Managing Organizational Culture

A Guide for Sustainable Entrepreneurs

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About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change. Each of the Libraries include various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts.

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Setting the Stage

Organizational culture includes a large and complex set of elements, many that are difficult to identify, such as values, norms and cultural forms, and these elements can be found embedded across all organizational activities and practices (e.g., direction and control processes, reward systems, communication patterns etc.). The organizational founders and other original members of the organization play an important role in establishing the foundations of an enduring organizational culture; however, organizational culture is also influenced by continuously changing external factors outside of the control of the founding group and by new members who join the organization as time goes by.   While the complex nature of organizational culture makes it difficult to "manage", the importance of culture to the performance and success of the organization means that attention should and must be paid to how culture is passed on and reinforced within the organization and when and how changes in the culture must be introduced in order to cope with changes in the external environment, new types of work activities and different expectations and needs of organizational members.

Key Topics Covered

Key topics covered in this Guide include the following:

- Socialization processes
- Managing and reinforcing cultural characteristics
- Evaluating and transforming organizational culture
- Organizational culture change
- Organizational culture and merger success

Learning Objectives

After reading this Guide, you should be able to:

1. Explain the importance of socialization processes.
2. Understand different approaches to the socialization process.
3. Understand tools and techniques for managing and reinforcing cultural characteristics.
4. Understand techniques for evaluating and analyzing an organization's cultural values and norms.
5. Understand the influence of organizational leaders on organizational culture.
6. Understand the steps for attempting to makes changes in the organizational culture.
7. Understand the role of organizational culture as a determinant of merger success.

§1   Introduction

Among the various definitions of organizational culture one of the most common is to refer to the concept as the basic pattern of shared assumptions, values, and beliefs that organizational members perceive to be the correct way of thinking about and acting on problems and opportunities that face the organization as it pursues its goals and

objectives.[1] Organizational culture includes a large and complex set of elements, many that are difficult to identify, such as values, norms and cultural forms, and these elements can be found embedded across all organizational activities and practices (e.g., direction and control processes, reward systems, communication patterns etc.). The organizational founders and other original members of the organizations play an important role in establishing the foundations of an enduring organizational culture; however, organizational culture is also influenced by external factors outside of the control of the founding group. While organizational leaders sometimes deny that they are paying any attention to the organizational culture, the importance of culture to the performance and success of the organization warrants some attempt to manage the culture or at least be aware that certain decisions and activities are both closely tied with the then-current culture and may influence the direction that culture takes in the future. The sections that follow discuss key topics relevant to management of organizational culture such as socialization processes, managing and reinforcing cultural characteristics, assessment, change and the role that organizational culture plays in the success of mergers.

§2   Socialization processes

The process by which new employees are informed about, and absorb, the cultural values and norms of an organization is generally referred to as "socialization." In fact, Van Maanen and Schein coined the term "organizational socialization," which they refer to as "the process through which one is taught and learns the particular knowledge and skills of an organizational role in a specific work setting".[2] Certainly some portion of the socialization process is informal (i.e., new members learn what behaviors are appropriate by passively observing the actions of existing members); however, organizations are understandably reluctant to leave such an important issue to chance since there is a significant risk that new members may not understand certain key values and may actually start to learn and engage in behavior that the leaders of the organization find unacceptable and contrary to the goals and interests of the organization and its various stakeholders. Accordingly, as soon as organizations begin to grow and add new members consideration must be given to creating a predictable and structured socialization experience that will educate new members about the organization's values and teach them the behavior patterns they are expected to follow.

In studying the socialization process Van Maanen and Schein identified six dimensions of tactics that organizations can use to educate newcomers about what is expected of them in terms of "role orientation," which is defined as the characteristic way in which newcomers respond to particular situations that arise in the course of performing their duties for the organization. Each dimension can be thought of as a continuum with tactics at one extreme being characteristic of an organization with an "institutionalized role orientation" and tactics at the other end of the extreme being characteristic of an organization with an "individualized role orientation". In general, organizations with an

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[1] A. King, Managing Organization Culture, http://www.slideshare.net/arianking/managing-organizational-culture-presentation (accessed January 7, 2015).

[2] J. Van Maanen & E.H. Schein, "Towards a Theory of Organizational Socialization," in B.M. Staw (Ed.), Research in Organizational Behavior, vol. 1 (Greenwich, CT: JAI Press, 1979), 209-264, 211.

institutionalized role orientation prefer socialization tactics calculated to cause newcomers to conform to existing norms and behave in essentially the same way as existing members when confronted with decisions about their specific roles and the organization as a whole. On the other hand, organizations that embrace an individualized role orientation are willing to cultivate, tolerate and even encourage and support members that develop new solutions and approaches to opportunities and problems that may ultimately change the prevailing values and norms within the organization.   The following briefly summarizes the tactics for socializing newcomers used by organizations with an institutionalized role orientation with the tactics typically used by organizations with an individualized role orientation[3]:

- *Collective/Individual*. The institutional approach uses collective tactics to provide newcomers with common learning experiences so that each of them is socialized to produce a standardized and predictable response to recurring situations.   The individual approach is based on providing each newcomer with his or her own unique learning experience so that they can learn and internalize new and appropriate responses for particular situations.
- *Formal/Informal*. The institutional approach uses formal learning processes for newcomers that occur while they are segregated from other members of the organization. In contrast, the individual approach relies on other members of the organization to provide informal "on the job" training for newcomers.
- *Sequential/Random Steps*. The institutional approach emphasizes learning tactics that educate newcomers about the specific sequence in which they will be expected to perform new activities or assume new positions within the organization as they advance in the future. In contrast, the individual approach has no set sequence or expectations regarding the progress of members and provides training based on specific interests and needs of each member as he or she develops.
- *Fixed/Variable*. The institutional approach relies on a fixed timetable to provide newcomers with all of the information they need to complete pre-established stages in their learning process. The individualized approach, with its emphasis on training that is customized to the needs and interests of each individual, provides little or no information to newcomers regarding when they have attained certain levels in their learning process.
- *Serial/Disjunctive*. The institutional process relies on serial tactics in which existing members of the organization explicitly serve as role models and mentors to assist newcomers in learning appropriate organizational behaviors.   In contrast, the individual approach uses disjointed processes that force newcomers to find out on their own, without active assistance from existing members of the organization, what is expected of them in terms of behavior.
- *Divestiture/Investiture*. The institutional approach of divestiture compels newcomers to conform to the established norms of the organization by withholding social support—failing to socialize with newcomers and/or taunting and ridiculing newcomers (i.e., "hazing")--until the newcomers learn how to behave and

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[3] G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 183-184.

demonstrate compliance to the existing members. In contrast, the individualized approach of investiture is based on positive social support to newcomers from other members of the organization to make them feel wanted and accepted and comfortable to simply "be themselves" and contribute their own unique talents to the organization.

In general, the overall mission and goals of the organization will determine whether an institutionalized or individualized role orientation is preferred among newcomers and existing employees. At first blush it would appear that senior managers might prefer an institutionalized role orientation since it provides more certainty as to whether employees can reasonably be expected to obediently comply with the orders issued "from the top". Organizations that foster an institutionalized role orientation depend heavily on standardization and tend to develop cultural values and norms that emphasize reliability and repetition in line with pre-established and measurable performance requirements. There are, however, several dangers associated with this approach including the risk that senior management can misuse its control over the behavior of employees and the very real possibility that the fact that all employees are trained to look at the world the same way will make it difficult for the organization to respond quickly to unforeseen changes in the business environment that require creativity that is not part of the existing culture. Organizations that expect that their long-term success will be dependent on continuously developing and marketing new and innovative products should select and encourage an individualized role orientation from the beginning and should base their socialization processes on informal "on the job" training and learning experiences based on unscripted interactions with existing employees. Hopefully this will cause newcomers to believe that they will be allowed to take risks when confronted with new situations and that their efforts to develop and present new and innovative solutions to problems and opportunities will be well accepted within the organization.

Socialization processes in the military provide a good illustration of how systemized use of the tactics described above is likely to have a significant impact on the role orientation of newcomers to the organization. Due to the nature of the activities engaged in by the military the preferred role orientation, in the eyes of the officers seeking compliance from new recruits and existing members occupying a subordinate rank, is extremely institutionalized and thus it is not surprising to see that reliance is placed on socialization tactics at the institutionalized end of the spectrum[4]:

- New recruits are segregated from existing members and all placed into a single platoon during their orientation period so that they share the same initial learning experience ("formal" and "collective" tactics);
- During the orientation processes the new recruits complete pre-established drills and exercises and are confronted with standardized learning experiences ("sequential" tactics);
- The orientation process extends for a fixed period of time known in advance to the recruits and the recruits are advised as to exactly what they will need to do and learn in order to complete the process ("fixed" tactics);

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[4] G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 183-184.

- The orientation process is overseen by superior officers who will serve as mentors and role models as to the type of behavior that is expected of the recruit upon completion of the process ("serial" tactics); and
- New recruits are given no respect and shown no tolerance until they have demonstrated that they understand what is expected of them and that they have learned the skills necessary for them to adequately perform their assigned duties ("divestiture" tactics).

New recruits that successfully complete the socialization process should develop the desired institutionalized role orientation that is based in large part on obedience and strict conformity to the organizational values and norms of the military. If a new recruit does not accept those values and norms he or she will either leave the service voluntarily or be asked to leave during or upon completion of the orientation period. As a result, the recruits that survive orientation are essentially clones of the existing organizational members who can immediately interact with others based on shared values and norms and are prepared to pass their experiences and beliefs on to other newcomers who may come after them.

Many of the socialization tactics referred to above are relatively formal and can be planned in advance in the form of an orientation process for new employees. The lessons taught during the orientation can and should be reinforced through role modeling, mentoring and coaching calculated to provide new employees with clear and positive examples of the types of behavior and cultural forms that are considered to be acceptable within the company's cultural framework. If the socialization process depends on managers acting as role models and mentors for new employees resources should be allocated to train managers about how to be effective in these capacities. It should be forgotten, however, that many elements of an organizational culture will always be informal and relatively difficult for senior management to control and quantify. For example, as organizations develop and mature they will inevitably spawn stories, ceremonies and unique organizational language that are used to educate and indoctrinate newcomers. Some of the information may be imparted through the tactics listed above, such as in informal conversations with mentors; however, many times the process occurs spontaneously as situations arise in the course of day-to-day interactions and operations. In fact, researchers have argued that the most important factors in socializing new employees are their interaction with their peers, their interaction with their supervisors, and their interactions with more experienced—senior—co-workers even if those persons are not directly involved in the day-to-day tasks performed by the new employee.[5]

§3   Managing and reinforcing cultural characteristics

Socialization is just the first part of managing the cultural characteristics of an organization and senior management must be prepared to continuously reinforce and strengthen the chosen cultural orientation in the course of the day-to-day activities of the organization. For example, an organization that has selected the "institutionalized role

[5] M. Louis, B. Posner and G. Powell, "The availability of socialization practices", Personnel Psychology 36(4) (1983), 857-866.

orientation" described above will likely develop and maintain a comprehensive set of rules and standard operating procedures to cover all of the known problems and issues that may arise as employees carry out their daily tasks and interact with one another and with stakeholders from outside of the company (i.e., vendors and customers). In order to keep these rules and procedures up to date employees may be required to regularly "write up" all new incidents and issues that are not already covered in the rules and procedures and include that information in the binders or other means for collecting such rules and procedures so that they are available for use by others in the company. This exercise not only improves the ability of all employees to respond quickly to operational issues, which can pay real dividends in terms of key competitive issues such as customer support, but also reinforces instrumental values such as cooperation among managers and employees to build a shared reservoir of company knowledge and experience. Managers can energize this process by requiring that two or more employees work together to brainstorm solutions for problems not already covered by the existing rules and procedures thereby encouraging creativity and collaboration. However, the existence and required use of formal rules and procedures sends an important message that while seat-of-the-pants problem solving may work most of the time it can also lead to unforeseen and disastrous results and the preferred approach from management's perspective is a detailed and repetitive approach to resolving issues.

Personnel-related decisions provide exceptional opportunities and challenges with respect to reinforcement of behavioral expectations. For example, senior management should pay close attention to how much emphasis is placed on "appropriate" behavior when decisions are made regarding the allocation of reward and status within the organization. Similar issues arise with respect to developing, announcing and enforcing criteria that will be used in making decisions regarding recruitment, promotions, discipline and termination. One way that senior management can attempt to change the culture of the company is to hire and promote only those people that have the desired values and behavioral patterns and eliminate those who do not; however, this can be challenging if the managers that are involved in hiring, socializing and evaluating employees are so strongly tied to the values of the past that they have a built in bias against making the necessary changes.

The way in which the physical space in the organization's building is allocated and furnished can also provide important guidance regarding the cultural values and norms of the organization. For example, in an organization where the hierarchical structure is tall and formal one can expect to see members of the senior management team afforded certain privileges and perquisites not available to other managers which may create substantial distance between the leadership and the organization that they are supposed to be managing. One illustration of this is the situation where executive offices are segregated on to different floors in the building, with access restricted by special elevators, and senior management takes meals and socializing only with another in separate dining areas. On the other hand, an organization in which the senior managers interact regularly with rank-and-file employees in a common cafeteria likely has a much less formal culture and a flatter organizational hierarchy.

Senior managers can also influence organizational culture by the choices that they make regarding the myths and stories that they wish to emphasize when communicating with employees. Similarly, the words that are used when drafting the organization's vision or mission statement provide important clue regarding the values of the organization and its leaders and the types of behavior that will be expected from employees. However, merely putting words on paper or posting them on a website does not guarantee that the organizational culture will be influenced and senior management must be prepared to act in accordance with the organization's mission statement and, as noted above, dole out rewards and discipline in a way that is consistent with the stated cultural values.

Finally, high-minded cultural values and norms sound great when all is going well with organization and its business; however, the legitimacy of those values and norms will be tested in times of crisis and the senior management must be sure that its public and private reaction to unforeseen problems and issues is consistent with the announced organizational culture. Simply put, "actions speak louder than words" and a crisis is an opportunity for senior management to either reinforce the desired elements of the organization's culture or influence other managers and employees to make positive changes in the culture to support new strategies adopted as a result of the crisis situation.

§4   Evaluating and transforming organizational culture

Regardless of how one feels about attempting to manage organizational culture there are some basic steps that can and should be taken to evaluate and analyze the cultural values and norms of an organization at any point in time. The results of this process can be used as a tool to identify subtle changes that might be implemented in the areas that appear to be catalysts in creating, reinforcing and transforming cultural values and norms including stated instrumental and terminal values, conscious socialization processes, rituals and routines, and organizational language and symbols. Effective evaluation can also be used to develop and implement strategies for transforming those values and norms as deemed necessary for effective execution of the strategies of the organization.

The basic steps in analyzing and evaluating the culture of an organization include the following:

- Identify the instrumental and terminal values that are part of the organizational culture and attempt to determine how they are actually influencing the behaviors of the members of the organization.
- Evaluate whether the chosen cultural values of the organization are reflected in the goals, norms, procedures and rules that exist within the organization and whether those goals, norms, procedures and rules are effectively transmitting the selected values to the internal and external stakeholders of the organization.
- Identify the preferred role orientation for employees (i.e., institutionalized or individual) and examine the methods and tactics used to socialize new employees to determine whether they are effective in promoting the desire role orientation.
- Identify the stories, ceremonies, language and symbols used by the organization to illustrate and promote the organization's cultural values and build desired behavior

patterns and evaluate their effectiveness in educating employees about the culture of the organization and building commitment to organizational goals and cooperation within the organization.

Certain areas and issues merit special focus and attention during the analysis and evaluation process. One thing that needs to be done is for there to be objective assessment should be made of the behaviors and outcomes that senior management pays the most attention to in terms of measurement and control. The actions that receive the greatest emphasis in terms of allocation of resources and rewards will inevitably be important factors in the cultural values and norms of the organization. For example, if employees believe that their managers are more interested in "form over substance," they will likely spend unnecessary and unproductive time trying to impress their managers with fancy presentations that may or may not adequately address the critical issues associated with the subject matter of the presentation. Another example is the organization that constantly stresses a lack of tolerance for any defects in the outputs of the production process. While this type of goal can certainly be understood notice should be taken of the impact it might have on behaviors of managers and employees. One byproduct may be a strong aversion to taking calculated risks which might lead to important breakthroughs for the company because failure would be inconsistent with the prevailing "zero defects" mentality embedded in the cultural values of the organization. Fear of defects may also lead managers and employees to spend excessive time and other resources on projects to obtain "perfection" when it is, in fact, inefficient to seek the higher level of quality. Finally, if the organizational culture is such that employees are punished and ridiculed for challenging existing practices and raising ideas for new ways of doing things it is likely that employees will soon learn not to challenge the status quo and the potential for innovation within the organization will be diminished substantially.

§5 Dimensions approach to identifying and assessing organizational culture

In an attempt to make organizational culture more meaningful and tangible for researchers and managers, the "dimensions approach" that has become so popular in the study of societal culture has been introduced into the field of organizational culture. A large group of researchers has attempted to develop models for empirically measuring organizational culture along various bipolar scales, which are referred to as "dimensions". The most widely available and utilized models of the dimensions of organizational culture are based on a wide array of assumptions and varied amount of actual empirical data.[6] For example, the "competing values" scale, or framework, is frequently used as part of an assessment and change process for organizational culture. This framework is a simple, yet eloquent, two-dimensional matrix that categorizes organizational culture into four types based on the degree to which the organization focuses inward or outward and how decisions are made within the organization.[7]

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[6] For an example of a widely used organizational culture survey tool, see http://www.denisonconsulting.com/model-surveys/denison-surveys/organizational-culture

[7] See R. Quinn and J. Rohrbaugh, "A competing values approach to organizational effectiveness", Public Productivity Review, 5 (1981), 122–140; and R. Quinn and J. Rohrbaugh, "A spatial model of effectiveness criteria: Towards a competing values approach to organizational analysis", Management

Placement of specific organizations on each of the dimensions is determined by the responses from assessment tools such as questionnaires that ask organizational members to identify the response that best describes the organization with respect to dominant organizational characteristics, leadership style, management of employees, "organizational glue", strategic emphasis and criteria for success.[8] For example, choices for these six items might be as follows:

- Dominant organizational characteristics: A: personal, like a family; B: entrepreneurial and risk-taking; C: competitive and achievement-oriented; and D: controlled and structured.
- Leadership style: A: mentoring, facilitating, nurturing; B: entrepreneurial, innovative, risk taking; C: no-nonsense, aggressive, results oriented; and D: coordinating, organizing, efficiency oriented.
- Management of employees: A: teamwork, consensus, and participation; B: individual risk taking, innovation, freedom, and uniqueness; C: competitiveness and achievement; D: security, conformity, predictability.
- Organizational glue: A: loyalty and mutual trust; B: commitment to innovation, development; C: emphasis on achievement and goal accomplishment; and D: formal rules and policies.
- Strategic emphasis: A: human development, high trust, openness; B: acquisition of resources, creating new challenges; C: competitive actions and winning; and D: permanence and stability.
- Criteria for success: A: development of human resources, teamwork, concern for people; B: unique and new products and services; C: winning in the marketplace, outpacing the competition; D: dependable, efficient, low cost.

When the assessment is being done for purposes of identifying strategies for implementing changes in organizational culture, respondents are asked to provide impressions both as to how things are "now" and how they would "prefer" them to be. This facilitates identification of gaps between reality and the ideal and then actions can be taken to close those gaps. The responses not only provide measures for the two dimensions in the matrix used in the competing values framework they also provide a short-hand way for identifying the organizational cultural type using the "competing values" framework: "A" responses are associated with Clan cultures; "B" responses are associated with Adhocracy cultures; "C" responses are associated with Market cultures; and "D" responses are associated with Hierarchy cultures.[9]

Science, 29 (1983), 363–377. For further discussion, see the chapter on "Typologies of Organizational Culture" in the Research Paper on "Organizational Culture" that is part of "Organizational Culture: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[8] Description of questionnaire items in text adapted from "Competing Values Framework." ChangingMinds.org. Web. No Date. See also K. Cameron R. Quinn, Diagnosing and changing organizational culture: Based on the competing values framework (Reading, MA: Addison-Wesley, 1999).

[9] For further discussion of each of these cultural types, see the chapter on "Typologies of Organizational Culture" in the Research Paper on "Organizational Culture" that is part of "Organizational Culture: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

Some of the models of organizational culture are prescriptive and come with data claiming to indicate that certain cultures are more "effective" than others in achieving various desired indicators of performance, such as profitability, productivity and customer satisfaction. For example, it has been suggested that organizations should strive for "adaptability" and focus on "listening to the marketplace" in order to identify appropriate changes to their behaviors and processes that will make them more responsive to customer needs. The challenge for organizational leaders, both executives and managers, is to develop a list of questions and categories that can be used to identify key issues associated with "organizational culture" so that they can be explored and actions can be taken to either strengthen and reinforce desired cultural characteristics or initiate changes that will hopefully lead to greater member satisfaction and enhanced organizational performance.

A review of the research and literature suggests that such a list should touch on both "ways of looking at the world" (i.e., time orientation and relationship to the environment) and "practices" (i.e., control systems and other elements commonly associated with organizational structure) and should include both internal integration (i.e., "how things work inside the company") and external adaptation (i.e., "how the company perceives and interacts with its customers and other key external stakeholders") values. Such an approach recognizes the disparate influences on organizational culture that include societal culture, industry characteristics and the nature of the necessary tasks and role of technology. Entries on such a list suggested by the models include the following:

- *Organizational Mission and Purpose:* Do all of the organizational members have a clear understanding of the mission and purpose of the organization and their roles and responsibilities in achieving organizational goals? Is there a clear vision of where the organization is headed that is shared and understood by all members?
- *Control Systems and Process Orientation:* What "control" mechanisms are used within the organization and are they "tight" (e.g., formal rules with small tolerances) or "loose"? To what extent does the technology used by the organization influence its control systems? Is there more focus throughout the organization on the "process" of completing necessary activities, which typically leads to more formalization and reliance on the use of elaborate rules and procedures, or is the primary focus on simply achieving the desired result or outcome, a situation in which less emphasis is placed on the process and organizational members are given more freedom in deciding how best to get their jobs done.
- *Organizational Responsibilities to Members:* What is the accepted and expected scope of the organization's responsibilities toward its members? Are those responsibilities limited to matters directly influencing job performance or do they extend further to include responsibilities for the overall well-being of organizational members (i.e., a more "humane orientation")? What is the perceived (and actual) role of the organizational leader in the lives of subordinates?
- *Organizational Identification and Commitment:* Do organizational members have a strong level of identity with, and commitment to, the organization or is their level of commitment divided between the organization and other strong group affiliations,

such as allegiances to professional cultures (e.g., science and engineering)? A related question is the level of responsibility that organizational members feel toward the organization, which influences the degree to which they will act in a conscientious manner in discharging their duties and responsibilities.

- *Communication Style:* What styles are used by organizational members for internal and external communications (e.g., assertive/aggressive versus cordial/tender) and how easy is it for outsiders and newcomers, such as new employees, to be admitted and integrated into the organization? Communication also includes the effectiveness of communication and the degree to which accurate information is shared throughout the organization.

- *Internal Governance Systems:* Has the organization developed an internal set of governance systems that contribute to a continuous sense of integration and coordination among organizational members? These systems include core values and established norms, rituals, rules and standardized procedures to avoid uncertainty, reduce ambiguity and help everyone in making consistent decisions and behaving in a consistent manner.

- *Strategies for Coping with External Environment:* Is the organization pragmatic (i.e., flexible and adaptable) in dealing with its external environment, particularly its customers (i.e., a "customer orientation"), or is the approach more rigid? To what extent do organizational members expect that it is possible to change and manage the relationship of the organization with its external environment in order to advance and achieve organizational goals and objectives (i.e., is it believed that the organization can "master" its environment through detailed planning processes or should it simply accept the environment as it comes and strive for "harmony" with it)?

- *External Adaptation:* What is the level of results- and outcome-orientation (i.e., quality and efficiency) within the organization? Does the organizational culture emphasize customer satisfaction and continuous innovation to meet the changing demands of the marketplace? External adaptation is determined by a variety of factors including the external competitive and technological environment in which the organization operates.

- *Power, Status and Participation:* What are the expectations of organizational members regarding the distribution of power and status within the organization and opportunities for all members to participate in decision making regarding organizational goals and objective? Organizations with higher "power distance" are more hierarchical, accepting more stratification among members with regard to power and wealth and more authoritarianism with respect to decision making, while organizations with lower power distance are more egalitarian and deploy flatter organizational structures. The type and quality of the leader-subordinate relationship should also be considered.

- *Individualism/Collectivism:* What is the relative importance of individual accomplishment or autonomy versus group dependent accomplishment within the organization? This can be measured by looking to see how important team and group activities are in the organizational structure and processes, how rewards are allocated to members of the organization for their actions and the extent to which people work well together and help each other with difficulties.

- *Gender Equality and Diversity:* To what extent do organizational leaders and organizational practices promote gender equality and minimization of gender role differences? Do all of the various employment-related practices within the organization reflect acceptance of diversity and valuing of all people regardless of race, gender, sexual orientation, religion and age?
- *Time Orientation:* What balance does the organization strike, particularly in its reward systems, between future oriented behaviors, such as planning and long-term investment, and short-term planning and projects?
- *Encouragement and Support of Individual Development:* To what extent does the organization encourage and reward members for improving their skills and performance and for setting and achieving challenging goals with respect to excellence and quality? Factors to consider include the level of training offered to organizational members, acceptance and encouragement of "entrepreneurship" and "reasonable risk taking" in areas such as product and process development, respect for individual dignity and provisions of a good and safe working environment.

Many of the issues and practices raised by these questions are, of course, interrelated. For example, opportunities to participate in decision making increase the level of engagement of organizational members and ultimately contributes to enhanced commitment of those members to organizational goals and objectives due to their heightened sense of ownership and responsibility for their part in the overall organizational plan. At the same time, however, organizations must be mindful that the process of involving organizational members in decisions can be time consuming and may sometimes inhibit the ability of the organization to set and maintain a strong mission and focus or quickly implement changes deemed necessary to respond in a timely fashion to unforeseen developments in the marketplace. There are also common themes that are continuous emphasized among researchers in the field of organizational culture. For example, there is always great interest in the balance between equality and hierarchy; people-orientation versus task-orientation; flexibility and stability; and "internal focus" and integration and "external focus" and differentiation. The bases for control within the organization is another important indicator of organizational culture and options range from informal controls based primarily on peer pressure to formal procedures and systems and, finally, direct and constant oversight by the founder and/or senior organizational leaders.

Other factors play a subtle, yet important, role in how members of an organization understand and experience the organizational culture. For example, the actions of organizational leaders, as well as the perceptions of those leaders by organizational members, are particularly relevant. Organizational leaders are expected to drive the development and reinforcement of the elements of organizational culture and to the extent that they fail to do this the organization may drift due to lack of orientation and confusion over goals and objectives and responsibilities. It is necessary to understand whether organizational members perceive their leaders to be credible, competent and worthy of respect and if members see their leaders as lacking these characteristics member acceptance of the legitimacy of authority will be undermined. Another factor to be taken in to account is the degree to which organizational members are expected to take

responsibility for their actions, including their mistakes. Researchers have identified organizational cultures that have a high level of "scapegoating", which means that members believe and expect that responsibility for mistakes will be shifted to others.

Admittedly, a lengthy list of questions is admittedly somewhat daunting and it is sometimes simpler and quicker to ask organizational members how they would place the organization within broad categories such as a "personal" culture (i.e., does the workplace feel and act "like a family"); an "entrepreneurial and risk-taking" culture, such as the atmosphere commonly found in new firms targeting innovations in technology; a "competitive and achievement-oriented" culture; or a "controlled and structured" culture. An alternative list of categories that would appear to be readily identifiable and understandable to respondents would include people orientation (supportiveness), innovation, competitiveness/aggressiveness, performance (outcome) orientation, stability, team orientation, detail orientation, emphasis on rewards and social responsibility.[10] Another approach is to ask members about their perceptions of the management styles of organizational leaders, the foundational values and practices that hold the organization together (i.e., the "organizational glue", such as loyalty and trust, commitment to innovation or, at the other extreme, formal rules and policies) and the criteria for organizational "success" (e.g., development of, and concern for, organizational members; new product development; increasing market share; efficiency, etc.). Still another idea is to identify the basis of the bond between the organization and its members. For example, do members long for the sense of community and family that is provided by the organization, which creates a strong sense of emotional attachment, or are they more interested in the professional challenges provided by the work that they do and/or the monetary rewards offered by the organization.

Person-Organization Fit

The Organizational Culture Profile ("OCP") developed by O'Reilly et al. and subsequently refined by others has become a widely recognized and used tool for assessing "person-organization" fit. The OCP, which is described in "Organizational Culture: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org), originally used a typology of dimensions of organizational culture that included innovation, stability, people-orientation, outcome-orientation, aggressiveness, detail-orientation and team-orientation. Each of these dimensions was associated with various "characteristics" that could be used in surveys and questionnaires to develop profiles of organizational members as well as the entire organization and specific groups within the organization. Examples of characteristics included "adaptability", "being innovative", "being rule oriented" "fairness", "tolerance", "informality", "decisiveness", and "achievement oriented".

Handler provided a clear and simple explanation of the process of using the OCP to measure person-organization fit:

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[10] See J. Sarros, J. Gray and I. Densten, "The Next Generation of the Organizational Culture Profile", Monash University Faculty of Business and Economics Working Paper Series 15/03, April 2003; and J. Sarros, J. Gray, I. Densten and B. Cooper, "The Organizational Culture Profile Revisited and Revised: An Australian Perspective", Australian Journal of Management, 30(1) (June 2003). For further discussion, see the chapter on "Typologies of Organizational Culture" in the Research Paper on "Organizational Culture" that is part of "Organizational Culture: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

- A baseline for the organization's culture is established by having a representative sample of the organizational members provide their opinions on which of the dimensions is most and least representative of the organization. The baseline is established by aggregating the ratings provided by the survey participants. At this stage participants should be reminded to focus on "how the organization is" as opposed to how they would prefer it to be or their own personal preferences as to the cultural environment in which they would like to work.
- Organizational members create their own personal value profiles by ranking each of the characteristics referred to above from most preferred for their work environment to least preferred. This is the stage where participants need to visualize their ideal situation and avoid speculating as to whether it would be possible for the organization to deliver all of the characteristics they would prefer. Realizing there are a large number of characteristics, respondents should be urged to focus primarily on the three to five items that are "most characteristic" and "least characteristic" and not spend too much time sorting out the others that fall into the middle.
- The personal value profiles of the organizational members are compared to the profile of the baseline organizational culture constructed in the first stage and the overlap between the organizational culture and a member's personal values or preferences provides a data-based estimate of the person-organization fit for the member.

Handler conceded that the approach outlined above is relatively "soft" and somewhat subjective and thus may not pick up harder and more objective aspects of performing a particular job; however, Handler argued that the OCP and the concept of person-organization fit ("P-O Fit") can provide value to organizations and their leaders and members. For example, research has shown that good P-O Fit increases tenure and reduces the costs of turnover. In addition, P-O Fit has been linked to increased worker satisfaction, organizational commitment and organizational identification. P-O Fit can also be used as a tool for selecting the best candidates for work groups and teams and determining whether a member would do well if he or she is transferred to a new area within the organization. Handler noted that there are often a large number of groups within an organization and that groups may have values that differ from other groups that can and should be profiled to determine whether a particular member would fit well within that group. Finally, the output from the OCP survey can be used to develop an "employment brand" for the organization that can serve as a recruiting tool and the basis for messaging to job candidates regarding the values and practices of the organization with respect to its members.

Sources: See C. O'Reilly, J. Chatman and D. Caldwell, "People and organizational culture: A profile comparison approach to person-organization fit", Academy of Management Journal, 34 (1991), 487; D. Cable and T. Judge, "Interviewers' perceptions of person-organization fit and organizational selection decisions", Journal of Applied Psychology, 82 (1997), 546 (for an illustration of a worksheet to be completed by an organizational member to determine his or her personal values profile, see http://www.timothy-judge.com/OCP.htm); and C. Handler, The Value of Person-Organization Fit, Building an Interview (Website), http://www.buildaninterview.com/the_value_of_person_organization_fit.asp [accessed August 3, 2015]

One encouraging note in an increasingly global economy is that new research appears to support the proposition that many of the dimensions of organizational culture underlying the list above can be effectively used and measured in a variety of national settings. For example, organizational culture in China has been reliably measured and described using a mix of internal integration and external adaptation values that would be familiar to analysts of organizational culture in the West; however, it is still necessary to "localize" the items associated with each of these values in order to obtain results that are meaningful for organizational managers interested in changing aspects of the organizational culture to improve economic performance and/or member morale or smoothing the process of integrating members of two organizations from different countries who are brought together through merger.

§6   Organizational culture change

Researchers and organizational leaders seek to understand organizational culture so that they have a better idea of "why things are the way they are". However, for organizational leaders this is not enough since they are continuously seeking ways to improve the performance of the organization and studies indicate that performance is linked to culture when it comes to organizations. Analysis and evaluation of the prevalent culture characteristics is the first step to making changes thought necessary to improve the effectiveness of the organization. Once the analysis of the current culture has been completed an attempt should be made to identify the most important cultural norms and values and how they are impacting the way in which the organization does business and the how the members of the organization (i.e., the managers and employees) behave as they carry out their day-to-day tasks and interact with one another and external stakeholders. The next step is to clearly define the desired changes in the mission and purpose of the organization and its overall strategic goals and objectives of the organization and to identify the behaviors of managers and employees that appear to be necessary and appropriate to achieve the new goals and objectives. Once that step has been completed senior management must identify the changes in the cultural values and norms of the organization that would be required in order to promote the desired behaviors consistent with organizational strategy.

Effecting meaningful changes in organizational culture is difficult business and, in fact, Schein and others have made it clear that they belief that organizational culture is extremely hard to change; however, others are more optimistic. Schraeder and Self observed that a change in the organizational environment might facilitate a change in organization culture[11] and Lees argued that it was possible to manage organizational climate or corporate culture through "leadership styles, flexible structures, redesigned jobs, decentralization and developed autonomy, empowerment, human relations styles and much more".[12] Among other things, senior management must determine what strengths of the current organizational culture should be retained in order to achieve the new strategic goals and objectives and look for ways to continue to encourage and reinforce those specific values and behaviors. In addition, senior management must determine what major weaknesses and deficiencies of the current organizational culture will need to be changed in order to achieve the new strategic goals and objectives. Certain values and norms may be inconsistent with the organization's new strategy and it is also likely that elements of the organizational culture have having a detrimental impact on the productivity in the workplace and the emotional well-being of the employees. Decisions must be made regarding what new cultural values and behaviors need to be promoted and how that can be achieved including changes in the socialization and ongoing training of employees.

Effecting meaningful changes in organizational culture is a challenging job that must be

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[11] M. Schreader and D. Self, "Enhancing the success of mergers and acquisitions: an organisational culture perspective", Management Decision, 41(5) (2003), 511-522.
[12] S. Lees, Global acquisitions: strategic integration and the human factor (Basingstoke : Palgrave, 2003), 191.

approached carefully and methodically. Success or failure depends on a variety of factors including the level to which existing cultural values and norms have become embedded within the organization, the magnitude of the changes that are being attempted, the time and resources that the organization is willing to commit to the change effort and the degree of advance planning and follow-through by all of the departments and business units that will be impacted by the changes. Trice and Beyer have developed the following list of considerations and suggestions that should be taken into account by senior management whenever an attempt is made to change organizational culture[13]:

- The need for cultural change is best understood and appreciated when significant events have occurred with respect to the organization and its performance. For example, if earnings have significantly deteriorated employees are more likely to accept the notion that some sort of change is needed. However, be careful not to unnecessarily diminish the good things that the organization has done in the past.
- Merely declaring that change is need is not enough; senior management must also provide the rest of the organization with a clear idea about why the changes are needed and how they expect the organization to look and act once the changes have been implemented. This vision of the future should be optimistic, yet realistic.
- It should not be expected that employees will be willing to change simply because it is "best for the organization." An effort must be made to educate employees about how the changes will benefit them personally and make their day-to-day experience with the organization more enjoyable.
- Senior management must expect and understand the inevitable resistance to change even when it is clear that the status quo is not working. Among employees there will certainly be a fear of the unknown, self-interest, a need for security, and reluctance to deviate from comfortable and habitual activities and attitudes. Departments and other groups within the organization will also have their own objections and barriers based on real or perceived threats to their existing power and influence, different perceptions of organizational issues and goals, and new limits on the resources available to them for their activities.
- Too much change can really be "too much" and senior management must seek to maintain some level of continuity within the organizational culture while focusing on those changes that are absolutely essential.
- Effective and permanent change requires a long-term commitment to implementation and institutionalization of the new cultural elements. Plans for cultural change need to include investment in sufficient resources to make sure that the changes are understood and accepted.
- Change should be communicated through a variety of media and exclusive reliance on impersonal memoranda and e-mail messages should be avoided. Employees should be given opportunities to ask questions, express reservations and make suggestions about the details of implementing the changes.
- Cultural change requires creation and/or modification of cultural forms and senior management should explicitly consider what should be done with respect to stories, ceremonies, rituals, symbols and language.

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[13] H. Trice and J. Beyer, The Cultures of Work Organizations (Prentice Hall 1992).

- Socialization processes should also be modified in order to ensure that new members are immediately exposed to the desired changes in the organizational culture. This will usually require training for managers and others who serve as mentors and teachers for members when they first arrive at the organization.
- Senior managers must be prepared to exercise leadership in describing the desired cultural changes and making sure that they are understood and accepted by all of the employees of the organization. Change leaders must be self-confident, exude a strong belief in the new values and norms, and be able to communicate effectively.

It is important for senior managers to be patient and calm throughout any effort to make significant changes in organizational culture. The oft-quoted phrase that "change does not happen overnight" is particularly true with respect to cultural elements and it should not be expected that changes will be executed with perfection. Organizational cultures take a long time to develop and problems typically arise only after lengthy periods of deterioration. It should therefore not be surprising that positive changes in organizational culture will not occur immediately and a significant period of trial and error may pass before the hoped-for benefits will be realized. When planning for organizational change it is important to create procedures for monitoring progress so that senior management remains on the proper path and attention continues to be paid to implementation.

A cautionary note about the potential impact of organizational change initiatives is also worthy of mention. The researchers who conducted a study of early-stage technology companies in the Silicon Valley as part of the Stanford Project on Emerging Companies ("SPEC") found that material changes in the initial organizational blueprint were relatively uncommon among the companies in their study group; however, when change in organizational culture did occur it was often accompanied by "destabilization", which took a variety of different forms including erosion of skills and talents due to turnover, sudden and extreme alterations in the bases of power and status within the company; undermining of cherished belief systems; confusion in the minds of outsiders, such as customers, investors and other business partners, about the identity and purposes of the company; and damage to the reputation of the company. [14] The SPEC researchers found that companies that significantly changed their employment blueprint after the start-up stage were much more likely to fail and if those companies had completed an initial public offering ("IPO") before the change they could expect to experience a substantial decrease in their market value following the change. [15] There was a strong positive correlation between changes in the initial employment blueprint and employee turnover, particularly turnover among the more senior employees. [16] Not surprisingly, the higher the level of turnover the more adverse impact there was on subsequent growth in the revenues of the company. When changes were made to the initial employment blueprint a change to the engineering model was generally the least disruptive. In general,

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[14] Stanford Graduate School of Business, Entrepreneurship: Lessons from the Stanford Project on Emerging Companies (Sept. 3, 2003), 13.

[15] Id. at 16 (citing M. Hannan, J. Baron, G. Hsu and O. Kocak, Staying the Course: Early Organization Building and the Success of High-Technology Firms (Unpublished Manuscript) (Stanford University Graduate School of Business)).

[16] Id. at 13 (citing J. Baron, M. Hannan and M. Burton, "Labor Pains: Organizational Change and Employee Turnover in Young, High-Tech Firms," American Journal of Sociology, 106, 960).

however, changing the model typically reduced the likelihood of a successful IPO by 50%, tripled the likelihood of failure, and triggered rapid deterioration in subsequent growth of the market capitalization of the company. Another interesting finding was that, in general, the founder's views regarding important aspects of organizational culture were difficult for subsequent non-founder CEOs to overcome. For example, when the original organization culture nurtured by the founder encouraged self-management, later attempts by a new non-founder CEO to introduce more formal bureaucratic procedures were typically not very successful.

§7　--Role of organizational leaders in effecting organizational culture change

There is a consensus that organizational change starts with, and must be driven by, commitment, vision and direction by organizational leaders and that change only happens when organizational members are invested and willing to make it happen.[17] Smith, for example, proposed the following fundamental and key elements to successfully achieving sustainable changes in organizational culture[18]:

- *Ensure Readiness:* Leaders should engage in wide communications within the organization regarding the perceived need for change even before the change planning process is completed in order to begin building a receptive attitude among members for the changes that will be taking place.
- *Change Planning:* Planning for changes in organizational culture should be carried out in the same way as any other strategic move and it is not uncommon for plans to include a description of priorities, timetables and schedules and schematics of how responsibilities of organizational members will be changed. The change planning process should be transparent so that organizational members can see and understand the rationale for changes that impact them directly.
- *Change Leadership:* Organizational leaders must be prepared, and have personal skills, to lead the change initiative and get organizational members actively and positively involved in transforming the organization and its work environment.
- *Change Management:* Organizational change is more than speeches and announcements, it requires active management by organizational leaders to keep members apprised of, and focused on, the goals underlying the changes. Wide communication and discussion is needed and opinions of organizational members should be solicited and incorporated into new ideas, procedures and ways of thinking within the organization.

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[17] M. Kavanagh and N. Ashkanasy, "The Impact of Leadership and Change Management Strategy on Organizational Culture and Individual Acceptance of Change during a Merger", British Journal of Management 17(1) (2006), S81–S103; I. Smith, "Continuing professional development and workplace learning: Achieving successful organisational change: do's and don'ts of change management", Library Management, 27(4/5) (2006), 300-306; and T. Diefenbach, "The managerialistic ideology of organisational change management", Open University Business School, Milton Keynes, UK Journal of Organizational Change Management, 20(1) (2007), 126-144.

[18] I. Smith, "Continuing professional development and workplace learning: Achieving successful organisational change: do's and don'ts of change management", Library Management, 27(4/5) (2006), 300-306, 301-305.

- *Support Change:* The organization must be prepared to commit to investing in all of the resources required to facilitate the desired changes including money and time. Among other things, the organization must establish and support training and development programs that support the new roles that organizational members are being asked to assume.
- *Resistance:* Organizational leaders must expect that there will be resistance to change even when the leaders are convinced that the change will be positive for all or most of the organizational members. Leaders should not ignore, or brush off, resistance and should make a conscious effort to under the nature and the resistance and determine the best strategy for dealing with it. In some cases, negotiation and explanation will only go so far and it may be necessary to simply rely on reasonable use of power and authority, realizing that some of the organizational members may not survive the change process.
- *Communication:* Organizational leaders should be excellent communicators during the process of changing the organizational culture and this means clear, honest, regular and complete communication at all organizational levels that includes opportunities for members to voice their concerns about the process and thus build a belief among members that they can trust their leaders to take their anxieties and ideas into account.
- *External Stakeholders:* While most of the change process focuses on organizational members it is also important to communicate changes to external stakeholders, such as customers and suppliers, particularly when the proposed changes are driven by goals related to those stakeholders, such as "get closer to the customer".
- *Assessment of Change Process:* As part of the planning processes mentioned above, organizational leaders must be prepared to evaluate the process, make necessary changes and learn from problems that may have arisen during the process. In addition, of course, once the process is largely completed organizational leaders need to compare actual outcomes to the goals established at the beginning of the process. The bottom line is that attempts at organizational change must be seen as an opportunity to learn, even when change has not been successful.

§8   Organizational culture and merger success

One of the most active areas of research in the organizational culture arena has been the relationship between organizational culture and merger success.[19]   For example, Chatterjee et al. were interested in developing measurements of corporate culture to be used to determine the extent to which perceptions of cultural differences of the top management teams of parties to an acquisition transaction (e.g., a merger) related to stock market gains of the securities of the acquirer, which they identified as an important measure of the financial performance of the transaction. They noted that while most of the empirical investigations on the extent to which mergers created value for the shareholders of the acquiring firm focused on the strength of the "strategic fit" between

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[19] For detailed discussion of steps that managers can take to understand the relationship between organizational culture and acquisition success, particularly the implementation of effective integration strategies, see "Managing Growth and Change: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

the parties to the merger the results of those studies had, in their minds, been unclear and they suggested that attention should also be paid to "cultural fit, or the degree to which [employees of the acquired firm] perceive their culture to be compatible with that of the buying firm" since "[w]ithout employee support, the expected performance from a merger is rarely realized".[20]

Chatterjee et al. conceded that "there [was] no general consensus on what are the most important dimensions of cultural difference"; however, they were able to identify the following dimensions and items from the then-existing literature that had been shown to have high levels of reliability and validity and which they presumed could be useful in analyzing their hypotheses in the under-studied areas of mergers and/or top management perceptions of culture: innovation and action orientation; risk-taking; lateral integration; top management contact; autonomy and decision making; performance orientation; and reward orientation.[21] Chatterjee et al. intentionally chose to elicit responses and information on perceptions of cultural differences "rather than examining the more tangible and objective outcomes of culture such as reward structures, office layouts, and missions statements, [since] perceptions may be better predictors of behavior" and "mergers may highlight stark contrasts in cultures which will motivate the managers of the threatened culture to develop a greater awareness of their own belief structures". [22] The researchers also attempted to assess the "tolerance of multiculturalism" among the top managers of the acquiring firm by asking managers of acquired firms about their perceptions regarding the extent to which the managers of the acquiring firm imposed their firm's goals and decisions (both operational and strategic) on the acquired firms and their personnel.[23]

Responses were collected from top managers (i.e., CEO through senior vice president level) of a large number of acquired firms in merger transactions that had occurred over a three year period.[24] After demonstrating that each of their chosen dimensions did indeed capture a unique aspect of cultural differences based on statistical analysis of the responses, Chaterjee et al. went on to show that the results of their survey showed strong support for the hypothesis that predicted an inverse relationship between the perceptions of the acquired managers in a merger transaction regarding cultural differences and the increase in shareholder value realized by the shareholders of the acquired firms. The researchers commented: ". . . the findings have practical importance because they show that investors are generally skeptical about mergers where the cultures between the top management teams are perceived to be incompatible, while they are supportive of mergers where the cultures appear to be compatible. The implication is clear: the

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[20] See S. Chatterjee, M. Lubatkin, D. Schweiger and Y. Weber, "Cultural differences and shareholder value in related mergers: Linking equity and human capital", Strategic Management Journal, 13 (1992), 319-334, 320.

[21] Id. at 324.

[22] Id.

[23] Id. at 324-325.

[24] The sample of firms was drawn from an exhaustive list of mergers published in the Journal of Mergers and Acquisitions from 1985 to 1987. For further discussion of methodology, see S. Chatterjee, M. Lubatkin, D. Schweiger and Y. Weber, "Cultural differences and shareholder value in related mergers: Linking equity and human capital", Strategic Management Journal, 13 (1992), 319-334, 323.

management of a buying firm should pay at least as much attention to issues of cultural fit during the premerger search process as they do to issues of strategic fit."[25]

§9   --Problems of cultural fit in mergers

Corporate culture presents a significant challenge in the context of a pending merger because it is difficult to determine the organizational culture of a proposed acquisition partner given that culture appear at many different levels and there is generally little time for an extensive cultural due diligence and confidentiality restrictions make it almost impossible to delve deeply into areas where culture is most likely to be observable. Recklies has observed that problems of "cultural fit" in mergers are most prevalent in areas such as organizational values, management culture and leadership styles, organizational myths and stories, organizational taboos and ritual and cultural symbols. Left unresolved, or if poorly addressed, problems of cultural fit can lead to undue stress of the participants on differences, mutual stereotyping, mutual blaming and, finally, long and bitter battles for cultural dominance that completely undermine any expected benefits from the merger.[26] In larger transactions, the cultural challenge expands since there is typically more than one culture that needs to be assessed and integrated. In a cross-border transaction culture preferences from different societies must be reconciled and every transaction, domestic or international, requires consideration of cross-organizational and cross-functional differences.

§10   --Responsibilities of organizational leaders for cultural fit in mergers

Many commentators have argued that leadership is one of the most important factors in facilitating effective organizational change, in the context of a merger and otherwise.[27] Diefenbach, for example, noted that leaders have a responsibility to "justify, communicate, perceive and implement their change initiatives" and that the absence of communication is one of the main reasons that attempts at organizational change fail.[28] Nahavandi and Malekzadeh, while discussing how to combine two organizations with two different cultures, argued that leaders are the "symbols of the merger" and, as such, are the key actors in anticipating and resolving cultural integration issues.[29] Interviews conducted by Bligh with 42 post-merger employees confirmed her belief that post-merger clashes of the corporate cultures of merger partners are often the cause of disappointing merger outcomes and caused her to emphasize the importance of the role of the

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[25] Id. at 331.

[26] O. Recklies, Mergers and Corporate Culture, http://www.themanager.org/pdf/Merger_Culture.PDF

[27] Useful summaries and bibliographies of research and consulting advice on the influence of organization culture on the mergers appear in H. Makhlouk and O. Shevchuk, The importance and the influence of the corporate culture in a merger and acquisition context (Kalmar, Sweden: Baltic Business School, 2008); and D. Dauber and G. Fink, Blending organizational cultures in mergers and acquisitions, http://www.academia.edu/1194726/Hybridization_Blending_organizational_cultures_in_mergers_and_acquisitions.

[28] T. Diefenbach, "The managerialistic ideology of organisational change management", Open University Business School, Milton Keynes, UK Journal of Organizational Change Management, 20(1) (2007), 126-144.

[29] A. Nahavandi and A. Malekzadeh, Organizational culture in the management of mergers (Westport, CT: Quorum Books, 1993).

organizational leader in exercising cultural leadership before, during and after a merger. She described the tasks of the leader as having to "establish new cultural elements (leadership that *creates*), facilitate the integration of both existing and new values into the merging culture (leadership that *integrates*), modify some existing cultural values (leadership that *changes*), while at the same time supporting and reinforcing new cultural values (leadership that *embodies*)".[30] Ross is still another veteran observer of mergers and acquisitions who concluded that poor merger outcomes often follow from a failure of managers of the acquiring company to prepare sufficiently for overcoming post-merger integration challenges.[31]

§11 --Cultural analysis in the merger context

A wide array of tools, including questionnaires, interviews and simply "walking around", have been suggested for conducting a cultural analysis in the merger context. Regardless of how the analysis is done the goal is to identify differences and "common ground" between the members of the organizations that are combining in the merger process so that leaders of the integration process can design an effective plan for achieving strong and positive interaction and communication among everyone in the combined firm. Recklies recommended, for example, that members of each organization by asked to give their perceptions of both their own organization and the other organization on various features of organizational culture such as democracy, bureaucracy, hierarchy and authoritarianism, openness to change, team orientation, long-term orientation and people orientation (i.e., responsibility of the organization for its members and their wellbeing). The response should be compared to identify both differences that may create cultural barriers to change and similarities that can be emphasized as a means for beginning to "build bridges" between the organizations.[32]

§12 --Integration planning

Accepting the notion that culture does matter, at least to some extent, with respect to the success or failure of a merger, the burning question becomes just what leaders of both parties can and should do increase the chances that the two organizations and their people can combine their resources and talents smoothly and effectively. Ross is one of many who has suggested that leaders develop and implement an "integration plan" that begins with a clear vision of what the new post-merger culture of the combined organization is expected to be and then goes on to detail how the systems, processes and procedures of the combined organization will be set up so as to align with, and reinforce, the desired culture. However, the plan will not be effective unless the leaders are successful in communicating the new culture to all of the employees of the combined organization and showing each of them just how they will be impacted by the changes and what they can expected in and from the new organizational culture. Ross emphasized that planning,

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[30] M. Bligh, "Surviving Post-merger 'Culture Clash': Can Cultural Leadership Lessen the Casualties?" Leadership, 2(4) (November 2006), 395–426, 404.
[31] D. Ross, "Culture Management in Mergers & Acquisitions A focus on culture and people is critical to make integration strategies work", http://www.squarepeg.com/pdf/LatestThinking/MergersAcquisitions.pdf
[32] O. Recklies, Mergers and Corporate Culture, http://www.themanager.org/pdf/Merger_Culture.PDF

begun in advance of the closing of the transaction, is essential given that "the time to make change is limited but the way in which cultural integration is handled will make the difference between success and failure of the deal".[33]

Key steps in the integration plan identified by Ross included obtaining individual buy-in from organizational leaders, which meant that each of the members of the leadership group of the "new company" needed to identify and explain their own interpretation of the desired new culture so that everyone involved was on the "same page" and then acknowledge that the vision for the integration plan was the best way to achieve the new culture thought to be appropriate for success in the future; addressing the "me" issues that each member of the organization can be expected to have regarding the merger (e.g., "will I have a job, will my pay and benefits change, who will I report to and what will it be like to work for 'them'?"); identifying and addressing the common "integration risk factors" described below; and, finally, avoiding the "deadly sins" of mergers and acquisitions that are also detailed below.

As mentioned above, a central part of a proposed integration plan is strategies for dealing with various "integration risk factors", which include the following:

- The level of experience that the organization has with regard to mergers and acquisitions and, specifically, dealing with integration issues;
- The proximity, or lack thereof, of the parties to the merger, a risk factor that requires identifying and addressing issues that may arise due to legal, language and cultural differences;
- The level of "hostility" associated with the negotiation process: for example, a "hostile takeover", while perhaps warranted for purely business and financial reasons, is a highly risky situation from an integration perspective;
- The speed and intensity of the markets in which the participants are competing, with risk being higher in situations where competitors are likely to take advantage of any delays in operational progress that may occur due to slow and/or awkward integration;
- The likelihood that the combined organization will be able to achieve the initial goals established before the merger with respect to financial and business performance, with unrealistic goals increasing risk due to the additional stress that everyone is enduring while coping with integration;
- The relative strengths of the participants, realizing that it is actually quite rare for there to be a true "merger of equals";
- The degree of strategic alignment between the participants, realizing that the failure of the parties to reach agreement regarding their common strategy as a combined organization will lead to significant problems and rapidly deteriorating morale;
- The desired level of integration, realizing that aspiring for a high degree of integration can increase the complexity of the deal and also unwittingly retard unique aspects of

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[33] D. Ross, "Culture Management in Mergers & Acquisitions A focus on culture and people is critical to make integration strategies work", http://www.squarepeg.com/pdf/LatestThinking/MergersAcquisitions.pdf, 11.

the culture of the acquired company that would be valuable for the combined firm; and

- The level of ambiguity in power and authority in the combined organization, which should be avoided by focusing on identifying experienced and talented managers who can lead the integration effort and make sound choices about how control should be allocated in the combined organization.

The "deadly sins" of mergers and acquisitions actually follow from failing to deal effectively with the listed risks and ignoring the basics of integration planning. Among the potholes mentioned by Ross were poor due diligence, failing to formulate a vision regarding the desired degree of integration, delaying the start of the integration process and/or failing to prosecute integration quickly, allowing divergent initiatives, failing to address the "me" issues mentioned above, insufficient communication, failing to establish and announce clear lines of leadership and authority, failing to establish a dedicated and capable merger integration team; failing to set clear and measurable goals and objectives for the first 90 days after the merger and failing to incorporate formal project planning mechanisms and tools into the integration planning process.[34]

Organizations with significant experience with integration issues in mergers and acquisitions often develop rulebooks or guidelines that can be followed and make a concerted effort to continuously update their knowledge base on integration "best practices" as deals are completed and lesson are learned. Some commentators recommend that a specific decision regarding the level of integration, including whether or not one or the other of the cultures should be selected as "dominant", should be made in advance so that specific goals and objectives regarding the post-merger organizational culture can be created and described. Researchers have also identified the importance of the scope of autonomy granted to key managers of the acquired party in a merger since autonomy alleviates fears about the impact of the merger on the way things have been done in the past and reduces the risk that those key managers will leave after the merger due to disenchantment with the way that the merger has impacted the organizational culture that they were familiar with.

Gitelson et al. presented evidence that a large percentage of mergers and acquisitions fail to produce positive outcomes and that, in fact, half of them actually destroyed value embedded in the participants before the attempts at combination occurred. This stunning conclusion regarding merger failure was attributed, according to interviews with hundreds of senior executives involved in the same number of merger transactions over a two year period, to "the people and the cultural differences".[35] The prescription offered by Gitelson et al. was akin to an integration plan and took the form of an "agenda" for the crucial first 90 days following the closing of the merger that increased the chances that

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[34] D. Ross, "Culture Management in Mergers & Acquisitions A focus on culture and people is critical to make integration strategies work", http://www.squarepeg.com/pdf/LatestThinking/MergersAcquisitions.pdf, 10-13.
[35] G. Gitelson, J. Bing and L. Laroche, "Culture Shock", CMA Management, 75(1) (2001), 40-44.

leaders would recognize and, hopefully avoid, the major pitfalls associated with merger integration[36]:

- Integration processes should be ready to go on the day that the merger is announced and leaders should accelerate the integration process to reduce the levels of uncertainty and anxiety within the combined organization and avoid the significant loss of personnel effectiveness after a merger that often occurs due to preoccupation with rumors, misinformation and worries.
- Leaders need to keep everyone tightly focused on a small set of key, and measurable, goals and objectives during the first 90 days in order to get off to a good start in creating economic value from the combination of the two firms. These goals and objectives should be announced and widely communicated and accompanied by guidance to everyone of what their role will be in achieving those goals and objectives. Again, this gets everyone focused and concentrating on their jobs and not rumors about what may or may not happen in the future.
- Leaders must take affirmative steps to accelerate integration of personnel from both sides of the transaction and should create teams of persons from both parties and give them a clear mission to work together to establish goals, processes and procedures that everyone can agree upon for post-merger operations. Delays in this area create risks that personnel from both sides will simply huddle in their own camps, which will lead to rivalries, hostilities and jealousies.
- Frequent communication is essential during this crucial period and leaders must proactively disseminate their message regarding the vision for the combined organization to all employees using multiple channels including print, meetings, video and e-mail. Employees should be given opportunities to meet with organizational leaders to ask questions and make suggestions and this is a good way for those leaders to gauge whether or not they are being successful in their communication efforts.
- Related to "communication" is the issue of how best to transfer knowledge between the organizations, since the transfer and sharing of knowledge is often a key consideration in entering into a merger transaction. In order for knowledge transfer to be successful, steps must be taken to retain key managers of the acquired party and deference must be given to the time-honored ways of sharing knowledge that have proven to be effective within the organization of the acquired party.
- Leaders must support adaptation to the new goals and objectives of the combined organization by disseminating information about those goals and objectives in ways that are consistent with the cultural background and orientation of everyone in the new organization. This calls for pre-merger assessment of the organizational cultures of both parties to identify differences that are likely to lead to confusion and misunderstanding after the deal is consummated.
- Leaders must be particularly mindful of the concept of "time". For example, they must not forget that they have had knowledge of, and been planning for, the merger much longer than most of the employees on both sides, who often only hear of the deal on the day that it is announced. Leaders must be careful to avoid frustration

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[36] Id.

when it appears that employees simply "don't get it" and cling to their old ways. Time also varies from culture-to-culture and leaders should not forget that people from different cultures have different notions about planning horizons (e.g., a "long-term" plan in the US seldom goes beyond three years while the comparable planning horizon in other parts of the world can extend ten years or more).

- While the important and essential role of the leader in facilitating effective cultural change in the merger context is relatively clear, he or she cannot, and must not, act alone and must move quickly "to place in all key positions those individuals who are true representatives of the new culture and who can lead effectively people on both side of the company's cultural divide".

Others have approached the issue of culture and mergers from the relatively pessimistic position that corporate cultures cannot be dramatically changed and that, in fact, attempts to effectuate change may be counterproductive. Schein, one of the most well-known scholars of organizational culture, has been quoted as saying simply that "[c]ulture is damn near impossible to change" and Kotter, another established thought leader in this area, has also observed that "talk of culture change is nonsense". Nonetheless, mergers will occur and issues of cultural change in that context will remain relevant, but perhaps the views of Schein and Kotter can be reconciled by change strategies that implicitly recognize how hard the process will be. For example, Rhodes recommends focusing on the origins of organizational cultures while developing plans for cultural integration in the merger context and his specific cautions and advice to managers involved in mergers and acquisitions include the following[37]:

- Do not act hastily to replace the processes and procedures that have adopted within the acquired firm with respect to the approach of organizational members to their day-to-day work activities;
- Identify and respect the stories, ideas and beliefs that have become part of the "organizational mythology" of the acquired firm;
- Adapt the best practices from the acquiring firm's own orientation process into the integration plan and make them part of the steps taken to educate members of the acquired organization about the culture of the acquiring firm;
- Make sure that the acquired firm's traditions and systems for advancement and reward are respect and integrated, to the degree possible, into the reward systems of the combined firm;
- Understand and integrate the strategies used by the acquired firm in the past to deal with dysfunctional behavior and other problems; and
- Identify the customs and habitual practices, particularly ethical standards and ways for showing respect to other organizational members, which are followed within the acquired firm and determine whether and how those practices can be effectively shared and integrated within the combined firm.

A common aspect of these recommendations is the need to focus on the way members of

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[37] K. Rhodes, Merging Successfully: The importance of understanding organizational culture in mergers and acquisitions (Los Angeles, CA: Pepperdine University, The George L. Graziadio School of Business & Management, 2004).

the acquired firm see their world and how the most valuable aspects of their organizational culture can be preserved and integrated into their new experience as members of the combined firm.

As cultural integration issues are being considered attention must also be paid to the "nuts and bolts" of how the business activities of the two parties should actually be brought together once the deal is completed. Consideration must be given to where the headquarters of the combined company should be located. Rather than select the headquarters of one of the parties, it may be useful to proceed without any formal headquarters and ask senior executives to rotate among various key office locations. Steps must also be taken to integrate similar departments from both companies. One solution might be to create talent centers at strategic locations that will serve as the focal point for essential functional activities such as research and development, manufacturing and marketing. Employees from both companies would have the option to transfer to these centers as a condition to advancing to leadership positions and this would facilitate integration in a totally new environment for veterans of both parties. In order to ensure that valuable employees who elect not to transfer do not become isolated, the company should adopt and enforce a rule that all business-related communications within the company are to be in one language (e.g., English). In addition, key customers of both parties must be reassured about the ongoing commitment to service from the combined entity. Finally, while many merger deals allow the acquiring party to continue using the trade names and logos of the acquired party for a certain period of time, consideration should be given to moving quickly to re-brand, if necessary, the acquired party's products to reflect the new owner. This can accelerate the process of getting employees of the acquired party to identify themselves with the combined company.

Summing Up

1.   The process by which new employees are informed about, and absorb, the cultural values and norms of an organization is generally referred to as "socialization." Certainly some portion of the socialization process is informal (i.e., new members learn what behaviors are appropriate by passively observing the actions of existing members); however, organizations are understandably reluctant to leave such an important issue to chance since there is a significant risk that new members may not understand certain key values and may actually start to learn and engage in behavior that the leaders of the organization find unacceptable and contrary to the goals and interests of the organization and its various stakeholders. Accordingly, as soon as organizations begin to grow and add new members consideration must be given to creating a predictable and structured socialization experience that will educate new members about the organization's values and teach them the behavior patterns they are expected to follow.

2.   Researchers have distinguished between organizations with an "institutionalized role orientation" and organizations with an "individualized role orientation" and suggested that the choice of role orientation determines the appropriate socialization tactics. In general, organizations with an institutionalized role orientation, such as the military, prefer socialization tactics calculated to cause newcomers to conform to existing norms and behave in essentially the same way as existing members when confronted with decisions about their specific roles and the organization as a whole. On the other hand, organizations that embrace an individualized role orientation are willing to cultivate, tolerate and even encourage and support members that develop new solutions and approaches to opportunities and problems that may ultimately change the prevailing values and norms within the organization. Socialization processes should be a combination of formal orientation programs and ongoing reinforcement through role modeling, mentoring and coaching calculated to provide new employees with clear and positive examples of the types of

behavior and cultural forms that are considered to be acceptable within the company's cultural framework. Also important are opportunities to interact with peers, supervisors and more experienced—senior—co-workers even if those persons are not directly involved in the day-to-day tasks performed by the new employee.

3.   Socialization is just the first part of managing the cultural characteristics of an organization and senior management must be prepared to continuously reinforce and strengthen the chosen cultural orientation in the course of the day-to-day activities of the organization. Many organizations, especially those relying on "institutionalized role orientation", prefer to develop and maintain a comprehensive set of rules and standard operating procedures to cover all of the known problems and issues that may arise as employees carry out their daily tasks and interact with one another and with stakeholders from outside of the company (i.e., vendors and customers). Conformance to recognized and desired cultural values is often a significant factor in personnel-related decisions regarding the allocation of reward and status within the organization. The way in which the physical space in the organization's building is allocated and furnished can also provide important guidance regarding the cultural values and norms of the organization. For example, in an organization where the hierarchical structure is tall and formal one can expect to see members of the senior management team afforded certain privileges and perquisites not available to other managers which may create substantial distance between the leadership and the organization that they are supposed to be managing. Finally, senior managers can also influence organizational culture by the choices that they make regarding the myths and stories that they wish to emphasize when communicating with employees and the actions they take in times of crisis when responding to unforeseen problems and issues.

4.   The basic steps in analyzing and evaluating the culture of an organization include identifying the instrumental and terminal values that are part of the organizational culture and attempting to determine how they are actually influencing the behaviors of the members of the organization; evaluating whether the chosen cultural values of the organization are reflected in the goals, norms, procedures and rules that exist within the organization and whether those goals, norms, procedures and rules are effectively transmitting the selected values to the internal and external stakeholders of the organization; identifying the preferred role orientation for employees (i.e., institutionalized or individual) and examining the methods and tactics used to socialize new employees to determine whether they are effective in promoting the desire role orientation; and identifying the stories, ceremonies, language and symbols used by the organization to illustrate and promote the organization's cultural values and build desired behavior patterns and evaluating their effectiveness in educating employees about the culture of the organization and building commitment to organizational goals and cooperation within the organization. Other approaches touch on both "ways of looking at the world" (i.e., time orientation and relationship to the environment) and "practices" (i.e., control systems and other elements commonly associated with organizational structure) and include both internal integration (i.e., "how things work inside the organization") and external adaptation (i.e., "how the organization perceives and interacts with its customers and other key external stakeholders") values.

5.   The actions of organizational leaders, as well as the perceptions of those leaders by organizational members, are particularly relevant to how members of an organization understand and experience the organizational culture. Organizational leaders are expected to drive the development and reinforcement of the elements of organizational culture and to the extent that they fail to do this the organization may drift due to lack of orientation and confusion over goals and objectives and responsibilities. It is necessary to understand whether organizational members perceive their leaders to be credible, competent and worthy of respect and if members see their leaders as lacking these characteristics member acceptance of the legitimacy of authority will be undermined. Organizational leaders must be particularly mindful of how their actions during times of crisis align with the cultural values they have championed in the past and must also assume responsibility for overseeing the integration of disparate cultures following significant acquisitions and mergers. Finally, organizational leaders are obviously important influencers in effective changes in the organizational culture and do so in a number of ways including ensuring readiness for change, change planning and management, support and overcoming resistance, communications internally and to external stakeholders and assessing the change process.

6.   Analysis and evaluation of the prevalent culture characteristics is the first step to making changes thought necessary to improve the effectiveness of the organization. Once the analysis of the current culture

has been completed an attempt should be made to identify the most important cultural norms and values and how they are impacting the way in which the organization does business and the how the members of the organization (i.e., the managers and employees) behave as they carry out their day-to-day tasks and interact with one another and external stakeholders. The next step is to clearly define the desired changes in the mission and purpose of the organization and its overall strategic goals and objectives of the organization and to identify the behaviors of managers and employees that appear to be necessary and appropriate to achieve the new goals and objectives. Once that step has been completed senior management must identify the changes in the cultural values and norms of the organization that would be required in order to promote the desired behaviors consistent with organizational strategy. Effecting meaningful changes in organizational culture is a challenging job that must be approached carefully and methodically. Success or failure depends on a variety of factors including the level to which existing cultural values and norms have become embedded within the organization, the magnitude of the changes that are being attempted, the time and resources that the organization is willing to commit to the change effort and the degree of advance planning and follow-through by all of the departments and business units that will be impacted by the changes.

7.   Research indicates that it is essential for parties to a proposed merger to take into account cultural fit before moving forward with the transaction and to establish a plan for integrating new executives, managers and line employees into the acquiring party once the deal is completed. Organizational leaders of both parties should identify actual or potential differences between the parties with respect to innovation and action orientation, risk-taking, lateral integration, top management contact, autonomy and decision making, performance orientation and reward orientation. Once that process is completed and potential barriers to smooth combination of the parties have been identified, the leaders of both parties must develop and implement an "integration plan" that begins with a clear vision of what the new post-merger culture of the combined organization is expected to be and then goes on to detail how the systems, processes and procedures of the combined organization will be set up so as to align with, and reinforce, the desired culture. An important key to successful integration is maintaining a focus on the way members of the acquired firm see their world and how the most valuable aspects of their organizational culture can be preserved and integrated into their new experience as members of the combined firm.

References and Resources

The Sustainable Entrepreneurship Project's Library of Resources for Sustainable Entrepreneurs relating to Organizational Culture is available at https://seproject.org/organizational-culture/ and includes materials relating to the subject matters of this Guide including various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts. Changes to the Library are made on a continuous basis and notifications of changes, as well as new versions of this Guide, will be provided to readers that enter their names on the Project mailing list by following the procedures on the Project's website.

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