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ORGANIZATIONAL CULTURE:

Measuring and Developing It in Your Organization

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Think about organizations that are the leaders in your business or industry sector. What is it that is giving them competitive advantage? Cost? Quality? Technology? Product and process innovation? Customer service? Logistics chain? Talent? Or brand? Yes, each of these may be a key factor that helps organizations differentiate themselves. However, there is a much less obvious and less tangible factor that also can be a determining source of competitive advantage. That factor is *organizational culture*.

Defining Organizational Culture

Culture is a conceptual word that has been discussed for thousands of years by anthropologists, sociologists, historians and philosophers. Each society is underpinned and defined by a distinctive culture. Culture is a set of values, beliefs, common understanding, thinking and norms for behaviour that are shared by all members of a society. You cannot precisely define it, but you can sense it and feel it. Culture provides guidance to behaviours in the society, in apparent and sometimes unnoticeable ways; and it profoundly influences your decision-making.

The same understanding that applies to societies can be well applied to management science. Organizations are quite similar to societies and communities in the sense that they are constituted by a group of people who distinguish themselves by clear boundaries from other work groups. Through working together, people gradually develop their own way --- a habitual or sometimes taken-for-granted way --- in achieving unitary objectives; and by adapting to, while being adapted by, other people in the organization.

To have a strong and effective organizational culture, you will want to be asking questions like these: Do all employees in my organization have a common understanding of our purpose, strategy and goals? What are the core values in our organization and do all have a common understanding of these values? Do we have a team spirit in our organization? Is everybody highly involved and committed? How do we define success? How do we handle agreement and disagreement? What behaviours are regarded as deviant in your company? How adaptive and innovative are we as an organization? The feelings of every member towards every aspect of corporate life, when counted together, constitute your organizational culture.

At the surface level, culture can present itself as visible symbols, slogans, languages, behaviours, histories and stories, dress codes, heroes, legends, rituals and ceremonies. But underlying these visible signs of culture, are the core values, beliefs and shared assumptions of each employee that help define the organization's culture. Do not expect your organization's culture to be easily changed by switching your logos, rearranging the layout of your office space, or repeating some heroic stories to your employees. They may work to a certain degree but are definitely far from adequate to win your employees' hearts and their minds, as well as the market. What you need is some deeper analysis and reflection of your people's collective beliefs and assumptions. Only when you understand these in more depth will you be able to define appropriate steps to strengthen your organization's culture and effectiveness.

Why should leaders care about organizational culture?

If you consider the organizational culture issue to be of little importance to your organization, you may want to rethink your views. Organizational culture has been extensively studied over recent decades. This research affirms a strong link between organizational culture and organizational performance. The reason is obvious: bureaucratic control could only buy employees' bodies but not their hearts. A strong organizational culture, however, can be a primary generator of real motivation and commitment. In a strong and cohesive culture, the organization's core values are both

intensely held and widely shared. This high intensity of common beliefs makes it relatively easier to draw consensus among employees, to build a focus on important goals and objectives, to reduce potential conflicts, to cultivate a learning environment, and to lower staff turnover. A strong culture has a unique absorptive power to congregate people. Employees no longer need to be compelled to work hard but do so willingly. They identify themselves with their organization, just as they do with their families and communities.

You may be questioning at this stage. You can see the impacts culture produces on my organization's internal integration, but how about our economic performance? Is there any convincing case? The answer is a definitely yes, based for example, on the results from large-scale surveys conducted among a broad range of companies. In Kotter and Heskett's 11-year research into 207 firms, they come up with exciting results: companies with cultures that emphasize all the key managerial constituencies (customers, stockholders, employees) outperform by a huge margin firms that do not have those cultural traits. During this 11-year period, the former group achieved an increase of 682% in revenue while the latter had only a 166% increase. Considering workforces, the former expanded 282% compared to 36% for the latter. The contrast is even more conspicuous in stock prices: 901% increase versus 74% increase; and for the growth in net income, 756% versus 1%.

What Kind of Culture Do We Want?

You may have started thinking: 'I want my organization to have a strong culture! How do I get that done?' However, we first must offer a warning. Strong culture does not unconditionally bring immense advantages. While benefiting from cohesive values and work objectives, you might also be confronted with an inflexible cultural barrier if you want to make changes. Once people get used to a culture, they begin to develop a protective instinct against any change. Under this circumstance, strong culture could bind people together to form a defensive or non-adaptive strategy, sometimes to the extreme of being catastrophic and uncontrollable. However, if

replaced by a weak culture, things would be much the opposite: as the group is fragmented and people are individualistic, they are less likely to form collective resistance; structural change and innovative techniques are therefore much easier to be put into action.

In a dynamic market economy, organizations that are slow in reaction to external changes would be very fragile. We frequently notice that many companies are now labelling 'innovation' as one of their central objectives and are investing in R & D and bringing in new management or technical tools. What they frequently ignore, is that innovation cannot be easily implanted. A full and actual integration of it takes a long time, since it is much easier to accept it technically than culturally and emotionally. People are forced to forget all about their familiar system and to become fresh-hands again. It is not a good feeling, particularly when they encounter problems during the learning process. However, if your organization possesses a learning environment where people always keep up with the latest trends in your industry, where challenging the status quo and constant search for improvement are valued, you could probably avoid the above problems. An excellent culture should be flexible to environment, and each individual, including both top management and bottom employees, should be open to change.

In a word, a desired organizational culture is stable and flexible --- stable in their vision, values and mission, but elastic in the structure and operations; it should focus on both external adaptation and internal integration --- adapting to the customer and market and satisfying to employees at the same time.

How Do We Know Our Culture?

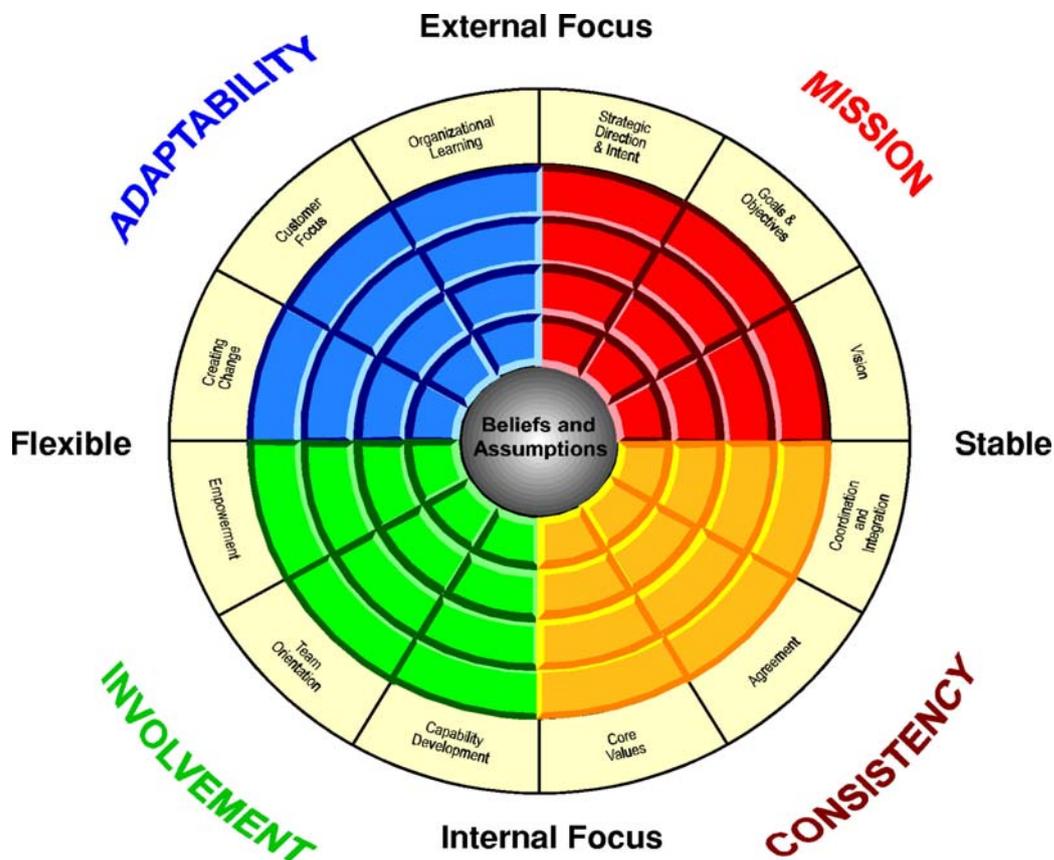
Let's turn now to some practical information about understanding and measuring your organizational culture. This is indeed a difficult task. During recent years, academics and practitioners in management science have focused on studying how to measure the dimensions of organizational culture and how such measures relate to the effectiveness and competitiveness of the organization. Here, we would like to present

what we believe to be one of the most valid and useful models and measures of organizational culture. It was developed by Dr. Daniel Denison, a famous professor at IMD. In the early 1980s, he studied the performance data from 34 firms and found that in those organizations whose work is more sensibly organized and where individuals are more involved in decision-making, Return on Investment (ROI) and Return on Sales (ROS) are two to three times higher. The longer the research lasts (such as 5 years after), the more significant the performance gap between high-end and low-end companies. After the first set of studies, he continued and expanded the range of companies that his research covered; the total number of companies has reached 764 by 1995 and is still growing rapidly year-by-year.

The result of this global research is that four cultural traits (adaptability; mission; involvement; and consistency) influence organization performance to a significant degree. Through a precise examination by statistical tools, the effects of these four traits are remarkably reflected in Sales Growth, Return on Assets (ROA), Quality; Profits; Employee Satisfaction; and Overall Performance. From this vast database – now contributed by more than 1,500 companies from every part around the globe (covering North America, Australia, Asia, South America, and Europe), more than 550 were selected out to form a reliable norming benchmark. Within this organization pool, small, medium-sized and large multinationals are included, many from the Fortune Global 1000 companies. They significantly differ in the number of employees (ranging from 10 to 866,730); in gross revenue (from \$200,000 to \$184,000,000,000) and in company life band (from 5 years to 200 years). As you can see, this database is large, technically and scientifically reliable.

The findings from a company's use of this organizational culture measure are displayed in a colourful and easily understood pie-shaped circle, shown in Figure 1.

Figure 1. The Denison Organizational Culture Model



Let us look at this model as shown above. At the very centre of it lie an organization's basic beliefs and assumptions. These beliefs and assumptions are the wellspring of behaviour and action, but are well hidden under the surface of daily corporate life. However, we can still approach culture in a more measurable and useful manner. The four-trait model in Figure 1 provides such a possibility. Each of the four coloured quarters above is further divided into three sub-dimensions as defined below.

Involvement is about building employees' capability, ownership, and responsibility. Your organization's score on this trait reflects how much the organization focuses on developing, informing, involving your people and getting them engaged.

Empowerment: Are your people empowered with real responsibility? Have they created a sense of ownership and initiative?

Team orientation: Value is placed on working cooperatively towards common goals. Do you rely on team effort to get work done?

Capability development: Do you continually invest in the development of your employees' skills to stay competitive, meet ongoing business needs, and meet employees desire to learn and develop?

Consistency is to examine whether you have a strong and cohesive internal culture.

Core Values: Does your company have a shared set of values that creates a strong sense of identity and a clear set of expectations among organization members?

Agreement: Are leaders skilled enough to achieve high agreement and reconcile different opinions on critical issues?

Coordination & Integration: Do different functions and units of the organization work together well? Do departmental or group boundaries interfere with cooperation?

Adaptability is focusing on an organization's ability of adapt quickly to the signals from the external environment, including customers and the marketplace.

Creating Change: Are we afraid of taking risks to create change? Are we learning to read the business environment, envision changes in process and procedures, and make timely change?

Customer Focus: Adaptable organizations are driven by their customers; are you able to understand your customers, satisfy them and anticipate their future needs?

Organizational Learning: Can you interpret the signals from the environment into opportunities for encouraging innovation and gaining knowledge?

Mission: Successful organizations have a clear sense of purpose that defines long-term directions. The Mission trait is useful in identifying whether you are in danger of shortsightedness or you are equipped with systematically defined strategic and action plans.

Vision: Do you have a shared view of a desired future state? Is that vision understood and shared by all in the organization?

Strategic Direction & Intent: Are you planning to ‘make your mark’ in your industry? Clear strategic intentions convey the organization’s purpose and make it clear how everyone can contribute.

Goals & Objectives: Is a clear set of goals and objectives linked to the mission, vision, and strategy adequately provided so that everyone could draw as reference in their own work?

Now look at the whole picture. The two traits on the left side of the pie (*involvement + adaptability*) focus on change and flexibility while the other two on the right (*mission + consistency*) shows the capability to remain predictable and stable over time. Divided by the horizontal middle line, the upper part (*adaptability + mission*) is something related to an organization’s adapting ability in response to the external environment and the bottom part (*involvement + consistency*) emphasizes the issues on internal integration of systems, structures and processes.

One of the uniqueness of this model is that it focuses on two paradoxes that each company is constantly seeking to balance. One is *consistency* versus *adaptability*: companies that are market-focused may encounter problems with internal integration but those too well integrated may be over-controlled and lacks adequate flexibility to adjust to the environment. The other is top-down vision (*mission*) versus bottom-up (*involvement*): organizations with too much emphasis on general corporate mission may frequently ignore the issue of employee empowerment and buy-in, but organizations with strong participation may have a hard time in establishing direction.

Besides the self-evident indications from the four colourful quarters, it is also meaningful to see this graph as a whole, no matter vertically, horizontally or diagonally. What’s more, different traits relates to different aspects of your company's performance. According to the research results, external perspective greatly influences Market Share and Sales Growth, while internal focus is more about Return on Investment and Employee Satisfaction; the effect of flexibility is strongly related to innovation of new products and services, and stability is directly contributing to

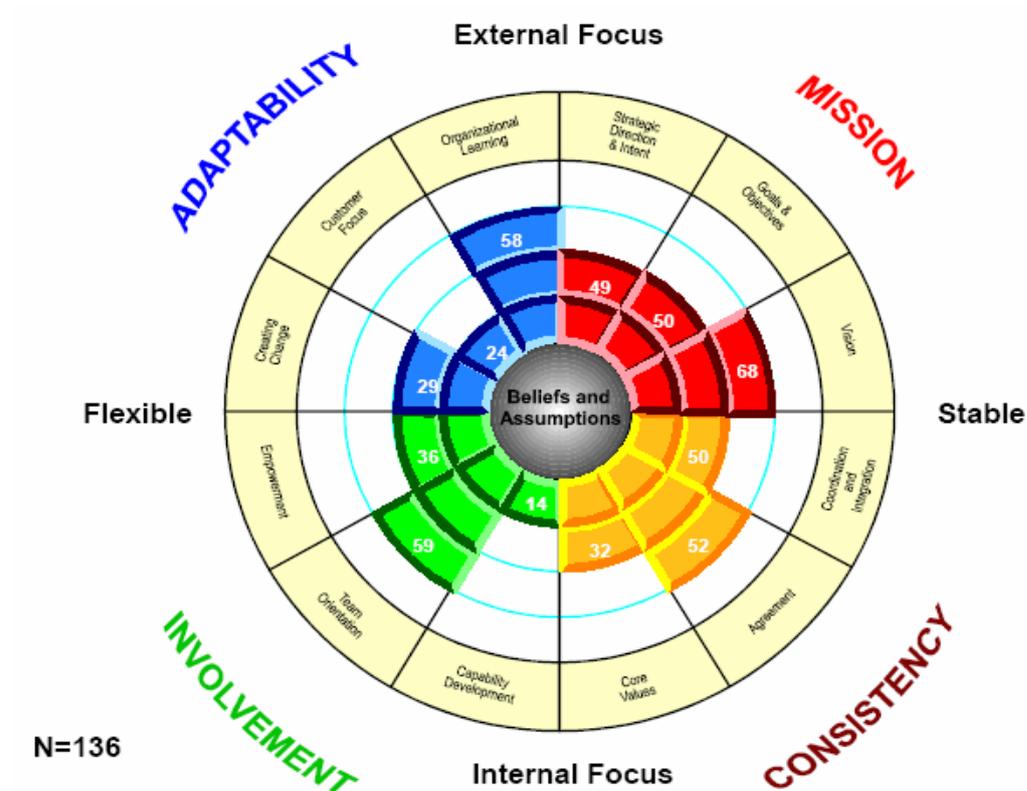
financial performance such as Return on Assets, Return on Investment, and Return on Sales.

Measuring Organizational Culture in China

With the permission and cooperation of Dr. Denison, we have translated and cross-translated the Denison Organizational Culture measure into Chinese and have used it with a variety of organizations in China; including a Chinese insurance company, the China sales and marketing units of a global high-tech company, the China manufacturing and China based regional headquarters of a global office furniture company, the China commercial unit of a global consumer products company, and three hospitals in south and east China. The organizational culture measure asks employees at all levels to describe their organization in a survey questionnaire composed of 60 questions. It takes around 15 minutes to complete, either on-line via the internet or in hard copy, both Chinese and English languages are provided upon request.

Let us take a look at how the Organizational Culture measure can be used. Figure 2 presents the organizational culture profile as described by 136 employees at all levels of the China operations of a global office furniture company based in Shanghai. The numbers presented for each organizational culture dimension are percentile scores based on comparisons with over 550 companies that have completed the organizational culture measure. For example, the score of 59 on Team Orientation indicates that 59% of the companies are lower and 41% of companies are higher than this company on this particular dimension. The score of 14 on Capability Development says that 14% of companies are lower and 86% of companies are higher on this dimension.

**Figure 2: Organizational Culture Profile for a Global Office Furniture Company
in China**



Perhaps a brief introduction of background information on this company will help you understand the situation better and match it with the organizational culture profile. This Shanghai based company is the Asia Pacific and China headquarters of a major global manufacturer of office furniture, which has an aggressive global expansion strategy of setting up and/or acquiring manufacturing facilities around the world. The global company tries to leverage, across geographies, its various resources such as global major accounts, product lines and procurement capabilities, to work in a more integrative way rather than to have isolated product development and sourcing in different locations.

Under this global strategy, many organizational changes initiatives were happening in this company. Historically a manufacturing-driven company, they have

shifted their focus to become customer-driven, and would like to collaborate with architects and designers to define and provide satisfactory workspace solutions, emphasizing on positive customer experience. Previously importing 70% of their components from North America with products designed mainly in US and Europe, they were stepping up on localized sourcing, production and product development. This helped to both lower the cost and push down from the high-priced segment to the medium-priced segment to meet the local customer's price expectations, and to be closer to Chinese customer's specific needs.

An important decision was made to move the company's Asia Pacific regional headquarters from Hong Kong to Shanghai. There were two primary reasons behind this move. Firstly, the centre of their business has been shifted to Shanghai as many of their global clients are moving their Asia Pacific headquarters, R & D centres etc. from Hong Kong, Singapore, Tokyo to Shanghai. Secondly, such a movement would help it better integrate the Shanghai manufacturing plant into the big picture of their Asia Pacific area; the China branch was previously largely neglected due to being disjointed from the headquarters' key decisions, especially on those issues regarding marketing.

The regional top management team members were moved to Shanghai and a sales office and the Shanghai plant were restructured... People in the Shanghai branch (both plant and sales office) were motivated because it enhanced their ability to learn by being closer to a regional team. However, integrating the marketing and operations team in the Shanghai factory remained an issue. These two had some historical frictions, but the situation was further compounded by the fact that marketing was 'entering' into the domain of operations, which required a sharing of power and a willingness to integrate. Besides, with of the pace of change and the coming of a new management team, scepticism emerged from both the former regional team and the central corporate, being unsure of the possible impact by organizational change and the future status after taking that strategic direction.

In summary, the company's aspiration is to get control of their destiny and to be an active contributor to the global strategy. Their primary objectives, after the move,

are focused on following issues: seeking closer integration of marketing and operations, initiating more proactive local design, sourcing and strategic alliances, developing local talent, and building a cohesive leadership team with a high performance organizational culture.

Examine the situation and match it with the culture profile. What are some of the change management actions you would consider if you were the Managing Director of this company? There are typically four steps in looking at the organizational culture profile:

1. Look at the general profile and identify main strengths and weaknesses;
2. Look at key strengths;
3. Look at key weaknesses;
4. Put forward action steps.

What can we learn from this organizational culture profile? Among other things, you can see that the dimensions associated with Vision, Team Orientation, Organizational Learning and Agreement are above average. The high score on Vision may be interpreted as people in the organization have a clear idea as to the Vision of this company. Team Orientation and Agreement dimensions indicate that the employees are aligned to work well in teams. The high score on Organizational Learning reflects the changes that are happening in the industry and market, and that the company is trying to learn about the external environment in order to better adapt to it.

The dimensions of Capability Development, Customer Focus, Creating Change and Core Values are relatively low. Capability Development has the lowest score of all dimensions: it may mean that the employees have not received adequate training and development opportunities, or at least, would not think they have adequate opportunities. Though transforming into a customer-driven company, the low score on Customer Focus indicates that this transformation is not yet completely successful. The low score on Creating Change, coupled with the changes that are taking place in the organization, suggests that there is still some change resistance among the employees and the leadership needs to make efforts to ensure buy-in for the change and provide managers with change management skills.

If we divide the figure into left and right parts, you may see that all scores on the right side are at least in the second quartile (>25), while the lowest three scores are all on the left side of the wheel. We would conclude that this company is more stable than flexible; better at Mission and Consistency than Adaptability and Involvement. With the rapidly changing external environment (fast growing business opportunities) and the rearrangement of internal structure and processes, this company needs to build more on Adaptability and Involvement to excel.

Would you be interested to know the actions considered by the Managing Director and his leadership team of this company? With the help from Denison model, they thought carefully about some of the key issues and came to the following agenda:

1. With regard to Capability Development dimension: give employees more room for self-development. The company may consider implementing training and development needs analysis and action plans with every employee and put in place the processes for well developed, communicated and implemented individual development planning and review.
2. As for the Customer Focus dimension: do real enhancement to the Customer Focus mindset among all employees. The company will start customer focus initiatives including team visits to customers; Customer Management System (CMS) upgrade; communication, follow up, and outcome tracking on all customer issues.
3. On the Core Values dimension: make sure all of the organization members have shared core value. In achieving this, more communications will be encouraged: they may conduct “Line of sight” workshops, communicating around core values, strategic intent and vision.
4. To address change resistance and ensure buy-in of all, they would need to strengthen coordination and integration among sales, marketing and manufacturing. In addition, change management and coaching workshops will be conducted.

Other steps may include:

- ✓ Tracking costs and trends in employee turnover
- ✓ Adding Organizational Culture to the Balanced Scorecard metrics

In the 18 months since the organizational culture measure was first taken, this company has adopted a number of actions to strengthen its organizational culture and has experienced significant increases in sales, profitability, customer satisfaction and employee satisfaction. We expect a follow-up organizational culture measure later this year will reveal significant improvement in the relevant organizational culture dimensions that have been addressed by the company's leadership over recent months.

We hope you could have developed some skill in interpreting the Denison organizational culture model after reading all the above explanations and sample illustrations. Here are some other organizational culture profiles from organizations in China. What is your analysis of these situations?

Figure 3 shows the organizational culture profile of a Chinese insurance company. It is one of the traditional small insurance companies with a hierarchical structure. As you may know, the insurance industry in China is undergoing profound changes. In addition, at the time when the survey was administered, this company has just gone into a joint venture with a big international company, bringing about internal changes and frictions. The profile well depicts such a problematic situation, which is compounded by severe external competition and significant internal tensions. Do you see some possible actions that would follow from this profile? What dimensions would you think are the most urgent needs? Could you provide some suggestions?

Figure 3. The Organizational Culture Profile for Chinese Insurance Company

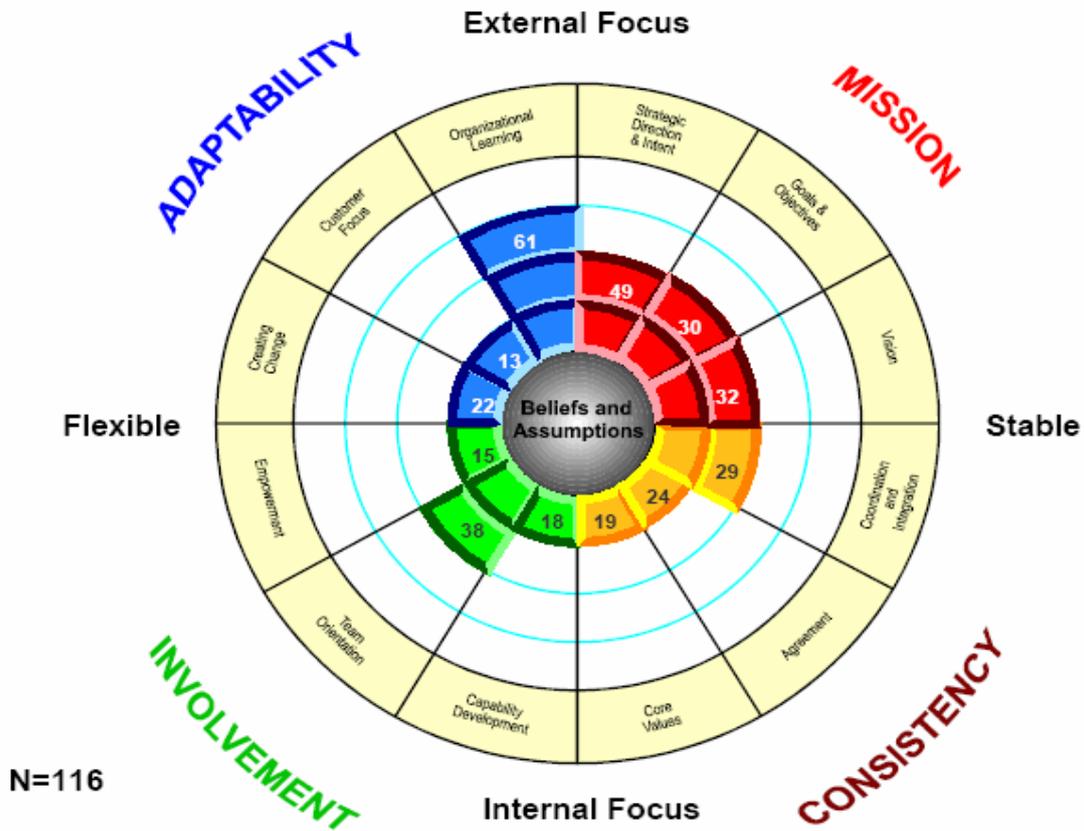


Figure 4 projects a completely different situation. Every cultural trait of this profile is looking quite good, and 9 of the 12 dimensions are well above average. This is the survey result of a global consumer products company in China. Sales driven and task oriented, they are the market leader and out-perform almost all their competitors. What action steps would you recommend for this company? Perhaps additional attention to Customer Focus and to Individual Capability Development?

Figure 4: The Organizational Culture Profile for a Global Consumer Products Company in China

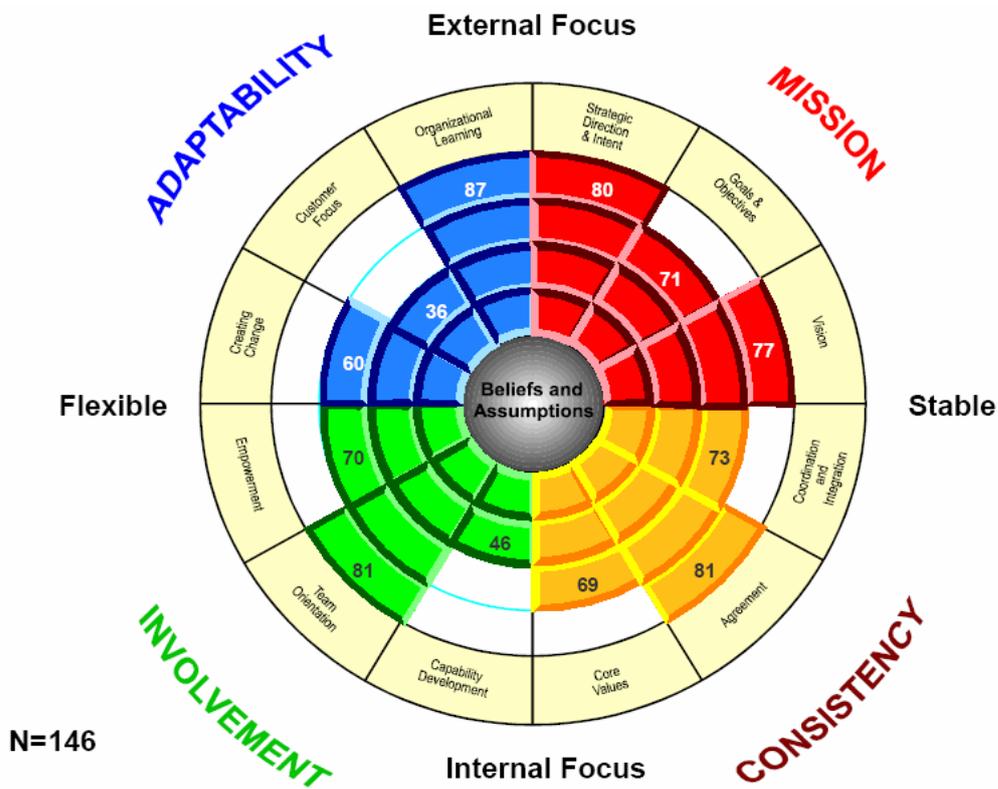
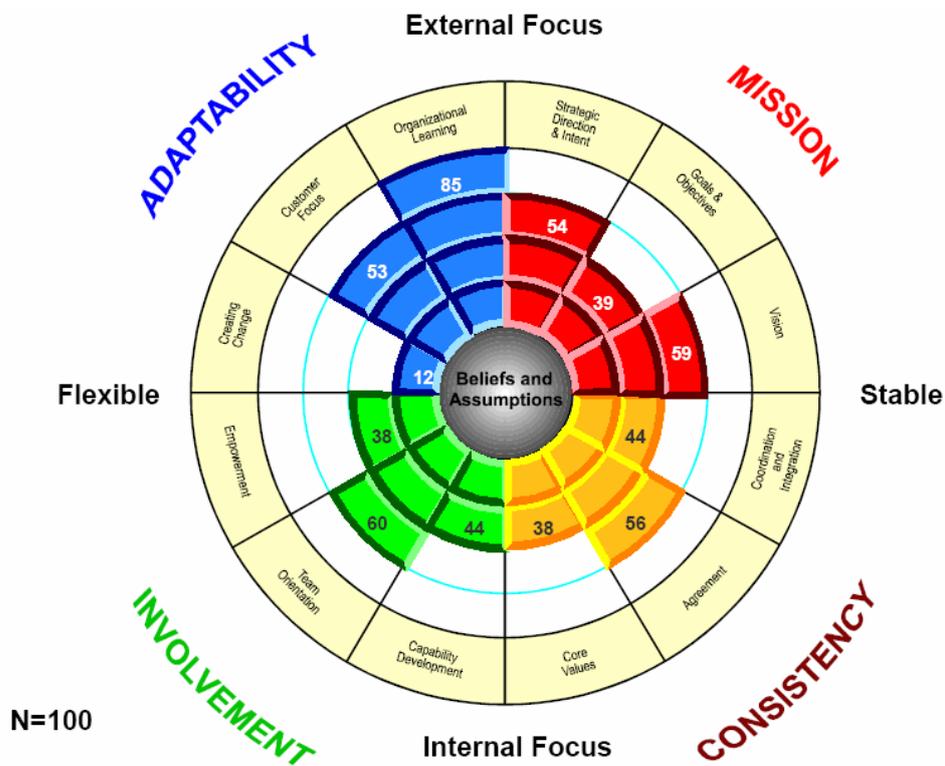


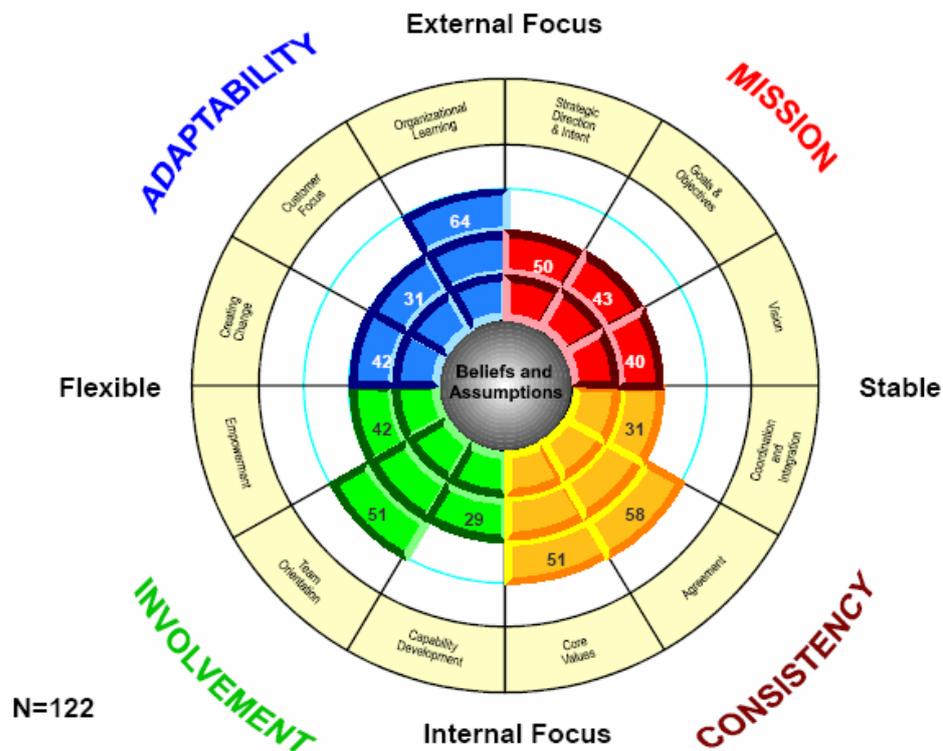
Figure 5 is the cultural profile of a hospital. It used to be a typical example of those traditional state-owned big hospitals, but was about to transform into share-holding structure and to solve the redundancy problem by downsizing, at the time of the survey. With pressure from the top to reform and discontent from employees on downsizing, what action steps do you envision based on the cultural diagnosis provided below?

Figure 5. The Organizational Culture Profile for a China Hospital



The last example is the graph in Figure 6 of the China sales units of a global high-tech company. It faces severe market competition at the time of the survey and its market share was shrinking. What would you suggest they do to fight back on their competitors and rebuild their market position?

Figure 6. The Organizational Culture Profile for a Global Hi-Tech Company in China



Each of these organizations above finds the cultural data helpful to better know about their organization and people, to identify necessary change initiatives and to measure the effects of changes in their organizations. Would you find this a useful diagnostic and change management measurement tool?

Uses of Organizational Culture Measures in China

We believe there are a number of valuable uses for organizational culture measures. Organizational culture measures can be a highly useful diagnostic tool for visualizing the balance in your organization between Consistency and Adaptability, between Mission focus and Involvement, between Stability and Flexibility, and

between Internal and External focus. Each of the organizations profiled above is doing just this. As already discussed, the organizational culture measure can be a valuable tool to assess where you may want to focus your change management time and attention. For China organizations that are merging, moving to shareholder status, and/or adapting rapidly to the market economy, the organizational culture measure can be a valuable input to the transformation process. The China hospital profiled above is doing just this. Further, as more companies in China are adopting a rigorous Balance Scorecard, the organizational culture measure can provide useful metric for the people development, customer focus and other strategically important components of your balanced scorecard. The consumer products company profiled above is doing just this. By correlating some of your key effectiveness measures, e.g. sales versus goal, employee satisfaction and turnover, leadership with unit organizational culture, you can analyze not just descriptive differences among units but also the organizational culture correlates of the effectiveness criteria. The high-tech company profiled above is doing just that.

In summary, measuring organizational culture can provide you with important information that will help guide your transformation and change processes. When organizational culture is measured before, during and after change initiatives, it can be one important change effectiveness metric. Organizational culture measure can be an important addition to your balanced scorecard metrics. And most importantly, you can demonstrate how organizational culture and changes in organizational culture are related to changes in your organizational effectiveness. In short, measurement of organizational culture can be a strategically important addition to your tool kit as you continue to develop your competitive advantage.

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