Is culture change a "busted flush"?

By *Mick James, July 2019*

Research suggests that more than 80% of organisational change programmes fail, a figure that has remained strangely constant since the early 2000s.

To address why this might be M&C Saatchi Transform, a new business that uses behavioural science to drive behavioural change, on July 2 hosted an evening seminar in conjunction with the Centre for Management Consulting Excellence.

Introducing the panel, Transform Managing Director Stephen Jolly said his theory was that in a market dominated by large management consultancies staffed by numerate people, systems and processes were almost always prioritised over the a living breathing human being. Change is done to people, not by them.

He explained his interest. "At Transform we want to bring people back into view," he said. "We want to give them a voice and assist them in delivering real change within their organisations."

This theme of people - human capital - was taken up by Christian van Stolk, Vice President at independent research institute, RAND Europe. He found that in organisations like the NHS, which is traditionally very resistant to change, innovation varied widely between similar units and this very much depended on the coherence and commitment of the management team.

"The management team that was the most successful saw innovation as an opportunity to shape their destiny and change the way they were doing things in a very constrained environment," he said. When innovation is simply pushed down the system it disrupted productivity leading to the "productivity paradox" whereby new technologies can lower productivity as people struggle to adapt.

Management coherence is as vital as management buy-in. A Middle Eastern country saw its educational reforms stall despite apparent acceptance and enthusiasm from all stakeholders.

"But there was no "joined-upness," he said. "All the different agencies had a slightly different interpretation of what the outcome of the reform should be. So, they were all shaping the reform for their own needs.

The final stumbling block is ignoring the direct effect of change on the health and wellbeing of the organisation's key assets - its people. A FTSE 100 company asked RAND Europe to monitor the effects of a transformation programme on its people in terms of staff turnover, staff engagement, productivity loss, absenteeism and presenteeism - turning up at work in sub-optimal health. “They found that all their measures were worsening to the extent that the financial costs in the first year outweighed the overall efficiency savings from the programme.”

This notion - feedback loops - was expanded on by Labour peer Baroness Thornton, citing a positive example of a project in her London-based Clinical Commissioning Group where Macmillan Cancer Care brought cancer patients together with senior doctors.

“It was amazing, watching the light bulbs coming on when doctors were talking to patients about what their lives were like, and what they needed from them,” she said. “And, of course, the product was much better treatment, much better outcomes for patients.”

The Baroness also spoke of her time taking over as CEO of the Young Foundation, which had become deeply dysfunctional despite having apparently inspirational leadership with brilliant plans for the organisation.

“They brought in 10 new leaders for the organisation and dumped them on top of the existing staff, who often thought that they were doing quite well, but weren’t going to be allowed to lead it into those sunny uplands. If you wanted an example of how not to do something, how leadership shouldn't do something, I think that has to be top of the list.”

By contrast, Mark Babington, Acting Director of UK Auditing Standards and Competition, Financial Reporting Council, said that at the Council reform has been preceded by the replacement of the board, the appointment of a new CEO and a number of changes at Executive Director level.

“Ironically, that’s been quite good, because it has opened up a void in leadership,” he said. “So, we don’t just change the organisation, some people have to step into the void. People are stepping into territory where they have a voice and an ability to influence what goes on.”

Babington argued that human capital should be reflected on balance sheets as a company’s most valuable asset.

“If you look at financial services and banks you often worry about the impairment to loans and assets,” he said. “But the impairment of human capital can lead to a far more, let’s say, interesting downward curve for an organisation than anything else.”

Change cannot simply be forced on people by strong leadership, or even by the weight of evidence and logic, he said, because even bright and technically skilled people don’t work that way.

“The reason change succeeds is not for business reasons, it’s not because it’s good for us, it’s not because we are doing it before it’s done to us. We have to demonstrate we have benefits to sell.”

Babington noted that we live in a culture where people no longer expect to be lifers in an organisation and align their values, not with their employers, but much broader social and cultural imperatives. In such a world, clarity of vision can give the organisation the space to remain the same while changing.

“Culture can’t be a static thing, a healthy culture has diversity and challenges,” he said. “If you’ve got clarity of vision, your culture can iterate and develop to keep you going in the right direction, because it’s not a straight line.”

The problem therefore seems to be not so much culture change, which is a natural process, but the attempt to change culture with top-down initiatives. Megan de Klerk, Group Leadership Talent Lead, at utility infrastructure company Pennon Group, suggests that bottom-up initiatives can be more successful. While in South Africa, she worked with the typographers’ union to ensure its future sustainability, but quickly realised the issue was as much about the industry as the organisation.

“What was happening was the industry was dying. A lot of the printing was going over to Asia, and that’s why people weren’t signing up to the union, they didn’t see the need,” she said. By creating a much wider conversation involving shop stewards, industry experts and employers not only was the union able to increase membership by 45%, but it was also able to promote industrywide changes.

The changes came from the print shop floor. In de Klerk’s view, leaders spend an unreasonable amount of time focusing on ineffective and inefficient behaviour and too little on the fears and feelings of individuals.

“I think what we missed when it comes to change management is that we don't think about the vulnerability of individuals.”

So, when we talk about culture change being a busted flush, are we talking about something else? Calvert Markham pointed out that we cannot measure culture directly.

“All you have are proxies by which you can assess culture,” he said. “Performance might be an indicator but that is tough to measure too. As a consultant, my job was to introduce bonus schemes. And you think that's mainly to do with money, but it isn’t, it’s about judging exactly what performance is in any organisation. That's a non-trivial question. And I think the same thing applies to culture as well.”

So perhaps the failure of traditional culture change is about something else entirely. The overriding theme that emerged from the discussion was the need not just to involve people but to understand and value them. By systematically ignoring and undervaluing human capital, we fail to achieve the tangible results we all crave.