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SMARTER ALLIANCE INITIATIVE

Change Management and Cultural Transformation in NATO: Lessons from the Public and Private Sectors

NATO is embarked on the most fundamental reform of its structures and business processes since its inception sixty-two years ago. While promising in and of themselves, the Alliance must also consider how it manages the reform and change process and how it transforms its own culture to align with a smarter way of doing business. Luckily, these are not uncharted waters. Applying lessons learned from change management and cultural transformation experiences from both the public and private sector could make a real positive difference in NATO's current reform efforts.

NATO's Reform Agenda

At Lisbon in November 2010, NATO leaders agreed to an ambitious reform agenda including reductions in the size of the Command Structure, consolidation and rationalization of NATO's agencies, resource management reform, headquarters structure reform, and rationalization of the structures engaged in NATO capability development. Following up in June 2011, NATO Defense Ministers defined the Alliance's new Command and Agency structures, including where they will be based–a significant achievement given the conflicting interests of the different Allies. Other reform aspects, including resource management and acquisition reform, are being taken forward in parallel.

The Smarter Alliance Initiative

This issue brief is part of the Atlantic Council's Smarter Alliance Initiative in partnership with IBM. The Atlantic Council and IBM established the Smarter Alliance Initiative in response to the NATO Secretary General's call for NATO members to adopt a "smart defense" approach to leveraging scarce defense resources to develop and sustain capabilities necessary to meet current and future security challenges in an age of austerity. Working with recognized experts and former senior officials from Europe and the United States, the Atlantic Council and IBM have produced a set of policy-oriented briefs focused on NATO reform and cyber security, with the aim to provide thought leadership and innovative policy-relevant solutions for NATO's continued organizational reform and role in cyber security.

The publications and their findings will be showcased at public and private events for the defense policy and NATO communities on both sides of the Atlantic in the run-up to the NATO Chicago Summit. The events will coincide with reform and policy development milestones established by the November 2010 NATO summit in Lisbon, Portugal.

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Internal NATO reform is essential and is not a discretionary activity if the organization is to continue to be credible as the main transatlantic security provider. While efforts are underway to shore up NATO's structural and organizational shortcomings through the decisions taken at the Lisbon Summit, there is considerable room for improvement on the cultural and change management side of the reform equation.

Culturally, NATO's default behavior patterns no longer match its vocation and mission. The fundamental cultural problem is that it has not adapted its political approach and military means to match its modern role as an international security organization with responsibilities going beyond simple defense.

It remains a bureaucratic organization which prioritizes process over substance, hierarchy over results, and accounting over value-for-money. It is far too inflexible and resistant to change–a constant source of frustration to successive NATO Secretaries General, who have had responsibility for organizational efficiency but little power to manage in the business sense.

Implementing Current Reforms

If properly implemented the reforms now set in motion will go some way to correct the structural deficiencies. They should improve:

- the command structure, which will be further reduced, with a saving of 5,500 posts, and focused more sharply on operations;

- the agency structure, which will see the current fourteen separate NATO bodies merged into three with resulting staff savings and benefits in greater coherence;

- the resource and acquisition management processes, with better transparency and program control ;

- the headquarters structure;

- and all structures engaged in NATO capability development.

How Industry Manages Mergers and Acquisitions

Following a request by the NATO Agency Reform Team, a group of companies provided "high level advice" on key issues concerning change management, focusing on how to manage organizational mergers or consolidations.

The main points were:

- Industry's approach to mergers and acquisitions starts with a definition of the legal status and ownership of the entities in question. The nature of the entities' business is also a key consideration: what is the mission, what are the key assets, where does the value reside?

- A key issue is to determine the expected synergies and financial benefits, which should be precisely defined through access to management information (due diligence)

- The final issue to be determined is to define the mission of the future entity: what business will it be in; what will be its goals and objectives; how will it fit into the overall structure of the shareholders other related interests?

- Once the decision is taken to proceed with a merger, it is critically important to invest the necessary management effort to ensure it succeeds, focusing particularly on:

  - governance: what will the new governance structure and where appropriate shareholding agreement?

  - organizational culture: how to converge the different cultures and ensure they are matched to the new organization's mission?

  - key people: who are they , how to ensure they are retained?

  - people at risk: how they will be identified and treated appropriately?

  - team-building: how to enthuse people and make them feel part of the new entity?

  - communications: how to ensure the right messages are transmitted promptly, internally and externally?

  - processes: which business processes and ICT infrastructure for the new entity?

  - delivery of synergies: very strong control over the new entity's operations is required to ensure expected synergies are achieved

  - legal and contractual: novation of contracts and licences, compliance assurance

  - the impact of structural change on organizational culture.

  - Early appointment of an Integration Manager is essential (the first 100 days are critical).

But the cultural and change management challenge remains for NATO. NATO must now quickly implement the reform decisions already made, in a way which will deliver a better organization overall, while at the same time transforming its culture to align with the emerging structure.

Best Business Practice

NATO can learn from best practice in the public and private sectors, where the central tenet of organizational efficiency is that structure, mission, and culture should be appropriately aligned. Industry has already given NATO its advice on how mergers and other structural changes should be managed (see box). Although not all of these points are fully relevant to international organizations, NATO should seek to apply them where they are.

NATO is, of course, not a business. It does not operate in accordance with market principles (where control follows ownership and ownership reflects relative investment). It is a treaty-based organization founded on the principle that all member states are equal, regardless of their financial contributions. That is not going to change but its implications for governance need to be better recognized: if normal business governance principles are not applicable, then some strong alternative unifying "glue" needs to be provided.

For Article 5 operations–when NATO is itself attacked–that glue is the solemn specific commitment of each Ally to consider an attack against one as an attack against all and to assist whichever ally is attacked by taking such action as is necessary to restore and maintain security. There has never been any doubt that all Allies take this commitment extremely seriously; and nor does anyone doubt that NATO collectively has the military means to back it up.

But that is not the position with non-Article 5 operations, participation in which many Allies regard as entirely voluntary and to be decided according to national priorities alone. Nor is it the case for the day-to-day management of the organization itself, where countries routinely exercise their veto rights.

In business terms, this is a sure sign of an organization which has become misaligned with its core activities. No wonder military capabilities do not match agreed tasks under these circumstances.

The new Strategic Concept agreed at Lisbon defined three essential core tasks for NATO: collective defense, full spectrum crisis management, and cooperative security. To succeed, NATO needs to ensure that its cultural transformation succeeds–that it has the military means, political will, and organizational structures to carry through whatever action it decides under all three of these headings.

Future Steps

At the strategic level NATO must align its political priorities with the current global security environment by ensuring:

Full support for all NATO military operations.
Since all NATO military operations engage the credibility and solidarity of the Alliance, whether or not undertaken under Article 5, they should all be supported, individually and collectively, by all Allies. This should be enshrined in a political declaration and would not require a change to the Washington Treaty.

One effect of such a decision would undoubtedly be to raise the political acceptability bar for new operations, so it should be accompanied by a parallel decision:

Groups of Allies should be able to use NATO assets.
Arrangements are already in place to allow NATO assets to be used for European Union-led operations but these do not extend to their use by smaller groups of like-minded Allies faced with the urgent need to act together using military force. There is a need for such a facility since, without it, nations might have to establish wasteful duplicate facilities. Far better for NATO's assets to be able to serve all the security needs of the Allies and to be upfront and clear at the outset when only a smaller group intend to participate.

Operational capabilities should be matched to realistic ambitions, building where appropriate on pooling and sharing initiatives.
Capability planning in NATO currently assumes that all national assets declared to NATO will be available for all NATO missions but that has proved unrealistic. Many capabilities are not deployable or not in practice offered for NATO missions. A new, more sophisticated approach is required in which nations pre-commit to have known capabilities available for operations in which they agree to participate in principle. This is not to pre-empt sovereign national decision-making on whether or not to participate in a particular operation but rather to ensure that such decisions can be taken with clearer fore-knowledge of the assets which will be available once such decisions are made. Pooling and sharing initiatives among nations, which themselves require very strong mutual political commitments, should be encouraged and embraced in this context.

With these strategic elements in place, NATO should focus on the following enablers of its reform agenda :

Build a values-based culture
NATO should revisit its core values to determine if they are still relevant or if they need to be refreshed for the 21st century. A set of values that are explicitly understood and embraced by all members should provide the cultural foundation that will enable NATO to adapt and execute new strategies in an every changing world, while remaining true to its mission and identity. Values can help to unify a diverse set of members and constituents, providing a basis and lens for decision-making, actions and behaviors.

Manage business aspects in a business-like way.
This means giving the Secretary General full "CEO" authority to run the NATO organization, assigning and reassigning resources to achieve objectives set by the North Atlantic Council. Under his authority, agencies would also be given decision-making powers to implement approved programs. This would end the current practice of having to refer back to the nations and achieve consensus at every decision stage of every project or management proposal. The rule should be that the Secretary General should decide all such business issues. To overturn his action should require a consensus at the level of the NAC.

NATO's reform efforts need a clear strategy and goals
The Alliance's leadership must ensure that leaders, commanders, staff, partners, and other stakeholders understand the strategy and goals of NATO's reform effort, and their role in it.

Enhance collaboration
NATO's leadership should consider the use of tools to enhance collaboration, such as social media, to help build understanding and engagement at all levels of the Alliance structure, fostering two-way communication and gaining buy-in across the organization.

Ready NATO's Leadership and Staff for change
The Alliance should ensure its leaders are aligned to role model the changes and prepare its people for reform by addressing key enablers such as on-going communications, training and knowledge sharing.

Aligning process, structure with the values and strategy
NATO needs to address the underlying drivers of behaviors within the civilian and military structure by aligning management systems (what you measure and track, processes and tools) and people practices (what you reward and recognize) with the values, strategy and goals of the new organization.

Conclusion

"Adapt or die" is probably the most important lesson from the public and private sector for international organizations confronting significant change. For NATO, faced with seismic economic and geo-political shifts, deep-seated reform to rebalance and realign all aspects of its political and military approach is now urgently required.

MAY 2012

Case Study: How Industry Manages Change and IBM's Transformation

As the world has evolved, so has IBM. A business that originally made scales, clocks, and tabulating machines now provides advanced technologies and services to clients across the global, generates more than $100B in annual revenue and employs more than 400,000 people in 170 countries.

The pace of IBM's transformation has accelerated over the past two decades, beginning with the firm's near death experience in the early 1990's. In 1993, the computer industry had changed so rapidly the company was on its way to losing a then-record $8.1B, victimized by its own insular culture, excessive decentralization and the PC era that IBM itself had helped create. IBM engineered a comeback in the '90's, considered one of the great turnarounds in modern business history.

In response to the shifting business environment IBM reshaped itself into a new type of corporation—a model called the globally integrated enterprise. This new model allows the enterprise to operate seamlessly across boundaries, enabled by networked technologies, global processes and shared values. By doing the right tasks, with the right skills, in the right places, IBM has optimized its operations to serve both client and internal needs, capturing new revenue opportunities in growth markets while driving billions of dollars in productivity improvements.

Transforming IBM into a globally integrated enterprise has required many changes in structure, technologies and processes. But by far the most challenging change to enact has been to the culture of the organization. Moving from a traditional vertical organization, where command and control were the driving forces, to a horizontal model where work becomes more flat and less hierarchical has required a change in mindsets and behaviors. Most critically, it required a model of global leadership where IBM leaders would think and act together, learn from one another by breaking down barriers between disciplines and cultures, have conversations that would result in the next generation of ideas and create a climate in which others would do the same—knowing they have permission to act.

To ignite this cultural transformation, in 2003, IBMers from around the world were invited to participate in an on-line dialogue on the company intranet, a "ValuesJam," to re-establish the core of IBM's culture and brand for the 21st century. These refreshed values provided the foundation for evolving the management system of the company for the 21st century—increasing cross-unit collaboration and integration and enabling empowerment, speed, responsiveness and consistency across the company: Dedication to every client's success, innovation that matters—for the company and for the world, and trust and personal responsibility in all relationships.

These values express what differentiates IBM with clients, investors, employees and communities; they provide the basis for decision making, informing collective and individual behavior and actions. With the values as the foundation for transformational programs—whether it involves structural, operational, process, technological, M&A or cultural change —IBM has found that there are six key change management elements that must be addressed to ensure success:

1. Clear strategy and goals	Ensure that leaders, employees and stakeholders understand the strategy and goals -- and their role in it (with a clear, fact-based "case for change")
2. Leadership commitment and governance	Ensure that leaders, at all levels, take ownership and accountability for the success of the change (role modelling and enabling the new behaviors and ways of working)
3. Organizational readiness	Prepare people for change by addressing key enablers such as on-going communications, training and knowledge sharing
4. Stakeholder engagement	Build understanding and gain buy-in across the organization by fostering collaboration and leveraging social business tools and technologies to support two-way communications
5. Organizational alignment	Address the underlying drivers of behaviors by aligning management systems (what you measure & track) and people practices (what you reward & recognize) with the values, strategy and goals
6. Value realization	Focus on outcomes, tracking adoption of the new ways of working, identifying any obstacles getting in the way, and adapting the change program, as required

Organizational and cultural transformation at IBM has been an ongoing journey. It requires a leadership mindset of being hungry for change in order to keep moving towards the future, taking a longer term view to set direction, providing clarity about the need for change, demonstrating personal resolve to tackle continuous transformation and then energizing others to commit to the new ways of working.

The Atlantic Council's Board of Directors

The Atlantic Council is a nonpartisan organization that promotes constructive US leadership and engagement in international affairs based on the central role of the Atlantic community in meeting today's global challenges.