How to transform the corporate culture?

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Transforming the corporate culture refers "Change in working style from traditional to professional and as per best business practices" to cope with fast changing environment.

What is traditional style?

Traditional working style is found mostly in family managed organizations where business owners play dual role of owner and executor. If we see the history of large corporate groups, they started their operations at very low level and grown up unexpectedly very fast. Since they have been involved in such role from the scratch to develop the business, therefore it becomes difficult for them to detach from this dual role to the owners role only. It raises fear in their mind that business operations might get badly affected if they lose the control and sometimes it works like transfer of powers to others. It really becomes difficult decision. This practice is transferred from one generation to next generations if such culture is not changed in appropriate manner. They need to understand that one person cannot control everything and will have some limitations with respect to working capacity, knowledge, qualification and experience especially when the size of organization is growing fast. If the owners do not leave the executor's role, actually they become away from their core responsibility of monitoring the business performance, action and feedback and keep interfering in the routine jobs of the managers. The difficult situation arises when owners take the wrong decisions or not working in their full capacity as the professional CEO supposes to work. Nobody would raise the voice to correct them.

Such organizations may have the following common irregularities:

- Unstructured MIS reporting, irregular demand of adhoc reports and information which result in wastage of time, duplication of work and distraction of managers from their core responsibilities on day to day basis.
- Board meetings at irregular intervals without documenting the minutes which has weak system of action, feedback and implementation.
- Generally decisions and actions are taken without appropriate assessment of risks and consequences eg. spending of money without calculating the risks, return and payback period.
- No strategic planning or inappropriate planning for long term.
- Absence of internal control, policies & procedure?
- Non delegation of authority even for small amount and decision making, generally it lies with business owners.
- High turnover of newly recruited qualified employees. Owners are surrounded by their old employees, some of whom really do not contribute to the growth and success of the organization except spending the time for making the comfortable space for themselves.

Why we need transformation?

The transformation is needed to make a professional work environment which can empower the organization to take additional load of increased volume of business, represent the organization to potential investors, bankers and vendors to assure that their money is professionally utilized and safeguarded. Common benefits have been summarized below:

a) **Welcome the tremendous growth in the business and prepare a strong platform to cope with huge volume of business.**

b) **Obtain the funds through:**

- Banks and financial institution.
- Private Equity.
- Initial Public Offering (IPO)

c) **Increase and improve:**

- Revenue
- Utilization of operational & Financial resources
- Efficiency & Productivity
- Cost reduction and Cost control
- Customer satisfaction

The above external parties and regulatory authorities would ensure the safeguarding and efficient utilization of funds through effective internal control system, Corporate Governance, risk assessment and risk management before they approve any scheme of large funding or IPO. They will also review past 3-5 years financial and operational performance with solid future projections and strategic planning. It is useful to have transparency in the operations.

d) **Reduction of time to control the business by owners.**

e) **Improve the regulatory compliance and reduce the possibilities of paying penalties.**

What are the elements need to be changed and how?

Step- 01

Define and communicate the Vision and goals

Most of the mid-sized family organizations do not define/document their goals in clear and measurable manner. CXOs must take initiative to define the goals and vision for their respective departments and organization as a whole. This will give a road map where Organization wants to reach within stipulated time frame. Thereafter, the internal auditor needs to examine and review whether actions are linked with its' goals? In fact organizational Goals work just like an "Axle of a Wheel", all actions as spokes which all together as a team make a "wheel of success". If road map is clear, the organization success is assured to a great extent. These Goals and vision must be communicated to all as a matter of urgency with a deadline to complete.

Step-02

Review and implement Internal Control system

Internal control is a process affected by the management design to provide reasonable assurance regarding achievement of objectives. This process has five main factors which should be reviewed, rectify or implement as necessary:

a. Control Environment

- Review of Organization Structure, simply it by removing the unnecessary levels.
- Draft and implement policies and procedures of each area of operations.
- Assign the responsibilities and authorities for effective discharge of duties.
- Formation of Board of Directors and audit committee. Ensure they are conducting regular meetings with adequate agenda.

b. Risk Assessment

Maintain the Risk Register, identify & quantify the risks, classify them into high, medium and low risk areas, apply the risk management techniques. Below are the few common risk areas:

- Technological Changes
- Political Changes
- Government Regulations
- Hazards, natural and manmade disasters

c. Control activities

- Clearly define the job description, segregation of duties, Key performance Indicators, monitor it with actual performance.
- Physical Control on Cash & equivalents, inventories, current and fixed assets. Take the necessary steps for safeguarding those assets i..e physical safety, preventive maintenance and insurance cover.
- Ensure that there is adequate system for accounting and information processing such as ERP.
- Decide the parameters to monitor the performance..i..e budget
- Performance reviews through periodic staff meetings, board and audit committee meetings.

d. Information & communication

Automate the financial closing, information processing, preparation and issuance of MIS report. There are many software and tools are now available in the market to support these areas.

Quick and on time reports will enable the executive management to focus on analysis & feedback and top management on decision making rather than doubting and rechecking the numbers and struggling with issue of MIS reports.

e. Monitoring

- Periodic Review Meetings.
- Reporting by Exception.
- Action
- Feedback

Test of design and Operating effectiveness and internal control over financial reporting.

The internal audit function can play vital role by testing the design & operating effectiveness and internal control from time to time to assure that top management decision making is based on reliable facts and information;

Design effectiveness

- Whether the company's control satisfies the control objectives?
- Whether the control can effectively prevent or detect the errors, omissions or frauds that could result in material misstatement in the financial statements?

Operating effectiveness

- ✓ Whether the controls are operating as designed?
- ✓ Whether the persons performing controls possess necessary authority and competence to perform the control effectively.

Step- 03

Restructure the group companies

- List all the companies of the group.
- Review the purpose of each group company and take the necessary steps to close or sell the inactive companies.
- Analyze the shareholding pattern, holding and subsidiary relationship.
- Decide the ultimate shareholders and their interest in ownership.
- Tax planning aspect should also be considered while reviewing the Restructuring of organization.

This will provide the clarity in the ownership, avoid the unnecessary conflicts among the business family members and enable the organization to get maximum tax benefits.

Step- 04

Restructure the Departments

Merge the similar types of activities in one department.

Introduce of share services concept. Bring the service departments (Finance, Human Resources, Administration, and Procurement) of individual companies under corporate umbrella and share the cost among respective companies.

Introduce the centralized treasury department. This will reduce the volume of work, cost of debts and fasten the cash flow.

Step-05

Training & Recruitment

Perform an assessment whether existing employees possess necessary competency? If not, can those employees be trained or transferred to other department as per their competency? Or go for replacement by fresh recruitment.

Even business family members should also be sent for job experience in an external organization before putting them on responsible positions. This will provide them an opportunity to understand the business from grass root level, behavioral aspects and routine problem in business operations.

Step- 06

Branding but within budget

Packaging matters a lot in the sale of products. The same principal applies here too. Engagement of Big brand auditors and consultants will help to adopt international corporate and business practices. This will streamline the internal control system and an assurance to third parties.

Step- 07

Draw a line between owner and executors

Imagine a situation where a business owner who is acting as a CEO is not justifying with all the functional areas with appropriate importance. He / She may not be professional but is able to manage the business by experience. Who will challenge his authority, if he is not managing the business in proper way? Perhaps nobody? They are the business owner and they have right to do the business in their own way. It will be difficult to assess the potential harm for their acts especially when the company is generating the profits.

Now imagine a second situation where such business owner who is controlling everything suddenly dies. "Death" is the truth of life. Nothing wrong to imagine this situation.

This raise a question whether successors who were not involved in the business on routine basis in a reasonable depth and use to depend on decision making of ONE MAN, would now be able to take additional load all of a sudden without any adverse effect on the business and operations. The answer is "Perhaps No" but it would be difficult to assess potential harm. The best solution is to scattered the responsibilities, authorities, decision making throughout the organization among various levels and people with adequate succession planning:

1. Hire a professional CEO if business owner does not possess required work capacity, necessary qualification and competency. Nothing wrong to step forward in this direction despite of the fact that such owner had build up the business empire. If he wants the Organization to grow many folds, he would require external help of professional CXOs who will bring in the intensive knowledge, work experience of variety of industries.
2. The business owner should place himself to chair the board of directors consisting family members and independent directors.
3. Delegate the authorities to the board and executive management (CXOs) by defining the monetary limits and matter of importance. This will provide the opportunity to the business owner to focus on

important matters, bigger size of business and some relax in life.

What kind of resistance is expected and from whom?

Business Owners: Surprisingly, the major resistance comes from business owners themselves. They want “transformation in corporate culture” but they are not ready to see the improved version of reports as they become habitual to see the old style reports from years. Therefore they still want old pattern reports, adhoc reports, encourage their beloved employees.

Top Management: Similarly, top management is also habitual with their old working style which is being followed from years. They know any change in working style will force them to cover extra miles and sleepless nights. Therefore, they will oppose the change directly or indirectly and might not let it successful at its initial stage.

Middle Management

These are the people who suppose to do hands on work. If middle management is talented and trained, will appreciate the change and provide the full support to make it successful but still there are rare possibilities of this situation. The professional people will not stay for a long time under traditional work environment until top management is accepting the change at least gradually.

Who is most influential to contribute?

Business Owners: The transformation flows from TOP to BOTTOM, not from bottom to top. Therefore, business owners are most influential and ultimate beneficiary. They are the people who define the Vision, Goal and Objectives, Executive Management plan and execute through middle and lower management. Therefore, Business Owner must have strong will power.

CXOs: It is a team work. The Chief of each department is supposed to play a significant role. They should review and streamline the actions and reporting of their respective departments. Analyze the efficient utilization of resources, corrective action and feedback. Under these circumstances, the responsibilities of Chief Finance Officer and Chief Internal Auditor become more important as every action of an organization is ultimately translated into financial performance. The CFO is connected with all aspects of business operations and in a position to influence it with / without authority of Board of Directors. The Chief Internal Auditors should review whether business transformation is being conducted as planned and include it audit plan.

When the plan can fail?

1. If Vision and Goals are not communicated properly.
2. If it not considered as a matter of urgency and allow to let it go for longer time.
3. If there is lack of will power i..e owner does not want to change.
4. If there is absence of leadership and directions.
5. If there is lack in monitoring, control, feedback, corrective action and continuous improvement on the progress of plan.

Conclusion

Historical performance cannot be build up over the night. It takes its’ own time. Generally family businesses do not go for corporate culture transformation until they need to attract funding from financial institutions and public for huge business expansion. For all these, they might require a period from 3-5 years depending on the Will power of management, internal cultural and working environment. Therefore, it is suggested to start this project well in advance rather than when it becomes urgent. It will always beneficial to adopt the best business practices which not only will save lot of time, money and increase the profit but also improve image of organization.