16 Corporate culture

Definition

Corporate culture sums up the spirit, the attitudes, the behaviours and the ethos of an organisation. It is embodied in the people who work there via traditions that have built up over time.

Linked to: Mergers and takeovers, Ch 9; Reasons for staying small, Ch 10; Business ethics, Ch 18; Causes and effects of change, Ch 22; Key factors in change, Ch 23; Cultural and social factors in global marketing, Ch 39

16.1 Introduction

Culture is often described as 'the way we do things round here'. This will be built up over many years as a result of:

- the aims or mission of the business: if the aim is to be innovative, this will affect the business culture
- the behaviour of the company directors and other senior staff: if they pay themselves huge bonuses and jump at chances to fly business class to questionable conferences, staff will pick up the idea that 'me, me, me' is at the heart of the business culture
- the attitude of senior management to enterprise and risk: if an unsuccessful new product launch leads to the dismissal of the manager leading the project, this will send out a message to all staff to beware of taking on responsibility, which could be very damaging in the long term
- the recruitment and training procedures: dynamic companies have a mixture of different types of staff: some organised, some creative but chaotic; some argumentative, some 'yes-men' and so on. Many HR departments use **psychometric tests** to recruit 'our type of person'. The culture could become quite passive – safe but dull – if new recruits have similar backgrounds, personalities and behaviours.

Real business

Cultural differences in India

A recent report on takeovers in India cites cultural differences as a high-risk factor in corporate deals. There are twenty-nine different languages that are spoken by at least a million people in India, and customs and working styles differ significantly between regions. Companies in northern India tend to have more assertive, western cultures, while companies in the south are more traditionally Indian; that is, they have a more formal and subtle culture, emphasising protocol, seniority and indirect communication. Western predator companies often fail to understand these differences, seeing 'Indian' in a one-dimensional way. Indian companies have also come unstuck when trying to bring together two conflicting workplace cultures.

16.2 Strong and weak cultures

Quite recently banks turned their backs on tradition and turned themselves into casinos. For centuries, a culture of caution had been at the heart of banking. The successful banker was one who went through a career without making any awful mistakes. Suddenly this approach was considered old-fashioned. The focus was no longer on building a career; it was on building a bonus. As that bonus might be from £100,000 to £10,000,000 (a year!), who would look any further ahead than the coming months?

Nor was it difficult to make the profits required to get the bonuses. With plentiful cheap money (low interest rates) the clever thing was to borrow lots and lend it out as fast as possible. Why check on whether 'sub-prime' borrowers were likely to default in a year or two, if this year's bonus could be boosted to £500,000?

The collapse of this house of cards in 2008 and 2009 led to a predictable collapse into huge losses within the banking sector (estimated by the World Bank at $1 trillion). The culture of recklessness and greed had been created by a crazy bonus system that gave people (non-returnable) rewards based on the short term. In the longer term, the shareholders, the bank customers, governments and taxpayers paid the bills.

This example shows that culture is at the heart (or *is* the heart) of every organisation. Even strong, generation-long cultures could be weakened and changed quite quickly, in certain circumstances. More often, businesses find that 'the way we do things round here' is very resistant to change. Strong cultures can be very hard to shift.

The strength of an organisation's culture is often very evident. One school will have a staffroom that is buzzing an hour before the start of the day; another's staff car park will still be empty. One clothes shop will have staff who take their time helping customers, while another's staff joke with each other. And one charity will be focused entirely on the people it is set up to help, while another will behave as if the charity itself is more important than its 'customers'.

Distinguishing between strong and weak cultures is not difficult. It can be summed up in the following:

- an attitude of 'can-do' rather than 'must we?'
- a conviction among staff that the organisation is a force for good (i.e. not just a money-making machine).

Signs of a strong culture	Signs of a weak culture
• Focusing on customers' real needs, allowing staff to make decisions, e.g. refunds	• Staff follow a script when dealing with customers (not trusted to know what's right)
• Staff show a real feeling for the organisation as 'us', as a long-term commitment	• 'Us' tends to be a department, not the business as a whole; and there may even be a feeling of them and us
• A united view among staff that the organisation is a force for good, e.g. staff at Greggs taking pride in the company's support for school breakfast clubs	• A cynical view among many staff, doubting the company's supposed principles and ethos; suspecting that there is too much PR spin; too little commitment
• Sticking together and working together at a time of crisis	• When things look bad, better qualified staff look to find another job

Table 16.1 Strong vs weak corporate culture

Real business

In June 2010 half the top medical staff at Great Ormond Street hospital signed a letter of no confidence in its chief executive, Jane Collins. Consultant Dr Kim Holt told the Daily Telegraph: 'Medical staff have growing concerns over patient care. They feel that Great Ormond Street is not really living up to its reputation.' Another consultant said: 'They (management) are completely unwilling to listen. Anyone who complains is treated as a troublemaker and bullied out.'

Dr Holt went on to report other consultants' view of a 'culture of fear and intimidation' within the hospital. In effect, there was a culture clash between the consultants' traditional view of patient care and the chief executive's desire for change. Even though Home Office government Minister Lynne Featherstone called on Jane Collins to resign in 2011, she only left Great Ormond Street in 2012.

16.3 Handy's classification of company cultures

In his book *Gods of Management*, Professor Charles Handy (Britain's only global business guru) developed four ways of classifying business culture. These are discussed below and can be used to analyse business culture in more depth.

Power cultures

Power cultures are found in organisations in which there is one or a small group of power holders. In effect the boss can become the spider in the middle of the web, with everything going through him or her. There are likely to be few rules or procedures and most communication will be by personal contact. This encourages flexibility among employees. Decision-making is not limited by any code of practice. This can result in questionable, perhaps unethical, actions being taken in an attempt to please the boss. The leadership style in such a situation is clearly autocratic, and has been displayed in recent times by leaders such as Sir Alex Ferguson of Manchester United and Sir Alan Sugar (boss of Amstrad and notorious as the central character in BBC TV's *The Apprentice*).

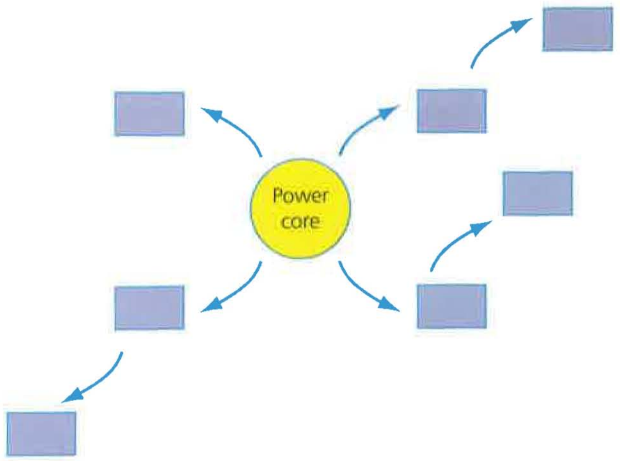

Figure 16.1 In a power culture, a web of power grows from the centre of the organisation

Role cultures

Role cultures are found in established organisations that have developed a lot of formal rules as they have grown. Power depends on the position an individual holds in the business, rather than the qualities of the person themselves. All employees are expected to conform to rules and procedures, and promotion follows a predictable pattern. This culture is **bureaucratic**, cautious and focused on the avoidance of mistakes. It may be appropriate when the competitive environment is stable, for example in industries with long product life cycles. However, if the pace of change becomes more rapid, staff will struggle to adapt to new market conditions. This is the approach taken in businesses such as Microsoft, where the key thing is to preserve its huge share of the software market. The leadership style could be autocratic or paternalistic.

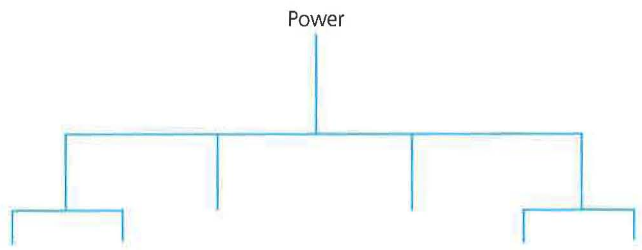

Figure 16.2 In a role culture, power flows down from the top of the organisation

Task cultures

Task cultures have no single power source. Senior managers allocate projects to teams of employees made up of representatives from different functional departments. Each group is formed for the purpose of a single undertaking and is then disbanded. Power within the team lies in the expertise of each individual and is not dependent upon status or role. This culture can be effective in dealing with rapidly changing competitive environments because it is flexible – for example, in markets with short product life cycles. However, project teams may develop their own objectives independently of the firm. The approach to leadership in such organisations is a mixture of paternalistic and democratic. This is just the approach taken by Indra Nooyi, boss of PepsiCo and probably the world's most important businesswoman.

Person cultures

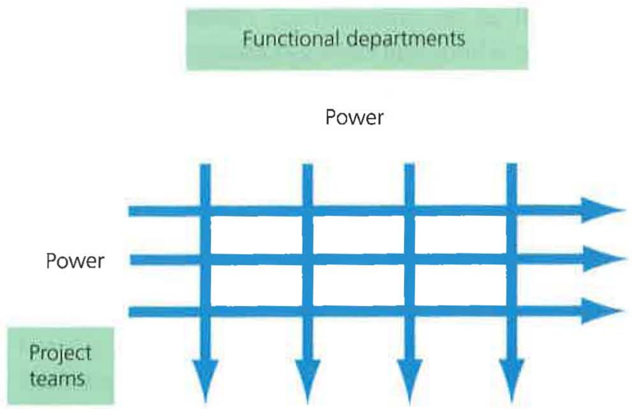

Figure 16.3 In a task culture, power flows down from the functional departments at the top of the matrix, but also lies horizontally within project teams

Person cultures are developed when individuals with similar training and backgrounds are encouraged to form groups to enhance their expertise and share knowledge. This type of culture is most often found within functional departments of large, complex organisations, or among professionals such as lawyers or accountants. It is largely associated with democratic leadership. The 'Real business' feature below shows how this culture can work in practice.

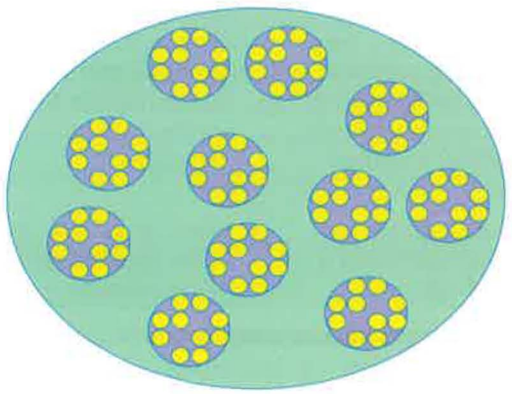

Figure 16.4 In a person culture, power lies within each group of individuals, flowing from their common knowledge and skills

Real business

At London's posh River Café restaurant, there's a friendly, chilled-out sense of teamwork among waiting and cooking staff. Perhaps uniquely, the waiters are incorporated fully into the business. They help prepare ('prep') the food before the lunch and dinner services and – like all the staff – enjoy at least one trip to Italy each year, to be taken to meet suppliers and to eat at some of the owner's favourite restaurants. All staff enjoy secure, permanent employment and wages that are far above the minimum-wage-norm in the catering trade. A waiter explains: 'We're paid well enough to not worry about tips: we can enjoy serving customers without needing to crawl to them.' The (privately owned) River Café is noted in London for great service, and is rated among the top ten restaurants in Britain.

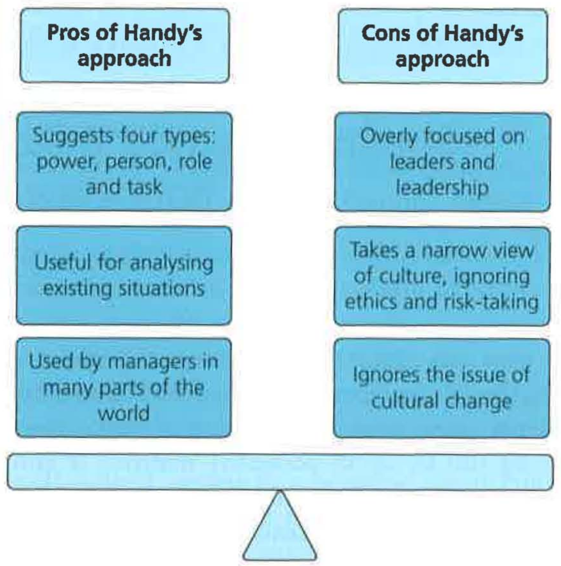

Figure 16.5 Logic balance: pros and cons of Handy's Cultures

'The thing I have learned at IBM is that culture is everything.'

Louis Gerstner, former Chief Executive, IBM

'Culture is one thing and varnish is another.'

Ralph Waldo Emerson, nineteenth-century American sage

16.4 How corporate culture is formed

Leadership style

An organisation may have been moulded to the personality of the founder, e.g. Branson, Jobs, Zuckerberg or Bezos; if so, the culture is derived from the founder/leader. And not just positive, entrepreneurial cultures; note the obsessive tax avoidance of Virgin, Apple, Facebook and Amazon, perhaps reflecting an insecurity summed up in the quote from Andy Grove of Intel: 'only the paranoid survive'.

Some non-founder leaders have the personality (and longevity) to transform culture, such as Terry Leahy, whose 14 years at the head of Tesco achieved profits but left a flawed legacy. Most leaders, however, are not in post long enough to make much difference to 'the way we do things round here'.

Real business

Google has an unusual culture. Its US headquarters (see Figure 16.6) looks more like an adult playground than a place for work. Google's success can partly be attributed to this culture. Google has people whose sole job is to keep employees happy and maintain productivity.

Hence the 'GooglePerks', which include (from a long list):

- free breakfast, lunch, and dinner; the organic food is chef-prepared
- video games, football, ping pong.

Figure 16.6 Google HQ

And does it all add up to a profitable business? Well, in 2014, Google's global revenues of $66 billion yielded a pre-tax profit of $17.25 billion. The only cloud hanging over the company is its approach to tax avoidance which, in Britain at least, is starting to raise serious questions about Google's famous motto: 'Don't be Evil'.

(Sources: various blogs plus the Google website)

Type of ownership

Public limited companies (plcs) have many external shareholders who seek 'shareholder value' (rising dividends and a rising share price) which derives from profit. In the UK plcs can have too short a profit horizon. Tight budgeting to meet profit forecasts can create its own narrow culture.

Some large, multinational corporations are family-owned and can take a longer-term view. Germany's BMW and Indian-owned Jaguar Land Rover are large companies that are family-controlled. Both have created a culture based on skilled engineering and entrepreneurial flair.

Real business

In late 2014 and early 2015, the big retail flops were Tesco, Marks & Spencer, Sainsbury's and Morrisons (all plcs) while the successes were Waitrose, Aldi and Lidl. Aldi and Lidl are privately owned companies while Waitrose is part of the John Lewis Partnership, effectively owned by its workforce. Aldi and Lidl boosted their combined grocery market share from 5 per cent in 2010 to 9.8 per cent by autumn 2015. The corporate culture at the plcs had drifted away from their customers towards growth and profit targets. By focusing on customers, Aldi, Lidl and Waitrose have enjoyed far better times.

Recruitment policies

In middle and senior management, some firms represent a monoculture: perhaps 'stale, pale and male' (old, white blokes). This may lead to a culture in which 'we' know best, even if 60 per cent of our customers are young women and 20 per cent non-white. Currently 7 per cent of FTSE 100 executive directors are women; non-white FTSE directors are in a tiny minority. Would the long-term weaknesses at Marks & Spencer, Game and HMV have persisted if the directors had been younger, more diverse, and more online savvy?

16.5 Difficulties in changing corporate culture

When a new chief executive joins a business, his or her first impressions will be of the culture. Is the customer embraced by the business, or kept at arms' length by voicemail and answerphone messages? Do staff enjoy Monday morning or only Friday afternoon?

If the new chief executive is unhappy about the culture, achieving change is unlikely to come easily. After all, some staff may have been working at the same place for 15 years, and will find it very difficult to change. Even more problematic is that staff collectively have a set of attitudes that may be tough to overcome. A manufacturing business may be dominated by middle-aged engineers who are sure they know best how to make cars or caramels. Switching to a more market-orientated business may be difficult.

The key to success in this process will be to ensure that all staff believe that the change is genuinely going to happen (and, preferably, that the change is the right one). There will be middle managers who are crucial to making things happen (for example, human resource managers or the finance staff who supervise the budget-setting process). If these people believe that the change is only skin-deep, they will hold back from supporting it. The engineers are likely to resist the change and perhaps they will prove right. Perhaps the new chief executive will be pushed aside by a board of directors who start to worry about whether a mistake is being made.

The key to cultural change, then, is to have a clear, consistent message. If everyone believes that the change is to be pushed through, they are far more likely to support it.

Not all cultural changes prove to be a success. Sometimes new leaders assume that a change in culture is essential, because they do not take the time to understand the strengths of the existing one. Past Conservative governments swept away the tradition of NHS hospital wards being run by an all-powerful 'matron'. A failure to clean the ward properly would have meant risking the wrath of matron; cleaners cleaned. The new approach was to award contracts to outside cleaning companies, then check that agreed targets had been met. The matrons were pushed aside in favour of professional, 'can-do' managers. The managers were supportive of the new cleaning businesses; unfortunately, the cleaners were not so committed to cleaning. The later wave of MRSA and *C. difficile* bacterial problems in hospitals can be put down to a management change based on inadequate understanding.

'Culture eats strategy for breakfast.'

Richard Plepler, Chief Executive, HBO

'In most organisational change efforts, it is much easier to draw on the strengths of the culture than to overcome the constraints by changing the culture.'

Professor Edgar Schein, academic and author

Five whys and a how

Questions	Answers
Why might 'culture eat strategy for breakfast'? See page 114.	Because you never know whether individual decisions or plans will turn out right, but with the right culture you'll keep being pleasantly surprised.
Why is role culture said to be bureaucratic?	Because individuals have to conform to their roles and everyone checks things out with the next role up in the organisation (their boss).
Why do Handy's theories make no mention of ethics?	Indeed a mystery. The culture of companies such as Barclays, Tesco and BP had ethical flaws at their heart. That will have soured every aspect of the culture.
Why might publicly quoted companies have a different culture from family-run ones?	Because focus on short-term profit creates a corporate culture based on fear of failure – failing to meet the next profit target.
Why might culture be dominated by short-term thinking?	If a company is focused on short-term profit, that will prevent any positive culture traits emerging.
How might a company measure the success (or otherwise) of a culture change programme?	By conducting regular research among customers – if positive change is happening among staff, customers will see or feel it.

16.6 Corporate culture – evaluation

Business leaders make many claims about the culture among their staff. They enjoy using words such as 'positive', 'can-do' and 'entrepreneurial'. Does the fact that the leader says these things mean that they are true? Clearly not. The leader cannot admit in public that the culture is 'lazy', 'negative' or 'bureaucratic'.

A well-judged answer to a question about culture will look beyond claims and public relations, and look for the evidence. Is there evidence that staff suggestions are welcomed and that they make an important contribution to the business? Is there evidence that mistakes are treated as learning experiences, rather than as reasons to be fired. And, perhaps most important of all, is there evidence that staff love their jobs and look forward to coming to work? All these things are tests of an organisation's corporate culture.

Key terms

Bureaucratic: an organisation in which initiative is stifled by paperwork and excessive checking and rechecking of decisions and actions.

Person culture: an organisation such as a legal practice, where common training practices mean everyone is trusted to get on with their jobs with minimal supervision.

Power culture: the boss as spider in the web, with every decision going through him or her. Power kept at the top.

Psychometric tests: designed to test the psychological make-up of a candidate – that is, the personality and character of an individual.

Role culture: where the job role is treated as of more importance than the individual; this will be a bureaucratic, risk-avoiding culture.

Task culture: making the task or project the focus, with staff brought in to form a temporary team empowered to get the task completed successfully.

16.7 Workbook

Revision questions

(35 marks; 35 minutes)

1 Explain why poor recruitment could lead to an ineffective business culture. (3)

2 Choose two of the following and briefly explain whether you think they would be likely to have an entrepreneurial or a bureaucratic business:

a) Marks & Spencer
b) Facebook
c) L'Oréal
d) Ryanair. (6)

3 Explain why it is unlikely that a task culture could exist in a business with an authoritarian leadership. (4)

4 Explain why a role culture would be inappropriate for a new software company seeking to be more innovative than Google. (4)

5 Sir Alex Ferguson was manager of Manchester United for 25 years. Examine two problems in changing the culture at an organisation dominated by one person, as at Manchester United. (6)

6 There was an entrepreneurial culture within the UK banking sector in the lead-up to the crash of 2008/2009. Does that prove that an entrepreneurial culture is a bad thing? Explain your answer. (6)

7 Recently a former quantity surveyor told the BBC that he had left the construction industry because he was so disillusioned by the problem of price fixing. Explain how a new leader of a construction firm might try to change the culture to one of honest dealing. (6)

Revision activities

Data response

Bakery culture

Gianni Falcone had built his Italian bakery up over a 40-year period in Britain. He came to escape a life dominated in the 1960s by the Sicilian Mafia, and started a bakery in south London. For the first ten years his life had been hard and very poor. Baking only white rolls and white bread, he had to keep his prices low to compete with local supermarkets. He would get up at 1.30 a.m. every day to prepare and then bake the bread, and his working day would end 12 hours later. With a young family of four, he could not get to bed until 8.30 in the evening. Five hours' later he would be back at work.

Eventually he started to see ways of adding value to his dough. A half kilogram loaf of bread with 30p of ingredients would sell for 80p, but roll it flat, smear tomato, cheese and herbs on it (cost: 25p) and it became a £3 pizza. A series of value-added initiatives followed, all adding both to the popularity of the shop and to its profitability. By 2000 the queues on a Saturday morning were legendary. Gianni was able to finance houses for all his family and he started to dream of owning a Ferrari.

By 2005 the business employed all the family members plus six extra staff. All worked the Gianni way. All knew the principles behind the business: ingredients should be as natural as possible and of as high a quality as possible. The customer is not always right (rowdy schoolchildren will be thrown out if necessary) but the customer must always be treated with respect. A slightly over-baked loaf will be sold at half price and day-old currant buns are given away to regular customers. Above all else, Gianni wanted to be honest with customers; they knew that all the baked goods were baked freshly on the premises.

Then, in 2012, Gianni was taken ill. The problem was with his lungs; quite simply, 40 years of flour in the bakery air had taken its toll. He had to retire. As none of his family wanted to take on the commitment to the awful working hours, he had to sell up. The only person with the inclination and the money to buy was an experienced baker from Malta, Trevi Malone. He bought the business for £250,000. Gianni was able to retire to the substantial home he had built in Sicily (now relatively Mafia-free).

From the start, Malone's approach was dramatically different. While Gianni had been ill, all the baking had been done by his bakery assistant Carol. She had worked miracles by herself, so that the shelves were full every morning. Now, from the first morning, Malone showed his distaste for her ways of working. Why did she use organic yeast when there were perfectly good, cheaper ones? Why did she 'knead' the dough in batches of 5kg when it would be better to do it by machine in 20kg quantities? And when she suggested that it would be good to start making hot cross buns, Malone snapped: 'This crazy place already makes too many different lines; just concentrate on what you're doing.' In the past, Carol's ideas had led to successful new products such as a top-selling apricot doughnut. Now she was silenced.

In the shop, Malone's approach was also quite different. Instead of casual clothes, everyone would wear uniforms; customers would be addressed as 'Sir' or 'Madam', and every order must be followed by an 'upselling' suggestion. The person who bought only a loaf of bread should be asked 'Would you like any doughnuts or cakes today?' The sales staff thought this was a daft idea, because – with so many regular customers – people would soon tire of being asked to spend more money. But they had quickly picked up the idea that Malone was not interested in discussion – he knew best.

Over the coming weeks things were changed steadily. The ham used on the meat pizza was changed from 'Italian baked ham' at £10 per kg to a much cheaper Danish one (with 20 per cent added water). As Malone said to Carol, 'Our customers don't see the ingredients label, so who's to know?' Malone noticed that doughnuts took longer to prepare than was justified by their 60p price tag, so he started to buy them in from a wholesale baker. Outsourcing was the sensible approach.

Within two months Carol began to look for a new job. She found it in another bakery, but soon left that as well, and went to college to retrain for a new career. Other staff steadily left, including all of Gianni's family. The newly recruited staff were accepting of Malone's rules, but none seemed particularly keen on the work.

Perhaps that was fortunate, because sales started to slip after two months, and then fell at an increasingly rapid pace. Staff who left were not replaced, as they were no longer needed. Even more fortunate was that Gianni was not well enough to travel back to England. He never knew how quickly 40 years of work fell apart.

Questions (50 marks; 60 minutes)

1 Evaluate whether the example of Gianni's bakery proves that value added is at the heart of all business activity. (20)

2 Assess why outsourcing the doughnuts may not have been 'a sensible approach' for Malone. (10)

3 Malone paid £250,000 for a business that steadily went downhill. Evaluate whether this was primarily due to the change in culture within the workplace. (20)

Extended writing

1 When Anthony Jenkins took over as boss of Barclays in 2012, he said that it would 'take five to ten years' to change the bank's corporate culture. Evaluate whether this might be connected to the size of this multinational bank. (20)

2 Evaluate whether workplace culture might be the key factor in your own choice of job when you leave education. (20)