



Sonja A. Sackmann, Bertelsmann Stiftung

Success Factor: Corporate Culture

Developing a Corporate Culture for High
Performance and Long-term Competitiveness
Six Best Practices

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*Sonja A. Sackmann,
Bertelsmann Stiftung*

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Preface

The inexorable march of globalization and digitalization in business and society has placed new demands on the competence, flexibility and mobility of managers and employees in every company. In particular, the internationalization of markets and the resulting challenges to a company's continuity have fundamentally altered both the responsibilities of leadership and its complexity. Companies that cling to rigid hierarchies, centralized management structures and traditional practices may succeed in the short term, but they face dwindling growth and lost jobs down the road.

At the same time, the way people think about themselves—and about their jobs—has changed fundamentally. Wherever managers rely on fixed rules and authoritarian structures, employees will respond with resentment and resistance, and eventually they will refuse to cooperate. In corporate and government offices alike, today's leaders must recognize that people want a part in actively developing their workplace. They want to be involved in the decision-making process, and they want work that engages their skills and creativity. Only a corporate culture of partnership and dialogue-oriented management can establish the conditions in which motivation flourishes, creativity thrives and employees identify with their company's mission and goals. Only when a company and its leaders embrace their social responsibility does its performance contribute to the sustainable development of society.

Like many other business leaders in the period after World War II, I experienced firsthand what a company can achieve when its people have that “we” feeling of working together for a common goal. Granted, times have changed. World politics and the global economy have changed—but the fundamental principles of leadership remain as relevant as ever. They rest squarely on decentralized organizations and maximum delegation of responsibility. Thus, no matter how large the company, effective leaders offer talented entrepreneurs scope for creativity. They engage their employees by inviting them to question how the work is done and to share in the company's success. They respect the diverse cultures and religions represented in their workforce, their communities and their markets.

The key to a company's success still lies in people working together for a goal they understand and share. Underpinning this are its corporate governance models and its constitution, which set forth the rights and responsibilities of employees and managers alike. Its leaders set the tone. Inevitably, the people in charge bear responsibility for shaping the corporate culture. They must model partnership, dialogue and a strong work ethic. They must live the values they proclaim. Only then can everyone identify with the company and its goals. Many senior managers have yet to recognize the enormous impact of the corporate culture on a company's continuity, growth and success.

But effective business leaders do not stop at establishing sound governance models and corporate cultures. They also review and adapt them in response to changes in society, the economy and the working world. The case studies presented here offer proof that a partnership-oriented corporate culture and business success are not mutually exclusive—on the contrary, they go hand in hand. Examining each of these exemplary companies and the cornerstones of their corporate cultures should encourage all of us to actively and thoughtfully pursue the same path. To the companies that participated, the researchers at Booz Allen Hamilton and the Bertelsmann Stiftung, and the author of this book, I extend a sincere compliment: I learned a great deal from this study.

Reinhard Mohn

Founder and member of the Board of Trustees,
Bertelsmann Stiftung, Gütersloh

Foreword to the German edition

Business leaders at the start of the 21st century face major challenges on all sides. The markets for jobs, products and capital are increasingly international, even global. New technologies call for new business practices. Demographic change brings both structural and human repercussions. In a setting that is rife with uncertainty and constantly changing, it becomes all too easy to lose sight of crucial values. Therefore, we must intensify the search for promising people-oriented approaches to leadership and corporate culture.

There are no easy answers to what makes a successful leader. Furthermore, the range of opinions about corporate culture and the variety of strategies put forth for corporate leaders make it difficult to get to the heart of the matter. Identifying the factors that propel corporate success means more than seeking out what Hermann Simon called the “hidden champions.” It means looking beyond successful strategies to the “hidden cultures” that quietly but unerringly advance those strategies. It means exploring how the leaders of thriving companies articulate and renew that corporate culture. “Better to bloom in the shadows than to wither in the sun’s glare,” said Michael Hilti as he accepted the Carl Bertelsmann Prize 2003. His words very accurately described the philosophy of all the companies nominated for that year’s prize.

What lies at the core of these successful companies? What factors have made them competitive in the first place and keep them so despite external forces? How do they motivate managers and employees to identify with the company’s goals? What organizational and management structures do they establish to unleash creativity and spur dynamic growth? Is there, in fact, a straightforward model for thriving in a globalized world?

When a company fails, explanations come readily to mind. The reasons range from misjudged markets or products, unfavorable cost structures and site aspects and poor planning for succession to lack of leadership and mistakes by employees and managers.

On the other hand, such supposedly soft parameters as a positive corporate culture and effective leadership do not yet spring to mind when people think about the

factors that underpin a company's success. To heighten public awareness of their significance, the Bertelsmann Stiftung investigated leadership and corporate culture in a project for the Carl Bertelsmann Prize 2003. Its researchers studied companies all across Europe that for decades had modeled a consensus-oriented, people-focused culture of leadership and dialogue and achieved success while doing so. The case studies confirmed that this model of success necessarily went hand in hand with a keen awareness of social responsibility. The evaluation of the research and case studies supports the conclusion that corporate culture and leadership are indeed success factors.

Despite the diversity of their approaches to establishing a corporate culture, the best companies all drew their entrepreneurial vigor from a positive attitude, a concentration on success and a focus on their own strengths. Their leaders viewed the competence, motivation, commitment and creativity of the company's managers and employees as crucial assets. They recognized the firm's philosophy, leadership values and core competencies as its most important capital. Their leadership depended on self-discipline and trust.

The following structures and practices ran through the case studies like a seam of gold:

1. The commitment to setting transparent and coherent guidelines and following them consistently
2. The internalization and conscious modeling of the corporate culture and management principles
3. Continual attention to the corporate culture at all levels, with purposeful training to maintain it
4. The exercise of social responsibility by enhancing employees' quality of life and supporting projects that benefit society
5. Participative management and the promotion of communication between employees and their supervisors
6. Emphasis on a culture of innovation and learning, with a willingness to learn from mistakes
7. Insistence on performance-oriented organizational structures that rely on partnership, cooperation and respect
8. Measures to ensure continuity of leadership by planning ahead for succession to top positions as well as selecting senior managers from within the company
9. Training and continuing education within a framework of systematic employee development, taking into account the corporate culture and management practices
10. The rigorous formulation of the rights and responsibilities of managers and employees within the corporate culture

With this book, *Success Factor: Corporate Culture*, the Bertelsmann Stiftung and Booz Allen Hamilton offer business managers, employees, and economic and social leaders a practical guide to developing the leadership practices and organizational cultures so needed in today's complex world. We are particularly grateful to the author, Sonja A. Sackmann, an active member of the commission for the Carl Bertelsmann Prize 2003, who systematically evaluated its findings. We also owe special thanks to the companies who participated so constructively in the study.

Prof. Dr. Dr. h.c. mult.

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The members of the Working Commission who studied potential candidates for the Carl Bertelsmann Prize 2003 engaged in vital discussions that contributed significantly to the development and refinement of the 10 evaluation criteria, as well as intensive debate to recommend a short list of nominees from among the 10 finalists. The research teams from the Bertelsmann Stiftung and Booz Allen Hamilton traveled all over Europe under a very tight deadline to complete on-site interviews with personnel from the finalist firms. These interviews augmented the documents already analyzed with a more in-depth impression of the firm's corporate culture and management style. The information gathered on site was then condensed and presented to the Working Commission. Maria Akhavan of Gabler Verlag showed remarkable flexibility about publication deadlines for the German edition and offered valuable suggestions for its design. Gabi Trillhaas copy-edited the entire manuscript in short order.

I am very grateful to Tina Böcker of the Bertelsmann Stiftung, who managed the publication process, reviewed the German texts for consistency and style and contributed generously to the success of the project. Courtney Searls-Ridge and her team—Celia Bohannon, Noelle G. Knapp-Lucero and Marissa Wright—of German Language Services in Seattle, Washington, did a wonderful job in translating the

book and the updated case studies on a very tight timeline. I would also like to thank the members of the editorial team, Prof. Dr. Dr. h.c. mult. Heribert Meffert, Dr. Detlef Hunsdiek, Erich Ruppik, Klaus Depner and Martin Spilker, for discussions that significantly shaped the writing of the German edition.

Very special thanks go to the members of my team, who put forth such a tremendous effort to meet the final deadline. Petra Eggenhofer and Birte Horstmann played a key role in compiling and reviewing the data for the case studies and additional research, while Fabienne Stellmacher took over from them other assignments that had pressing deadlines during the same time frame. For the English language edition of this book, Birte Horstmann and Fabienne Stellmacher updated the financial data and compiled the companies' official English publications in regard to their mission statements, corporate values, leadership guidelines and the like. Silke Agricola showed the patience of a saint as I requested revision after revision, and her inimitable creativity and willingness to work unconventional hours contributed greatly to the success of the graphics in the original book and its English version.

Finally, I would like to express my deepest gratitude to the Bertelsmann Stiftung and its Executive Board. Without them and their focus on corporate culture, this book would never have been written.

Sonja A. Sackmann

Author's preface to the English edition

Success Factor Corporate Culture appeared first in German (*Erfolgsfaktor Unternehmenskultur*) in late 2004. That book grew out of discussions and research conducted to determine criteria and identify candidates for the Carl Bertelsmann Prize 2003, which focused on corporate culture and leadership as factors for success. The task of narrowing the roster of exemplary companies to a short list of finalists and ultimately a single winner proved fairly difficult—and equally fascinating. The research team found much to appreciate in the distinctive corporate cultures of the top candidates. We felt that a wider audience would want to know more, not just about the prize winner—Hilti Aktiengesellschaft—but about the others as well.

Corporate culture is a contextual phenomenon, best understood and appreciated in concrete details. Rather than reporting on major themes across industries and borders, therefore, we chose to present case studies about the history and practices of six top-tier firms. This book opens with a brief but thorough overview of corporate culture and leadership as factors for success. The company profiles—the heart of the book—bring these concepts to life. The final chapter synthesizes the major findings: Just how did these companies put corporate culture to work? As a tool for managers who would follow in their footsteps, a checklist summarizes the key lessons about corporate culture and leadership gleaned from this analysis.

Erfolgsfaktor Unternehmenskultur was well-received. Managers liked its clear, readable and detailed accounts of how these firms had built and tended the corporate cultures that underpinned their success. They had but one complaint: Its audience was limited to those who could read German. Like the companies portrayed, their firms operated in an international, multinational or global arena. Corporate leaders who wanted managers company-wide to learn from these case studies needed an English edition. And so the Bertelsmann Foundation decided to commission a translation of the book.

But *Success Factor Corporate Culture* goes beyond a straight translation. Just as we updated the data gathered in 2003 when we wrote the book, we revisited the material for this English edition. Hence, the six case studies reflect our findings up to autumn 2005. We studied financial reports, pored over published documents and spoke again with contacts at each of the firms.

Our research confirmed our original findings: The six companies continued to pursue and achieve their goal of sustained profitable growth. Their distinctive corporate cultures continued to thrive. Certainly, many of the specifics had changed: At Hilti Aktiengesellschaft, one member of the executive team pointed out right away that much of the case study needed a fresh look. But this came as no surprise—after all, each of these companies prospered precisely because it maintained an adaptable, learning and entrepreneurial culture. We would not have expected Hilti to come to a halt on its culture journey.

The new data did not contradict the earlier portrayals. These companies still model the key characteristics of culturally aware management: They know and live their basic beliefs and expressed values. They pursue a clear corporate purpose with goals that are aligned and cascaded down the organization. They keep their customers squarely in their sights. Employees engage in entrepreneurial behavior within the cultural framework, while leaders take seriously their responsibility as role models. Buttressed by continuity in leadership, these companies value innovation and learning; this helps them adapt to challenges in their business environment. They demonstrate social responsibility and forward-looking corporate governance. Pursuing sustained profitable growth, they achieve financial success that satisfies their shareholders.

Three of the six firms are headquartered in Germany, two in Denmark and one in Liechtenstein. Readers may wonder whether their corporate cultures would take hold and thrive in companies in other national settings. Granted, the basic beliefs, values and attitudes that undergird these corporate cultures reflect their national and regional origins. But all six of these firms operate worldwide, and they have carried their corporate cultures with them, nurturing the transplants as attentively as they cultivate the rootstock. Their basic beliefs, values and attitudes may find expression in different words; they may manifest themselves in different structures, practices or procedures. But the principles of culturally aware management hold true in any setting. We invite readers to explore them in these pages and adapt them to their own circumstances, shaping a corporate culture that leads them to success.

Munich and St. Gallen, October 2005

Part I

Corporate culture and leadership— factors for corporate success

The topic of corporate culture received great attention from management scholars and practitioners alike in the 1980s, albeit with differing interests and levels of intensity. Since then, corporate culture has become a fixture in textbooks, popular management literature and even the vocabulary of managers themselves. But have we really tapped its full potential? The many references to corporate culture in a negative context—when change processes run aground, for example, or post-merger integration takes a rocky course—suggest that corporate culture has not necessarily become a conscious part of day-to-day management. Mere rhetoric about the importance of corporate culture—especially from corporate leaders—does not suffice. For it is precisely a company's senior management that plays a key role in purposefully tending to its corporate culture and practicing culturally aware management (Sackmann 2002).

With this book, we want to shed light on the importance of corporate culture in making and keeping a business competitive, as well as the leadership behavior this requires. In addition to positive corporate examples that can be considered benchmarks in their industry, we offer practical recommendations for using the potential of corporate culture and thereby boosting a company's ability to be competitive not only in the short but also in the long run.

In Part I, we give an overview of the nature of corporate culture, then focus on its potential contribution to a company's success. What do we mean by corporate culture? What role does it play for a business? Is working with corporate culture just something that is nice to do—because other companies do it, too—or can it actually influence a firm's ability to compete? In order to take advantage of the inherent power of corporate culture and its invisible ways of shaping a business, a company's leaders must be aware of their corporate culture, its strengths and weaknesses, and be conscious of their own actions as they influence the culture that develops. Since this section presents only a basic introduction to the phenomenon of corporate culture and its core characteristics, information on literature for further in-depth study is included for interested readers.

Part II of the book presents six benchmark examples of corporate culture and culturally aware leadership that seem crucial to the firms' success. Underpinning

the discussion are 10 criteria regarded by experts as key to ensuring the survival of businesses in a challenging environment. The six companies (in alphabetical order) are the BMW Group, Deutsche Lufthansa AG, Grundfos A/S, Henkel KGaA, the Hilti Aktiengesellschaft and Novo Nordisk A/S.

Why did we choose to focus on these six particular companies, and why not discuss others as well? We recognize that the very magnitude of the undertaking placed certain limits on the selection process. After extensive research, the six companies presented here were found to demonstrate particularly fine examples of corporate culture and leadership in their respective industries. With their attention to corporate culture and their culturally aware management practices, these six companies have distinguished themselves in their fields, and thus in a variety of competitive environments, despite difficulties and past crises.

Part III explores these diverse benchmark examples of corporate culture to identify the common threads and distinctive features that show promise for culturally aware management in challenging times. In chapter 1 of Part III, we describe how effective companies consciously develop, maintain and care about their corporate culture. In chapter 2, we turn to empirical findings to delineate the specific philosophy, structures and practices that characterize these six companies. The examples drawn from these companies can give interested readers ideas for their own management practices. They can help activate the potential and power of corporate culture more effectively, and thereby improve the ability of other companies to compete and survive. The checklist in the appendix summarizes the key findings from these six outstanding corporate examples. It can provide guidance for the critical evaluation of corporate culture in the reader's own business.

1. Corporate culture: Fashion, fad or a critical factor for staying competitive?

The concept of corporate culture gained prominent attention in management practice and research with the publication of the bestseller *In Search of Excellence* by Peters and Waterman (1982). Analyses of financially successful businesses in the United States at that time had shown that, in addition to traditional factors of business administration, the “soft” factors grouped under the heading of corporate culture were critical for a firm’s success. The findings led to a boom in this frontier territory in the early to mid 1980s: Researchers tried to explore and specify the various facets of culture in its corporate context, managers wanted to know how to use these soft factors to plan and run their businesses more effectively and consultants offered new services in analyzing and developing corporate culture.

The initial euphoria soon gave way to a sobering realization: Corporate culture could not be as easily managed and manipulated as originally imagined or hoped. The success promised by corporate consultants remained elusive or slow to materialize—for one thing, companies hesitated to allow insight into their inner operations as much as needed for a thorough culture analysis. Researchers turned to new topics, as empirical studies of corporate culture proved time-consuming, complex and not very conducive to advancing their careers. Was corporate culture just a fad, soon to go the way of other management fashions?

By the 1990s, corporate culture cropped up in discussions of re-engineering processes that were considered unsuccessful. Critics pointed to the prevailing corporate culture as an impediment to these processes or blamed management for paying too little heed to its ramifications. The increase in strategic alliances and acquisitions also brought corporate culture back to center stage—though usually in the context of difficulties in the integration process. And as several companies suddenly and unexpectedly experienced major difficulties or even collapsed early in the 21st century, the corporate culture phenomenon drew critical attention.

The study conducted by Collins and Porras (1995), who juxtaposed 18 companies known for sustained success with selected second-tier competitors, as well as a study by Collins (2001) investigating and portraying businesses that mastered a major turnaround, revived interest in corporate culture. However, these studies also