

# 1

## **AN INTRODUCTION TO CHANGING ORGANIZATIONAL CULTURE**

No organization in the twenty-first century would boast about its constancy, sameness, or status quo compared to ten years ago. Stability is interpreted more often as stagnation than steadiness, and organizations that are not in the business of change and transition are generally viewed as recalcitrant. The frightening uncertainty that traditionally accompanied major organizational change has been superseded by the frightening uncertainty now associated with staying the same.

The father of modern management, Peter Drucker, concluded that “we are in one of those great historical periods that occur every 200 or 300 years when people don’t understand the world anymore, and the past is not sufficient to explain the future” (quoted in Childress and Senn, 1995, p. 3) Unremitting, unpredictable, and sometimes alarming change makes it difficult for any organization or manager to stay current, accurately predict the future, and maintain constancy of direction. The failure rate of most planned organizational change initiatives is dramatic. It is well known, for example, that as many as three-quarters of reengineering, total quality management (TQM), strategic planning, and downsizing efforts have failed entirely or have created problems serious enough that the survival of the organization was threatened (Cameron, 1997). What is most interesting about these failures, however, is the reported reasons for their lack of success. Several studies reported that the most frequently cited reason given for failure was a neglect of

the organization's culture. In other words, failure to change the organization's culture doomed the other kinds of organizational changes that were initiated (Caldwell, 1994; CSC Index, 1994; Gross, Pascale, and Athos, 1993; Kotter and Heskett, 1992).

Our purpose in this book is not to offer one more panacea for coping with our turbulent times or to introduce another management fad. We agree with Tom Peters that in the current high-velocity environment, "If you're not confused, you're not paying attention." Confusion abounds, as do prescriptions and proposed panaceas. Instead, our intent in this book is both more modest and, we believe, potentially more helpful. The book provides a framework, a sense-making tool, a set of systematic steps, and a methodology for helping managers and their organizations adapt to the demands of the environment. It focuses less on the right answers than it does on the methods and mechanisms available to help managers change the most fundamental elements of their organizations. It provides a way for managers almost anywhere in the hierarchy of an organization to guide the change process at the most basic level—the cultural level. It provides a systematic strategy for internal or external change agents to facilitate fundamental change that can then support and supplement other kinds of change initiatives.

### **The Need to Manage Organizational Culture**

Most of the scholarly literature argues that successful companies—those with sustained profitability and above-normal financial returns—are characterized by certain well-defined conditions (originally identified by Porter, 1980; Barney, 1991). At least six such conditions are believed to be crucial.

The first is the presence of high barriers to entry. When other organizations face difficult obstacles to engaging in the same business as your organization—for example, high costs, special technology, or proprietary knowledge—few, if any, competitors will exist. Fewer competitors means more revenues for your firm.

A second condition is nonsubstitutable products. When other organizations cannot duplicate your firm's product or service and no alternatives exist—for example, you are the sole supplier of a product or service—it stands to reason that revenues are likely to be higher. Similarly, if your product or service is inimitable, or difficult for others to imitate or duplicate, you will have fewer competitors and therefore more revenues.

Third, a large market share contributes to success by allowing your firm to capitalize on economies of scale and efficiencies. The biggest player in a market can negotiate concessions, sell at a discount, vertically integrate, or even purchase smaller competitors, thereby generating more revenues.

A fourth condition is low levels of bargaining power for buyers. For example, if purchasers of your firm's products become dependent on your company because they have no alternative sources, higher revenues are an obvious result. If I can get natural gas from only one source, I am dependent on whatever price the supplier decides to charge.

Fifth, suppliers have low levels of bargaining power. When suppliers, similar to customers, become dependent on your company because they have no alternative, you will have higher levels of financial returns. They must sell to you, making it possible for your firm to negotiate favorable prices and time schedules, higher levels of quality, or more proprietary features.

A sixth condition is rivalry among competitors. Rivalry helps deflect attention away from head-to-head competition with your company. Competitors struggle against one another instead of targeting your firm as the central focus of attack. Equally important, stiff competition is likely to raise the standards of performance in the entire industry. Incentives to improve are a product of rigorous competition (see Porter, 1980; Barney, 1991).

Unquestionably, these are desirable features that clearly should lead to financial success. They seem pretty much common sense. However, what is remarkable is that many of the

most successful U.S. firms in the past thirty years have had none of these competitive advantages. The top performers in the past three decades—those who literally blew away the competition in financial returns—were not the recipients of any of the so-called prerequisites for success. These highly successful firms, taken from *Money* magazine's list of the best-performing stocks between 1972 and 2002, include Southwest Airlines (annual average return of 25.99 percent), Walmart (annual average return of 25.97 percent), Kansas City Southern (annual average return of 25.61 percent), Walgreen (annual average return of 23.72 percent), Comcast (annual average return of 21.99 percent), and Kroger (annual average return of 21.16 percent).

Think of it. If you were going to start a business and wanted to make a killing, the markets you would most likely avoid are airlines, discount retailing, transportation, media distribution, and groceries. The list of industries represented by these highly successful firms looks like an impending disaster for new entrants: massive competition, horrendous losses, widespread bankruptcy, virtually no barriers to entry, little unique technology, and many substitute products and services. None of these firms entered the industry with a leadership position in market share. Yet they outperformed all rivals for that thirty-year period, even with no special competitive advantages.

More recently, other examples of highly successful firms have also defied the traditional competitive advantage prescriptions. Apple, a hairbreadth away from bankruptcy as recently as 1998, is now one of the five most valuable firms in the world and has surpassed Microsoft in financial value. Apple took on a marketplace dominated by well-established and highly competitive companies such as Microsoft, Motorola, Nokia, IBM, and Dell without any of the competitive advantages touted to predict successes. Similarly, Pixar, an animation studio, confronted a marketplace long dominated by Disney, and in its less-than-thirty-year history, produced eleven hit movies out of eleven attempts. This record is simply unheard of in the industry.

Every film that Pixar has produced has been nominated for an Academy Award, and Pixar has won the award about three-quarters of the time.

What differentiates these extraordinarily successful firms from others? How have they been able to make it when others have failed? How did Walmart take on Sears and Kmart—the two largest retailers in the world—and, figuratively speaking, eat their lunch? While Walmart prospered, its largest rivals were forced to sell off divisions, replace CEOs (more than once), downsize dramatically, and close stores wholesale. How did Southwest Airlines thrive when several of its competitors went belly-up (remember Eastern, Pan Am, Texas Air, PeopleExpress)? How did Apple and Pixar successfully compete in markets so dominated by competitors—Microsoft in Apple's case and Disney in Pixar's case—that no one gave them a shot at success? Yet both Apple and Pixar have dominated their markets and achieved outcomes no one could have dreamed of less than twenty years ago.

The key ingredient in each case is something less tangible, less blatant, but more powerful than the market factors listed earlier. The major distinguishing feature in these companies—their most important competitive advantage, the most powerful factor they all highlight as a key ingredient in their success—is their organizational culture.

The sustained success of these firms has had less to do with market forces than with company values, less to do with competitive positioning than with personal beliefs, and less to do with resource advantages than with vision. In fact, it is difficult to name even a single highly successful company, one that is a recognized leader in its industry, that does not have a distinctive, readily identifiable organizational culture. Name the most successful firms you know today, from large behemoths like Coca-Cola, Disney, General Electric, Intel, McDonald's, Microsoft, Rubbermaid, Sony, and Toyota, to small entrepreneurial start-ups. Virtually every leading firm you can name, small or large,

has developed a distinctive culture that its employees can clearly identify. This culture is sometimes created by the initial founder of the firm (such as Walt Disney). Sometimes it emerges over time as an organization encounters and overcomes challenges and obstacles in its environment (as at Coca-Cola). Sometimes it is developed consciously by management teams that decide to improve their company's performance in systematic ways (as did Google). Simply stated, successful companies have developed something special that supersedes corporate strategy, market presence, and technological advantages. Although strategy, market presence, and technology are clearly important, highly successful firms have capitalized on the power that resides in developing and managing a unique corporate culture. This power abides in the ability of a strong, unique culture to reduce collective uncertainties (that is, facilitate a common interpretation system for members), create social order (make clear to members what is expected), create continuity (perpetuate key values and norms across generations of members), create a collective identity and commitment (bind members together), and elucidate a vision of the future (energize forward movement) (see Trice and Beyer, 1993).

Most organizational scholars and observers now recognize that organizational culture has a powerful effect on the performance and long-term effectiveness of organizations. Empirical research has produced an impressive array of findings demonstrating the importance of culture to enhancing organizational performance (for reviews, see Cameron and Ettington, 1988; Denison, 1990; Trice and Beyer, 1993).

Kotter and Heskett (1992) interviewed seventy-five highly regarded financial analysts whose job is to closely follow certain industries and corporations. Each analyst compared the performance of twelve highly successful firms to ten lower-performing firms. Although analysts are stereotyped as focusing almost exclusively on hard financial data, only one of the seventy-five indicated that culture had little or no impact on

firm performance. All acknowledged culture as a critical factor in long-term financial success. In Appendix A, we summarize several scientific studies that report a positive relationship between dimensions of organizational culture and organizational effectiveness. For those interested in empirical evidence that supports the assessment procedures and culture change methodology explained in this book, Appendix A will be a helpful review of the academic literature.

In addition to organization-level effects, the impact of organizational culture on individuals (employee morale, commitment, productivity, physical health, emotional well-being) is also well documented (for a review, see Kozlowski, Chao, Smith, and Hedlund, 1993). With health care costs still skyrocketing, burnout at an all-time high, erosion of employee loyalty to firms costing millions of dollars a year in replacement and retraining, organizational secrets lost due to sabotage and defections, and lawsuits and other forms of retribution by disaffected employees, the impact of an organization's underlying culture on individuals is also an important area of concern. Moreover, we explain later in the book that culture change, at its root, is intimately tied to individual change. Unless managers are willing to commit to personal change, the organization's culture will remain recalcitrant.

Our main focus in this book is on helping managers, change agents, and scholars facilitate and manage organizational culture change. Our purpose is to help individuals adopt effective ways of diagnosing and changing culture in order to enhance organizational performance. We provide a framework as well as a methodology for implementing this change process, and we integrate a model of individual-level change as a way to foster cultural transformation and align personal managerial behavior with the culture change. Since culture is such a crucial factor in the long-term effectiveness of organizations, it is imperative that the individuals charged with studying or managing organizational culture be able to measure key dimensions of culture,

develop a strategy for changing it, and begin an implementation process. This book helps accomplish those aims.

We begin by discussing the critical need for culture change in most organizations. Frequent and chaotic vacillations in the external environment create the risk that the existing organizational culture will inhibit rather than contribute to future corporate success. We also briefly address the meaning of the term *organizational culture*. To understand how culture change can boost organizational performance, it is important that we make clear what is and isn't culture. All of this establishes a groundwork for introducing our framework of the core dimensions of organizational culture.

Along with that framework, we introduce an instrument and a method for diagnosing and initiating cultural change, and we supplement that with a personal management competency assessment instrument and improvement tool that is congruent with the framework. We provide some examples of companies that have successfully implemented our methodology, and we provide some practical hints for how others might successfully implement culture change.

This book, in other words, serves as both a workbook and a source guide. It is a workbook in the sense that it assists managers and change agents in working through a systematic culture diagnosis and change effort. It helps profile the current state of organizational culture and a preferred culture for the future, and it outlines a process for moving from the current to the preferred state. It also links a personal change methodology to an organizational change methodology.

The book serves as a source guide in the sense that it helps explain the core dimensions of culture and presents a theoretical framework for understanding culture forms. That is, it explains what to look for when initiating culture change and the ways in which individual change and organizational change are linked. For individuals interested in examining the validity of this approach to culture change, a summary of scientific evidence is presented in Appendixes A and B.

## The Need for Culture Change

Change in organizations is pervasive because of the degree and rapidity of change in the external environment. The conditions in which organizations operate demand a response without which organizational demise is a frequent result. Of the largest one hundred companies at the beginning of the 1900s, for example, only sixteen are still in existence. Of the firms on *Fortune* magazine's first list of the five hundred biggest companies, only twenty-nine firms would still be included. During the past decade, 46 percent of the Fortune 500 dropped off the list.

If you were to guess which country possesses the following characteristics, which country would you select: the richest country in the world in per capita income, having built the largest military, the acknowledged center of world business and finance, possessing the most developed education system, the world's acknowledged leader in innovation and invention, provides the world's standard of values, and has developed the highest standard of living? Surprisingly, the answer is England in the year 1900. Changes in the twentieth and twenty-first centuries, of course, have been dramatic.

These dramatic changes have affected almost every sector of the world. For example, the top ten in-demand jobs in 2010 did not exist in 2004. The implication in education is that we are currently preparing students for jobs that don't yet exist, to use technologies that have not been invented, in order to solve problems we don't even know are problems yet. The amount of new technical information currently doubles in less than two years. This means that for students in higher education institutions, at least half of what they learn will be outdated in two years, and the remaining half will be divided by two again before graduation. The U.S. Department of Labor estimates that today's learners will have held ten to fourteen jobs by the age of thirty-eight.

More than six thousand business books are published per month, and more than three thousand total new books are published every day. (The average book, however, sells fewer

and fewer copies.) Predictions are that by 2013, a supercomputer will be built that exceeds the computational capability of the human brain, and by 2023, a readily available computer that costs a mere one thousand dollars will exceed the capabilities of the human brain. The implication is that in less than a decade, the possibility exists that a computer could invent something that a human being cannot even comprehend. Moreover, it is predicted that by 2049, a computer that sells for one thousand dollars will exceed the computational capabilities of the entire human race.

The rate of technological change associated with this information explosion has created an environment intolerant of the status quo. Today's average wristwatch contains more computing power than existed in the entire world before 1960. The technology currently exists to put the equivalent of a full-size computer in a wristwatch or to inject the equivalent of a laptop computer into the bloodstream. The newest computers are relying on etchings onto molecules instead of silicone wafers. The mapping of the human genome is probably the greatest source for change, for not only can a banana now be changed into an agent to inoculate people against malaria, but new organ development and physiological regulations promise to dramatically alter people's lifestyles. Over a hundred animals have been patented to date, and 4 million new patent applications are filed each year related to bioengineering (Enriquez, 2000).

Almost no one dares predict the changes that will occur in the next ten years. Moreover, not only is change ubiquitous and unpredictable, but almost everyone assumes that its velocity will increase exponentially (Cameron, 2003; Quinn, 2000). Such rapid and dramatic change implies that no organization can remain the same for long and survive. The current challenge, therefore, is not to determine whether to change but how to change to increase organizational effectiveness. The demise of some of the Fortune 500 companies undoubtedly resulted from slow, laggard, or wrong-headed change efforts.

For instance, the three most common organizational change initiatives implemented in the last two decades are TQM initiatives, downsizing initiatives, and reengineering initiatives (Cameron, 1997). Organizations that have implemented quality initiatives in order to enhance effectiveness, however, have by and large fallen short. Rath and Strong (a consulting firm) surveyed Fortune 500 companies and found that only 20 percent reported having achieved their quality objectives, and over 40 percent indicated that their quality initiatives were a complete flop. A study of thirty quality programs by McKinsey (another consulting firm) found that two-thirds had stalled, fallen short, or failed. And Ernst and Young's study of 584 companies in four industries (autos, banks, computers, and health care) in the United States, Japan, Germany, and Canada found that most firms had not successfully implemented their total quality practices. Most firms labeled TQM a failure (see Cameron, 1997, for details of various studies, including those mentioned here).

Similarly, nearly every organization of moderate size or larger has engaged in downsizing in the past two decades. Downsizing has been another attempt to improve productivity, efficiency, competitiveness, and effectiveness. Unfortunately, the stock prices of firms that downsize actually lag the industry average a decade later. A survey of corporate executives in six industrialized countries found that less than half had achieved their cost-cutting goals and even fewer met operating objectives such as improved productivity. Another survey found that 74 percent of senior managers in downsized companies said that morale, trust, and productivity suffered after downsizing, and half of the 1,468 firms in still another survey indicated that productivity deteriorated after downsizing. Almost three-quarters of firms in another study were found to be worse off in the long term after downsizing than they were before. A majority of organizations that downsized in a fourth survey failed to achieve desired results, with only 9 percent reporting an improvement in quality. These outcomes led one editorialist to accuse organizations of

“dumbsizing” instead of downsizing and another writer to conclude that “downsizing, as commonly practiced, is a dud” (see Cameron, 1997, for complete references).

A third common approach to enhancing organizational performance has been reengineering—the attempt to completely redesign the processes and procedures in an organization. Similar to TQM and downsizing initiatives, however, evidence suggests that this approach to change also has had a checkered success record. A survey was conducted of reengineering projects by the consulting firm that invented the reengineering change process (CSC Index); in all, 497 companies in the United States and another 1,245 companies in Europe were polled. The results showed that 69 percent of the firms in the United States and 75 percent of the firms in Europe had engaged in at least one reengineering project. Unfortunately, 85 percent of those firms reported little or no gain from their effort. Less than half, for example, achieved any change in market share, one of the primary goals.

The authors concluded that reengineering was not enough to achieve desirable change. It had to be integrated with an overall approach to changing an organization’s culture. In other words, the failure of reengineering (as well as TQM and downsizing) occurred in most cases because the culture of the organization remained the same. The procedure was treated as a technique or program of change, not as a fundamental shift in the organization’s direction, values, and culture.

The point of these examples is that without another kind of fundamental change, namely, a change in organizational culture, there is little hope of enduring improvement in organizational performance. Although the tools and techniques may be present and the change strategy implemented with vigor, many efforts to improve organizational performance fail because the fundamental culture of the organization—values, ways of thinking, managerial styles, paradigms, approaches to problem solving—remains the same.

Extensive evidence of this fact has emerged from empirical studies conducted in more than one hundred organizations that had engaged in TQM and downsizing as strategies for enhancing effectiveness (Cameron, 1995, 1998; Cameron, Bright, and Caza, 2004; Cameron, Freeman, and Mishra, 1991). The results of those studies were unequivocal: the successful implementation of both TQM and downsizing programs, as well as the resulting effectiveness of the organizations' performance, depended on having the improvement strategies embedded in a culture change. When TQM and downsizing were implemented independent of a culture change, they were unsuccessful. When the culture of these organizations was an explicit target of change, so that the TQM or downsizing initiatives were embedded in an overall culture change effort, they were successful. Organizational effectiveness increased. Culture change was key.

This dependence of organizational improvement on culture change is due to the fact that when the values, orientations, definitions, and goals stay constant—even when procedures and strategies are altered—organizations return quickly to the status quo. The same is true for individuals. Personality types, personal styles, and behavioral habits rarely change significantly, despite programs to induce change such as diets, exercise regimens, or motivational seminars. Without an alteration of the fundamental goals, values, and expectations of organizations or individuals, change remains superficial and of short duration (see Quinn, 1996).

Failed attempts to change often produce cynicism, frustration, loss of trust, and deterioration in morale among organization members. As our research has shown, organizations may be worse off than if the change strategy had not been attempted in the first place. Modifying organizational culture, in other words, is a key to the successful implementation of major improvement strategies (TQM, downsizing, reengineering) as well as adaptation to the increasing turbulent environment faced by modern organizations.

## The Power of Culture Change

Consider just one case of a General Motors auto assembly plant in Fremont, California. In the 1950s, General Motors had embarked on what was referred to as a “sunbelt strategy”: plants were built in the southern and western states. Because these are all “right-to-work” states (without unions), the United Auto Workers (UAW) viewed this as a union-avoidance move on the part of the company. Ultimately not only were the new GM plants organized by the UAW, but they became among the most hostile, conflict-ridden plants in the entire corporation.

Particularly troublesome was the plant in Fremont, California, where the Chevrolet Nova was assembled. It was a huge facility with several million square feet under one roof. By 1982, the plant was operating at a disastrously low level. Absenteeism averaged 20 percent per year, and approximately five thousand grievances were filed each year by employees at the plant—the same as the total number of workers. This translates to about twenty-one formally filed grievances each working day! More than two thousand of those grievances remained unresolved. Three or four times each year, people just walked off the job in a wildcat strike. The costs of assembling the car were 30 percent above those of GM’s Japanese competitors, sales were trending downward, and ratings of both quality and productivity ranked the Fremont plant the worst in the company. Moreover, customer satisfaction with the Chevy Nova had hit rock bottom.

A variety of improvement programs had been attempted—quality circles, employee relations initiatives, statistical process control, new incentive systems, tighter controls, and downsizing, to name a few. Nothing worked. Quality, productivity, and satisfaction levels remained abysmal. Of course, it doesn’t take a rocket scientist to figure out that the company could not afford to continue operating at that level of performance. The reputation of the entire corporation and all its divisions at that time (Cadillac, Buick, Oldsmobile, Pontiac, Chevrolet, and GMC)

was being harmed by the poor-quality product, the cost of simply keeping the plant running was overly burdensome, and management had nothing but grief from this group of employees. The decision was made to close the plant.

Then GM did something interesting. It approached its best competitor, Toyota, and offered to design and build a car together. GM was losing market share to Toyota, the Toyota production system was generally regarded as the best in the world, and GM was having a difficult time figuring out how to fix its disastrous performance record, especially with the shuttered Fremont plant.

Toyota jumped at the chance. After all, GM was the world's largest company with the world's largest supplier and dealer networks, and it was a chance for Toyota to establish a firm footing on U.S. soil. GM offered to use the Fremont facility, but said the plant was not to be remodeled and old equipment had to be used. Toyota said, "Fine." GM indicated that because of the labor agreement, the joint venture couldn't hire just anyone. UAW workers had to be hired first, and they would come back on the basis of seniority. The oldest and most recalcitrant employees, the ones who had complained about management the longest, were given first crack at jobs. Toyota said, "Fine." Toyota had just one request, and that was to allow Toyota managers, not GM managers, to run the place. GM said, "Fine."

Approximately a year and a half after being shuttered, the plant was reopened. The name was changed to NUMMI—New United Motors Manufacturing Incorporated. For the first two years, the Chevy Nova was produced; then it was phased out and replaced by the Geo Prism and the Toyota Corolla. Table 1.1 shows the performance data for the Fremont plant and the NUMMI plant after one year of operation.

Sales trends at the NUMMI plant were positive, quality and customer satisfaction were the highest in the company, the Toyota Corolla had fewer glitches than the comparable car

**Table 1.1 Comparison of GM's Fremont and NUMMI Plants**

	<i>Before Closure</i> GM Fremont Plant	<i>After Closure</i> GM NUMMI Plant
Employees	5,000	2,500
Absenteeism	20 percent	2 percent
Unresolved grievances	2,000	0
Total annual grievances	5,000	2
Wildcat strikes	3–4	0
Product	Chevrolet Nova	Geo Prism; Toyota Corolla
Assembly costs per car	30 percent above Japanese	Same as Japanese
Productivity	Worst in GM	Double GM average
Quality	Worst in GM	Best in GM
Customer satisfaction	Worst in GM	Best in GM

produced in Japan, and productivity doubled the corporate average. Quality and customer satisfaction were the highest in the entire corporation. The NUMMI plant closed at the time GM filed for corporate bankruptcy in 2009, but until then, the NUMMI experiment served as the quintessential example within the corporation of extraordinarily effective change.

How did the turnaround occur? What accounts for the dramatic improvement in performance? Multiple factors were involved, of course, but the best explanation of the most important factor can be illustrated by an interview with one of the production employees at NUMMI who had worked in the facility for more than twenty years. He was asked to describe the difference he experienced between the plant while it was managed by GM and the plant after the joint venture was formed.

This UAW member said that prior to the joint venture, he would go home at night smirking about the things he had thought up during the day to mess up the system. He'd leave

his sandwich behind the door panel of a car, for example. "A month later, the customer would be driving down the road and wouldn't be able to figure out where that terrible smell was coming from. It would be my rotten sandwich in the door," he chuckled to himself. Or he would put loose screws in a compartment of the frame that was to be welded shut. People riding in the car would never be able to tell exactly where that rattle was coming from because it would reverberate throughout the entire car. "They'll never figure it out," he said.

"Now," he commented, "because the number of job classifications has been so dramatically reduced [from more than 150 to 8], we have all been allowed to have personal business cards and to make up our own job titles. The title I put on my card is 'Director of Welding Improvement.'" His job was to monitor robots that spot-welded parts of the frame together. "Now when I go to a San Francisco 49ers game or a Golden State Warriors game or a shopping mall, I look for Toyota Corollas in the parking lot. When I see one, I take out my business card and write on the back of it, 'I made your car. Any problems, call me.' I put it under the windshield wiper of the car. I do it because I feel personally responsible for those cars."

The difference between Fremont before closure and ten years later, at the time the interview was conducted, is a reflection of an organizational culture change. It was a gut-level, values-centered, in-the-bones change from viewing the world one way to viewing it entirely differently a decade later. Employees had simply adopted a different way to think about the company and their role in it. Higher levels of productivity, quality, efficiency, and morale followed directly from this change in the firm's culture.

A simple explanation for how NUMMI's dramatic culture change occurred is impossible to explain in a page. Culture change involves multiple factors, is integrated with other types of change initiatives, and involves personal changes as well as organizational changes. Explaining how this process can be initiated and how successful culture change can be led, however, is

precisely the purpose of this book. Organizational inertia exists in every system that mitigates against fundamental culture change, and the status quo is always the default option unless conscious and consistent culture change initiatives are implemented.

### **The Meaning of Organizational Culture**

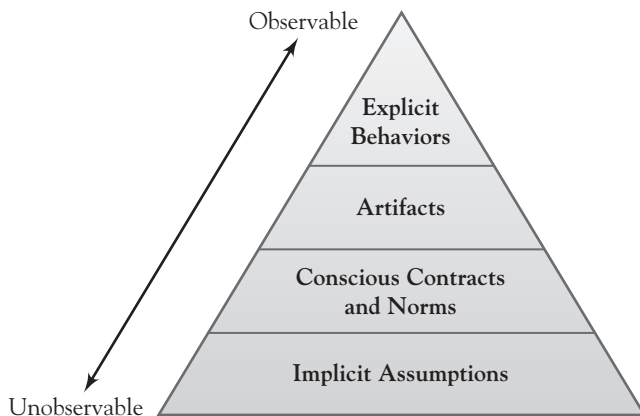
Although more than 150 definitions of *culture* have been identified (Kluckhohn, Kroeber, and Meyer, 1952), the two main disciplinary foundations of organization culture are sociological (organizations *have* cultures) and anthropological (organizations *are* cultures). A review of the literature on culture in organization studies reveals that a majority of writers agree that the concept of culture refers to the taken-for-granted values, underlying assumptions, expectations, and definitions that characterize organizations and their members. That is, the functional, sociological perspective has come to predominate. Most discussions of organization culture (Cameron and Ettington, 1988; O'Reilly and Chatman, 1996; Schein, 2010) agree that culture is a socially constructed attribute of organizations that serves as the social glue binding an organization together.

It was not until the beginning of the 1980s that organizational scholars began paying serious attention to the concept of culture (for example, Ouchi, 1981; Pascale and Athos, 1981; Peters and Waterman, 1982; Deal and Kennedy, 1982). This is one of the few areas, in fact, where organizational scholars led practicing managers in identifying a crucial factor affecting organizational performance. In most instances, practice has led research, and scholars have focused mainly on documenting, explaining, and building models of organizational phenomena that were already being tried by management. Organizational culture, however, has been an area in which conceptual work and scholarship have provided guidance for managers as they have searched for ways to improve their organizations' effectiveness.

The reason organizational culture was ignored as an important factor in accounting for organizational performance is that it encompasses the taken-for-granted values, underlying assumptions, expectations, collective memories, and definitions present in an organization. It represents “how things are around here.” It reflects the prevailing ideology that people carry inside their heads. It conveys a sense of identity to employees, provides unwritten and often unspoken guidelines for how to get along in the organization, and it helps stabilize the social system that they experience.

Unfortunately, people are unaware of their culture until it is challenged, until they experience a new culture, or until it is made overt and explicit through, for example, a framework or model. This is why culture was ignored for so long by managers and scholars. It is undetectable most of the time. Figure 1.1, for example, illustrates the different levels and manifestations of culture, from the taken-for-granted and unobservable elements to the more overt and noticeable elements. At the most fundamental level, culture is manifest as the implicit assumptions that define the human condition and its relationship to the environment. These assumptions are not recognized unless challenged by

**Figure 1.1 Elements of Organizational Culture**



incompatible or contradictory assumptions. (For example, most people did not wake up this morning making a conscious decision about which language to speak. Only when confronted with a different language or asked specific questions about their language do people become aware that language is one of their defining assumptions.)

From assumptions emerge contracts and norms. These are the rules and procedures that govern human interaction. Policies in organizations, for example, emerge from assumptions about how to enable successful performance, how to coordinate work, and how to reward employees.

Artifacts are even more observable and overt. Artifacts are represented by the buildings in which we work, the clothes we wear, the sizes or shapes of our offices, and the arrangements of our furniture. They are also exemplified by logos, themes, mission statements, formal goals, and the kinds of recognition that organizations use.

The most obvious manifestation of culture is the explicit behavior of members of the culture. In an organization, this is the way in which people interact, the amount of the “whole self” invested in the organization, and the extent to which innovative or activity is tolerated or encouraged. This is often described as “just the way things are around here.” Changing culture involves addressing each of these various levels, as illustrated in the NUMMI example described earlier.

It is also important to note that the concept of organization *culture* is distinct from the concept of organization *climate*. Climate consists of temporary attitudes, feelings, and perceptions of individuals (Schneider, 1990). Culture is an enduring, slow-to-change, core characteristic of organizations; because it is based on attitudes, climate can change quickly and dramatically. Culture refers to implicit, often indiscernible aspects of organizations; climate refers to more overt, observable attributes of organizations. Culture includes core values and consensual interpretations about how things are; climate includes individualistic

perspectives that are modified frequently as situations change and new information is encountered. The approach to change in this chapter focuses on culture attributes rather than climate attributes. It considers the “links among cognitions, human interactions, and tangible symbols or artifacts typifying an organization” (Detert, Schroeder, and Mauriel, 2000, p. 853), or, in other words, “the way things are” in the organization rather than people’s transitory attitudes about them.

### **Levels of Analysis**

Of course, there are many kinds or levels of culture that affect individual and organizational behavior. At the broadest level, a global culture, such as a world religion’s culture or the culture of the Far East, would be the highest level. Researchers such as Hofstede (1980), Aiken and Bacharach (1979), and Trompenaars (1992) have reported marked differences among continents and countries based on certain key dimensions. For example, national differences exist among countries on the basis of universalism versus particularism, individualism versus collectivism, neutrality versus emotionality, specificity versus diffuseness, focus on achievement versus ascription, focus on past versus present versus future, and an internal focus versus an external focus (Trompenaars, 1992).

At a less general level are subgroups such as gender-based cultures (distinctive ways in which men and women view the world, as documented in Martin, 1990, or in Cox’s 1991 work on differences between black and white cultures), occupational cultures (such as Van Maanen’s 1975 studies of police culture), regional cultures (such as Blauner’s 1964 work on regional and urban-rural cultures in the United States), and industry cultures (such as Gordon’s 1991 work on competitiveness, historical development, core technology, and customer requirements that affect industry cultures). Each culture is generally reflected by unique language, symbols, rules, and ethnocentric feelings.

Still less broad is the culture of a single organization, the level at which this book is aimed. An organization's culture is reflected by what is valued, the dominant leadership styles, the language and symbols, the procedures and routines, and the definitions of success that make an organization unique.

Inside an organization, subunits such as functional departments, product groups, hierarchical levels, or even teams may also reflect their own unique cultures. Difficulties in coordinating and integrating processes or organizational activities, for example, are often a result of culture clashes among different subunits. For instance, it is common in many organizations to hear of conflicts between marketing and manufacturing or of disparaging comments about the human resource (HR) department or put-downs of the "white coats" in R&D. One reason is that each different unit often has developed its own perspective, its own set of values, its own culture. A variety of investigators have reported on the dysfunctions of subgroup culture clashes (Van Maanen and Barley, 1984, 1985; Jerimier, Slocum, Fry, and Gaines, 1991). It is easy to see how these cultural differences can fragment an organization and make high levels of effectiveness impossible to achieve. Emphasizing subunit cultural differences, in other words, can foster alienation and conflict.

But it is important to keep in mind that each subunit in an organization also contains common elements typical of the entire organization. Similar to a hologram in which each unique element in the image contains the characteristics of the entire image in addition to its own identifying characteristics, subunit cultures also contain core elements of the entire organization's culture in addition to their own unique elements (Alpert and Whetten, 1985). There is always an underlying glue that binds the organization together (Schein, 1985; O'Reilly, Chatman, and Caldwell, 1991). In assessing an organization's culture, therefore, one can focus on the entire organization as the unit of analysis, or one can assess different subunit cultures,

identify the common dominant attributes of the subunit cultures, and aggregate them. This combination can provide an approximation of the overall organizational culture.

In this book, we are interested primarily in helping managers identify ways in which their organization's culture can be diagnosed and changed. The relevant level of cultural analysis, therefore, is the level at which change efforts are directed. This may be at the overall organization level, or it may be at the level of a subunit supervised by a manager. The target is the level at which culture change is required for organizational performance to improve.

### **Caveats**

We do not claim that our framework or our methodology represents the one best or the one right way to diagnose and change organizational culture.<sup>1</sup> Doing so would be similar to claiming that one best way exists to design an organization, that one best leadership style exists, that one best method exists for measuring organizations, or that one best set of dimensions accounts for organizational success. None of these claims, of course, is reasonable. Other authors have proposed approaches to measuring organizational culture. Other frameworks have been proposed in the literature. A variety of underlying dimensions of culture have been put forward. Some authors have even denied that assessment and change of organizational culture are possible (Fitzgerald, 1988, is one). Although we review a sampling of alternative approaches in Chapter Three, our intent is not to provide an extensive review of the culture literature in this book. We have done so elsewhere (see Cameron and Ettington, 1988; Beyer and Cameron, 1997). Instead, we are advocating here an approach that has several important advantages to managers and change agents interested in diagnosing and changing culture, as well as to scholars interested in investigating organizational culture using quantitative methods.

Our approach to diagnosing and changing organizational culture offers six advantages:

- It is *practical*. It captures key dimensions of culture that have been found to make a difference in organizations' success.
- It is *efficient*. The process of diagnosing and creating a strategy for change can be accomplished in a reasonable amount of time.
- It is *involving*. The steps in the process can include every member of the organization, but they especially involve all who have a responsibility to establish direction, reinforce values, and guide fundamental change.
- It is both *quantitative* and *qualitative*. The process relies on quantitative measurement of key cultural dimensions as well as qualitative methods including stories, incidents, and symbols that represent the immeasurable ambience of the organization.
- It is *manageable*. The process of diagnosis and change can be undertaken and implemented by a team within the organization—usually the management team. Outside diagnosticians, culture experts, or change consultants are not required for successful implementation.
- It is *valid*. The framework on which the process is built not only makes sense to people as they consider their own organization but is also supported by an extensive empirical literature and underlying dimensions that have a verified scholarly foundation.

In other words, we do not claim that ours is the single best approach, but we do consider it a critically important strategy in an organization's repertoire for changing culture and improving performance.

**Note**

1. Our colleague Joanne Martin (1992), an emeritus professor at Stanford University and one of the best analysts and investigators of the concept of organizational culture, distinguished three perspectives or approaches to culture. One perspective—the integration perspective—assumes that culture is what people share or serves as the glue that holds them together. Consensus about what culture exists in an organization can be detected. A second perspective—the differentiation perspective—assumes that culture is manifested by differences among subunits and that an organization's culture is fraught with conflicts of interest. Consensus about what common culture exists is fiction. A third perspective—the fragmentation perspective—assumes that culture is ambiguous and unknowable and that it describes not an attribute of an organization but the inherent nature of the organization itself. Individuals shift cultures frequently within an organization, and no one culture can be identified. Martin argued that each perspective has legitimacy and must be acknowledged as individuals study or try to manage culture.

Although we agree with her assessment that elements of all three perspectives are present in organizations, the power of culture from our point of view lies in its ability to bring people together, overcome the fragmentation and ambiguity that characterize the external environment, and lead organizations toward extraordinary success when their competitors struggle. This book is biased toward the integration approach to culture because it is in the integration perspective that culture derives its power. Culture is a competitive advantage in organizations mainly to the extent to which it is a common, consensual, integrated set of perceptions, memories, values, attitudes, and definitions. Moreover, it is our experience after working with a large number of organizations ranging from multinational conglomerates to

small, entrepreneurial start-up firms, as well as being consistent with empirical evidence (reported in Appendix A), that managers can and do reach consensus about what the organization's culture is like, what approaches can be implemented to change it, and how the organization can become different as a result.

The approach to culture change described in this book relies on some of the assumptions of the differentiation and fragmentation approaches in that it acknowledges that ambiguous and unmanageable aspects of the organization always exist. The steps we describe in Chapter Five for managing the culture change process provide a tool for addressing those aspects of organizational culture.