

Understanding and Working on Culture

Alison Gill, 2012

This article is written for leaders and consultants with a desire to learn more about organisational culture and its role in business performance. It is a summary of recent research on culture and cultural change. It is not meant to be exhaustive but rather to stimulate thought and to provide some practical guidance about the tools available for understanding culture, designing a desired culture or working to change culture.

Introduction

Strategy and culture can be said to work hand in hand – two sides of the same coin, with strategy signified by the purpose (why we do it) mission, vision and objectives of the organisation (the what we do) and culture signified by the values, behaviours and working practices (the how we do it).

Culture is often said “to eat strategy for breakfast” (*Drucker, 2006*)¹ the implication that no matter how good a strategy, unless specific effort is focussed on changing the attitudes, behaviours and work practices of people - strategy will fail. The cultures of the likes of Google and McKinsey are not accidental but are created by deep thinking supported by persistent shaping actions.

Culture is **experienced by people**, learnt through interactions with others. It is the experience itself which matters. If a culture is described by leader but experienced differently - experience wins out. For example, if leaders espouse a value of ‘openness’ but people experience that when their boss is in the room no-one speaks up, the behaviour learnt will be ‘speak when spoken to’ and the culture most likely described as ‘hierarchical’. When it comes to culture it is what we experience that counts. Cultural norms are created and sustained by many interlocking elements which mutually reinforce each other, thus culture once created, is resistant to change. Cultural stability sustains organisational identity and provides an important sense of psychological security to organisational life. Changing culture requires clarity about the desired values, behaviours and work practices that weave together to create culture and, **persistent and enduring efforts at multiple levels** to enable this experience. Layers of leadership and management tools, processes and actions used effectively together shift attitudes, behaviours and work practices – this needs to be aligned to the strategy and strategic imperatives of the organisation.

In global organisations and global industries a particular challenge for leaders is the possibility of one culture which transcends deeply engrained national/societal cultures. There is fear attached to the prospect of cultural globalisation, fear of a worldwide “airport culture”² in which the rich diversity of nations is homogenised and vulgarised. Creating a meaningful global culture must take account of both homogenising forces and resistances to them.

There is never a wrong time to focus on culture – like strategy – the work on culture is never finished. It needs to be **embedded as an element of the organisations dialogue** – systematically reviewed, openly discussed and supported by specific measures.

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1. Defining culture

“Culture” is a term which distinguishes life in one group from life in another group; beliefs, values, behaviours and practices as well as physical environment, stories and rituals among other elements play a role and interweave to create culture.

In a society sense we talk of national culture as that which gives a society its context. In an organisational sense we talk of culture as the experience which distinguishes being a customer, employee or supplier of one organisation from being a customer, employee or supplier in another.

Leading business advisor Dave Ulrich (2009)³ defines “Culture” as “the identity of the organisation in the mind of key customers, made real to every employee everyday”. Ulrich’s definition encourages an understanding of culture as something that is experienced and is created from the outside-in.

Perhaps the most important point to make about culture is that it develops **with** or **without** conscious effort. The more an organisation’s culture is left to evolve without conscious leadership effort typically the harder it is to predict and to manage the unintended consequences. Managing culture is an inescapable and enduring task of leadership.

2. The impact of culture on organisational profitability

Organisation culture is often talked about as a soft concept but there is increasingly a body of business research which shows that the impact of culture on profitability can be measured and quantified. Particularly in organisations with large numbers of customer-facing employees, the sum of the effects of reduced employee turnover, referrals of potential employees by existing ones, productivity, customer loyalty, and referrals of new customers attributable to culture can add up to half of the difference in operating income between organisations in the same business.

Recent research by Harvard Business School (Heskett, 2011)⁴ indicates that 20-30% of the differential in performance can be accounted for compared with “culturally unremarkable” competitors. Heskett’s research identifies cause-and-effect relationships that are crucial to shaping effective cultures, and demonstrates how to calculate culture’s economic value through “Four Rs”: referrals, retention, returns to labour, and relationships. The “Four Rs” can be measured through a summation

of the organisations employee engagement metrics, customer loyalty metrics and brand loyalty metrics.

3. The role of the board

The board of directors are elected by shareholders to oversee the running of the company; their duty is to ensure that the firm is led in the company's best interests. If one buys in to the argument that strategy and culture work hand in hand – two sides of the same coin, with strategy signified by the purpose (why we do it) mission, vision and objectives of the organisation (the what we do) and culture signified by the values, behaviours and working practices (the how we do it), then it goes without saying that the boards role must include developing proposals on the culture of the organisation as well as overseeing how the culture evolves over time.

One of the greatest challenges of culture is how culture influences the behaviour of individuals and groups. Human beings are driven to preserve their social self and are particularly vigilant to threats that may jeopardise their social esteem or status thus culture acts to shape behaviour toward the strong underlying norms⁵. This is largely an unconscious process – hardwired in to the evolution of human behaviour. Boards of directors are composed of directors whose role is to preserve independence are thus well placed to engage in exploration and challenge to existing norms. Directors who are well trained in the use of reflexive techniques can help make the unconscious, conscious - by for example sharing experiences (thoughts and feelings) about culture such that they can be explored.

Oversight of culture has yet to be explicitly woven in to the UK Corporate Governance Code as a key component of the board's role. Some of the levers of culture for example, internal controls, values and standards – have become part of the lexicon of corporate governance but 'culture' per se is, as yet, absent. Given that the origins of the Corporate Governance Code are primarily financial, this is unsurprising. However with increasing evidence of the role that culture plays in corporate success and failure there seems to be a requirement for the board to increasingly develop their understanding of how to assess, oversee and influence culture and cultural change.

4. The influence of national culture as it relates to global organisations

A question faced by CEO's of global organisations is whether the organisation will be run as "one company" culture or as a multi-local culture or as a combination of the two? Arguably the answer lies in the extent to which customer demands are homogenised versus highly variant depending upon local specific needs. For example, where a product is recognisable and principally the same across locations – the obvious examples being the likes of MacDonald's or Coca-Cola the culture within the organisation might be seen to need to be the same. Where the customer's needs are driven by for example local regulations or where business transactions are typically local relationship led, the primary cultural drivers are likely to be local, with national societal cultural influences superseding the need for a truly global culture.

Arguably the most famous research that has studied societal culture as it relates to organisations is an extensive body of research by Hofstede & House - The GLOBE Research (1991-2010)⁶. They led a network of over 170 researchers through a sequence of interconnected business studies

encompassing 62 societies, 951 organisations and 17,300 managers across three industries (telecommunications, financial services and food processing).

By studying what managers said they valued (the way things should be done) versus practices (the way things are done) they studied how national cultures affect industry and organisational cultures. They also analysed which leadership styles and practices are valued and are effective within different cultures.

Their work defined nine dimensions that are globally applicable to all societies and therefore can be used to study cultural values and practices between nations and to study the degree to which global organisations have managed to develop a truly global culture with strength beyond national variations.

A key finding of their work was that at a national/societal cultural level as at a corporate cultural level what people say they value can be aspirational and distinctly different to that which is practised. This emphasises the requirement for national and corporate leaders to work continually to bridge the gap through their everyday actions and embedded management practices and not to be blinded by their own rose-tinted story-telling and rhetoric.

Hofstede more recently has worked hard to differentiate culture as a sociological i.e. large group metric, not to be confused with personality – which is an individual and psychological metric. His work has been influential in the world of marketing and communications to those who are challenged by understanding and influencing the proliferation of global brands.

GLOBE Research (House & Hofstede et al. 1998 – 2010)

Summary of key findings

1. *National and industry wide cultures typically super-ordinate organisational cultures, except in a small number of global organisations where the organisational culture dominated over national cultural values and practices.*
2. *Corporate values are guidelines with a high degree of wishful thinking. They have nothing to do with individual values.*
3. *Corporate values can be translated in to culture through practices if leaders and managers persistently set examples, reward compliance and punish infringement.*
4. *What leaders say they value isn't always evidenced in beliefs, behaviours or work practices – this is true at national, industry and organisational levels.*
5. *Managing culture is an inescapable and enduring task of leadership and management.*
6. *There are nine enduring societal cultural dimensions through which societies can be compared*
 - a. **Risk Aversion (Uncertainty Avoidance)** - *The extent to which rules and order are preferred and to which ambiguous situations are seen as threatening*
 - b. **Authority (Power Distance)** - *The extent to which the group accepts and endorses authority, power differences and status privileges.*
 - c. **Corporateness (Institutional Collectivism)** - *The degree to which institutional practices encourage and reward collective action.*
 - d. **Loyalty (In-Group Collectivism)** - *The degree to which individuals express pride, loyalty and cohesiveness in the group.*
 - e. **Equality (Gender Egalitarianism)** - *The degree to which the group seeks to minimize gender role differences.*
 - f. **Aggression (Assertiveness)** - *The degree to which the group encourages people to be assertive, aggressive and tough.*
 - g. **Future (Future Orientation)** - *The degree to which the group encourages and rewards future oriented behaviors such as planning and delayed gratification.*
 - h. **Success (Performance Orientation)** - *The extent to which the group encourages and rewards innovation, high standards and performance improvement.*
 - i. **Humanity (Humane Orientation)** - *The degree to which the group encourages and rewards individuals for being fair, altruistic, generous and kind*
7. *The profit from working on culture is identified through employee, customer and brand loyalty measures.*
8. *There are three universally endorsed leadership styles (values based, participative and team based leadership). Other leadership styles are highly dependent upon culture for acceptability.*
 - a. **Values Based** – *The Leader who sets standards, communicates the vision & values.*
 - b. **Participative** - *The leader who supports, gets involved, involves the team in decisions.*
 - c. **Team Based** - *The leader who guides, organizes, keeps the team together, corrects, leverages team members for distinct strengths.*

5. Methods of working on culture

Socio-analysis focuses on conscious and unconscious relationships between individuals, groups, organisations and society as a whole. The unconscious is perceived not simply as a place in the mind of the individual but as an intricate web of social relationships. In this, thinking and feeling are critical aspects of organisational functioning and central to descriptions of how culture is experienced (Gill and Sher)⁷. For example, organisations are typically structured as hierarchies in which authority lies within roles. How authority is experienced however, is subject to significant organisational difference. To be human means being highly sensitive about being regarded as inferior, our sensitivity to such feelings makes it easy to understand how outward signs of success or failure (better job, higher incomes, better car, designer clothes) become short-hand within cultures for social status. Social status comes close to defining our worth and how much we are valued. Higher status almost always carries connotations of being better, superior and more able. High up the social ladder it is easy to feel a sense of pride, dignity and self-confidence (*Richards and Pickett*)⁵. Advertisers play to our sensitivity to social comparisons, knowing we all buy things which enhance how we are seen. Organisations too, advertise themselves to encourage people to make social comparisons about how being part of the organisation (as an employee or customer) will elevate social position. Loss of face, humiliation and feelings of inferiority are powerful controlling forces that exist (often) unconsciously to maintain social order. People often find even the smallest infringement of social norms in the presence of others causes so much embarrassment that they are left wishing they could disappear or that the ground would swallow them up. Authority figures whom enjoy ridicule, who prey on individual weaknesses and incompetence and engage in leveraging social-evaluative threats create cultures in which people are less likely to challenge social norms.

Socio-analysis and other reflexive techniques help people to articulate (or make conscious) thoughts that are set aside (or repressed) due to the normal pressures of day-to-day work activity and the desire to be seen to fit in.

The Cultural Web (Johnson and Scholes, 1995)⁸ is a tool for exploring an organisation's existing culture and for defining the desired culture. It can be used to understand dominant factors in the current culture, to analyse what culture is needed to deliver a strategy and to understand the differences between the two.

The power of the Cultural Web is that it encourages leaders to surface the often unspoken elements of a culture that have become normal practice and have an often unconscious and disproportionate impact on the culture of the organisation.

When using the cultural web it is useful to think from the outside-in; think about how your key client's experience the organisation – what stories do they tell others the organisation? What rituals and routines do they experience when working with the organisation? How do people use power structures to get things done?

Some examples:

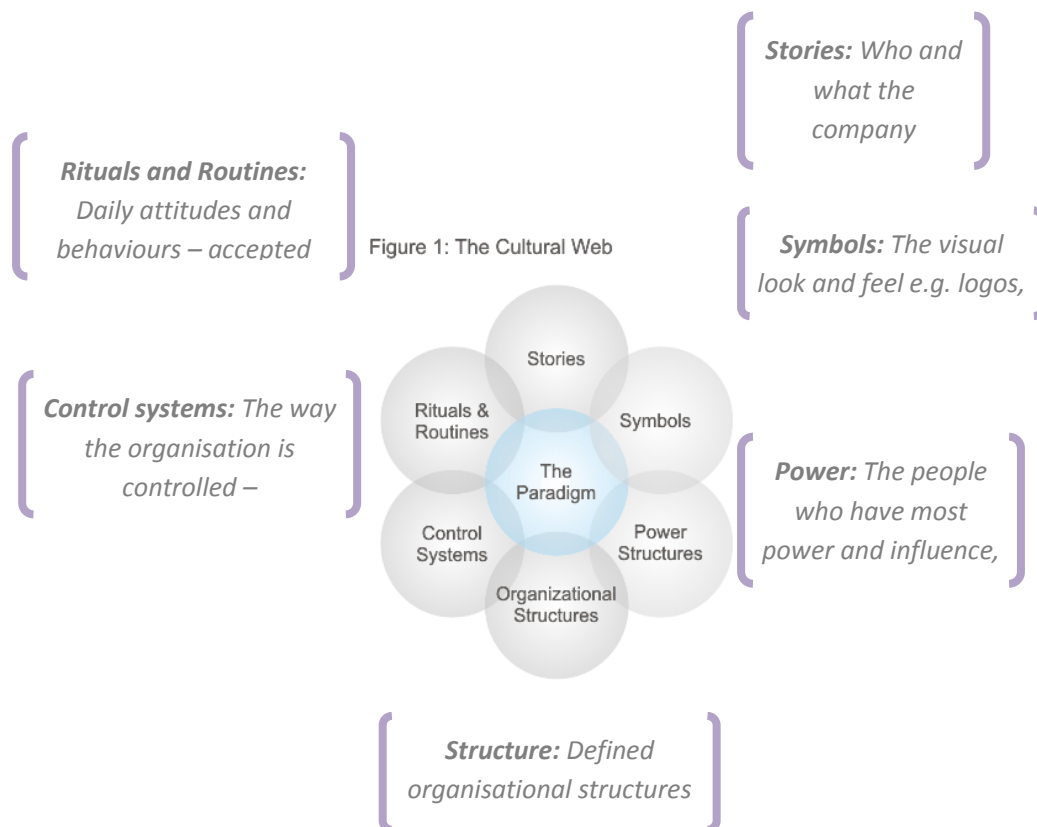
Consider the ‘Google-jam’- Google’s hiring process for programmers is an annual programming competition known as the ‘Google-jam’ – a top 10 finish in the competition guarantees graduates a place. Google graduates top the advocacy league of global organisations. Being visibly the best and being proud of Google is ingrained in their psyche.

The World Bank – When James Wolfensohn became President of the World Bank in 1995 he succeeded in delivering the World Bank’s first ever mission statement. His intention was to create a complete strategic and cultural shift in the purpose of the organisation and how it worked from a Bank that lent money to support development to a Bank whose focus was fighting poverty.

Mission: “To fight poverty with passion and professionalism for lasting results. To help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors”.

However as all of the management systems and processes remained focused on getting out the lending program, the mission statement had little operational impact. Thus Wolfensohn’s ten-year term was marked by a lot of energy and effort to introduce change. But it failed. The Bank remained as a Bank - lending money for development, not a Bank that was truly engineered to fight poverty.

O2 – when O2 bought naming rights for the O2 Arena it was generally considered an expensive and highly risky investment. But ‘The O2’ has systematically helped the company become synonymous with music and family entertainment. When people walk in to O2’s offices around the world they experience light airy buildings, open plan offices, comfortable open coffee areas and meeting spaces for people to talk and connect. Customers and suppliers are regularly encouraged to purchase tickets to experience and attend ‘The O2’.



Cultural Diary

For the leader entering a new culture or for the consultant employed to help an organisation review, design or make changes to a culture, the tool is an invaluable aid.

“A writer does not always know what he or she knows, writing is a way of finding out” (Alan Bennett, 1998)⁹

The value of a diary is that it is a reflexive and unobtrusive process enabling the writer to capture experiences, and emotional and rational responses to situations uncluttered by the need to act. What people say is valued as well as how they and others respond can be captured and explored from the perspective of how it is experienced.

A Cultural Diary is best considered as more than a log book, it is a social research tool offering an intimate look at the obvious and less obvious ways that the people in an organisation collectively behave.

Keeping a cultural diary requires that the author has sufficient emotional and rational/logical intelligence. Emotional intelligence (self-awareness; sensitivity and sufficiency of emotional language and understanding; the ability to put oneself in others shoes) is required to ensure that the emotional experience of being part of the organisation can be captured. Logical capacity is important to objectively analyse the data - distinguishing personal reactions from those which are more systemic trends and indicative of the culture of the organisation.

Guidelines for creating a cultural diary¹⁰ include the following:

- **Regularity** – the regularity of the diary is best kept constant. The diarist may choose event driven entries or time driven i.e. daily. The researcher may feel the need to write less often or more often at particular points – this can be analysed in terms of what is driving that need rather than changing the pattern.
- **Personal** – Entry to the diary is controlled by the diarist. However, failure to destroy a diary should be considered a desire for the contents to be read and accessed by others.
- **Contemporary** – A key component of diary value is that as much as possible it is contemporary and therefore not constrained by issues of recall.
- **A record** – the diarist records feelings, impressions, interactions – the expected as well as unexpected is considered important.

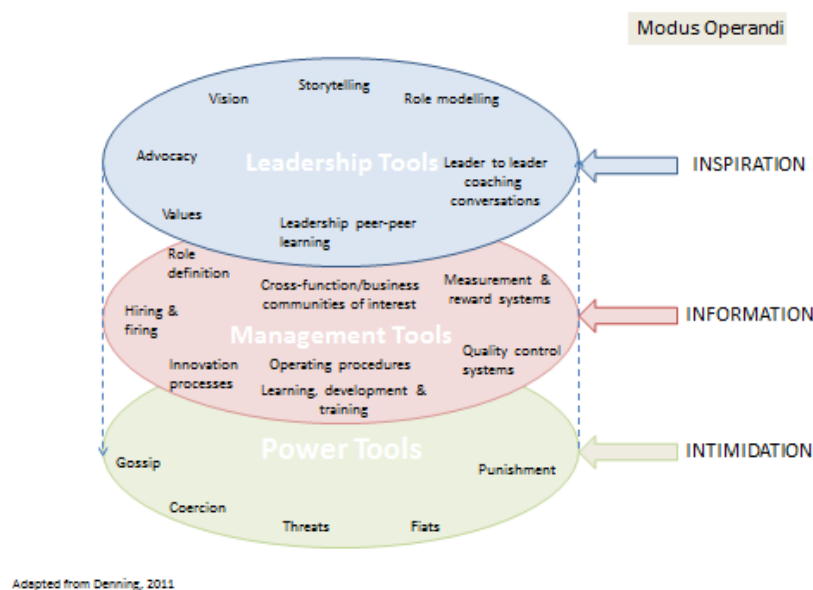
For the novice cultural diarist the language of the Johnson and Scholes Cultural Web can provide a helpful structure by which to get started.

Tools for creating and changing cultures

In general, the most fruitful success strategy for cultural change is to begin with **leadership** tools, including a vision or story of the future, cement the change in place with **management** tools, such as role definitions, measurement and control systems, and use the pure **power** tools of coercion and punishments as a last resort, when all else fails (Denning, 2010)¹¹.

Because culture is formed through an interlocking set of elements which are mutually reinforcing, **focus needs to be at all levels**. A particular emphasis for leaders is how the organisation is informally interpreting the culture. This is because it is the unspoken elements of a culture that are often the clue to what people really believe are valued and are truly representative of the organisation.

For example, if gossip and relationships with key players determines whether people are hired or fired it is unlikely that the formal hiring and firing processes will be effective. Or, if ‘equality and diversity’ are espoused values yet the leadership teams are all of similar age, gender and nationality, equality and diversity will have limited currency.



A significant challenge with work on culture is that as values, beliefs, behaviours and working practices are defined, they may also become over simplified in to **corporate acronyms** and in so doing, they can easily **lose full meaning** and therefore **never quite deliver**. To be successful they must become part of the lexicon – words and meaning - not just a memorable acronym.

6. Frequent mistakes when defining or working on cultural change

- ❖ Thinking inside-out, rather than outside- in. Customers and other key stakeholders have as much of a role in defining the required culture of an organisation.
- ❖ Investing considerable finance and effort in defining the vision, values and strategy but failing to put in place management tools that embed the change.
- ❖ Over-focus on reorganising structures and insufficient focus on the attitudinal and behavioural elements.
- ❖ Not giving tools and approaches sufficient time to embed and make a difference.
- ❖ Insufficient use of horizontal communication, word-of-mouth and communities.
- ❖ Underestimating the power of organisational rituals, myths and traditions that act to resist the changes.
- ❖ Inability to speak honestly about the required cultural changes. What do people really think and feel about the experience of being an employee or customer.
- ❖ Over-use of power tools such as threats, gossip and sanctions to get things delivered.
- ❖ Insufficient use of empathy, emotional intelligence and reflexive analysis to explore cultural dynamics.

7. Questions to consider

- i. What symbolises the Financial Services Sector's culture today?
- ii. Can a universal banking group comprising commercial bankers, market traders and investment bankers really share the same culture?
- iii. To what extent does Financial Services require a global culture?
 - a. In what way does 'the market(s)' influence a global culture?
 - b. How does the regulatory framework influence culture?
- iv. What is needed to represent the culture of Financial Services tomorrow?
- v. What is the opportunity for distinctness between financial services organisations?
- vi. Who else needs to be involved in this conversation about culture?

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[END]