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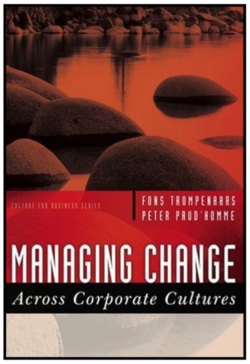

Managing Change Across Corporate Cultures

by Fons Trompenaars and Peter Prud’homme
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314 pages

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Take-Aways

- Corporate culture has passed in and out of fashion since the discovery in the early 1980s that culture may have played a role in the success of Japanese firms.
- The strength of a corporate culture depends on its ability to manage tension between contradictory impulses, for example, individualism versus group orientation.
- Corporations need both stability and change.
- American companies often antagonize when they globalize by displaying an arrogant “with us or against us” attitude.
- Culture problems often cause M&A deals to fall short of promised results.
- Sweden’s Ikea, Finland’s Nokia, France’s Suez, Taiwan’s Acer and the U.S.’s Applied Materials are adept at managing the cultural challenge of globalization.
- Although corporate culture is important, defining it is difficult.
- Numerous models attempt to assess corporate cultures along various dimensions. Cultures can be labeled as: Eiffel Tower, Family, Guided Missile and Incubator.
- Every corporation has an overall culture and a number of subcultures.
- Strong cultures can be homogeneous or diverse. So can weak ones.

Rating (10 is best)

Overall	Applicability	Innovation	Style
6	**5**	**7**	**6**

Relevance

What You Will Learn

In this Abstract, you will learn: 1) Why corporate culture issues are such complex challenges; and 2) How to manage change when two cultures come together.

Recommendation

Consultants Fons Trompenaars and Peter Prud'homme thoroughly explore issues in corporate culture, and focus on managing change across disparate cultures. They first review milestones in business publishing, tracing the ebb and flow of corporate culture as a fashionable management subject. They offer a unique model for analyzing and assessing corporate culture, though that will primarily interest academics. General business readers will find more utility in the very brief but interesting profiles of companies that successfully managed cultural conflict while becoming global leaders: Nokia, Ikea, Applied Materials, Acer and Suez. The book's style sometimes veers into the numbingly academic but, for the most part, it speaks comfortably to the general reader, despite grammatical errors. *getAbstract.com* recommends this to anyone who must resolve cultural issues in the wake of a merger or acquisition.

Abstract

Eight Principles of Change

Many business change programs fail because leaders neglect, overlook or don't tackle thorny corporate culture issues. To avoid problems, you should know eight axioms about change:

"Corporate culture is still critical to an organization's success or failure."

1. Change may happen with planning or not, maybe because a firm evolves or revolts.
2. Change in an organization usually results from change in its environment.
3. Change is necessary if an organization is to survive in a shifting environment.
4. Change management is necessary because of the inevitability of change.
5. Change management processes affect every other process.
6. Poor change management can leave a firm ill-equipped to cope with future change.
7. Change management often addresses leadership, middle management, management development, feedback, quality circles and business processes.
8. Despite change, managers may continue to guide organizations based on core assumptions about industries, technology and people that no one bothers to question.

What Corporate Culture Is and Why It Matters

"The objective of corporate culture change is not to completely reject the existing culture and change it to the 'ideal' culture, with the risk of throwing away the best of the existing culture."

Four fundamental, long-accepted definitions of corporate culture say it is: 1) how we do things, 2) what our tacit rules are, 3) what our guiding values, beliefs and assumptions are; and 4) what we think is distinctive about our organization.

The first book to address corporate culture as a constituent of business success was *The Art of Japanese Management* (1981). Shortly thereafter, *In Search of Excellence* attempted to demonstrate that American companies also succeeded due to their cultures. When the firms profiled in both books stumbled, their downfall cast a shadow on the concept of corporate culture as a factor in success. It regained popularity thanks to the 1990s bestseller *Corporate Culture and Performance* (1992). Its authors praised companies with "strong cultures" and noted that corporate cultures had to adapt to change. Various cultures briefly came into vogue: Silicon-Valley, dot-com and the like.

"The creation of corporate culture in start-up companies, for example in the ICT industry, is often dependent on a single founder."

"On the whole the new corporate culture wave of the 1990s ended in disappointment."

"The strengths of Eiffel Tower cultures are efficiency, stability and professionalism. Their weaknesses are that they can be machine-like, overly structured, overly managed, and controlled, rigid, slow, uninspiring, and demotivating for individuals."

"The results of copying aspects of Japanese corporate cultures by western companies has, in many instances, not been satisfactory."

Those trendy models popped with the stock market bubble. Now culture advocates urge a return to "strong" corporate cultures and blame the '90s failures on weak cultures. Corporate cultures usually have these elements in common:

- <u>Exemplars</u> — Every organization has its folklore, hero myths and morality tales. The stories tell people what is true about the organization, or what the organization aspires to be. Consider the tale about Southwest Airline's cofounders agreeing that it was crazy to start an airline — and then proceeding to do it anyway. Such stories provide key clues about the organization's thoughts and behavior, that is, its culture.
- <u>Dilemmas</u> — A healthy corporate culture makes it possible to see and respond to changes in the external environment. Within a culture, most large organizations have subcultures — the marketing subculture, the finance subculture and so on. Regional, national or linguistic differences among a firm's various locales affect corporate culture. Sometimes subcultures' priorities clash with those of the overall culture.
- <u>Reconciliation</u> — Some cultures build bridges to resolve conflicting values.

Pitfalls of Corporate Culture

As opposed to sparking success, organizational culture has been blamed for failed mergers, for corporate scandals and for being a contributing factor in such disasters as the U.S. space shuttle accidents as well as in the failure of change programs at major companies. Such criticism ignores the fact that corporate culture is fraught with intangibles, hard to measure and difficult to mold. Changing it is not just a matter of throwing off the old and donning the new. Culture change requires grafting new growth onto old branches. Often companies give this process lip service — building public relations campaigns around what they think it would be popular to become — and never manage to make the change. Of course, your company should not chase culture fads, even though the fashion in corporate excellence changes.

To be strong, corporate cultures need to exploit the tension between what they are and what they aspire to be, particularly in the face of influential outside forces. One such force is globalization, which has an immense, often underestimated impact on culture. Canon, a Japanese firm, had to translate its philosophy of Kyosei — "working for the common good" — for its Western employees and had to resolve their different reactions and interpretations.

Different Types of Corporate Culture

Measuring culture along two dimensions — egalitarian-hierarchical and people-task — establishes four basic categories of corporate culture, each with distinctive characteristics:

- <u>Eiffel Tower</u> — Hierarchical and task-oriented, very structured with clear and inviolable job descriptions, unquestionable lines of authority. Satisfaction derives from developing narrow competence. Strengths: efficient, stable. Weaknesses: can be excessively mechanistic, emphasizing processes more than results.
- <u>Family</u> — Hierarchical and personal, with managers as parents and the managed as children. Satisfaction derives from loyalty, power and status. Strengths: long-term focus, loyalty, trust, clear decisions. Weaknesses: "groupthink," centralized authority.
- <u>Incubator</u> — Egalitarian and people-centric, think Silicon Valley. Satisfaction derives from learning, thrilling work and the celebration of discoveries. Strengths: flexibility and adaptability; weaknesses: chaos and dependence on a few creative geniuses.
- <u>Missile</u> — Egalitarian but results-oriented, rewards people for performance, not status. Satisfaction derives from compensation. Strengths: these companies tend to

be predictable, transparent and able to get short-term results. Weaknesses: too much focus on the short-term, little encouragement for creativity, loyalty or community.

To assess a corporate culture, evaluate it based on its position in nine specific dimensions:

1. Consistent-Pragmatic — Should a global company operate according to fixed standard procedures or adapt flexibly and pragmatically to circumstances? Ideally, take the best solutions from local adaptations and incorporate them into the global model.
2. Individual-Group — Individualistic cultures place a premium on putting knowledge in databases and transmitting it through training. Group cultures consider knowledge innate and inexpressible — something one absorbs by becoming part of the group.
3. Competition-Partnership — Is business a contest or a cooperative? Competitive cultures focus on beating rivals. Partnership cultures focus on alignment with vendors, customers, suppliers and even competitors. To reconcile this dimension, use "co-optition: cooperate to compete."
4. People-Outcome — The dimension rests upon the conflict between focusing on people's needs or focusing on the exigencies of the goal. Reconciliation occurs when people make the corporation's needs their own.
5. Rational-Inspirational — Rational cultures are analytic, quantitative and detached; inspirational cultures are passionate, intuitive and emotional. Reconciliation brings a culture that pursues rational goals with inspired means.
6. Egalitarianism-Hierarchy — No hierarchy at one extreme, a tower of power at the other. Reconciliation achieves decisiveness by consensus, with leaders who coach people on how to do their best.
7. Initiative-Reaction — A culture may push its solutions onto the market or respond to the market's needs. The former risks bullying; the later risks a loss of internal drive. Reconciliation means building the customer demand that enables the firm to continue to change.
8. Stability-Change — Innovation is necessary in a changing world, but so perhaps is stability. Enron innovated to a fault. So did British Cable and Wireless, with somewhat less dire consequences. Reconciliation views change as a necessary means of retaining a company's core. Thus, Nokia kept its central values not despite but because of the utter transformation of its business.
9. Stakeholder-Shareholder — Shareholders demand current performance; stakeholders are more patient. Yet without shareholders to provide capital, the other stakeholders hold a stake in nothing. Reconciliation results from a commitment to create value for all stakeholders, very much including shareholders.

Case Studies from International Corporate Cultures

Few companies have globalized as successfully as Ikea, where a flat, egalitarian culture expresses its Swedish values. This conflicted with the hierarchical indigenous culture it found in Germany and Southern Europe, where Ikea's informal community of workers seemed alien. Some American managers left the firm because they felt that the egalitarian Ikea did not sufficiently reward individual achievement. Ikea is compromising flexibly to retain good talent, but trying not to abandon its core values.

Similarly, France's Suez is a global leader in the water industry. When it began to globalize, it was characteristically French: pragmatic, group-oriented, with a partnership culture focused on people, inspirational and hierarchical leadership, internally driven and oriented to the long term. Suez retained these strengths while compromising where necessary as it globalized. Its success contrasts remarkably with the disastrous fate of

"The Taiwanese company Acer is arguably the most globalized company which has its roots in Chinese culture."

"It seems to be a general opinion among business analysts that out of all continental European business cultures, Dutch business culture comes closest to that of Anglo-Saxon businesses … However, over the past decade Dutch companies have faced major problems in Dutch-American and Dutch-British cooperation."

"Southwest values combine love and hard work."

"Daimler's engineering culture was seen as too rational by their American colleagues, who saw themselves as more instinctive, risk taking, and spontaneous."

Vivendi, the other French water company, whose leader Jean-Marie Messier emulated Anglo-Saxon manners and failed.

"Focus on stability and continuity can lead to a sluggish culture, too slow for adaptation to the ever increasing speeds of the societies in which it operates."

Finland's Nokia has retained its cultural values of egalitarianism, straightforwardness, humility and continuous learning, and has globalized successfully. By contrast, many American corporations antagonize when they globalize by maintaining a "with us or against us" mentality. Applied Materials is an exception, a U.S. firm that globalized well. The world leader in equipment for manufacturing semiconductors, it cherry-picked cultural traits it encountered in various local (especially Asian) markets and subsumed them into its global corporate culture. Taiwan's Acer took the process in the opposite direction, grafting Western values and practices onto its Chinese cultural rootstock.

How Corporate Culture Shapes Success

Often, the effort to create a culture results in a short-term focus on shareholder returns instead of a long-term quest for stakeholder returns. Success requires stock returns, but it also demands customer satisfaction, human capital development and other stakeholder gains. Southwest Airlines and Starbucks show how to drive success with an all-encompassing culture.

Corporate culture is a subject that passed out of fashion for decades. But to understand the centrality of culture to success, look no farther than the track record on merger and acquisition deals. Most begin with an effort to achieve synergies, and end in the destruction of value. Why? Often, the newly merged company founders on the rocks of culture clash. Thus cultural due diligence must be part of every merger transaction, and deserves to be taken every bit as seriously as financial due diligence. The three pillars of cultural due diligence are awareness, respect, and reconciliation.

"Corporate culture must not suppress internal divergence, but must give an answer to the question of how to make use of diversity."

Cultural conflict need not lead to failure. One popular myth holds that a corporation's culture must be homogenous to operate smoothly. However, many strong cultures only look homogeneous, while many homogeneous cultures only look strong. Often, the appearance of homogeneity means that a single subculture is dominating the entire organization, giving it a marketing orientation or a finance orientation, for instance. A truly strong corporate culture balances homogeneity and diversity, taking its strength from the tension between the two. Diversity is an important source of creativity. That's why many companies segregate creative departments or innovative project development. Their leaders know that over-exposure to the dominant culture can induce numbing conformity. Often, diversity can be a source of strength. Tension can be supportive. Just think of the arch, a bastion of strength in architecture — posed between two powerful opposing sides.

About The Authors

Fons Trompenaars is Director of Trompenaars Hampden-Turner (THT), an intercultural management consultancy. He is author or co-author of several books including, *Did the Pedestrian Die?*, *21 Leaders for the 21st Century* and *Riding the Waves of Culture*. Peter Prud'homme is an expert on business culture with 15 years of experience as a manager with international responsibilities at Philips.