

how on earth

Corporate Culture



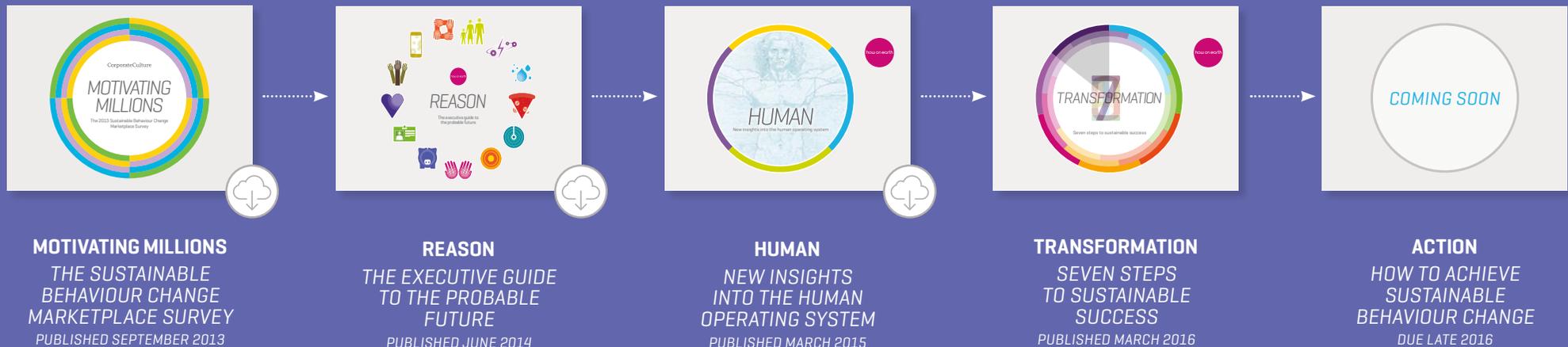
TRANSFORMATION

Seven steps to sustainable success

ABOUT THE *HOW ON EARTH* SERIES

ESSENTIAL RESOURCES TO ACHIEVE SUSTAINABLE SUCCESS

THE COLLECTION:



WHY DO YOU NEED TO READ THIS SERIES?

Achieving long-term success is increasingly challenging. With an uncertain economy, new competition, technological advances and climate change, leaders need to think differently.

They must seek to turn risks into opportunities, understand context, form collaborative partnerships and motivate customers, employees and suppliers to act.

This series of reports makes the case for action, illustrates how to create and bring to life sustainable business strategies, reveals how to motivate people to act using social marketing, and builds everything on a deep understanding of people.

TO OBTAIN THE OTHER REPORTS IN THIS SERIES CONTACT ELAINE.SMITH@CORPORATECULTURE.CO.UK

TRANSFORMATION

THE SEVEN STEPS TO SUSTAINABLE SUCCESS

CONTENTS

- 1 About the How on Earth series
- 2 Transformation

THE SEVEN STEPS TO SUSTAINABLE SUCCESS:

- 5 **Step one:** identify your burning platform
 - 9 **Step two:** define your purpose
 - 13 **Step three:** create your decision-making framework
 - 17 **Step four:** identify your transformational priorities
 - 21 **Step five:** transform strategy into action
 - 25 **Step six:** engage employees
 - 29 **Step seven:** bring your character to life
-
- 33 Summary
 - 35 Conclusion
 - 37 Notepad
 - 38 References

THE MANTRA FOR ALL COMPANIES SEEKING LONG-TERM SUCCESS IS TRANSFORMATIONAL CHANGE.

How do companies transform? How do they respond to external challenges – a growing population, changing expectations, more power to the consumer, new technologies?

And, because all change is imagined and delivered by people, how do you link organisational change and personal change?

This report is our summary based on the last 15 years of helping some of the world's leading organisations manage change.



John Drummond Chairman, Corporate Culture Group

WHY TRANSFORMATION?

STRATEGY:

30%

Only 30% of leaders believe **sufficient attention is given to developing long-term strategies.** ⁽¹⁾

EXECUTION:

33%

97% of directors believed that they had the right 'strategic vision', **but only 33% reported achieving 'significant strategic success.'** ⁽²⁾

*“IT TAKES 20 YEARS TO BUILD A REPUTATION
AND FIVE MINUTES TO RUIN IT.*

*IF YOU THINK ABOUT THAT, YOU’LL
DO THINGS DIFFERENTLY.”*

WARREN BUFFET



TRANSFORMATION

Seven steps to sustainable success



STEP ONE: IDENTIFY YOUR BURNING PLATFORM

LOOK FOR THE GAP

Every company has a burning platform that gives them a reason to change. It may be short-term issues like increased competition, reduced profit-margin, the challenges of a merger or a sudden change in demand.

But as soon as companies look at the longer term, the burning platform becomes contextual. Does it matter to us if there are issues about resource availability or a sustainable supply of skills, of energy or of water? Does it matter if people are living longer, or trust in business is low?

In our "Reason" report we outlined some of the trends that are likely to challenge the sustainable success of your business. It might be dramatic changes in the Internet of Things, 3.5bn people experiencing water scarcity by 2025, a projected 56% increase

in global energy consumption, or the risks posed by climate change.

There are two big questions. The first is "what is our preferred future?" This will involve identifying the factors we need in place to achieve sustainable success. It will lead to your sustainable business model.

The second question is: "what is the probable future?" This will involve identifying evidence about material issues. It will show you the gap between the probable future and your preferred future.

...THAT'S YOUR BURNING PLATFORM...



WHEN IT ALL GOES WRONG:

Between 2008 and 2012 financial institutions saw the results of a failure to act in keeping with sustainable economic principles. The risk many of them took linked to sub-prime mortgages put their survival at risk.

KEY QUESTIONS

- ▶ Why do we need to change?
- ▶ Is the need to change clear to employees?

CAN WE CLAIM WE HAVE:

- ▶ defined our probable future marketplace?
- ▶ a clear view of our burning platform?

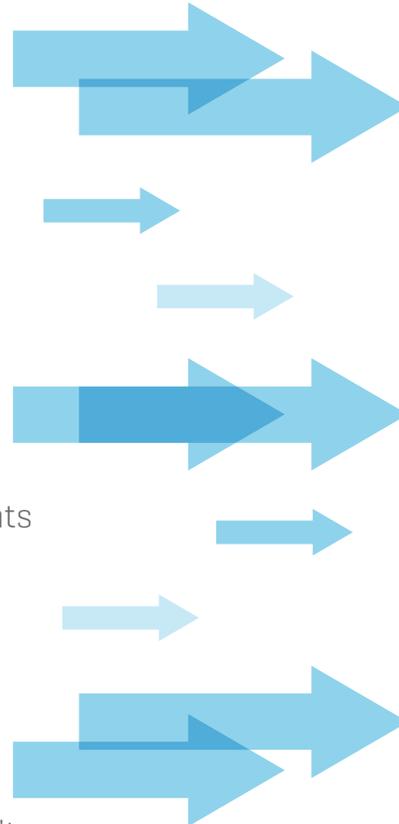
BENEFITS

- ▶ A clear view of future risks and opportunities
- ▶ Our employees see the need for change

FORCES FOR CHANGE

FORCES

- Population increase
- Re-balancing of economies
- Migration and diversity
- Increased urbanisation
- Increase in middle classes
- Increase in inequality
- Older population
- The deficit in funding older age
- A resource-constrained world
- An increase in governance failures
- An increase in climate change events
- Food scarcity
- Water scarcity
- Technological innovation
- Increased connectedness
- Continuing economic volatility
- Increased threat from online security



IMPLICATIONS

- Increased potential for conflict
- Increased national and international regulation and legislation
- Increased customer power
- Increased localism
- Growth in sustainable investment to encourage stewardship
- Increase in sustainable consumption and collaborative consumption
- A move away from ownership
- Increase in cradle-to-cradle product responsibility
- Increase in cross-sector collaborative action to solve major social issues
- Increase in co-creation

11bn
people by 2100

3.5bn
could experience
water scarcity by
2025

50%
projected growth in
food demand by 2030

82bn
tonnes projected
global resource
extraction by 2020

2bn
could be vulnerable to
flood disaster by
2050

19%
of people trust
business leaders to
solve social or
societal issues



STEP ONE: IDENTIFY YOUR BURNING PLATFORM

THE TWO BIG QUESTIONS

The burning platform process involves defining two futures. The first is your preferred future. The second is the probable future.

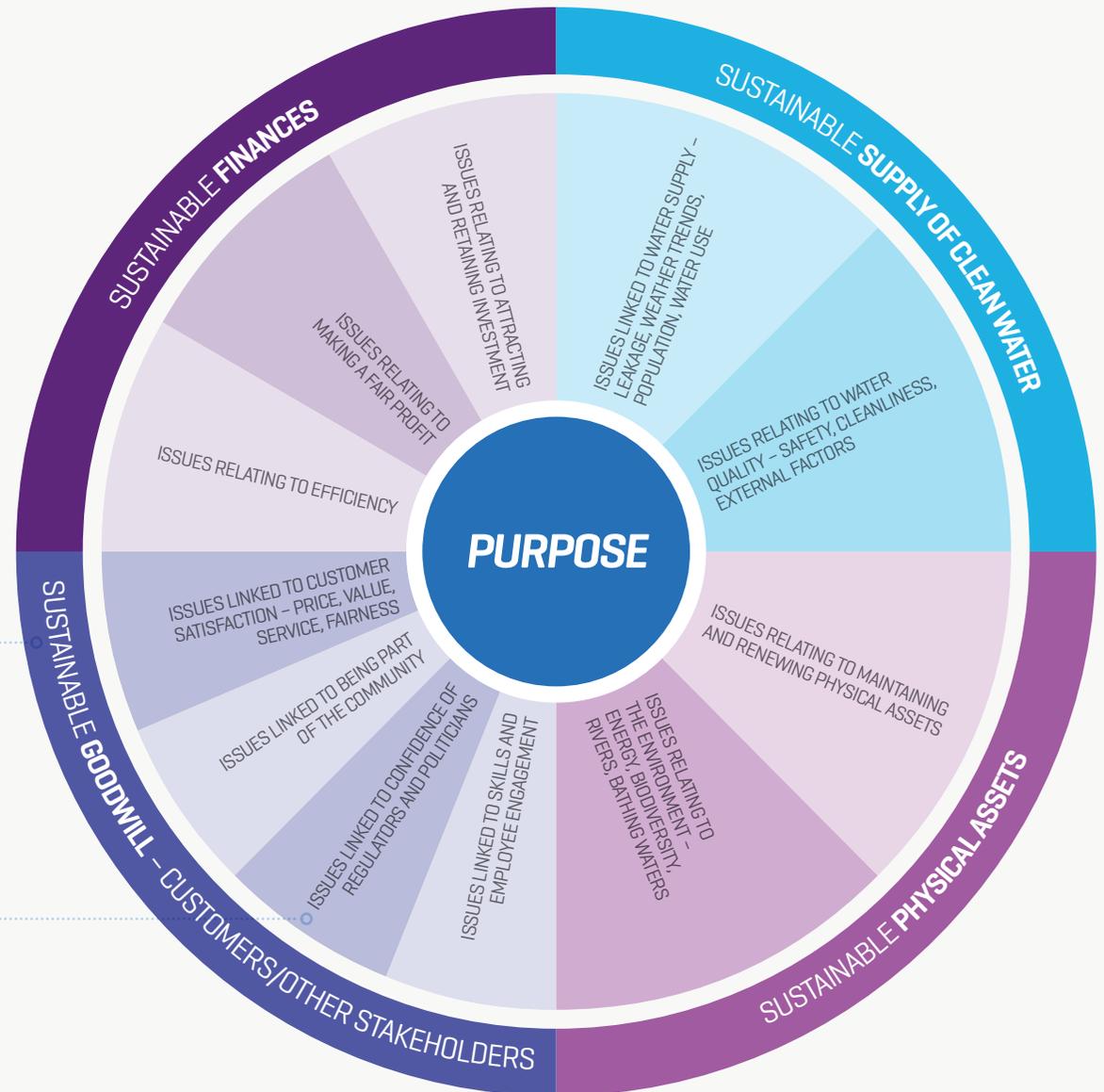
Here's an illustrative example for a water company's future: >

BIG QUESTION 1: WHAT IS OUR *PREFERRED* FUTURE?

The preferred future (outer ring) defines the factors you need in place to achieve sustainable success. This can evolve into your sustainable business model.

BIG QUESTION 2: WHAT IS THE *PROBABLE* FUTURE?

The probable future (inner ring) identifies the granular issues, based on evidence, that are the dependencies on which your future success is based.



IDENTIFY RISKS AND OPPORTUNITIES

PEPSICO FUTURE-PROOFING

On the anniversary of 50 years in business PepsiCo Chairman and CEO, Indra Nooyi, opened her 2014 Annual Report statement by focusing on four trends and PepsiCo adaptations.

THE TRENDS

- 1 The growth of the middle class
- 2 The evolution of the retail market
- 3 The acceleration of focus on health and fitness
- 4 The war for talent

PEPSICO ADAPTATIONS

- ▶ Globalised footprint
- ▶ Established 22 'power brands' in key markets
- ▶ Key partners to large retail customers
- ▶ Retooled direct store delivery system (DSD)
- ▶ R&D investment to improve nutrition and value
- ▶ Growing a 'Good for You' portfolio
- ▶ Continued diversity and inclusion
- ▶ Revamped PepsiCo University

AND NOW THERE ARE MORE:

- 5 The rise of the digitally-savvy consumer shopper.
- 6 The growing pressure on businesses to be a more active force for change in addressing their environment and social impact.
- 7 The heightened role values, ethics and corporate governance will play in enabling companies to survive and thrive.

IDENTIFY PRIORITY MATERIAL ISSUES

MATERIAL ISSUES SHOULD BE:

- ▶ Financial and non-financial
- ▶ Based on best-available evidence
- ▶ Short, medium and long-term
- ▶ Focused on opportunity as well as risk (i.e. providing real savings or revenue streams)
- ▶ Considerate of stakeholder views
- ▶ Prioritised, based on the need for speed.

Here are three effective ways to define priorities:

1. STAKEHOLDER ANALYSIS

Which issues are important to stakeholders? What are they satisfied with?



2. IMPACT ANALYSIS

Which issues have the biggest impact on society, and the biggest impact on our strategy?



3. ACTION ANALYSIS

What are the opportunities if we act? And what risks will we face if we choose not to act?





STEP TWO: DEFINE YOUR PURPOSE

DEFINE YOUR PURPOSE

Transformation requires momentum. It is change towards something. That something is your purpose. The Japanese have a word for it – Ikigai. Ikigai means “reason for being” or “reason for waking up in the morning”.

Your purpose is your “why”. It is why you exist. It is the difference you make to the lives of your customers. Defining it forces you to become a customer-focused organisation managing for long-term success.

It also taps into an innate human need for meaning. This focus on meaning is hard-

wired into the brain; probably in the prefrontal cortical asymmetry in the electroencephalogram.

This places a measure on the balance of positive and negative feelings and therefore of the tendency to approach or avoid. We want employees and customers to approach or engage. ^{(3), (4), (5), (6)}

“WHEN DOES SUSTAINABLE BUSINESS BECOME ‘BUSINESS AS USUAL’? AT PEPSICO, THEY ARE ONE AND THE SAME. AND WE CALL IT PERFORMANCE WITH PURPOSE.”

Indra Nooyi, Chairman and CEO, PepsiCo Inc.

KEY QUESTIONS

- ▶ Why are we in business?
- ▶ What is our preferred future marketplace?

CAN WE CLAIM WE HAVE:

- ▶ a clear purpose, mission, vision and ambition?
- ▶ engaged executives with the right skills?
- ▶ a clear, compelling narrative for our organisation?

BENEFITS

- ▶ Clear direction of travel
- ▶ Engaged employees

[Note: All references are on p.38]

WHEN PURPOSE MEETS COMMERCIAL SUCCESS

PEARSON LINKS PURPOSE TO PERSONAL SUCCESS

Pearson is the world's largest education company. Over \$5 trillion is spent on education each year.

Their differentiator is linking education to meaningful learning outcomes – what they define as efficacy...

“...the idea that every product or service we invest in is judged by the successes of the people who use them. In other words, demonstrating with evidence that we are helping someone do or achieve something that they couldn't before.”

They align this purpose to commercial success. The more people making progress in their lives through learning...

“...the more we can create a faster growing and more profitable company, and do so in a sustainable manner.”



Further, it is this purpose that has led to transformation, including...

“...the most significant restructure in our 150 year history.”

In other words, achieving your purpose usually requires transformational change. Pearson started life in *construction*.⁽⁷⁾

OTHER EXAMPLES OF PURPOSE STATEMENTS:

‘To help people to do more, feel better, live longer.’

GLAXOSMITHKLINE

‘To help Britain prosper.’

LLOYDS BANKING GROUP

‘Improving more consumers’ lives in small but meaningful ways each day.’

PROCTER & GAMBLE

[Note: All references are on p.38]



STEP TWO: DEFINE YOUR PURPOSE

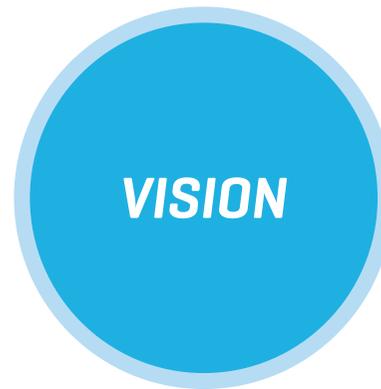
ANSWER THE 'HOW'

TO PIN DOWN YOUR DIRECTION OF TRAVEL, DIFFERENTIATE BETWEEN...



WHY ARE WE IN BUSINESS?

This usually leads to a clear statement of the difference we make to improve the lives of our customers.



WHAT DO WE WANT?

This is a clear articulation of our preferred future for the company. It has no timeframe.



WHAT DO WE DO?

This usually leads to a clear articulation of the products and services we produce and which markets we operate in.

CREATE A COMPELLING NARRATIVE

Increasingly, companies are creating a single compelling narrative binding context to strategy and strategy to action.

Here is an example from IBM.

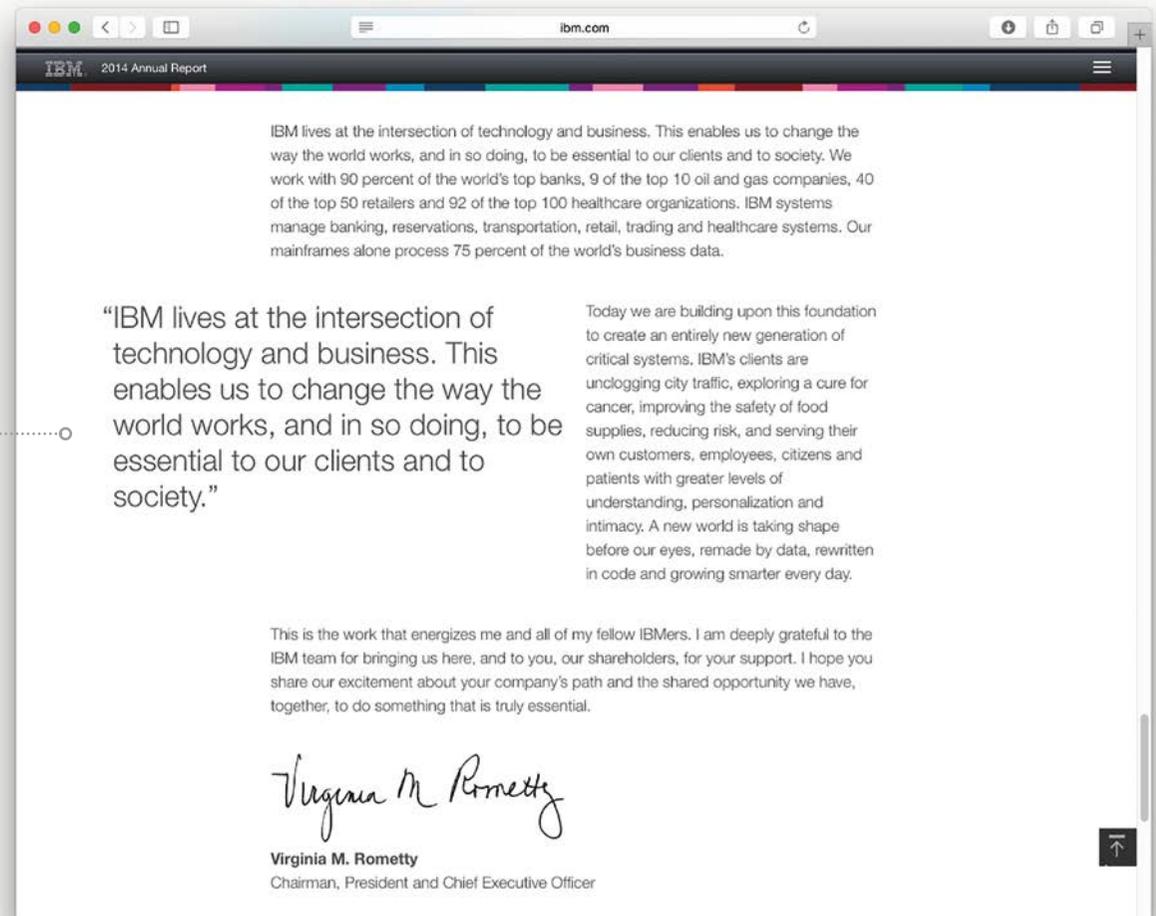
NOTE:

The use of simple language that everyone can understand.

A compelling narrative helps employees, customers, suppliers and shareholders 'get' your organisation and behave accordingly.

A compelling narrative links strategy to customer benefit and employee action.

It is also a powerful single source for all your branding and communications.





STEP THREE: CREATE YOUR DECISION-MAKING FRAMEWORK

SHARE YOUR BELIEFS

All decisions are based on the beliefs of the key decision-making executives. But are these beliefs articulated?

If they are not, employees will make an assumption about these beliefs based on what executives say and do and on what happens in their workplaces every day. The people of Papua New Guinea have a word, Mokita, which means “the truth that all know but no-one talks about”.

It becomes much easier to make decisions quickly and effectively if a company’s beliefs are articulated.

The key underlying principles are these:

- ▶ All change is about how people act
- ▶ What people believe influences what they do
- ▶ Beliefs define strategies.

If we have a belief system that focuses on short-term financial success this will lead to one set of strategies. If we have a belief system that focuses on short, medium and long-term success this will lead to a different set of strategies.



WHEN IT ALL GOES WRONG:

In September 2015, Volkswagen admitted rigging emission tests. The first few days of the scandal led to a 30% decline in the value of its shares, the resignation of the CEO and €6.5bn set aside for costs. It has been a major failure in defining, living or enforcing beliefs and behaviours.

KEY QUESTIONS

- ▶ How do we help employees take the right action?
- ▶ On what criteria do employees make decisions?

CAN WE CLAIM WE HAVE:

- ▶ employee freedom within a framework
- ▶ a clear list of criteria against which everyday decisions are made

BENEFITS

- ▶ Speedy decision-making and less need for referring up
- ▶ Accurate decision-making, within our company’s character

DIFFERENT BELIEFS LEAD TO DIFFERENT STRATEGIES

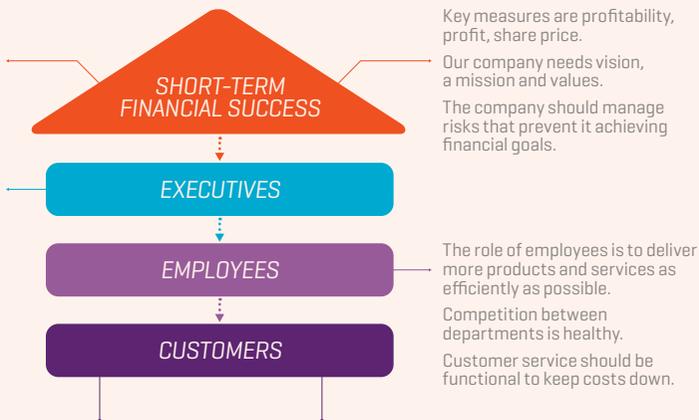
SHORTER-TERM BELIEF SYSTEM

Quarterly financial performance is the main characteristic of commercial success. Companies must influence institutional investors, analysts and auditors in its favour.

Executives' principle responsibilities are to satisfy shareholders in the short-term.

There is a shortage of executive talent.

Reward is based on short-term financial success.



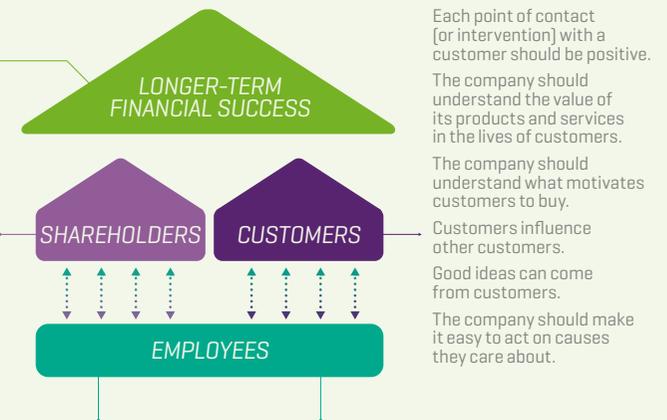
The company needs more profitable customers to grow. The company needs to increase market share. The company needs to reduce customer churn [and incentives are a key contributor]. Our reputation is based on what we say.

Media coverage influences our reputation. The company should manage its impact on society to reduce costs and improve its reputation. The company should act to reduce regulatory and legislative risk where it restricts commercial freedom.

LONGER-TERM BELIEF SYSTEM

The company has a purpose linked to customer benefit. The company needs to understand and influence longer-term risks and opportunities. The company needs to imagine future customer needs.

Shareholders buy for the short, medium and long term.



There is an abundance of talent. Functions should be collaborative in the interests of the company's goals. Our reputation is based on what we do. We should help our employees achieve their personal goals and their professional goals. Reward is based on overall company success. The company articulates the beliefs on which business decisions are based.

The company should manage its impact on society. Some employees should focus on the short, medium and long-term expectations of shareholders. All employees should deliver to customers as efficiently as possible. Communications about the business should be a dialogue and should be open and balanced. Employees should be encouraged to propose new ideas on products, services and improvements.

NOTE: YOU CAN OF COURSE PICK AND MIX.

AS A LEADER, WHAT BELIEFS GUIDE YOUR BUSINESS DECISIONS? SHOULDN'T YOU DEFINE THEM AND SHARE THEM?



STEP THREE: CREATE YOUR DECISION-MAKING FRAMEWORK

DEFINE YOUR BELIEFS

People currently prefer to define their own values.

They can be of immense importance but there is often a gap between what companies say and what employees do.

THE WAY TO GET TO VALUES AND TO BELIEFS IS TO FRAME THE RIGHT QUESTIONS.

VALUE QUESTIONS

- ▶ What do we want employees to value most in the way we conduct business?
- ▶ What, when we listen to employees, do they value the most?

BELIEF QUESTIONS

- ▶ When we make a decision at Board or executive level, what are the beliefs that guide that decision?
- ▶ What criteria would we like employees to use in order to make their day-to-day decisions?

Beliefs that challenge traditional business thinking:

SHARED REWARDS CAN IMPROVE PRODUCTIVITY

Giving buddies any reward can be four times more effective than giving rewards directly to participants, according to Alex Pentland, Director, Human Dynamics laboratory, MIT.

EMPLOYEES CAN THINK SIMULTANEOUSLY OF PERSONAL BENEFIT AND SOCIAL BENEFIT

It's perfectly possible for employees to focus on personal benefit [their own self-interest] and social benefit [the best interests of the company and society] at the same time. It's called multi-level selection theory or MLS, according to Mark Van Vugt of VU University, Amsterdam. ⁽⁸⁾

[Note: All references are on p.38]

MAKE IT EASY FOR EMPLOYEES TO ACT

Here are two examples of companies defining decision-making frameworks that can help employees take decisions each day that contribute to the company's direction.

THE JOHNSON & JOHNSON CREDO

Our Credo

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens — support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.

Johnson & Johnson



THE ROYAL BANK OF SCOTLAND 'YES CHECK'

How we think

The YES check

Our customers, colleagues and the communities in which we do business trust each of us to be thoughtful and professional in everything we do.

They expect each of us to exercise good judgement and to do the right thing.

We use our values to help think through decisions and make sure we do the right thing. When in doubt, we use the YES check for guidance.

Decisions are not always straightforward. The YES check can help us. It's a tool, not a rule.

Ask yourself...

- 1 Does what I am doing keep our customers and the bank safe and secure?**
Consider the impact of what you are doing. Rehearse a briefing with your boss.
- 2 Would customers and colleagues say I am acting with integrity?**
Consider: would I do this to someone in my family or a friend?
Would I do it to myself?
- 3 Am I happy with how this would be perceived on the outside?**
Consider the impact of this in the outside world. Try writing the press release — does it sound good for customers?
- 4 Is what I am doing meeting the standards of conduct required?**
Think. If you are unsure then seek a second opinion.
- 5 In 5 years' time would others see this as a good way to work?**
Will this have a positive impact? Imagine writing it on your CV.

This is
Our Code

RBS

This is Our Code 1.0 RBS 5



STEP FOUR: IDENTIFY YOUR TRANSFORMATIONAL PRIORITIES

CHOOSE TRANSFORMATIONAL STRATEGIES

There are three elements of strategy – your ambition, your goals and your transformational priorities. Because you can't act on everything at the same time, there are usually between three and six strategic priorities [occasionally more].

Unlike the vision, your ambition is time specific. You define the timeframe. Where do you want to be by the end of a specific period of time? How do you compare with the competition? Are you in the pack or ahead of the pack?

Goals are the key measurable outcomes that will allow you to know if you have

achieved your ambition. They can be aspirational.

To achieve transformational change requires drawing on a wide range of potential strategies to achieve long-term success. We have identified 10 common strategies.

AMBITION STATEMENT – TATA:

“By 2025, 25% of the world's population will experience the Tata commitment to improving the quality of life of customers and communities. As a result, Tata will be amongst the 25 most admired corporate and employer brands globally, with a market capitalisation comparable to the 25 most valuable companies in the world.”⁽⁹⁾

KEY QUESTIONS

- ▶ What is our ambition?
- ▶ What are our big transformational projects?

CAN WE CLAIM WE HAVE:

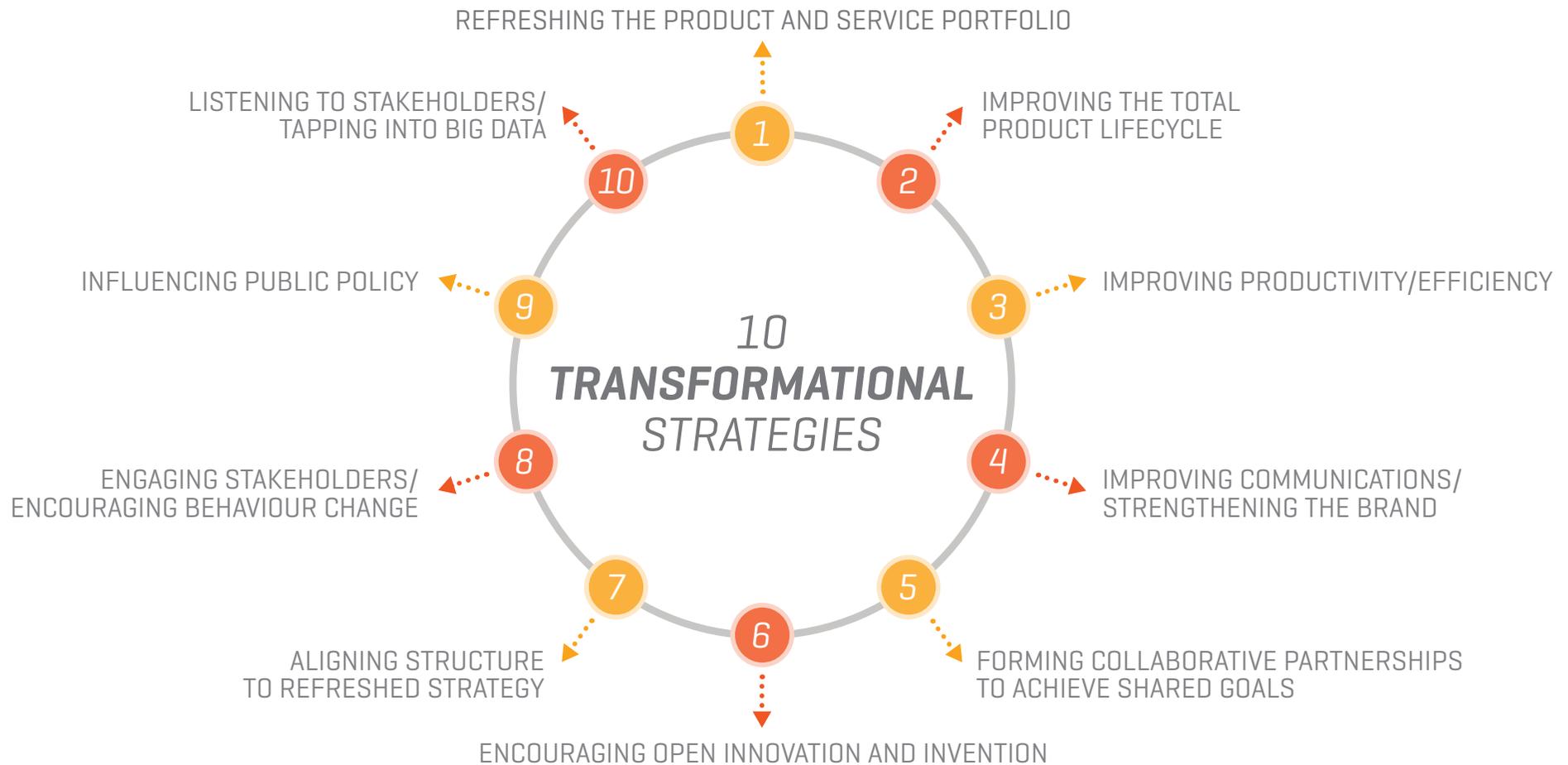
- ▶ a timeline in place for transformational change?
- ▶ a clear view of the big transformational projects we need to work on and in what order?

BENEFITS

- ▶ We tackle the right things in the right order
- ▶ We earn the confidence of stakeholders

[Note: All references are on p.38]

10 TRANSFORMATIONAL STRATEGIES





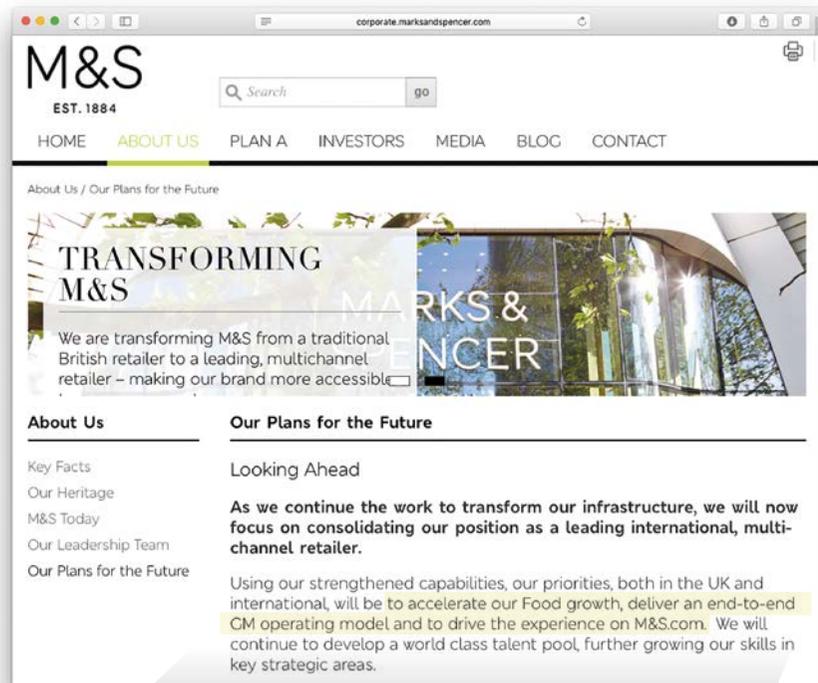
STEP FOUR: IDENTIFY YOUR TRANSFORMATIONAL PRIORITIES

GOALS AND PRIORITIES

In the short to medium-term ambitions and goals are translated into a small number of key transformational priorities. Here are two examples.

MARKS & SPENCER

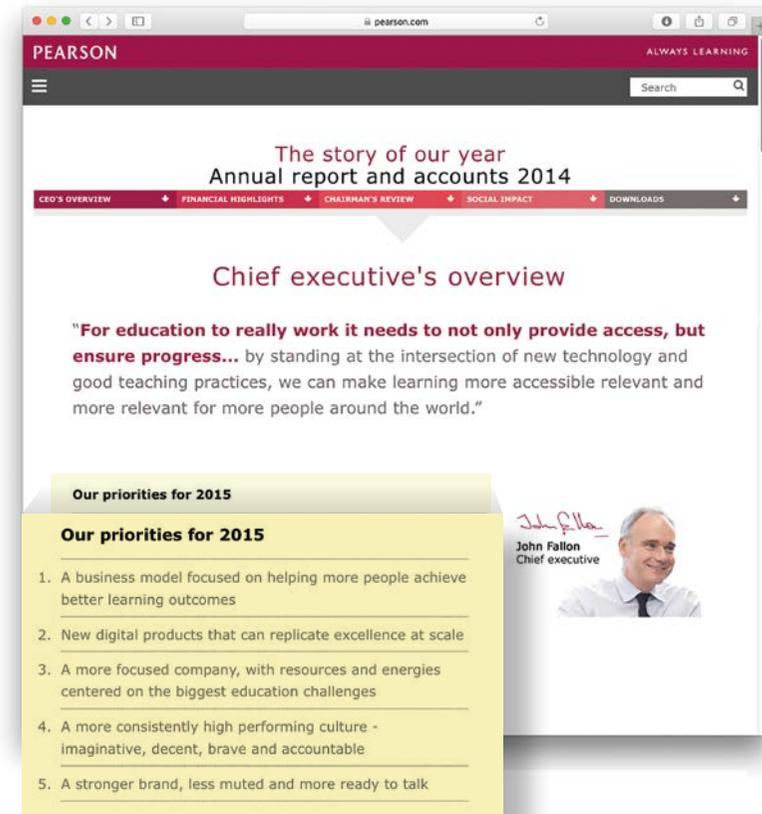
The goal is to position M&S as a leading international, multi-channel retailer, with these transformational priorities: ^[10]



to accelerate our Food growth, deliver an end-to-end GM operating model and to drive the experience on M&S.com.

PEARSON

The purpose is to empower people to progress through learning, putting the learner at the heart of everything. ^[11]

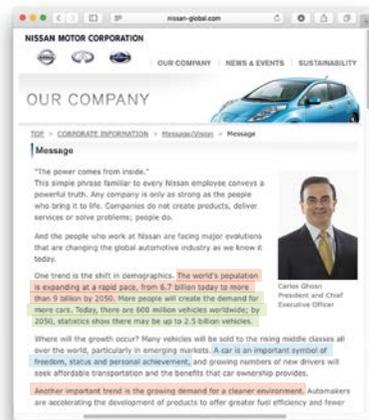


[Note: All references are on p.38]

CASE STUDY

Examples, like this great one from Nissan, make it easier to see how to link your burning platform, purpose, goals and transformational priorities.

NISSAN: TRANSFORMATION IN PRACTICE



Burning platform:

"The world's population is expanding at a rapid pace, from 6.7 billion today to more than 9 billion by 2050." "Another important trend is the growing demand for a cleaner environment."

Opportunity:

"More people will create the demand for more cars. Today, there are 600 million vehicles worldwide; by 2050, statistics show there may be up to 2.5 billion vehicles."

Human insight:

"A car is an important symbol of freedom, status and personal achievement."



Ambition and goals:

Nissan Power 88 was a 2011-2016 business plan aiming to renew the customer experience and achieve 8% global market share and 8% corporate operating profit.

TRANSFORMATIONAL PRIORITIES:

Product refresh:

"Deliver, on average, an all-new vehicle every six weeks for six years."

Total product lifecycle:

"Cumulative electric vehicle sales for the Renault-Nissan Alliance will reach 1.5 million units."

Listening to what the customer wants:

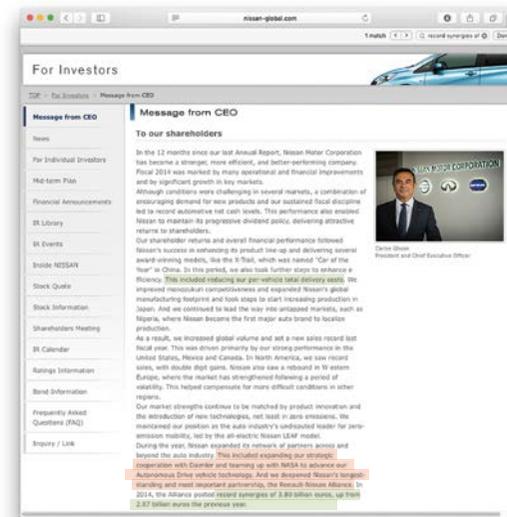
"Mobility for all" will expand with dedicated new cars and light commercial vehicles [LCVs] developed for entry-level segments and emerging markets."

Innovation:

"Nissan will introduce more than 90 new, advanced technologies, averaging 15 per year."

Brands and customer experience:

"Nissan will increase investments in its brands and retail networks to enhance its customers' entire ownership experience."



Collaborative action:

Collaborations include "strategic cooperation with Daimler and teaming up with NASA to advance our Autonomous Drive vehicle technology", and the Renault-Nissan alliance.

Efficiency:

"Reducing our per-vehicle total delivery costs" including in 2014 "record synergies of 3.80 billion euros, up from 2.87 billion euros the previous year".



STEP FIVE: TRANSFORM STRATEGY INTO ACTION

ACTION LEADS TO IMPACTS

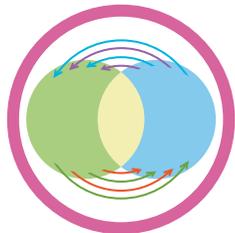
All change is about action. It's about what people do. Leaders are pragmatists. Culture change is not a vague and fuzzy notion. Culture change is about how people act.

It's about straight questions with straight answers. What do people need to do to improve results, improve our reputation, act responsibly, reduce risk, innovate or achieve long-term success? How do we want leaders to behave? What do we need all employees to do? Or suppliers? Or customers?

There is always a clear link between the impacts we seek and the actions we take. It doesn't matter if you are in the private

sector or the public sector. For all the complexity of our world there are a limited number of shared goals we seek and shared actions we can take. [See Action-Impact chart, right-hand spread].

This is why an understanding of people and behaviour is at the heart of successful change. But this is a new discipline. And it needs to be learned. In our next report "Action" we will cover how to motivate millions to act to achieve transformational change.



BEHAVIOUR-LED FRAMEWORK:

Because progress depends on people acting, transformational change needs an alignment between goals and individual actions. We call this a behaviour-led framework.

KEY QUESTIONS

- ▶ What do we need employees, customers or others to do?
- ▶ How do we motivate people to act?

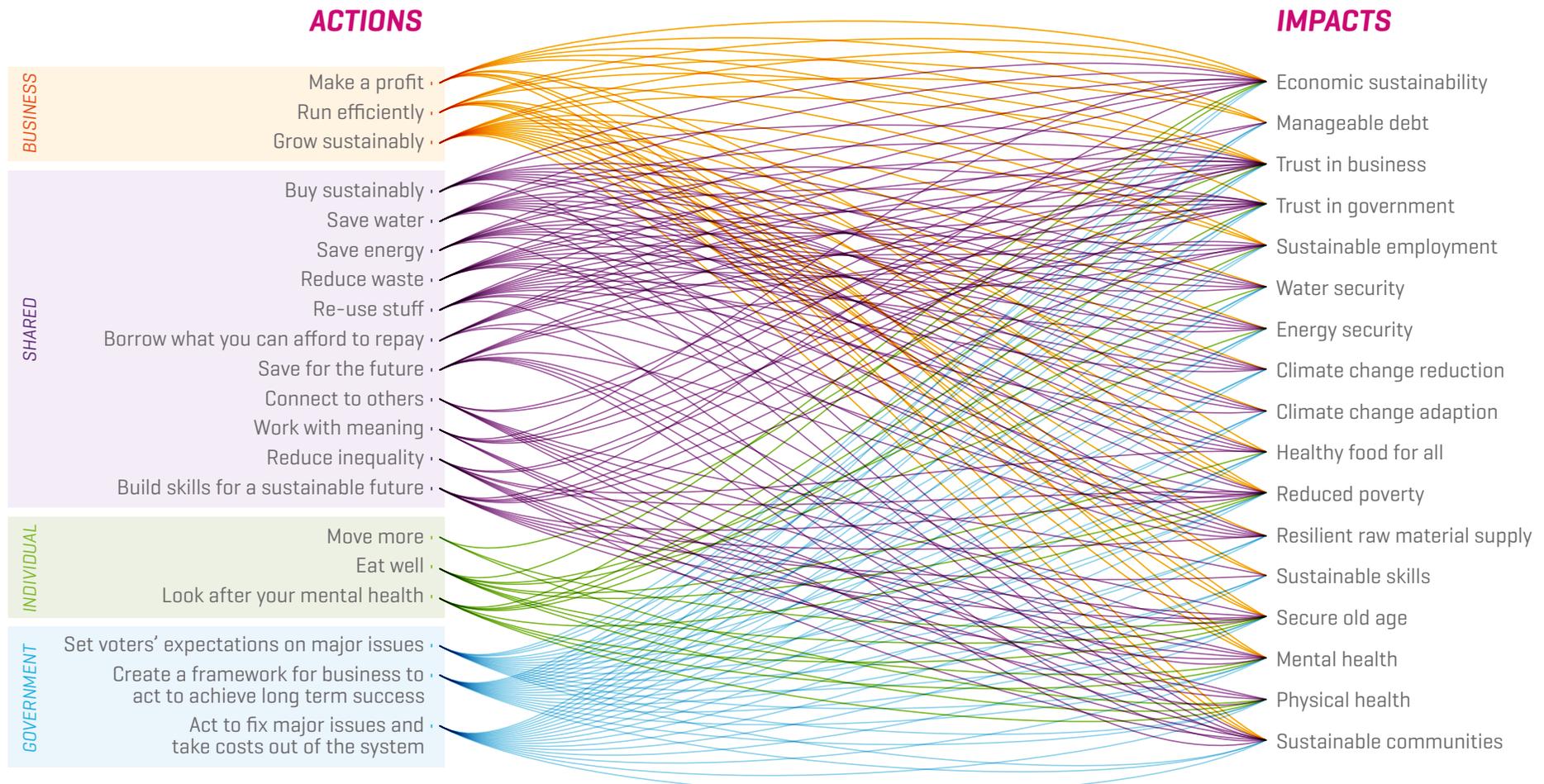
CAN WE CLAIM WE:

- ▶ translate our goals into actions people can take?
- ▶ understand behaviour change?

BENEFITS

- ▶ Employees know what is expected of them
- ▶ We make measurable progress towards our goals

ACTIONS: BEHAVIOURS AND IMPACTS



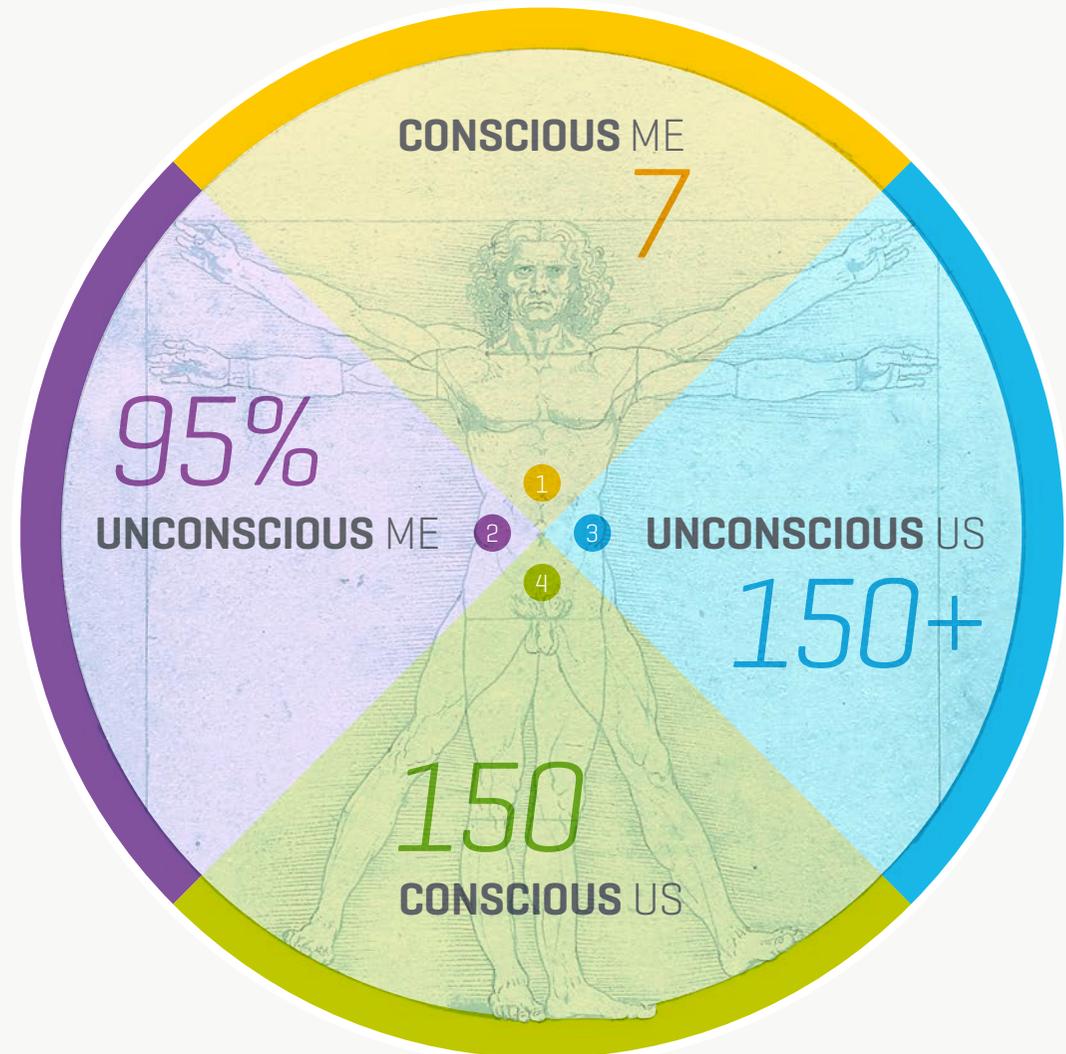
THE HUMAN OPERATING SYSTEM

All change involves people acting.

That is why we need to be clear who we want to act and what we want them to do. We also have to build all transformational change on an understanding of people.

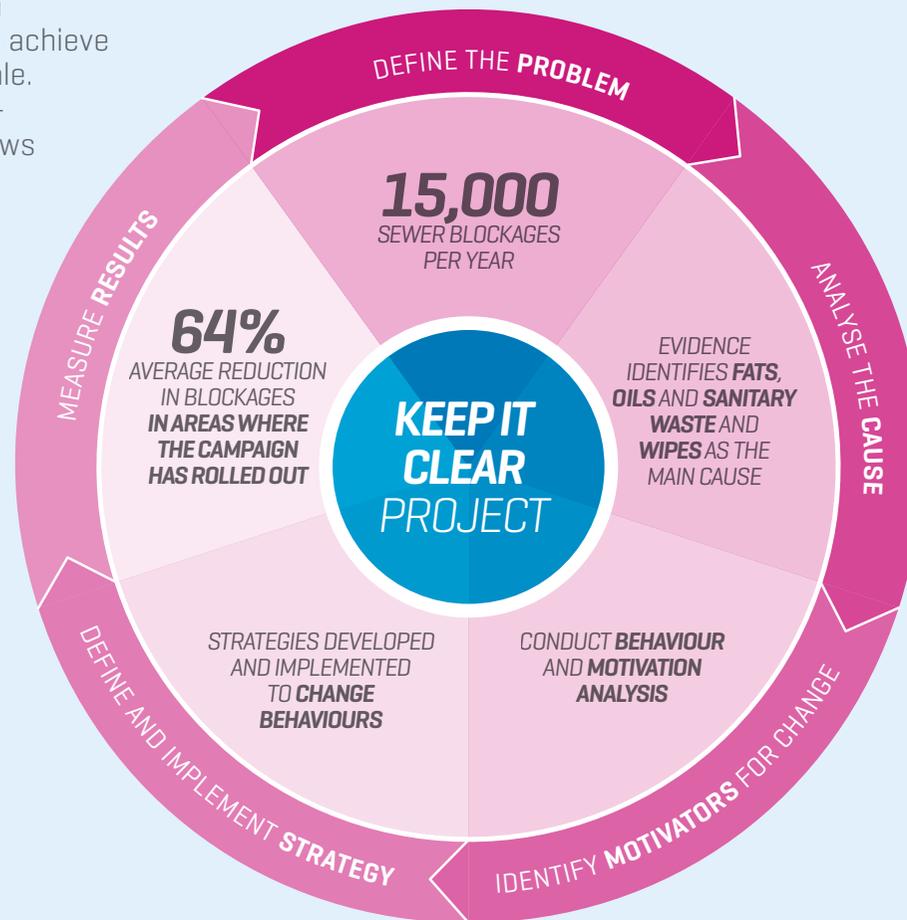
- 1 The working memory can only hold about seven elements [plus or minus two] or seven chunks if the elements are sorted into meaningful patterns. The conscious self is slow.
- 2 We make between 2,000 and 10,000 decisions a day. We cannot make them all consciously. Around 95% of decisions are made unconsciously.
- 3 We use around 150 shortcuts – sometimes called biases or heuristics. Many of them are influenced by the behaviour of others. The two key measures for social interaction are the number of social contacts a day and the diversity of ideas to which we are exposed.
- 4 We collaborate together to achieve shared goals. The ideal number of people in a social network or working team is 150. This is called the Dunbar number. It's a good guide to the size of effective teams or business units.

*For more information about what motivates people to act, ask for a copy of our **HUMAN** report.*



CHANGING BEHAVIOURS

Here is an example from **Anglian Water** of how to achieve behaviour change at scale. It is always an evidence-based process. This shows how change can be achieved at scale relatively quickly.



BEHAVIOURAL FINANCE

It's not easy to translate goals into action.

Even investors are subject to the powerful pulls of our human nature.

Behavioural finance theory shows that we might hold onto loss-making stock hopeful it will turn up again [because we have a fear of loss] or that we take bigger risks with money we have made [we discount its value if we've already made a gain].

There's a big difference between defining what we need people to do and making it happen.

That's why changing behaviours is the topic of our next report, due in late 2016.



STEP SIX: ENGAGE EMPLOYEES, THEIR TEAMS AND THEIR NETWORKS

EMPLOYEES FIRST

All transformation begins by engaging employees.

To engage them we must understand their needs, and their perspectives on the world of work.

EMPLOYEE ENGAGEMENT AND PERFORMANCE

The Engage for Success group⁽¹²⁾ has compiled evidence to show that organisations with higher engagement have:

- ▶ Twice net profit
- ▶ 2.5 times greater revenue growth
- ▶ 12% higher customer advocacy
- ▶ 18% higher productivity
- ▶ 56% more innovation
- ▶ 40% lower employee turnover.

And organisations with high effectiveness in change management and communication are three and a half times more likely to outperform their industry peers than firms that are not effective in these areas.⁽¹³⁾

“THE SHEER WEIGHT OF THIS EVIDENCE WILL CONVINCEN EVEN THE MOST HARDENED SCEPTIC THAT EMPLOYEE ENGAGEMENT IS NOT SOFT AND FLUFFY, BUT A BOTTOM LINE ISSUE. IN OTHER WORDS IT IS A MUST DO, NOT A NICE-TO-HAVE.”

David MacLeod and **Nita Clarke**⁽¹⁴⁾

LEVERS FOR EMPLOYEE ENGAGEMENT

People are motivated by personal and social benefits, and tapping into both streams can accelerate employee engagement and action.

	PERSONAL	SOCIAL
PURPOSE	Alignment with my own goals	We have a common purpose
BELIEF	Alignment with my beliefs	We share similar beliefs
VOICE	My views count	We are listened to
REWARD	I am rewarded for my time and skills	Rewards are fairly distributed
PRODUCTIVITY	I can make best use of my time	Working together we get more done
EXPLORATION	I can explore new ideas	We share and develop new ideas
PROGRESS	I'm developing my abilities	We're making progress as a company



[Note: All references are on p.38]

ME AND MY WORLD

There are **three things** we need to know about culture.

One: people don't differentiate between life and life-at-work.

Two: a company's culture is all about how people act.

Three: people are motivated by personal benefits and by social benefits.

We **cannot** choose to have a culture or not have a culture. We **can** choose the culture we have.



KEY QUESTIONS

- ▶ What does engagement mean?
- ▶ How do we engage people as we progress?

CAN WE CLAIM WE:

- ▶ identify our stakeholders and understand their expectations?
- ▶ listen to them and act on what we hear?

BENEFITS

- ▶ Our employees and stakeholders work together towards shared goals
- ▶ We are increasingly productive

CURRENCIES OF INFLUENCE

The behaviour change process is often one of exchange. There are a number of 'currencies' that can help persuade employees to act, and enable transformation.



Time

Time and how we use it is a tradable commodity; lack of time is a common complaint by employees across the globe



Information and knowledge

There is an innate human desire for news, facts and understanding that particularly applies in an organisational context



Skills and learning

In most organisations there is high demand from individuals to be able to improve their skills, and learn new things



Benefits and rewards

Financial and non-financial rewards are well established incentives for employees



Recognition and thanks

Often, it's the simple fact of being appreciated that employees value. Just say thanks.

[Note: All references are on p.38]

HOW DO WE ENGAGE?

There are many ways to engage employees and stakeholders.

Typically they include a mix of:

- Communications:** activities that tell the story and share examples, progress and successes
- Initiatives:** activities in which employees (and other stakeholders) can participate and experience preferred values and behaviours
- Interventions:** changes to policies or processes, the working environment, and training and development.



BREAKING DOWN INTERNAL BARRIERS

There are common blocks and common blockbusters to internal change.

Engaging employees is not easy. What is clear is that there is often resistance to change. We've identified five main types of resistance and the kind of responses that can break down the barriers.

THE **BLOCKBUSTER** TOOL

	<i>The situation</i>	<i>What's the blockage?</i>	<i>Use this acceleration strategy</i>
Mindsets	ENTRENCHED MINDSETS We're struggling to change people's fixed ways of thinking.	THINKING BIAS: Habits of thought and belief lead us to re-affirm our prejudices. We are less open to change.	STORY-TELLING: Use a compelling narrative, supported by evidence, to help change habits of thought. Other tools to use here include re-framing and exposure to different and diverse opinion from people the audience respect.
Context	NARROW/SILO MENTALITY People only see the facts or opinions they want to see.	EVIDENCE BIAS: Decisions are often made on incomplete information. We base decisions on what we know or can recall. We seek or use evidence that reaffirms our existing views.	EVIDENCE: Present evidence from sources the audience trusts, and show the behaviour of others. Other tools to use here include narrative, re-framing, repetition and exposure to new insight.
Speed	WHAT'S THE HURRY? People may not see the need to act quickly.	HERE-AND-NOW BIAS: We are focused on the here-and-now, and if there is a benefit to someone else, somewhere else, sometime in the future, we are less persuaded to act.	LIFE TODAY: Frame the need to change around risks or benefits to life today. Tools to use include a compelling narrative, prompts, the behaviour of others, commitment and story-telling.
Fear	FEAR AND UNCERTAINTY People may think change will not be good for them or the company.	LOSING-OUT BIAS: The current situation could favour us. We could lose out by changing.	FAIRNESS: Frame the change around fair risk and reward. Other tools to use include social contact and what others do.
Difficulty	'ITS TOO HARD' The size of the challenge may seem too big or too difficult.	ABILITY TO INFLUENCE: We sometimes think our role or our team's role is too small to effect real change.	PROCESS AND VISION: Focus on specific packages of work and how they contribute to a bigger dream. Also provide visible prompts that make it easy for people to act.



STEP SEVEN: BRING YOUR CHARACTER TO LIFE

WHAT'S YOUR CHARACTER?

The character of a person is their distinctive nature.

It is what makes a thing true to itself. It is about strength, originality, behaviour and reputation. The idea of character is a key part of transformational change and it is what makes an organisation distinct from competitors.

It is sometimes about the personality or beliefs of current or new leaders. It is always about continuity and alignment. It provides continuity between an organisation's past and its future. And it provides alignment between an organisation's goals and its actions.

It is about how it communicates and projects itself but it is more than that. It is about integrity and authenticity. There are 12 elements of character. They include an organisation's origins, leadership, brand, ownership, beliefs, products, services and approach to customer service.

All change is imagined and delivered by people. It takes place within the confines of space, time and action. For this reason, character is best brought to life through stories. Throughout history storytelling has been the most powerful way of inspiring by example.

DEFINITION OF CHARACTER (NOUN)

1. the distinctive nature of something
2. a person's good reputation
3. strength and originality in a person's nature
4. the mental and moral qualities distinctive to an individual

KEY QUESTIONS

- ▶ What is distinctive about our organisation?
- ▶ How are we different from our competitors?

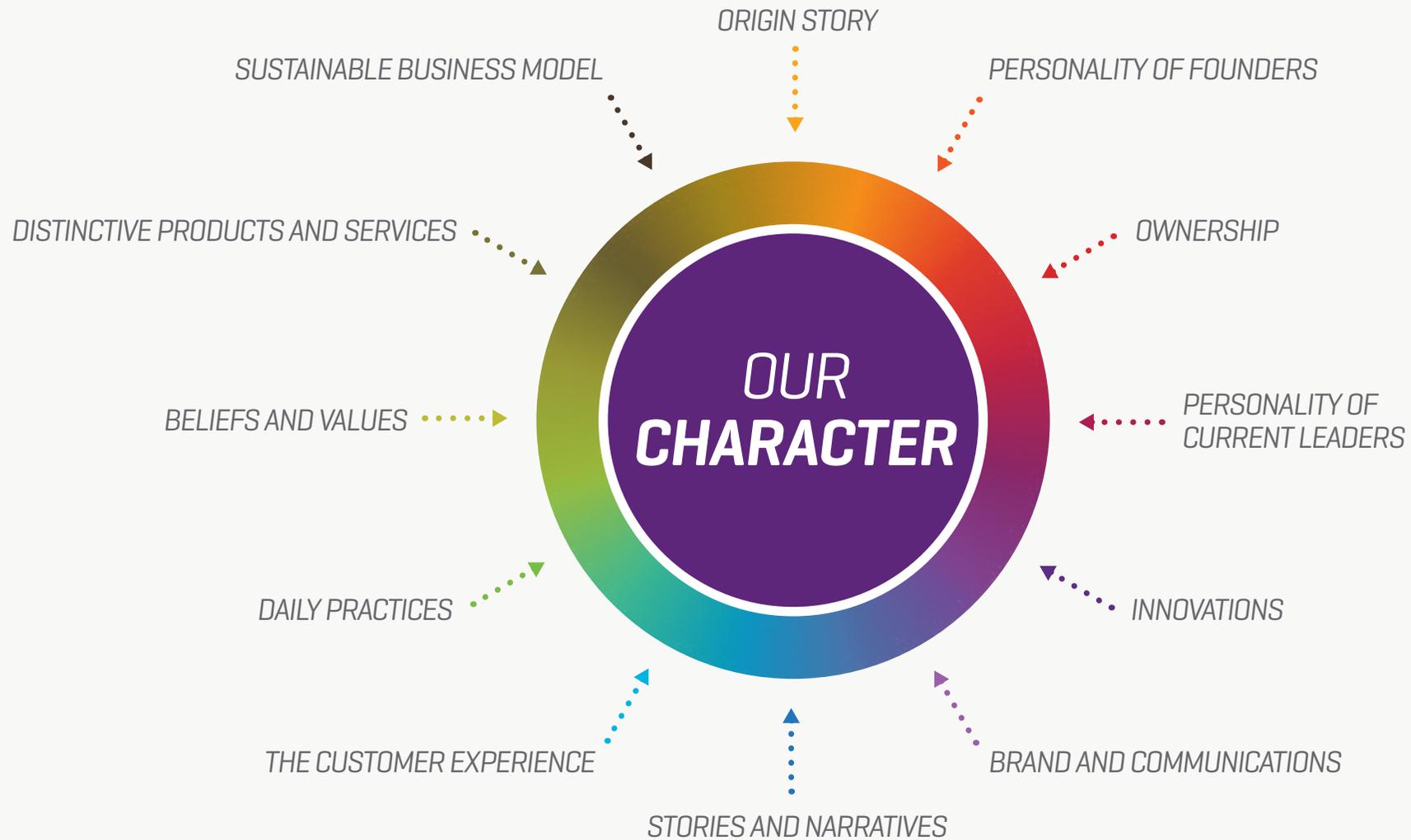
CAN WE CLAIM WE:

- ▶ have a distinct character and brand that makes us stand out from others?
- ▶ are true to ourselves?

BENEFITS

- ▶ trust
- ▶ consistency

THE KEY ELEMENTS OF CHARACTER





STEP SEVEN: BRING YOUR CHARACTER TO LIFE

THE FULL STORY

Great character shines like a beacon.

It is **impossible** not to respond to.

THE BRAND: LOVE EVERY DROP

Anglian Water's purpose is to put water at the heart of a whole new way of living. Their thinking aligns purpose, long-term planning and employee engagement. LED is also integral to their brand.

LEADERSHIP: WARREN BUFFET

The world's leader in successful investment's advice is invest in your 'circle of competence', look for companies that have a 'durable competitive advantage' and buy for the long haul.

LIFE CYCLE: PROCTER & GAMBLE

Their purpose is to improve people's lives in small but meaningful ways every day. But it's their commitment to assessing products over their total life cycle that adds character.

FOUNDERS STORY: BOOTS

Boots was established in 1849 by John Boot with a single shop in Nottingham. His son Jesse grew the business by sourcing from manufacturers and making expensive medicines affordable for all.

THE PRODUCT: MARSHALLS

The company develops new sustainable products that respond to customer needs, like permeable paving, with a wide and deep understanding of their importance to the physical places where we live and work.

FOUNDERS STORY: COUTTS

Coutts began life in 1692 when a young Scot John Campbell set up in London's Strand as a goldsmith-banker. The company's history remains core to the character of the company.

LEADERSHIP: MICHAEL WOODFORD

Michael Woodford became CEO of Olympus and within weeks discovered a \$1.7bn fraud. He refused to hide it and was sacked. But he fought back and exposed the crime.

THE HEADQUARTERS: ASDA

Walk into the Leeds HQ of ASDA and senses are overwhelmed by the noise, the colour and the activity. There are product promotions, charity events, eating, drinking and talking.

THE BUSINESS PLAN: UNILEVER

A leader in bringing everything together under a single business plan, the Unilever Sustainable Living Plan launched in 2010. Their CEO Paul Polman defines the company's character.

SUPPLY- CHAIN TRANSPARENCY: PATAGONIA

Mapping the journey of products from source to store through their Footprint Chronicles website, their stories bring products, people and company character to life.

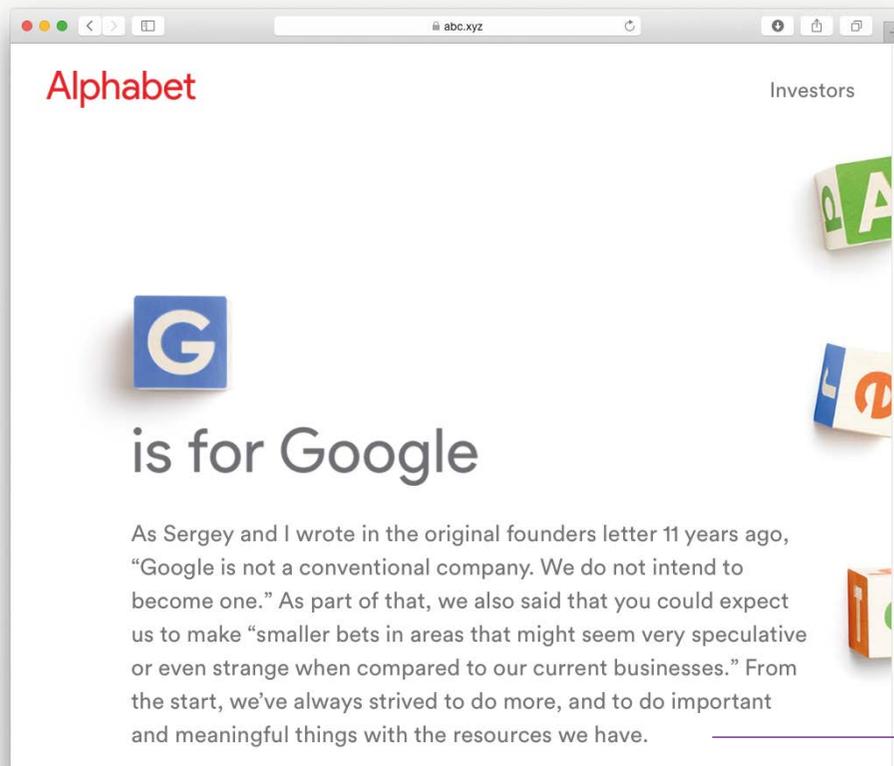
CHARACTER CAN COME FROM SMALL ACTIONS

In the US, women on average earn 77 cents for every \$1 earned by a man. Record company M'Lady in Portland has been charging women 77% of the price paid for their products by male customers.

HOW GOOGLE DOES IT

In August 2015, a public letter from Larry Page launched the new holding company Alphabet.

[Please note that this version has been edited for length.]



[continued...]

We did a lot of things that seemed crazy at the time. Many of those crazy things now have over a billion users, like Google Maps, YouTube, Chrome, and Android. And we haven't stopped there.

We've long believed that over time companies tend to get comfortable doing the same thing, just making incremental changes. But in the technology industry, where revolutionary ideas drive the next big growth areas, you need to be a bit uncomfortable to stay relevant.

Our company is operating well today, but we think we can make it cleaner and more accountable. So we are creating a new company, called Alphabet.

What do we mean by far afield? Good examples are our health efforts: Life Sciences (that works on the glucose-sensing contact lens), and Calico (focused on longevity).

Alphabet will also include our X lab, which incubates new efforts like Wing, our drone delivery effort. We are also stoked about growing our investment arms, Ventures and Capital, as part of this new structure.

We liked the name Alphabet because it means a collection of letters that represent language, one of humanity's

most important innovations, and is the core of how we index with Google search! We also like that it means alpha-bet [Alpha is investment return above benchmark], which we strive for!

We are excited about...

- ▶ Getting more ambitious things done.
- ▶ Taking the long-term view.
- ▶ Empowering great entrepreneurs and companies to flourish.
- ▶ Investing at the scale of the opportunities and resources we see.
- ▶ Improving the transparency and oversight of what we're doing.
- ▶ Making Google even better through greater focus.
- ▶ And hopefully... as a result of all this, improving the lives of as many people as we can.

What could be better? No wonder we are excited to get to work with everyone in the Alphabet family. Don't worry, we're still getting used to the name too!"

Larry Page
CEO, Alphabet

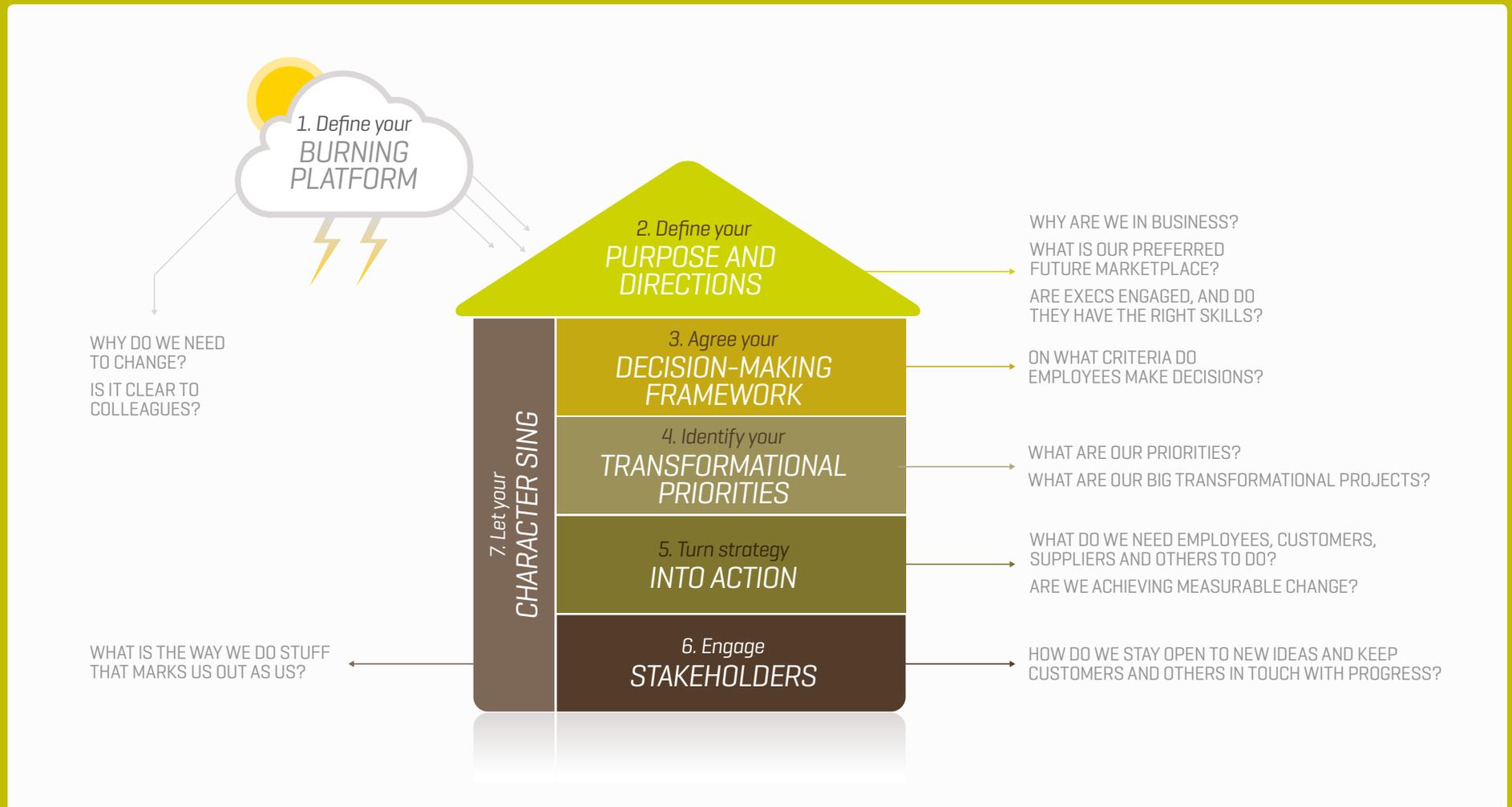
BUT:

the character of companies is complex – just as it is in individuals. Google is often portrayed as far from open, while busily gathering private information on each of us.



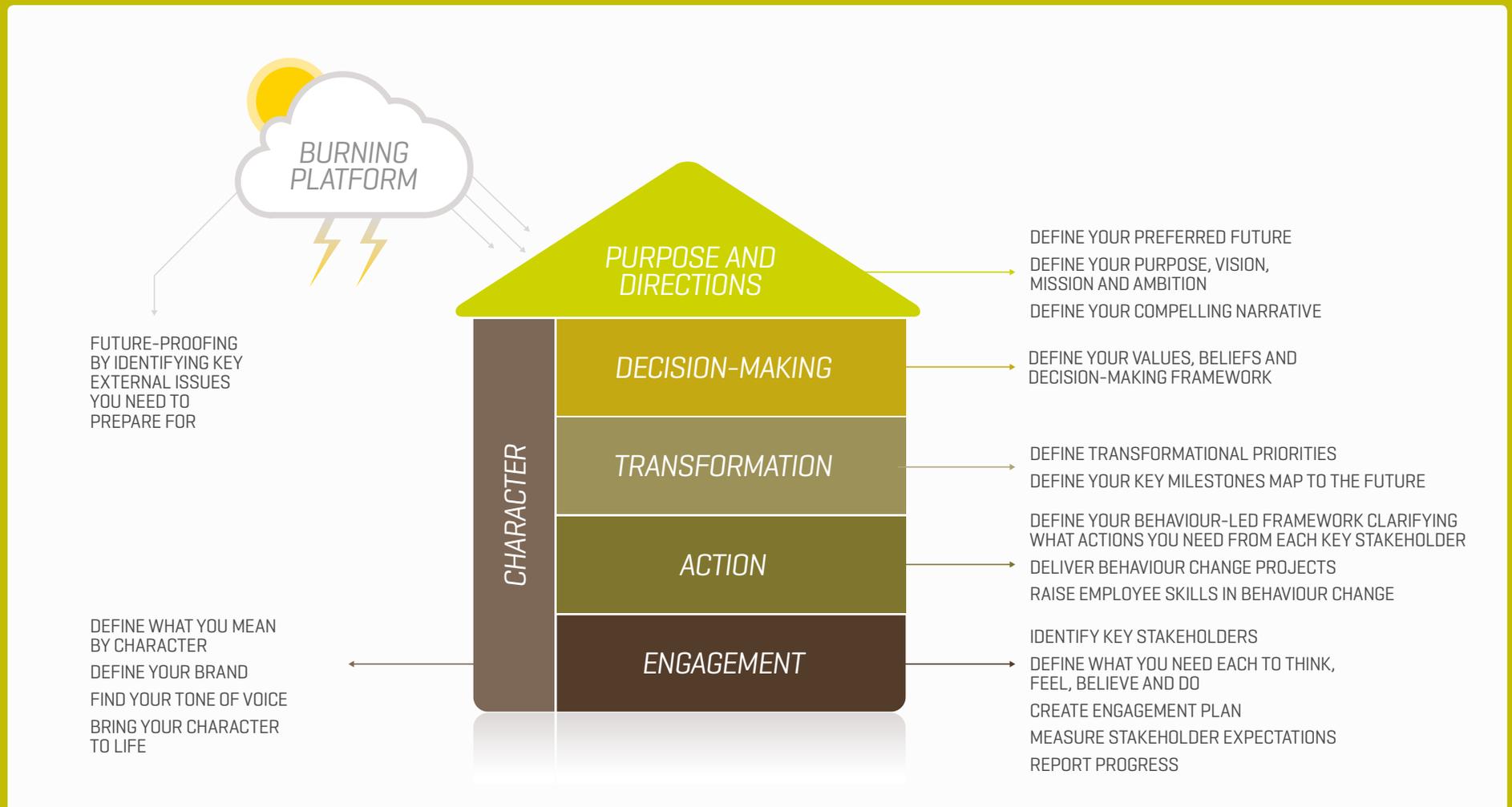
SUMMARY

THE MODEL Companies who achieve long-term success are usually companies comfortable with transformational change. We've sought to outline seven key steps to sustainable success.



THE TOOLS

Building on our model we have also imagined a number of areas where we have helped others achieve measurable change.





CONCLUSION

HOW TO ACHIEVE TRANSFORMATIONAL SUCCESS

Companies that achieve successful transformational change do a few things well.

They focus on the long-term. They understand context. They define their preferred future. They have a clear purpose and a compelling narrative that binds everything they do. They define the beliefs that drive them.

They define and execute a small number of transformational change programmes. They identify the actions they need employees and customers to take.

They engage people inside and outside the company in achieving their goal. And they have character that runs like a spine through the business – binding their past to their future.

More than anything, they link people to progress. The journey of the company and of the individual are a single integrated system.

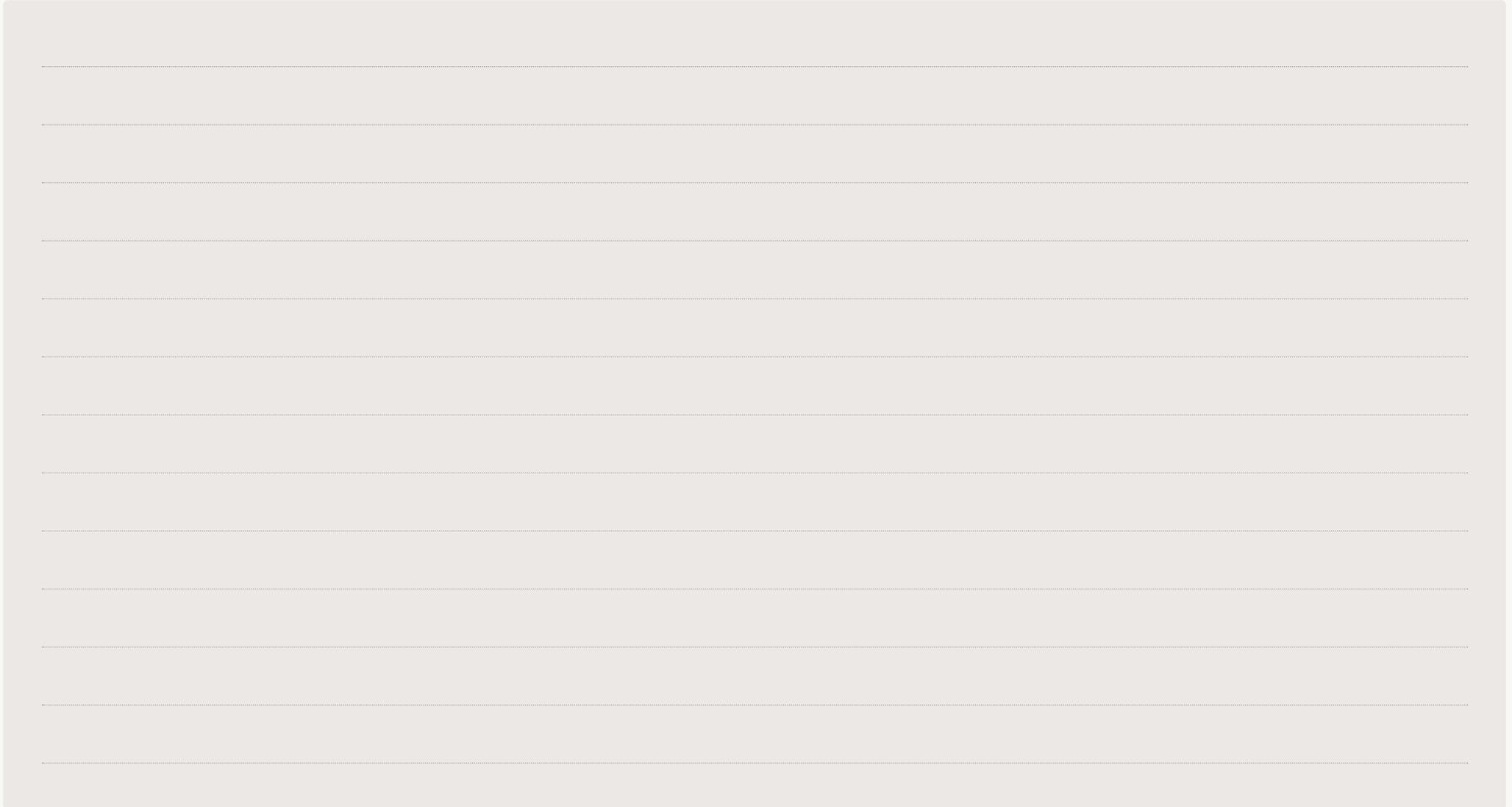
John Drummond, Chairman,
Corporate Culture Group

CHARACTERISTICS OF 21C COMMERCIAL SUCCESS



HOW DO WE MEASURE UP?

MAKE SOME NOTES ABOUT POTENTIAL AREAS FOR ACTION

A large, light gray rectangular area that serves as a workspace for notes. It contains 15 horizontal dotted lines spaced evenly down the page, providing a guide for writing.

REFERENCES

SOURCES AND ACKNOWLEDGEMENTS

A list of all sources indicated in this document.

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http://www.princeton.edu/~kahneman/docs/Publications/Living_DK_JR_2005.pdf*
- [5] *A physician called Robert Butler conducted research on growing old in America. He discovered that people who had a strong sense of purpose in their lives lived longer.*
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*“The world needs a new
business model with
sustainability at its heart.”*

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If you want to talk further about
organisational change or anything
else in this report, please contact:

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For more examples of how we have applied
this thinking go to www.corporateculture.co.uk
and www.how-on-earth.co.uk

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