McKinsey&Company

Discussions on digital: How large and small companies build a digital culture

Digital McKinsey October 2016

Experienced digital leaders know that when it comes to agility versus stability, start-ups and large companies can learn a lot from each other.

Building a digital culture has emerged as a key challenge for companies looking to thrive in the modern business era. How to build and adapt that culture is an issue that both large and smaller businesses struggle with. In this podcast, Brian Gregg, a partner in McKinsey's San Francisco office who leads our consumer digital-excellence initiative, explores this issue with some of Silicon Valley's leaders. Participating in this installment were David Lee, COO and CFO of Impossible Foods, an innovative developer of meats and cheeses made entirely from plants; Pavan Tapadia, chief product officer at Yammer, an internal social-networking service which is now part of Microsoft; and Dianne Esber, associate partner and brand leader at Digital McKinsey in San Francisco. What follows is an edited transcript of the conversation.

Dianne Esber, associate partner and brand leader at Digital McKinsey in San Francisco: Tonight we're going to explore culture in small companies and large ones and what they can learn from each other about agility versus stability. I hear all the time from the largest companies, "I want to become more agile, how do I do it?" Do we have to either solve for being agile, or solve for being stable or scalable?

David Lee, COO and CFO of Impossible Foods: It depends on whether you're asking if *leaders* have to make that tradeoff, or companies. I don't think leaders have to. At Best Buy [where David was SVP of corporate finance during the 2013 turnaround], when there was a change in leadership at the top, [CEO] Hubert Joly and [former CFO] Sharon McCollam exhibited this uncanny combination of being extremely fast while putting in place something that would endure as one of the better turnarounds in retail. I think they tripled the stock price. Great leaders don't make that tradeoff. I would say that companies do, but not in a homogenous way. If you're a start-up, you don't have a choice. You have to be agile, because you have to create something that's never been seen before. But as you scale, it's critical to put the foundation in place in finance or in risk management in order to create reliability and repeatability.

Pavan Tapadia, chief product officer at Yammer, now part of Microsoft: I think there are real tradeoffs. Small companies are agile, but it's unplanned agility, because there's a lack of process or a lack of thoughtful agility. In every element of your business there are tradeoffs between stability and agility. You need to identify which elements need to change frequently and which elements are the structure to support that change.

Dianne Esber: Are there any processes that could never be anything but agile, because they're so core to the business?

Pavan Tapadia: There are things that should always be agile. But at big companies, because of scale, it often becomes hard to maintain that agility. You want to be agile on the product priority. But if it requires a reorganization to change product priorities, then it's clearly too expensive. A lot of big companies have solidified something in their performance-management system or the org chart, and it becomes so stable that it's hard to be agile, even though it might be a critical part of their business that should be more agile.

David Lee: For me it's less about size than about closeness to the consumer. In start-ups, when there's an opportunity through technology to leapfrog to fulfill an underlying consumer need, you have to be agile, particularly the closer you are to the consumer—in product, in marketing and sales, in the way you interact with consumers. But for the functions that are further away from the customer, stability's required to enable it.

Brian Gregg, partner in McKinsey's San Francisco office and head of McKinsey's consumer digital-excellence initiative: Pavan, having witnessed Yammer from its early days all the way through to becoming part of Microsoft, is the playbook still the same?

Pavan Tapadia: We need product expertise in certain areas, the areas that don't change. We always need people who are going to be experts in messaging or in search. But when we start to work on a big problem that's important to the business, we pull people from those different domains, and that changes every quarter.

I think what you have to recognize is that work happens outside of the org chart. When you recognize that, big companies can start to be more agile while having stability underneath it. Smaller companies are much more purpose driven. The alignment to mission is pervasive. At a lot of big companies, it becomes much more career driven.

David Lee: To me, culture is what gets rewarded. I don't mean just financially. I mean what behaviors, what kind of speech elicit support socially and result in career progress and financial gain? If you define culture that way, the examples in almost every large turnaround I've seen of culture failing is when the focus is on the superficial totems of culture. You know, the marathon sessions on, "Let's debate as a team whether the mission statement should say, 'should' or 'would,'" or "Are the values out of date? Let's hire a great strategy consultancy to help us refresh the company's values."

Reigniting purpose at large companies

Brian Gregg: There are a lot of companies that have been around 50 years. They've created value but they're not growing. What's your advice for reigniting purpose?

David Lee: I think if a leader has a situation where the culture is fundamentally out of sync with the requirements for success, it's an almost impossible situation to turn around in the short term. You're in for a very long-term transformation, and you should be realistic about that at the outset.

Pavan Tapadia: You have to reduce the cost of failure. What can you do to start to change slowly and iteratively? If you go in and say, "Here's a whole set of new values, we're going to start doing this," it's going to get rejected. But how can you move in that direction? What are some of the new processes or systems or performance-evaluation tools that you can bring in to start in that direction?

David Lee: Part of the Silicon Valley tech culture, if you will, is that it's marketed as being fundamentally different from the way big Midwestern and East Coast companies operate. I think that's a fallacy. I think the fundamentals of good business and good leadership are extremely relevant, whether you're here and you have a talent center, or you're in Chicago.

Pavan Tapadia: I largely agree. You don't need to be here to build in an interesting way. But if you did open an incubation center or some innovation center here, it wouldn't change your culture. It might expose you to the ideas that are popular in Silicon Valley, and there are a lot of ideas here about openness and transparency and sharing that can help develop a better culture. If you can take those ideas and spread them throughout your company, that's valuable. I don't think you need an innovation center to do that. But if it helps you learn and experiment with what will work in your company, that could be valuable.

What start-ups need to learn about stability

David Lee: The large companies I've been a part of know how to self-perpetuate stability because of the way they allow people to progress. Brand management is an example. The apprenticeship model of traditional consumer-facing brands is measured in multiple years and in titles that are carefully designed to show progress on a regular basis. Large companies know how to not only develop employees but give them satisfaction. A sense of stature is absolutely counter to the way I've experienced tech. In tech it's about a flat organization, and about the impact on innovation you can have, which is wonderful—up to the point where the employee is no longer contributing at the same pace as in the initial phase.

Pavan Tapadia: A lot of the large companies are optimizing for efficiency. They know that if everyone plays their distinct role, we will deliver this product in a very efficient manner. It'll get to market, and we will make the expected profits. That's optimizing for efficiency, but not for new ideas, innovation, or motivating people to think out of that box. That's the tradeoff a lot of companies make. If you're in an industry where it's about economies to scale or efficiency, that model might work well. But in a world where it's about information flows, that model tends to stifle new ideas and innovation.

David Lee: I think if you're in a large, *Fortune* 100 company and you need to make a change, you bypass three or four levels of leadership, and you find the incredibly high-potential, hungry, middle or lower manager who can be part of a cross-functional swat team to give the larger organization what Pavan describes as this start-up sense of mission. That's had some success, because you break into the stability and create artificial agility with folks who already know the culture but haven't learned the mistakes that have perhaps gotten the corporation in trouble.

One of the things I'm seeing in hypergrowth start-ups like Impossible Foods and also in turnarounds is that certain functions—people ops, or HR, and finance—have the ability to do more than support; they can help lead the way. But in a large, stable corporation, the role of those functions is to eliminate risk, right? "Let's not make that financial decision that could ruin the company," or "Let's not establish an HR policy that could create a liability." But a really great people-ops leader, even at a start-up with fewer than 50 people, should be thinking about planting the seeds to grow a culture, which is what I tell my team at Impossible Foods: "Your job is not to prevent us from making a mistake financially. Your job is to find ways to double down bets on growth."

Pavan Tapadia: If a team's goal becomes to minimize risk, you get into a really tough situation. You don't go to jail, but you might go bankrupt.

What world-class business agility looks like

David Lee: The true measure of agility, in my mind, is what businesses you have seeded to replace the business that is dying. Often the timing doesn't work. At Best Buy, tripling the omnichannel e-commerce growth wasn't initially sufficient to offset the decline in same-store sales, because of their large size. Transformations take a long time. It's a fallacy to look at the initial results. Rather, look at the underlying businesses that have high prospects for growth versus the ones that are dying.

Brian Gregg: But how do companies go from a quarter-to-quarter march to a terminal-value world with an investment horizon five, seven years out?

David Lee: Public companies that are facing short-term financial pressure need to re-create the story for investors and be absolutely transparent on the business model. One of the things I learned from Hubert Joly and Sharon McCollam at Best Buy is they branded the transformation. They called it Renew Blue. They said, "Here is the profit margin for the business in five years. And here's how brand-new omnichannel growth and e-commerce are going to deliver against it"—and as much as they focused each quarterly report on where we were on same-store sales, they actually took away guidance for each year. They reported against each quarter to focus investors on the multiyear transformation. Reframing the expectations to be multiyear versus short term, branding the change, and holding Best Buy accountable to the nonfinancial metrics associated with long-term performance allowed the investors to buy into the transformation. If you're a public company and you merely throw your hand up and say, "Forget about what's happening in the short term. I promise you something good's going to happen," you're unlikely to have the same degree of freedom. I would say reframing the journey and focusing on the metrics today that predict long-term success versus short-term performance is critical for a transformation.

How to engage with the external ecosystem

Brian Gregg: Ecosystems are a big Silicon Valley topic. Should companies, big and small, embrace the ecosystem idea, or is it something that in general should be built largely in-house?

David Lee: The key to the ecosystem question is about what the center of it is. If the customer is the center, it's less about the community you build with your suppliers and your manufacturers and more about what the consumer needs. The so-called sharing economy is a community driven less by who's providing the cars, and more by the fact that the consumer desires something instantaneous, cheaper, and convenient, and it takes a community to deliver it, rather than some academic question of how you reach out to related counterparties.

Pavan Tapadia: There's a tradeoff. You can loosely couple, or you can tightly couple. One of the things we're focused on at Yammer today is tightly coupling with Office 365. It allows us to create some really powerful experiences for the user. The downside of that is we lose some agility. So if we want to start to change some things in the future, it requires a lot of agreement costs to get other people to change. The tradeoff starts to become, what is the value of the experience you're going to deliver versus the cost of that tight coupling? There's no clear answer. It depends on whether you loosely couple or tightly couple. There's a spectrum there. □

David Lee is the COO and CEO of Impossible Foods; **Pavan Tapadia** is the chief product officer at Yammer, now part of Microsoft. **Dianne Esber** is an associate partner at Digital McKinsey in San Francisco, where **Brian Gregg** is a partner.