Culture as Key Success Factor in Industrial Digital Transformation

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ASSOCIATES

Aligning company culture

"Culture eats strategy for breakfast", the saying goes. Culture is a powerful social force that shapes and promotes certain ideas, customs and social behaviors while discouraging others. In organizations, culture is critical to the shared sense of purpose that mobilizes employees to work towards a common goal.

However, culture is often an afterthought for executives due to its intangible nature and the challenges in changing cultural norms and values. To understand how industrial companies are adapting organizational culture vis-à-vis ongoing digital transformation, we interviewed more than 20 senior digital leaders at industrial companies. We also interviewed several individuals from other industries who are facing similar organizational and cultural challenges related to digital transformation.

Our findings from the interviews, combined with our experience working with clients, confirm that evolving the company culture is central to successful transformations. Most industrial companies today have an established culture that rewards a singular, focused expertise that is developed over decades of working in the same environment. They also exhibit a high level of safety consciousness and a fairly rigid hierarchy.

These cultural elements have served industrial companies well thus far, helping guarantee precision and high quality. This culture, however, is also the driver of the industry's long development cycles. As industrial companies face the challenge of evolving from mechanical manufacturing into the faster pace of software-based services, they will need to evolve their culture as well.

Digital success requires industrial companies to build a culture that is closely aligned with business, talent and technology strategies in order to facilitate and not impede the digital transformation.

Make culture central to industrial digital transformation
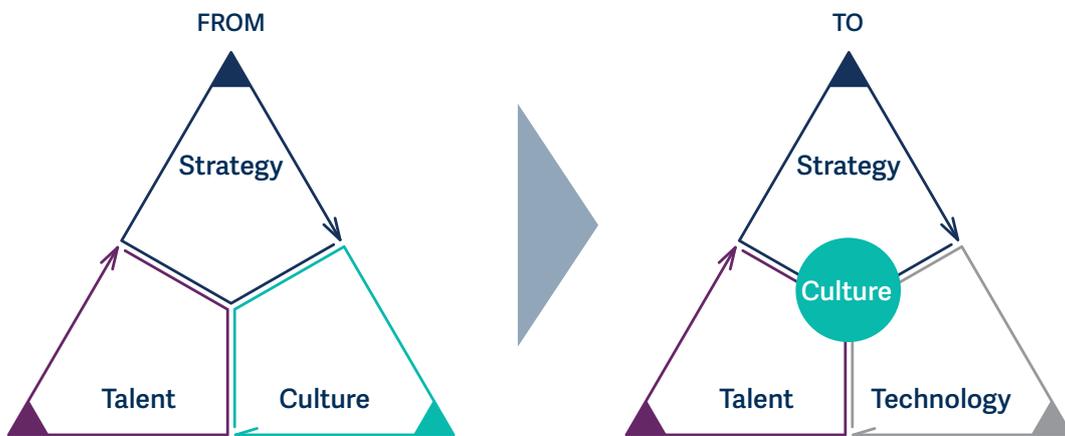
"We are just in the middle of understanding that the digitization is a great opportunity and excuse to change the corporate culture. It needs to be a modern, project-oriented culture – not about level, but about the task assigned."

- Chief Digital Officer, European industrial corporation

"Usually the business strategy, talent strategy and culture are seen separately. Today, businesses need more of a holistic strategic mindset."

- Partner, Workforce for the Future, US consulting firm

Cultural elements that facilitate digital transformation

Industrial companies seeking digital success need to make a fundamental shift away from a rigid, insular culture that demands perfection toward an agile, collaborative culture that encourages risk in the interest of innovation. The following five cultural elements are crucial in driving a digital agenda. Most industrial companies already have a legacy of innovation, but participating in the new digital ecosystem requires innovation of a different type – notably with partners outside of the industry.

Innovation

Perhaps the apex of a digitally-enabled organization is effective innovation. To drive innovation as a concept, the culture must be characterized by curiosity, a willingness to engage in productive and challenging conversations, diversity of thought, and independent perspectives. When diversity of thought is explicitly valued, new ideas emerge more easily.

Agility

Processes and systems can be characterized as either rigid or flexible. The perceptions around these systems affect individuals' ability to flex their own approach within a system that supports their initiatives and doesn't simply prioritize the status quo. Furthermore, this flexibility needs to pivot quickly, fueling a common perception of urgency to reach intended goals. This urgency is best addressed by structures that allow for cross-silo functioning and collaboration, where collaboration and partnership become a daily practice.

Digital orientation

Cultures that are committed to digital transformation emphasize the expertise of their people and highlight their contributions to the digital realm. This level of support has a link to how comfortable employees are embracing new technologies and exploring the new tools that could help them achieve higher order goals. Along with the future orientation, it is imperative that there is clarity around the digital agenda and that the mission is communicated often and consistently.

Insight

A refined understanding of the inner-workings of and ongoing developments within the organization itself and across the industry as a whole is essential to digital success. A solid customer orientation will help companies develop insight into industry trends and competitor activities in the local, regional and global contexts. Understanding the needs of the workforce and committing resources where appropriate will support employees' efforts in facing industry trends head-on.

Future orientation

Pushing an organization toward productive change means focusing on the future state. A culture that embodies this focus commits to a few process-oriented principles: a thorough and comprehensive approach to planning, aligning incentives to the behaviors that drive action toward digital goals, and approaching and evaluating risk as opposed to avoiding it. Ideally this is all tied together within a talent management system that recognizes and rewards the achievements of these goals.

> *"To inspire change, you need to engage with people on a rational level, an emotional level and a behavioural level – in other words connect with people's head, heart, and feet."*
> *- Practice Leader, Culture, US technology corporation*

Source: Russell Reynolds Associates' Digital Culture Analyst™.

Methods to drive cultural change

Adapting an industrial, engineering-based company culture towards a more digital one requires the commitment and ongoing efforts of the most senior leaders and needs to be driven at multiple levels of the organization. It is important that the executive team, human resources team and the digital leaders and experts are aligned and do their part for the transformation.

CEO & Senior Leadership	Human Resources	Digital Leaders
■ Create a mission-driven transformation, and ensure that the most senior individuals embody the associated values and behaviours ■ Streamline governance structures and break down hierarchies to avoid decisions being stalled by multiple boards/councils ■ Enable idea generation and a fail-fast mindset and ensure ideas are evaluated and processed so employees' perspectives are captured and heard by those who have the power to take action on anything that could provide real value ■ Encourage a mix of generations e.g., through "reverse mentoring" programs whereby younger employees advise senior leaders on digital matters ■ Be honest about what the company does best, and partner with other players in the ecosystem to acquire readily available solutions and expertise ■ Recognize and reward open-mindedness and willingness to change; those who exhibit these traits are the champions for transformation	■ Encourage hiring people with diversity of thought and background and foster a mindset of inclusion, acceptance, and understanding of different perspectives ■ Enable rotation of talent both into and out of the digital team to empower a broader group of employees ■ Allow digital leaders to take action when they diagnose a need, for example, training or development to get talent to the next level ■ Give digital hires freedom, for example, to choose their own hardware and operating systems ■ Recognize that the pace of hiring in technology is fast, and speed up the recruitment timeline so as to not miss out on high quality digital talent ■ Create different physical spaces, such as shared co-working spaces and "digital centers" that can be utilized by different groups in the organization ■ Engage factory and service employees by creating a "hero" culture, encouraging them to be pioneers who take pride in being at the forefront of the transformation	■ Define clearly what digital means to the company to ensure everyone works towards a common goal ■ Be prepared to teach and lead the organization through its transformation ■ Work closely with customers on "co-creation" to ensure digital functionalities and products are not created in a vacuum ■ Visit plants and offices to understand which internal processes can be optimized using technology/analytics ■ Leverage new products and functionalities, KPIs and revenues to tell a positive story to prove the point, and reiterate that digital is a means to an end ■ Encourage agile ways of working to create a modern, project-oriented culture that focuses on getting the job done as a team, rather than about levels and reporting lines ■ Be pioneers for open and transparent communication across the organization to help drive employee engagement

Culture champions	■ Create bottom-up culture champions to encourage people to contribute to the transformation and play a part in it ■ A champion in every location and within every major group, ideally constituting 5-10% of the overall population, will create buy-in and limit resistance

Advice to CDOs and digital leaders

As part of our study, we interviewed several senior executives who transitioned from the technology sector to the industrial sector to better understand what motivated them, what challenges they have faced and what advice they would give to others. Here is what they had to say.

What motivates executives to move from technology to an industrial company?

- The opportunity to create (significant) impact in an industry and, in some cases, the world
- The commitment demonstrated by the senior leadership team, in particular the CEO, throughout the recruitment process

What challenges can be expected during the transition?

- Perception that digital transformation will happen overnight. It is a multi-year journey that requires significant investment and perseverance
- Unrealistic revenue targets and time-to-revenue expectations for digital organizations
- A perception that leaders from the technology industry are technical leaders (i.e., information technology) and not P&L leaders. This perception seemed to impact these leaders' abilities to influence business strategy, product management and customer-related topics
- Difficulty in attracting digital talent due to legacy compensation parameters, less-than-ideal locations and a hierarchical culture
- Digital requires interconnectivity between business lines and functions, and the reluctance to break the silos creates unnecessary hurdles for digital teams

What advice can an experienced CDO give an incoming CDO?

- Do not expect to purely be a "doer." A large part of the job is being an influencer, culture-carrier and a teacher to the legacy organization. You can't single-handedly change the company
- Prioritize showing results of new products, services and revenues to convince the organization of the business case for digital and get continuous buy-in
- Remember that you need buy-in from key stakeholders to successfully launch big initiatives. The industrial environment tends to be more consensus-oriented compared to the technology industry
- Learn the language of the industrial organization if you expect to move the needle
- Be bold enough to ask the organization to be flexible on the issues that you know are necessary for your digital team to thrive and be effective
- Work with HR and the business unit leaders on making the industrial organization a "cool" and desirable place to work for top software and technology talent

"You need to make yourself vulnerable. As a software professional, the industrial world isn't the world you come from. You may have exposure and think you understand it. However, you really need to understand the business. The mission critical nature of what these industrials do requires you to humble yourself. If you don't, you will not be accepted, thus you cannot make an impact on the business."

- GM, Emerging Verticals, GE Digital

"The shift [to a traditional industrial business] was not easy for me. I have a separate elevator, bathroom and parking garage as an executive. This just doesn't exist in the tech world. The hierarchical model needs to change."

- Head of Connected Cars, European automotive corporation

Advice to industrial executives and HR leaders

Industrial executives leading the transformation

- Recognize that culture change is a strategic imperative. Without a leadership team and culture that incentivizes the development of new digital business models, products and solutions, you will not be able to hire or retain the most talented individuals going forward

- Establish which (customer) issues digital transformation is going to solve, and from there establish what kind of culture is needed to ensure the strategy will generate excitement

- Actively and visibly communicate the culture change, but also "lead from the front" by living and breathing the values you wish to institutionalize

- Implement internal and, potentially, external reverse mentoring to constantly educate senior management and the non-executive board on digital. One way to do this is to establish a digital advisory board

- Pay special attention to middle management in the digital transformation process. As the ExCo will have no other choice but to lead the change and the younger population are de facto "digital natives," middle management needs the most help to trigger the change

- Be open to external advice and feedback on what in the culture needs to change, both from new (digital) joiners and potential consultants that may help you on this journey

- Be realistic about digital business revenue expectations and investment plans (time and money)

Human resources leaders enabling the transformation

- Help identify talent both within and outside of the organization by developing a digital assessment framework. This will help identify individuals with capabilities in digital and innovation and change management, who can foster a customer-oriented mindset and facilitate a data-driven approach

- Digital breaks down silos and traditional organizational structures. Educate business leaders and accompany them on this journey, as new ways of working require strong unity and commitment from the top. Identify ways to engage all generations represented in the organization

- Create opportunities for digital leaders to speak at recruitment events as well as to new hires and middle management in order to create excitement at all levels of the organization

- While business leaders need to be increasingly more customer and data-driven, HR also needs to treat employees as customers and focus on the employee experience at work, harness internal data and ensure high levels of satisfaction through advanced IT tools and applications

- Recognize and embrace the differences in culture between tech and industrial businesses. Place great importance on onboarding digital leaders, help them build relationships with key stakeholders, and identify the early adopters within their first few months of joining. Break the assumption that external hires will not be successful

> *"For our culture to become truly customer-centric we need to listen to our customers, our partners, the experts – we are not the experts in this domain. We need to be humble in this new world we now operate in."*
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> *- President, Digital Business Area, European industrial goods corporation*

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Russell Reynolds Associates is a global search and leadership advisory firm. Our 425+ consultants in 46 offices work with public, private and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic and political trends that are reshaping the global business environment. From helping boards with their structure, culture and effectiveness to identifying, assessing and defining the best leadership for organizations – our teams bring their decades of expertise to help clients solve their most complex leadership issues. Find out more at **www.russellreynolds.com.** Follow us on Twitter: **@RRAonLeadership**

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