

Employee Culture: THE HIDDEN TRANSFORMATION LEVER

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Peter Drucker famously stated, "Culture eats strategy for breakfast."

Strategies are like sand slipping between a CEO's fingers in the economic roller coaster of 2020, where a pandemic, massive government stimulus, upheaval of work and home life, and restrictions on travel have changed how business must be conducted. As companies grapple with turnarounds that they did not foresee just 180 days ago, managing cash flow, negotiating supplier contracts, and implementing cost cutting have all become priorities. Where does corporate culture fit in?

According to a number of seasoned turnaround practitioners who routinely step in as interim CEOs of companies in renewal, managing culture is the most important factor in delivering lasting results. While more difficult to implement and sustain, these changes can deliver a company to an ongoing position of renewed viability. Nevertheless, employee and corporate culture can be overlooked for a number of reasons. For example, success can lead to complacency in financial controls and management structure. When companies are wildly successful, they sometimes engender corporate cultures that are arrogant. This hubris might cause leaders to forget about the type of culture necessary in their growing team.

Former Intel CEO Andy Grove's classic book "Only the Paranoid Survive" discusses the fact that this complacency is an Achilles' heel for dominant companies. Examples of this cycle are evident in many industries, from media and entertainment to telecommunications to retail, where companies have focused their attention on their current market position rather than potential threats, only to find new competitors take root in a changing environment.

Struggling companies can also overlook culture. If companies in distress focus

too heavily on cost cutting, without any attention to team communication, they sacrifice employee morale. This can lead to the problem of shifting blame or hiding under the radar. Specifically, if culture is overlooked in the turnaround process, employees will find ways to minimize personal accountability, withhold information as a source of power, and even delay progress on critical projects in an effort to maintain a personal sense of job security. Fundamentally, their interests become misaligned with company growth.

Third, culture might be structurally difficult to assess. For example, when companies undergo a merger, the integration of distinct cultures can be a challenge as tantamount as merging IT systems and business processes. In these situations, companies can have very different histories that need to be reconciled in a merger. Otherwise, the execution of a merger can involve major potential impediments to integration, growth, and ultimately financial success.

As one example, when IBM implemented technology acquisitions in the 1990s, it was very sensitive to the fact that its size and processes would impact the nimble nature of smaller companies that could potentially deliver value across the organization. Consequently, IBM created a fence around its acquisitions, both operationally and in terms of brand identity, to ensure that these acquisitions could provide their value for the larger organization.

New Urgency for Assessing Culture

A host of catalysts requiring attention to culture has been presented in 2020. As companies face unprecedented challenges, taking stock of current culture and making a deliberate choice around the culture that is desired in a dispassionate manner is critical. A company may already have unaddressed

culture clashes that are uncovered by the current economic woes. On the other hand, a company may find itself in shock from the changing environment that its culture may find difficult withstanding.

Regardless, the urgency for assessing culture in this moment is twofold:

1) Companies need to respond to the current crisis and this response requires engagement from the ground up as well as the top down, and 2) Leaders need to make a deliberate decision regarding corporate culture and company positioning in a shifting market.

Assessing and changing culture is an ongoing process of reinforcement and can only be implemented by leadership. Here are some tactics:

Take stock of the situation.

Objectively delineating the current culture or cultures within a company is critical. It sets the GPS to where the company is now. One needs to assess norms of the company in accordance with processes, communication, respect, and formality. Knowing the starting point is critical and must be done without personal judgment. This involves meeting employees, walking the halls, and taking a deep dive into different departments to see how they compare.

Next, working with the company's board can be an effective way to determine the elements of a culture that would serve the company's success. This sets the GPS to a desired destination. For example, companies aligned with value or price in their product positioning may choose to make cost containment a priority in their internal cultures.

Communicate honestly and proactively. If a company finds itself in distress, communicating with

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employees openly and honestly is a critical element to developing or maintaining trust among a team as the company navigates through uncertainty. In overseeing a turnaround of a midsize apparel manufacturing business that had lost significant revenue, the author brought the factory workers, warehouse personnel, sales team, and administrative staff into the cafeteria to discuss where the company was as well as plans for moving forward. The conversation was as much a dissemination of

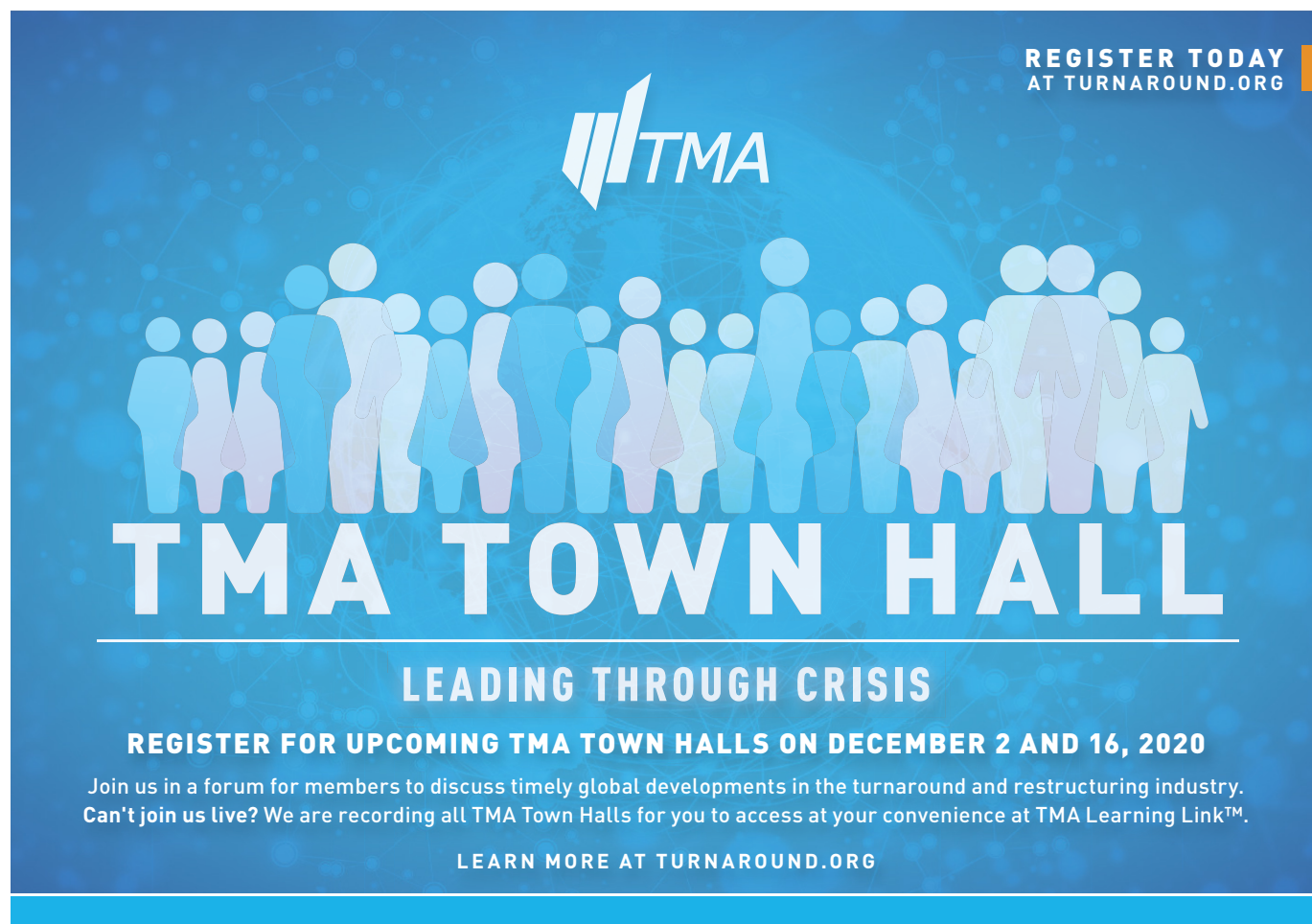
information as it was an opportunity to listen to employees' concerns and fears. Proactive establishment of a line of communication and the honest assessment of a situation without sugar-coating foster trust.

Seek employee input. Engaging employees for input results in them feeling heard. For example, when Southwest Airlines faced a spike in jet fuel prices during the 1990 Persian Gulf Crisis, then CEO Herb Kelleher sent a letter to every pilot soliciting ideas on how to save fuel. The pilots developed modified procedures for taking off

and landing airplanes that saved significant fuel and maintained safety.

This tactic is not just about saving money. Employees can contribute to the success of a company with a perspective from the field. In the middle of distress, a leader may feel he or she does not have the time to engage with numerous constituents; however, proactive engagement can serve multiple objectives.

Walk the walk from the top down. Leaders need to demonstrate that culture applies to them as well. For

A promotional banner for TMA Town Hall. The background is a solid blue with a faint, abstract pattern of white dots and lines. In the center, there is a row of stylized human figures in various shades of blue and white, standing in a line. Above them is the TMA logo, which consists of three slanted vertical bars followed by the letters 'TMA'. Below the figures, the text 'TMA TOWN HALL' is written in large, bold, white capital letters. Underneath that, 'LEADING THROUGH CRISIS' is written in smaller, bold, white capital letters. At the bottom, there is a white horizontal line, followed by the text 'REGISTER FOR UPCOMING TMA TOWN HALLS ON DECEMBER 2 AND 16, 2020' in bold, white capital letters. Below this, a paragraph in white text reads: 'Join us in a forum for members to discuss timely global developments in the turnaround and restructuring industry. Can't join us live? We are recording all TMA Town Halls for you to access at your convenience at TMA Learning Link™.' At the very bottom, the text 'LEARN MORE AT TURNAROUND.ORG' is written in white capital letters. In the top right corner, the text 'REGISTER TODAY AT TURNAROUND.ORG' is written in white capital letters, with 'TURNAROUND.ORG' in a larger font size.

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TMA

TMA TOWN HALL

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example, a board chairman who was overseeing a healthcare company that had a depleted cash position insisted that board activities, such as travel to board meetings and dinners, be organized in a cost-conscious manner, setting the tone that no one was above agreed upon processes. Lavish expense accounts for some while others are being laid off is never a good look. It doesn't give employees assurance that decisions are being made for the long-term success of the business.

Follow through on promises. Credibility is important in a turnaround. For example, if a leader states that he or she will conduct performance reviews and decide on compensation at the end of the year, that process needs to happen on time. In another example, this follow through is critical to codifying culture across a team as it is reinforced. As a tactical example, one turnaround CEO noted that he made a point to identify mistakes that he made during his recurring leadership meetings. By saying, "I made a mistake this week," on an ongoing basis, he created a space for employees to take accountability without the fear of repercussions. This ongoing cultivation of culture is an example of how small tactics can lead to more prevalent norms.



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Have fun. Life is hard if no one is having fun! When the 2001 recession hit, an enterprise software company found that the relationship between engineering and marketing, which had not communicated well in good times, had deteriorated into acrimony as the economy soured. In an effort to help repair relations between the two departments, the company set up a four-week pairs pingpong tournament, with teams comprised of pairs of employees across functions. While a seemingly small action, such efforts can create great opportunities to organically develop

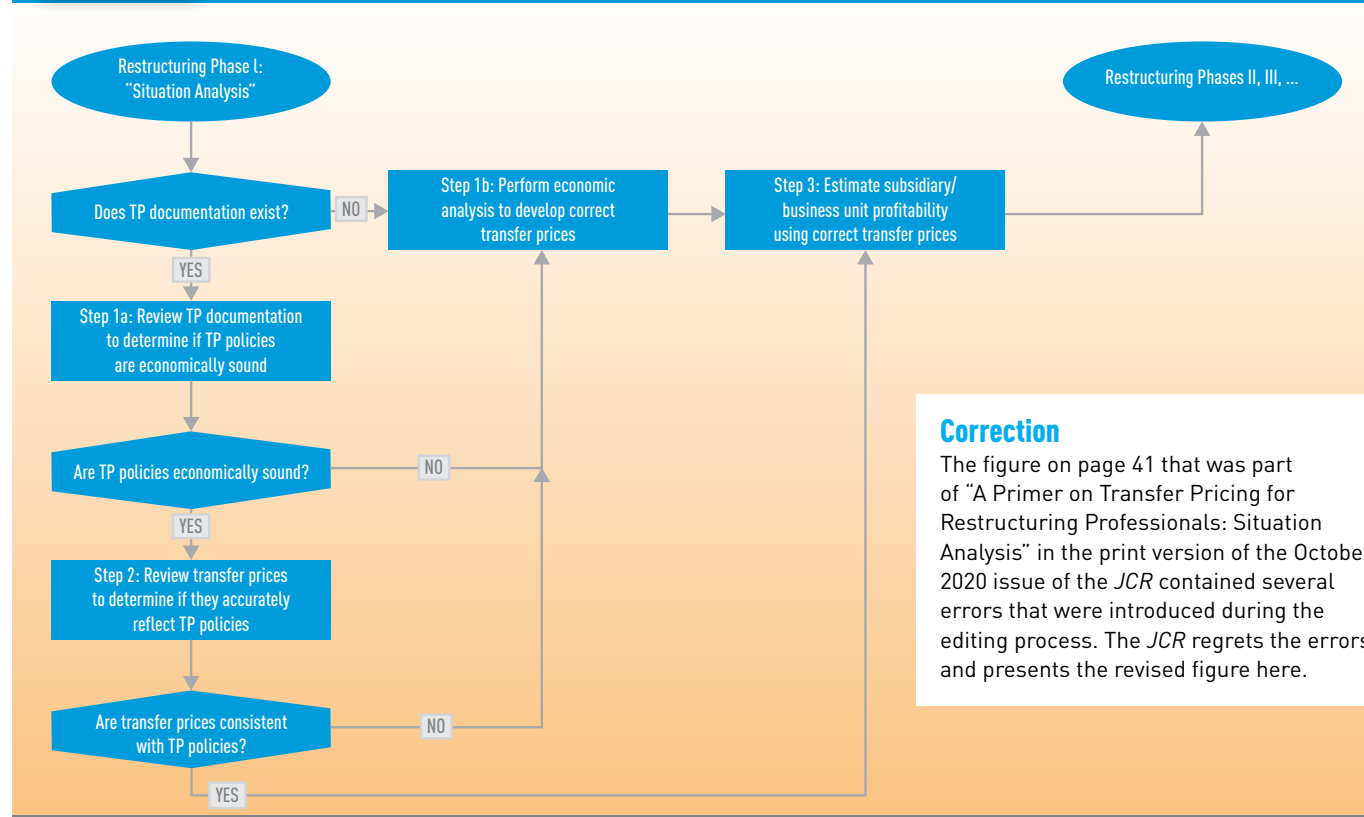
communication and empathy among a team that has stressful objectives.

Conclusion

Employee culture is critical to corporate transformation and is a linchpin to lasting success. While many of today's companies find themselves in dire situations, this is also an opportunity to make these important changes. In the tumultuous economic context of 2020, attention to culture may be a company's "most important meal of the day." ■

Correction from
October Issue

Figure 1: Transfer Pricing Flowchart for Situation Analysis



Correction

The figure on page 41 that was part of "A Primer on Transfer Pricing for Restructuring Professionals: Situation Analysis" in the print version of the October 2020 issue of the *JCR* contained several errors that were introduced during the editing process. The *JCR* regrets the errors and presents the revised figure here.

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