LEADING CULTURE CHANGE

IN GL🌐BAL ORGANIZATIONS

ALIGNING CULTURE *and* STRATEGY

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Praise for Leading Culture Change in Global Organizations

"A milestone in the culture studies arena."

—Edgar H. Schein, professor emeritus, Massachusetts Institute of Technology

"A page-turner for senior executives that embrace change."

—Cees 't Hart, CEO, FrieslandCampina

"Denison and his colleagues provide the definitive guide for guiding cultural change during these weird and often vexing times. *Leading Culture Change in Global Organizations* grabs you with compelling cases, helps you with fact-based and useful advice, and is the rare business book that is a joy to read."

—Robert I. Sutton, professor, Stanford University; author of *The New York Times* bestseller *Good Boss, Bad Boss*

"I believe 'what gets measured gets done.' The tools and metrics provided by Denison help organizations track their progress and performance in the all-important area of culture. All organizations have a culture, but sadly, many have a culture that doesn't lead to consistent high performance. *Leading Culture Change in Global Organizations* will provide you with a roadmap for creating and maintaining a culture that will provide you with a true competitive advantage. I recommend this book, and the Denison Team, as valuable resources to help you lead more effectively and create a stronger, more results-oriented culture within your organization."

—David A. Brandon, athletic director, University of Michigan; chairman, Domino's Pizza

"Through the real-world examples in *Leading Culture Change in Global Organizations*, the authors bring to life the criticality of culture in global organizations, while providing leaders with an important tool for measuring and transforming it."

—Nancy Dearman, CEO, Kotter International

"The Denison Culture Survey was a pivotal marker in the journey to get our organization focusing more on customers and thinking clearly about our strategy. There's immense power in reflecting on the collective wisdom of the entire team."

—Mike Pulick, president, international, W.W. Grainger, Inc.

"The Marriott culture is integral to our ability to endure and adapt, and to preserve and innovate. This always requires our leaders to rely on the collective wisdom they have developed over the years, and to apply that to the future. The Denison model and method, described so well in this book, helps our leaders to understand the challenges that they face, and helps them to hone in on the key issues and actions that reinforce our culture and help prepare our organization for the future."

—Tim Tobin, vice president, global learning and development, Marriott

"Mastering the levers needed to shape the culture of a global organization is a key task of successful leaders. In line with IMD's vision to support developing global leaders, I highly recommend this valuable book to senior business executives."

—Peter Wuffli, chairman, IMD Foundation Board; former CEO, United Bank of Switzerland

"The beauty of the Denison Culture Model is its simplicity. By remembering that 'more color is better,' you're able to quickly identify your strengths, as well as the areas for improvement to drive action. Most

importantly, the model enables dialogue amongst key stakeholders to drive change with a focus on results."

—Robert J. Stuart, senior vice president, global sales and marketing, The Hertz Corporation

"Creating one common culture adjusted to the business portfolio and goals is essential for every company. This book provides many valuable insights to create one overall culture as a competitive advantage."

—Feike Sijbesma, CEO, Royal DSM

"There is hope after all. There is a clear path to growing a strong culture that delivers for customers, staff, shareholders, and the organization. This book is a must-read for any leader that grapples with the scale, pace, and complexity of business today. Keep this book beside you!"

—Phil Morley, chief executive, Hull and East Yorkshire Hospitals, NHS, UK

"In the past, Denison and his colleagues have been pioneers in showing us how culture influences business performance. In this new book, they introduce a new perspective based on rituals, habits, and routines that shows us how to access the tacit organizational knowledge that is the foundation of an organization's culture. If you need to know how to articulate and change the culture of an organization, this book can give you the answer."

—Ikujiro Nonaka, Hitotsubashi University, Tokyo, Japan

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Business & Management Series

LEADING CULTURE CHANGE IN GLOBAL ORGANIZATIONS

Aligning Culture and Strategy

Daniel Denison

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Foreword by Edgar H. Schein

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Foreword

Much has happened in the field of organizational culture since the concept became theoretically and practically important in the 1980s. There were arguments about how to define it, how to measure it, and whether it was useful either as a construct in organization theory or as a correlate of organizational performance. The concept appealed to entrepreneurs because they saw themselves as creators of culture without always knowing just what they meant by that. The concept became important to leaders as a way of capturing all the soft stuff that they realized they had to think about and as a way of articulating their values. The concept played an increasing role in change theories, both as the biggest constraint on change and also as an element that had to change if real change were to be accomplished. The concept caught the fancy of theoreticians, who created instant typologies of different kinds of cultures. And the concept was immediately adopted by a number of social psychologists who wanted to measure it—whatever "it" was.

Among the early "measurers" was Dan Denison. His first culture book, *Corporate Culture and Organizational Effectiveness* (1990), showed that culture measures did relate to performance. In this new book, Denison and his colleagues have brought that whole approach to maturity and thereby have established a milestone in the culture studies arena. Through an analysis of a number of case studies of real culture change, they provide the reader with a useful and relevant measurement tool—built on relevant organization theory in its choice of dimensions to measure—and, most important, they show how the whole survey process integrates with an ongoing process of change.

The case studies show how working with culture both quantitatively and clinically can become the key to the major strategic and tactical change programs that organizations have to undertake in this ever more turbulent world. The book illustrates how effective culture measures have evolved and can be used creatively and responsibly. I say *responsibly*, because I have always been critical of those who used culture surveys when they simply assumed that they knew what to measure in the first place and then fed the results back to the organization without considering how this might help or hinder what the organization was trying to do.

What is presented in this book has come a long way from those early simplistic approaches. From the beginning, Denison was concerned with correlating culture dimensions with organizational performance, to impose a useful context for culture analysis. Culture is vast, but only some parts of a given organizational culture may be of relevance to what the organization is trying to do. And only some parts of culture connect with relevant organizational theories about how organizations could and should work. So Denison wisely chose to measure only those parts of culture that should relate to performance and has shown how the combination of measurement and working with the organization does indeed improve performance.

Developing a measurement tool, even with the right culture variables, is, of course, not nearly enough. Denison and his colleagues show us throughout how measuring culture elements is truly useful in helping organizations improve only if the measurement process itself becomes a useful intervention in the organization's own change process. A change-oriented leader cannot produce change without measurement tools, but a measurement-oriented leader cannot produce change without a strategy that integrates the measurement into the fabric of the change

process. This is not easy to do, yet the cases analyzed here show the way.

By looking at the culture analysis over time, we gain both some sense of how valid the measurement tool is and, more important, what it actually takes to create organizational improvement, by showing how the measures focused the change activity. This commitment to measurement over time is an important aspect of what Denison and his team have shown to be essential in a change process. In illustrating how the variables measured change over time, the authors also show us important elements of organizational theory—what does it actually take to make cultural changes that matter? How do the choices of what we measure influence our theoretical thinking about what it takes to produce change?

These cases and the analysis will be of great use to researchers, consultants, and leaders who face the difficult problem of how to get culture change started and how to keep it on track.

Edgar H. Schein
professor emeritus,
MIT Sloan School of Management

To those who matter most. Our families: Graciela, Roland, Mia, Dakota, Brenda, Marta, Brianna, Pascal, Raphaël, Emmanuel, Eric, and Jasmine

Preface

The idea for this book first came up in a discussion that Robert Hooijberg and I had in 2009 while we were preparing a program stream for the International Institute for Management Development's (IMD) flagship executive program, Orchestrating Winning Performance (OWP). Each year in June, OWP brings together nearly five hundred executives at our campus in Lausanne, Switzerland. The IMD faculty are all in town to present their newest and best ideas, and this combination creates a lot of excitement and learning. That year, Robert and I had the opportunity to create a weeklong sequence of half-day sessions that we decided to title "Leading Culture Change in Global Organizations."

We had both worked for years with organizations as they tried to carry out significant culture changes. Some were a lot more successful than others! We had written a set of case studies, and we became especially interested in the group of companies in which we had tracked a successful set of changes over time using our Organizational Culture Survey. We knew the stories well, because we had worked with them closely throughout the change process. When we started to add up the possibilities, we quickly realized that we had a lot of global diversity: Domino's in the United States, Swiss Re from Switzerland, DeutscheTech from Germany, GT Automotive from the UK and the United States, Polar Bank from Scandinavia, GE Healthcare from China, and Vale from Brazil. All were global organizations, but they were looking at the cultural challenges of globalization from very different perspectives.

We managed to convince several of the executives from these companies to join us as guest speakers at OWP that year, and that gave us the opportunity to prepare several

more teaching cases on these firms. Our coauthors Nancy Lane and Colleen Lief both began their involvement with this book project by writing teaching cases on several of these firms to prepare for their presentations at IMD. Everything went well at the OWP sessions. But as things were winding down after the program, we realized that we were on to something good. It was time to start writing this book.

With lots of good suggestions from Kathe Sweeney, our editor at Jossey-Bass/Wiley, we put together our plan of action. The chapters in this book cover a rich set of culture topics: the importance of supporting the front line, the dynamics of creating strategy alignment, the challenges of cultural integration in mergers and acquisitions, the process of importing culture change from one country to another, the lessons from building a global business *in* an emerging market, and the lessons from building a global business *from* an emerging market. Each of these topics is the focus of a chapter, and the company examples are used as cases. The survey results that we followed over time helped to ensure that we were on the right track in describing a change that, in the eyes of the organization's members, really made a difference.

The leaders of these organizations are the heroes in this book. We played an active role in these stories, and we are proud that most of these organizations would say that we helped them a lot. But the best parts of these stories are always the actions that the leaders took to transform their organizations by positioning the culture of the organization as a key part of the change process. This book is written for those leaders who are trying to manage their own organizations and want to learn more about how the culture of the firm can be an important point of leverage.

In this book we also aspire to make a practical contribution to the research literature. Since the beginning of the

academic discussion of the importance of corporate culture, there has always been an emphasis on the deeper levels of culture that are hard for us to see—and even harder to change. Ed Schein explained all of this to us years ago: the importance of distinguishing the underlying assumptions from values and behaviors, or superficial artifacts. But it is still always difficult for us mere mortals to see these levels in practice. It's especially hard when we keep looking for a fundamental set of underlying assumptions that form the foundation of an organization's culture.

But at the end of this book, as we started to summarize what we had learned, we realized that a lot of the challenge of the change process involved changing rituals, habits, and routines. Habits have deep structures too and are hard to change, but they also have a fairly narrow bandwidth compared to the broad-based fundamentals that make up the set of underlying assumptions that culture researchers have been examining for years with limited success. Some were good habits, some were bad; some were old habits, and some were new. This insight led us to start looking at the organizations that we studied as interesting bundles of these interconnected habits. All of these habits had their roots in underlying assumptions, all were anchored in the value systems of their organizations, and all were manifested in a visible set of behaviors. As we worked with several companies to help them understand the cultural transformations that they were going through, we also found out that this framework was very useful. There's lots of work to do to develop this set of ideas for culture researchers, but this approach has already proven to be helpful in action.

The challenge of building a positive culture in a global organization is a daunting task. It is humbling to contemplate the scale and scope of the challenge, but inspiring to see what can be accomplished once things get

started. We have had the privilege, in our careers, of watching a number of global companies try to pull this off. We hope that we have captured some of those lessons for you, so that you can help us put those ideas in action.

Chapter 1

Building a High-Performance Business Culture

Every human organization creates a unique culture all its own. From a small family business operating in its hometown, to a large global corporation spanning national cultures and time zones, each organization has a distinct identity. Tribes, families, cults, teams, and corporations all develop a complex and unique identity that evolves as they grow through the years.

Their culture always reflects the collective wisdom that comes from the lessons people learn as they adapt and survive together over time. Thousands of interlocking routines knit together the fabric of the firm and translate timeless knowledge into timely action on a daily basis. The traditional habits and customs that have kept the firm alive and well over time speak loud and clear. And when uncertainty rears its ugly head, the culture rules! All members of the corporate tribe tend to fall back on their tried-and-true methods in order to weather the storm.

Yet try as we might to look to the future, the knowledge embedded in our corporate cultures is always *yesterday's* knowledge, developed to meet the challenges of the past. What part of the past should we preserve for the future? How should we adapt the principles of the past to address the problems of the future? How should we go about the delicate task of relegating the obsolete practices of the past to the "corporate museum" so that they don't grow into

obstacles that hold back our best practices and frustrate our best customers?

Some leaders try to ignore these challenges and concentrate on their expense ratios, analyst reports, discounted cash flows, and their next acquisition. Bad idea. Other top executives see shaping and managing the corporate culture as one of their most important challenges. As Wells Fargo Bank CEO John Stumpf said, "It's about the culture. I could leave our strategy on an airplane seat and have a competitor read it and it would not make any difference."[1] Former IBM Chairman Lou Gerstner made the same point: "Culture isn't just one aspect of the game—it *is* the game. In the end, an organization is no more than the collective capacity of its people to create value."[2] The people make the place.[3] The people create the organization. The people create the technology. The people organize the funding. The people develop the markets. Without implementation and alignment, there is no strategy, only a plan.

It can be easy to forget that the people make the place, because the structures that we create often outlive our memory of how and why we created them to begin with, leaving us feeling like we are the victims rather than the visionaries of the systems that we create. But over the long haul, one of the most powerful things that a company's leaders can do is to create a unique character and personality for their organization that fits their business environment and distinguishes them from the competition.

But where do you start? Research over the past two or three decades has shown that an organization's culture has an impact on business performance in four main ways:

- Creating an organization's sense of *mission* and direction
- Building a high level of *adaptability* and flexibility

- Nurturing the *involvement* and engagement of their people
- Providing a *consistency* that is strongly rooted in a set of core values

These are the cultural traits that most clearly affect business performance, so this is where the journey must begin.

But can something as complex as corporate culture actually be managed? The task is daunting—but doing nothing is not an attractive option! Organizational culture guru Edgar Schein said it best: "Either you manage the culture, or it manages you."[4] Managing culture change is certainly not easy, but there are plenty of real-life examples of global companies who have succeeded. This book is built around seven of those examples.

What Is Corporate Culture? Why Is It Important?

At the climax of the annual holiday party of one rapidly growing American company, hundreds of balloons are released from the ceiling. Inside each balloon is a crisp new US$100 bill. Whoever scrambles the hardest gets the most money! The lesson is simple, fun, and more powerful than all the personnel policy handbooks in the world. It helps capture the essence of some of the key definitions of corporate culture: Culture is both "the way we do things around here" and "what we do when we think no one is looking." Culture is "the code, the core logic, the software of the mind that organizes the behavior of the people," and

"the lessons that we have learned that are important enough to pass on to the next generation."[5]

Schein's classic approach divides culture into three levels.[6] He argues that basic underlying assumptions lie at the root of culture and are "unconscious, taken-for-granted beliefs, perceptions, thoughts, and feelings." Espoused values are derived from the basic underlying assumptions and are the "espoused justifications of strategies, goals and philosophies." Finally, at the top level are "artifacts," defined as the "visible, yet hard to decipher organizational structures and processes."

Consider the iceberg image presented in Figure 1.1. Only about 10 percent of an iceberg is visible above the water; 90 percent is below the surface. But the *inertia* of the part that is beneath the surface is what will sink your ship. Similarly, it is often the parts of the culture that we *can't* see that will get us into trouble. This figure also reminds us that the culture is learned—it is built up from the accumulated principles that we learn as we survive together over time. The lessons from the past shape our survival strategies for the future. Winston Churchill said something similar about architecture: "We shape our buildings; thereafter they shape us."[7]

Figure 1.1 Culture Reflects the Lessons Learned Over Time

Survival

Visible Symbols

Culture

Underlying Principles

Lessons
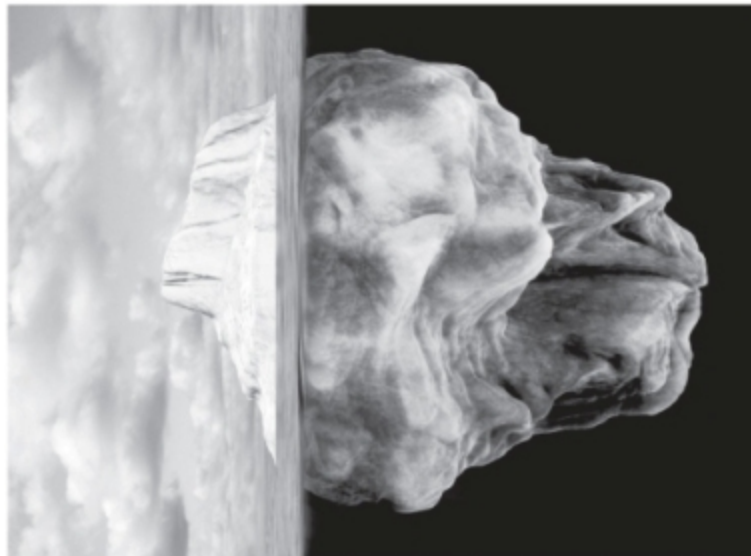
Artifacts, behaviors,
and norms are
visible and tangible

Personal values and
attitudes are less visible,
but can be talked about

Underlying beliefs
and assumptions are
subconscious, invisible,
and rarely questioned

So our mindset and worldview shape the way that we use the lessons of the past to forge the strategies of the future. How well are business leaders doing? Well, the record is not all that encouraging. Phil Rosenzweig's best seller *The Halo Effect*[8] explains that when successful corporations become legends, their business practices are imitated for both good

reasons and bad. Neither researchers nor executives have done particularly well at separating the principles and practices that truly impact business performance from those that are simply imitated because a corporation enjoyed great success and everyone now wants to be like them. Telling fashion from function is often harder than it looks.

There's a long tradition of studying "superstitious learning," which probably has its roots in Malinowski's study of the "cargo cult" of the Trobriand Islanders in Papua New Guinea nearly one hundred years ago.[9] Richard Feynman tells the story with an example from the end of World War II:

> During the war they saw airplanes land with lots of good materials, and they want the same thing to happen now. So they've arranged to imitate things like runways, to put fires along the sides of the runways, to make a wooden hut for a man to sit in, with two wooden pieces on his head like headphones and bars of bamboo sticking out like antennas—he's the controller—and they wait for the airplanes to land. They're doing everything right. The form is perfect. It looks exactly the way it looked before.
>
> But it doesn't work. No airplanes land.[10]

You may be thinking "Surely modern corporate 'tribes' must do far better at separating fact from fiction and deciding what really works than the ancient tribes of Papua New Guinea!" Well, let's not jump to conclusions. Many of the recent accounts of the subprime mortgage crisis emphasize the growing power of the system that was created.[11] Mortgage loan officers made a bigger bonus if they booked more subprime loans. Fee income from new loans was high enough that even bad loans were good business for the banks. These government-guaranteed loans were sold to other banks, who created securities that were certified AAA grade. Investors around the world grabbed these up because they paid a higher rate of return. This

system created an insatiable demand for banks to find even more prospective buyers who would borrow beyond their means in hopes of "flipping" their new home to take advantage of rising real estate prices before their balloon payment came due. This system paid off so well that in the short term everyone kept looking for the next deal long after the system had stopped paying off. Thus we see how ritual can become separated from reality even in the most sophisticated organizations.[12]

How Corporate Culture Impacts Business Performance

Over the past twenty years, we've studied the link between organizational culture and business performance. We've been trying to understand the cultural traits that explain the difference between high- and low-performing organizations.[13] These studies have examined the link between the four basic traits in our model—*mission*, *adaptability*, *involvement*, and *consistency*—and performance measures such as profitability, sales growth, quality, innovation, and market value. Out of this research, we've developed a way to measure culture, and we've created a widely used Culture Survey designed to help organizations focus on the issues that need attention and move beyond a discussion of employee satisfaction, engagement, and morale, to better understand the actions they can take to build their organizations for the future. Figure 1.2 shows what we've found out about "What Counts."

Figure 1.2 What Counts
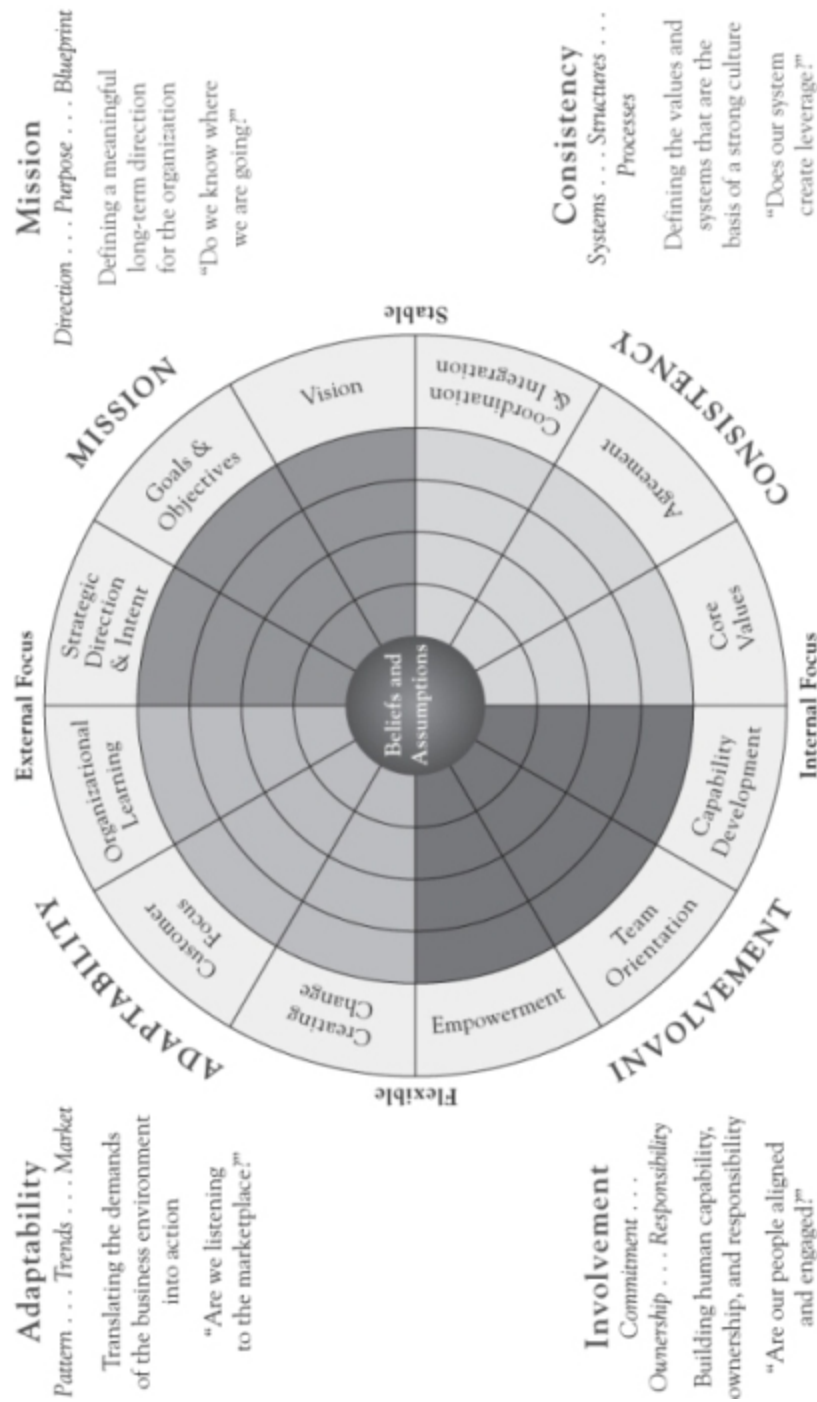
•*Mission*. Successful organizations have a clear sense of purpose and direction that allows them to define organizational goals and strategies and to create a compelling vision of the organization's future. Leaders play a critical role in defining mission, but a mission can only be reached if it is well understood, top to bottom. A