

Demystifying Corporate Culture



When Lou Gerstner was first brought in to turn IBM around in 1993, he might have been thinking about the billions of dollars the company was losing or about how little he knew about the computer industry. The one thing he wasn't thinking about was corporate culture. That quickly changed, and by the end of his successful tenure there nine years later, he wrote, "I came to see, in my time at IBM, that culture isn't just one aspect of the game—it is the game."ⁱ

Edgar Schein, one of the founders of the field of organizational development, defines corporate culture as "the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems."ⁱⁱ In short, it's "the way things get done around here."

Developing a shared understanding is a slow process. It starts with explicitly stated values. When people embrace these values they start acting in ways that define them. When that behavior is successful in solving problems, Schein notes, the values are gradually, "...transformed into an underlying assumption about how things really are. As the assumption is increasingly taken for granted, it drops out of awareness."ⁱⁱⁱ It is this expression of culture that people associate with an organization and use to form an impression of it.

The idea that an organization could be intentional about building a culture and that the culture can, in turn, affect an organization's performance, has been around since 1939^{iv}, but it didn't fully enter the business consciousness until the late '70s. Since then, a strong corporate culture has become a holy grail of sorts for companies looking for an edge in today's environment of constant change and increasingly stiff competition.

Culture—the Last Differentiator

In theory, strong corporate culture gives companies an edge in three major ways. First, it empowers people to think for themselves on behalf of the company, and it allows them to do it with confidence. No matter how many policies and procedure manuals human resource departments write, they cannot write rules for every situation nor will a manager always be around to tell an employee what to do. In those

situations, the employee must rely on his own good judgment— judgment that is formed by his understanding of how things get done at his company. Because managers in companies that have strong cultures can rely on their employees to do the right thing on behalf of the company, they are free to focus on developing strategy and responding to change. And because they are focused on the external business environment, they are quick to spot a changing competitive situation and to respond. In that way, they “help maintain a fit between the culture and its context.”^v

Second, a strong corporate culture builds image. It’s the substance that reinforces and proves the first impression created by brand— what “they” (customers, employees, investors, the media) say an organization is, the face a company shows the world. An unhealthy company has two faces—one it puts on for show and its “real” face, which employees see. But a healthy company has just one. It may put on a little make-up for the world, but its values are consistent with its image. This is important not only for attracting new customers, but also for attracting new employees. A *Fortune* magazine survey revealed that CEOs believe corporate culture is “their most important mechanism for attracting, motivating, and retaining talented employees, a capability they consider the single best predictor of overall organizational excellence.”^{vi} Jim Collins, author of *Good to Great: Why Some Companies Make the Leap...and Others Don’t*, couldn’t agree more. “Great vision without great people is irrelevant,”^{vii} he says, and a strong corporate culture can help “get the right people on the bus.”

The *right* people at the *right* company making decisions independently so that managers can focus on strategy leads directly to the third edge: Corporate culture can lead to enhanced performance. When the team that had written *The 100 Best Companies to Work for in America* revisited those companies 10 years later, they found that they had consistently outperformed the rest in earnings per share.^{viii} Furthermore, while author Robert Levering “found no examples of companies that started off as not being great places to work, became high performers and then became great places to work,” he did find companies that started off as being great places to work, were not performing well, and turned into high-performing companies that remained great places to work.^{ix}

Unfortunately for those looking for a shortcut to better performance, there is not one, “performance-enhancing culture”, the plans for which can be bought off the shelf. The elements of culture and the relationships that exist between the elements are, of course, social in nature and therefore too complex to be boiled down to a recipe or a formula. The culture that’s right for a company is the one that will best help it reach its objectives and realize its potential. Ideally, there will be a symbiotic relationship between a company’s culture, objectives, and strategy, with each supporting and reinforcing the other two.

Companies always operate within the larger context of country and industry, and these also affect corporate culture. Consider the challenges that an international, nonhierarchical company might face when opening an office in Japan, where “rank is so precisely determined [throughout Japanese society] that equality is rare.”^x The cultural imperatives of an industry may be equally confining. Think of how banks are more like each other in the way they do business than they are like a company that designs and makes clothing, for example. As such, they leave little room for differentiation. Gerstner, the former CEO of IBM who used culture to turn that company around, told *HBS Working Knowledge*, “Everybody’s strategy in industry is fairly similar. There’s no way to create a unique strategy. You can have a good one, but you can expect that your competitors are going to emulate it every day.”^{xi}

Shared Traits of Successful Cultures

Research shows that having a culture that is *only* strong may end up being too much of a good thing. A strong culture can lead to good performance, which in turn often reinforces the culture, which may be strategically relevant *for a time*. The problem comes when the business conditions change. Rather than reassessing their strategy in light of the new conditions, the company points to its own previous success as proof that it’s doing things right. According to John Kotter and James Heskett, authors of *Corporate Culture and Performance*, a classic text on the topic, “With much success, that strong culture can easily become somewhat arrogant, inwardly focused, politicized, and bureaucratic...that kind of culture unquestionably undermines economic performance.”^{xii}

Apparently, even having a strong corporate culture that is strategically appropriate to the times is not enough.^{xiii} “Only cultures that can help organizations anticipate and adapt to environmental change will be associated with superior performance over long periods of time,” Kotter and Heskett write.^{xiv} Which companies are the ones most likely to have an adaptive culture? Companies that value customers, stockholders, and employees alike. That’s because managers have to care about the interests of the stockholders in order to do well financially over the long term, which is only possible if they delight the customer. And companies can’t delight customers unless they “take care of those who serve customers—employees.”^{xv}

Kotter and Heskett found that firms with cultures that emphasized those three constituencies and leadership at all levels “outperformed firms that did not have those cultural traits by a huge margin. Over an 11-year period, the former increased revenues by an average of 682 percent versus 166 percent for the latter...grew their stock prices by 901 percent versus 74 percent, and improved their net incomes by 756 percent versus 1 percent.”^{xvi}

More recent research supports Kotter’s and Heskett’s conclusions. After studying 1,000 organizations over 15 years, Daniel R. Denison, a professor of management and organization at IMD in Lausanne, Switzerland, and author of *Corporate Culture and Organizational Effectiveness*, found that there are four cultural traits that can have a significant impact on a company’s performance.^{xvii}

Adaptable—The company is concerned about customers and seeks out people and processes that bring about change. It has the ability to notice and respond to changes in the business environment.

Involved—Employees are very involved in decision-making and have a high degree of autonomy, accountability, and responsibility. As a result, they feel a true sense of ownership.

Clear mission—Everyone understands the company’s purpose and uses that understanding to guide behavior, discussions, and decisions. This, experts say, is the linchpin to corporate culture: “Mission alone, as a single cultural factor, impacts the greatest number of bottom-line performance measures in a company,^{xviii} and must be communicated and reinforced constantly.

Consistent—Core beliefs are widely shared and strongly held. The company actively defines and teaches organizational values, beliefs, and attitudes. (A different but relevant study showed that people would rather follow someone who they see as wrong but consistent than someone who they think is right but inconsistent.^{xix})

Another study that Denison conducted of 161 publicly traded companies across multiple industries showed that the 10 percent scoring highest on those traits had an average return on investment of 21 percent annually, while the 10 percent scoring lowest had an average return on investment of only 6 percent per year.^{xx}

Leverage Points for Cultural Change

If, or perhaps because, corporate culture has become so important, it has also become a buzzword—something that everyone wants but that few understand how to develop. Lacking the understanding, management often resorts to a scattershot approach. “It’s like opening the hood of a car that’s broken down and fiddling with the wires, hoping something will work,” says Tracy Brower, an organizational strategist in Herman Miller’s Global Customer Solutions group. “If you know what the parts of the engine do, you are more likely to figure out which things to change in order to get the result you want. Culture is not mysterious. It is something that you can systematically and systemically manage by applying pressure in certain areas.”^{xxi}

Leverage Point One: Leadership and Interaction

Leadership (which includes anyone in a management position) is by far the chief determinant of culture—“the single most visible factor that distinguishes major cultural changes that succeed from those that fail,”^{xxii} according to some experts—and it plays different roles depending on the age of the organization.^{xxiii} In start-ups, leaders externalize their beliefs and embed them in their organizations. Their job is to create culture. In established companies, however, leaders must be able to analyze the corporate culture, including subcultures that have developed along functional or departmental lines. They must determine how much and which kinds of subcultures contribute to corporate objectives and at what point they become dysfunctional.

If the culture isn't adaptive, leaders of mature organizations in mature industries have the toughest job of all because they must change the corporate culture. While the mentality of members of an organization that has been successful is often similar to that of horses that refuse to budge from a burning barn—they'll take what they know over what they don't any day, especially when they are afraid—it is possible to change that mentality. Leaders in the successful change companies that Kotter studied^{xxiv} first made it clear that the company was in peril. Then they set a new direction based on the philosophy that "constituencies are king." They asked simple but important questions, e.g., "Is this what customers really want?" After getting information from people throughout the company and at all levels, they were decisive and acted on their decisions. Finally, they were tireless communicators. In this way, they built support, and "as their efforts produced positive results, their coalitions grew and grew over time...As these coalitions expanded, so did the new cultures, ones that better fit the firms' contexts and were better able to adapt to change. [This took] on the order of five to fifteen years."^{xxv}

Most of all, experts agree, leaders determine culture by what they do or don't do. Employees can spend a lot of time parsing a leader's words, but they know a leader's behaviors and actions show "...what counts, and what behaviors of their own are likely to be rewarded or punished, and they convey much more to employees about priorities than do printed vision statements and formal policies."^{xxvi}

Leaders who do an outstanding job of leading by example can face a different kind of problem. The "hypocrisy attribution dynamic" can occur when the values, beliefs, and behaviors have been so successfully ingrained into the organization that employees develop unrealistic expectations of a leader.^{xxvii} Eventually, there may come a point at which leadership will be seen as not "walking the talk" simply because the standard of behavior has been set so high by the culture, and disillusionment sets in. The only antidote is to stay the course and keep communicating, particularly during tough times.

One prerequisite of a performance-enhancing culture is strong leadership; another is that the culture must outlive and supersede individual leaders. It's possible for a leader who imposes discipline in an organization solely by the strength of his will to turn a company around, but when he moves on, he'll leave behind a cultural vacuum,

and performance will decline. Culture that outlives any one leader is a differentiator between companies that are great and those that are merely good, notes Collins. In every good company he studied, there was "a spectacular rise under a tyrannical disciplinarian, followed by an equally spectacular decline when the disciplinarian stepped away, leaving no enduring culture of discipline."^{xxviii} Rather than personally disciplining their organizations, leaders of good-to-great companies develop an "enduring culture of discipline,"^{xxix} by embedding values and beliefs in the organization.

Leverage Point Two: Policies and Procedures

Goal systems, decision-making systems, quality systems, technology, budgeting and financial management, continuous improvement—these are the areas where a culture that's being managed can ensure that people will act and work will get done a certain way. The key is to align the systems. A company that has a goal of zero defects might put in place incentives related to that goal. But without a complementary goal related to cost and tied to incentives, employees would be tempted to throw away all the defective pieces in order to meet the quality goal.

Evidence of corporate culture can be seen in how simple or complex a process is and at what level decisions are made. In a very hierarchical culture, the budgeting process might have just one step: The CEO decides how the money gets spent. That's a very simple process. An organization that values participation is likely to have more steps in the budgeting process.

Sometimes the process can lead to unintended behavior. In a company where departmental budgets are established based on what the department spent in the previous year, workers may feel compelled to spend any money left at the end of the fiscal year. That's because, rather than being rewarded for coming in under budget, they'll be penalized by getting less money for the coming year.

Leverage Point Three: Recruiting and People Practices

It's common practice to recruit for a skill set, but companies that see culture as a tool recruit for cultural fit as much as for skill set. Collins writes that the leaders of "good-to-great" companies he studied believe "...if you begin with the 'who,' rather than the 'what,' you can more easily adapt to a changing world." People join the company



because of who else works there, Collins says, not because of a strategy, which is likely to change.^{xxx} In addition, it's generally easier to teach a person the necessary skills than it is to force a bad cultural fit. Finally, good employees expect to be challenged and to be offered the opportunity to move around within the company, and culture may be the only commonality between their first job and subsequent ones.

The challenge lies in recruiting people who share enough of the basic values that they won't be viewed as destructive but who have ideas fresh enough to *appropriately* challenge the established thinking, which is one of the most valuable contributions a new hire can make. If new hires are seen as confrontational or overly threatening to the existing culture, the culture can render them ineffective. And if adaptability or diversity or innovation is not part of the corporate culture, then even the new ideas themselves will be perceived as threatening.

"Who a company attracts, who it invites in, who it keeps, who it gives training dollars to, and who it eventually rejects all have a tremendous impact on a company's corporate culture," says Brower.^{xxxi} A company is all about people and their interaction, and it can be diluted or made more intense based on who is inside of it. "People decisions" also send strong messages about what's acceptable, important, and honored.

For culture to be a stabilizing force, which is its role, it must be taught to new employees. Socialization—the way people come to understand "the way things are done around here"—occurs every day in a thousand ways. New employee orientation is only the beginning. From a budget meeting in which a CEO focuses only on financial results, a new manager discerns that she has autonomy but that she'll be held accountable for the end result.^{xxxii} From a story about a company hero who lost the company half a million dollars as a junior executive on an exploratory project, she learns that it's okay to take risks, as long as she learns from them. And from a room that has a pool table that no one ever uses, she learns that, regardless of what the company literature says about being playful at work, it doesn't really value fun.

Leverage Point Four: Cues in the Environment

As the understanding of culture has evolved, it has become clear that workspace plays an important role in reflecting and reinforcing culture, whether management is being intentional about it or not. Space sends a message about what the company values, how it treats people, and how work gets done. Enclosed offices imply independent work; open offices imply teamwork. A company that wants to change its culture can signal that change through how it uses space, deciding, for example, to make only a limited number of unassigned offices available to workers because it wants employees to spend more time on the road with customers. The important thing is for a company to decide on the culture it wants, and then use the environment to support the culture as it evolves.

The change doesn't necessarily have to be big; it might be as simple as using visual cues to reinforce the culture.^{xxxiii} "Portraying" cues can state values through nearly any element in the environment, from signage to the design of the workplace. "Engaging" cues are places where people engage with each other and the space to further the culture. Depending on the company's culture, that might mean a basketball hoop or a dark-paneled room with a massive table surrounded by high-backed executive chairs. "Actualizing" cues are symbols of how the company has actualized its values or how it hopes to. After retiring their oars, employees at one Herman Miller site hung their racing skull in the cafeteria. It reminds them of how their cohesiveness at work spilled over into teamwork outside of traditional work boundaries.

According to Brower, real estate and facilities fulfill two critical roles: The first is to physically support the production process; the second role is the symbolic representation of the organization to the world.^{xxxiv} Since people gravitate toward companies that literally and figuratively appear to offer them the greatest chance to succeed, the facility itself becomes an important recruiting tool.

Brower says that corporate culture is like an ecosystem. You can't change one thing without it having an affect on something else, she says.^{xxxv} Some companies give up on managing corporate culture because it seems too overwhelming, but any company can take steps in the right direction. "Think about which elements need to be enhanced to get the desired culture and which you want to reduce," says Brower. "Don't lose sight of what is working, make sure you think about the effect the leverage points have on each other before you change something, and be patient. Changing culture is an evolutionary process, an incremental process, but the results can be truly revolutionary."^{xxxvi}

Culture is about people and the way they behave. For that reason, while corporate cultures that improve performance have many of the ingredients outlined here, "recipes" will never exist. "You can generalize the knowledge but not a solution," says Brower, who has seen companies try. "The magic comes when you apply what you've learned to your own culture."

Notes

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- iii Ibid., 372.
- iv Roethlisberger, Fritz J., and William J. Dickson, *Management and the Worker: An Account of a Research Program Conducted by the Western Electric Company, Hawthorne Works, Chicago* (Cambridge: Harvard University Press, 1939), as cited by John P. Kotter and James L. Heskett in *Corporate Culture and Performance* (The Free Press, New York, 1992), 187.
- v Kotter, John P. and James L. Heskett, *Corporate Culture and Performance* (The Free Press, New York, 1992), 53-54.
- vi Daft, Richard L. and Dorothy Marcic, *Understanding Management*, fourth edition (Thomson/South-Western, Mason, Ohio, 2004), 71.
- vii Collins, 42.
- viii Maira, Arun, and Peter Scott-Morgan, *The Accelerating Organization: Embracing the Human Face of Change* (McGraw-Hill, New York, 1997), 180.
- ix Ibid., 181.
- x Schatzberg, Laurie, Robin Keeney, and Vipul Kumar Gupta, "Cultural and Managerial Comparisons: An Analysis of the Use of Email and the WWW in Japan and the United States," p. 4, cited at <http://www.unm.edu/~rattner/irma97.pdf>.
- xi Lagace, Martha, "Lou Gerstner Discusses Changing the Culture at IBM," HBS Working Knowledge, December 9, 2002, cited at <http://hbswk.hbs.edu/pubitem.jhtml?id=3209&t=organizations>.
- xii Kotter and Heskett, 24.
- xiii Ibid., 142.
- xiv Ibid., 44.
- xv Ibid., 46.
- xvi Ibid., 11.
- xvii Denison, Daniel R., cited at www.denisonculture.com.
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- xx Cited at www.denisonculture.com/eimages/ROE.htm, the Web site of Daniel Denison.
- xxi Phone interview with Tracy Brower, February 19, 2004.
- xxii Kotter and Heskett, 84.
- xxiii Schein, Edgar H., *Organizational Culture and Leadership* (Jossey-Bass, Inc., San Francisco, 1992), p. 375 ff.
- xxiv Kotter and Heskett, 146.
- xxv Ibid.
- xxvi Chatman and Cha, 14.
- xxvii Ibid.
- xxviii Collins, 133.
- xxix Ibid., 130.
- xxx Collins, 42.
- xxxi Email exchange, March 30, 2004.
- xxxii Schein, *Organizational Culture and Leadership*, p. 233.
- xxxiii Phone interview with Tracy Brower, March 3, 2004.
- xxxiv O'Mara, Martha A., *Strategy and Place* (Simon & Schuster, New York, 1999), 4.
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