1

WHY BOTHER?

Why is it important to understand culture? In this chapter I will provide an overview of the many ways in which culture matters. First, culture and leadership are two sides of the same coin and one cannot understand one without the other. Next, we have to understand that organizations are cultural units that have within them powerful subcultures based on occupations and common histories. We have to recognize that organizations exist within broader cultural units that matter in today's global world because mergers, acquisitions, joint ventures and special projects are often multicultural entities who must have the ability to work across cultures. Finally, we have to understand that the culture issues are different in young, mid-life, and older organizations.

Leadership and Culture Are Intertwined

Not only does culture reside within us as individuals, but it is also the hidden force that drives most of our behavior both inside and outside organizations. We are members of a country, an occupation, an organization, a community, a family, and a social group. Each of these cultures is part of us and impacts us. In every new social situation, whether we are aware of it or not, we function as "leaders" in that we not only reinforce and act as a part of the present culture, but often begin to create new cultural elements. This interplay of culture creation, reenactment, and reinforcement creates an interdependency between culture and leadership.

Much of the confusion about what culture and leadership mean derives from a failure to consider this interaction between them and our failure to define what stage of an organization's life we are talking about. If the leader is an entrepreneur who is founding an organization, he or she will have the opportunity to begin the culture creation process by imposing beliefs, values, and assumptions onto new employees. If the new organization succeeds, then its cultural elements become shared and constitute the emerging culture of that organization. What is considered "leadership" then reflects what the founder imposed and will become the definition of what is considered appropriate leadership in that organization. A successful organization founded by a compulsive autocrat will consider that style of leadership as the "correct" way to run a company, just as another successful organization founded by a participative democrat will consider that style to be "correct." One reason why it is so hard to define leadership is that there are so many "correct" versions, each reflecting one of the many kinds of successful organizations that exist in the world, each with its own culture.

When new leaders take over existing organizations, they find that the existing culture defines what kind of leadership style is expected and accepted, based on past history and the beliefs, values, and assumptions of earlier leaders. This is true whether we are talking about a new political appointee taking over a government department, a new CEO taking over a business, or a new minister taking over a congregation. If the new leader has been promoted from within, he or she will have some sense of the cultural issues that need to be dealt with. However, if the new leader comes from outside the organization, he or she will have to choose among several options:

1. *Destroy the existing culture* by getting rid of the key culture carriers, usually the top two or three echelons of executives, and attempt to implement his or her own beliefs, values, and assumptions by arbitrarily imposing new behavioral rules on the remaining employees. The risk of using this alternative is that essential knowledge, skills, and "know-how" will be lost as well and the performance of the organization will decline.

2. *Fight the existing culture* by attempting to impose his or her own beliefs, values, and assumptions on the existing members of the organization. The risk of this alternative is that the organization will adapt only on the surface and "wait it out" until the leader is eventually replaced—the old culture usually will "win" in this scenario unless the new leader has extraordinary charisma.
3. *Give in to the existing culture* by abandoning his or her own beliefs, values, and assumptions. The risk of this alternative is that *all* of the elements of the old culture will be perpetuated when in fact some of these elements are obsolete and dysfunctional and should, therefore, be changed.
4. *Evolve the culture* by initially adapting enough to figure out how to get things done and then gradually imposing new rules and behaviors that rest on different beliefs, values, and assumptions. For many leaders and for many organizations, this is the desirable alternative in terms of improving effectiveness and it is the essence of what is meant by "culture change." For old and well-established organizations such as government departments or old industries, cultural evolution is the only possible alternative. The cultural dynamics underlying such evolution are the essence of what leaders as culture managers must learn, and these dynamics are the central theme of this book.

Subcultures

The leader's role in evolving the culture is complicated by the fact that, as organizations grow and mature, they not only develop their own overall cultures, but they also differentiate themselves into many subcultures based on occupations, product lines, functions, geographies, and echelons in the hierarchy. In some organizations the subcultures are as strong as or stronger than the overall organizational culture. Leaders thus must not only understand the cultural consequences of the many ways in which growing organizations differentiate themselves but, more importantly, must align the various subcultures that have been created toward a common corporate purpose.

Managing the alignment of many subcultures has become especially important in the 21st century because of:

- Mergers, acquisitions, and joint ventures in which the subcultures are actually entire organizational cultures that need to be blended or at least aligned
- Globalization, which produces many diverse multicultural organizational units based on nationality, language, and ethnicity
- Technological complexity, which produces many more "mature" occupational subcultures that have to be taken into account in designing the flow of work (Technological complexity implies that every functional unit such as finance, marketing, or R & D is now more specialized and is attracting members of occupations that are themselves more specialized.)
- Information technology, which has created many more structural options of when, where, and by whom work is to be done (Cultures tend to grow from the interaction of co-located employees, so the question arises of what kinds of subcultures can and will form in networks of employees who are electronically connected but may never have met each other.)

These cultural and subcultural issues influence all aspects of how an organization functions, so the task of leadership is to understand the dynamic forces that arise and to manage these forces to ensure that they are congruent with the organization's mission and goals. As subculture dynamics become more important, the role of leadership broadens. It is not enough for the CEO and the top executive group to be concerned about and manage the "corporate culture." Leaders at every level of the organization must recognize that they have a role in creating, managing, and evolving the subcultures in their parts of the organization. One obvious example is that union leadership must not only understand, manage, and evolve the union's culture, but must also ensure that the union, as a subculture, is aligned with the corporate culture of a unionized organization.

In summary, leadership cannot really be understood without consideration of cultural origins, evolution, and change. In the same way, organizational culture and subcultures cannot really be understood without considering how leaders at every level and in every function of an organization behave and influence how the total system functions. Organizational functioning is heavily dependent on how existing subcultures align with each other, which means that it is critical for leaders to understand and manage subculture dynamics.

Samples of How the Leadership/ Culture Interaction Matters

Many years ago, when Atari was preeminent in designing computerized games, they brought in a new CEO whose background was in marketing. His cultural background told him that the way to run a company was to get a good individual incentive and career system going. Imagine his chagrin when he discovered a loosely organized bunch of engineers and programmers whose work was so seemingly disorganized that you could not even tell whom to reward for what. The CEO was sure he knew how to clean up that kind of mess! He instituted clear personal accountabilities and an individualistic, competitive reward system symbolized by identifying the "engineer of the month"—only to discover that the organization became demoralized and some of the best engineers left the company.

This well-meaning CEO had not realized that in its evolution the company had learned that the essence of the creative process in designing good games was the unstructured collaborative climate that enabled designers to trigger each other's creativity. The successful game was a group product. The individual engineers shared an assumption that only through extensive informal interaction could an idea come to fruition. No one could recall who had actually contributed what. The new individualized reward system gave too much credit to the "engineer of the month" named by the CEO, and the competitive climate reduced the fun and creativity. This leader did not understand a crucial element of the culture he was entering, so he made some decisions that changed a key element of the culture in a dysfunctional way.

The story of Digital Equipment Corporation (DEC) will be told throughout this book, but for purposes of understanding how much culture matters it needs to be said at the outset that the very culture that made DEC a great company in a remarkably short period of time became dysfunctional as size, market conditions, and technology changed.[1] Ken Olsen as a leader created a remarkable culture in which all employees felt fully responsible and committed to the growth and success of the organization through innovating a whole new style of computing. One could interact with DEC computers online—the first time that this was possible.

Olsen's leadership created what became in the mid-1980s the second-largest computer company in the industry. It was a model of how to "empower" people and build a company through product innovation. But as technology and market forces changed in the 1980s toward the computer as a commodity, the DEC culture of innovation failed to adapt to changing technological and economic circumstances, leading to its sale to Compaq and eventual absorption into Hewlett-Packard (HP). Was this a failure of leadership, or was the culture now powerful enough to dictate what kind of leadership would be acceptable, even if it was economically dysfunctional?

The next story illustrates how long it takes to make substantial changes in part of the culture of a large organization—the conversion of Procter & Gamble's manufacturing system in the 1950s to become a low-cost producer. A far-sighted manager of manufacturing empowered a staff group to examine how one might reorganize plants to increase both productivity and worker satisfaction.[2] With the help of organization development (OD) consultants such as Douglas McGregor and Richard Beckhard, this staff group evolved a concept of a factory that depended much more on worker involvement and a reward system that emphasized multiple skills and job trading, rather than job specialization, hierarchical position, or number of people supervised. The essence of the idea was to have a plant view itself as a business with suppliers and customers, and to run that business responsibly. To achieve that would require not only changing some elements of the corporate culture but, more importantly, to change key elements of the union culture. Workers would become multi-skilled and supportive of each other throughout the operation, instead of having rigid rules about who does what.

The staff group also realized that there was no chance of selling such a concept either to the union or to more traditional management types. They had to start with a new plant, hire their own plant manager, and teach him the new concept of a plant as a self-managing business. A leader was found who embodied these new beliefs and the "Augusta" plant was born. It was highly successful, but to proliferate this success the staff group decided that potential managers of other new plants (and of the old, unionized plants) would have to learn the new system in an apprenticeship capacity to ensure that they really understood it. New kinds of leaders with different kinds of management attitudes had to be trained if the new management system was to be embedded in the new and old plants.

Over the next several years, a number of new plants started up, in each case with a manager who had apprenticed in the Augusta plant. The new operations worked well and built new cultures based on productivity and involvement, but the unionized plants remained problematic because of well-established cultures based on years of conflict-full labor/management interaction. Some of the older-and-wiser ex-Augusta managers were then placed into those plants to begin the process of "changing the culture," although that was not the terminology used at the time. Each plant also had an "organization development" (OD) manager who reported directly to the plant manager. These OD managers had been recruited from the employee ranks before being trained in organization development on the theory that they would understand the union culture better and, therefore, have more credibility as change agents.

My work with one of these managers highlighted the problem. Until the union began to trust management, there was no chance of even discussing the new kinds of production systems that would allow for job trading and multi skilling—notions that violated some of the most sacred cows of trade unionism. In one plant, it took about five years for the union to decide that the manager could be trusted and to open discussion of a new kind of contract. After several more years, the union accepted the new system and saw that it was of benefit to all. In the mid-1990s, I attended a celebration marking the conversion of the last of P&G's unionized plants to the new system. The event occurred fifteen years after the launch of the Augusta plant, but a real culture change had been achieved in the manufacturing division through a carefully designed and managed process of culture evolution.

"Acme Insurance" (a pseudonym) illustrates the consequences of changing technology without analyzing the constraints of culture and the interaction of subcultures. Acme decided to increase its competitiveness by rapidly evolving to the paperless office with all major transactions to be done by computer in the very near future.[3] To accomplish this change, they hired a talented manager of information technology (IT) who had a proven track record in implementing new systems. She was given a tough target of converting the clerical staff to the new paperless system within one year. Training modules were created to teach employees how to use the new system effectively. But the IT manager was not aware that the company was, at the same time, launching intensive productivity efforts that signaled to the employees that they had to get their normal work done in addition to whatever training they could squeeze in. The subculture of production was not aligned with the subculture of IT.

The result was that the training was done in off hours and halfheartedly and, worse, the IT manager was not told this because the employees feared senior management reprisal. At the end of the year, the IT manager announced that the paperless transaction system had been successfully installed, but she did not know that the employees were so poorly trained that it was taking them much longer to use the computers than it had taken to use paper. Productivity actually dropped. Failure to recognize some of the deep realities of their own corporate culture and its subcultures caused this organization to waste tremendous amounts of money and effort for very little gain.

I observed a similar scenario in the back room of a large bank that installed computerized recordkeeping to reduce paper flow. Employees had data on their computer screens, but when a customer called with an inquiry, there was never enough of the case history on a single screen for the employee to rely on. So the employees kept extensive backup folders, which they pulled out and spread out on their desks as needed. Whenever the IT-oriented manager came around, the folders disappeared and the employees pretended to be using only the computers. This was not a technology failure. It was a managerial failure to understand the subculture operating in the clerical group.

Subculture issues in another kind of organizational context are illustrated when large “accidents” occur. For example, the shooting down of the UN helicopters in Iraq’s no-fly zone in 1994 with the loss of twenty-six UN peacekeepers can best be explained by multiple communication failures between the Army helicopters, the Air Force fighters who guarded the no-fly zone, and the high flying Air Force AWACS, who were supposed to monitor all traffic in the area.[4] These communication failures resulted primarily because the cultures of these organizations had different priorities, which led to gradual drifting apart of the communication systems they used. A similar argument has been made in explaining the failure of NASA to cancel the ill-fated Challenger launch, even though several members of the engineering subculture argued strongly that the O-rings would fail in cold weather.[5]

Subculture issues become important in mergers, acquisitions, and joint ventures. When organizations that have developed their own cultures acquire each other, attempt to merge, or engage in various kinds of partnerships and joint ventures, the culture issue is more blatant and visible. However, surprisingly little attention is paid to culture before the new organization is created, and it is often a surprise to the parent company that it now has to deal with powerful subcultures that may not blend together very well. As the new organization begins to function, people hear the rhetoric that "we will take the best from both cultures," but that is usually not possible because each subculture will continue to support its own way of doing things.

I recently spoke to a senior executive from Novartis, which is the merger of Sandoz and Ciba-Geigy, two Swiss chemical/pharmaceutical companies. I had worked with Ciba-Geigy in the 1970s and was surprised to learn of this merger because at that time the companies were actively competing with each other. When I asked the Novartis executive how the merger was working, he pointed out that it was going fine between the parent companies, but that there were still Ciba people and Geigy people who did not get along. This may well reflect the fact that when Ciba and Geigy merged in 1971 they had to blend together several different technologies reflecting different occupational subcultures, whereas the Novartis merger reflected more the blending of what had become two pharmaceutical companies with similar technologies.

In these cases it is most important to recognize that different occupations reflect different cultures based on the education and training of the people in those occupations. These differences have always been acknowledged in the way that companies tend to protect and isolate their research and development departments, often physically moving them to remote locations. What is just recently being recognized is that finance, marketing, engineering, manufacturing, and the other major business functions develop different subcultures because the members of these functions have different occupational backgrounds. The best way to understand subcultures is, therefore, to examine the backgrounds of the people who make up the groups that are at issue.

Merger Options

In cases in which cultures have to be combined, four possible patterns may evolve: *separation*, *domination*, *blending*, or *conflict*.[6]

Separation. The first possible option is that the cultures remain separate, as happens when conglomerates allow subsidiary companies to retain their separate identities. I was asked some years ago by the Swedish government to run a workshop for the senior executives of the government-owned Swedish industries to decide whether they should launch an effort to create a "common culture" across their various industries. After lengthy discussion of the disparate elements of ship building, mining, bottled water, and so on, it was clear that a common culture was not only a bad idea but probably impossible to implement. The attendees did agree that the senior executives in each industry should be viewed as "corporate property" and be made available in whatever industry needed them. But even there, they decided it would be dangerous to remove these executives from the companies in which they had achieved success.

Separation can work if the cultures are "aligned" in the sense of not working at cross-purposes with each other. This is easy if the owners manage through limited financial linkages. It becomes more difficult in partnerships or joint ventures in which the parents have different cultures.

Domination. The second possibility is that one culture dominates the other. In some cases this is explicit, as when one company openly acquires another. When Intel bought a semiconductor plant from DEC in the early 1990s, the new management announced that the plant would now operate by the Intel method—and that was that! When Hewlett-Packard bought Apollo, it coercively trained Apollo employees to adopt "the HP way." I learned from a group of engineers in Palo Alto that the HP way required people to be nice to each other and reach consensus in group meetings. If you resisted too vigorously, they said the boss would pull you aside later and tell you that you were "not a team player." Some months later, I was sitting next to a young woman who had gone to work for Apollo in Massachusetts; I asked her how she liked it. She said it was OK, but she worried that one could not really be outspoken or get one's point of view across. I asked her what would happen if she persisted in arguing for her view, and she said—literally—"The boss will pull you aside and tell you that you are not a team player!!!"

Does one see less domination in so-called mergers of equals? Or is every merger an acquisition—no matter what the rhetoric is about taking the best from each culture? In my own experience, one culture is always dominant, but this reality may not be visible for some time—precisely because of the rhetoric.

Blending. Can cultures blend or integrate? Blending, taking the best of each culture, is usually claimed to be the desirable outcome. What happens in practice is generally more complex and questionable. One level of blending is to create a new, superimposed set of values and sell them to the various cultural units. As we will see in later chapters, this only works under certain conditions. At another level, the new organization attempts to benchmark its various systems and procedures against each other and against externally perceived "best practices" to create and standardize new procedures across the resultant organization. One often hears that the new organization takes the accounting system from one parent, the human resource system from the other parent, and so on.

To balance power and maintain the image of merging, the board chairman often comes from one company and the president from the other, or a succession system is announced that draws senior people alternatively from each organization. These moves preserve the public image of a merger, but it cannot be inferred from the standardizing of systems that the cultures actually blend. In fact, the often-seen resistance to changes in the new organization is almost always based on the fact that cultural issues have not been considered at all in making decisions about procedures. In one merger, it was found that a company paid very high salaries but aggressively resisted stock options and other forms of golden handcuffs because of a deep belief that one should neither provide promises of lifetime employment nor expect loyalty from employees. The other company had grown up with the belief that people needed to be developed as long-range resources and therefore had adopted a low-salary, high-stock-option and high-bonus system. There was no way to blend these two philosophies. One had to win out over the other.

Blending is most likely to occur when the separate subcultures face a new common problem that can only be solved by collaboration. When members of the subcultures have to work together in forced interaction, they begin to pay attention to each other, develop understanding of their differences, and create new ways of working that take advantage of both cultures.

Though blending is often a desired outcome, especially in joint ventures or partnerships, in a study of fifty-fifty (ownership) joint ventures with parents from different countries, very little evidence of initial blending was found. Only when the joint venture faced a crisis that required real collaboration was there any evidence of blending.[7]

Conflict Resistance and "Counter-Culture." Not every subculture is aligned with the corporate mission and the corporate culture. This phenomenon becomes most noticeable in the destructive behavior of some unions whose goals are so out of line with what corporate headquarters would consider that they actually are willing to jeopardize their own jobs in trying to bring the company down. However, to varying degrees one sees subcultures that oppose at least some elements of the corporate culture in every organization. Sometimes these subcultures cause internally stimulated revolutions, as when a military group takes over a government by force.

Conflicts are often viewed as "power plays" or "politics," as when engineering and manufacturing fight or when marketing and finance get into conflict, but what is missed in that construction is the important fact that it is subcultures with different views that are in conflict with each other, not individual managers. Even if the senior managers agreed, there is no guarantee that the members of the subcultures would understand each other enough to be able to implement what was decided.

How Culture Matters at Different Stages of Growth

Culture matters in different ways according to the stages of organizational evolution. A young and growing company attempts to stabilize and proliferate the culture that it views as the basis of its success. The culture is the main source of the organization's identity and is therefore clung to with a vengeance, just as adolescents cling to their budding identities. Young organizations are also typically still under the control of their founders, which means the culture is more or less a reflection of the founder's beliefs and values. Even if success leads to broader acceptance of those beliefs and values across the whole population, one must recognize that a challenge to any cultural element is tantamount to questioning the founder or owners of the organization. Those cultural elements become sacred cows and are difficult to change. Culture "change" is therefore more a matter of evolving and reinforcing cultural elements, as will be explained later.

A mid-life organization can be defined as an organization that has had at least two generations of professional managers appointed by outside boards whose members are usually beholden to diverse stockholders. Most likely such an organization evolves into multiple units based on functions, products, markets, or geographies, and those units are likely to develop subcultures of their own. Thus the culture issue in the mid-life organization is threefold:

1. How to maintain those elements of the culture that continue to be adaptive and relate to the organization's success;
2. How to integrate, blend, or at least align the various subcultures; and
3. How to identify and change those cultural elements that may be increasingly dysfunctional as external environmental conditions change.

In such a mature organization, one will find a corporate culture that reflects all the parts of the organization and many subcultures that reflect functions, products, markets, and geographies. An overall assessment of the culture could become very cumbersome, therefore, because the culture will have so many elements and facets. However, as we will see, assessment of the culture's strengths and weaknesses becomes important when the organization is trying to change strategy or business processes. Culture assessment can then be geared to the business changes that are being proposed in order to discover how the present culture and subcultures will aid or hinder the proposed changes.

As companies age, elements of the corporate culture or the misalignment of subcultures can become serious survival problems for the organization, especially if the technology, market conditions, and financial situation have changed. Key elements of the corporate culture can become a serious constraint on learning and change. The organization clings to whatever made it a success. The very culture that created the success makes it difficult for members of the organization to perceive changes in the environment that require new responses. Culture becomes a constraint on strategy.

An aircraft company that nearly went bankrupt with one of its commercial models subsequently became highly successful in the defense industry and evolved a corporate culture that was well adapted to working with the government. New opportunities for commercial aircraft arose, but the board and senior management were now unable even to contemplate going back into the commercial business because of their strong memories of the debacle several decades earlier and their comfort with their present culture.

The culture issue in the older maladapted company is how to engage in massive transformations, often under great time pressure to avoid serious economic damage. The process of transformation is basically the same as in the healthy mid-life company, but the demands of time and the amount of change needed often precipitate drastic measures (usually labeled "turnarounds"). Rapid unlearning and letting go of things that are valued is for many employees too difficult; either they leave the organization or they are let go because they "resist change" too strongly. If the attempt to manage the change fails, the organization may go bankrupt—and start all over again, building a new culture with new management, or be acquired and find a new culture imposed on it.

How cultural evolution and transformative change can be managed will be discussed later in this book.

Where Does Culture Reside?

Culture is a property of a group. Whenever a group has enough common experience, a culture begins to form. One finds cultures at the level of small teams, families, and work groups. Cultures also arise at the level of departments, functional groups, and other organizational units that have a common occupational core and common experience. Cultures are found at every hierarchical level. Culture exists at the level of the whole organization if there is sufficient shared history. It is even found at the level of a whole industry because of the shared occupational backgrounds of the people industry-wide. Finally, culture exists at the level of regions and nations because of common language, ethnic background, religion, and shared experience.

You as an individual, therefore, are a multicultural entity and are able to display different cultural behaviors depending on what the situation elicits. But if you spend the bulk of your life in a given occupation and organization, you not only take on many of the cultural themes that others in the occupation or organization share, but these become tacit assumptions and drop out of your awareness. It is this unconscious quality of culture that makes it so powerful. You are not aware of your cultural biases until someone challenges them or until you have offended someone with a different cultural background.

The Bottom Line

Culture matters because it is a powerful, tacit, and often unconscious set of forces that determine both our individual and collective behavior, ways of perceiving, thought patterns, and values. Organizational culture in particular matters because cultural elements determine strategy, goals, and modes of operating.

The values and thought patterns of leaders and senior managers are partially determined by their own cultural backgrounds and their shared experiences. If we want to make organizations more efficient and effective, then we must understand the role that culture plays in organizational life. If we want leadership to be more effective, we have to make leaders aware of their unique role as culture creators, evolvers, and managers.

Having thought broadly about culture, it is now time to think more precisely about how to define culture, how to assess it, and how to begin to evolve it.

Questions for the Reader

As you begin to think about culture, think about it first in your own personality:

- Review your family, ethnic, national, and educational background to identify the major influences on your current values and ways of doing things.
- Review your current formal and informal group affiliations to identify what current norms and values matter to you.
- Think about your place of work, its history, and traditions and see how that relates to your own values and ways of doing things.