JON KATZENBACH

with James Thomas
and Gretchen Anderson

THE CRITICAL FEW

*Energize Your Company's
Culture by Choosing
What Really Matters* ●●●

Foreword by Robert Moritz, PwC Global Chairman
In Collaboration with the Katzenbach Center Community of Practice

The Critical Few

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and Gretchen Anderson**

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the Katzenbach Center Community of Practice

The Critical Few

To all those we love, whose support we rely on,
and especially to the memory of Linda Katzenbach

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Foreword

Transformation used to be something that companies did only in extraordinary circumstances. But today, transformation is something that business leaders have to contend with almost constantly. In a world of rapid technological change, global convergence, increasing external scrutiny, and competition for top talent, all management is now change management.

Executives have come to appreciate the importance of having the right organizational culture to thrive in the new reality they are creating. That is the focus of the latest book by our colleagues at the Katzenbach Center within PwC, Jon "Katz" Katzenbach, James Thomas, and Gretchen Anderson. The book doesn't promise a secret formula or magic wand to create the ideal organizational culture. Instead, a series of reflections, ideas, and tools are offered to equip executives to use the culture they've got as a catalyst for meaningful change within their organization.

The key to doing so, Katz and his coauthors say, is to start small: you don't need a hundred ideas about who you are but a very narrowly focused group.

For example:

- A company has many traits, but only a few are vital symbols of the new enterprise you're trying to become.

- A company has many behaviors, but only a few represent the path forward that everyone needs to follow.

- A company has hundreds or thousands of decision-makers, but cultural transformation starts by targeting and harnessing the energies of a select, special—sometimes unconventional—few.

Crucially, the book argues that each organization's culture already contains the components it needs to fuel successful transformation, and leaders effect lasting, positive cultural change by encouraging behaviors that promote those elements. You don't need to replace your old culture; you need to find the aspects of it that can help you move forward.

What's interesting is not only the insights this book delivers but how it does so: not as a set of rules but as a conversation. Literally, *The Critical Few* presents an ongoing discussion between Katz and "Alex," a fictional CEO who's a composite of the many business leaders the authors have engaged with over the years. Many readers will recognize themselves in Alex and find themselves rooting for him and Katz to succeed in their work of harnessing culture to turn Alex's company around.

The core message of cultural evolution has powerful resonance for us at PwC in our own journey toward even better alignment and collaboration across our global network of firms. This book has amplified my appreciation of the power of our own organizational values and culture, and how we can work better together to have a positive impact on those we interact with and serve.

The Critical Few has real emotional resonance. No company is purely rational. The culture is where its collective emotions reside, and this book shows what's required to reach those emotions: Clarity. Simplicity. Connection.

Our journey at PwC has been enriched by working with the Katzenbach Center since it joined our network as part of Strategy& in 2014. I am confident that business leaders at all levels within their organizations, and from all manner of organizations around the world, will find much to inspire them in the pages that follow.

Bob Moritz
Global Chairman, PwC

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Letter to Readers from the Katzenbach Center Community of Practice

Dear Reader,

By virtue of our common interest, we have all one by one found our way into this "club"—the coterie of people within our firm who share ideas, collaborate, argue about the fine points of *mind-sets* versus *behaviors*, and generally boost and enhance one another's knowledge and passion for the topic of organizational culture.

Welcome to our community!

We want to add our voice to that of the coauthors and to encourage you to apply this approach to your daily work. The "critical few" methodology is one that we have practiced, as a whole or in parts, in client situations across industries and around the globe. We all stand behind it: it works! And we encourage you in your own research, writing, and work with others to make practical use of these ideas. We trust that you will see a real benefit, and we look forward to hearing about it.

At the end of the book, you will find a biography for each of us. Enjoy reading this book, and please stay in touch.

DeAnne Aguirre	Michelle Kam
Reid Carpenter	Per-Ola Karlsson
Varya Davidson	Paolo Morley-Fletcher
Diana Dimitrova	Carolin Oelschlegel
Kate Dugan	Frédéric Pirker
Jaime Estupiñán	Roger Rabbat
Amanda Evison	Barry Vorster
Kristy Hull	Alice Zhou

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Prologue

My name is Jon Katzenbach, and the book you hold in your hands is the product of five decades spent writing, talking, obsessing, and most of all doing *real work* with clients and colleagues related to the topic of organizational culture. Over the course of these decades, I've had countless conversations like the ones around which this book is structured. I have worked hand in hand on real client situations with the Katzenbach Center Community of Practice, and together we have crystalized these ideas into a methodology and brought it to life in client situations. And for the past few years, I have worked hand in hand with my coauthors, James Thomas and Gretchen Anderson, to bring these ideas and methods to life on these pages.

The framework of this book is a year in the life of a newly minted CEO named Alex. Alex and his company, the Intrepid Corporation, are fictitious. However, Alex is a credible composite drawn from deep conversations and working relationships with countless flesh-and-blood leaders—real individuals who have trusted me with their deepest hopes and fears about their organizations.

James, Gretchen, and I chose to feature the fictional Alex rather than any of these specific individuals or companies for two reasons. First and foremost, this approach helps us to convey how common and universal cultural challenges are, how familiar they feel from organization to organization.

Second, the choice reflects how intimate and personal each company's culture issues are. Aligning culture always involves getting to the heart of difficult matters, unearthing the "family secrets" of a company—the emotional histories that lie under the surface of the story the company tells about itself to the outside world. Our clients speak to us with trust; we treat their issues with discretion.

This is how we run our business, but it creates a unique challenge in writing a book! We intend to convey a real sense of how practical and hands-on any intervention in a company's culture can and should be, and simultaneously we hesitate to display the family secrets we've learned over the years. Thus, for this book, we've chosen a hybrid approach of fact and semifiction. Each chapter opens with a dialogue between Alex and me, a fictional construct that echoes the kinds of conversations I've had with leaders over the decades when they've come to me seeking counsel on how to catalyze real shifts in how people think, believe, and, most importantly, behave. Each dialogue is then followed by a theory-and-practice section that illustrates the ideas that Alex and I discuss using real examples, some from our experience and some from the public domain, and offers practical tips for how to take these concepts forward in your own company.

Intrepid, the company Alex leads, is identified as a retail company. We made this choice because retail is a type of business familiar to just about every reader. But we've deliberately kept the description of the business to a minimum because this tale could just as easily have been set at an airline, an automaker, a bank, a life sciences company, an energy company, or a telecom provider. Over the years, we've

served clients in all these industries and many more. We also see the culture challenges that resemble those of Intrepid at government, public, and military institutions, and at non-profit organizations. Professional services firms (our peers and other types of advisors, such as lawyers) are also not immune. The challenges that arise with managing cultures to support and enable the strategic goals of the overall enterprise do not discriminate.

Every industry (and indeed, every company or global institution) has its own unique cultural situation, but all organizations have one thing in common. Whenever they summon the collective will to commit to meaningful change, the success or failure of this effort depends on whether and how they choose to engage their organizational culture. And increasingly, "committing to change" is not a one-time occasion or event but a constant challenge of twenty-first century management. Eighty percent of respondents to our Katzenbach Center global survey on culture believe that their organization must evolve to succeed, grow, and retain the best people, and every client we visit talks about "the constancy of change" and "change fatigue." So the question of just how to guide and catalyze this constant evolution really is the problem that every leader needs to solve. So let's say it again, in another way. If you are a leader at any level and you see an opportunity to move your business in a new direction, you will be far more successful if you engage your culture in your effort. Conversely, if you ignore your culture or presume that it will resist you, you will be far less likely to achieve your goals. Consider the following business challenges.

Broadly speaking, any type of *transformation* has, at its heart, the imperative that people within a company must

begin to act and deliver in new ways. To make this ask of your workforce, you need to consider emotional engagement—the basic concept that is at the heart of our approach to cultural intervention.

If a company is looking to reduce costs, to invest in differentiated capabilities or improve profitability or, in the term we use within our own firm, become "*fit for growth*," emotions will run high. No company in history has ever managed a reduction in resources or workforce reskilling without triggering feelings of loss, fear, or skepticism. In this context, a culture-led approach can help leaders acknowledge and address those emotions—and even more significantly, be sure that cost containment is done in a manner that addresses and acknowledges the behavioral element intrinsic to any major change. This is the real key to sustainable, lasting cost reduction and investment in capabilities—not just removal of costs but prevention so they don't creep back in.

In the broad category of changes referenced now as the *workforce of the future*, companies have begun to look ahead and adapt their structures and ways of working to align with anticipated trends, such as automation of tasks, robotics, and new ways of experiencing the built environment. These types of changes require embedding new capabilities. Often, companies are disappointed to discover that their workforce isn't prepared to realize these and other future-focused opportunities. Transformation then is viewed as a steep uphill battle instead of an opportunity to catalyze the natural cultural elements that would reinforce and inspire change.

Risk and regulatory issues demand culture solutions as well. Consider a company whose strategy must shift to accommodate emerging trends in policy and regulation. Its leaders

would be well served by not just dictating top-down changes to process but by taking a holistic look at how employee behaviors either amplify or reduce the risk of noncompliance. Similarly, in the realm of *taxes*, new legislation, just like new policy and regulation, often catalyzes the need for changes to an organizational structure. Anytime boxes are moved in an organizational chart, people are impacted, so culture must be considered. This is especially true today, when investors and auditors no longer tolerate long-held practices such as shell corporations for tax purposes but require transparency and proof points to back up any company's claim of good corporate citizenry.

Finally, if a company is considering a *deal or acquisition*, culture can make or break its success. It's never too early to start to consider culture in the context of a deal—for the most forward-looking companies and private equity firms, culture diagnostics are now considered essential to due diligence. Beyond these early assessments, we believe that a number of questions should drive any integration, such as, What are the qualities that the two companies have in common? Are we prepared to accentuate them? Where are the sharpest divergences? How will we reconcile them—and what might get lost if we do? What are the emotional triggers that might either catalyze integration or stand in the way? Who are the individuals on both sides whom others will look to for energy and support during the most stressful moments, and how can we prepare those people to work together from the early stages to ensure a smoother road?

A powerful common thread links these scenarios. When there is a big change to make, a change of any type, powerful emotional forces in the organizational culture seem, at first