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SWP 34/89 CORPORATE CULTURE: A FRAMEWORK FOR ITS MEASUREMENT AND COMPARISON

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1. INTRODUCTION

The relationship between corporate culture and organisation success has been identified in recent years in both popular (Peters & Waterman, 1982) and scholarly literature (Kilmann, Saxton, Serpa, 1986). Most have provided examples of strong organisational cultures and make prescriptive comment for running successful organisations. Culture is becoming established as a relevant concept which is useful in understanding what makes organisations effective and unique.

1.1. Definitions

Jay Lorsch defines culture as:

"... the shared beliefs top managers in a company have about how they should manage themselves and other employees and how they should conduct their business" (Lorsch, 1986). He also made the telling point that "these beliefs are often invisible to the top managers but have a major impact on their thoughts and actions".

Other definitions include:

"... a coherent system of assumptions and basic values which distinguish one group from another and orient its choices" (Gagliardi, 1986).

"... the integrated pattern of human behaviour that includes thought, speech, action and artifacts and depends on man's capacity for learning and transmitting knowledge to succeeding generations" (Websters New Collegiate Dictionary).

"... the way we do things around here" (Bower, 1966).

"... a set of expected behaviours that are generally supported within the group" (Silverzweig & Allen, 1976).

"... shared philosophies, ideologies, values, assumptions, beliefs, expectations, attitudes and norms that knit a community together" (Kilman, Saxton &Serpa, 1986).

Implicit in these definitions is the acceptance that while culture exists, it cannot be measured directly and the choice of appropriate constructs leads to variation of definition. Culture remains largely an anecdotal concept as it has been applied to the corporate environment, and there have been few attempts to develop a systematic, efficient measure of organisational culture.

The purpose of this section is to provide an overview of the investigations by business writers and practitioners on the implications of organisational culture and corporate performance. This inter-relationship is of critical importance at any time in the life of an organisation. The importance of culture is further heightened at the time of a merger since this is a time when uncertainty abounds.

In particular, this paper will:

- examine the role of culture as a corporate asset
- review current models of culture
- propose a framework for measuring culture

2. CULTURE AS A CORPORATE ASSET

Two broad genres' of research have been conducted around culture as a predictor of success and these may be categorised as:

- Culture and Strategy
- Culture and Performance

2.1 Culture and Strategy

The first grouping including Lewin &Minton (1986); Kits de Vries & Miller (1986); Lorsch (1986) and Reynierse and Harker (1986); use a combination of structured interview, questionnaires and longitudinal observations to determine a profile of organisational behaviour in a wide variety of situations. From an examination of the organisations stated competitive strategy, a profile of required organisational behaviour can also be determined. Comparison of actual versus desired behaviour leads to a focussed programme of organisational change.

2.2. Culture and Performance

The second category of analysis includes the best sellers, Pascale & Athos (1981); Ouchi (1981); Peters & Waterman (1982); in addition to the work of Deal & Kennedy (1982); and Reynolds (1986).

Peters & Waterman identified seven specific beliefs which were consistently held and stated in their study of 62 "Excellent" organisations. Deal & Kennedy, over a period of 6 months developed profiles of nearly 80 companies and found:

- Only 25 had clearly articulated beliefs

- Of these, two thirds (18 companies) had qualitivative beliefs as opposed to financially oriented goals
- The 18 companies with qualitative beliefs were uniformly outstanding performers and were characterised as "strong culture" companies. So me of the high performers in Peters & Waterman's study also appear in Deal & Kennedy.

Norburn (1986) tested the characteristics of top managers within the U.K.'s largest companies against the performance of those industries in which they were strategically competing. He found significant differences in management characteristics between industry sectors categorised as growth, turbulent and declining. This work extends the upper-echelon theory of Hambrick & Mason (1985) which posits that top management characteristics will, partially, predict organisational success. The significance of management style and corporate cultures within performance outcomes is therefore appropriate for further investigation.

3. CURRENT MODELS OF CULTURE

While emphasis has been placed on the existence of a strong culture in successful organisation, there is also recognised a need for an "appropriate" culture. Lorsch, (1986) describes culture as "the Invisible

Barrier to Strategic Change". Kilman, Saxton & Serpa (1986) subdivide the impact of culture on the organisation into:

- Direction
- Pervasiveness
- Strength

If the culture is causing the organisation to behave in ways which are contrary to the expressed strategy then the impact of the culture is in the wrong direction. However, this might be less damaging if different cultures are perceived by different members of the organisation (not pervasive) or if the members of the organisation do not feel compelled to follow the dictates of the culture (weak culture). Thus the culture has a positive impact when it points behaviour in the right direction, is widely shared among members of the organisation and puts strong pressure on members to follow the established cultural guidelines. It will have a negative effect if it points in the wrong direction but may be neutralised either by weakness or lack of general acceptance.

4. DEVELOPMENT OF CULTURE

In the absence of outside influence the organisational culture is reinforced and perpetuated in a "Virtuous Cycle" (Gagliardi, 1986) where the culture leads to cohesion and organisational efficiency which in turn, leads to the creation of a distinctive competence which creates economic success which strengthens the values and beliefs.

However, when the problem solving alternatives offered by the culture prove unable to cope with changing environments, the Virtuous Cycle becomes a Vicious Cycle, which denies the obsolescence of the culture. Lack of success is then blamed on uncontrollable external forces or the behaviour of specific groups or individuals in the Organisation.

A similar Vicious Cycle can be identified where the culture is perceived to be successful, the organisation is perceived to be successful, yet change of culture is required by a major external upheaval such as the appointment of a new leader or the organisation's acquisition by another.

The change in culture caused by an acquisition may be real or perceived. In the case of perceived change the acquired company expects things to change and takes a defensive position until it is proved that there will not actually be a change of culture. However, a real change may be seen as a "Revolution" which requires a complete rejection of existing values, or an "Evolution" which can be absorbed within the existing values and culture.

5. CULTURE CONSTRUCTS

As culture is a collective for human behaviour patterns, researchers are forced to identify constructs as evidence of the existence of different types of culture, different strengths of culture and different penetrations of culture.

It is pertinent therefore, to discuss the acceptability of the various constructs used. A later section will look at ways in which they might actually be measured.

- Behaviour

Behaviour, Norms and Behavioural Norms are widely quoted (Silverzweig & Allen, 1976, Kilmann, Saxton & Sherpa, 1986). These are the unwritten rules of the organisation and describe the behaviours and attitudes that members of the group or organisation pressure one another to follow. Behavioural norms include acceptable standards of dress, arrival times, how hard to work, and how to deal with others. Silverzweig & Allen identify that behavioural norms may vary from group to group within an organisation.

- Values

Kilman, Saxton & Sherpa, suggest that Behavioural Norms are the simplest level of culture in the organisation as they are the most visible, most readily accepted and most easily changed. There is general agreement that Norms may be modified by dictate and are frequently modified by group discussion of the need for higher performance e.g., Quality Circles.

Kilman, Saxton &Sherpa go on to identify "At a somewhat deeper level lie the hidden assumptions - the fundamental beliefs behind all decisions and actions". Gagliardi,(1986) and Kennedy &Deal, (1982) call these fundamental beliefs the Organisational Values, or Shared Values.

Values are rarely as hard or visible as the behavioural norms but are "the idealization of a collective experience of success in the use of a skill". In other words, Values represent the Organisation's attempt to understand what has given them success in the past and to institutionalise those beliefs. Values pertain to the nature of the environment and to what various stakeholders want and need.

In many instances, companies have encapsulated the essence of their central values in a brief statement. Examples include:

Caterpillar -	"24 hour parts service anywhere in the world" ■ symbolising an extraordinary commitment to meeting customer needs.
Dupont -	"Better things for better living through chemistry" ■ a belief that product innovation, arising out of chemical engineering is Dupont's most distinctive value.
Sears Roebuck -	"Quality at a good price" ■ the mass merchandisers for Middle America.
Dana Corporation -	"Productivity through people" ■ enlisting the ideas and commitment of employees at every level in support of Dana's strategy of competing largely on cost and dependability rather than product differentiation.

Taken in isolation these phrases seem to be no more than mere slogans. But that would be to seriously misinterpret their significance. What translates them from being mere slogans is the degree to which they capture something that people within the organisation deeply believe in and are committed to. The slogan-interpretation belies the rich and concrete meaning attached to the words which are only the most visible parts of a complex system which links the basic concept and strategy of the business with the attitudes and behaviours of employees in achieving the company's goals.

Gagliardi suggests that values are initially proposed by the founder or leader of the organisation as a vision to provide direction for the Organisation but then become part of the fabric of the organisation which condition the way people react to specific situations.

Kilman, Saxton &Sherpa are alone in suggesting that there is a third level of culture that is the "collection of human dynamics, wants, motives and desires that make a group of people unique". This leaves researchers with the problem that everytime anyone new joins the organisation or group, the culture is changed.

6. MEASURING CULTURE

Attempts to measure Corporate Culture have developed along three routes:

- Longitudinal in-depth surveys
- Climate surveys
- Questionnaires

6.1. Longitudinal

Traditionally, the way to measure culture has been by internal examination involving observation of group behaviour and decision making, focus groups to discuss values and longitudinal validation of the values by observing the organisation at work. These types of study have been particularly valuable in observing the way an organisation changes its culture over time in response to external stimuli (e.g. ITT, ICI, BL). However, it suffers from being subjective and difficult to compare cultures in different organisations. Lorsch (1986) provides some structure to the process by use of a "Cultural Audit" comprising a series of questions covering the organisations beliefs about its Goals, Distinctive Competences, Products/Markets and Employees. However these questions are based on prior observation of the organisation and are then used as a basis for discussion among top managers.

6.2. Organisational Climate

Desatrich (1986) describes an Organisational Climate survey as measuring "how people view and react to the organisations culture values and norms". Or in other words it measures the strength of the culture and implies the existence of the culture by the consistency of response. Climate surveys typically measure:

- Clarity of the organisations goals and direction
- Effectiveness of the Decision Making process
- Level of organisational integration
- Effectiveness of individual managers
- Degree of openness and trust
- Level of job satisfaction
- Opportunities for growth and development
- Performance orientation
- Overall confidence in management

There is considerable overlap in the dimensions found in discussions of organisation culture which could be objectively measured to define specific cultures.

6.3. <u>Cultural Questionnaires</u>

Sashkins Organisation Beliefs questionnaire identifies 10 variables based primarily on Peters and Waterman (1982) work.

Work on cambietics has 12 dimensions along a continuum between "Type A" and Type B" management styles. Lineker, (1985) identifies 5 management styles again based on Peters & Waterman while Reynierse &Harker (1986) have refined 95 questions down to 10 key factors in their Organisational Dynamics Instrument. This is based on the cultural dimensions already listed together with the works of

Pascale & Athos (1981), Kantner (1983), Grove (1983) and Bradford & Cohen (1984).

Finally, Reynolds (1986) questionnaire extends this work to 14 dimensions and incorporates the findings of Ansoff (1979), Deal & Kennedy, (1982), Harrison, (1972, 1978), and Hofstede, (1980).

Analysis of these dimensions is shown in Table 1 below.

7. PROPOSED FRAMEWORK FOR ANALYSING CULTURE

Views on the measurement of culture tend to polarise about those studies which attempt to identify the cultures of successful or excellent organisations and those studies which attempt to measure culture in absolute terms. Therefore I shall firstly discuss the key cultural parameters which emerge from the research and then go onto develop a questionnaire which can be used to position companies along a continuum towards these key parameters.

(i). Shared Values

All studies have identified the importance of a set of corporate values which are shared throughout the organisation. Deal & Kennedy also identify the importance within the organisation of ceremonies

(Rites and Rituals) aimed at confirming and reinforcing the values. They recognise a need for managers to spend time fine-tuning the values and constantly testing the relevance of those values to individual activities. Sashkind similarly emphasised the need for the organisational philosophy to be developed and strongly supported from the top of the organisation. The sharing of values was held by Reynierse & Harker to lead to a feeling of intimacy in the organisation and cohesiveness through a shared knowledge of the organisations expectations; a view also held by Reynolds. However, recognising from the earlier definitions that values may be taken as another word for culture the sharing of values is rather a measure of strength of culture or pervasiveness of culture rather than as a definition of a particular culture. Thus when looking at the strategic impact of culture and cultural clashes the extent to which values are shared must be considered.

(ii). Customer Orientation

Reynolds identifies a continuum between an external emphasis on the task of satisfying customers or clients and an internal emphasis where the dominant attention is paid to the organisations internal activities such as meetings and report writing. Reynierse & Harker similarly identify the importance of customers and the efforts of the organisation to satisfy customer needs. Although Peters & Waterman (1983) and Peters & Austin (1986) identify customer orientation as a key characteristic of the "Excellent" companies Sashkind in translating their work identifies two characteristics of "being the best at whatever the company decides is important" and "the need to provide a superior quality and service". Deal & Kennedy similarly identify customer orientation amongst their strong cultures.

(iii) Innovation

Researchers identify both an emphasis on innovation and on internal behaviour designed to encourage innovation. Thus while Reynolds identifies innovation as opposed to stability as a corporate characteristic he also identifies the need for risk taking individuals. Sashkind identifies the need for innovation without fear. Barker places an emphasis on judgement and enterprise as opposed to following routines and the procedures laid down within rules. This too is consistent with Reynolds and Reynierse & Harker who identify the acceptability of the non-conformist within the organisation and the importance of individuality.

(iv) Individuals

The emphasis on individuals and individualism seems to be at variance with the current emphasis on developing cohesive working teams were it not for the umbrella of the shared corporate values. Thus Reynolds emphasis on individual as opposed to group rewards; Sashkind importance of people as individuals; Deal & Kennedy's rewards for individuals and the importance of corporate heroes are all tempered by clear and unequivical understanding as to what the organisation expects of its people. Reynierse & Harker identify this clarity of standards when identifying that internal competition and reward is against demanding and agreed individual targets.

(v) People Orientation

The importance of people in strong corporate cultures and the emphasis of the management of people resources as opposed to the traditional hard resources is epitomised by Deal &Kennedy and Sashkind as "having fun through work". Reynierse and Harker also identify a commitment to training as part of the people focus while Barker characterises a management style around delegation and review as opposed to directives and supervision. Reynolds similarly proposes a social focus in the successful organisation in contrast with a task focus.

(vi). Decision Making

Reynolds is alone in identifying individual decision making rather than collective decision making as a key construct for corporate culture. However both

Reynolds andBarker identify a move from centralised decision making to decentralised while Reynierse & Harker identify an action orientation in which all support groups within the organisation are orientated towards helping operating units to implement change.

(vii) Communication

The decentralisation of decision making is consistent with a move towards greater informality assisted by open communication. Deal & Kennedy have already emphasised the need for values within the organisation to be well communicated and reinforced Reynolds and Reynierse & Harker also identify a sharing of information through internal communication at the expense of internal competition. Sashkind and Reynolds identify specifically the need for informality as opposed to an organisation hidebound by the formal procedures.

(viii) Hands-On Management

The importance of hands-on management is identified by Sashkind and then characterised by the other researchers in different ways. Reynierse & Harker emphasise the importance of management visibility while Barker recognises participative leadership. Deal &Kennedy characterises the importance of hands-on management for making things happen while

Barker also highlights a management style which rests on "what to do" rather than "how to do it".

(ix) Forward Looking

Whilst the rigidity of a too formal planning system is to be avoided, most researchers identify the need for a forward looking, results oriented management style. Reynolds characterises this as planning versus ad hoc whilst Barker highlights the importance of a future focussed management style with activity planned against goals and results. Saskind alone emphasis the importance of economic growth and profits as a specific target for a successful organisation.

(x) Others

Three other characteristics have been identified as constructs for corporate culture. Reynolds comments on organisation complexity and the need for a simple system. He also characterises organisations as having high or low loyalty amongst the workforce Barker alone identifies the need for professional management as opposed to amateurs.

A composite questionnaire developed from the research discussed above is shown in Appendix 1.

8. RESEARCH PROGRAMME AND METHODOLOGY

Gagliardi (1986) vividly describes the destructively denying cycle that organisation enter when faced with the need to change culture despite the success of the current culture. Acquisition by an organisation with a different culture can be seen as a scenario which would lead to this "Vicious Cycle".

Relatedness or degree of "fit" between acquirer and acquiree has been used persistently in research as a possible predictor of acquisition success.

The degree of industry relatedness was thought to explain acquisition success until the study of Cowling, Stoneman, and Cubbin (1979) demonstrated that the relationships held true only in high profit industries and not in low profit industries, thus linking both industry performance and acquisition performance. Kitching (1967) identified a "fit" between company characteristics (size, market share) in those acquisitions acknowledged as successful by the managers concerned.

We therefore believe that the relatedness which actually existed in the earlier acquisition studies could be a relatedness of management characteristics and style which in turn leads to successful acquisition outcomes.

Conversely, the lack of relatedness or "fit" may become evident at various stages in the acquisition process. When Levinson (1970) looked at merger performance he contended "that some psychological reasons for merger not only constitute a major, if unrecognised, force toward merger but that they also constitute the basis for many, if not most, disappointment and failures". He concluded that these hidden psychological reasons for acquisitions led to a condescending attitude towards the victim which results in efforts to manipulate and control which in turn led to:

(a) Disillusionment and the feeling of desertion on the part of the junior organisation and

(b) Disappointment, loss of personnel and declining profitability for the dominant organisation".

Similarly, Hayes (1981) suggested that expectations of the future relationship are created during the acquisition negotiations. When these expectations are not met ex-post facto, executives become disillusioned, morale falls, performance declines, and executives leave. This again is consistent with Cox's (1981) identification of the failure to link the negotiating team, and the implementation team, as a stumbling block to successful acquisition management.

Supporting the significance of managerial style and behaviour, Hayes (1981) study of top executives who had sold their companies found that "extensive control or interference by the parent company was reported to be the prime reason for leaving by over two thirds of executives who left, following the acquisition." Further, Kitching (1967) and Cox (1981) suggested that many of the problems of style and expectations can be anticipated and the creation of false expectations can be eliminated by adequate planning of the management issues and implications of the acquisition.

However, by contrast with the studies which identify management problems of acquisition, Hayes study of top executives involved in acquisitions found that 75% of those "victims" who stayed with their company "enjoyed a satisfactory level of autonomy". Lack of autonomy was measured in terms of unsolicited parent company directives and decisions, excessive operating control, excessive reporting requirements and corporate staff interference. It could thus be argued that acquired companies can be isolated from the impact of unrelated management style through the degree of autonomy they enjoy.

Therefore while we believe that a correlation exists between relatedness of management style and acquisition performance, acquisitions can be successful even in cases of unrelated management style where the acquiree had a high level of post-acquisition.

From this review, it would appear that although the significance of the managerial factor has been identified, insufficient empirical investigation has been conducted relative to the importance of ensuring acquisition success. We therefore suggest five hypotheses as fruitful avenues for field research:

Management Style Match: H1

The degree of fit of management style and approach between the acquirer and acquiree companies is directly correlated to the success of the acquisition.

Pre-Planning: H2

The success of the acquisition is determined by the amount of pre-acquisition "people planning" that took place.

Negotiations: H3

In successful acquisitions a match in expectations exists in terms of personnel policy, remuneration, management style, and degree of autonomy between the management teams of the acquiring company and the acquired company.

Post Acquisition Style: H4

Morale in the acquired company is directly correlated to post-acquistion performance.

Autonomy: H5

Where a lack of "fit" in management style exists, the success of the acquisition is determined by the amount of post-acquisition autonomy which is granted to the acquired company.

CONCLUSIONS

Corporate culture has gained importance over recent years as a key predictor of organisational performance. Whilst recognising the problems inherent in trying to change a successful culture, little research has examined this phenomena in relation to acquisitions. In part, this is due to the problems of objectively measuring culture. This paper proposed an approach to measuring corporate culture together with hypotheses to be tested, which would extend the static models of mergers and acquisitions to include the changing aspects of organisational style and culture.