

Organizational Culture

Defining culture

Culture is the very foundation of an organization. It determines an organization's ability to achieve long term success. What exactly is culture? Some typical descriptions are:

- “It’s how we do things around here.”
- “It’s the values that determine how we make decisions.”
- “It is how stuff gets done.”
- “It comes from the leader(s).”
- “It is the way people in an organization go about their work.”
- “Culture is what an organization IS – not merely something it has.”
- “Culture eats strategy for breakfast,” i.e. great strategies frequently fail due to the lack of alignment with culture.

A succinct definition of culture is “a set of assumptions, values, beliefs, norms and practices attached to any social unit – an entire company, department, work team, etc. It is developed over time as the group learns to cope with its problems of external adaptation and internal integration.”¹

A culture model²

It is helpful to think of culture as consisting of three layers (refer to the diagram on page 2):

Layer 1: Observable artifacts and behaviors – These are things you can see and touch when you observe an organization, such as meeting protocol, how people interact with one another, office layout, dress code, and level of formality. Specific examples of observable artifacts and behaviors are:

- People always ask for the input of others in meetings and workgroups
- A company has no individual financially-based incentives systems; instead every employee partakes in a company-wide profit-sharing plan
- Executives have reserved parking spaces
- Everyone wears a blue suit, a white shirt and a tie

Layer 2: Values – We can determine values by observing the artifacts and behaviors, i.e. the values determine why people behave the way they do. We can also learn about the values by reading company documents, such as policies and procedures, ethics codes, mission statements, etc. Two examples of values and how they are conveyed:

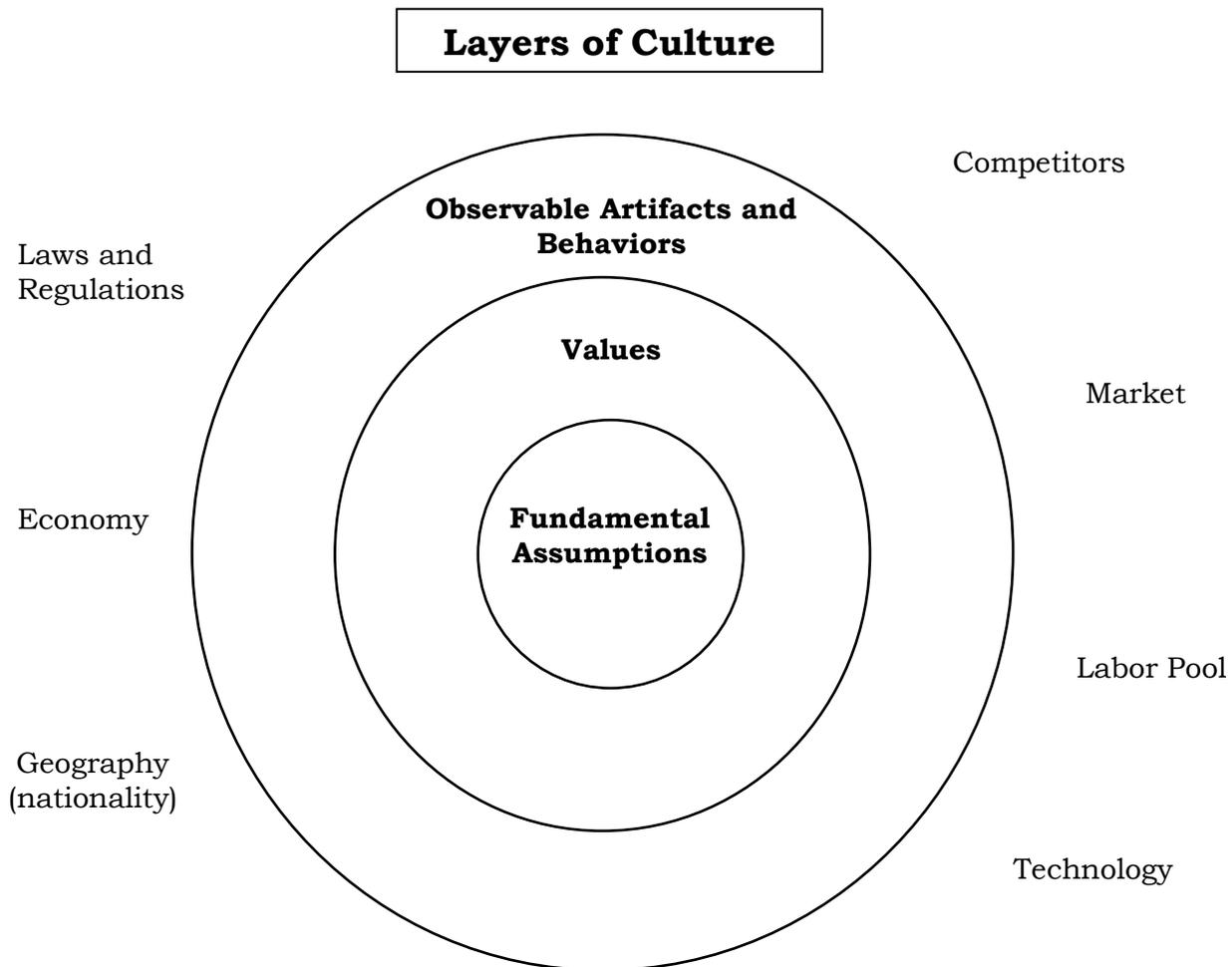
- If people always ask for the input of others and freely share ideas, this is an organization which values debate, dialogue and different viewpoints. This organization values finding the best solutions, allowing people to admit when they do not know something and motivating people to seek the expertise and counsel of others.

¹ Denise Rousseau – Professor, Carnegie Mellon University

² This model was created by Edgar Schein and is detailed in his book The Corporate Culture Survival Guide, published by Jossey-Bass, 1999.

- An organization with well defined, detailed, all-encompassing procedures leaves little room for individual interpretation. The organization values order and control. In such an environment, employees may not feel empowered to make decisions regarding how work is done, instead following the procedures verbatim.

Layer 3: Fundamental assumptions – These are unquestioned and often taken for granted. These are perceptions and feelings. Fundamental assumptions can be positive or negative. If the fundamental assumptions are positive, they can be discussed and codified, which results in them becoming ‘values’ over time. If they are negative, an organization’s leaders typically will not discuss them; instead they are discussed in small groups of employees in whispers at the water cooler or behind closed doors, which is why fundamental assumption are often referred to as ‘open secrets’. Two examples of positive fundamental assumptions are “We are a family so we take care of each other; we never fire anyone” and “We appreciate conflict and debate because that is how the best ideas are developed.” Two examples of negative fundamental assumptions are “If it was not invented here, it must be inferior” and “The owner is allowed to yell at people – it is his money and his company.”



These three layers are impacted by and must be appropriate for all of the external factors in the diagram: the economy, laws and regulations, the market, competitors, geography (nationality), technology and the labor pool.

The reason to view culture as layers is to be aware that culture consists of characteristics which:

- 1) Are readily observable simply by walking into an organization (artifacts and behaviors);
- 2) Are identifiable both indirectly and directly through discussion and careful observations (values);
- 3) Are very difficult to discern and are typically not discussed nor well understood (fundamental assumptions).

The deeper the layer, the harder it is to change. If you consider what it takes to change a fundamental assumption, it is NOT easy. You cannot change a fundamental assumption by simply saying, “OK, we aren’t family anymore” or “there isn’t guaranteed employment” or “we must go outside of our organization for better ideas.” These are heartfelt, deeply internalized beliefs that require much effort and stress to change. However, changing an artifact, while it may not be simple, is definitely easier. You can ask people to wear blue jeans and polo shirts instead of suits; you can engage people in discussions so they are more open with their ideas and more inclined to speak up in group settings.

Layers of Culture out of alignment

An indication of cultural problems is inconsistencies between the three layers; i.e. the layers aren’t in alignment and don’t support one another. Consequently, employees aren’t clear on how to behave and act; they hear conflicting messages. Although the organization may be able to function and achieve adequate results, the organization does not function optimally. Getting things done takes more time and/or resources than it should. For example, a stated value may be “everyone’s opinion is respected.” But if a fundamental assumption is “it is the president’s company, so when he talks everybody should be quiet and do what the president tells them to do”, this value and assumption are in direct conflict. In such an organization, you may observe some people sharing ideas and opinions in meetings, but when the final decision is made, the president’s idea always wins the day. You may also notice that some people rarely share their opinions because they have come to realize that the president’s beliefs and ideas are the only ones that matter.

Misalignment between layers can occur at many levels. There may be misalignments within the overall organization’s culture. Or there may be misalignments between department/groups within the organization, i.e. different departments may have different values, artifacts or assumptions which can cause difficulties in working together and communicating. And finally, there may be a misalignment between the organization and an individual. As individuals work in different environments throughout their careers, they develop cultural traits, which may not be in alignment with the cultural traits of their current organization.

The causes of cultural problems

There are five main causes of cultural problems. The first is a new leader who joins the organization but does not conform to the culture. Sometimes this is by design if the culture is inappropriate and needs to be altered, in which case the new leader’s mandate is to change the culture. But if changing the culture is not the mandate and the new leader attempts to change an appropriate culture, employees will resist. The employees will view the changes as not being in alignment with the organization’s values nor the external

environmental factors. They will become concerned that such changes will weaken the organization's ability to compete. This creates tension between the leader and the rest of the organization, often leading to organizational issues such as poor performance and high turnover.

The second major cause of cultural problems is changing external factors such as government regulation, technology, the market, etc. When the external factors change, the culture is no longer optimal in the new environment. For example, some older companies may have top-heavy bureaucracies and may be slow to make decisions. They will experience difficulties when new, more nimble competitors enter the marketplace.

The third major cause is mergers and acquisitions. In many mergers and acquisitions, cultural issues are often underemphasized, if not completely ignored. The problem is particularly serious if the organizations have different fundamental assumptions.

A fourth cause is 'rebels.' Rebels are new employees who are not a cultural fit. They do not share the same values and/or don't understand nor buy into the values and fundamental assumptions. As is the case with new leaders, sometimes rebels are hired to help change the culture. But if changing the culture is not the goal, rebels can be destructive. If the rebel cannot buy-in to the organization's culture, it is usually best to have them leave the organization.

The final cause of cultural problems is the development of subcultures. A department within an organization may have its own strong culture which differs from the culture of the larger organization. Subcultures may make it difficult for different groups within an organization to work together. In some cases, the larger organization may find it desirable to embrace the attributes of the subculture, using the subculture as an example of a new way to operate. In other cases, the subculture may have negative consequences, requiring the group to change its values to be more in line with the larger organization.

An example of cultural misalignment

In the following example, the concepts of the three layer model are applied to the culture of an actual company.

Layer 1 – Observable artifacts and behaviors The president/owner's door is always open, though rarely used by anyone other than the president. When people enter, the president typically grills them and often yells at them.

Layer 2 – Values The company has a stated "open door" policy: everyone is welcome to freely share their opinions and ideas anytime. In addition, the company cares about its employees by paying them well and offering good benefits and flexible working hours.

Layer 3 – Fundamental assumptions 1) the owner has worked hard to build the company; it is his company and he makes the decisions and 2) the open door policy means you can walk into the owner's office anytime, but you will most likely be yelled at.

Clearly, the stated value of having an 'open door policy' is in direct conflict with the assumption "get yelled at anytime you walk into the president's office". As a result, financial performance lags the industry; there is no succession planning; and there is often silence at meetings and much deferring to the president.

In this particular case, the president/owner decided to step down due to health reasons. His son-in-law – who had been the vice president for over 20 years – took over as president. The employees were

accustomed to the owner's way of doing things, but the son-in-law never felt comfortable in the old culture. He didn't think grilling and yelling was productive. After a few weeks, when employees realized they wouldn't get yelled at, they often ventured through the new president's "open door". People started speaking up at meetings, encouraged by the new president. Financial performance improved. The fundamental assumption changed. Anyone could now walk through the president's open door without getting yelled at. This new fundamental assumption was well aligned with the 'open door policy'.

Why do we need to analyze culture? So what?

Cultural problems and misalignments have consequences: low morale, missed goals, declining productivity and quality, increased employee turnover, and inefficient allocation of resources. People often leave companies because they don't like how things are done. The way of doing things is in conflict with their own values and what they think is right; it is not in alignment with what they think the company needs to do in order to compete.

By understanding an organization's culture, we will know how internal changes will affect the organization. We will also know how external factors such as growth, government regulation, market changes, etc. will impact the organization. We can answer questions such as "Can/will the culture be effective if there is growth, if the market changes, if the government enacts new regulations?"

Most importantly, research is clear that certain cultural attributes lead to better long term success. Two Harvard Business School professors³ studied 227 companies in 22 different industries in the United States from 1977-1988. They found that companies with the following cultural characteristics outperformed their peers by wide margins⁴:

- 1) The culture is strong – The layers of culture are in alignment. Everyone in the organization shares a set of relatively consistent values and methods of doing business.
- 2) The culture is strategically appropriate – The culture fits the industry and all other factors in the external environment. The culture reflects the brand.
- 3) The culture is adaptive – The culture helps the organization anticipate and adapt to environmental change. The culture encourages and inspires leadership throughout the organization. The organization is receptive to change and innovation, valuing these over stability and order.
- 4) The organization highly value customers AND employees AND stockholders.

Organizations with all four of the above traits are the exception, not the rule. Almost all organizations have some issues with culture, resulting in varying degrees of employee frustration and squandered resources. Almost all organizations are dysfunctional to some degree. You have an edge in the marketplace by being less dysfunctional than your competitors!

When analyzing culture, people are forced to be very introspective, asking difficult questions of themselves and their organizations – awareness is raised. And when people become aware, they will want to change the negative aspects and build upon the positive aspects of the culture. Leaders willing to address culture, must be ready to make changes; people will want action.

³ John P. Kotter and James L. Heskett, Corporate Culture and Performance, published by The Free Press, 1992.

⁴ John Kotter, "Does Corporate Culture Drive Financial Performance," *Forbes.com*, February 10, 2011. In this article, companies with these four cultural attributes had 4X the revenue growth, 8X the employment growth, 12X the stock price growth and 756X the net income growth relative to companies that did not have these cultural attributes.

Discussing fundamental assumptions may make the culture creators/leaders uncomfortable if negative consequences of the fundamental assumptions come to light; it may threaten their authority. But the fundamental assumptions need to be out in the open so that the effects can be understood and dealt with, especially if the effects are negative. Some organizations do not have any fundamental assumptions. They have only observable artifacts and behaviors and values. The culture is very well defined, unambiguous and out in the open.

Cultural issues are at the core of many business failures – the Worldcom fraud and subsequent bankruptcy in 2002 – and business successes – SAS’s ability to thrive in a highly competitive industry⁵. It is critical that organizations strive to understand their culture and bring all aspects of their culture out in the open. The more honest and candid the discussions about culture, the more successful the organization.

⁵ SAS is a \$3 billion company in the business analytics software and services sector. SAS’s net profit is consistently higher than its competitors. SAS has been on Fortune Magazine’s ‘List of the top 100 best companies to work for’ for 14 years, winning the #1 position in both 2010 and 2011.