

How Culture Impacts Business Agility

Real World Business Leaders and Today's "Employee Engagement" Trend

Business leaders at a large global enterprise recently met to determine their strategy for the next fiscal year. They primarily focused on defining the product mix, demand generation, competition, and the resources required to execute their plan, but it became clear that success was contingent on the willingness of the sales team to embrace a more sophisticated client engagement method. Faced with this challenge, the business leaders identified several financial incentives that could be used to motivate sales consultants to adopt this new model.

Their response is particularly remarkable given that these business leaders had just completed a two-day leadership seminar that focused almost exclusively on the concept of "employee engagement"—which refers to the ability of an organization to increase employee involvement, enthusiasm, alignment with the team mission, and commitment to an organization through non-financial means.

Although *Business As Usual* thinking can be blamed for these business leaders sticking to their historical biases – where sales is thought to be "coin operated" – it is equally possible that these leaders are simply not convinced that the employee engagement model, as defined by McKinsey and presented by the leadership seminar facilitators, functions as a viable alternative to financial incentives or that it will dramatically improve the success of those traditional programs.

When you look at the non-financial incentives that McKinsey measured in its research – praise, recognition, attention, and the opportunity to take on new leadership responsibilities – it's easy to understand why business leaders might be reticent. First, the non-financial incentives seem relatively superficial in nature - primarily focusing on showing subordinates that they are "appreciated." Second, McKinsey research results demonstrate that the effectiveness of the non-financial incentives studied are not significantly higher than the traditional financial incentives.

According to McKinsey, financial incentives like increases in base pay are very effective 52% of the time and performance-based bonuses are very effective 60% of the time. A non-financial approach like the opportunity to lead a project is only 2% more effective than receiving a bonus. Praise from a direct manager is 7% more effective than a bonus.¹

Although McKinsey research shows that base pay increases are the least effective incentive type studied, the difference between a bonus and the non-financial incentives they reviewed are small enough to make "employee engagement" seem as if it merely provides incremental value to a team and organization. Since relative success can be achieved using traditional methods, business leaders would not feel compelled to make the cultural changes needed to adopt the "engagement" approach.

"Employee engagement" – as defined today by the industry and measured by McKinsey – does have the potential to play a critical role in the recruitment, retention, and the productivity of employees. Especially today, where Generation Y employees are becoming a larger percent of the workforce, leaders need to demonstrate an authentic interest in employee interests and advancement. This style of leadership is necessary if you want to build a strong team, but it is not enough – as currently conceived – to create an entrepreneurial culture that can recruit, support, and retain highly

¹ http://www.marketingpower.com/ResourceLibrary/Documents/Content%20Partner%20Documents/McKinsey%20and%20Company/2009/motivating_people.pdf

motivated and innovative employees that take initiative, drive competitive advantage, and enable the sustainable growth of an organization.

In most organizations, the formulation of objectives, strategic plans, and decision-making is primarily the responsibility of the highest ranking members of the group. Subordinates are expected to implement management's vision and support the decisions of their superiors. This approach keeps organizations focused on key objectives that have been defined by the leadership, creates clarity of purpose for all members of the organization, enables unity of effort, promotes consistency, helps establish repeatable processes, and decreases institutional friction.

Even in relatively progressive organizations – where managers encourage subordinate input and feedback – managers primarily seek data and insights that will help the team successfully achieve the goals set by management. This approach is exemplified by the concept of “alignment.” Gaining alignment between individuals and teams – where higher authority eliminates competing priorities or procedures that might interfere with achieving the objective set by management – is highly valued. These approaches are rightly prized by organizations, but they also negatively impact innovation, significantly reduce business agility, and lower the motivation of personnel to take initiative.

To achieve meaningful engagement with employees in a way that dramatically increases employee commitment, improves the quality of decision-making, and encourages innovation, the manager-staff relationship needs to be transformed into an equal partnership.

One organization has proven that it's possible to achieve the unity of effort traditionally prized by organizations while taking a radical approach to management-staff relations that encourages innovation and adaptability – the Israel Defense Forces (IDF). The IDF operates on a scale that is comparable to some of the world's largest corporations and government agencies, but it is more agile and less formal than a Silicon Valley start-up.

The IDF's success is dependent on the relatively seamless integration between two equally important decision-making frameworks – one that is top-to-bottom and another which is bottom-to-top. IDF personnel at all levels are proud of the genuine interdependency and equal partnership between management and staff – a partnership that is perceived to be the driver of all innovation and the reason why the IDF is one of the most advanced and respected military forces in the world.

Within the IDF's unique culture, commanders lead through persuasion not by virtue of rank, orders are essentially suggestions that are open to debate, and strategy often changes due to input from subordinates. The IDF core culture enables it to rapidly adjust strategy, force structure, and tactics to meet changes in the competitive environment, rapidly replicate successful tactics across the entire organization, and eliminate repetition of past failures.

The IDF equates the empowerment of its personnel with achieving competitive advantage. While most organizations see new technology as the vehicle for increasing the capabilities and productivity of personnel, the IDF focuses on developing its human capital. The IDF approach places greater demands on managers, but it also strengthens the staff's level of commitment to the organization as

well. With guiding principles that can be adopted by military and civilian organizations, the IDF's proven approach empowers employees in a way that attracts the best candidates, drives innovation, enables business agility, increases retention, and maximizes utilization of existing resources.

Survey: Relationship between Hierarchical Nature of Culture and Business Agility

As an extension of ongoing research into the applicability of Israeli military culture for other organizations, individuals from over 200 organizations participated in a survey that was designed to assess the relationship between an organization's culture and its business agility. Over 50% of the respondents work at large enterprises and 40% of all participants are senior leaders. Participating organizations included federal agencies, state & local government agencies, and leading corporations from the high tech, manufacturing, finance, healthcare, and retail industries.

The survey generated five key findings:

1. A vast majority of organizations are very hierarchical (no surprise!)
2. Senior leaders want staff to provide honest feedback, but staff withholds comment out of fear
3. Strong correlation between culture and time required to adapt strategy
4. Strong correlation between culture and time required to change organizational structure
5. An organization's level of business agility is dependent on its culture and not its size

A vast majority of organizations are very hierarchical, but key decisions made by mid-level managers

This will not come as a shock, but only 4% of survey respondents indicated that their organizations follow a non-hierarchical approach to decision-making and over 60% considered their organizations to be very hierarchical.

A vast majority of respondents see their organizations as being hierarchical, but 79% of all respondents believe that their organization's most critical decision – the determination of strategy – is made by mid-level managers and staff as opposed to senior leaders. The prevalence of devolving critical authority across a wide range of organization types suggests that distributed decision-making is natural and possibly even necessary to the running of an organization. The survey aims to see if organizations benefit when decision-making is highly distributed. Results suggest that the more an organization enables managers and staff to function as equals, the more agile the organization.

Senior leaders want constructive criticism from subordinates – but staff fears impact on career

A core cultural feature of the Israeli military culture is that everyone is on a first name basis – from the Chief of Staff to a new recruit – and that all debates are perceived to be arguments between equals. From the very first days of service, new recruits are taught that the organization highly values their ability to provide constructive criticism that changes a strategy or tactic. Soldiers are told that they are morally obligated to provide this level of feedback and even have the right to refuse orders given by higher authority. As a result, it's common for an Israeli commander's battle plan to change as a direct result of a subordinate feedback during a briefing. Operations are even cancelled if critical, unfixable flaws are found.

Within the US business culture, employees are not nearly as forthright with their managers as Israeli soldiers are with their commanders. Only 1% of all survey respondents have witnessed in a public forum an entirely open dialogue between managers and subordinates regarding strategy and tactics. Fully 84% have either rarely or never seen a subordinate publically question the strategy or tactics of a higher authority in their organization. The perceived freedom to speak is even further reduced when it comes to challenging the underlying assumptions of managers.

Interestingly, when respondents looked at this question from another direction – from how senior managers respond to criticism as opposed to the extent by which subordinates deliver it – the numbers shift in a way that highlights an opportunity to significantly improve the level of engagement between managers and staff.

84% of respondents do not see public criticism of strategy taking place in their organizations, but a full 75% of respondents believe that senior management does value and is willing to adapt plans based on constructive criticism from their subordinates. A full 23% believe this is true to “a great extent.” These numbers are all the more meaningful and encouraging – in terms of reflecting the perspective of higher authority – given that 40% of all respondents are senior leaders.

The data suggests that there may be an untapped opportunity to achieve deeper employee-manager engagement. If managers do not fear open and honest feedback from their staff, then the staff should not need to fear being penalized for speaking up. As FDR said, “the only thing we have to fear is fear itself,” but that fear is pervasive and may be a rational response to real world experience.

When asked to provide an example where a subordinate’s public criticism of a higher authority’s strategy and directives led to a change in policy, only 30% of all respondents provided examples. Less than 1% of those respondents provided a positive example – where employee feedback did lead to a change in the organization’s strategy. 99% of the time, subordinates were penalized for providing direct feedback to managers.

The data suggests that there is a genuine opportunity to significantly transform manager-staff relations. Human Resources (HR) and Organizational Development (OD) professionals can play a critical role in helping to remove the climate of fear by establishing educational and coaching programs that foster direct and continuous dialogue between managers and staff. With guidance and support, organizations may be able to move past the traditional culture of “alignment” and adopt a more sophisticated approach – as exemplified by the IDF – which encourages constructive criticism.

The correlation between a hierarchical culture and business agility

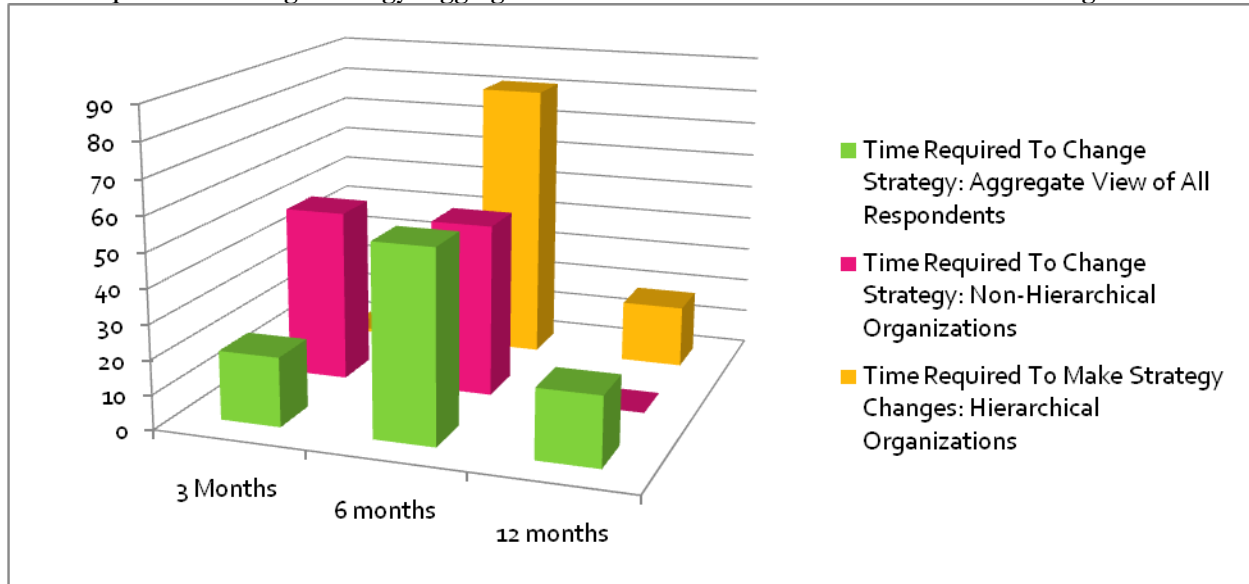
Two aspects of business agility were measured as part of this research – the amount of time needed to adapt strategy when an organization faces new market conditions and the speed with which organizational changes could be made in order to meet the requirements of a new strategy. In both cases, the organizations with strong hierarchical cultures take the longest amount of time to adapt.

As a group, 55% of all respondents indicate that it takes their organization six months to fully implement changes to strategy. The percent of organizations requiring six months to change strategic direction jumps to 81% when just looking at the organizations that self-identify as being very hierarchical and that do not empower subordinates to challenge the thinking and decisions of higher authority.

For the community as a whole, only 20% can change strategy in three months. By contrast, 50% of those organizations that encourage subordinates to provide constructive criticism can change

strategic direction in three months. And whereas 20% of survey respondents require at least twelve months to change strategic direction, all organizations that enable subordinates to speak freely can make needed changes within six months.

Time Required To Change Strategy: Aggregate View VS Hierarchical and Non-Hierarchical Organizations

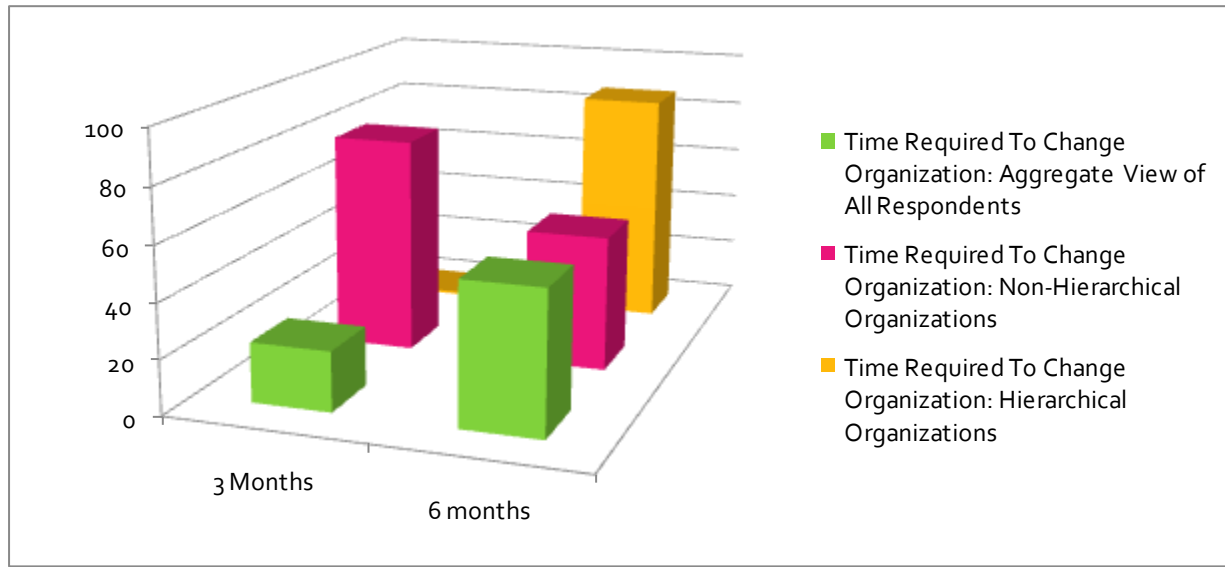


Also, being able to change strategic direction is not dependent on organization size. Many might assume that most organizations that are non-hierarchical and agile are primarily relatively small organizations. This is not the case. For example, all organizations that have between 50,000-100,000 employees and self-identify as being non-hierarchal make changes to strategy between 3-6 months.

When looking at the organizational changes that are required due to changes in strategic direction, 52% of respondents believe their organization requires six months to complete the transformation. When just looking at very hierarchical organizations that do not empower subordinates to challenge higher authority, the percent of organizations requiring six months increases to 87%.

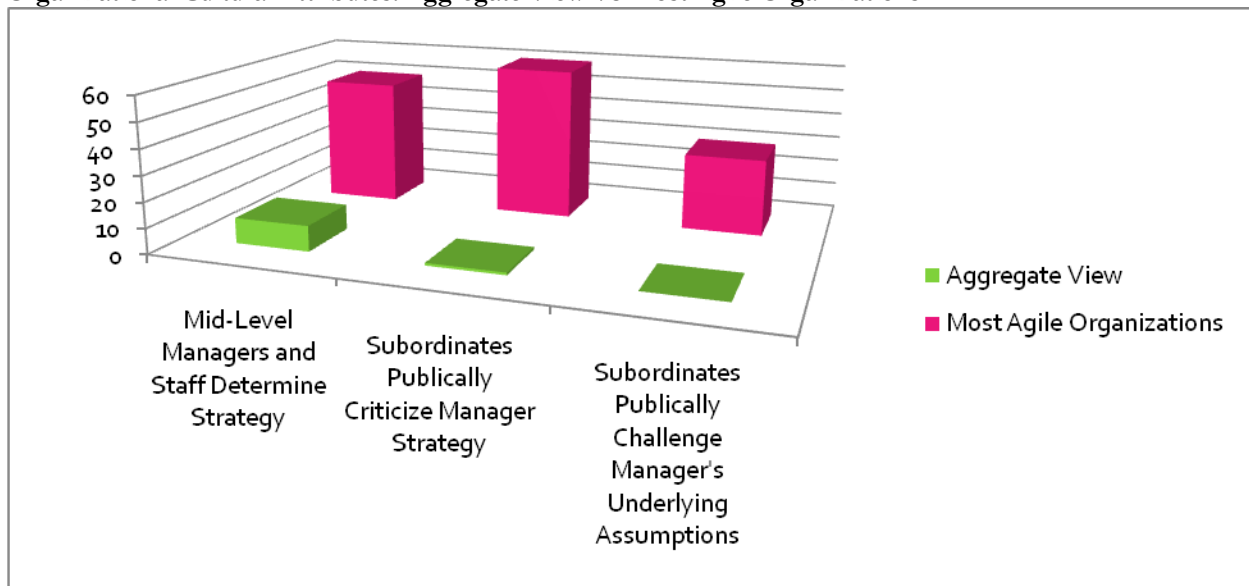
By contrast, 22% of all respondents believe that significant organizational changes can be completed within three months. When just looking at those organizations that self-identify as being non-hierarchical and enable subordinates to challenge management decisions, that percent jumps to 80%.

Time Required To Change Organization: Aggregate View VS Hierarchical and Non-Hierarchical Organizations



The most agile organizations – those that are able to both adapt strategy and organizational structure within three months – are also the least hierarchical and open to subordinate criticism of higher authority. While only 10% of all respondents indicate that mid-level managers and staff determine organization strategy to a high degree, the percent jumps to over 50% for this group. Further, only 1% of all respondents indicate that subordinates publically criticize the strategy and directives of higher authority “very frequently.” In this group, the percent increases to 60%. Also, these are the only organizations where respondents indicated that subordinates openly challenged – during team meetings – the underlying assumptions and decisions of higher authority.

Organizational Cultural Attributes: Aggregate View VS Most Agile Organizations



Interestingly, a correlation can also be found between an organization's business agility and the frequency of strategy reviews. Overall, the number of strategy reviews undertaken by organizations varies greatly. 34% of all organizations review their strategy once a year. 24% conduct reviews 3-6 times a year. 15% of all organizations review strategy once every 2-3 years.

When looking just at the most agile organizations, 40% of them conduct reviews once every 2-3 years. This is more than twice as much as the community as a whole. Given that these organizations have a culture that invites subordinates to challenge the thinking and decisions of higher authority – including an organization's strategic direction – one might have expected to see this group conducting more frequent formal reviews of strategy.

Although it seems counterintuitive given the cultural norms, a large percent of these organizations demonstrate a deeper commitment to their strategy than is typically experienced by the general community. It may be that having input from all levels of the organization increases the commitment to and solidity of these organization's strategic plans – once they are determined.

Recap of Research Findings

The findings of this survey suggest that the more an organization empowers subordinates to participate in decision-making, the greater the business agility. The data indicates that senior leaders are interested in constructive criticism from subordinates, but staff refrains from engaging with managers openly and honestly due to fear that speaking up will negatively impact their career.

It is as if US employees surrender highly valued democratic rights the moment they start work. Perhaps the same values that enabled the US to become the world's richest country can also be used to help build organizations that are substantially more successful.

To achieve and exceed the business goals associated with concepts like “employee engagement,” OD and HR leaders need to help facilitate the transformation of manager-staff relations in a way that is more comprehensive and substantial than the typical scope today.

As seen by the outsized success and level of agility demonstrated by the IDF over the last sixty years, a transformation of management-staff relations will have a substantial impact on an organization's long-term competitiveness and business agility.