Contending that it’s possible to gauge the likely impact of an organization’s culture on the success of its future business strategies, the authors explain how to go about ...

Matching Corporate Culture and Business Strategy

Howard Schwartz
Stanley M. Davis

Which are the well-run companies? Are they the star performers so often referred to in articles about good management and organization—GE, GM, IBM, Texas Instruments? Not to mention the Mitsubishis, Sonys, ICs, Phillips, and Siemenses of the world? Whatever your list, a discussion of what makes these firms tops will involve notions of their strategic sense, their clear organization, their management systems, and their excellent top people. Even then, a description generally ends up with statements about some vague thing called corporate “style” or “culture.” Apparently, the well-run corporations of the world have distinctive cultures that are somehow responsible for their ability to create, implement, and maintain their world leadership positions.

Coca-Cola and Pepsi, Hertz and Avis, Mars and Hershey are direct competitors within their industries. No doubt their strategies differ significantly. No less doubtfully, so do their companies’ cultures. All one has to do to get a feel for how the different cultures of competing businesses manifest themselves is to spend a day visiting each. Of course there are patterns in the trivia of variations in dress, jargon, and style—but there is something else going on as well. There are characteristic ways of making decisions, relating to bosses, and choosing people to fill key jobs.
These mundane routines buried deep in companies' cultures (and subcultures) may be the most accurate reflections of why things work the way they do, and of why some firms succeed with their strategies where others fail. And if we can get at the way in which these minutiae determine an organization's ability to create and to carry out strategy—that is, if we can learn how to evaluate corporate culture—we can also learn a great deal about how to manage a large organization through a period of strategic change.

There are many examples of corporate cultures that, though once a source of strength, have become major obstacles to success. In 1978, for instance, AT&T announced that it was making a major strategic shift—from a service-oriented telephone utility to a market-oriented communications business. Chairman J.D. deButs went on intracompany TV to announce to every employee that "we will become a marketing company." To implement this new strategy, AT&T has had to undertake the largest organizational transformation in the history of U.S. industry. One out of every three of the one million jobs at AT&T will be changed. Despite the major changes in structure, in human resources, and in support systems, there is a general consensus both inside and outside AT&T that its greatest task in making its strategy succeed will be its ability to transform the AT&T culture. It will probably be a decade before direct judgments should be made as to its success. In the meantime, however, we are concerned with how to get your hands around an organization's culture.

One man who tried was Walter Spencer, the former president of Sherwin-Williams Company. For six years Spencer tried to turn around a firm that suffered from an overabundance of unprofitable products that could not, it seemed, be cut; from antiquated plant and equipment that could not be written off; and from a deeply entrenched manufacturing bias on the part of the board of directors, who were sitting in the capital-goods-oriented city of Cleveland. Speaking of his attempt to transform Sherwin-Williams from a production-oriented company to a marketing-oriented one, Spencer said, "When you take a 100-year-old company and change the culture of the organization, and try to do that in Cleveland's traditional business setting—well, it takes time. You just have to keep hammering away at everybody." After six years of such "hammering away," Spencer resigned, saying the job was no longer any fun. He had dented but not changed the culture.

Corporate cultures impose powerful influences on the behavior of managers. As the examples given above suggest, a business that is shifting its strategic direction may find its culture a source of strength or of weakness. It is possible to evaluate this elusive aspect of organization that appears to be so intimately linked with strategic success or failure. One can gauge the likely impact an organization's culture will have on the chances for success of future business strategies, and it is the aim of this article to show how to do so.

**Strategy and Organization**

Most people realize intuitively that corporate organizations designed to implement strategy are a lot more than the boxes and lines on an organization chart. Despite this awareness, managers often behave as though organizing a business to execute a new strategy is primarily a question of redrawing the boxes. In such a situation they frequently ask "What is the right structure for dividing and coordinating work?"

Executives are generally aware,
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however, that a corporation's management systems, and the skills and experience of its people, are as much a part of its organization as its structure. Organizations cannot function without some degree of regularized, formal information flows, policies, procedures, and meetings through which the essential tasks of the business are carried out. Organizations are also built upon the skills, experience, and needs of the people who compose them. It has also become clear that corporations have distinct cultures.

Anthropologist Clyde Kluckhohn has usefully defined culture as "the set of habitual and traditional ways of thinking, feeling, and reacting that are characteristic of the ways a particular society meets its problems at a particular point in time." A corporation's culture, similarly, is reflected in the attitudes and values, the management style, and the problem-solving behavior of its people.

Organizational theorists and executives agree that the best answer to the question, "How should we organize to pursue a particular strategy?" depends on a complex set of trade-offs among structure, systems, people, and culture. No organization will perform well in a competitive environment unless these four dimensions of organization are internally consistent and fit the strategy. While a great deal is known about managing the first three dimensions—structure, systems, and people—there is little more than an intuitive sense about how to manage the fourth dimension of organization—culture—and we will therefore limit ourselves in this article to matching corporate culture and business strategy.

What Corporate Culture Is (and Isn't)

Most executives with whom we have discussed corporate culture are comfortable with the idea that their companies have such a dimension. They are unsure, however, about what the word means in a business context and what use they could make of a better understanding of their own organization's culture. It was suggested earlier that an understanding of culture might reduce the risk of failure. Before describing how, it is important to clarify what we mean by culture and to illustrate how a company's culture can be usefully understood.

One way to understand culture is to understand what it is not. Many large corporations, for instance, periodically under-
Culture, on the other hand, is a pattern of beliefs and expectations shared by the organization's members. These beliefs and expectations produce norms that powerfully shape the behavior of individuals and groups in the organization. So, while climate measures whether expectations are being met, culture is concerned with the nature of these expectations themselves.

For example, Douglas McGregor's early notions about management style, Theory X and Theory Y, were reflections of two distinct views of life leading to two different managerial cultures. Theory X was based on the belief that employees were inherently unwilling to work, and this led to a set of attitudes and norms that emphasized coercive controls and hierarchy. Theory Y assumed that employees were self-actualizing and produced a culture that emphasized self-control and collaboration. In either case the climate could be "good" or "bad," depending on whether the employee's own view of life fit the prevailing managerial culture.

What climate really measures, then, is the fit between the prevailing culture and the individual values of the employees. If employees have adopted the values of the prevailing culture, the climate is "good." If they have not, the climate is "poor," and motivation and presumably performance suffer. If, for example, the culture includes the belief that individuals should know where they stand, but the performance appraisal process does not allow for this, climate and motivation will very likely suffer.

While climate is often transitory, tactical, and manageable over the relatively short term, culture is usually long-term and strategic. It is very difficult to change. Culture is rooted in deeply held beliefs and values in which individuals hold a substan-
tial investment as the result of some processing or analysis of data about organizational life. (Technically speaking, these beliefs and values are manifestations of the culture, not the culture itself.) These beliefs and values create situational norms that are evidenced in observable behavior. This behavior then becomes the basis for the formation of beliefs and values out of which norms flow. This closed circuit of culture development,
which is illustrated in Figure 1, accounts for much of the tenacity that organizational cultures exhibit. In most groups, individuals who violate these cultural norms are pressured to conform and may be ostracized unless norms change to accommodate those who deviate from them.

Culture Reflects What Has Worked in the Past

Recent research by Richard F. Vancil, which was aimed at understanding the behavior of decentralized profit-center managers, suggests that the primary influence on their behavior is top-management behavior, "which, in turn, reflects their [top management's] philosophies of management and style of leadership." While top-management tasks may be similar in most decentralized firms, their approach to these tasks may be quite different. The choices senior managers make about their approach to management tasks, about how they spend their time, and about the structure of their relationships with each other and with their subordinates will "clearly produce different behavior on the part of profit center managers in . . . different firms." Such choices were found to be "the single most important determinant of a profit center manager's perception of his [or her] autonomy."

Anthropologist C. S. Ford has defined culture as "composed of responses which have been accepted because they have met with success." The choices top managers make reflect their view of reality—the values, beliefs, and norms that served them and the company well during their own rise to power. It is these choices that continually reaffirm the corporation's culture and reinforce the expected behavior across the organization.

Many executives have learned the hard way that reaching the top rungs of their organizations does not necessarily confer a license to violate the corporate culture. Studies of small-group behavior tell us that groups tend to choose as leaders those who most embody the norms of the group. One of the dilemmas of leadership in a changing business environment is the need to violate the norms on which the leader's selection was based. Deep resentment and resistance nearly always result.

The former chairman of a large oil corporation, for example, led his company through a major restructuring to prepare it for a world of reduced crude oil margins, less-favorable tax treatment, and the possibility of forced vertical divestiture. Other steps he took included a major commitment to strategic planning, an influx of outside professionals to staff the planning effort, attempts to change marketing from its traditional obsession with volume to a focus on profit contribution, turnover in many key executive posts, and emphasis on diversification outside the energy field.

To many of his former peers, this executive's behavior was an unfathomable violation of the cherished beliefs on which the corporation's culture was based. He realized, however, that the effect of the firm's culture was to place restrictive limits on the strategic options the executive group would consider and to seriously hamper the firm's ability to execute a new strategic direction. Predictably, as soon as he resigned, the company's leadership group returned to the time-tested patterns of action that had served them and the company well in the past.

As this oil executive discovered, culture is capable of blunting or significantly altering the intended impact of even well-thought-out changes in an organization. A lack of fit between culture and planned changes in other aspects of organization may result in the failure of a new measure to take hold. All too often the result is, "We tried but it didn't work the way we thought it
would. Something has to give. In this case, either the culture is changed to fit the strategy or the strategy is changed to fit the culture.

**Measuring Cultural Risk**

Most attempts to define organizational culture leave managers who have tried it at a loss. The usual product is a list of eight or ten phrases describing the informal rules that govern the interaction of management team members. This may appear useful until an attempt is made to judge from the list whether a proposed strategy will find that the culture is amenable to its execution.

Such efforts have been disappointing because managers have had no method for thinking through the relationship between culture and the critical success factors on which strategy is contingent. The way to fathom this relationship is to recognize that the four components of an organization—structure, systems, people, and culture—determine important managerial behavior. They influence the way in which major management tasks are carried out and critical management relationships formed.

An organization’s culture can also be described by its management in terms of the way their tasks are typically handled in the context of these key relationships (see Figure 2). Then, once culture and the other organizational dimensions have been defined in similar terms, their compatibility can be systematically assessed.

In Figure 2, each of the lines is to be filled in to describe how a particular task is handled in the context of a particular relationship. The table serves as a checklist and a way to spot interaction between the cultural characteristics of each level of relationship and between the various managerial tasks. The richness of the analysis is particularly useful for identifying the underlying patterns that must be understood in any attempt to change aspects of the culture or in

<table>
<thead>
<tr>
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<th>Companywide</th>
<th>Boss-subordinate</th>
<th>Peer</th>
<th>Interdepartment</th>
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<tbody>
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<td>Appraising and rewarding</td>
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<p>| Figure 2 |
|----------|----------|------------|------------|--------|---------------|
| Corporate Culture Matrix    |          |            |            |        |               |</p>
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seeking the means to manage around it.

This framework is helpful in assigning meaning to the anecdotes in which much of the data about organizational norms are stored. We have also found it useful to help interpret what we see in management meetings and to analyze records of how executives and managers spend their time. As is true when any management tool is used for the first time, internal support services and/or external consultants are often helpful.

Figure 3 is a simplified presentation of the results of a cultural analysis. Adding across the rows of the table in Figure 2 will provide a composite portrait of how the organization tends to handle particular kinds of tasks. Adding down the columns will portray the way in which each type of relationship is typically structured. For ease of communication, we have displayed only the results of the rows and the columns, not the material in each cell.

The degree of control that managers have over culture is very limited in comparison with the degree of control they have over structure, systems, and people's skills. Indeed, most of the risk surrounding organizational shifts arises from the relative immutability of the organization's culture. Because an organization's current culture is relatively fixed, it is most useful for a manager who wants to affect a strategic change to ask: How compatible with the existing culture are the other organizational elements—structure, systems, and people—through which a shift in strategic direction is to be implemented?

It is then possible to highlight those task/relationship areas where major problems exist. If these problems involve task relationship areas that would be critical to the success of the new strategy, they represent sources of cultural risk that must command major management attention.

Does the Culture Fit the Strategy?

To illustrate how cultural risks can be identified and managed in an organization, it is useful to look at the strategy and culture of the international banking division of a major money center bank. (This example was developed as a composite of the strategies and cultures of several such banks.) The international division has developed a strategy to grow its off-shore correspondent banking business. Many months were spent in creating a sound, market-based plan.

In the arcane world of international correspondent banking, profits are earned by U.S. multinational banks through the collection and issuance of letters of credit, foreign exchange trading, loans and loan participations, and other banking services provided to foreign banks. Income is taken as fees, interest payments, and as spreads earned on deposit balances.

To succeed in this business, the services of numerous foreign branches must be carefully coordinated with those in New York, Chicago, London, and other global money centers. Operational support for money transfer and other services must be of high quality. Response time to customer inquiries must be short. A high level of calling officer quality and customer contact is needed to add value to what is otherwise a commodity-like service. It is also important to hold costs to a minimum.

Implementation of a new strategic plan in the international division postulated these eight major changes:

Structure

1. Dedicate an organization to the foreign correspondent banking market. (Previously this market had been managed by each geographic area.)
**Figure 3**

**SUMMARY OF CULTURAL RISK ASSESSMENT**  
(international banking division)

<table>
<thead>
<tr>
<th>Relationships</th>
<th>Culture Summary</th>
</tr>
</thead>
</table>
| **Companywide** | Preserve your autonomy.  
Allow area managers to run the business as long as they meet the profit budget. |
| **Boss-subordinate** | Avoid confrontations.  
Smooth over disagreements.  
Support the boss. |
| **Peer** | Guard information; it is power.  
Be a gentleman or lady. |
| **Interdepartment** | Protect your department's bottom line.  
Form alliances around specific issues.  
Guard your turf. |

<table>
<thead>
<tr>
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<th>Culture Summary</th>
</tr>
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</table>
| **Innovating** | Consider it risky.  
Be a quick second. |
| **Decision making** | Handle each deal on its own merits.  
Gain consensus.  
Require many sign-offs.  
Involve the right people.  
Seize the opportunity. |
| **Communicating** | Withhold information to control adversaries.  
Avoid confrontations.  
Be a gentleman or lady. |
| **Organizing** | Centralize power.  
Be autocratic. |
| **Monitoring** | Meet short-term profit goals. |
| **Appraising and rewarding** | Reward the faithful.  
Choose the best bankers as managers  
Seek safe jobs. |
2. Establish a matrix structure between the new line of business organization and the geographic areas.
3. Place predominant decision-making authority with key correspondent banking personnel rather than leaving it with geographic managers.
4. Use an intergroup team (both correspondent bankers at headquarters and local offices in the field) to improve international money transfer.

**Systems**

5. Coordinate closely with other bank operations units.
6. Develop a management information system to measure account profitability.

**People**

7. Increase continuity in client relationships.
8. Attract superior personnel from within the bank to this new line of business organization.

In any industry or company that is implementing major strategic shifts, success depends on successfully combining the culture with changes in organizational structure, management systems, and people to produce desired behavior. Where changes in any of these three aspects of organization are aimed at behavior that is crucial to success, the risk that performance will suffer increases if the culture rejects or alters their impact. Can the proposed strategy be successfully implemented in the international division culture? What are the cultural risks? What is their source?

Figure 3 is a summary of the culture of the international banking division of our composite money center bank. It was actually developed through a series of individual and small group interviews in several such banks. Executives and managers were asked to describe the survival rules (that is, "the way the game is played") as if they were coaching a new member of the organization. The result was a collection of simply stated imperatives that are the norms implicitly accepted by the group. These statements were summarized into patterns that represent the principal shared expectations about behavior, and the summaries were fed back to small groups of managers to develop agreement among them on definitions of the central norms in the culture of the international division.

The categories used, which reflect the language and meanings within the division, were chosen to help the managers organize their impressions. Relationships were defined from each manager's point of view and included those between bosses, subordinates, and peers within the division; between the international banking division and other banking divisions, such as domestic corporate banking; and with the bank's top management.

The resulting summary of the international banking division culture characterized individual area managers as feudal barons. Each had been in place from five to seven years. As long as their profit contribution goals were met, they operated with almost complete autonomy. To preserve that autonomy, their concern for short-term performance was paramount. Planning and decision making were undisciplined, excessively personalized, and focused on each individual deal. Subordinates were highly averse to taking risks. So many people were involved in signing off on a loan decision that it was difficult to hold anyone truly accountable for results.

There was, furthermore, a veneer of mannerliness and collegueship that inhibited frank and honest confrontations to resolve conflicts in the bank's best interest. Information, jealously guarded, was used to manipulate and control adversaries. Political
intrigues abounded, with advancement often going to people most loyal to immediate supervisors. As a result of these cultural aspects of our composite division, innovation was risky and received little support. Anything the area manager decided to address was quickly picked up by subordinates. Opportunism was more important than strategy. Not surprisingly, the organization very quickly fell into second place behind more innovative, effective competitors.

The international division's culture described in this analysis appears on the surface to be an obstacle to the successful implementation of the eight-point correspondent banking program. But it is equally unrealistic either to forge ahead; to launch a difficult, expensive, and time-consuming effort to change the culture; or to abandon the strategy as unworkable. What is needed is a careful analysis to determine the degree and source of cultural risk involved. Then policy makers can make decisions about which specific aspects of culture might be changed and how the strategy might be modified to increase the chances of success.

Cultural Risk Assessment

Each of the eight organizational approaches outlined in the international division's implementation plan is aimed at influencing the tasks and relationships of managers, credit officers, and bank operations personnel. Approaches that run counter to the cultural norms of the international banking division will encounter resistance. Others, more compatible with the culture, will be more readily accepted. Some of the behavior sought is particularly crucial to the success of the strategy. The degree of cultural risk, therefore, depends on the answers to these two questions: How important is each organizational approach to the success of the strategy? How compatible is each approach with the division's current culture?

Significant risks result from organizational approaches that are highly important to the success of the proposed strategy but not compatible with the existing culture. Each organizational approach under consideration was therefore reviewed. The results suggested where the implementation plan should be changed to manage around the culture, or where efforts to change the culture might be necessary. There are times when it is better to manage around the culture than to attempt to change it, and there are times when the strategy itself should be modified or abandoned.

Figure 4 shows management's judgments about the cultural risks involved in implementing the strategic plan. The proposed matrix organization and the attraction of outstanding personnel were judged to be the most troublesome aspects of the plan. Each was found to be particularly important to the success of the growth strategy objectives, yet each was highly incompatible with the current culture of the banking group.

Importance to Strategy

The importance of each organizational approach to strategy is relatively easy to assess if the strategy itself has been well thought through. An organizational approach, such as dedicating an organization to the offshore correspondent banking market, is important to strategy if the intended behavior affects a critical success factor. In this case it is difficult to see how a key competitive edge (that is, closer coordination between foreign branches and domestic headquarters) could otherwise be achieved.

The proposed matrix structure is aimed at achieving a balance between the resource claims of the correspondent banking line of business and the other corporate
Figure 4

Assessing Cultural Risk

![Diagram showing the assessment of cultural risk based on importance to strategy and level of culture compatibility.](diagram)

1. What specific behavior is the organizational approach designed to encourage? (How will key management tasks be affected? How will important relationships be affected?)

2. How is this behavior linked to critical success factors? (What specific customer needs or requirements is the behavior intended to satisfy? What competitive advantage will be gained in the marketplace? What impact will such behavior have on...
Cultural Compatibility

The planned matrix structure and the attraction of top people to the correspondent banking business were both judged to have low compatibility with the international division culture. The lack of open resolution of conflict apparent in the culture, combined with the division's customary deal-oriented decision making and the subjectivity with which the reward system operated, made the success of the matrix structure unlikely without major cultural change.

Attracting top people to staff the matrix was a key success factor. In this culture, advancement by association rather than by performance had been the rule. Status and prestige were conferred on those who managed the largest corporate client relationships. Correspondent banking has never been a place to go to get ahead. Turnarounds more often failed than succeeded. In such an environment, what was the likelihood that top talent could be attracted into major jobs to turn around an international correspondent banking business?

To determine the plan's compatibility with the culture, we asked: How much change is involved in key tasks and relationships? How adaptable is the culture? How skilled is the management?

In this example, the amount of change envisioned seemed unrealistic given the current culture. Perhaps if the culture valued adaptability, as in some high-technology firms where organization is continuously forming and reforming, such change could be accommodated. In any case, strong leadership, skilled at managing a complex organization through change, would be necessary. In the bank's case, both adaptability and leadership experienced at managing change were lacking.

The case of the international banking division is not unusual. Many months of study and hundreds of thousands of dollars in consulting fees were spent in devising a tightly woven, well-documented strategy that would be responsive to customer needs, and in making good use of the bank's competitive strengths in a very attractive market. The organization plan fit the strategy, but it did not fit the culture. For that reason it was almost certain to fail, unless adjustments—either to strategy or to culture—were made.

It is not difficult to see why the problem faced by the bank is so common to other firms and industries. In many industries and in many companies, organizational cultures do not value adaptability. Most executives and managers are not particularly skilled or experienced at managing complex change. The cultural risks may be significant even where the changes contemplated do not represent an overwhelming challenge to the existing culture. A culture that values the status quo over adaptability, as most do, and that is led by executives and managers who have limited experience with strategic change, may find even modest change deceptively difficult.

Cultural Risk Can Be Managed

The case of the international banking division illustrated how a cultural risk analysis can help management pinpoint where the implementation of a proposed strategy is likely to encounter serious cultural difficul-
ties. One or more of the organizational approaches planned may fall into the unacceptable risk zone shown in Figure 4. If so, the options available to reduce the risks to manageable proportions should be reviewed. Anything that makes the implementation plan more compatible with the culture, or reduces the strategic significance of the behavior sought, tends to reduce cultural risk. Depending on the strategy chosen, the choices open include the following: (1) ignore the culture; (2) manage around the culture by changing the implementation plan; (3) try to change the culture to fit the strategy; and (4) change the strategy to fit the culture, perhaps by reducing performance expectations.

Can the impact of a company's culture be safely ignored? The position taken to preserve established ways of doing business is, nearly always, to maintain the status quo. We have argued that culture can seldom be ignored when making informed management decisions.

Should ways be sought to manage around the culture? In certain circumstances, yes. Consider, for example, a multibillion-dollar industry leader facing several major threats to its record of outstanding growth and profitability. A study is launched to consider restructuring around major markets. After formally assessing the cultural risks of such a move, the proposal is rejected as too radical and too inconsistent with the company's functional culture to warrant the risk. As a positive alternative, a major increase in planning and coordination personnel is begun.

To further illustrate the action implications of managing around a firm's culture, Figure 5 outlines four typical strategies that companies might pursue and the "right" organizational approaches to implement them. The third column summarizes a number of central aspects of the cultures of each of four companies. In each case none of the "right" organizational approaches is compatible with the company's culture. In the fourth column alternative organizational approaches that are more compatible with its culture are suggested to accomplish the same ends for each firm.

Managers familiar with the situation of each case, of course, are best equipped to determine the most appropriate options. Generally speaking, organization is aimed at achieving an appropriate degree of specialization, coordination, and motivation. A limited number of devices are available to achieve each objective, but in each case there is likely to be more flexibility than we often allow ourselves to see. Thinking of an organization as four components—structure, systems, people, and culture—helps keep the focus on the results sought rather than on the means chosen to get there. It is thus possible for corporations to evolve unique approaches to management processes. They meet competitive challenges by finding more culturally compatible ways to implement their strategies.

Should an attempt be made to change the culture to fit the strategy? Although extremely difficult to accomplish, culture can, and in some instances must, be changed. However, this is a lengthy process requiring considerable resources, and should not be entered into lightly. There are three prerequisites for changing a culture. First of all, the strategy and all its elements must be explicitly stated. Second, the current culture must be analyzed and made tangible. Finally, the strategy must be reviewed in the context of the culture to determine where the risks are.

An organization's culture is best altered by gradually reducing the perceived differences between current norms and the new behavior, increasing the value that the culture places on adaptability, and enhanc-
Figure 5
How to Manage around Company Culture

<table>
<thead>
<tr>
<th>Strategy</th>
<th>&quot;Right&quot; approach</th>
<th>Cultural barriers</th>
<th>Alternative approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company B</strong></td>
<td>Focus marketing on most profitable segments.</td>
<td>Fine tune reward system. Adjust management-information system.</td>
<td>Diffused power. Highly individualized operations. Relationship-oriented managers.</td>
</tr>
<tr>
<td><strong>Company C</strong></td>
<td>Extend technology to new markets.</td>
<td>Set up matrix organization.</td>
<td>Multiple power centers. Functional focus.</td>
</tr>
</tbody>
</table>

The pivotal word is commitment—the commitment to initiate the cultural change and the staying power to see it through.

Managers cannot be expected to change the manner in which they approach their tasks and relationships unless they are fully aware of the behavior required to get things done in the new culture, as well as to enhance their development and advancement in the firm. In short, they must know...
how to behave and be rewarded for behaving properly. It may be stating the obvious to say that the culture change should be coordinated with other planned internal changes in management systems and organization structure. The result will be mutual and positive reinforcement of the overall strategic change.

The company’s management information and compensation systems are valuable tools in effecting change, particularly when used in conjunction with an intensive management education program. The latter both stimulates the managers to change and gives them the tools to facilitate the change in culture. It is also useful to conduct pilot programs for implementing key areas of the new strategy under controlled conditions in an effort to create an environment of success and enhance the acceptance of the new culture.

In all these activities, it is important to set priorities that focus on issues that are strategically significant, while concentrating on those elements of the culture where change is important to success. In fact, it may not be desirable to totally change the culture—only those parts of it that demonstrate high cultural risk.

Should strategy be changed to one that is more compatible with the existing culture? A good example of this occurs when two organizations with distinctly different cultures merge. The results may fall far short of expectations. The Rockwell-North American merger in 1968 was sought by both firms for its synergistic potential. Rockwell, looking for new technologies and new products for commercial markets, saw North American as a place where “scientific long-hairs” threw away ideas every day that could be useful to Rockwell. North American, in turn, was attracted to Rockwell’s commercial manufacturing and marketing muscle.

Four years after the merger, some markets failed to develop as expected, and there were also problems in bridging the two cultures. As then-CEO Robert Anderson lamented, the aerospace people weren’t used to commercial problems. “We kept beating them on the head to diversify, but every time they’d try it, they’d spend a lot of money on something that, when all is said and done, there was no market for, or they overdesigned for the market.” The depth of the culture problem was foreshadowed by North American President John Atwood, who saw opportunity for improvement but felt that none of it would do any good unless they continued their basic line of business: aerospace engineering. Rockwell’s company culture looked at the world as a rough-and-tumble place where profit margins dominate decision making. North American’s environment was more noble. Some 60 well-paid Ph.D.s, for example, spent only 20 percent of their time on company business and were free to devote the rest as they chose to basic research. This was not compatible with Rockwell’s obsession about controlling costs and margins.

Over a decade has passed since the merger, and Rockwell continues to have problems with its strategy of capitalizing on North American’s scientific strengths to develop important new commercial businesses. Put simply, the poor cultural fit of these two firms has restricted their ability to implement the most desirable strategy for the combined firms.

A strategy in serious cultural trouble is likely to require some combination of the three types of actions—that is, manage around the culture, change the culture, and modify the strategy—to bring cultural risk into the manageable zone. Any business decision involves a risk/reward trade-off. Cultural risk analysis is a means to clarify organizational risks that frequently go unmanaged and result in unanticipated problems.
A Top-Management Perspective

We have discussed the management of cultural risk from the viewpoint of the general manager of a single business unit. The manager of a portfolio of businesses, such as a group executive in charge of a number of businesses or the chief executive officer managing an entire corporation through a period of strategic redirection, can also use a cultural risk analysis to identify priorities for future change. These executives need to know:

- How much cultural risk is there in my portfolio of businesses, each with its own strategy and approach to implementation?
- How is this risk spread across my businesses?
- What are the specific sources of cultural risk, and do any patterns emerge across my portfolio?
- If too many important business units are at significant cultural risk, is the total corporate strategy endangered?

To answer these questions, a group executive or CEO must know how many business units in the group or corporation are faced with unacceptable cultural risk. The source of such risk anywhere within the corporation must be understood; so must the potential impact on corporate performance.

So far, corporate culture has been discussed in a post-strategy-formulation context. However, it is the perceptive manager who elects to address the issue of culture before it becomes a barrier to making strategy happen. There are several areas in which cultural analysis at the front-end can pay dividends later.

- **Formulating strategy.** Strategies are built on management’s assumptions about many external factors. But a corporation’s culture filters top management’s perspective, often limiting the strategic options they are prepared to consider seriously. Defining the central values of a company’s culture can remove old taboos that have unnecessarily constrained past strategic decision making.

- **Competitive analysis.** As culture conditions the direction of a company’s strategic choices, a competitor’s own culture conditions its strategic decisions and the effectiveness of their implementation. Understanding a competitor’s corporate culture can provide useful clues to how that firm will behave in the competitive environment.

- **Managing cultural formation.** Rapidly growing companies, such as high-technology firms, often find that the ideals and values of the founding group or individual are lost as the culture becomes institutionalized through formalized organizational structures, reporting systems, and controls. Managing the process of cultural formation in relationship to the more tangible aspects of organization can help preserve the original driving force of the company.

- **Merger planning.** The failure to successfully integrate the disparate cultures of merging companies, as in the previously cited North American–Rockwell example, is often the cause of considerable problems in turnover and productivity. Early definition of culture in both companies and the identification of cultural compatibility and cultural risk facilitate a smoother transitional period and the realization of the desired synergy.

- **Installing a planning system.** Experience demonstrates that there is a long lead time (often four to five years) in achieving good results from a formal planning system. One reason is the often dramatic change in how managers are required to approach their tasks and relationships. This change is frequently very stressful and, therefore, a natural inhibiting factor. Considering culture’s role in planning can shorten the installation process to two or three years.
How to Proceed

It has been clearly demonstrated that every corporation has a culture (which often includes several subcultures) that exerts powerful influences on the behavior of managers. For better or worse, a corporate culture has a major impact on a company's ability to carry out objectives and plans, especially when a company is shifting its strategic direction. Well-run corporations have distinctive cultures that are somehow responsible for their ability to create, implement, and maintain their leadership positions. Awareness and agreement within the company about the culture phenomenon and its effect is a vital point of departure for dealing with it. Although getting one's hands around a company's culture is like putting one's hands into a cloud, there is a methodology for capturing the effects of culture and enabling management to deal with it more effectively.

Step 1: Define the relevant culture and subcultures in the organization. Use individual and small-group meetings. Develop a list of simply stated beliefs about "the way it is" in the organization and of current imperatives for how to behave. Feed these back until there is a consensus about the central norms in the culture.

Step 2: Organize these statements about the firm's culture in terms of managers' tasks and their key relationships. This procedure is spelled out in Figures 2 and 3; it provides a matrix of tasks and relationships that will enable the evaluator to translate an undifferentiated list of culture traits into a tool for pinpointing the specific traits that place the business strategy at risk.

Step 3: Assess the risk that the company's culture presents to the realization of the planned strategic effort. This is done by first determining the importance of the intended organizational approaches and then determining their compatibility with the intended strategy. The procedure is illustrated in Figure 4; it enables the evaluator to differentiate the risks of the corporate culture into three categories: unacceptable risk, manageable risk, and negligible risk.

Step 4: Identify and focus on those specific aspects of the company's culture that are both highly important to strategic success and incompatible with the organizational approaches that are planned. It will then be possible to develop alternative organizational approaches that better fit the existing culture, as well as to design planned programs to change those aspects of culture that are the source of the problem. The analysis will at this point be moving into areas that are beyond the scope of this article; it will have moved from an analysis of cultural risk to the first steps in creating a new and better-matching culture for the future business.

To match your corporate culture and business strategy, something like the procedures outlined above should become a part of the corporation's strategic planning process. Remember, these steps can be taken in as sophisticated, or in as informal, a manner as you desire. External consultants or internal staff support may be used, or the relevant executive from CEO on down may undertake these steps directly and informally. It has been our experience that baseline descriptions of the important aspects of culture, especially in major business units expected to make significant shifts in strategy, can be prepared by line managers with the help of strategic planning and human resources staff. An advantage of the approach outlined here is to provide a more effective way to integrate human resources perspectives into the strategy formulation process. Over the last decade many firms have acknowledged that plans are frequently unrealistic because of the inability of the people
to effectively execute them. Cultural risk analysis can help surface "people problems" before a strategy is implemented, expanding the options for dealing with the most important issues.

Strategic plan reviews should include an explicit assessment of the implementation problems likely to be encountered and a discussion of the options to be considered for their management. Finally, the results should be summarized so that group executives and CEOs can direct their attention to the most strategically significant cultural risks across their portfolios of businesses. Appropriate action to manage around the culture or to change it would then be determined.

Changing a culture is a complex, long-term undertaking that involves coordinated efforts by top leadership to change their own behavior and the signals they send to their subordinates and others in the organization. Such changes must be reinforced by shifts in management processes, information and reward systems, reporting relationships, and people's skills. Major changes in management personnel, including adding outsiders as a source of new skills and new cultural patterns, are often necessary. Massive management education may be required. A cultural risk analysis helps identify the need for such costly and difficult decisions and provides a practical way to evaluate cultural change options against possible changes in the strategy to create a better match with the existing culture.

Selected Bibliography

A number of authors have recognized that organizations do in fact have cultures. Several have focused on identifying the elements that should be included in a definition of organizational culture. Andrew M. Pettigrew provides a useful compendium of these approaches in his article "On Studying Organizational Cultures" (Administrative Science Quarterly, December 1979). The recent work of William G. Ouchi, Theory Z (Addison-Wesley, 1981) describes a Japanese-oriented management philosophy as a better model for organizational cultures in U.S. businesses. Douglas McGregor's The Human Side of Enterprise (McGraw-Hill, 1960) describes the roots of the current U.S. model.

The difficulty of changing an organization's culture and one way of systematically approaching the task is described by Stan Silverzweig and Robert F. Allen in "Changing the Corporate Culture" (Sloan Management Review, Spring 1976). The decisive impact that culture can have on managerial behavior and business performance is discussed by Richard F. Vancil in Decentralization: Ambiguity by Design (Dow Jones-Irwin, 1978).

Issues involving culture are frequently reported in the business press, although the articles may not specifically refer to culture as the problem. Examples include those we cite in the text: For the North American-Rockwell merger, see "North American Tries to Advance Under Fire," Business Week, June 3, 1967, and "Forget the Magic Mergers," Forbes, July 15, 1972; for the AT&T example, see Bro Ulta's "Selling Is No Longer Mickey Mouse at AT&T," Fortune, July 17, 1978; and for the Sherwin-Williams example, see Harold Seneker's "Why CEOs Pop Pills (And Sometimes Quit)," Fortune, July 12, 1978.

Finally, an excellent description of a major corporation's culture from the viewpoint of a former insider is provided in On a Clear Day You Can See General Motors, by J. Patrick Wright (Avon, 1980).