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# CORPORATE CULTURE: ILLUMINATING THE BLACK HOLE

By Jerry Want

**Few terms in the American business lexicon have been more ignored or misunderstood as corporate culture - until now!** No wonder, given the spectacular failures of Enron and Arthur Andersen and the implosion of many hyper-growth companies such as Worldcom, Tyco, Global Crossing, and Providian Financial, as well as the legions of failed dot-coms. Corporate culture has now become synonymous with ethical wrongdoing, neglectful board oversight, and privileged and profligate senior management. The business pages have uncovered corporate culture problems in an alphabet soup of failed and failing companies, including: Adelphia, CSC Index, Hospital Corporation of America, Kmart, Kodak, Lucent, Montgomery Ward, Polaroid, Qwest, RiteAid, Sunbeam, United Airlines, US Airways, and Xerox. The list is not limited to the business world—there are many failed cultures in the government and non-profit sectors. Consider the recent criticisms of the Federal Bureau of Investigation, Immigration and Naturalization Service, Internal Revenue Service, Red Cross, U.S. Olympic Committee, and the United Way—all damaged by dysfunctional cultures. In fact, the failure and underperformance of all of these organizations, and many more, can be attributed as much to neglected and underperforming cultures as to outright wrongdoing.

In one way, it is refreshing to have all of these failures laid at the altar of neglected business culture. For too long, sound corporate culture building and management have been pushed aside in favor of the failed and overused fads and fix-its. Rightsizing/downsizing, business process reengineering (BPR), just-in-time, TQM, various go-for growth strategies, traditional business planning, and assorted financial manipulations have left the business landscape littered with bankrupt and underperforming companies, wasted technologies, lost assets, and derailed careers and talent. Given the business world's appetite for the latest fads and fix-its, there is a concern that "corporate culture" will become just the latest buzzword that will fade into memory.

No company can afford to let this happen. *Corporate culture directly affects every component of a business organization's performance,* ranging from leadership effectiveness to business strategy and planned corporate mergers. Business culture directly impacts the success of operations, human resources, decision-making processes, customer services, marketing and sales, policies, organization structure, and R&D. Business culture directly contributes to or detracts from the bottom line and may decide a company's very survival.

Failure to engage in proper culture planning and building is also the major reason why mergers fail or fail to meet their potential, according to Bearing Point. This has been most obvious in such mergers as Deutsche Bank-Bankers Trust, Quaker Oats-Snapple, Daimler-Chrysler, Novell-Corel, and of course in the most conspicuous of failed mergers-AOL-Timer Warner.

## The Company's Black Hole

Too often, corporate culture is seen as vague, undefined, and disconnected from business performance. As a result, companies will not even try to measure, manage, or develop their cultures. One CEO called it the company's black hole, another, "the 800-pound gorilla waiting outside my door." When seen within the context of the performance continuum illustrated in Figure 1, corporate culture comes to life. Quite simply, *corporate culture is the collective belief system that people within a company have about their ability to compete in the marketplace—**and** how they **act** on those belief systems to bring value-added services and products to customers and profits to the company.* Corporate culture is reflected through the behaviors, belief systems, commitments, values, decision-making processes, innovation, and productivity that affect the long-term, as well as day-to-day, performance of the business.

Many businesses mistakenly believe that their corporate cultures are invisible to the marketplace. In reality, they are quite transparent to customers, investors, the larger marketplace, and, as we have lately seen, to regulators and law enforcement. In this new, radically changed business age, customers have shown less loyalty to a brand name than to quality, reliable service, fair pricing, and ethical conduct. Innovative products are valued only as long as they are relevant, reliable, and cost effective. For example, SAP has lost significant market share to PeopleSoft because many customers believe PeopleSoft's product is more reliable and user friendly and requires less maintenance than SAP. It appears that SAP has a culture that ignores customer needs in favor of SAP's own.

Failing and indifferent cultures drive customers to competitors. The telecom industry has made a major investment (or wager) in new technology such as broadband wireless and fiber optics only to find that the marketplace was not willing to pay for the high cost of these products. This was a failure of culture—not just market strategy.

## The Hierarchy of Corporate Cultures

The hierarchy of corporate cultures is designed to connect the performance of cultures to the performance of their companies. Corporate cultures can be classified into two broad categories within the hierarchy: *Cultures of Shame* (failed and failing cultures) and *Cultures of Change*.

**Predatory Cultures** Companies with predatory cultures have garnered a lot of attention in the past year. These cultures contribute the least to performance while undermining employee productivity, custo-mer satisfaction, and marketplace and investor confidence. Predatory cultures are punitive, alien-

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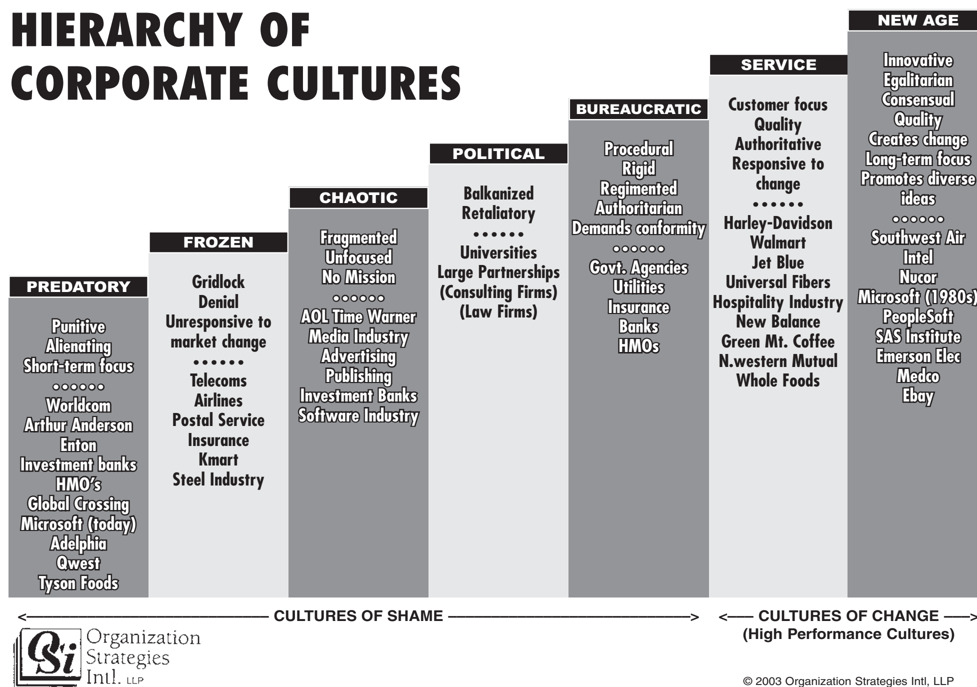
ating, and exploitive. They are blind to the true stakeholders of the business and are not able to anticipate future consequences for their actions. Predatory cultures rarely change from the inside and seem to respond only when faced with extreme shareholder pressure, external pressure through the media, increased regulatory scrutiny, and punishment (legal action). Within the hierarchy of cultures, these enterprises are the first to experience outright failure. Many times, predatory cultures are born of arrogance as seen at Enron and at Arthur Andersen, where any officer or partner was able to do as he pleased with few checks and balances and little regard for the well being of the larger business. But these two companies are only two of a long list of companies brought down by internal predators. In the past two decades, more than a dozen investment banks—including such giants as E.F. Hutton, Shearson Lehman, Prudential Securities, PaineWebber, Kidder Peabody, and of course, Drexel Burnham Lambert—have been mortally wounded by their own predatory cultures.

**Frozen Cultures.** Frozen cultures are paralyzed by gridlock and denial. These cultures have an aversion to risk-taking while showing little innovation and "over-the-horizon" planning. This aversion to risk taking starts at the top and is imposed on the entire organization by uncertain management that fears mistakes. New ideas rarely see the light of day, stepping outside the chain of command is not tolerated, and going around a boss can quickly end a career. As a result, senior management is never really informed about growing problems better seen at lower levels of the organization.

However, frozen cultures can be thawed. Consider the Contel Corp, a $2 billion independent telecom company founded on the premise that it would be more innovative and flexible while encouraging risk-taking as it competed with AT&T. After many years of success and growth into 32 states, Contel's culture became risk-averse and bureaucratic. Finally, a technology manager, frustrated with his inability to advance a "black box" technology in response to the competition's comparable technology, quit his job and parked himself outside the office of CEO Don Weber and waited patiently until he was given the time to share his concerns. Weber was quick to see the incident as a warning sign of an increasingly frozen culture that could cripple the company and turn it into just another telecom bureaucracy. Weber asked the manager to take back his job with the necessary empowerment to get the job done. Weber then went about finding out what was happening to the company's culture and corrected it.

Kmart has been in a deep freeze—and on the brink of failure— for nearly a decade as its board of directors is perpetually focused on merchandising and cost cutting while failing to recognize that the company has terrible customer service—in a service industry—and a hopelessly bureaucratic culture at its headquarters. It has also had five CEOs in 10 years. Entire Industries can exhibit a frozen culture as seen in today's telecom, airline, and steel industries as the companies just sit on their hands waiting for the markets to turn around—rather than taking strategic actions that will stimulate the market. In contrast, the auto industry, led by GM, had record sales during the last recession, by eliminating interest on auto loans and cutting prices on slow-selling models.

**Chaotic Cultures.** Chaotic cultures are fragmented and unfocused. They rarely have a focused mission or strategy that can be sustained in the competitive marketplace. Investment banks, advertising agencies, the media, and large partnerships frequently exhibit a chaotic culture. Consulting firms tend to walk a narrow line between chaotic and political cultures. When they start to spin out of control, as we saw at Arthur Andersen, they go out of business. Newly merged companies exhibit chaotic cultures, especially when little attention is given to creating a common culture amidst turf warfare. The preeminent example is the AOL-Time Warner merger. Many software and Internet companies exhibit qualities of a chaotic culture as they seem to focus only on the technology at the expense of sound management and planning practices. Shearson Lehman was created "overnight" through the merger of a number of smaller investment banks with the deliberate goal of challenging Merrill Lynch. It failed after just 10 years because warring factions were more committed to their previous companies, prerogatives, and turf than to the new larger enterprise. If management had committed to building a common culture, the company may have survived. Chaotic cultures have no internal rules that set the limit on internal political battling.




**Political Cultures.** Even the most positive cultures have an element of politics, but in companies with political cultures, the internal jockeying for influence, resources, position, and career advancement dominates the agenda. **In fact, warring factions balkanize these companies**. The organization as a

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whole never equals the sum of its parts, as turf warfare, hero building, and retaliation are normative behaviors. Political cultures differ from predatory cultures in that they do have implicit rules on how the politics are played while setting some implicit limits on the chaos created by the politics. Universities and large partnerships are examples of organizations that are dominated by political cultures. Of course, the ultimate political culture is found within the U.S. Congress, where politics is the "true business product or outcome."

The founder of Motorola, Paul Galvin (and later, his son Robert) encouraged the creation of competing new businesses within the larger corporation so that it would not lose customers to upstart competitors such as Zenith. If a customer could not get the product it wanted from one Motorola division, another could develop the product. Eventually, this created divisions within sectors, which fueled in-fighting as well as excessive overhead. While key managers battled over switching from analog to digital technology, during these internal turf wars, Ericsson and Nokia made the switch to digital technology, and took away Motorola's lead in the wireless industry. Not until 2000 did Chris Galvin start to break down the competing factions.

**Bureaucratic Cultures.** If there were fewer bureaucracies, there would be fewer Ralph Naders in the world. By placing the needs of customers **below** the needs of the bureaucracy, bureaucratic cultures turn once loyal customers into consumer militants while driving away the best and brightest talent. Bureaucratic cultures are associated with large organizations—typically phone companies, utilities, insurance companies, banks, associations, and government agencies, where checking and monitoring and complying with regulations are central to operations—but they are not limited to large firms. In fact, ***bureaucracy is a state of mind*** that infects the cultures and operations of small and large companies alike, regardless of industry. It becomes too convenient for all of us to fall back on rules, regulations, and technology even when it means erecting barriers between the company and its customers. Rather than reducing bureaucracies as promised, technology has only served to reinforce bureaucratic cultures through complexity and systems failure. How many times have we been told as consumers and workers that the "system is down" or "our systems won't allow us to do that"?

To be fair, many bureaucracies are created by the need to comply with outside regulation (e.g., utilities) or, as in the case of government agencies, to ensure fairness and to comply with laws. Problems arise when the entire organization's operations and culture become bureaucratic. Nevertheless, many highly competitive corporations that are relatively free of regulation build and maintain massive and inflexible bureaucracies. In some cases, the bureaucracy might represent senior management's efforts to isolate themselves from customers, employees, and investors. While never lacking for a mission, which stands in contrast to predatory and political cultures, workers and decision makers within a bureaucracy have a tendency to lose contact with their overall mission—they lose sight of the forest for the trees and drive customers to less bureaucratic, more service oriented competitors.

**Service Cultures.** The service culture is the first of two ***cultures of change***. Companies with service cultures focus on fulfilling the customer's needs first, in order to serve their own. Mission, strategy, structure, systems, policies, and operations all start and end with the customer. Service cultures recognize that their business or product ***is service***, beyond any particular product they may sell—just ask Nordstrom. Employees are empowered to serve the customer and solve problems for the customer. Business strategy is customer-centered in such companies as Westin Hotels, Northwestern Mutual, and Jet Blue. The service culture is not limited to service industry companies. Manufacturers Harley-Davidson, Johnsonville Foods, Emerson Electric and Universal Fibers are preeminent service companies that have built their success around customer wants and needs; Deluxe Check has a reputation for accuracy and lightning-fast delivery that has allowed little competition.

Most service cultures also value and empower their employees, as Whole Foods does by making employees responsible for product selection as well as employee recruitment and promotion. New Balance, too, has a service culture. It has shown that it can continue to manufacture its shoes in the United States (in contrast to its competition) while maintaining competitive prices. This has also reinforced the psychological contract between the company and its workforce. It is no surprise that New Balance reaps tremendous commitment and productivity from its workforce. Companies with true service cultures recognize that the employee is the critical link between the company and its customers. Companies with strong service cultures manage change by meeting or exceeding their customers' needs.

**New Age Cultures.** The top-performing culture, the ***new age corporate culture***, combines innovation with strong commitment to customers and employees. It fosters an egalitarian work environment that encourages bottom-up feedback from the workforce while employees not only share fully in wealth generated by the company, but also, in many cases, share the risks. New age cultures quickly seize opportunities within the marketplace or they create entirely new markets around new products and services—*they create change*. **When a com**

**Barriers to Culture Building**

**Understanding and overcoming barriers to the culture building process are as important as the change process, itself. Those barriers include:**

***1. Widespread resistance and fear.*** **People may talk about the need to change the culture, but acting on it will be threatening.**

***2. Overreliance on the fads, fix-its, and magic bullets.*** **Business culture is not changed through technology, restructuring, business process reengineering (BPR), or changing the company's name as seen at Philip Morris (to Altria) and Worldcom (to MCI). It requires an individualized approach with processes that are right for the company.**

***3. Not enough resources.*** **With all the resources that are being spent on unreliable technology and buying naming rights to sporting venues, there is no reason to short-change the culture. In fact, improving the culture is more likely to bring a greater ROI.**

***4. Reliance on incremental initiatives.*** **In light of the radical change facing most companies, today, and possible resistance to culture building, incremental goals will quickly be overwhelmed. Ambitious goals need to be set to ensure success.**

***5. The attitude, "We have no time: The company is in trouble."*** **When a company is up to its eyes in alligators, it rarely considers draining the swamp—culture building and change.**

***6. The attitude, "We have no need: The company is doing fine."*** **Top-performing companies such as Harley-Davidson, and PeopleSoft, and Alcoa-Tennessee make an ongoing commitment to the culture. They don't wait until something terrible goes**

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**pany creates change, it has an inherent advantage over its competition.**

Typically, high-technology companies are associated with new age cultures, but not all high-tech firms have these cultures, while some "low-tech" firms do. Southwest Air is one low-tech company that has a true new age culture. It has created new markets around customer needs by combining low cost with reliable (and even fun) operations that bypass the conventional hub and spoke system. Coffee blender and distributor Green Mountain Coffee and grocery retailer Whole Foods are two more examples of low technology companies that have discovered innovative ways to serve the marketplace while providing empowered decision making and wealth sharing for their employees.

New age cultures reject restrictive rules and rigid organization structure in favor of fewer rules and more informal structures that promote sharing and championing new ideas, talent, and resources. New age cultures are not for everyone in terms of employment as rules, structure, and a predictable work environment are less important. Unfortunately, some of these companies become so successful and so large that they lose touch with their roots. Microsoft is the best example of a true trailblazer that allowed large numbers of employees to become successful and wealthy as it created an entirely new market with its innovative software. Today, Microsoft has been found guilty of unfair trade practices that have largely ignored the customer. It has become a predatory culture, while its driven work climate has suffered numerous defections of key talent.

## Building a Better Culture

Recent developments in the business world have demonstrated that size and longevity provide no immunity from a failed business culture. However, a strong culture will sustain a business during hard times and can serve as a reservoir for the key ideas and initiatives that will carry a company through difficult times. Some of the requirements for corporate culture building include:

1. **Close the gap between business planning and culture planning.** Too many business plans and mergers have failed when the corporate culture is unable to support the new strategy.

2. **Create a corporate culture that embraces change—no change, no gain.** The need for control is the worst enemy of a change-ready corporate culture.

3. **Keep innovative people and their ideas at home.** Holding onto talented employees prevents them from becoming future competitors or working for your current competitors.

4. **Break down the bureaucratic mindset.** Downsizing is a poor defense against bureaucracy. Bureaucracies are best dismantled through empowerment and alternative performance standards that will promote a culture of innovation, risk-taking, and a shared common purpose where the market (i.e. the customer) comes first.

5. **Identify natural change leaders and empower them to lead the change process.** These leaders need not be senior managers. They may be the squeaky wheels of the organization and those who are always looking for ways to expand the envelope.

6. **Build a broad consensus for culture change from the bottom up as well as the top down.** The year before the AOL-Time Warner merger, Jerry Levin, CEO of Time Warner, decided he wanted to charge up the company's culture. His approach was to make a 45-minute video tape (typical of a media company) with his own thoughts on mission and culture and distribute it around the company. Needless to say, he did not achieve his goal. If the culture is to change, the culture building and change process must be accomplished through broad consensus building where everyone owns the process.

7. **Reinforce ethical conduct at all levels.** This is best accomplished by creating and maintaining one unified culture for the entire company. We have seen too many instances where "mahogany row" has a different culture with different values and rewards than the rest of the company and very few standards for performance and accountability. This alienates everyone within the company and will eventually kill off the culture and the company—as happened at Enron and Arthur Andersen.

8. **Create sponsorship at the top.** There are three types of CEOs when it comes to understanding and managing business culture:

*"I don't know,"*
*" I don't know how,"*
*"I don't care."*

A culture building process will succeed only if the CEO and other officers are in front of the change process as well as behind it.

9. **The culture is about behaviors.** Politics as usual, punishment, projection of blame, persistently negative attitudes, and obsessive compulsive behaviors must be replaced with positive behaviors or people who exhibit them.

10. **Never lose track of the customer.** Regardless of whether a company is in a true service industry (e.g. retail sales or hospitality) or the most exotic advanced technology, it must never lose sight of customer needs and requirements. *The customer will serve as the canary in the coal mine.*

## Goals for Culture Building

*The paramount goal for culture building is improved performance—for individuals and the business enterprise.* Other goals include:

- Reinforce ethical standards—at all levels of the organization.
- Increase organizational competence.
- Build flexibility into the culture.
- Encourage reasonable risk-taking and innovation.
- Create widespread worker empowerment.
- Create a change-ready culture.

In an age of radically changing business conditions, a company's culture may be its first line of defense against failure and its ultimate competitive resource.

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