AI BUSINESS SCHOOL PODCAST – EPISODE 2

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David Carmona: Let's play a game. I want you to imagine for a second that your company is a person. What do you think people would say about this person? What adjectives would they use to describe them? Would they use friendly or ambitious or selfish, creative or boring? Whatever adjectives just came to mind, that is your brand. But today we're going to talk about something different. Today I want you to think about a different question, what would the employees of your company say about this person? What adjectives would they use to describe it? Those adjectives, whatever you think they are, that's your culture, and that is what we're going to discuss in this episode.

Culture is the true personality of your company or your team. It defines how it behaves or what it does. It is the shared assumptions of your employees that are guiding what they do without being written anywhere. Just like people, we may be able to do things that are not aligned with our personalities, but it won't feel natural, it would feel like forced and we tend to go back to our original behavior. The same thing might happen with your company or your team; you might force something that is not aligned with existing culture, let's say for example, a new approach driven by AI. You might be successful, but it probably won't stick. True transformation requires a change in the culture.

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My name is David Carmona and I'd like to welcome you to this episode of the AI Business School Podcast from Microsoft. Today we will talk about the culture required to transform an organization with AI. So, why this emphasis on culture? I'm going to let my colleague, Gretchen O'Hara, who is the Microsoft VP of AI Strategy and Sustainability, answer that question.

Gretchen O'Hara: Culture can either be at the forefront or it's something that they haven't quite thought about actually, as they think about their own AI and digital transformation.

Certainly those that support an AI vision and strategy with culture really become the most successful throughout their AI transformation then, so, culture becomes an important pillar of how we think about AI transformation.

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David: There are many business school cases about companies who implemented this huge cultural change that was required to address a big disruption in the market. But instead of taking you through one of those cases, I'm going to use something that hits a little closer to home for me and tell you an example from Microsoft.

We've had our share of learnings in Microsoft in our own AI transformation journey. One of the first units in Microsoft to fully embrace AI was finance. Several years ago, Amy Hood, our CFO, and her leadership team got together to see how they could leverage AI in their organization. They started, of course, with the big goals that they had in finance. And then they evaluated how AI could help on those goals, and they started to cascade that down. But guess what? It didn't work. With such an early and transformative technology as AI, you are going to go against your personality, your culture. It's not going to feel natural and it can fail. And that's what happened to us. We quickly realized the friction to implement some of those ideas was just too high. It required us changing our culture first to successfully adopt these changes. I'll let Amy tell us more about that.

Amy Hood: We quickly learned that the actual list of things we needed to make were about what cultural attributes we needed to build in our team. How are we going to make it important for each of our team members to get comfortable with new technology? How are we going to incent them to learn and not be afraid of moving forward with this process? And how are we going to motivate, have people be excited about learning, excited about the adoption of new and different ways of approaching problems? And so for me when we look back, [MUSIC] I realize that it was almost more important to realize the culture change you needed in the organization then it was to realize the business problems you were trying to solve.

David: Amy said it perfectly. We focus too much on the technology transformation and we forget that to be successful, we need to start with the culture.

So, the big question is clear, what culture do we need to be successful with AI? What are the adjectives that our employees should think about when describing the personality of our company? We are going to focus on three attributes throughout the rest of this episode.

The first one will be data-driven because AI depends on data and so your culture should reflect that. Second, your culture should be inclusive and empowering. Employees have to be empowered to apply AI in everything they do. And third, we will cover how your culture has to be responsible because with such a big transformation we will also have risks and everybody has to be able to understand and mitigate those risks.

Finally, in this episode we will also cover how to implement that culture change, and I believe that's the most difficult part because how do you change your personality? Is that even possible? Many people would say that's not even possible. How do you change people, right? So, let's start from the beginning. The first attribute that we say that we're going to look at is data-driven. What does it mean to be data-driven?

Stephen Eyears: In the retail space where it has been dominated by the physical environment and people with decades of experience, it's probably been much slower journey to actually look at the data and analyze it and make decisions on that, but I think that is rapidly changing.

David: That was Stephen Eyears, the Head of Strategy and Innovation for 7-11 in Australia. 7-11 is going through this big transformation to become a data-driven company. And yes, that means in their case using data to optimize their retail experiences for their customers. But to get there, you need to do something before. You need to understand that data, you need to turn raw data into knowledge that you can use to make decisions.

Stephen: It's how do we use the data that we have or data that we can acquire to really understand something better than our competition. That's what it boils down to. What knowledge that we can gain or hold onto or acquire that our competitors don't. And that that could be something about customer behavior. It could be something about our supply chain that leads us to be more nimble, or in a business like ours, which is really capital intensive around physical real estate, it could be really practical things about where do our stores go? What's the best place for them? The best marketplace? How are they positioned?

David: So, you need to capture the data. You need to extract knowledge from that data. But what's next? The ultimate goal is to use that data to drive tangible customer outcomes. I used to work a while ago in the developer division in Microsoft. We created developer tools and services like Visual Studio or Azure DevOps. We were developers creating developer tools, which is actually very dangerous if you think about that. That's why decisions made in the product had to be supported by data, even if it was an obvious decision. Why? Because it created a culture of data. Product owners had to worry about capturing the data and understanding it to support their decisions. Stephen mentions how they're working on building that culture at 7-11.

Stephen: For our business, there are some very key opportunities that just require a very intelligent response to the data we have and then being able to productionize that data to pursue opportunities, and that is all based on data that we have, not data that we need to acquire. So, I think most businesses, if you have the right focus, can uncover some enormous opportunities.

[MUSIC]

David: That's a great point from Stephen. In most cases, you have already the data available in your company to turn into a data-centric organization, but you need to make sure that you are capturing that data and that you are using it. And for that to happen, you need to involve everybody in the company. That actually brings us to the second attribute of our AI driven culture: inclusion and empowerment. In order for the business to be truly transformed, you need everybody to be part of it. You need to inspire people to continue to learn and grow. Just like Amy was sharing before, you want ideas to come from everybody and not from a leadership team meeting and then cascading that down. Gretchen was explaining that to me.

Gretchen: It's really important to have growth mindsets and really have that culture of inclusion and that is about you know bringing different perspectives together not only to see how we learn from each other but how we can serve our communities by making sure that everyone has a seat at the table.

David: Artificial intelligence requires a very close connection between the technical teams and the business units. The best ideas on AI use cases will come from a close collaboration between them. Mixed teams are required to work very closely, not only during the project

definition but throughout the entire AI development cycle, business and technology working together in short iterations and quick learning cycles are behind most of the successful projects that I have seen. Mohan Sawhney, Professor of Technology and Marketing at Northwestern University's Kellogg School of Management, told me that doing this right leads to huge competitive advantage and customer value.

Mohanbir Sawhney: In order to get true change and true transformation, you need all of the functional units to come together. Specifically, you need three types of functions to come together. The data scientists who understand data, algorithms, tools, platforms. That's one constituency. The second constituency is the domain experts, the line of business folks who understand the problems, the business use cases. And the third constituency is the IT organization because they understand the production systems and systems of record that the company has. [MUSIC]

David: I see many customers that are delegating their AI responsibilities to an existing technical unit or maybe a new dedicated center of excellence. While it is important that the technical units get quickly up to speed, companies looking to use AI in a truly transformative way need to understand that the AI function is a cross-team function. In Microsoft, for example, we have data scientists and AI roles embedded, not only across engineering teams but also in cost centers such as finance, marketing, sales, or HR.

Gretchen: Gotta make the business accountable. It can't be just one organization that has that accountability, but that needs to have accountability across the organization. Tracking and facilitating adoption, oftentimes we think digital transformation remains just within IT and the reality is, this isn't the case. And in order to really think about cultural transformation and AI transformation at its core requires all areas of the business to be engaged and support in really digital maturity and how they're thinking about the business.

David: This distribution of their responsibilities has also a flipside: the distribution of accountability. Every big transformation comes with a set of risks, and AI is no different. There are multiple risks and challenges associated with AI and we haven't faced those challenges in any other technology revolution before. For example, algorithm fairness, transparency, or reliability are important challenges that we have to address with AI.

[MUSIC]

This brings us to our last attribute—responsibility. Ensuring you have a focus on responsibility and that you set a priority for all employees with that effort is incredibly important. You can not only empower every employee with the wonderful capabilities of AI, you also have to keep them accountable for the risks associated with it.

Every step in the lifecycle of AI, from ideation to development and deployment has to include responsibility at its core. As a company, you have to define your approach to the potential risks of AI. Those are going to be your principles and they have to be part of the culture of your organization. You then need to implement those principles in terms of practices and tools, making sure that they are not only something that you write on a piece of paper but something that guides what every employee does. We'll dig much deeper on responsible AI in another episode of this series. So, I'm not going to go in much more detail right now. Instead, I want to focus the rest of this episode on something different. We have our three attributes for our culture — data-driven, inclusive, and responsible. In a sense, that's the personality that we want to have as a company. We want to be smart, good looking, and fun. But the question is clear, can we? Can we change? Can a person change their personality? I don't know, right? Professor Sawhney explains this challenge very well.

Mohanbir: I joke sometimes that I know how to do change management. You change the management. So, that is one way where some people just need to be counseled out of the roles that they are in. Beyond that, yes, people are resistant to change and particularly people who are further along in their careers and feel that they are too old to actually learn all this stuff, to do something differently. [MUSIC] So, that's not easy. It's challenging. So, I think we need to do a few things. One is that we need to make - - a culture of AI is also a culture of learning.

[MUSIC]

David: So, a culture change can only be successful when people are empowered, and empowerment requires investing in the right tools and skills. Professor Sawhney also mentioned that some enterprise companies encourage their employees to devote several hours each week to learning.

Mohanbir: So, I think it's very important to make people realize that they have to invest in ongoing learning and reskilling and reinvention. You also need to then provide them the

resources, learning resources, online resources, access to whether it is courses or tools so that it's easier for them to get up to speed.

David: Professor Sawhney also recommends another very interesting tactic. He calls it reciprocal mentoring. Take a business user or a subject matter expert who is well versed in the domain of the company, pair them with data scientists or developer colleagues who understand the technology. Maybe you think of it as a quid pro quo, but ultimately both will come out smarter and better positioned for success. It's a fascinating idea because it brings together business and technology, which is critical for achieving their goals.

Gretchen: Companies really need to be in front of skilling and that's a skilling across the entire organization, both from the creators of AI as well as the users and adopters of AI.

David: That sounds great. So, a cultural transformation requires skilling. Let's put in place some training programs, some mentoring rings and we're done, right?

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Well, actually, no. A cultural transformation requires also strong organizational leadership. This change cannot be driven from the bottom up nor from the top down. On one hand, organizations need people to take risks and challenge the traditional way of doing things. But on the other hand, senior leaders need to create a safe environment where people don't feel threatened by AI or the risk of failure.

Mohanbir: If you want to achieve transformational impact, it has to be driven from the top with clarity of vision and a sense of urgency.

David: I was able to experience this firsthand at Microsoft when we transformed from a company selling packaged software to a cloud first company. What do you think was more difficult? Do you think it was changing our technical skills to develop cloud software? Not really. [MUSIC] The most difficult thing was to go against the natural flow in people's behavior. Sellers, for example, felt more comfortable selling perpetual licenses than this new cloud subscriptions. They knew how to do it. It had great ROI, so why change? Same for marketing operations, any unit. It requires strong leadership to turn the ship and have everybody aligned with the new direction. But I think Gretchen explains it better.

Gretchen: Where we see caution oftentimes is in a couple of things, where there's an aspiration, if you will, to have a culture change, but it's not driven top down across the organization. So, it requires a real shift, and it has to not only be modeled, you have to coach it, you have to care from the top. It has to be repeatable and demonstrated and really live as the DNA in the fabric across the entire organization.

David: How long does it take to change a company's DNA? Well, you may be surprised with the right push and prioritization from the top, it may be less than you think.

Mohanbir: I think that the change can be affected in a year and it might take five years. So, it does depend on two things. It depends on the size and scale of your business. It depends on how much legacy systems and how much sort of challenge you have of interoperability across the systems. The third thing it really depends on which is very important is the sense of urgency and their ability to sort of accelerate execution.

David: That sense of urgency is the main factor for the cultural change. It requires time and patience but also a sense of urgency, especially in a time of disruption like what we're seeing today.

Gretchen: Oftentimes AI transformation can take time. And oftentimes up to 18, 24 months to really complete. And so, we need to start to work on breaking down the speed to value approach, making AI accessible and buildable in more snackable size solutions, and grow from there. And I think this has been demonstrated most recently in the COVID pandemic, where we've seen innovation in two months more than we have in the last two years. And so, the market now has created a demand, quite frankly, for companies to be agile and to innovate quickly, and respond in crisis.

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David: Gretchen makes a great point. A culture change doesn't mean that you need to close the business as you transform it. It's about moving in the right direction and getting value of that transformation while you are on it. In our AI Business School, for example, we show frameworks like ADKAR which are very effective to drive the change. At the end, every company is unique and every journey is valid as long as you start now. Encourage teams to start experimenting and then scale that transformation from there to the entire company.

Andrea Temporiti: I think that the topic of the culture need always to be taken into consideration where we are making a change. And the second point is that culture is for everyone. Everyone is involved in this transformation within your business, within your company. Really, no one in your company should feel that it's not part of this transformation. They always have [MUSIC] opportunity by using technology and innovation to work better, to work smarter, and to achieve better results.

David: That was Andrea Temporiti, the Head of Digital at the global industrial company ABB. We'll hear more from him in future episodes, but I wanted to share his point on culture because I think it's a great way to summarize this episode. Changing your company's personality is a journey. You don't become data-driven, inclusive, and responsible overnight. The best recommendation we can provide is to start now and then learn in the process. Don't solve everything at once because you don't even know the problems that you will find along the way.

I'd like to thank all of our guests for this episode: Amy Hood, Gretchen O'Hara, Professor Mohan Sawhney, Stephen Eyears, and Andrea Temporiti. Remember that you can visit Microsoft's AI Business School at **aka.ms/aibs** and you can explore in there our learning paths, including actually one on transforming your culture.

Thank you for listening and I hope you'll join us again next time.

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