



CLAYTON M. CHRISTENSEN

What Is an Organization's Culture?

Culture is a unique characteristic of any organization. While the phenomenon of organizational culture is difficult to define succinctly, understanding it can help a manager predict how his or her organization is likely to respond to different situations; to assess the difficulties that the organization might experience as it confronts a changing future; and to identify the priority issues for the leadership to address as they prepare the organization to compete for the future. Organizational culture affects and regulates the way members of the organization think, feel and act within the framework of that organization. Culture is the result of common learning experiences. Because culture forms the basis of group identity and shared thought, belief, and feeling, one of the most decisive and important functions of leaders—particularly the founders of a company—is the creation and management of its culture.

What Is Culture?

Because culture is such an important organizational phenomenon, many scholars have proposed definitions of what culture is. These include: observed behavioral regularities that occur when people interact, the norms that evolve in close working groups, the dominant values espoused by an organization, the philosophy that guides an organization's policy toward employees and customers, the rules for getting along with other people in the organization, and the feeling or climate of a particular organization. However, MIT's Edgar Schein, one of the world's foremost scholars of organizational culture, argues that while these meanings might *reflect* an organization's culture, they fail to capture its *essence*.¹

Schein concludes that culture is a property of an independently defined social unit—a unit whose members share a significant number of common experiences in successfully addressing external and internal problems. Because of these common experiences, over time this group of people will have formed a shared view of the way that the world surrounding them works, and of the methods for problem solving that will be effective in that world. This shared view of the world has led to the formation of basic assumptions and beliefs that have worked well enough and long enough to be taken for granted. These basic assumptions and beliefs are learned responses to the problems that the group has encountered as its members have tried to work together to survive in the face of challenges

¹ Edgar Schein, *Organizational Culture and Leadership* (San Francisco: Jossey-Bass Publishers, 1988). This note draws heavily from the concepts that Schein teaches in the first three chapters of this book.

Professor Clayton M. Christensen and Research Associate Kirsten Shu prepared this case. This case was developed from published sources. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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encountered in the external environment and in response to tasks that recur in the internal environment. Beliefs about how to solve these problems have become taken for granted because they have worked repeatedly and reliably. Because Schein defines culture as a learned result of a group experience, he asserts that culture is only found where there is a definable group with a significant history of togetherness.

Culture is dynamic, in that it can evolve with new experiences. This change can occur in two ways: as the result of a clear and present crisis—the “burning platform” syndrome—or through a managed evolution under a skilled and sophisticated manager. Occasionally, an organization may fail repeatedly in attempting to solve problems in the way that historically had led to success. If the resulting crisis is severe enough, members may be galvanized to understand and question the continued usefulness of what historically had been useful assumptions. However, Schein asserts that managers who want to shape their organization’s culture do not necessarily have to wait for—or precipitate—a crisis deep and powerful enough to generate this forced “unlearning”. Instead they can lead their organizations through a more organized and deliberate cultural change process if they do two things. The first is to direct significant effort toward understanding the present culture’s antecedents—the initial evolution of the organization’s culture that came from successfully solving particular problems. With this understanding as a foundation, the second thing that managers can do is to find or create a set of new problems that the organization must confront repeatedly and successfully. These problems must demand a different pattern of response, which pattern ultimately will constitute the basis of a changed culture.

It is important to pause here and ensure that we are clear and precise as to what we mean when we talk about culture. In order to avoid conceptual confusion, Schein is careful to distinguish between the *artifacts* of an organization’s culture, and the culture itself. Schein defines organizational culture as “a pattern of basic assumptions—invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration - that has 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.” The visible manifestations of culture are the physical and social environment of the organization—both tangible and intangible. These observable characteristics can include physical space, the technological output of a group, artistic productions, the way people dress, the hours and patterns of work schedules, the fringe benefits, the end-of-quarter beer busts, or the overt behavior of its members. One may observe that in one organization, for example, people tend to challenge each other openly. In other organizations, people may be more “polite”—they don’t openly disagree or criticize. In some organizations employees may wear casual or even sloppy clothes, while in others they may dress more formally. In some organizations people may work continuously in 24-36 hour bursts while in others they take frequent stress-reducing ping pong breaks and in still others they work in “normal” 8 hour shifts. Based upon these observable characteristics, we might be tempted to label one organization’s culture as “informal” and the other’s as “formal.” These are all only artifacts, however. What a thoughtful manager must be careful to observe are the processes and priorities that people instinctively employ when solving problems and making decisions. An ostensibly informal group (as characterized by norms of dress, language and décor) may actually be very rigid about the way people are expected to work together, to make decisions, and so on. This is because these artifacts are manifestations of the culture, but are not *the culture* as we will use that word here.

The Antecedents of Culture

Essentially, there was a time in every organization’s history when its members first encountered a problem or a challenge that they needed to resolve. That challenge might have been, “How do we develop a new product?” It might have been, “How do we deal with this customer’s complaint?” or

“Should we delay introducing this product until we’ve been able to go through one more round of field testing?” In each instance, the members responsible for resolving the problem sat down and decided, more or less explicitly, how they would work together to get the job done. In the course of their attempt to solve the problem, they also had to reach decisions together. They decided upon methods—again, more or less explicitly—that they would follow in order to reach those decisions. This included the definition of the criteria they would use for making important decisions, such as “How will we prioritize our customers?” “Whose demands will we pay attention to, and whose will we ignore?” “When will we say that this is good enough; let’s ship it?”

At the end of their initial efforts to address the sorts of problems described above, using methods of working together and the decision-making criteria that they had decided upon, the group may not have been very successful. In that case, the next time that the problem presented itself, the group was likely to devise a different way for working together to solve the problem. If that way of doing it proved successful, however, then the next time they had to do it, they probably were inclined to go about it in the same way. And if they succeeded again by working together in that way, then when they had to do it again, they were even more inclined to use the same methods and the same criteria for decision-making that had served them so well in the past, and so on.²

Schein notes that there comes a point in the history of an organization whose members have successfully addressed particular tasks over and over again, when the same task arises and the group doesn’t even pause to ask explicitly, “Should we solve this one the same way we solved all the others?” Instead, they just assume that they will use the same processes of working together, and the same bases for making decisions, as those that led to past successes. It is when these methods of problem-solving are adopted by assumption, rather than explicit debate and decision, that they become the culture of the organization. In other words, culture is comprised of processes, or ways of working together, and of shared criteria for decision-making, which at one point in the organization’s history were explicitly debated, but which have been employed so successfully so often, that they come to be adopted by assumption.

The shared criteria for decision-making are what we may call the priorities of the organization. Within the context of an organization, these priorities serve as normative, moral, and functional guidelines that help members of the group deal with certain situations. Priorities grow and develop within an organization as its members use different criteria for making decisions that lead to better or worse outcomes. The exercise of these criteria for prioritization in decision-making generally requires the definition and acceptance of certain metrics as measures of value—of goodness or badness, of better and of worse.

Initially, the founder of the organization usually has personal opinions such as, “This is better than that,” or “This way of doing it is better than that way of doing it;” and so on. However, the employees in the organization must collectively experience for themselves the validity of this problem-solving methodology and of criteria for decision-making. Ultimately, if the founder’s methods for reaching solutions work reliably and successively for the group, they come to be taken for granted—and become the culture of the group. It happens that in most successful organizations,

² One of the best published studies of this phenomenon is Modesto A. Maidique, and Billie Jo Zirger, “The New Product Learning Cycle,” *Research Policy*, 14 (1985): 299–313. Maidique and Zirger studied the problem-solving approaches that a major company used in a sequence of new product development projects. They found that in projects that followed very successful projects, the managers involved followed their predecessors’ methods very closely. Continued success caused a series of managers to manage a sequence of projects in almost identical fashion, until one of the projects failed. This failure prompted the subsequent project’s managers to re-assess their methods. When their project also proved unsuccessful, the subsequent project’s managers completely re-designed their problem-solving methods. This time they were relatively successful. The managers in subsequent projects then tended to adopt this newly successful methodology.

the founder's opinions about how things ought to be done were more often right than wrong (at least for the situations the organization confronted in its formative years). As a result, founders exert an extraordinary influence on the culture of their organizations. But it is through the repeated, successful application of the founder's initial inclinations that they become embedded in the organization's culture.

"Basic assumptions, in the sense in which I want to define that concept, have become so taken for granted that one finds little variation within a cultural unit," writes Schein. In fact, if a basic assumption is strongly held in a group, "members will find behavior based on any other premise inconceivable." These basic assumptions about processes and priorities become non-debatable and non-confrontable and form the foundation of an organization's culture.

Culture as a Tool of the General Manager

Strong culture is one of the most powerful tools that a skilled manager can wield. As his or her organization grows, it soon becomes impossible for the general manager personally to be involved in every important decision, such as who to hire or promote, when to kill an ageing product line, or whether to bid or not bid on a particular order. The most the manager can hope for is that all of the people making decisions in the organization will make them in a way that is consistent with the goals of the company. The sum of the many autonomous decisions made by various employees must have the cumulative effect of taking the organization where the manager wants it to go. The only way this can happen is if the organization has developed clear priorities that employees instinctively employ as criteria in their dispersed decision-making activities. In other words, strong culture is essential to consistent decision-making as the organization's size and scope expand.

Similarly, it becomes impossible for the general manager to participate in or oversee every process that solves problems and creates value in the organization, such as the new product development process or the process for following up on new sales leads. Inevitably, as an organization grows, these things must be done by more and more people, and yet the manager must ensure that the quality of the output of each of these processes is consistent with the company's strategic goals. Again, a strong culture—within which the best ways of getting the job done are instinctively assumed by all members of the organization—is a powerful tool by which effective managers ensure consistency.

Culture, Capabilities and Disabilities

The general manager's dilemma is that while culture is a powerful tool for consistently pursuing a particular set of goals, culture can constitute a *disability* at times when change is critical to addressing new competitive or technological challenges from unexpected directions. Pursuit of a different strategy often requires ways of working and criteria for making decisions that are not in agreement with the beliefs that the members of the organization developed through prior successful work. This means that the organization's culture, which constitutes a powerful *capability* in addressing certain types of problems, can constitute an equally powerful *disability* in addressing others. This is true even though the same people, working in another organization's context, might be perfectly capable as *individuals* of succeeding at the new strategy.³

³ Students interested in understanding this dilemma more deeply might read Dorothy Leonard, "Core Capabilities and Core Rigidities: A Paradox in Managing New Product Development," *Strategic Management Journal*, 15 (1992): 111–125; and, Clayton M. Christensen, *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail* (Boston: Harvard Business School Press, 1997).

When Understanding an Organization's Culture Is Particularly Important

Schein discusses four specific instances in which it is extremely important for a manager to understand an organization's culture in a rigorous, detailed way. These include: 1) when he or she first joins a new organization as a manager; 2) when one company acquires another; 3) when the manager is coordinating the efforts of different functional groups within his or her organization; and 4) when the manager is confronting the need to fundamentally change the company's strategic direction, and by implication, its culture.

What to Look for When Joining a Different Company

When encountering a new culture, its visible manifestations have a powerful impact on the observer. Many of the observer's senses are stimulated in some way or another; some are positive and others are negative. What type of feel does this organization have? Rude? Impersonal? Comforting? Establishments and organizations "look and feel different" from one another. New managers should especially be careful to observe when such tone or behavior is actually "purposive and patterned." This becomes apparent when it is observed that a number of people act in the same way and that other people in the same setting treat this behavior as normal and expected. Rather than judge such patterns to be good or bad, productive or counter-productive, the new manager should remember that these patterns had their genesis in a set of problems that the group repeatedly confronted and successfully resolved. Understanding what these problems were, and the context in which they were resolved, is the starting point for determining whether the organization's culture will enable it to succeed in the future. The artifacts or manifestations of culture are not random.

Schein offers four other ways to develop a deeper understanding of a group's culture when joining it from outside. First, he observes that most groups have boundaries, and that as culture becomes well-defined, consensus develops about who is included in the group and who is not. Understanding the *de facto* rules for inclusion often reveal many of the important cultural aspects of a particular group. "A way of determining a group's core assumptions and values is to ask present members what they really look for in new members and to examine carefully the career histories of present members, to detect what accounts for their inclusion in the group," writes Schein. A second way to understand a group's culture is to study the power structure of the organization. Based on its cultural assumptions, an organization must develop a consensus on the criteria and rules that determine how a person can obtain, maintain, and lose power. Third, Schein notes that one of the most important characteristics of a culture is its reward and punishment system. "Once one has identified what kinds of behavior are 'heroic' and what kinds of behavior are 'sinful', one can begin to infer the beliefs and assumptions that lie behind those evaluations." The fourth way is to examine the sorts of problems the organization has repeatedly confronted and successfully addressed in the past. The problems in many ways are the mirror image of the culture. The culture is the organization's response to the problems that it has confronted.

When an observer encounters the "artifacts" of an organization's culture, often he or she feels the need to respond to the culture. Schein says that "If we understand and successfully cope [with a new cultural situation], then we feel exhilaration; if we do not understand, we feel at least some caution and a subtle sense of danger because inaccurate deciphering can offend others and lead to embarrassment for ourselves." Often misunderstanding stems from "overprojection," or the belief that other organizations or people are or should be acting in a way that we deem to be "culturally" correct or normal. However, the norms that we use as our own personal yardsticks are individually biased and in fact do not always reflect the experience of others. Thus, one must be careful in evaluating and ultimately reacting to any organization's culture.

Usually organizations expend significant effort in trying to acclimate new members into the organization in order to help these members feel as if they “fit in.” This socialization process involves introducing new members to the social norms of the group and the surrounding environment: “This is the way we do things around here.”

If the new member does not learn or understand the cultural assumptions of the organization, then the member is likely to feel alienated and uncomfortable, and will be unproductive. Schein believes that optimal socialization occurs “when the new member learns those parts of the culture that are essential to the organization’s survival and continued functioning,” without becoming “oversocialized”—adopting the organization’s beliefs in such a wholesale fashion that the he or she cannot help the organization see things differently.

Evaluating Culture in Mergers and Acquisitions

When one company decides to acquire another, it typically pays a substantial premium over the book value. With this premium price, the acquiring firm is purchasing three classes of factors that historically have contributed to the acquired company’s historical performance: its resources, its processes, and its business model, with the priorities embedded therein. The resources—including people, technology, products, facilities and equipment, information, cash, brands, and relationships with customers, distributors and suppliers—are the easiest to observe and evaluate. But much of what has driven the acquired organization’s historical performance—its capabilities and disabilities—historically has resulted from its processes and decision making criteria. Some of these processes and priorities may be relatively explicit, but many of the most important are buried as assumed ways of working together and of making decisions—the organization’s culture. These patterns of basic assumptions are difficult to observe and understand from the outside—and they certainly can’t be “plugged” into valuation models that investment bankers and corporate M&A staffs employ to evaluate and value acquisition candidates. But because culture has such a powerful influence on what the acquired organization can and cannot do, assessing it is one of the acquiring manager’s most crucial tasks.

In order to achieve a successful match with an acquired firm, the managers of the acquiring company must first have a clear understanding of their *own* culture—and the capabilities and disabilities that this culture constitutes—before looking for other companies to acquire or with which to merge. And then, it is critical that the acquiring company understand the culture of the other company—and the implications of that culture for its capabilities and disabilities. Often problems with mergers and acquisitions occur when the acquiring company integrates the acquired company into its own. At a minimum, there is a clash of cultures. Often, however, the result is that while many of the acquired company’s *resources* are retained, its culture—those processes and the business model that made it attractive in the first place—are vaporized *very* quickly. In some cases this may have been the acquiring company’s intent. But in many cases it was not.

The Role of Cultural Differences in Managing Cross-Functional Processes

Often there are several cultures operating within the larger organization. There can be managerial culture, nationality- or geography-based culture, occupationally-based culture, functional unit culture and business unit culture. The degree of difference among these sub-cultures will be determined by the extent to which the problems each unit has addressed in the past have been similar or different. “As a group acquires history, it acquires culture,” writes Schein.

Groups often maintain their identity by comparing and contrasting themselves with surrounding groups. The most effective groups are those that form a culture of their own, with their own language, assumptions for operation, and sets of attitudes. Building, maintaining, and creating a feeling of togetherness among group members so that they become capable of accomplishing things that individuals cannot accomplish alone is, in fact, an important objective of any manager. However, as sub-groups within an organization develop their own strong, independent cultures, they experience problems communicating with other groups and become more inflexible in their own operation. For example, the culture of manufacturing and marketing groups can be very different, because the problems they confront, the way they define success, and the consequent methods for solving their problems, are different. The consequent inter-group competition and conflict can often prevent effective collaboration and communication among different groups within the same organization.

Schein encourages managers to view communication breakdowns as symptoms of a deeper root cause: real differences in how people perceive and understand the phenomena they encounter, because of their membership in different cultural units. "Most communication breakdowns between people result from their lack of awareness that they are making basically different assumptions in the first place."

When Strategic and Cultural Change are Required

Schein's research has important implications for managers who confront the challenge of fundamental strategic and organizational change. If we accept his view that culture is comprised of deeply embedded processes or patterns of working together that employees instinctively follow—and that these processes are responses to the problems that a group has repeatedly and successfully confronted in its past—then attempts to change culture or process by directly attacking culture and process are unlikely to result in significant change. While it is true that facing (or creating) a "burning platform" situation can, as previously mentioned, confront an organization with a "change or perish" choice that forces rapid cultural adaptation, there is generally a great deal of collateral damage inherent in this scenario that most managers would prefer to avoid. What happens more frequently is that a forward-seeing manager senses that the sorts of problems the organization will confront in the future will be different, but in the present, the organization will continue to see the same problems that, in the past, it was able to address successfully through its culture. The culture won't change (and indeed *shouldn't* change) as long as the same problems or tasks will keep arising for a time.

There *is*, however, one way that managers can begin to change the culture now, so that the organization will be ready with new culture when the future they foresee finally arrives in the present. This is done by creating a separate team of people and confronting them with a new task, which represents as closely as possible the sorts of problems the organization will confront in the future. This task might be to develop more reliable products with faster time-to-market than has been necessary in the past; to shift product architectures from proprietary, interdependent ones to custom-configurable modular ones; to shift accountability for results to a different level in the organization, etc. Let the team figure out an effective process for addressing the new problem. If they succeed, don't disperse team members, but rather let them address the same task again, with the charge to do it even more effectively; and then to do it again. And again. The more often the new group uses its new process to address the new task, the more strongly the new culture will emerge within the group. Then, rather than dispersing team members into the old organization, team members in the old organization can be moved, one by one, into the new. As the sorts of problems

the organization initially was confronting fade away as the market changes, the old organization with its culture can also fade away.

When attempting to change an organization's culture, in other words, the fundamental unit of analysis, or the starting point, is the *task*, not the process or culture—because processes, priorities and culture are a *response* to recurring tasks.

Managing culture is a complex and vital part of the work of general manager. It can be one of the most powerful tools that a manager can employ in their efforts to get the diverse and dispersed set of people that comprise most organizations to work together in a coherent, consistent and purposeful way. Culture can also be one of the most vexing barriers to managing change in an organization. An increasing number of people in the worlds of management and academia have found Edgar Schein's model of culture—what it is and where it comes from—to be a managerially useful, intellectually consistent way to frame their work.