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C H A N G I N G
Corporate Culture

A Guide for Top Managers

Translated from German by Christian Villano

© des Titels »Changing Corporate Culture« von Peter Fischer (ISBN 978-3-86881-888-8)
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PREFACE

This book is the result of more than twenty years of intensive consulting and support for companies going through processes of change. We—the Fischer Group International (fgi) team—have worked for companies big and small, national and international, sometimes for years, other times for briefer periods, on clearly defined topics and broad-ranging projects. We have found that the theme of culture and the need for cultural change has increasingly taken center stage in recent years.

The concepts dealing with the processes of cultural change were conceived in countless discussions with our clients and within our team. We often spent nights on end struggling to find the right approach to complex issues.

For a while now, I've considered writing a book about corporate culture transformation. Though there is no shortage of books on the subject, I found hardly any that approach the issue from a management perspective. Hence, this book's rather provocative subtitle: *A Guide for Top Managers*. I'm aware that one cannot reduce such a sweeping enterprise as cultural change to a simple guide. My intention, rather, is to turn the wealth of experience and insight we've garnered over the years into a convenient form tailored to the practice of management.

I would like to take this opportunity to thank all those who have directly or indirectly supported me in my endeavor. First and foremost, I thank my clients, who put their trust in me, allowing me to gain profound insight into their corporate culture. This applies not only to executive board members and top-tier managers but also to colleagues in HR and Communications, with whom we developed the concepts and procedures for culture transformation following an intensive exchange of ideas. I would also like to thank my team at fgi, without

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whom this book would never have seen the light of day. And whenever one takes time out of one's »regular« work to publish a book, having the support of one's family is indispensable.

I hope all readers interested in culture transformation enjoy reading this book. May it inspire you to transformations of your own.

Dr. Peter Fischer

INTRODUCTION

»We must change our culture.«

Hardly a day goes by without a CEO publicly announcing a culture transformation in his or her own company. Usually, the realization that a change is needed strikes when a vital new business or production strategy is not implemented quickly enough. Allianz, for example, has been forced to acknowledge that simply investing money in the development of new digital services will not suffice. The new applications need to be upheld by the organization itself. In other words, the employees must be persuaded of the benefits of digital applications that are often branded as »job killers.« And this means finding a new harmony in the company as a whole. »Overcoming rigid hierarchies,« enhancing »interdepartmental cooperation,« and promoting the »corporate responsibility of the individual« are only a few of the catchphrases when it comes to the subject of culture transformation.

One thing is clear: even with the best of intentions and resolute statements like »The customer comes first« or »Time-to-market is our key to success,« unseen forces prevent employees from being receptive to change, even when they grasp the urgency of that change. People who have settled into a routine find it hard to think outside the box from one day to the next. Obviously, something apart from our intentions influences our actions or hinders us from forging new paths.

This is where »culture« comes into play, and by this, I mean »corporate culture,« not the culture that takes you to the theater on weekends. I mean the numerous unspoken rules, assumptions, and even the values that a company has accumulated and maintained throughout its often long and varied history—which, like it or not, exert a powerful influence on the behavior of its employees. Viewed in

this manner, it's no wonder that managers invoke the abstract term »culture transformation« when they find necessary changes are not proceeding as planned.

Having said that, we are rarely aware of the complexity of this undertaking. This kind of shift in culture is not only a lengthy process but also difficult to address, and it can even draw resistance from employees. This book, then, is a guide to a successful culture transformation. Once we shed some light on the growing significance of corporate culture, we will then define more precisely what we mean by bringing about a change in that culture. We will present the most important studies in the field and explain why corporate culture in the digital age is a factor on which our future hinges. But we will also illustrate the various functions corporate culture has for employees.

We will then discuss in detail the decision to initiate a culture transformation, which is too often made in haste and without the proper consideration. Often the time and effort change takes and the personal challenges it poses are underestimated, even at management level. The central part of this book presents a successful process of culture transformation laid out in seven steps. We will inform you about the options for mobilization and the necessary alignment as it regards both the executive board and top management. We will also address the difficulties in defining goals and the challenges of navigating change. Above all, we will lay out a wealth of measures and approaches with the aim of shaping corporate culture in a sustainable manner.

Finally, you will learn how to formally conclude a culture transformation initiative, and we discuss the obstacles such an initiative may encounter.

CHAPTER 1

COMPANIES IN UPHEAVAL

For some time now, companies the world over have had to adapt themselves to new demands and conditions. Siemens, for instance, has struggled considerably in recent years to find the right strategy. Even a corporation such as BASF, which saw steady growth for many years, has suddenly come under pressure. Firms big and small, barely able to stand the strain, have been forced to file for bankruptcy or have been taken over by other companies. A cursory glance at publicly listed companies reveals that over a span of twenty years, almost 50 percent of the firms have vanished from the indices. The DAX, too, has seen many companies come and go in its more than thirty-year history. In fact, only ten companies have been continuously represented in the leading German index since DAX's inception in July 1988, and even they now must demonstrate their change competence, be it Allianz, Bayer, or RWE.

Whereas the keys to corporate success were once size and efficiency, today it is all about the ability to change. Three trends in particular demand a company's response:

1. Globalization

Although globalization is no longer immune to controversy, the countries of the European Union are still tightly interwoven with the United States and Asia. In Germany alone, over six million jobs depend directly on trade with non-EU countries, and exporters include many small- and medium-sized businesses. Globalization means not only securing new sales markets but also constant compe-

tition with other firms. At the same time, protectionist policies and government intervention have been on the rise and have not made life any easier. Internationally active companies with global supply chains can easily fall prey to the chaos of such disputes.

2. Climate Change and Neo-Ecology

Sustainability, environmental protection, and climate change are no longer niche topics and haven't been for some time. In fact, these issues are in the process of reshaping the logic of the markets themselves. There was a time when ecology was deemed a task for the individual; today it's considered a mission for society as a whole. The climate crisis has forced entire industries—above all, automobile manufacturers as well as the energy and chemical sectors—to rethink their strategy, adapt their product portfolios, and forge new business models. The impact of increased environmental awareness can be seen in other economic spheres, too, as a consequence of political regulations or a shift in consumer behavior. Not least, the issue of ecology implies that competition for limited resources will gather even greater momentum in the coming years, be it for oil, mineral reserves, or even water.

3. Artificial Intelligence and Big Data

Artificial intelligence enables machines to carry out cognitive functions like those of a human. The term »big data« is understood as large quantities of information that can be stored, processed, and evaluated by means of special solutions. Both technologies are only beginning to change industries and markets globally and give rise to innovative products and services. But they are already proving to be of great assistance to firms, for example, in assessing future developments and their importance to a company's given strategy.

The trend toward knowledge management by means of artificial intelligence and big data is, of course, a result of the global strides in digitalization over the last ten to fifteen years. This has heightened the challenges to companies even

further and requires a radical shift in mindset. The digital tornado took off in 1994 with Amazon and hasn't left a single industry untouched.

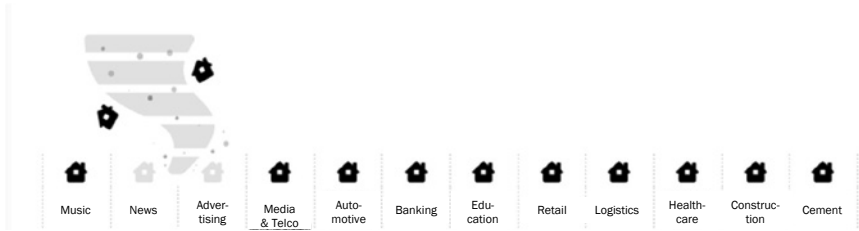


Figure 1: The Digital Tornado (Source: Universal Music 2015)

Beginning with the book and newspaper market, digital business models proceeded to conquer the once-privileged retail sector and many areas of the automotive, financial, and health sectors. According to a study by etventure in 2018, 35 percent of German companies still believed they could buck the digital trend and did not consider tech companies like Google or Amazon legitimate competitors.

They have been proven wrong as the Bertelsmann foundation discovered: In 2020, only one fifth of the one thousand German company executives surveyed believed their own firms to be on the cutting edge of future technologies like artificial intelligence or big data while 49 percent attested to having a lot of catching up to do. A wealth of prominent examples illustrate how vital this task is.

1.1 Under Pressure from All Sides

The German **automotive industry**—Germany's leading industry—currently faces its greatest upheaval in its more than one-hundred-year history. Upward of two million jobs are at stake.

Whether it concerns e-mobility—innovations such as self-driving cars—or new mobility services, climate change and a resulting drastic shift in consumer

behavior have rendered the old rules of the game obsolete and have ushered new competitors, mainly from China and the USA, onto the stage. However, the old competitors should not be discounted.

In 2021, General Motors announced that from 2035 they will only offer zero-emissions automobiles. And Japan's auto industry already decided back in 2018 that they would halt the use of the internal combustion engine completely by 2050, with the exception of hybrid vehicles. And digitalization goes even further. Experts estimate that by 2030, automakers will generate up to 25 percent of their sales and up to 40 percent of their revenues using software and digital services. In short, hardware must give way to software, and this in an industry that has long believed IT was not part of their core business. This also means that traditional business models are currently being phased out to give undivided attention to the world of technology.

Ola Källenius, for instance, who replaced Dieter Zetsche as chairman of the board of management at **Daimler** in 2019, set things in motion on nearly all fronts to get the Swabian automotive corporation back on the road to success. In doing so, he identified two salient catalysts: digitalization and the colossal challenge of converting the company to e-mobility. Consequently, Källenius initiated a policy of stringent cutbacks that included the defunding of the carsharing model.

On this point, Källenius and Oliver Zipse, the chairman of **BMW**, agree. Upon taking over the position of chairman at BMW in 2019, Zipse also announced his intention to prioritize the development of alternative drive systems and the digitalization of products and services and indicated there were insufficient funds to indulge in too many experiments.

Not only auto manufacturers but service providers, too, need to rethink their strategy at a time when Google and Apple are making inroads into the auto industry. Hence, as early as 2018, we heard talk of »the greatest transformation in the company's history« at Robert Bosch, the world's largest automotive supplier.

Under the leadership of Volkmar Denner, the traditional automotive supplier is evolving into a connected services player (i.e., a company that renders its electronic products viable for the internet, thereby creating new business models—be it for driverless cars, automated parking solutions, or the networking of different means of transport).

For the moment, the combustion engine still plays a substantial role at **Robert Bosch**. Indeed, it has been recognized that a reorientation of this kind will be a lengthy process whose success largely depends on whether managers and employees can overcome the obstacles posed by silo mentality and departmental egotism. It stands to reason, then, that new products are being developed in interdisciplinary teams and consistently from a user perspective.

Continental, a notable competitor of Bosch, is proceeding in similar fashion. It, too, is convinced that the success of a company's digital transformation not only depends on technology but also on the people involved, hence its focus on networking and sharing know-how through internal social media tools. The pressure to act is considerable. Nikolai Setzer, chairman since 2020, is expected to press ahead much more swiftly than before with the conversion from hydraulics and mechanics to software and sensor technology.

It is, therefore, clear that business models in the auto industry are undergoing fundamental change. Today, companies no longer define themselves just as automotive manufacturers or suppliers but rather as mobility service providers and tech corporations. The motor vehicle itself is becoming a »device on wheels.« At the same time, COVID-19 has shown just how volatile business is and how powerful countercurrents can be (e.g., no sooner had public transportation and carsharing trended than the private automobile experienced a sudden renaissance, all due to the pandemic).

Viewing the situation from a different industry, we can see that the challenges facing the **energy market** are not unlike those of the automotive industry. Here, too, not only digitalization but climate change as well is proving to be a force of disruption. Accordingly, Johannes Teysen, head of EON from 2020 to April

2021, thoroughly restructured the corporation: The gas, coal, and hydroelectric power generation, as well as energy trading operations, were split off from the parent company under the name Uniper while other important parts of the company were exchanged with RWE. Today, the company is focusing on energy networks and energy sales, and Teysen considers it well-equipped to face the digital revolution.

The **logistics industry**, meanwhile, has also been forced to rethink their approach: climate change has altered customer demands; the issue of sustainability has become a competitive factor; and for some time now, robots, self-driving delivery vehicles, and drones have been put to the test. The key term here is »alternative delivery concepts.« After all, the parcel market has seen a dramatic acceleration in recent years: new technologies for the planning of global supply chains and an optimal utilization of aircraft and ships demand different skills from a company compared with traditional transportation services—even more reason to cooperate with new market partners who already possess these skills. **Deutsche Post**, for instance, plans to invest two million euros in the digitalization of all its corporate divisions by 2025.

The list goes on of companies and industries that have come under various forms of pressure to reassess their business. Be it Henkel, Merck, or Novartis—not to mention numerous medium-sized enterprises—they must all face the challenges of the future.

1.2 A Radical Restructuring of Business Models

In some industries, digitalization has led to the creation of brand-new business models, the clearest expression of which has arguably been attained by the **publishing house Axel Springer** under the direction of Mathias Döpfner. In just ten years, this publisher has managed to increase its earnings from a variety of digital ventures to 74 percent of its total revenue.

At 87 percent, the contribution of these activities to the profits is even higher and attests to the radical nature of the change. Döpfner attributes the success to an early decision not to rely solely on the digitalization of the publisher's existing activities but to initiate new business models as well. Today, Axel Springer generates a large part of its revenues from the operation of sales platforms for personnel services, housing agencies, and car sales.

Digitalization has even brought about great change for the gatekeepers, the **telecommunications providers**, since it is already apparent today that companies cannot settle simply for the role of infrastructure service providers. Rather, they must use technological trends like big data and services like videotelephony, IPTV, video-on-demand, or music streaming to generate new business models rather than leave the task up to Spotify, Netflix, or Amazon. »Communication service provider« is thus the new term and target image for companies in the telecommunications sector.

Deutsche Telekom has already embarked on this kind of approach with products such as Smart Home. And Timotheus Höttges, CEO of the Bonn-based telecommunications corporation since 2014, has made it clear that going forward the company will continue to work intensively on digital services, despite these services not being directly related to the original business environment. Ultimately, whether it concerns artificial intelligence or the new mobile network standard 5G, the telecommunications industry is highly dynamic in its evolution, and according to Höttges, one should not »protect the successful business models to the exclusion of the new.«

That no stone will be left unturned applies just as well to the **financial industry**. Of course, insurance companies and banks must also deal with specific financial conditions—be it persistently low interest rates or new regulatory requirements. But the real problem lies in the fact that the markets for existing products and value propositions are simply saturated. Hence, we see demand for new business models. Sooner or later, digitalization will create the need for completely new insurance products. Take automobile insurance, for instance. Once we find ourselves driving autonomous vehicles, we will be faced with a host of new liability

issues, less to do with the private customer and more to do with the vehicle manufacturer.

Digitalization, then, is also the number one concern for insurance companies, not least because customer demands have changed dramatically. For a long time, it was predominantly young fintechs who were responding to these demands, providing online insurance policies, based on algorithms precisely tailored to the needs of the customer, that were easily purchased, as well as providing innovative services for comparing and managing insurance policies. But companies like Amazon and Google also pose a threat, determined as they are to break into the insurance market themselves and compete with long-established firms. Those firms have no choice but to react, despite not being known for their willingness to change, as illustrated by the »bastion of calm« metaphor that has found its way into their advertisements.

In 2015, shortly after beginning his tenure as CEO of **Allianz**, Oliver Bäte initiated a culture transformation for the company's one hundred forty thousand employees worldwide. The goal of the change was complexity reduction: He had a substantial number of policies and tariffs simplified and pushed for a digitalization of the processes involved. In particular, the structures in claims management were to be streamlined to the point that many customer requests could be conclusively processed in the call center.

At the start of 2019, Bäte clarified his position further: his company's digital overhaul was proceeding »too slowly« and »those who don't get with the program should be sent home.« Bäte is convinced that the transformation can only be achieved through New Work—and this means change for employees as well as management.

The challenges facing the **banking sector** are akin to those of insurance companies. Or, to quote Bill Gates, »Banking is necessary, banks are not.« If banks hope to survive in the future, they will need to think less in terms of products and more in terms of services. Above all, this means improving their digital competence to attract a younger customer demographic, those who expect a modern, omnichannel version of banking where the most important points of

contact and communication (like branch, phone, and computer) are linked. These customers also seek comprehensive electronic services and innovative modes of payment. This, in turn, calls for a complete reorganization of processes and consulting services.

In this respect, ING-Diba, today known simply as **ING**, has made the most headway. In the summer of 2015, under the former leadership of Roland Boekhout, the corporation embarked on a radical restructuring campaign. The impetus here was the conviction that »the future of finance will be digital.« As in the big tech firms of Silicon Valley, the future focus will be on agility, speed, and teamwork. Moreover, ING took a radical step for a banking corporation in completely restructuring its company into squads, tribes, and chapters. The elimination of traditional hierarchies was meant to give full rein to the employees' innovative energies, with no obstacles in their way.

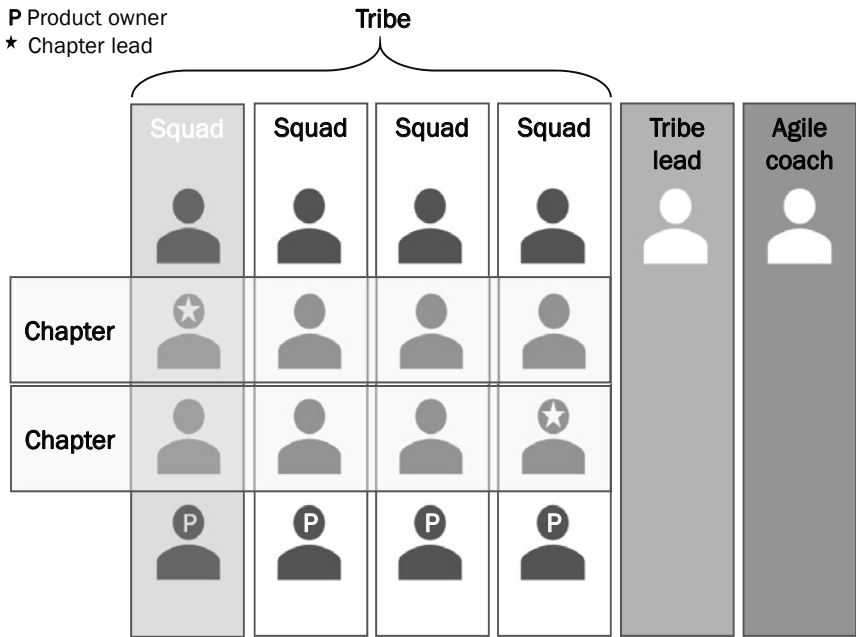


Figure 2: ING's New Agile Organizational Model (Source: McKinsey Quarterly, 2017)

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1.3 Change through Crisis

Digitalization pervades every sector, and naturally that includes trade. Today, the tech giant Amazon has a global hold on the e-commerce market, and established companies risk being sidelined as a result.

This is because Amazon has understood one thing exceedingly well: how to approach the customer. In the digital age, the customer experience and journey must be radically rethought and tailored to customer benefits. What used to be customer advice now consists of analyzing the behavior of clients as they shop online, and the next-best-offer approach has replaced the recommendations of a sales professional.

This is a development that plunged the Hamburg-based **Otto Group** into a veritable crisis. In the mid-2000s, the mail order group reported the first loss in its history as a holding company as competition seemed to be outpacing the somewhat cumbersome traditional company. This was the warning shot that triggered change. Rescue came in the form of a culture transformation, culminating in a comprehensively digitalized enterprise. The unique aspect of what was coined as »Cultural Change 4.0« was that it was deliberately defined as an ongoing development rather than a temporary project. And as Alexander Birken, chairman of Otto Group since 2017, cheerfully reported in a YouTube video, this initiative continues unabated throughout the entire company.

More self-responsibility for the individual, more constructive cooperation on an equal footing, the removal of taboos from making errors, and the »acceptance of a certain loss of control« are the salient goals at Otto Group. The realization of which are made possible, amongst other things, by the so-called »Fuck-up Talks,« in which management reports on its own failures rather than concealing them out of shame. But concrete measures are also called for. The employees in call centers, for instance, organize their own work shifts, which has led to a decrease in sickness absence. In addition, the company ensures that all employees develop a common grasp of digitalization with the aid of compulsory, video-based online courses.

In recent years, **Volkswagen** has become nearly synonymous with »crisis.« And although the Wolfsburg-based company was quick to recognize the need for a radical conversion to digitalization, six years after the emissions scandal, the corporate culture still has room for improvement. A first step in CEO Herbert Diess's desired direction was taken with the launch of »Together4Integrity,« a program designed to strengthen corporate compliance. In 2020, Diess pushed for greater speed and boldness on the part of management, which he followed up with prompt action in the form of a new system of compensation for the approximately eighteen thousand managers worldwide.

This means no more personal performance bonuses; instead, the focus is on the economic development of the company as a whole.

1.4 Culture becomes Indispensable

Companies have rarely faced such formidable challenges. Global competition, climate change, and digitalization have created a dynamic in the markets that has forced many firms to reinvent themselves, putting ever-greater focus on **corporate culture**. Nearly every CEO begins his or her tenure alluding to the need for culture transformation.

Christian Kullmann, who took over as chairman at the Essen-based specialty chemicals company **Evonik** in 2017, announced that the firm needed a fresh approach to leadership in which performance and dynamism could be integrated in a new manner.

For Markus Steilemann, CEO since 2018 of the plastics manufacturer **Covestro**, cultural development was also on the agenda from the beginning. The company, having emerged from the former plastics division of Bayer AG, had flat hierarchies right from the start. Steilemann now promotes a culture of fault tolerance: »Occasional failure isn't tragic; failing should serve as motivation to keep going.« Indeed, the **chemical industry** as a whole is under considerable