COSMOS
Navigate the Compliance Universe

Ethikos Volume 36, Number 4. October 2022

Culture change: Three essential phases

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The first article in this series examined how to get started on a culture transformation and shared some pitfalls to avoid.[1] In this piece, we explore three important steps in any transformation journey. I am struck by how each of three separate transformation initiatives I was part of followed the same pattern despite taking place in radically different circumstances. One came about as the result of a business combination between two consulting giants. The second was in response to a dramatic reputational failure. The third came from a CEO who wanted to nudge the culture in a new direction. The game-changing transaction, the burning reputational platform, and the internal desire for change followed similar paths. Compliance teams can use this to monitor and test progress and report to the board.

Building the case

I described in the first article how an objective measure of the culture through a blind study led the board and CEO of a bank directly to a transformation plan with a very specific focus. Because I described this in the previous article, I will not repeat that here other than to say that the objectivity and clarity of the data was critical in gaining agreement at the outset.

When it became clear how widespread and systemic bribery had been at the industrial company, the company recognized its control functions had not just been misled but had failed.[2] So, it invested in new leadership teams to redirect its audit and compliance departments. These new teams came with extensive credentials and experience largely from outside the company. Critically, before setting out to transform the audit department, we first hired an external expert to give an opinion. If you were on the board, you might wonder why the talent you had just invested in needed more external experts. It might be tempting to point out that the problem was obvious, and the fix was simple: equip our controls teams with better training and tools to detect improper payments more effectively. However, viewing this as a technical fix is shortsighted. To sustain their performance, the controls teams needed to attract radically different talents and offer them strong career prospects inside the company. This required not only the control functions to change their mindset but it also challenged other departments to acknowledge the change in role. The imprimatur of an independent expert at the outset helped reduce internal politics about a “land grab” and cleared the way forward.

The case for change was not immediately evident in the merger of the two consulting firms because it made such strong commercial sense; the firms were highly complementary, given their relative geographic and industry strengths. However, we quickly found strong cultural differences showed up in everything from the role of a partner to how to deliver our main service—the financial audit.[3] Each firm was adamant that its approach was correct, and we spent time trying to convince the other side during the run-up to the merger. This impasse put the merged firm at risk of mass defection of staff, which in turn would provide a golden opportunity to its competitors. Realizing this, the firms landed on a plan that asked every person in the merged firm to learn and adopt aspects of the other legacy firm's philosophy. As exhausting as this was to implement, it provided the new firm with an invaluable thing from day one: shared identity and culture that was new for everyone yet not completely unrecognizable to anyone. Had this issue not been identified and addressed early, the firm would have been distracted from the market as it sought to reset its internal bearings.