

# Preface

It is increasingly recognized by researchers, practitioners, and managers alike that corporate culture is of critical importance to organizational success.<sup>1</sup> Even though this is the case, there are many organizations where the corporate culture is not managed, and in some cases the concept is not even understood.

## **Corporate Culture: The Invisible Strategic Asset**

For some companies—such as Google, Southwest Airlines, Johnson & Johnson, and many others described in this book—a strong positive culture is a true asset, if not in the strict accounting sense then in the real economic sense. Flamholtz (one of the authors of this book) has suggested that culture actually is an asset or form of organizational human capital in the accounting sense as well.<sup>2</sup> At the other extreme, are companies—such as GM, Reuters, AIG, and others to be described throughout this book—where corporate culture is a true economic liability, not in the technical accounting sense but in the colloquial sense of this term.

This dichotomy (asset or liability) and the critical importance of corporate culture is shown clearly in the case of two companies: Starbucks Coffee Company and General Motors. The former is a classic entrepreneurial success story with a strong positive culture that is an economic asset; the latter is a classic case of corporate decline attributable at least in part to a dysfunctional culture, lacking in entrepreneurship behavior for decades, even as its decline persisted.

Although its significance is recognized, the concept of corporate culture as well as how to manage it in a practical way in organizations has remained tantalizingly elusive. There is a substantial amount of literature on the concept of corporate culture, but much of it can be described as academic or theoretical. The focus tends to be on the concept of corporate culture as a social-psychological construct or as a dimension of organizational health.<sup>3</sup> The literature does not fully recognize the importance of culture as a driver of financial performance and as a component of corporate strategy. Further, little emphasis is placed on providing a systematic practical method for managing culture as a key dimension of corporate performance. As a result, there is a serious gap in the existing literature.

### **Purpose of This Book**

This book is intended to build on and complement, while at the same time fill the gap in, the existing literature. It is based on a different perspective from previous, competing books. Specifically, it views culture as a driver or determinant of corporate financial performance (the so-called bottom line) and as a source of sustainable competitive advantage. This book offers a theoretically sound but practical (user-friendly) method for managing corporate culture.

In brief, the rationale for this book, its ultimate goals, and its content orientation are different from the existing literature. Accordingly, this book:

1. Explains why corporate culture is a critical factor in organizational success and failure, a key driver or determinant of the bottom line of financial performance of business enterprises, and a critical source (and possibly the ultimate one) of sustainable competitive advantage in organizations (that is, a stealth competitive weapon)
2. Presents methods for measuring corporate culture to facilitate its management
3. Describes the current state-of-the-art in corporate culture management as well as the limitations, challenges and opportunities associated with developing this field
4. Offers a framework for understanding corporate culture

5. Identifies the five elements of corporate culture determined by empirical research to be the key drivers of organizational performance<sup>4</sup>
6. Introduces a five-step framework (model) for management of corporate culture as an ongoing process
7. Provides a set of tools for managing corporate culture in actual organizations

Throughout this book, we present examples of companies that are dealing with the issues involved with managing corporate culture and identify the lessons that can be learned from their experiences—that is, how they have used or are using the specific tools to identify, communicate, and reinforce their culture.

## Overview

The focus of *Corporate Culture: The Ultimate Strategic Asset* is to help people actually manage corporate culture. It is not just a treatise about corporate culture. In this book, we instruct managers and students in how to manage corporate culture as a source of competitive advantage and as a means of influencing the bottom line of financial performance. We also give in-depth examples describing what actual companies do to manage their corporate culture.

The book is organized into three parts. Part I discusses the nature and importance of corporate culture, presents a framework for better understanding culture, and describes a process for managing it. Part II deals with management of the key dimensions of corporate culture, identified through our own empirical research and practical experience. Part III focuses on culture management leadership, including the important roles that senior executives and those in the human resource function need to play.

### **Part I: The Role of Corporate Culture and Culture Management in Organizational Success**

Part I contains three chapters. Together, they constitute a foundation for understanding and managing corporate culture.

Chapter 1 deals with the concept of corporate culture and the many

reasons it is a critical aspect of organizational performance—with special emphasis on its role as a source of sustainable strategic advantage and a key factor that has an impact on the financial success of business enterprises.

Together, Chapters 2 and 3 are designed to present a theoretically sound, but practical (usable), framework for management of corporate culture. In Chapter 2, we (1) define corporate culture operationally, (2) identify the key dimensions of corporate culture, (3) examine how to identify what a company's culture really is, and (4) present a method for measuring corporate culture. The chapter also includes a case study illustrating how organizations can use the culture measurement methods presented as a practical tool. It contains a technical appendix summarizing research using the measurement methods and showing that culture affects financial performance. Chapter 3 describes a systematic (five-step) process for managing corporate culture and presents a set of culture management tools. It also examines the need for culture management at different stages of organizational growth.

## **Part II: Management of the Key Dimensions of Corporate Culture**

The second part consists of six chapters. Chapters 4 through 8 each deal with one of the five key dimensions of culture—customer orientation, employee (or people) orientation, performance standards and accountability, innovation and openness to change, and company process orientation. Each chapter draws on several examples of actual companies and how they accomplish management of these factors. Chapter 9 is titled “The Dark Side of Corporate Culture”; it deals with examples of dysfunctional cultures. This set of chapters also illustrates how the various tools for culture management (identified and described in Chapter 3) have actually been used by companies.

## **Part III: Leading Culture Management and Transformations**

The third part is one final chapter, focusing on the process of culture management and change from the perspective of senior leadership, as well as the human resource function. We also examine the need for cultural transformation in response to overall changes in company size (growth-related changes), vision changes, and changes due to business combinations (mergers and acquisitions).<sup>5</sup>

### **Our Approach and Perspective**

The approach underlying this book is based on a combination of inputs. Our perspective is infused, of course, by prior research and writing in this field. There have been some very important contributions to the literature of culture management prior to our book.<sup>6</sup> In addition to the usual sources of academic literature on this topic, there are frequently useful insights to be obtained from in-depth articles about actual companies found in professional magazines (such as *Fortune* and *Barron's*). Sometimes, this literature is actually more grounded in reality than academic literature is; but both serve a useful purpose. To a great extent, our approach and perspective are based on our own research, our personal experience in managing our own firm, and our experience as consultants helping companies understand, define, and manage their corporate culture.<sup>7</sup>

### **Corporate Culture: A True Invisible Asset**

Corporate culture: you cannot see it, touch it, smell it, taste it, or hear it, but it is there. It pervades all aspects of organizational life, and it has a profound impact on organizational success and failure. If managed effectively, it is a real economic asset. If managed ineffectively or allowed to deteriorate, it can become a true economic liability and even lead to organizational failure.

As we shall see, management of corporate culture is quite complex. But there are clear examples of companies that have mastered the process of culture management. We show that corporate culture can have a significant impact on various aspects of organizational operations. We also show how companies can master aspects of corporate culture management and create competitive advantage as well as enhance their bottom line. We will also see that if culture management is done well, then a company will reap significant rewards.

For these companies, large and small, wherever they are located in the world, in whatever industries they operate, corporate culture is a true asset. And as an invisible asset, it is a significant source of their competitive advantage as well as a contributor to their long-term success.

It is our hope that this book will help companies and their leaders better understand how to master the process of culture management and trans-

form their culture into a true invisible asset and source of sustainable competitive advantage.

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