

Part I

DEVELOPING THE CULTURAL
DYNAMIC MODEL®

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In this chapter we discuss the mechanisms by which values, beliefs and assumptions are embedded in organizations through the behaviour of their leaders and their work practices. Drawing on the work of Ed Schein and Geert Hofstede, we go on to use the Cultural Dynamic Model[®] developed by Kai Hammerich, to guide our discussion of how business influencers and national influencers impact the corporate culture in fundamentally different ways: the staid *national traits* that are slow to change compared with more fluid *business traits* that can be influenced by management over a shorter time scale. In this chapter our discussion focuses on the business influencers, and in Chapter 2 on the national influencers, using the Lewis model – a triangular representation of national types. In Chapter 4 we bring it all together in the complete Cultural Dynamic Model[®].

When Kai Hammerich was a newly minted and hopeful MBA from Kellogg Business School in 1984, he got his first job in marketing at Hewlett Packard in Denmark. To spur sales he came up with a promotional concept to expand the use of administrative computers, as servers with ERP (enterprise resource planning) applications on them were called at the time. The simple idea was to target secretaries rather than the heads of finance, and offer a 90% discount on word processing, email and graphics software, hoping that with use, the customers would need to upgrade to the then much more expensive computers. The campaign was a runaway success. HP Denmark more than tripled software revenues and profits.

Initially, the European software division was delighted, but they soon complained that the CFO was less than pleased with the deep discount. As the more pricey hardware upgrades started to roll in the software division had the sensible idea of asking the hardware division for a cross-subsidy. They argued that it was their discount solution that had enabled the hardware

division to significantly increase sales and therefore profits. The response from the German head of the European computer division was disappointingly clear: “Over my dead body” – sophisticated business talk for a NO! Kai was disheartened. He felt this was not rational, and escalated the issue. Eventually, a senior CFO tersely told Kai that while he understood his frustration, the principle of the independent product division was sacrosanct at HP. Kai was right by MBA standards, but here was a fundamental belief at stake and that was more important than short-term MBA logic, and the campaign was called off. This belief in the independent product division was central to HP and had been inculcated in the organization by the two founders Bill Hewlett and Dave Packard. This was a principle that was not up for debate! It had become an embedded value – based on a business influencer.

The next sections explore the ways in which such beliefs become embedded in an organization.

First, let’s look at the nature of organizational culture, or corporate culture as it is also called when describing a business organization.

What is corporate culture?

The three levels of culture

There are several definitions of corporate and group culture. The American guru of culture and leadership, Edgar A. Schein, defines culture in a particularly useful way for our purposes. Schein defines organizational culture as¹:

“A pattern of shared basic assumptions that was learned by a group as it solved 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.”

From this definition it follows that:

1. Culture is learned and reinforced and handed on as learning to the next generation and new members of the group

¹Schein E.H. (2004) *Organizational Culture and Leadership*. San Francisco: Jossey Bass Publishers, p. 246.

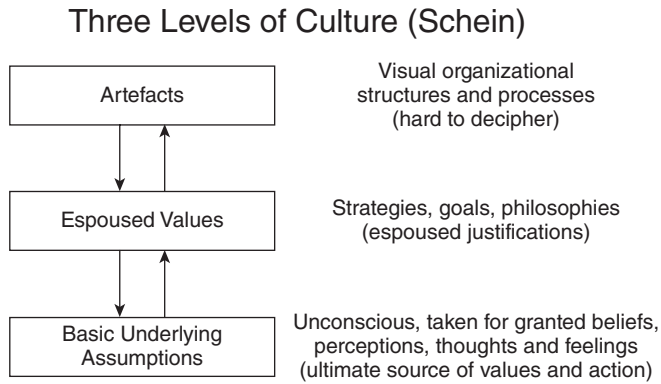


Diagram 1.1: Schein's three levels of culture

Source: *Organizational Culture and Leadership*, E.H. Schein. Reproduced by permission of Jossey-Bass, San Francisco.

2. Culture has a purpose in terms of achieving common objectives. Perceived success will reinforce the culture and make it stronger
3. A group will develop its own distinct patterns of behaviours and beliefs to support the culture, and the internal socialization process.

Schein notes that the early stages of a company's life are critical in defining the culture at three levels (Diagram 1.1).

At the top level is what one can physically observe about the culture: the buildings, the physical workspaces, the visible behaviour, the rituals, the advertising, the organizational charts, and documented work processes, or artefacts, in Schein's words. These elements are easy to observe, but difficult to decipher. We can admire the pyramids, but have little idea of why they were built!

At the middle level you find the articulated shared goals, strategies, philosophies, and explicit values and beliefs, which Schein calls the espoused values. The P&G Way, outlining the guiding principles of Procter & Gamble, would be an example of an espoused value, used to justify decision making principles.

At the lowest level one finds the often invisible or difficult to detect values and beliefs or assumptions in his terminology, which guide the culture and the actions in the organization. These are the concepts or behaviours that are taken for granted; they are non-debatable and difficult to change. Assumptions based on the national heritage will be prevalent at this level. An American's right to individualism is such a fundamental national assumption, as is HP's belief in the independent business division. The American national value,

though, is deeper-rooted and more staid than the more contextual HP value, which management would be able to influence and alter.

The popular mission, vision and value statements that most companies promote are often a mixed bag of how the culture actually is and how the company would like it to be or not to be. Most American companies have included a statement about collaboration and teamwork in their corporate values. This may be an appropriate *corrective value* in a company with an invisible assumption of everyone's right to individualism, but may not necessarily reflect how people actually behave. In Chapter 4, we will explore how a company's value statement often includes different types of messages with different purposes. They will tell you quite a bit about the culture and values of the company, once you have deciphered them, which may not always be what the company intended to communicate.

How leaders embed their values, beliefs and assumptions early on

Schein also observed that leaders embed their beliefs, values and assumptions in an organization.² The primary embedding mechanisms take place early in the lifecycle of a company creating its cultural foundation, while the secondary mechanisms take place as the company matures and moves from a personal to a managerially oriented culture.

The *primary embedding mechanism* includes:

- What leaders pay attention to, measure and control on a regular basis
- How leaders react to critical incidents and organizational crises
- How leaders allocate resources
- Deliberate role modelling, teaching and coaching
- How leaders allocate rewards and status
- How leaders recruit, select and promote
- Stories about important events and people
- Formal statements of organizational philosophy, creeds and charters.

Reinforced by the daily work practices in the mature organization

These embedded values, beliefs and assumptions are reinforced in the mature organization, through the daily work practices, in what Schein calls the *secondary articulation and reinforcement mechanisms*, which include:

²Schein (2004), p. 246.

- Organizational design and structure
- Organizational systems and procedures
- Rites and rituals of the organization
- Design of physical space, facades and buildings.

For simplicity and variety, we will use the words corporate or organizational values or just values to represent the values, beliefs and assumptions in the remainder of the book.

The six dimensions of corporate culture

P&G is a company that seeks the truth. This is a deeply-rooted belief that was inculcated by its purist and religious founders. When P&G launched Ivory Soap in 1881 its slogan said that the soap was 99.44% pure. Not 100%, not 99% – no, 99.44%, and scientifically proven to be purer than other Castile soaps. With that fact in hand, P&G, also keen on making a good profit, advertised it intensively and soon became the undisputed market leader. Anyone who has worked at P&G has toiled with frustration over the infamous one-page-memo. That single page that will summarize any major business decision. It is used to recommend an action, whether it is a billion dollar investment or a more mundane new advertising campaign. Every word is evaluated until it is perfect – and the “truth” is found. It can take weeks and tens of iterations between the writer and managers above to get it approved. Over the years, the P&G culture became centred on artefacts like that and at times developed cult-like traits. Either you enjoyed it and stayed for long, or you left early, as there was little room for cultural dissent. However, virtually all people who have worked in P&G are impressed by the principled and uncompromising nature of its culture.

In his classical IBM questionnaire-based study, Hofstede established six dimensions of what he terms Organizational (read corporate) Culture through statistical analysis.³

1. Process oriented versus results oriented (means v. goals)
2. Employee versus job orientated (people concern v. getting the job done)
3. Parochial versus professional (a person’s identity derived from company or profession)

³Hofstede G., Hofstede J., Minkov M. (2010) *Cultures and Organizations*, 3rd Edition. McGraw-Hill, p. 354.

4. Open systems versus closed systems (inclusive culture v. exclusive-secretive-clubby)
5. Loose versus tight control (of people and what they do)
6. Normative versus pragmatic (following procedures v. market/customer driven).

These are very useful when describing a corporate culture in a consistent manner. However, as indicated repeatedly by Hofstede, Schein and others, this is a complex field and not easily captured in simple models. There are simply too many variables. You may be able to use a simple model to describe a business culture, but will probably not achieve much in terms of predictability of the performance of the organization. When it comes to culture, the devil is in the proverbial detail and the detail is multi-faceted.⁴

It is obvious that national values will have a significant influence on these six dimensions. For Danish companies, the culture is generally described as open and inclusive, whereas Japanese companies are generally considered more closed. Does this make either of them more or less effective in reaching their objectives? The answer is more complex, will depend on the particular circumstances and is not a simple yes or no, as we shall soon see!

Companies from every country can be grouped along these six dimensions; however, there can still be significant variances between companies from the same country. Google and Procter & Gamble are both American, but obviously very different, companies, that originated in different eras with somewhat different expressions of the basic American values – yet both are successful; and there are Danish companies that are closed and successful and Japanese companies that are open and successful.

Corporate culture and strategy: the cultural dynamic model[®]

At its simplest level, the relationship between strategy and culture can be looked upon as two intrinsically linked objects. They can't be separated; they are as yin and yang (Diagram 1.2).

⁴Hofstede et al. (2010), p. 358.

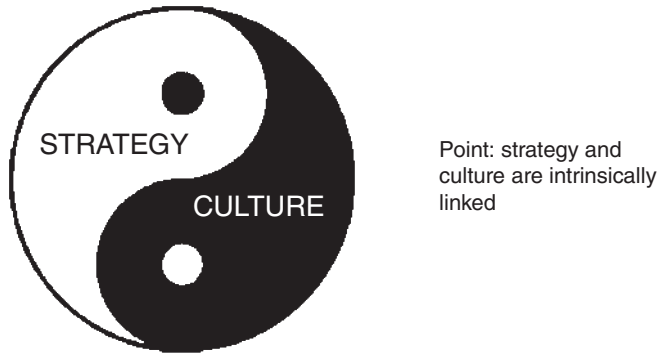


Diagram 1.2: The yin and yang relationship between strategy and culture

Results come from work that gets done: “the work practices”

In the Toyota case we describe how work practices deeply rooted in the Japanese culture enabled Toyota to gain a sustainable competitive advantage during a 30-year period. The international subsidiaries would adopt the Japanese work practices and philosophy with limited opportunity for local interpretation. We will use the term *work practices* throughout the book. By this we mean all the tangible processes, structures and systems that go into delivering the products and services the company offers. *Work practices are a central concept for us. This is where culture meets strategy.* In the case of Toyota, they include the Toyota Production System, the Just-in-Time Philosophy, the Lean manufacturing processes, as well as the skills and capabilities of the people employed, the physical plant, the decision-making processes and reward philosophy. Work practices are artefacts that can be observed by an outsider; the organizational values behind the work practices are more difficult to decipher.

Work practices influenced by . . .

The business strategy and execution perspective

When we focus on the culture side, we present you with a model that Kai developed, called the Cultural Dynamic Model[®]. It combines the strategy and execution dimension with the culture perspective, and their yin and yang relationship. You have probably already read one or more of the many influential business books that have been written on strategy by leading American

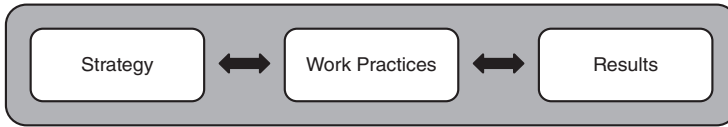


Diagram 1.3: Business strategy and execution dimension

business theorists, from Porter’s *Competitive Strategy*, to Clayton Christensen’s *The Innovator’s Dilemma* and Collins’ *Built to Last*, just to mention a few. We won’t repeat them here, though we may refer to their conclusions. These books focus on the link between the *strategy*, and how a company will competitively organize to serve its customers, through the *work practices*. The outcome of this effort or the *results* is normally expressed as the revenues, profits, market share and more recently the balanced score card. Analysis along this dimension is factual, rational and numbers oriented. This is the stuff that is taught at most business schools and refined by management consultancies. We call this the business strategy and execution dimension (Diagram 1.3).

When Henry Ford decided to go for a strategy of providing affordable transportation to the masses, it ultimately resulted in the creation of the largest industrial complex in the world: the River Rouge Plant. In the 1930s, it employed over 100,000 workers in a single vertically integrated process. Steel virtually came in at one end and cars came out at the other. This is an example of how a strategy will dictate a new set of work practices. The aim for Ford was to be the most efficient producer of cheap reliable cars, a strategy that helped Ford dominate the automotive market in the first part of the 20th century in the USA. This strategy required new work practices and thus a new corporate culture emerged that was different from the small workshop that assembled a few Ford Ts per day in 1909, when it was originally launched.⁵ The impersonality of the industrial revolution with its large assembly lines was powerfully portrayed in Charlie Chaplin’s *Modern Times* movie from 1936. While clearly having a social and political mission, it also articulates a common resistance to change and the reverence of the bygone!

⁵History of Ford (Sept 2012) (http://en.wikipedia.org/wiki/History_of_Ford_Motor_Company).

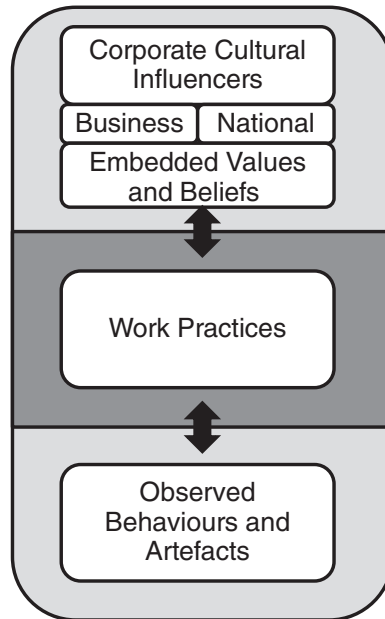


Diagram 1.4: The corporate culture dimension

The corporate culture perspective

The cultural perspective, our focus, can be expressed in Diagram 1.4.

Starting from the top, the two main factors shaping a company's values, beliefs and assumptions and thereby the corporate culture are the *business influencers* and the *national influencers*. The origin and nature of the two influencers are fundamentally different, as we shall see in this and the next chapter. Hofstede touched on this when he wrote:

"The difference between national and organizational cultures is based on their different mix of values and practices. National cultures are part of the mental software we acquired during the first ten years of our lives, in the family, in the living environment, and in the school, and they contain most of our basic values. Organizational cultures are acquired when we enter the work organization as young or not-so-young adults."⁶

⁶Hofstede et al. (2010), p. 346.

Together, these two corporate culture influencers will have a fundamental impact on work practices. They are embedded in the organization through the values of the leaders. They are reinforced through the repeated behaviour of the employees and managers in the daily work practices. Finally, the influencers, through the work practices, will express themselves in what we can observe: the cultural artefacts and espoused values of the organization and the observed behaviour! This is the top of the iceberg that is visible to the outsider; however, what is under the water is the fascinating part.

It is important to observe that the employees and the leaders are the glue that bonds the business and national influencers together – affecting both, but in different ways.

Let's dive into the water and first take a look at the business influencers. These include:

1. The industry in which a company operates and its professional culture
2. The competitive dynamics of the industry
3. The market and brand position of the company
4. The innovation rate
5. External forces and trends.

The industry in which a company operates and the influence of the professional culture

What a company makes for a living and the types of people it employs will influence the corporate culture. The sophisticated culture of a fashion retailer will differ from that of the mainstream supermarket chain. However, a French and an American supermarket chain may share many values and work practices, as companies in the same industry often share traits and values transcending borders, through a common professional culture. Car companies share values through having a high concentration of mechanical engineers in critical positions and pharmaceutical companies sometimes get their ethos from medical schools.

People with the same educational background often share common personality characteristics which are useful for success in their profession, or simply a by-product of their particular talents and education. Lawyers share many personal characteristics; they are often detail oriented and have a good memory for facts. They are factual in their orientation and often seen as being emotionally balanced and not easily upset; all traits that are useful for a lawyer and judge. The same could be said, with different characteristics of course, for

many other professions. Expect airline pilots to be predictable and unemotional in their reactions. You really don't want to be in trouble in an aircraft with an emotional and creative pilot at the steering column, except, of course, if it happens to be Tom Cruise in *Top Gun*. This also creates potentially opposing subcultures within a company – “R&D can't speak to sales” – and importantly a source for cultural distinction between industries.

The educational system in most countries will seek to get the most out of the talent available. It therefore filters young people with appropriate competencies and skills into the most relevant degree programmes for them. Engineers will be selected based on being rational, analytical, mathematically oriented and facts oriented – all useful talents for an engineer. Engineers are also often viewed as having the common personality traits of being practical rather than visionary, introvert with a relatively low self-awareness and often not at ease in complex social situations. These traits are not necessarily essential for being a good engineer, but rather a by-product of their talents and background. However, they will impact the ethos of the company in which they work. Obviously, we do recognize the need to be very careful in not taking this stereotypical perspective of a profession too far. Human beings are diverse, and we have met many creative and entertaining engineers and introverted sales people.

The competitive dynamics and lifecycle of an industry

The competitive dynamics of an industry will influence the requirements for the work practices and organizational capabilities and through this influence the corporate culture. Are you in a regulated industry or in a fragmented industry or do you play a scale game in a mature industry with few competitors? Depending on the industry, different qualities are needed to succeed. Those qualities are often expressed as a combination of behaviours and cultural capabilities, similar to the six dimensions of organizational culture outlined above. Typical dimensions may include: urgency/bias-for-action, customer orientation, quality/detail focus and process orientation. If your company is operating in a rapidly changing industry then short-term agility, innovation and creativity, customer focus and empowerment may be the key cultural traits that need to be honed in the work practices to be competitive. However, if you work in a regulated, more mature industry, a focus on process and planning, disciplined execution and the long term may be more appropriate.

Across industries, the industry's stage in the lifecycle evolution will impact what qualities define the competitive battleground. For each main lifecycle period, we have listed some of the typical enabling competencies and traits:

- **Embryonic period:** Innovation and initial international expansion.
 - Creative innovation
 - Growth orientation, focus on revenues
 - Strong customer orientation
 - Risk taking, empowerment and trust
 - Agility, short-term orientation and pragmatism
 - Building relationships across cultures
- **Growth period:** Continued, international expansion with a broader product offering, and initial focus on scale and efficiency.
 - Disciplined innovation – to broaden the product portfolio
 - Process and discipline; mastering planning, budgeting and execution
 - Commercial orientation; balancing risk, revenues, costs and margins
 - Relationship building; partnering and collaboration
 - Balancing agility with a control and quality orientation
 - Longer-term and more strategic orientation, while still being agile
- **Maturity period:** Consolidation and M&A
 - Strategic orientation; managing complexity in a global scale business
 - Commercial orientation; mastering continuous restructuring and reinvention
 - Mastering change; integration of acquired entities and new organizational structures
 - Process orientation; focusing on systemic efficiency and cost control
 - Quality focus; mastering all key disciplines; sales, marketing, R&D, supply chain, etc.

The transition from one phase to the next is the critical point where companies can stumble. This is where the national influencers will be seen most vividly. Austin stumbled in the transition between the innovation phase and the growth phase partly because it didn't manage the transition from the founder leadership to a new managerial regime and partly because its cultural heritage derailed its efforts to establish effective manufacturing processes and achieving scale by expanding internationally. Nokia was challenged when Apple and Google redefined the competitive landscape for mobile smartphones with the iPhone and Android technology. The new strategic imperatives facing Nokia demanded Web 2.0 software development and managerial

skills and capabilities, which were in short supply at Nokia – and in Finland. Ultimately, Nokia decided to partner with Microsoft, using the Windows Mobile platform to speed up the acquisition of those skills. As we shall see in the Nokia case, Nokia's Finnish heritage played a significant role in it not recognizing and responding to the threat from Apple and Google in time. In several cases, a trait that was an enabler in one phase may become a derailer in the following.

However, sometimes smaller issues get in the way during a transition phase. When the mature and 60-year-old, process-oriented Hewlett-Packard and the 20-year-old brasher Texan Compaq merged their global PC and Enterprise operations in 2002, to gain scale, the two cultures and work practices clashed on the sales side. Compaq, as you would expect of a younger company, had a more aggressive, agile sales culture, and handed more decision-making authority to the local subsidiary, with weekly up-to-date financial information provided. HP, as you would expect of a more mature company beyond the initial expansion phase, had stronger central control mechanisms in place to balance the business, and gave less empowerment to the local subsidiary, only sharing financial information once a month. The Compaq Enterprise team successfully fought to adopt their model of local empowerment in the merger with the newfound empowerment embraced by the HP Enterprise team; however, the HP financial systems would prevail. So, when after the merger a Compaq-inspired subsidiary was given a new aggressive quarterly sales revenue target, but no weekly financials, the sales skyrocketed, but at the end of the month, the gross margin had dropped dramatically from being in the 30s to less than 10%. This led to a timely review of what IT systems and management practices were needed to support local empowerment to avoid a repetition of the incident. Work practices and systems will reflect where a company is on its lifecycle curve and its underlying values. During a merger of organizations in different phases, these systems may derail the integration.

Position and brand

The position and brand of your company will influence the corporate culture. Are you the leader or the challenger in your industry? The challenger profile often includes being short-term, execution, results and action oriented. A challenger is more agile and pragmatic, and will respond quickly to changes in the market and to new customer requirements. If you are the market leader,

being process oriented and strategic may be key competencies that should be embedded in the culture, obviously without being complacent. Different industries and national differences will impact on how the market position translates into an appropriate set of capabilities and thus the corporate culture.

The type of products you sell will also influence the corporate culture. If you walk into Tiffany's in New York you expect professional, smart and intimate customer service in line with the company's brand position and prices. You expect the personnel to be sophisticated and knowledgeable, well groomed and possibly well educated, espousing aspirational middle-class values. If you walk into a hypermarket like Walmart you expect and get a different experience. The people employed impact the ethos of the company and its corporate culture, espoused values and work practices. A low-margin, low-salary retail type business will typically hire people from a working-class background. Thus, it is not uncommon for mass retailers to have a quite practical, no-nonsense and results-oriented culture; however, as a consequence, senior managers promoted from within may lack abilities in strategic and long-term thinking.

A word on cultural fit

In the past couple of decades, companies have increased the use of psychometric analysis when hiring people. Psychometrics is concerned with the measurement of knowledge, abilities, attitudes and personality traits. A popular methodology is the Myers-Briggs Type Indicator (MBTI) assessment. This is a psychometric questionnaire designed to measure psychological preferences as to how people perceive the world and make decisions.⁷

Companies will use these tests to guide the hiring decision. They will tend to hire people who share behaviours, values and beliefs with the company and, thus, who are considered a good cultural fit. Hiring against a well-defined psychometric profile therefore will reinforce the existing values, traits and possibly the assumptions. The consequence of this is that it can create a lack of behavioural and value diversity and thereby leave the door wide open for insular and myopic thinking and potentially "group think".

You would expect that the diversity that comes from hiring nationals from different countries will enhance the company's diversity of thinking and ability to see the water. However, an executive from a country other than the

⁷Wikipedia on Psychometrics and Myers-Briggs (http://en.wikipedia.org/wiki/Myers-Briggs_Type_Indicator).

company's heritage who has stayed at the company their entire career, usually has been successful because they have a strong cultural fit. Therefore, they probably share and accept many of the invisible values, beliefs and assumptions. Consequently they too may be culturally less clear-sighted and provide less diversity of thinking than you would expect.

The innovation rate in an industry

The innovation rate of an industry will also influence the corporate culture. Many excellent books have been written on "disruptive innovation" in recent years. However, the majority of innovation is evolutionary in nature rather than disruptive. Creating a company culture that supports evolutionary innovation is essential for many of today's global companies.

American and mid-western, 3M has perfected the art of commercializing even mundane product improvements. Who else would have put glue on the back of a square piece of yellow paper, thereby creating a multi-billion dollar business with its Post-It notes? Another example of its innovative culture was when, in the 1960s, it found a new process for precision cutting crystals to concentrate light, and the overhead projector was born. Forty years later, an offshoot of the same crystal cutting technology laid the foundation for a significant new global business in self-adhesive, light-reflecting materials, used on all types of sports, leisure and security clothing, enabling us to safely exercise in the dark.

3M has a strong belief in basic research and a longer-term perspective than competitors, in particular US-based competitors. It will nurture an idea for longer, when other companies would have dismantled the project. On average, the company is probably wrong, but once in a while, it will hit on a Post-It note product and create a new billion dollar business and recoup all its investments in the projects that failed.

Companies will strive to establish a corporate culture and work practices that support this type of day-to-day innovation, though this may fly in the face of their national instincts. The Open Innovation paradigm was coined in the USA in 2009 at Berkeley University – a university with a distinct communal culture and radical reputation. With Open Innovation, the simple idea is that employees from different companies are encouraged to share IP (intellectual property) with potential collaborators, rather than guarding it. The point is to overcome the complex web of IP rights controlled by different companies that hinder progress. If successful, this new model of co-invention and co-creation

between individuals and companies will challenge the traditional innovation model of the individual inventor, who found an IP gold nugget, became rich and won the Nobel Prize. It may also give the corporate IP lawyers, CEOs and shareholders many sleepless nights!

A good example of how such a fresh way of thinking can revolutionize innovation comes from the (American) Bill & Melinda Gates Foundation. In order to spur innovation in the fight against diseases such as malaria, it funds product development partnerships made up of consortia which share IP. Obviously, having access to far more of the newest knowledge accelerates innovation for everyone, without a Nobel Prize syndrome hampering progress. It took an outsider, who could see the water, to break the sector's gridlock!

In the future, it will be interesting to observe how quite independently minded American companies will evolve this new concept. Maybe it will prove to be more popular and effective in countries with more communal and collaborative national cultures, or maybe the short-term financial benefits are so significant that it will be embraced widely in America first!

External forces and trends

How do you make an oil company green? This is the multi-billion dollar question that executives at BP, Exxon, Shell and French Total are struggling with every day. Sometimes a change in public opinion of what is right will force a company to review its value and belief system. Today, being green is important, as is corporate social responsibility (CSR) and sustainability. The American focus on diversity and inclusivity is gaining ground worldwide. These new trends often fly in the face of practices deeply steeped in national traits or business traits and to embrace them takes courage and leadership. This is not about advertising or PowerPoint presentations; this is about changing people's behaviour on the ground, and establishing a leadership culture to support it. Ultimately, leadership of business organizations comes from the top. Many companies will publically subscribe to these aspirational goals; the key test is if they are just words or valued and embraced in the day-to-day operations. After all, Enron's tombstone corporate values also included excellence, respect and integrity!⁸

⁸<http://www.prweb.com/releases/2006/02/prweb342169.htm>.

The business influencer: summary

Leaders embed their values in the organization. Some will be more transient in nature and some more deeply rooted in national beliefs and therefore more resilient to change. If we compare the HP and Toyota cases, we can see the difference. The sacrosanct belief at HP in the independence of the business division versus the sales organization is a value that can best be described as having been embedded through the business influencers. At Toyota, the belief in simplicity and elimination of waste more firmly originates in Japanese national beliefs, embedded in the work practices by the founder.

An embedded national trait such as Toyota's simplicity and elimination of waste will be an embedded business influencer for non-Japanese staff and naturally a national belief for the Japanese employees. Thus, employees from many nations may accept a certain value that has strong national roots, but it is not as firmly embedded with them. Nokia's international employees may take pride in the fact that Nokia is a Finnish company, and part of working for Nokia is working for the success and pride of Finland; however, for them it is an adopted value rather than a firmly embedded national belief!

The water people don't see: the national influencers

Here is how Toyota itself describes its dedication to the elimination of waste and the concept of continuous improvement that created the Toyota Production System (TPS).

"TPS is steeped in the philosophy of 'the complete elimination of all waste' and imbues (permeates) all aspects of production in pursuit of the most efficient methods. Its roots go straight back to Sakichi Toyoda's automatic loom developed in 1896. The TPS has evolved through many years of trial and error to improve efficiency based on the Just-in-Time concept developed by Kiichiro Toyoda, the founder (and second president) of Toyota Motor Corporation. Waste can manifest as excess inventory in some cases, extraneous processing steps in other cases, and defective products in yet other cases. All these 'waste' elements intertwine with each other to create more waste, eventually impacting the management of the corporation itself . . . By practicing the philosophies

of 'Daily Improvements' and 'Good Thinking, Good Products,' the TPS has evolved into a world-renowned production system. Furthermore, all Toyota production divisions are making improvements to the TPS day and night to ensure its continued evolution."⁹

This belief is central to Toyota's ethos and work practices, and implicit in all they do. It came from the founder Kiichiro Toyoda, who in one of his five precepts said: "Avoid Frivolity. Be sincere and strong." In modern language it would probably read: "You should eliminate waste, and concentrate your energy on what is truly effective and build a lean and fit company."¹⁰ This is a belief deeply rooted in the Japanese national values of modesty and prudence.

The *national influencers* which we will discuss in detail in the next chapter can be divided into three groups:

1. The history of the country (geopolitical history, geography/climate, spiritual orientation, the era in which the company was founded, etc.)
2. The national types (the Lewis model) of the country
3. The values, beliefs and assumptions of the founders and the key leaders.

The key difference between national and business influencers is their time perspective. National cultures are imbedded into people at a young age, and thus staid. Business influencers are acquired later, and can be impacted by management on a shorter timeframe. This is the reason why it is critical to understand whether you as a leader, facing a period of transformation, are dealing with national influencers or business influencers. If national influencers have the potential to derail a new strategy, you may be in trouble, unless significant corrective action is taken!

We will not go into a detailed analysis of the national influencers here, but note that the values, beliefs and assumptions of an organization, as Schein indicated, often are invisible and therefore require deeper analysis to identify. This is best done through observation, though this is not always possible, for

⁹http://www.toyota-global.com/company/vision_philosophy/toyota_production_system/origin_of_the_toyota_production_system.html.

¹⁰Hino S. (2006) *Inside the Mind of Toyota*. Productivity Press, p. 51.

instance when describing historical events. In the cases in this book, we have used a mix of observations based on our personal experiences with the companies, and extensive analysis of secondary materials. The acid test of having identified the right values and assumptions is: can they explain the actual observed behaviour and artefacts with a high degree of certainty? The analysis based on the Cultural Dynamic Model[®] uses a mix of factual and anecdotal material, and is prone to be impacted by the cultural bias of the analyst. However, when done prudently, it is a factual analysis, where independent observers will arrive at similar conclusions.

For a corporate organization, it is often possible to identify a few fundamental values or assumptions that can explain most of the core organization's unique character and the observed work practice behaviour. We call this the organization's "cultural universe". To fully verify this requires extensive hands-on observation. In our cases we will limit our analysis to discussing one or two assumptions that are pertinent to the key learning in each.

In Diagram 1.5 we have summarized how the business and national influencers define the core values of a corporation.

We will discuss this further in Chapter 4, when we complete the Cultural Dynamic Model[®] with the concept of a cultural dynamic, describing how the strategy and cultural dimensions dynamically interact over time as behaviours and values are reinforced through the work practices.

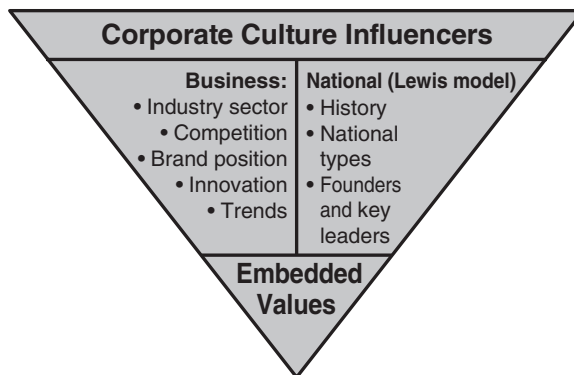


Diagram 1.5: How the business and national influencers define the core values of a corporation

The three levels of culture

Changing the behaviours, work practices and habits of people takes time, dedication and most importantly leadership from the top. *Culture exists at three levels* at the same time: the executive level, the middle management level and at the front-line level. Transformational change only happens if it is embraced effectively through new behaviours at all three levels simultaneously. Inconsistency in behaviour may lead to organizational cynicism, like when the management asks employees to constrain their salary demands in tough times, and then pay themselves high bonuses! In some cultures, this may be acceptable, but not in others.

Diagram 1.6 shows the three levels of culture.

Which?, a UK consumer magazine, published an article about pricing policies at mass retailers in the UK. They pointed out that often multi-pack offers were more expensive per pack than the products sold individually. A customer experienced this at his local Tesco store, prominently displaying the “Peel” tomatoes multi-packs. He complained to the store manager twice, insisting something be done about it. When he returned the following week, the multi-pack offer was still in place but they had increased the price of the individual packs by 50%! At Tesco, the corporate guiding value and the advertising slogan is “Every Little Helps”! In this case it didn’t quite guide the behaviour in the front line as well as the leadership may have hoped for, assuming of course that the slogan is directed towards their customers and not the shareholders. Maybe the store manager didn’t want to lose his investment in the large displays for the multi-packs, or maybe he had specific KPIs that would focus him on promoting these multi-pack products over individual products.

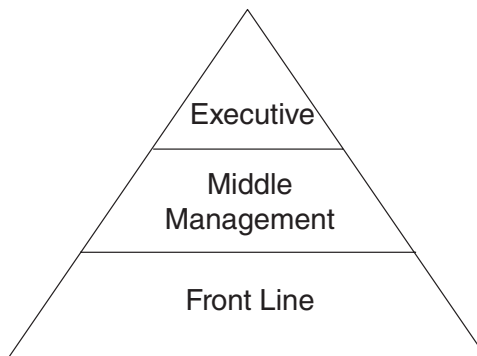


Diagram 1.6: The three levels of culture

Or maybe there was an oversight in the complex IT system that manages pricing of tens of thousands of products in thousands of stores.¹¹ The same could happen in most companies, every day, anywhere the world. Which brings us to a key observation:

At its very best, corporate culture guides judgement and enables people to over-rule man-made systems driving inconsistent decisions or behaviour.

It is this reinforcement thousands of times every day, when the systems don't provide final guidance to decisions where you need the cultural values to assist you. If done consistently, repeatedly and over long periods, a stronger and more consistent culture will emerge.

During a transformation period it is not unusual to observe that the top management is well ahead of the organization in embracing the new behaviours. They become visibly frustrated with the apparent reluctance of the wider organization to enthusiastically embrace the new principles. The reason is both the time lag of culture, as we will discuss next, and because the new values haven't been translated into actual behaviour. If you want to empower your organization to take more commercially prudent, customer-oriented decisions in the front line, you will have to explain in detail what that means for the individual middle manager and employees, and what the new rules are. You can't just say "Just use your common sense!" – because the sense that was common before may not be the same as is common now.

The organization will always be somewhat sceptical about a new regime, as nobody likes change. Any hint of reversal to the old management behaviour, i.e. punishing someone who misinterpreted a new value in good faith, to do what he or she thought was the right for a customer, will be monitored intensively by the organization. If found, it will be used as proof that nothing has changed, and therefore that change is not needed!

The time lag of culture and cultural agility as a competitive advantage

During a transformation, the change in corporate culture will lag behind the strategy implementation. It can easily take three or five years for a strategy

¹¹ *Which?*, October 2010, p. 56.

change to work its way through the work practices and become inculcated into the corporate culture. A change in culture only happens when the actual behaviour is changed and repeatedly reinforced in the work practices. This takes effect through the actions of the leadership and the substitute leadership elements including: the rewards systems, performance management indicators (KPIs), the organizational structure, the decision-making processes, and training in both the formal and informal organization. It also creates a dilemma for corporations. With the increased cycle speed of change in our hectic globalized world, there is a real risk that the static nature of culture change will clash with the more frequent need to change strategy, and therefore could lead to the culture being perpetually out of sync with the strategy.

Consequently, it is important for your organization to consider how you can speed up the cultural change to align with your new strategy. This may well be the most critical challenge to international management teams in the years to come. We believe that *cultural agility is a sustainable competitive advantage for the 21st century*. To accomplish this, your organization will have to more effectively identify and deal with the derailing effects of national traits and embrace the accelerators. Diagram 1.7 conceptualizes this point. The graph on the left side shows how the culture can be permanently out of sync with the strategy except for brief moments, when the line crosses, in perfect harmony. Areas in grey are the cost of the misalignment to the organization. The alignment of culture and strategy is much closer on the right side. It would, however, be foolish to suggest that any organization will ever find 100% alignment, except for the brief moment when lines cross.

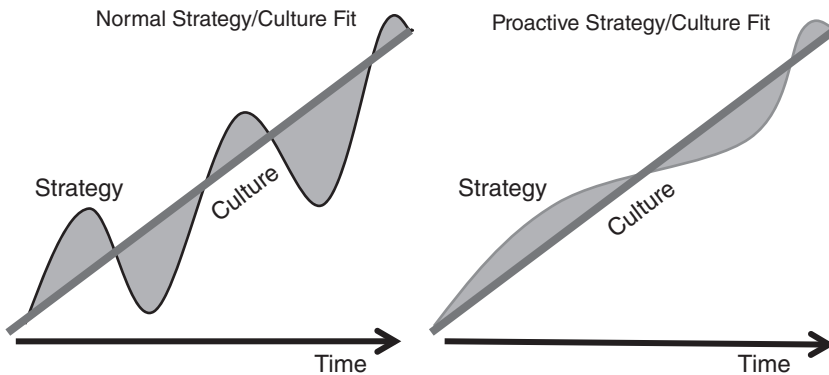


Diagram 1.7: How culture and strategy interact

As we will see in the Sony, Nokia and FLSmidth cases, corporate cultures can be annoyingly rigid when you need to respond firmly to changes in the strategic imperatives or when you are being hit by a life-threatening crisis.

Chapter summary

Every company has a corporate culture, whether implicitly or explicitly stated. The organizational culture is the result of all the decisions made and actions taken in an organization over time. *Behaviour shapes culture and culture is behaviour*, and success is the engine that feeds it! Culture is not created using PowerPoint slides or with impressive tombstones with lofty aspirations carved on them. No, culture is slowly formed by people interacting and by repeating behaviours that lead to success as defined by the organization. Leadership comes from the top, and as we will see throughout the cases in this book, continuous and consistent leadership is a very good starting point for building strong cultures. Walk the talk, as they say in America, is a very effective way to create deep culture.

Culture is embedded in the organization through the national and business influencers. The nature of the two differs; national influencers are deeply embedded through the values, beliefs and assumptions of founders and leaders. The business influencers are embedded through people and how they respond to the business realities facing them; the industry they operate in, their professional culture, the lifecycle stage of the company, their brand and positioning, the innovation rate of the industry and wider societal trends such as diversity and sustainability.

Culture operates at three levels at the same time; the leadership, middle management and the front line. Consistent behaviours across the three levels will help create a stronger culture. However, culture often lags behind strategy by three to five years, as change has to be consistently repeated in the work practices to become firmly embedded.

You can change behaviours in an organizational culture that are based on deeply rooted national cultural traits, but be aware that it takes significant effort and time. In the case of General Von Moltke we discuss how he fundamentally changed the values and behaviour of the generals in the Prussian army in the 19th century, to be strategically obedient, yet tactically disobedient when in the mist of battle. This was a value that went against a strong Prussian upper class trait of hierarchical thinking and obedience in accepting

orders, which had helped create a strong army culture with a deep command–control orientation. Such a change takes time, in this case over 30 years and only through hands-on personal leadership in selecting and educating every single new commanding officer.

In the next chapter we will explore the three key aspects of national culture that influence corporate culture.