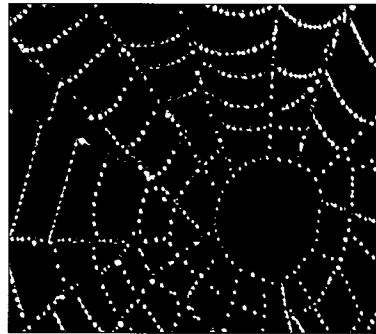


Strategic change can often be held back by outdated values and habits. Continuing our series, Loizos Heracleous explains how Hay Management Consultants applied the principles of the learning organisation consciously to avoid this trap

Spinning a brand new cultural web



group and the executive at Hay's since the programme's initiation in summer 1994 and have conducted periodic cultural and communication audits using a variety of qualitative methods. My role was to advise on the cultural characteristics of the organisation, the implications of strategic redirection for the organisation's culture, the management of communications during the change process, and the internal status of the change initiative over time.

It will be helpful to start with a brief explanation of organisational learning. Academics have offered several definitions of organisational learning and the learning organisation, all of which appear to be different. If we try to see what they have in common, however, we can see that: organisational learning is the process by which organisations change their cultures and systems in relation to market conditions; and that they must do this in order to improve their competitiveness and achieve a sustainable competitive advantage.

It has been said that the one competitive advantage which is truly sustainable, because it cannot be copied easily, is that of people. Organisational learning is about having the appropriate culture, structure and systems to encourage your people to develop continually and share their knowledge with others. This will then create a learning organisation.

One important distinction which has been made is about levels of learning.¹ Again, this has been expressed in various ways by different authors, but the underlying idea is simple. Lower-level or single-loop learning involves obtaining information about subjects such as markets, competitors or technology and utilising it, but without any significant change in the way that an organisation sees the world, its internal processes, its culture or its overall competitive stance.

Such change comes only from higher-level or double-loop learning. For example, a highly bureaucratic organisation that is inwardly directed with an adverse attitude to

WHAT IS the relationship between organisational culture and strategic, and how can the concept of organisational learning help to make strategic change programmes more effective? The experience of Hay Management Consultants, which has recently undertaken a strategic change programme, gives some interesting answers to these questions. I have been working with the change steering

**The Hay team (below and opposite).
Opposite (from left): Graham Martin, operations director UK; Ian Tinsley, business development director; and Brian Langham, executive director of change management**





risk, which is operating in a fairly static market, could transform itself into a more flexible organic structure, which is market-orientated, taking a more open attitude to controlled risk-taking.

More and more organisations have to initiate such strategic changes, variously called cultural change programmes, business process re-engineering, organisational transformation and so on. These necessarily involve lower-level learning, since the organisation has used internal, market or other information and decided that it needs to change. But, more importantly, successful transformation almost always involves higher-level learning as well.

This is something which is often not understood or is ignored and, therefore, can prejudice the success of change programmes. Transformational changes (as opposed to incremental changes – for example, restructuring just one department or installing a new system) involve changes, not only to the structure and systems of an organisation, but also to its internal climate or culture. The cultural implications of strategic changes need to be consciously addressed, whether the transformational change is reactive, to bridge a widening “strategic drift”, or proactive, as in the case of Hay Management Consultants.

Organisational culture is the pattern of values and beliefs held by members of an organisation. It develops throughout the history of the organisation and is shared in

varying degrees by different members. How much these values and beliefs are shared, and how strong they are, depends on factors such as leadership, length of membership of the organisation, the type and extent of interaction among members and the existence of alternative values. Organisational values are gradually taken for granted and subconsciously influence individuals’ interpretation of situations, decisions and actions.² This is where the effect of organisational culture on competitive success becomes vitally important.

Cultural change, therefore, necessitates higher-level or double-loop learning because a change in cultural values and beliefs implies a change in the “governing variables” for action. How and whether this double-loop learning is managed will be instrumental to the success of strategic change programmes.

The case of Hay Management Consultants illustrates: what lower-level learning means in practice; the importance of diagnosing organisational culture in managing strategic change programmes; why higher-level learning is necessary during strategic change programmes; and what it means to achieve higher-level learning in terms of culture, structure and processes.³

Organisations should be constantly scanning their environments in order to detect opportunities and threats, as well as assessing

themselves for their internal strengths and weaknesses. This should be done in a climate of open, critical inquiry, because of the dangers of “groupthink”.⁴ An unclear or biased understanding of an organisation’s internal capabilities and external market characteristics is one of the most frequent reasons for failure.

Hay Management Consultants is an international human resources consultancy firm whose UK operations have a track record of consistent financial success. In the past few years, however, senior members of staff have been increasingly aware that things needed to change, and this concern escalated to significant levels about a year ago.

A number of senior individuals had communicated to their peers that Hay Consultants needed to change substantially if it was to remain competitive and profitable. Their arguments were supported by signals that could not be ignored. Environmental projections showed that the human resources consultancy market was expected to grow at an annual rate of at least 12 per cent. With Hay already operating near full capacity, the company would have to grow considerably just to meet demand.

Internal data showed that the field in which Hay has traditionally been a leader, job evaluation, was decreasing in terms of

A number of senior individuals had communicated to their peers that Hay Consultants needed to change substantially

overall returns. Interestingly, this trend has now been reversed, but its future movement is not easy to predict and dependency on a single volatile field is unwise. Other areas, such as organisational change and human resources planning and development consulting were, and still are, growing rapidly. Client surveys also indicated certain areas where improvements could be made.

The strategic changes instigated in response to these concerns included a greater focus on clients, increasing consultants' expertise and integrating consulting approaches. The high targets that were set for growth, moreover, clearly necessitated more efficient resource allocation, more effective development of consultant expertise and greater client focus, which could be achieved only through restructuring.



IT HAS already been seen that transformational strategic changes require appropriate cultural changes. Some cultural values and beliefs may oppose the new strategic direction, while others may support it. Managers should first identify the culture of their organisation and then evaluate which values and beliefs need to change, which ones need to be strengthened and where resistance to change is most likely to occur. As part of this initial analysis at Hay Management Consultants, I conducted a cultural audit, which involved in-depth interviews, group sessions, observation and historical analysis. In this way, a cultural web of the company was constructed.⁵

The cultural web is a powerful way of gaining a deeper understanding of the internal

situation of an organisation and, in this case, it helped the change steering group to assess the current situation and decide on appropriate changes. In a simplified example the web can perform the following functions:

Situation analysis. The cultural web helps to clarify the main cultural, structural and procedural characteristics of the organisation. The process of constructing the cultural web brings to the surface the subconscious cultural values of individuals in the organisation, which can therefore become the target of conscious change.

Policy and strategy making. The cultural web displays the values and beliefs that guide the interpretations, decisions and actions of the policy-making bodies.

Organisational implications. A valid cultural web can help to show which values, beliefs and artifacts need to adapt to the new strategic direction and which ones should be maintained and strengthened. The cultural web can also help the agents of change predict likely areas of resistance by assessing which are the strongest beliefs and how they interconnect with other elements of the web, such as organisation structure and processes.

Change management. The cultural web shows a substantial range of the elements which must be managed if a strategic change is to be successful, for example, communication, changes in control systems, incentives and organisational structure.

Monitoring and evaluation. Constructing a cultural web regularly (say, every six to nine

months), and examining any alterations in the presence and relative strength of its elements, can help the organisation track the progress of internal change.

Hay UK's culture has been developing since it was founded in 1963. On the diagram of the cultural web constructed for Hay Management Consultants in summer 1994, the central "paradigm" panel shows the main cultural values and beliefs which are interconnected and supported by the other elements around them. As was found in other organisations where the cultural web approach has been used,⁶ the elements of Hay's cultural web are internally consistent, interrelated and mutually supportive. The fact that cultural values and beliefs are gradually taken for granted and sink into the subconscious, while still influencing behaviour, makes them even harder to change.

Higher-level learning at Hay Management Consultants meant transforming those cultural values that were not consistent with the organisation's strategic redirection while, at the same time, nurturing those that would be instrumental if it was to maintain its level of competitiveness.

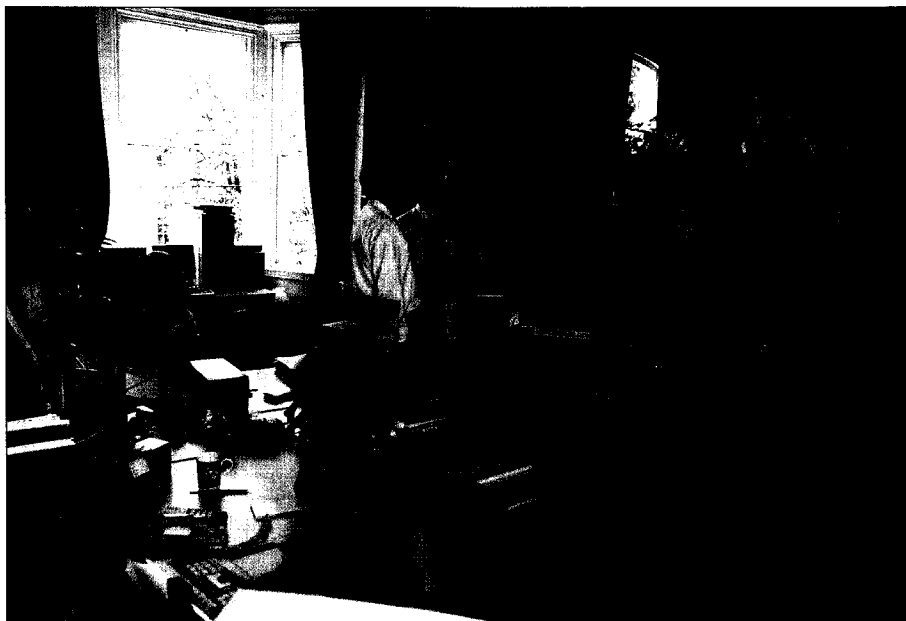
Clients are all-important. Hay is client-orientated. This is reflected in: its periodic client surveys; the assumption that increasing the value of clients is paramount; the way in which its flexible structure enables it to respond to clients; and the high status of individuals who have good relations with clients.

This value does not need to change and must be strengthened. It provides a bridge from Hay's existing culture to its vision for the future, which places clients at its core.

"Hay's core business is job evaluation". Job evaluation traditionally attracted most of Hay Consultants' revenues. The perception that job evaluation is Hay's core business is still strong, in the company's market as well as internally, although this activity actually accounts for less than a quarter of Hay's consulting revenues, and reward consulting as a whole accounts for less than 60 per cent.

The perception that "Hay is pay" needs to be reduced both internally and externally, since Hay's strategic redirection involves a broader mix of human resources and a different market image.

Individualistic/high autonomy. consulting in the job evaluation area has been done



The management at Hay used cultural webs to gain a deeper understanding of employees' beliefs about the company

predominantly by individual consultants, the "lone rangers" of Hay's mythology. These consultants have had a high level of autonomy and some consultants are rarely in the office. This was appropriate given the nature of the consulting services offered.

If the organisation is to offer new services in a demanding market, however, this individualistic approach has to be replaced by one of teamwork. It must involve more co-ordinated resource allocation and consultant development.

Institutionalised incremental change. Hay has made sure that its early strength in the job evaluation sector did not lead to a complacent approach to its overall development. The company has institutionalised incremental change on an annual basis, in the "autumn manoeuvres". This, however, has led to difficulties in convincing employees that the current change is not an autumn manoeuvre but a transformational one.

This attitude has to change into a belief that Hay has the will and capacity to achieve major transformational change.

Generalist expertise. The individualism of Hay consultants and the perceived heavy emphasis on financial performance in the consultants' appraisal has encouraged individuals to consult on a variety of areas within the HR field.

If, however, Hay wishes to offer in-depth expertise on increasingly complex areas through teams of consultants, then this has to change. The aim is to create experts on particular areas (with a broader understanding of other areas) who will be members of teams which can offer cutting-edge advice on a variety of fields.

Few real decisions. Employees perceived that, although decisions were taken, nothing ever really changed. The autumn manoeuvres involved incremental changes which did not challenge any cultural values. The individualism and autonomy of consultants has also meant that certain changes were not followed by them.

This has to change. In the future, all leadership decisions must be directly supported by control systems such as reward, evaluation and incentives.

Hay's cultural web

ROUTINES

Consultants out with clients
Extensive recruitment
Short inductions
Impromptu gatherings
Many meetings
High billers commended

Consultants out with clients
Intensive recruitment
Excellent inductions
Impromptu gatherings
Few meetings
Great consultants commended

COMMUNICATIONS

Means:
The grapevine
Hay News and Views

Characteristics:
Little "bottom-up" communication
Memos
Insufficient information flow across departments

Means:
Briefings
The grapevine
Hay News and Views

Characteristics:
More "bottom-up" communication
No memos
Excellent information flow across departments

CONTROL SYSTEMS

Meeting billing and selling targets
Emphasis on individual targets
Cultural/internal market quality controls

Meeting billing and selling targets
Emphasis on team targets
Formal quality control procedures
Meeting quality objectives

KEY

Cultural web of Hay Management Consultants, 1994
Cultural web aimed for by Hay Management Consultants

STORIES/MYTHS

Competition between members
'Lone rangers'
Working hard
Fun place to work
'Guidechart experts'
Salary levels

Successful Hay teams
Strong CRM leaders
Working hard
Fun place to work
Big change managers
Salary levels

PARADIGM

HR consultancy/core business job evaluation
Clients all-important
Individualistic
High autonomy
Institutionalised incremental change
Generalist expertise
Few real decisions

HR consultancy/core business change through people
Clients all-important
Team-based
Radical, sensitive change
High expertise
Real decisions

INCENTIVES

Financial (individual bonus, profit share)
Dual career ladder
Interesting work, but not for all

Financial (group bonus, individual contribution)
Multiple career ladder
Interesting work for all

SYMBOLS

Informal interaction
Looking busy
Having an office - but others can use it
Few consultants around
Conferences at prestigious locations
Open work areas
Talk in JE terms

Informal interaction
Being purposeful
Having an office - but others can use it
Few consultants around
Conferences at prestigious locations
Open/untidy work areas
Talk of business advantage

POWER STRUCTURES

Who:
MD UK
MD Europe
Financial director Europe
Client relationship managers

Sources:
Access to control of client base
Position
Expertise
Interpersonal networks

Who:
MD Europe
GM Europe
Directors
Client relationship managers
Sources:
Expertise
Interpersonal networks

ORGANISATION

Four-dimensional matrix
Flexible, responsive to clients
Unfocused

Clear matrix
Flexible, responsive to clients
Focused, clear accountabilities

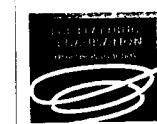
One effect of this is that trained process consultants can be very useful at times of strategic change or when a cultural audit is required because, among other things, they can bring cultural beliefs and assumptions to the surface, thus making them the target of conscious change.

External consultants can do this because they are culturally detached from the situation, in that they have not absorbed the culture through long-term membership of the organisation, and because of the process consulting skills that they can bring to the situation, such as the ability to bring cultural assumptions to the surface through group sessions. A consultant would also be able to advise on which values and beliefs would support, and which would inhibit, the specific strategic direction that an organisation wants to follow, as well as analysing how appropriate this direction is, and devising a realistic time frame in which changes may be expected and directions for how they will be achieved. ♦

References

- 1 Chris Argyris, *On Organizational Learning*, Oxford, Blackwell 1992.
- 2 Edgar Schein, *Organizational Culture and Leadership* (2nd ed), San Francisco, Jossey-Bass, 1992.
- 3 For a more extended discussion of the Hay case and the management of its change process, see Loizos Heracleous, "Business process re-engineering in context: the case of Hay Management Consultants", in *Business Change and Re-engineering*, Vol 2, No 4, 1995.
- 4 Janis Irving, "Sources of error in strategic decision-making", in *Organizational Strategy and Change*, J H Pennings (ed), 157-197, San Francisco, Jossey-Bass, 1995.
- 5 Gerry Johnson, *Strategic Change and the Management Process*, Oxford, Blackwell, 1987.
- 6 Gerry Johnson, "Managing strategic change: strategy, culture and action", in *Long Range Planning*, Vol 25, No 1, 28-36, 1992.
- 7 Edgar Schein (1992) and Gerry Johnson (1987), on managing cultural changes (above).

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Next in the series (16 November): Andrew Mayo and Elizabeth Lank describe how ICL has attempted to become a learning organisation.