REGENERATING FROM WITHIN

We've been hearing a lot from the government lately about innovation and disruption. But to succeed in this brave new world, companies first need to address what's really happening behind the closed doors in their own offices, writes **Tanya Perry-Iranzadi**

AS THE Turnbull Government polishes a new innovation strategy in time for Christmas, much is being said about Australia's failure to adapt and develop compared to countries like, say, Israel and the Nordic states.

But new government policy and executive strategy aren't everything. Even in countries where innovation is at the top of the policy agenda, like Finland, companies that don't first adapt their corporate culture can get it terribly wrong. Just look at Nokia.

In 2007, Nokia controlled 41% of the mobile phone market. That all ended last April with Microsoft's US$7.5bn acquisition of the company. Why? As newcomers Apple and Google blazed into its space, Nokia failed to respond to a market that was rapidly moving forward without it.

In his book, *The Decline and Fall of Nokia*, David J Cord cites the reasons for Nokia's failure as incompetent middle management which hampered attempts to bring innovation to market, a pervasive bureaucracy leading to the inability to act, destructive internal competition, and failure to realise the importance of lifestyle products such as the iPhone.

International failures

Nokia's not the only company where corporate culture has stymied attempts to innovate. The Daimler/Chrysler merger in the late nineties was labelled a fiasco, with major differences between German and US culture resulting in two competing divisions with differences over philosophy, operating styles and even the level of formality in meetings. Then there was Time Warner, whose stocks plummeted from $71.88 in 2000 to less than $15 in 2008 after a merger with AOL. The *New York Times* reported that Time Warner president Richard Parsons later blamed the collapse of the venture on the companies' inability to figure out how to blend the old media and the new media culture. "I remember saying at a vital board meeting where we approved this, that life was going to be different going forward because they're very different cultures, but I have to tell you, I underestimated how different," he said.

CLOSER TO HOME

Australian companies are not immune to the same destructive global forces. A recent report from the Committee for Economic Development of Australia (CEDA) warned that 40% of Australia's workforce could be replaced by automation in the next 10 to 15 years, including the most highly skilled. And research by CPA Australia found nearly a third of all ASX-listed companies were close to insolvency in 2013, including a staggering 58% of the smallest 500.

In today's market, businesses that don't evolve are facing dramatic downturns in a matter of months. The emergence of new technology and global virtual teams, particularly in the third world, is threatening Australian business in a way that would have been unthinkable five years ago.

Disruption is our friend?

The key for all companies as we enter the second half of the decade is continuous transformation – and transformation that comes from within. Companies must be nimble and motivated toward change, make continuous small, incremental improvements, experiment and understand the need for innovation. And to do that, every member of the business needs to be on board.

There are significant opportunities ahead for companies that are able to transform. But if disruption is our friend – if we are to embrace disruption, remain agile, adapt to the digital economy and to foster innovation – it will take more than slogans and new PowerPoint strategies to achieve lasting change.

We know that the majority of change initiatives in Australia fail – probably around 70% of them. Strategies developed by traditional management consultants and approved by the executive often founder at the point of implementation. Instead, companies struggle for survival through repeated and damaging restructures, which frankly achieve little long-term gain but plenty of unpleasant retrenchments, battles over resources and resentment.

McKinsey & Company's seminal 2008 paper on change management, *The Inconvenient Truth About Change Management*, found that the main reason change programs fail is due to employee resistance or management behaviour.

Yet most companies don't realise the value of culture transformation, that one-off programs can't work without first aligning culture to implement them. Time and again I see companies coming up with fantastic strategies, but these strategies fail to translate into operational change. So many Australian companies still operate as silos, competing internally for resources and failing to see the bigger picture.

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Don't forget culture

The cultural side of a company is of equal – if not greater – importance than its strategy or operations. We recently worked with a multinational company with operations across Oceania. It was a familiar story of doing business in a mature market, and a lack of innovation and commitment by the team to lift out of declining profit and margin results, which were seen as inevitable.

With a focus on an innovative approach to strategy, discovery of new markets, structural change and process improvement initiatives, a rebuild of the company was underpinned by an extensive cultural transformation program. Within two years we had increased Aon Hewitt engagement scores from bottom percentile in the red to top quartile scores, with an equally impressive parallel lift of 20% to revenue and 200% to profitability. You can't innovate successfully without strategy, structure and authentic commitment from your people.

What companies need is a more regenerative approach which will enable them to respond swiftly and proactively to changes identified in the marketplace, to retrain staff and reallocate resources. We need companies that can evolve their structures, processes and culture again and again to meet new challenges as they occur.

What this will achieve is end to end transformation – the internal collaboration and cooperation that is essential for companies to achieve continuous regeneration at speed.

Investing in culture makes companies three times more profitable and they achieve 14% more productivity, according to the Australian High-Performing Workplaces Index.

A 2015 global survey of portfolio managers and analysts, released by London culture consultant Walking The Talk and investment consultant Stamford Associates, found that investment analysts are less likely to support companies which do not have a culture that supports their strategy, with 94% listing culture as an important consideration in investment decisions.

Sustainable change

I believe the solution is to implement a long lasting system and culture that gives companies the power to regenerate from within. That means building the capability of key people responsible for developing and implementing strategy and culture, identifying the different cultures at play, and shaping an aspirational culture. It won't happen overnight, but with the appropriate tools and support, significant culture change can happen.

Then, and only then, will our businesses be capable of thriving in the new disruptive global economy and able to meet the challenges of whatever comes next. HRD

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