



# The Role of Culture

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As Businesses Shift from Products to Services/Solutions

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The purpose of this study is to lay the foundation for understanding the impact of cultural change on a product-focused company's ability to integrate services/solutions into its business model. 11 out of 15 respondents indicated culture was one of the top three key dimensions of change. In addition to exploring several facets of this journey, the study identifies key challenges and critical success factors that must be addressed in order to achieve success. Through a sequence of hour-long interviews with key executives who guided their companies through these transitions or occupied leadership positions during the process, the paper highlights strategies adopted and lessons learned, particularly in the context of understanding and inducing culture change.

## **Methodology**

The study asks the companies to classify themselves into culture profiles based on how far their corporate culture has evolved from what it was like before they began the transition and relative to where they would want it to be. Subsequently, it identifies key characteristics of each of those profiles with the ultimate goal of delineating a high-level journey that each company must transition through as it develops competencies around offering services/solutions to its customers.

The first stage of the study involved reviewing academic literature pertaining to key elements of infusing services and solutions into a product-oriented company's business offerings, as well as culture change in organizations. Subsequently, we interviewed Dr. Stephen Brown and Dr. Mary-Jo Bitner from the W. P. Carey School of Business at Arizona State University as well as Dr. Jim Salas from Pepperdine University for whom the products to services/solutions transition is a primary area of research. Additionally, we spoke with Dr. Angelo Kinicki from Arizona State University whose research interests include leadership and organizational culture change.

In the second stage, we created an interview guide comprised of questions seeking insights into each participating company's journey. These insights allowed us to classify each into a culture profile, enabling us to understand the characteristics of the cultural journey better. After collaborating with the project sponsors and academics on several iterations of the interview guide, we entered the third stage of the study which involved conducting hour-long interviews with the executives and transcribing responses into a database. Participants in the survey included Agilent Technologies, Avnet, Boeing, Cardinal Health, Dell, DuPont Sustainable Solutions, Fujitsu Network Communications, Honeywell Aerospace, IBM, Lutron Electronics, Pearson Education, Republic Services, and Siemens Industry Inc. The fourth stage of the study involved performing a deep-dive analysis of the responses collected. In our analysis, we identified predominant themes in responses to the qualitative questions, and trends and correlations from the quantitative component of the study. To close the loop, we conducted a final round of consultations with the academics to analogize our observations with their research. In the fifth and final stage, we condensed our findings into this white paper, to be shared with participants of the study.

### **The Big Question: Why did the companies feel the need to change?**

At the very beginning of the interview, we attempted to discover the impetus for companies to begin transitioning towards offering services/solutions. Two prominent responses emerged. The first

was of commoditization and thinning margins within the industries that the companies were operating in, representing 57% of the response. Through services and solutions contracts, companies endeavored to develop offerings that were delivered a higher profit margin and offered more stable cash flows. The latter was that of changing customer needs, and that there existed an opportunity to respond to these evolving needs to create more value for customers, strengthen those relationships and deliver a better experience.

### **Key Findings**

In performing our analysis of the responses gathered during the interviews, we discovered five areas that warrant deeper insight. These comprised changes in the organizational structure, the need to develop incentive structures for a changing workforce, acquiring and managing new talent, changing nature of customer relationships, and changes in nature and frequency of communication within the company. In the subsequent section, we examine each of these in greater detail, and how those challenges evolved in the transition.

**Organizational Structure:** As companies initiated their transition, one major task was organizational restructuring. In the early stages of the transition, the firms recognized the need to make their structure more cross-functional to make the culture more collaborative. *“We now have a matrix rather than a hierarchal structure”*. As they progressed through their transition, some companies recognized that over time, their structure had been significantly overhauled. Staff reorganizations were taking place in leadership positions to address emerging needs. *“New roles have been created, and now there is a shared sales target”*.

Some companies in later stages of transformation described the extent of infusion of services into their product groups, and the close collaboration between product teams and service teams. *“Product/Service teams are not organized into silos. Communication is encouraged. Service teams are embedded into each product group.”* However, we also discovered that some of the other respondents that had been transitioning for an extended period of time had eventually established separate services divisions within the parent company. These service divisions operated independent of the product groups, with the sole purpose of developing and delivering services/solutions to customers but collaborated closely with the product groups to deliver those offerings effectively.

**Incentives:** Changes in incentives within the organization seemed to be purposefully deferred to later in the transition. Companies in early stages mentioned few initiatives or intentions to overhaul existing incentive structures. *“We only incentivized upper management to drive change. But due to lack of direction, it didn’t work.”* Nonetheless, they recognized the potential need to consider incentive changes in the future with one executive mentioning, *“This may need to be adapted in the future to make it more customer-focused.”* Companies who were further along in their transition described the need to incorporate customer centricity in their incentive structure. *“The incentive structure has gradually become more robust to highlight key focuses like customer satisfaction, response time and solving customer issues the first time.”* By later stages of the transition, incentives had evolved substantially and

as one client described, were a clear departure from product-sales focused incentives. *“We went from individual performance-based incentives to functional and business profitability-based incentives.”*

**Human Capital Management:** The challenge of bringing the relevant skills and talents on-board to create service offerings was evident from the very beginning of the transition. A company in the early stages of creating collaborative service offerings said *“A group was created comprising of people who can understand the market segments, price the various offerings and perform the marketing. This includes people from different backgrounds: consumer products, consumer services, companies from the CPG industry.”*

Further in their transition, companies identified the need to bring in leadership skills from the services arena. *“There has been some turnover in the leadership. Pure-play services leaders were brought in.”* Companies that were in advanced stages of their transition described a significantly different hiring approach. *“Earlier, we would fill 10% of open positions from outside the company. Now that’s 40%.”* Other respondents described the need to understand the challenges of their clients’ industries. *“We have more people than legacy and many new skills.”* At this stage of the transformation, it was not only about finding the right talent but finding enough of it. One respondent spoke of challenges in finding enough skilled people to meet increasing business demands and the growth that was occurring because of this transition.

However, one common theme that endured in all responses was that there was a constant need to acquire new skills and talents at all stages of the transition. This was in accordance with the nature of constantly evolving customer needs. To function as strategic partners of their customers, companies had to constantly innovate on their services/solutions offerings which in turn required constant hiring.

**Relationships with Customers:** As to be expected given the nature of the industry, the transition to services required a higher frequency of interaction with customers. Additionally, conversations became more strategic in nature and occurred between executives at higher levels within the organizations. Companies began realizing the need to adapt to these changes early in their transition. *“There was more engagement with customers to develop custom solutions.”* However, some companies also described initial struggles in structuring those communications and how their customers perceived them. *“There is no structured way in which we are communicating. Though leadership is travelling more to meet with clients, they still think of us as a commodity provider.”* Another executive also described the changing nature of conversations with the client. *“If we want to be your service counselor and advisor, there’s a whole different discussion I need to have with you versus what I have with others.”*

Companies in later stages of their transition began describing more strategic approaches to increase frequency of communication with their clients. *“We are trying to expand our footprint to be closer to the customers. We communicate more frequently with those who are gatekeepers to the organization.”*

Companies that were more advanced in their transitions reiterated the higher quality of conversations that took place at higher levels in the organization, and spoke of shared targets. *“Product sales was a drive-by shooting. Selling services is a knife fight. There are more high level and intense*

*conversations with people in the C-suite and just below.” Additionally, one company spoke of a deeper integration with its customer than ever before. “Relationships are based on outcomes as opposed to cost-reduction contracts. There is more risk involved and the rewards are shared.”*

**Internal Communication:** Changes in the way companies communicated internally lagged the transition itself. Several companies in early stages said there was no change in the way they communicated internally. However, others spoke of communications designed to help their employees understand the need for and purpose of the transition. *“We tried to communicate what the changes meant for the employees.”*

Companies at later stages in the transition spoke of the spread of services-related internal communications to include employees working in the product divisions, and how it would impact them. *“There is more chatter on the floor, and more conversations about goals, direction and strategy.”* Companies that had been transitioning for a substantial amount of time described significant change in the nature of internal conversations. *“There is more intensity, higher frequency, longer hours and more conversations with higher management.”* These companies also communicated the need to continually engage employees in company outcomes which, over time, had been linked to their incentives. *“We continually discuss key wins. By connecting the dots, we give the results some meaning.”*

**Key Challenges:** We sought to learn more about key challenges faced by companies in their own transitions, asking them to rank 10 different challenges (adjoining table) on a scale of 1-5, 1 representing a challenge being “Not at all relevant” and 5 translating as “Completely relevant” to them. Interviewees identified the four most relevant challenges and they are emphasized in the table.

Companies that were early in their transition identified upper management and leadership’s willingness to support the transition as a key challenge, particularly where the change wasn’t initiated top-down. *“The higher management needed to see potential ROI before making any changes.”* As companies progressed in their transition, buy-in had to be achieved at an even higher level. *“At this point, we need board-level support”*. This laid the foundation for justifying the substantial investments that the companies would have to make to accelerate the service infusion, particularly in terms of acquiring the necessary new talent (whether pulled from existing talent or hired externally) to support the changing landscape of the company. Companies that were mid-way into their transition continued to identify upper management’s willingness as a key challenge but additionally identified the willingness of line-level employees and sales staff to adapt as a key challenge. Companies further along in the transition found it difficult to have the right employee capabilities in place and at the same time, to align the organization’s vision, processes and incentives. In many cases, they experienced extensive turnover.

<b>Key Challenges</b>
1. <b><i>Upper-Management’s willingness toward change</i></b>
2. <b><i>Line-Level/Sales willingness toward change</i></b>
3. Talent Retention
4. Individual/Team Goals Alignment with Business Objectives
5. <b><i>Employee Capabilities</i></b>
6. Cross-Functional Communication
7. Vision Dissemination
8. Defining Operational Policies and Procedures
9. Individual Incentive Alignment with Business Objectives
10. <b><i>Organizational Alignment of vision, process, &amp; incentives</i></b>

**Critical Success Factors:** Similar to the prior exercise, we asked respondents to rate 13 Critical Success Factors (adjoining table) on a scale of 1-5, 1 representing Critical Success Factors being “Not at all relevant” and 5 translating as “Completely relevant” to them. Interviewees identified the five most relevant critical success factors and they are emphasized in the table.

<b>Critical Success Factors</b>
1. <b>Service-Oriented Metrics</b>
2. Individual Incentive Alignment with Business Objectives
3. Formal Career Path for Service Leaders
4. Training around Service Delivery
5. <b>Service-Minded Values/Vision</b>
6. Community/Team Building Activities
7. Structured Information Sharing
8. Informal Information Sharing
9. <b>Building Depth of Customer Relationships</b>
10. Organizational Restructuring
11. Employee Empowerment
12. <b>Mid-Level Champions</b>
13. <b>Senior Executive Sponsorship</b>

Sponsorship by senior executives in the early stage was identified as key critical success factor. In fact, the absence of such support had prevented the company from beginning the journey in the past in spite of repeated events, and result in wasted investments. The interview commented, *“There were a number of false starts over the last 10 years but the true transition started only 2 years ago.”* In addition, companies also identified the presence of mid-level champions as a critical success factor in order to perpetuate the change through the company, particularly among front-line employees. Some of the respondents at this stage hinted at the need for developing service-oriented metrics, although it wasn’t ranked in the top 10% of priorities. *“The metrics we use currently are the same with all sized customers, though we will change these over time to include components of service performance.”* In line with that observation, companies who were more advanced in their transition identified service-oriented metrics as a critical success factor. One of the companies mentioned, *“We have created service-minded values, metrics and structure.”* Companies in advanced stages of transition had relevant metrics in place and were dealing with a larger challenge of overhauling company visions and values. Respondents here identified ‘Services-minded values and vision’ to be a key success factor, along with furthering the depth of their relationships with their customers.

**Conclusion**

Firms that have achieved significant progress in cultural transformation and maturity have closer interaction with their clients, deeper relationships and more frequent communication. To achieve that success, they have adopted service-minded values and vision, service-oriented metrics and have tied employee incentives to the success of the company and its customers, rather than with individual goals. Additionally, change agents are crucial at all levels including senior-level management as well as mid-level champions without which any attempt to transition would be a false start.

The process of cultural transformation is an ongoing one as companies must continually adapt given the evolving nature of services that are required to meet the ever-changing needs of customers. While measuring cultural change and maturity would be of tremendous value, it remains a challenge as there currently is not an agreed upon best practice. This study sets the foundation by finding key insights on broad changes that companies undergo as they evolve to adapt, and identifies avenues for in-depth studies to be conducted in the future.