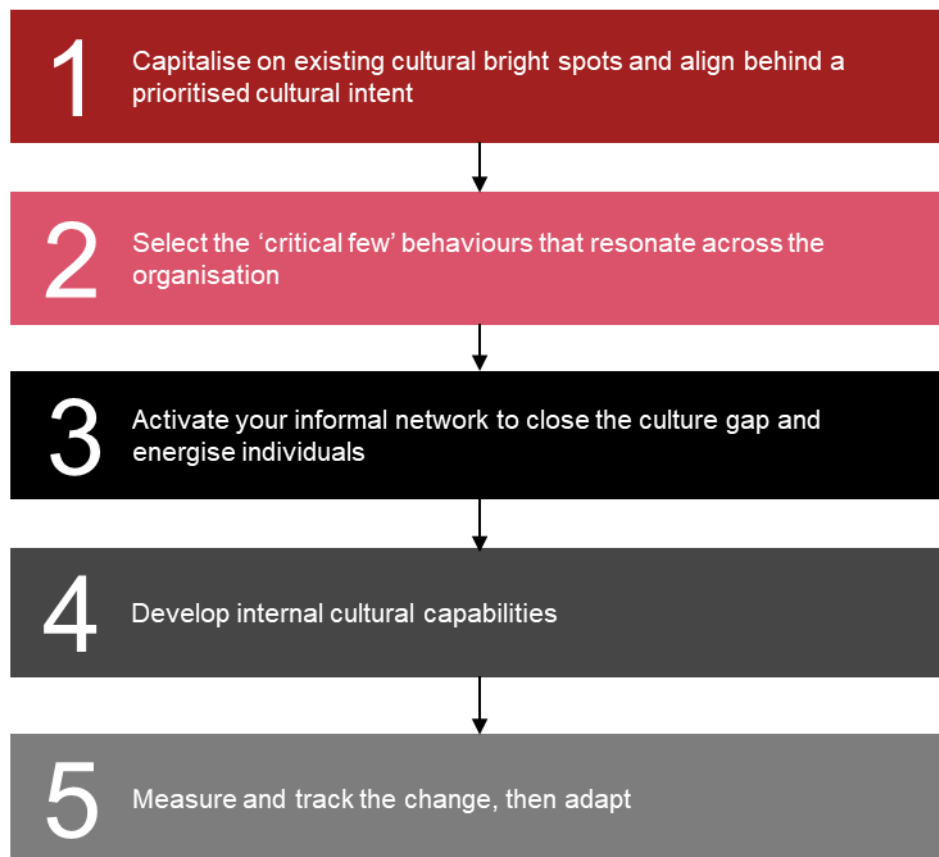
Organisations worldwide increasingly believe that culture plays an important role in achieving growth and transformation goals. According to the Katzenbach Center's [Global Culture Survey](#), almost all (96 per cent) of Australian business leaders agree that cultural change will be required to remain competitive or create growth in the next three to five years.

While most organisations report some shift in culture in the past five years, cultural evolution is often not given the internal resourcing required for success. It remains amongst the most significant challenges organisations face.

To explore the issues faced by Australian organisations embarking on cultural evolution, we follow the journey of fictional organisation Aus. Corp. This business was created from a composite of Australian respondents to the Global Culture survey in combination with our experience observing organisations and helping them manage cultural evolution.

Using Aus. Corp. as an example, this paper outlines our five-step approach to overcoming common challenges in evolving culture and ensuring the ongoing success of your cultural agenda. These steps build on the principles and methodology developed by the Katzenbach Center, Strategy&'s global R&D and innovation engine for culture and teaming, and are explained in detail in our recently published book *The Critical Few*.

Five steps to creating sustainable cultural evolution



The changing perception of culture

Like most Australian enterprises, our composite company, Aus. Corp.¹, holds forums for its leaders to discuss strategic issues. In one forum, Aus. Corp. executives and senior managers from across Australia gathered to wrestle with two topics – what will our industry look like in five years, and how can we ensure that our organisation is at the forefront of the industry?

During the two-day forum, Aus. Corp. leaders presented their plans to tackle the disruption already occurring in the industry. The plans naturally centered on innovation, digitisation, agility and customer experience. Rolling out these plans would enable Aus. Corp. to deliver new products and services to better meet customer needs. It will also help to attract and retain prioritised customer segments, improve employee retention, and reduce customer service costs.

Throughout the forum, participants keep coming back to one question – how can we overcome our cultural challenges to execute our strategy?

Each leader had a different view on how culture would contribute to the company's success. These varied from viewing it as an impediment to executing plans, to considering it to be the key enabler of the company's strategic agenda.

Despite these differences, forum participants unanimously agree that culture is essential to the company's future success and will need to evolve if the company is to remain an industry leader.



Australian leaders almost unanimously agree (96 per cent) that cultural change will be required to remain competitive or create growth in the next three to five years."

Aus. Corp.'s experience is not unique. Australian organisations increasingly recognise that culture is a critical component of performance. A majority (73 per cent) of Australian businesses leaders² agree that culture is more important than strategy or the operating model – a sizeable 12 per cent more than in comparable global markets. Australian leaders also almost unanimously (96 per cent) agree that cultural change will be required to remain competitive or create growth in the next three to five years.

For the most part, Australian organisations have already begun to evolve their culture. Three-quarters of organisations report their organisational culture has changed in the past five years, 55 per cent of which was due to a conscious decision to drive change. However, our experience indicates that culture is less of a priority than traditional growth levers relating to strategic choices and changing operating models.

At Aus. Corp., the executives and senior managers couldn't agree on whether their culture will make it easier or harder for the company to achieve its growth targets. They grappled with how to change something so ingrained in the long history of the organisation.

If we think of an organisation's culture as being like a person's personality, we can begin to see that it is not as simple as asking an introvert to be more extroverted. People don't change their habits quickly or easily. Without deliberate action, effort and persistence, an individual's personality is unlikely to sustainably change – much like an organisation's culture. However, in the short term, we can ask an introvert to work on specific behaviours – for example, attending social events at work to improve their networking. Targeted behavioural change will drive fast and significant benefits, and when sustained over time will lead to cultural evolution.

As cultural evolution picks up pace, our experience shows that organisations that adopt our five-step approach are better able to achieve their cultural aspirations and generate strategic impact.



Aus. Corp will be referenced at the end of each section to illustrate how the principles discussed could practically apply to your organisation

¹ Aus. Corp. is a fictional business created from a composite of Strategy& Clients

² Leaders are defined as respondents identified as C-suite, vice president/director or management.

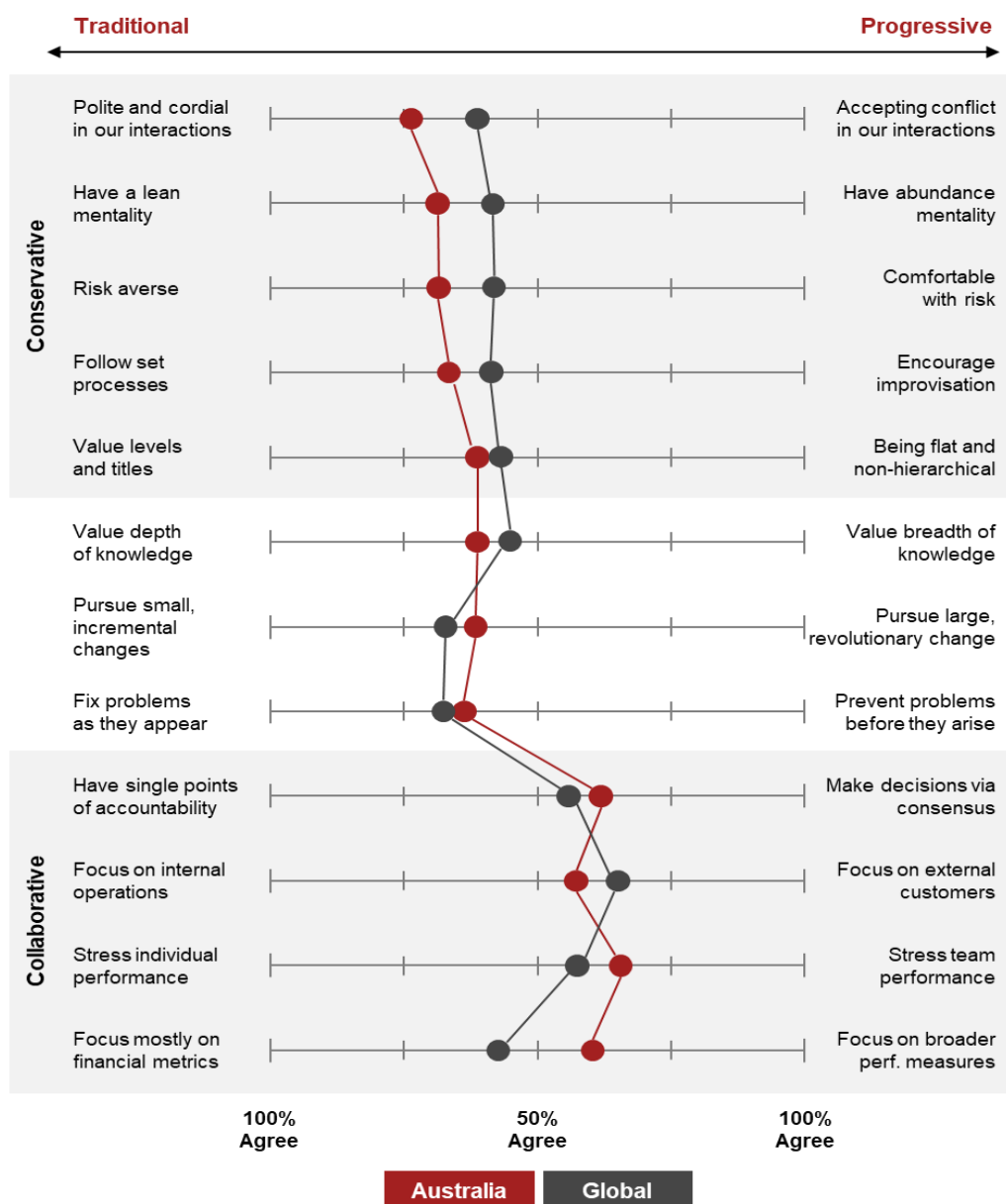
Step 1 - Capitalise on existing cultural bright spots and align behind a prioritised cultural intent

Understand your organisation's unique culture

At the start of any cultural evolution, organisations must answer this key question: 'what cultural traits resonate most across our organisation, and which of these can be leveraged to realise our cultural aspirations?'

Australia is renowned for its unique culture, and this is reflected in our business environment. According to our Global Culture survey, organisational culture in Australian organisations stood out from global counterparts in two ways. Australian respondents typically reported more collaborative traits than organisations in other parts of the world, while also being more conservative. This can be seen in Figure 1.

Figure 1 - Cultural thumbprint comparison³



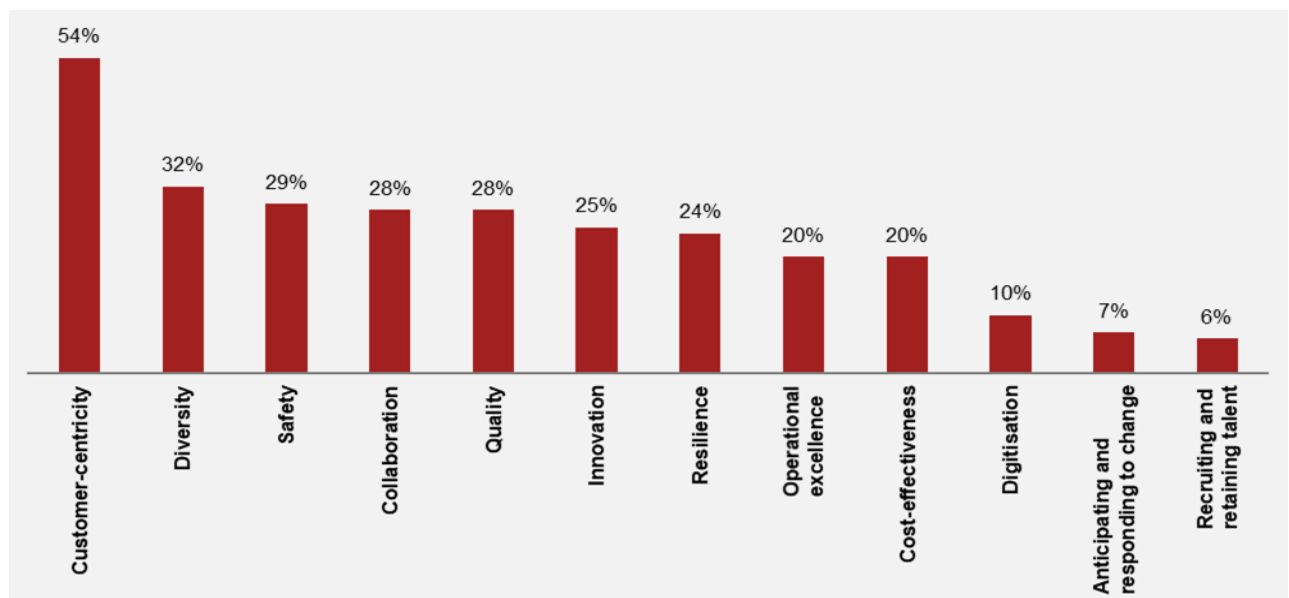
³ Proportion of respondents agreeing to the statement: 'My organisation is best characterised by...' (Select the more accurate option of each pair)

While there is a prevailing view that an organisation’s conservative culture impedes success and leads to prolonged decision times and contested decisions, this assembly of cultural traits also means the organisation comprehensively analyses potential courses of action before making decisions. Conversely, some organisations are more action-oriented. The clear advantage of this approach is greater speed from decision to execution. These companies however tend to adopt initiatives quickly without adequate due diligence.

These examples illustrate that no culture is either all good or all bad and identifying your organisation’s unique cultural traits is essential. When conducted at the root cause level, valuable cultural insight can be garnered to explain not just how work gets done but why habits exist in each specific organisation (and as is often the case, the sub-organisation, where subcultures cannot be ignored). They also show how to maximise impact given your organisation’s personality, strengths and challenges. To this end, organisations should seek to evolve within their current cultural situation.

Figure 2 shows many Australian organisations typically view themselves as customer-centric (54 per cent) and diverse (32 per cent). On the other hand, digitisation, the ability to anticipate and respond to disruption, and the ability to recruit and retain talent are less commonly viewed as strengths. This is despite an increased desire among Australian businesses to develop these capabilities.

Figure 2- Current organisational strengths – percentage of Australian respondents that agree



Align existing cultural strengths with your strategy

Transformation has become the new norm for Australian organisations. In this environment, introducing a complex cultural program is unlikely to create sustained change. Complicated and overly formal cultural transformations typically face heavy resistance from employees and are unlikely to gain traction.

We recommend organisations adopt an approach that builds on existing cultural strengths and aligns them with strategic and operating model imperatives. This approach helps organisations accelerate towards their cultural aspirations while reducing the likelihood of encountering resistance from employees. By using existing cultural strengths that are already familiar to everyone in the organisation, companies can create a strong foundation for sustainable cultural evolution.



Aus. Corp. - Existing cultural bright spots and align behind a prioritised cultural intent

Aus. Corp. is a mature retail business that has been operating in the Australian market for over 50 years. It is conservative in nature and prides itself on developing robust analysis to inform decisions. Aus. Corp. has identified its focus on quality and operational excellence as organisational strengths. However Aus. Corp. has typically struggled to digitise and deliver market leading customer experiences, both of which are critical to its strategy of achieving customer retention in a high churn market.

Step 2 - Select the 'critical few' behaviours that resonate across the organisation

Identify the 'critical few' to drive real change

Evolving culture takes time, and progress can stagnate unless impacted employees engage with the cultural agenda from top to bottom. Typically, Australian organisations have struggled to create this connection. Our research indicates that one of the top three challenges to successful cultural evolution is employees' inability to see how the desired changes translate into day-to-day actions.

To ensure cultural evolution resonates across an entire organisation, it is important to focus on behaviours that leverage current cultural strengths and focus on the desired outcomes of cultural evolution, whether they be sales, risk or customer based. This will help focus the culture evolution effort and ensure that behaviours are selected to most enhance those outcomes.

Our approach focuses on identifying the 'critical few' behaviours that both align to outcomes and help unlock underlying positive energy and pride within the workforce. In this way, you can accelerate cultural evolution. These behaviours should be tailored for different business units and groups, to ensure they are meaningful for team members at all levels. This will also help team members understand how changes in culture translate into clear action.

19%

Respondents who agree that the inability to see how the desired changes translated into day-to-day actions was a challenge

Figure 3 - Example of how a behaviour can be tailored for different groups



Although this approach appears simple, the difficulty of identifying desired behaviours shouldn't be underestimated. It involves input from several stakeholders, and many iterations to ensure you are promoting behaviours that work with the cultural grain, not against it. This involves working with the people that can provide insight into what will create the impact you are seeking to achieve. A common pitfall is defining values, mindsets and attitudes (e.g. 'be accountable for your work'), rather than behaviours (e.g. 'take ownership over delivery of results, not just completion of tasks').



Aus. Corp. - Selecting the 'critical few' behaviours that resonate across the organisation

Aligning to their broader strategy, Aus. Corp. decided that the 'critical few' behaviours should help the culture evolve towards customer centricity and digitisation. Working within their current cultural strengths of quality and operational excellence, Aus. Corp. prioritised to 4 'critical few' behaviours, including:

- Seek to understand the 'what and why' of customers' requests
- Use apps when interacting with customers

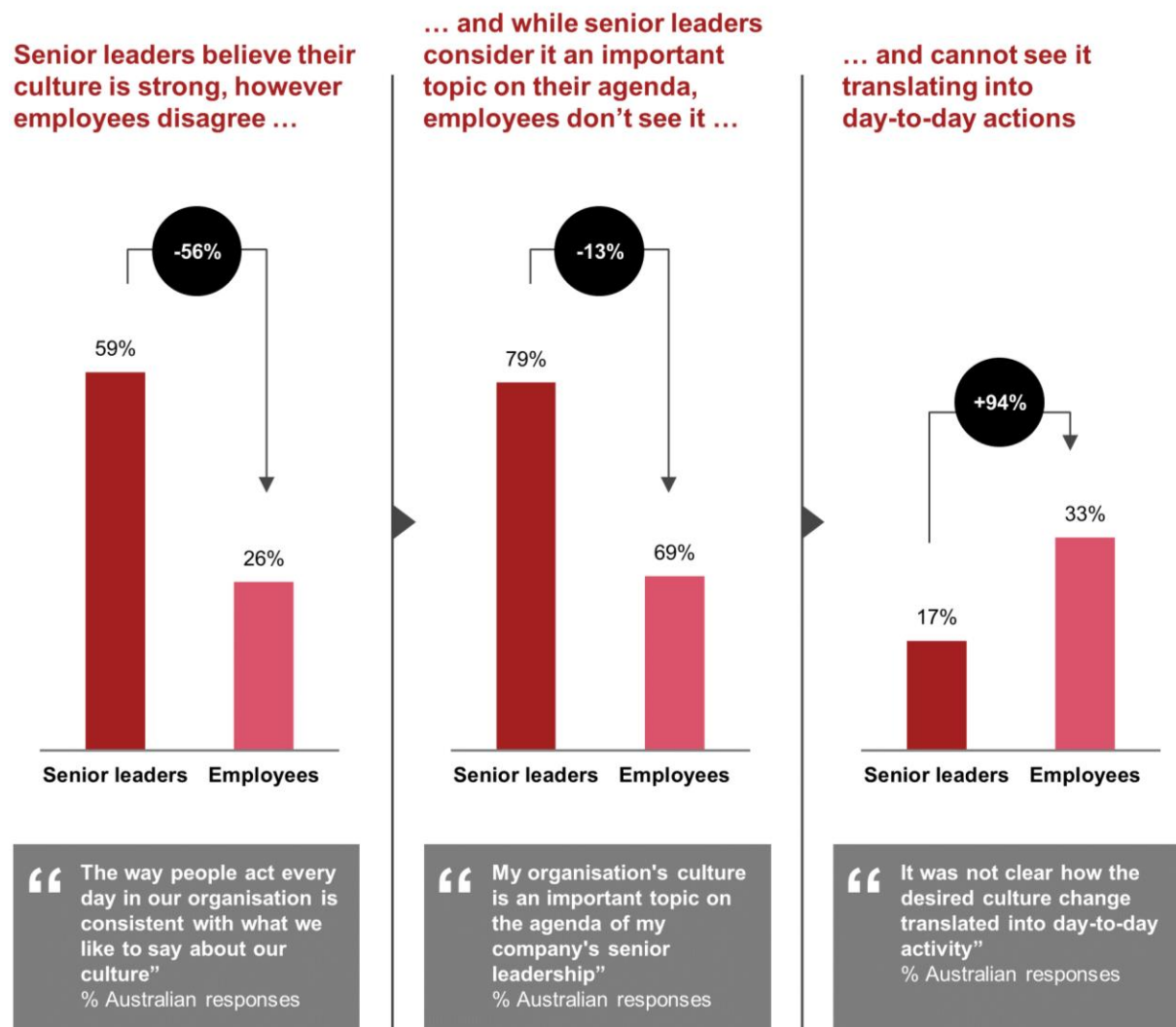
Step 3 - Activate your informal network to close the culture gap and energise individuals

The culture gap

The impetus for cultural evolution is often driven by an organisation's senior leadership team and designed without input from those areas of the business where cultural evolution can have the most impact. We also know that while middle managers can be inspirational leaders who can both relate to the wider organisation and motivate it, they tend to take longer to accept the need for change (compared to senior leadership and front-line workers).

These factors can lead to a fundamental disconnect between the senior leaders' view of an organisation's culture and that of the rest of the organisation, anecdotally called, 'the frozen middle'. Our results, shown in Figure 4, support this view. While 59 per cent of leaders believe the way people act is consistent with their organisation's stated culture, only 26 per cent of employees agree.

Figure 4 - The disconnect between how leaders and employees view organisational culture



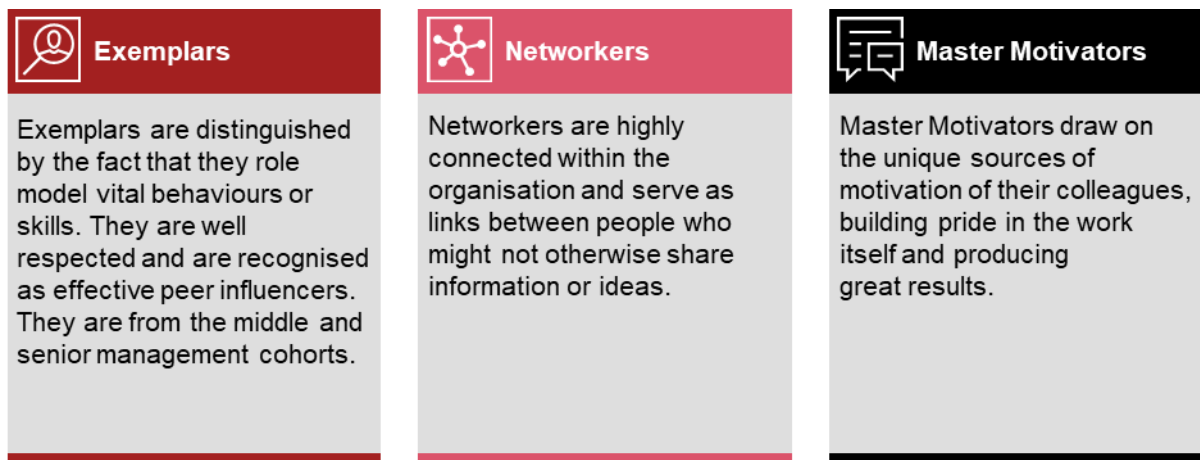
Senior leaders are starting to understand this gap and looking for opportunities to close the gap. According to PwC's 2019 Non-Executive Director survey, 77% of Boards are planning to invest more in, and direct more Board time to understand the corporate culture.

Activate your informal network

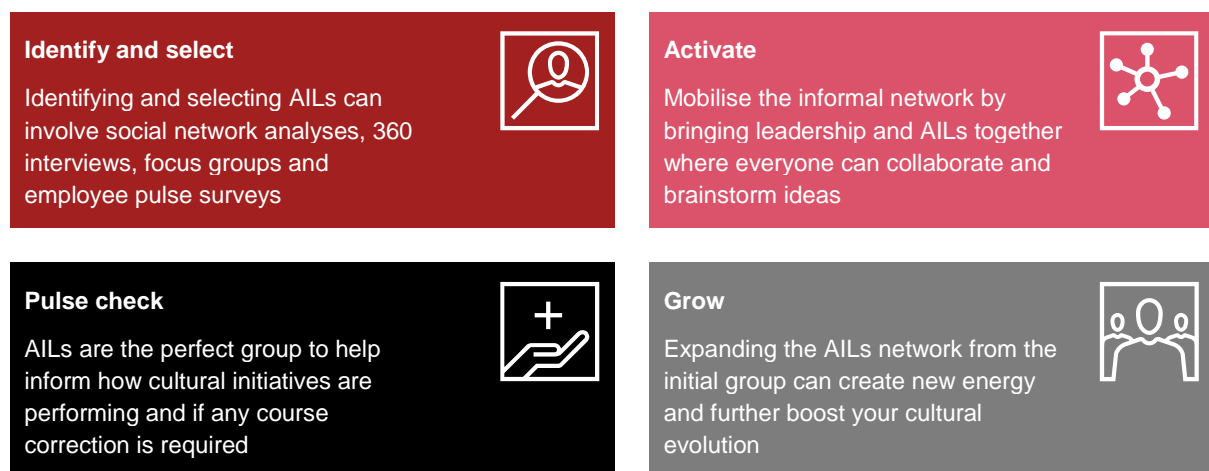
To close the gap, we recommend activating the informal networks that already exist within your organisation. Authentic Informal Leaders (AILs) are people who have influence within the organisation, regardless of where they sit in the organisation's hierarchy. These individuals play a crucial role in embedding critical few behaviours from the bottom up. They are also an important ally for leadership as they create a feedback loop to an organisation's front-line employees.

A common pitfall for organisations is to select 'change champions' or identify high potential employees as AILs. Genuine AILs differ from these groups in an important way – they can identify with greater insight how work gets done within an organisation and how initiatives are received. They can also anticipate whether initiatives will be embraced or resisted. Decades of Strategy& research and experience have revealed three main types of AILs: exemplars, networkers, and pride builders or master motivators as shown in Figure 5.

Figure 5 - There are three main types of authentic informal leaders



The informal network understands the norms in the organisation and knows how to get things done. However, maximising the potential of the network can be challenging – particularly maintaining the initial momentum of bringing together a highly passionate and energetic group of AILs.



When considering the AILs you want to enlist, keep the desired behaviours in mind. Your AILs will ideally be informal leaders who 'see it' (recognise the value of the change), 'get it' (are committed to the change) and, in most cases, already 'breathe it'. They will provide invaluable input when shaping your critical few behaviours.



Aus. Corp. - Activate your informal network to close the culture gap

Each employee of Aus. Corp. was sent the same confidential survey to help identify Authentic Informal Leaders (AILs) across the organisation. Tapping into the informal network and social fabric of the organisation required getting around formal hierarchies, using questions like “Who do you trust for non-technical advice when you’re personally stressed or challenged”.

These questions helped Aus. Corp. find the most networked and influential people that would instinctively make behaviours go viral. The power of this AIL cohort was not only their degree of influence, but their insights into how things really get done. Aus. Corp. used AIL’s implicit knowledge about what would really make a difference to the customer experience to help reshape the critical behaviours: for example, “Use apps when interacting with customers” behavior was refined to “Take a ‘digital first’ stance, considering online or digitised approaches in every new customer offering” – to be more actionable and to better resonate with the frontline customer teams.

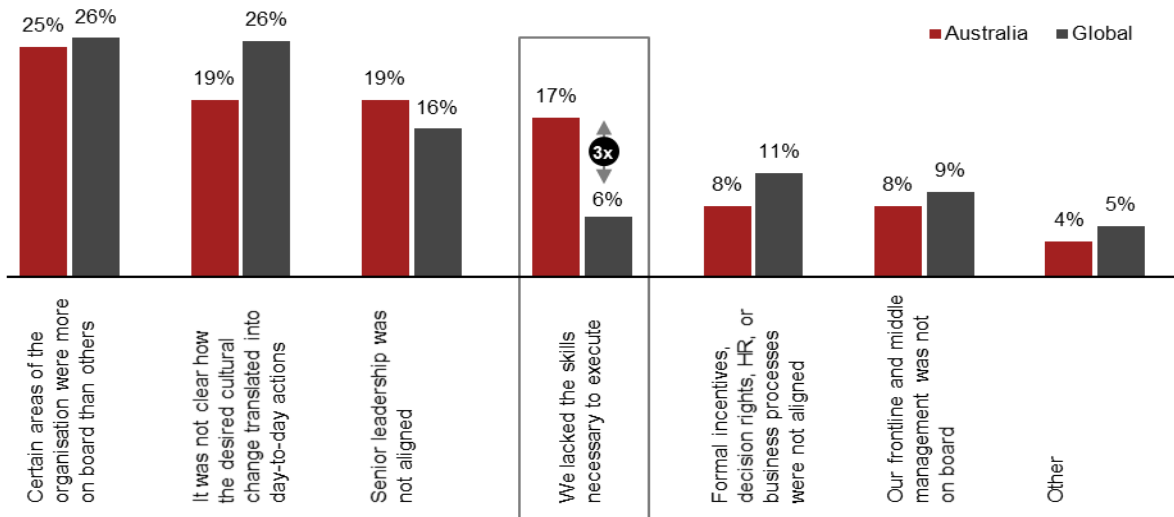
Step 4 - Develop internal culture capabilities

Execution challenges

Delivering cultural evolution is a very specific skill. While this statement seems obvious, in our experience cultural programs are often resourced with managers who have a different set of capabilities. Unfortunately, this can lead to a 'cookie-cutter' approach that lacks a fundamental understanding of how and why cultural evolution occurs. Without an understanding of what drives an organisation’s cultural evolution, it is difficult to successfully evolve.

Our experience with clients is not unique. Australian organisations are three times more likely to lack the skills to execute cultural evolution than their peers globally. This lack of execution skills is likely to be a key cause of organisations failing to achieve cultural evolution. Other challenges include leadership alignment and an inability to bring the entire organisation on board, which typically fall to the culture team to promote.

Figure 6 - Challenges experienced by organisations delivering cultural evolution



The value of a culture specialist

Given the limited supply and growing demand for experienced culture experts, recruitment can be difficult. However, such specialists are likely to deliver immediate and long-term dividends. One immediate benefit of having culture specialists in your team is their ability to bring leaders and employees from across the organisation along on the cultural evolution journey, alleviating several of the challenges identified by survey respondents in Figure 6. In the long term, a culture specialist will prioritise initiatives and ensure that rather than just communicating behaviours, leaders are living them day to day.

A differentiating factor of culture specialists is that they have a philosophy of culture aligned to how scaled behaviours are derived and how they can be influenced. A common warning sign that an organisation's culture expertise may be insufficient is when culture is attempted to be benchmarked against a singular 'best practice' culture or a standard framework is used that does not target the nuances of an organisation's situation.



Aus. Corp. - Develop internal culture capabilities

Six months in and leadership at Aus. Corp. expected further progress. Initiatives had been planned and some executed however not to the expected level and, as a result, not yielding the outcomes. A specialist culture team was brought in by Aus. Corp. to diagnose the root cause.

The value of Aus. Corp.'s culture specialists was demonstrated when the behaviour of 'Seek to understand 'the what and why' of your customers' requests' lagged in adoption, particularly in the inbound call center. Through behavioural observations and working with ALLs, the culture specialists diagnosed resistance caused by a deep cultural trait of being analytical, which meant team members were reliant on Aus. Corp.'s demographic customer information to shape their interactions. They didn't reach for opportunities to enquire further about customers to empathise with them. With this insight, the culture team supported the ALLs to identify and share stories of how seeking the 'what and why' of customers' requests could add value and what this looked like in practice. The result was a 40% uplift in behavioural adoption and 5% reduction in customer churn.

Step 5 - Measure and track the change, and then adapt

Measure and monitor to course-correct

There has been a growing appetite by governing bodies, particularly Regulators and Boards in the wake of the Financial Services Royal Commission, to better understand the impact of culture on performance and to track culture programs. From our client experience, we have observed that culture programs frequently measure activity and progress against activity roadmaps, which is important, but not enough to understand how intended outcomes are being achieved or what course correction is potentially required.

To overcome these challenges, we recommend measuring cultural evolution across three distinct areas shown in Figure 7. By tracking these areas, organisations can quickly understand which initiatives are driving change towards desired outcomes and those that could potentially be hampering efforts. We also recommend that organisations run pilot programs with selected teams across the business to ensure the cultural evolution initiatives will have the intended impact. This approach allows organisations to test and learn but also build critical buy-in from more sceptical parts of the business where the impact is demonstrated.

Figure 7 - Three areas of cultural evolution to measure and track

Progress	Behavioural KPIs	Business Outcomes
Assess the level of participation in cultural interventions, behaviour change efforts, and capability uplift	Undertake periodic measurements to track the adoption and spread of 'critical behaviours'	Track metrics that span the financial and non-financial outcomes of the broader business, that can be driven by cultural traits (e.g. customer, people, financial, risk, etc.)
Examples: <ul style="list-style-type: none"> # authentic informal leaders (ALLs) identified and mobilised % staff completed relevant training % improvement in cultural drivers and climate factors % financial vs. non-financial KPIs % improvement in performance management Leadership capability 	Examples: <ul style="list-style-type: none"> Overall Behaviour Score Surveys to assess incidence and stickiness of critical few behaviours 360 degree observations of collective and individual leadership behaviours Critical few anecdotes Sentiment analysis (text or voice) 	Examples: <ul style="list-style-type: none"> Conversion rate of customers through acquisition steps Customer NPS Net trust scores Employee engagement Employee attrition Online employee rating websites Industry awards Number of safety incidents

The correlation between progress, behavioural KPIs and business outcomes is essential and needs to be continually reviewed. If for example, behaviours are shifting as designed but the linked business outcomes remain the same, perhaps the behaviours need to be reviewed and changed accordingly.

Adapt through insight

As a cultural evolution program progresses and more information about what is and isn't working becomes available, course correction will be inevitable. It is important for management to quickly adapt their approach to capitalise on what is working and stop unproductive initiatives. As the approach evolves and new initiatives are introduced, it is essential to adapt the elements that are measured as a part of the cultural evolution program. While this seems like an obvious step, it can be easily missed in the hustle of executing a cultural evolution program.

By adapting the metrics in line with the evolution, management will continue to make the right decisions and over time, this will accelerate the evolution. Digital tools are now available to generate meaningful insights into individual behaviours across an enterprise, allowing organisations to move far beyond the traditional option of canvassing employees' opinions. We use a cloud-based CultureTech platform that tracks the adoption of critical few behaviours against performance at individual and team levels – holding the entire workforce accountable and meaning cultural impact can be measured at any time.



Aus. Corp. - Measure and track the change, and then adapt

At the start of the culture program, Aus. Corp. was relying on anecdotal feedback and quarterly surveys to track cultural change across the organisation. Inherently, Aus. Corp. struggled to identify which initiatives were driving change and struggled to determine which business units and individuals were truly buying in to the program. More concerningly, the CEO was unable to demonstrate the value of the program to both the Board and Regulators.

Adopting a CultureTech platform has since enabled Aus. Corp. to demonstrate the impact of the culture program and specific initiatives by business units, level of seniority, by teams and individuals. This created a sense of friendly competition between the teams and individual accountability, accelerating the adoption of behaviours. Now that they have behavioural data at the individual level, Aus. Corp have formalised behavioural adoption into their performance management processes to formally reinforce behaviours and recognise adopters.

Conclusion

Across the Australian business landscape, there is growing recognition of the importance of culture in unlocking and accelerating value for organisations as well as managing critical risks. Culture is still a relatively new business discipline compared with for example the well-established areas of corporate strategy or supply chain management. As such much of the conventional wisdom currently applied in organisations around culture and organisational change is yet to be informed by recent research and insights from neuroscience, behavioural economics and organisation psychology. Given the critical role culture has to play in organisation effectiveness, we suggest that you take a short moment to consider our five steps. Use them to test that your investments in this area are providing you with genuine, actionable insight on your current cultural situation and helping you to energise your company's culture to drive the outcomes you need most.



Aus. Corp. - Conclusion

If we fast-forward 12 months from that first Aus. Corp. meeting, early indicators show signs of cultural evolution throughout the company, and pockets of excellence are emerging. These changes became evident during the eight week pilot programs where customer NPS scores increased by 30 points and customer churn reduced by 10%. These results have been maintained as the critical behaviours have become habitual. These behaviours are now scaling across the entire organisation, where the impact continues to accelerate.

Aus. Corp. is also implementing additional ideas suggested by employees to improve customer experience, reduce customer complaints and compliance breaches. While Aus. Corp sees opportunity to further the impact of culture evolution, the company and its Board are committed to building on the early momentum that has been generated in real business outcomes.

Methodology

This paper is based on the results of PwC's 2018 Global Culture survey. This survey asked more than 2,000 business leaders and employees from around the world about workplace culture in their organisation and the need for cultural transformation. The same survey was re-released at the end of 2018 in Australia to increase the number of Australian responses and strengthen the analysis for the Australian perspective.

The paper also draws on the principles and methodology developed by the Katzenbach Center, part of Strategy&. These principles are outlined in *The Critical Few* by Jon Katzenbach, founder of the Katzenbach Center, James Thomas and Gretchen Anderson.

The Critical Few is a practical guide to leveraging culture to accelerate and sustain transformation for leaders at all levels. The narrative is structured as a conversation between Katzenbach and a fictional chief executive officer created from a composite of real-life leaders and client situations.

In this paper, we refer to the example of Aus. Corp., a fictional business created from a composite of Australian respondents to the Global Culture survey and their responses. We also draw on Strategy&'s experience observing Australian organisations and assisting them to implement continuing cultural evolution.

About Strategy&

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The result is an authentic strategy process that's powerful enough to capture possibility and pragmatic enough to ensure effective delivery. It's the strategy that gets an organisation through the changes of today and drives results that redefine tomorrow. It's the strategy that turns vision into reality. It's strategy made real.

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