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Toyohiro Kono and Stewart R. Clegg

# Transformations of Corporate Culture

Experiences of Japanese Enterprises



Walter de Gruyter · Berlin · New York 1998

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With 38 figures and 41 tables.

⊗ Printed on acid-free paper which falls within the guidelines of the  
ANSI to ensure permanence and durability.

*Library of Congress Cataloging-in-Publication Data*

Kono, Toyohiro.

Transformations of corporate culture : experience of Japanese enterprises / Toyohiro Kono, Stewart R. Clegg. —

(De Gruyter studies in organization ; 83)

Includes bibliographical references and index.

ISBN 3-11-015588-5 (hbk. : alk. paper). —

1. Corporate culture — Japan. 2. Corporations — Japan

3. Industrial management Japan. 4. Organizational behavior — Japan. I. Clegg, Stewart II. Title. III. Series.

HD58.K65 1998

658'.045'0952—dc21

99-17663

CIP

*Die Deutsche Bibliothek — Cataloging-in-Publication Data*

**Kono, Toyohiro:**

Transformations of corporate culture : experiences of Japanese enterprises / Toyohiro Kono ; Stewart R. Clegg. — Berlin ; New York : de Gruyter, 1998

(De Gruyter studies in organization ; 83)

ISBN 3-11-015588-5

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Desktop Publishing: Regina Mundel, Berlin. — Printing: WB-Druck, Rieden am Forggensee. — Binding: Lüderitz & Bauer, Berlin. — Cover Design: Johannes Rother, Berlin.

## Preface

This book has four distinctive features. First, it defines the concept of corporate culture and develops a typology for it that is practicable and clear. Second, it identifies the important factors in the process of change. Third, it analyzes the relationship between corporate culture and product-market strategy. Fourth, extensive field research underlies the book's conclusions and recommendations.

We conceptualize corporate culture as comprising shared values, decision-making patterns and overt behavior patterns. The core concept is the willingness to change. Corporate culture is not visible; it inheres in the space between the formal systems and organization performance.

The major subject of this book is how to vitalize corporate culture. Many companies suffer from bureaucratic culture or "big business disease," as they grow and age. A vitalized culture closely relates to high financial performance and satisfaction on the part of members. We analyze the characteristics of vitalized culture.

Consider the environment that organizations face today: a situation of rapid change, one where competition rapidly transforms itself into hyper-competition. Such an environment requires one thing, above all others, from people in organizations: the creative initiative and risk-taking action of all members, from top to middle management, to front-line members. However, there is always a tendency for members to want to play safe. Thus, willingness to change is essential to the culture of a firm. We call such a corporate culture "vitalized."

Corporate culture comprises three aspects. First, a pattern of decision-making. Second, common values, for values shared by the members replace detailed rules. Corporate culture is thus a means of integrating the activities of members. Third, since the lead time for successful change is long, companies need to have a long-term vision to ensure a vitalized culture. Corporate cultures may endure or change as patterns, values, and, visions vary. Successful product-market strategies sustain vitalized cultures, resulting in successful feedback cycles. For instance, 3M, Allegheny Ludlum, Honda, Sony, and Canon have long had years of highly successful strategy and high financial performance.

Organizations at the beginning of the 21st century face continuous change in their environments and technologies alike. To cope with the challenges of continuous change, members, and managers especially, need to be externally oriented. Thus, successful companies need to accumulate information and knowledge, to become learning organizations. We suggest that to do so they must learn to develop vitalized cultures.

Companies with vitalized cultures welcome new ideas and risk-taking. They continue to innovate, to renew old capabilities, and to construct new core competencies, rather than becoming arrogant. The shock of new success vitalizes, refreshes, and renews such companies; it does not traumatize them.

We analyze the interrelationship between corporate culture and management systems and establish its measurements, report the field survey, analyze casual factors and key variables, and present conclusions. We establish a typology of corporate culture. We analyze the performance of each type of culture empirically. On this basis, we discuss how one type of culture should change to another type.

The book is based on a number of case studies, interviews with top managers, mail questionnaire surveys, and experience as reported in the literature of comparative analysis in organization and management theory. We conducted the mail survey twice in Japan and also once each in the United States and in India. Hence, we report empirical research and present many cases and different aspects of the problematic of corporate culture.

The book began as Toyohiro Kono's in Japanese. Initially, Kono submitted it as a book for the series which Stewart Clegg edits. The book intrigued the editor. First, it contained a wealth of case-study data that few non-Japanese could ever obtain access to or interpret. Second, Kono, one of Japan's most senior and respected authorities on long-range planning, had applied his knowledge about organizational decision-making to produce a sophisticated theoretical and empirical approach to the analysis of corporate culture. Yet, the manuscript had evident need of a sympathetic, knowledgeable, and committed editor. As the editor of the series, Clegg agreed to fulfill this function. During the process we collaborated in Sydney and at long distance by fax and mail, while the present manuscript took shape, over many iterative sessions of rewriting and reshaping.

Working closely on the book Clegg became aware of the convergence between his own approach to Japan and the question of culture (Clegg et al., 1990; Clegg, 1990) with that of Kono. Neither of us accepted arguments of cultural determinism and we both agreed that the crucial variables in the creation of corporate culture were organizational and institutional. Yet it was evident that, culturally, Kono took the Japanese context for granted when writing about corporate culture. The text that he produced remained

deeply embedded in his larger everyday social and cultural institutional context, one that necessarily eluded the co-author, an Australian originally from Europe, not a Japanese. Clegg adopted the role of the “stranger,” the outside anthropological observer doubly estranged by both text and context. As such he sought to make this embeddedness evident, both in his interpretation of the initial English-language manuscript as well as in the additions and revisions that he made to it.

Finally, the manuscript became a joint project. It serves to correct a persistent culturally overdetermined bias in the way that the West views Japanese corporate culture, one sometimes generated from within the frame of Japanese corporate culture. The text also became a product allowing translation of Japanese benchmarks into contexts of more widespread organization design and practice.

Clegg would like to acknowledge the help he received in discussing this process of translation with colleagues at UWS Macarthur, notably John Gray and Greg Teal, which is where he began work on the book, before finalizing it at UTS. The support of both institutions is appreciated. Additionally, the forbearance that his family showed as he labored at the text must not go unremarked.

Kono would like to express deep thanks to his colleagues, Professor T. Uchino at Gakushuin University, Professor F. Iida at Fukushima University, and Professor T. Matsui at Surugadai University, all of whom inspired the author with new thoughts; Professor Sheela at Bemidji State University; Mr. K. Pitts at the University of Pittsburgh; Mr. O. P. Gupta at the National Productivity Council, New Delhi, who conducted the Indian survey; to Mr. M. Strong and Mrs. M. Bedell, who corrected the English of the first draft; and to Mizu, Ken, and Mrs. Akao who typed almost all the first manuscripts.

December 1997  
Toyohiro Kono  
Stewart R. Clegg





# Table of contents

1	Concept of corporate culture .....	1
1	Introduction to the study of corporate culture .....	5
1.1	Previous approaches .....	5
1.2	Negative perspectives on corporate culture .....	7
1.3	Limitations of past research .....	8
2	Nature and kinds of corporate culture .....	8
2.1	Interrelationships between the three dimensions .....	9
2.2	Corporate culture: A group behavior .....	11
2.3	Corporate culture: A lasting feature.....	11
2.4	Corporate culture: An invisible and unconscious process .....	12
2.5	Corporate culture: Potentially integrative for the organization	13
2.6	Kinds of corporate culture .....	13
2.7	Dominant, espoused, and internalized culture.....	15
2.8	Counterculture .....	16
2.9	Thick culture and thin culture .....	16
3	Functions of corporate culture .....	17
3.1	From the members' viewpoint .....	17
3.2	From the corporate viewpoint.....	17
4	Importance of corporate culture .....	19
4.1	Where the strategy changes, but the corporate culture tends to stay the same.....	19
4.2	Where the culture becomes more stagnant .....	20
4.3	Where the necessity of initiatives by individual members increases .....	21
4.4	Where the corporate culture relates to the performance of the company.....	22
5	Summary.....	23
5.1	Corporate culture: Shared values, decision-making patterns, and overt behavior patterns .....	23
5.2	Relations between the kind of corporate culture and the unit of analysis .....	23
5.3	The three functions of corporate culture .....	23

5.4	The importance of corporate culture in the initiation and implementation of successful strategy .....	23
5.5	Four previously dominant approaches to research on corporate culture.....	24
2	Dimensions and types of corporate culture .....	25
1	Dimensions .....	25
1.1	Principles concerning the selection of dimensions .....	25
1.2	Method of selecting the dimensions .....	29
2	Types of corporate culture.....	34
2.1	Merits of typology .....	34
2.2	A model of types of corporate culture .....	35
3	The surveys .....	48
3.1	First survey.....	48
3.2	Financial performance .....	49
3.3	Second survey.....	50
4	Shift of types of culture .....	51
5	Differences in corporate culture among industries .....	52
6	Other typologies of organizational culture .....	53
7	Summary.....	60
7.1	Three dimensions of corporate culture.....	60
7.2	The typology .....	60
7.3	The survey.....	61
3	Total culture and subculture.....	65
1	Concept of total culture and subculture.....	66
2	Thick cultures, thin cultures, and subcultures.....	67
2.1	Values (job-related values) .....	68
2.2	Decision-making pattern .....	68
2.3	Commitment.....	68
2.4	Different thicknesses of culture .....	69
3	Five models of diversity .....	70
3.1	Homogeneous culture: Monoculture .....	71
3.2	Dominant culture and a diversified thick culture.....	73
3.3	Dominant culture and diversified, but medium thick culture ..	73
3.4	No dominant culture, but thick subcultures .....	73
3.5	No dominant culture, no subculture.....	73
4	Differences of subculture between departments.....	74
4.1	Differentiation by products .....	74
4.2	Differentiation by functions .....	76

5	Differences between hierarchical levels .....	79
6	Differences among age groups .....	82
7	Differences between men and women .....	83
8	Effects of diversity of subcultures .....	85
8.1	Advantages of subcultural diversity .....	85
8.2	Disadvantages of subcultural diversity .....	87
9	Change and interface between subcultures .....	88
9.1	Direction of change .....	88
9.2	Conditions for selecting directions of change .....	89
10	Means for assimilation and differentiation .....	91
10.1	Homogenization and installation of dominant culture .....	91
10.2	Development and preservation of subcultures .....	92
10.3	Differentiated personnel management systems for women employees .....	94
11	Summary .....	96
11.1	Differences between subcultures .....	96
11.2	The model of diversity to aim for .....	96
11.3	Differences by departments .....	97
11.4	Variation of subculture depending on the level of hierarchy ..	97
11.5	Age and the culture of members .....	97
11.6	Attitudes of working women versus attitudes of working men	97
11.7	Subsidiary subcultures overseas .....	98
11.8	Diversity of subculture: A mixed blessing? .....	98
11.9	Getting the appropriate mix of cultures and subcultures .....	98
11.10	Directions of subcultural change .....	99
4	Development of corporate culture .....	101
1	Culture and other descriptive variables .....	101
1.1	Personality .....	101
1.2	Attitude .....	103
1.3	Attitude, personality, and organizational culture .....	105
1.4	Organizational climate .....	105
1.5	Motivation .....	106
1.6	Formal systems .....	106
1.7	Factors that develop personality and attitude .....	107
2	Development of group attitudes .....	111
2.1	Personality, individual attitudes, and corporate culture .....	111
2.2	Why a group attitude develops? .....	112
3	Factors that develop a corporate culture .....	114
3.1	External factors .....	114
3.2	Internal factors .....	114

4	Symbiotic relations between environments and members .....	120
5	Influencing agents .....	121
5.1	Top management .....	121
5.2	Middle managers, project managers, opinion leaders, and heroes .....	121
5.3	Colleagues .....	122
6	Factors affecting the extent of diffusion of corporate culture.....	122
7	The case of Honda Motors .....	123
7.1	Top management .....	125
7.2	Product development.....	125
7.3	Personnel management system .....	126
7.4	The policy of recruiting new employees.....	126
7.5	Ideas contest.....	127
7.6	An idea room.....	128
7.7	Group study .....	128
7.8	My diary .....	128
7.9	Social distance .....	128
7.10	The implication of the Honda case .....	129
8	The case of Hitachi Company.....	129
9	Summary.....	131
9.1	Personality and attitude formation.....	131
9.2	Members in a group tend to have a similar attitude .....	131
9.3	Formation of corporate culture.....	132
9.4	Diffusion of corporate culture.....	132
9.5	The crucial role of top management.....	132
5	Transformation of corporate culture – factors and agents of change .....	133
1	Selected literature review of organization change .....	133
1.1	Difficulty of change.....	133
1.2	Training's potential to change behavior .....	133
1.3	Strength of needs and the possibility of their change.....	133
1.4	Leadership style and behavioral change .....	134
1.5	Studies of organizational culture: Gaps in the presentation of the change process .....	134
1.6	A comprehensive model.....	135
1.7	Specific issues addressed by the literature .....	135
2	The meaning of transformation .....	136
2.1	Changing elements of culture .....	137
2.2	Changing shared values and evaluations.....	138
2.3	Natural transformation and intentional transformation.....	138

2.4	Change made possible by internal environments.....	139
2.5	Size of change.....	140
3	Needs and problems of transformation .....	140
4	Factors changing the corporate culture .....	142
4.1	Information approach .....	142
4.2	Learning through experience, a new symbolic product-market strategy and the diffusion of a spirit of experimentation.....	143
4.3	Rewards and sanction system .....	143
4.4	Combination of the three factors.....	144
4.5	Flow chart of change by three factors – a model of culture change.....	145
5	Survey results of reasons for culture change .....	147
5.1	Survey results in Japan .....	147
5.2	Survey results in three countries.....	150
6	Illustrations of impacts of three factors on corporate culture .....	152
6.1	Change of culture at Japanese National Railways – particularly Tokai Railways company .....	152
6.2	H company – a case of deterioration of culture .....	154
7	Culture change or strategy change .....	154
7.1	Culture change first or strategy change first? .....	154
7.2	Diffusion of change from one sector to other sectors .....	156
8	Influence agents .....	159
8.1	Top management .....	159
8.2	Middle management .....	160
8.3	Islands of innovators .....	161
9	Difficulty of change.....	163
10	Some approaches that decrease the perceived distance of change.....	165
11	The Asahi Breweries case .....	167
11.1	The background to Asahi Breweries .....	167
11.2	A new president and new management concepts .....	169
11.3	Changes of corporate culture at the top and middle management level.....	174
11.4	Improvement of organizational structure and programs .....	175
11.5	Changes in employee culture.....	176
12	Canon company – sustaining a vitalized culture .....	176
13	Summary.....	181
13.1	Transformation of organizations and revitalization of corporate culture .....	181
13.2	A change of culture and necessary change of corporate strategy .....	181
13.3	The three factors that contribute to change of corporate culture .....	182

13.4	The role of a successful experiment in revitalizing the organization as a whole .....	182
13.5	The top management as a change agent .....	182
6	Transformation of corporate culture – continued organizational and psychological process .....	183
1	Organizational process – three models .....	183
1.1	The top-down process .....	184
1.2	Diffusion of experiments .....	184
1.3	The grass-roots approach .....	185
2	Collection of information in the top-down approach .....	187
3	Conditions to promote group process: Experiences from quality circle activities.....	189
3.1	Structure of the group .....	191
3.2	Role of the leader .....	192
3.3	Group interaction.....	193
4	Psychological process of transformation – unfreeze, change, and refreeze .....	194
4.1	Unfreezing .....	194
4.2	Change .....	196
4.3	Refreezing .....	197
5	Timing of change.....	198
5.1	Favorable moment for change.....	198
5.2	Time required to change and the durability of change .....	199
6	Conditions of members .....	200
6.1	Why do the attitudes of members change? .....	200
6.2	Extent of change – identification with the organization.....	201
6.3	Change of each element of culture .....	202
6.4	Change of values .....	203
6.5	Needs .....	203
6.6	Interrelationship .....	207
6.7	Internalization .....	208
6.8	Conditions leading to the internalization of change.....	209
7	Discussion .....	210
8	Failures and successes of change .....	213
9	Summary.....	214
9.1	Three organizational process models of change.....	214
9.2	Small group activities.....	214
9.3	The psychological process of change .....	215
9.4	The change of culture is, in part, a determination to change the decision program .....	215

9.5	Influencing the extent of change .....	215
9.6	Which element to change first? .....	215
9.7	Internalization.....	216
9.8	Failure to change .....	216
7	Corporate philosophy and corporate vision .....	217
1	Concept of corporate philosophy and visions.....	220
1.1	Creeds .....	221
1.2	Visions .....	222
2	Effects and limitations .....	223
2.1	Effects of corporate creed and vision .....	223
3	Limitations of corporate creed and visions .....	224
3.1	Obsolescence .....	224
3.2	Ambiguity and lack of differentiation.....	225
3.3	Conflict of values and principles in the items of a creed .....	225
3.4	Corporate creed: Creating excessive homogenization.....	226
4	Survey of corporate creeds .....	226
5	Internalization of philosophy and visions .....	229
5.1	Information approach: Indoctrination activities .....	229
5.2	Experience approach.....	230
5.3	Sanction approach .....	231
6	Change process .....	231
6.1	The case of Omron company: 21st-century vision .....	231
6.2	The case of Toray .....	234
6.3	The case of Keihin Railways .....	235
7	Success factors.....	235
7.1	Contents of successful creeds .....	236
7.2	The expression of successful creeds.....	236
7.3	Formulation of creeds .....	237
7.4	Cases of failure of creeds .....	237
8	Summary.....	238
8.1	Expression of corporate philosophy in the corporate creed ....	238
8.2	The corporate creed and visions: An umbrella culture.....	238
8.3	Key items for a creed.....	239
8.4	Internalization of the corporate creed .....	239
8.5	The process of creating the creed.....	239
8.6	Factors for successful creeds .....	240

8	Product-market strategy .....	241
1	Interrelationship between the product-market strategy and corporate culture .....	241
2	Principles already stated in previous chapters .....	243
2.1	Static relations .....	243
2.2	Approaches to changing corporate culture – dynamic processes.....	243
2.3	Whether the strategy should adapt to the existing culture or not? .....	244
2.4	The culture change first or the strategy change first? .....	245
3	Some problems in the change of strategies and principles to solve them .....	245
3.1	Seemingly positive strategies impairing culture .....	245
3.2	Prevention of stagnation of corporate culture while carrying out negative strategies .....	246
4	Danger that the culture of a major product dominates the other subcultures.....	249
5	Product mix and new product development.....	250
5.1	Diversification .....	250
5.2	Specialization .....	251
5.3	New product development .....	252
6	Vertical integration .....	253
6.1	Concept and types .....	253
6.2	The problem areas.....	254
6.3	Effects of forward vertical integration on the controlling company.....	254
6.4	Effects of backward integration on the controlling company ..	255
6.5	Effect on the controlled companies.....	255
6.6	Conditions that sustain vitalized culture in quasi-integrated group companies.....	256
7	Multinational management.....	257
7.1	Concept and types .....	257
7.2	Problem areas .....	257
7.3	Effects of multinational management on the parent company..	257
7.4	Formation of the corporate culture in the subsidiaries .....	259
7.5	Conflicting views on behavior patterns of members.....	262
8	Competition .....	263
8.1	Concept and types .....	263
8.2	Problem areas: How the corporate culture affects competition .....	263
8.3	Effects of competition on corporate culture.....	264



9	Internal development and external development .....	266
9.1	Concept and types .....	266
9.2	Problem areas .....	266
9.3	Impact of external development on the corporate culture .....	268
10	Summary .....	271
10.1	Interdependence of product-market strategy and corporate culture .....	271
10.2	Three approaches to change the culture .....	271
10.3	Relatedness between type of product and features of culture .....	271
10.4	Negative strategy: Not necessarily a threat to corporate culture .....	271
10.5	Relation of product-market strategies on corporate culture ..	272
10.6	Corporate culture and types of vertical integration.....	274
10.7	Multinational management and expansion of members' imaginations world-wide .....	274
10.8	Competition .....	274
10.9	Internal or external development .....	275
9	Organizational structure and personnel management system .....	277
1	Organizational setting and vitalized culture .....	277
1.1	Physical work environment .....	277
2	Organizational structure .....	281
2.1	Strong strategic planning departments .....	281
2.2	Centralize strategic decisions, decentralize operational decisions .....	282
2.3	Interfacing between departments .....	283
3	Systems and rules that vitalize culture .....	284
3.1	Communication systems that encourage new ideas .....	284
3.2	Systems that encourage spontaneous ideas .....	286
4	Personnel management systems .....	292
4.1	Recruitment .....	294
4.2	Allocation, manpower planning, and work rules .....	296
4.3	Diversified personnel assignment systems .....	296
4.4	Allocation of competent personnel to the strategic department and lean staffing in every department .....	297
4.5	Diversified personnel assignment systems depending on the needs of employees .....	298
4.6	Multiple courses: National course and local course .....	298
4.7	Posting of jobs that require filling .....	299
4.8	Child care leave (maternity leave) .....	299

4.9	Long term vacation .....	300
4.10	Flexi-time .....	300
4.11	Promotion and remuneration .....	300
4.12	Training and communication .....	305
4.13	Basic principles underlying personnel management systems...	311
5	Survey results concerning the relations between organizational structure, personnel management system, and corporate culture .....	312
6	The case of Kirin Breweries.....	314
6.1	Outline of the company and its problems .....	314
6.2	The new corporate creed and the new corporate vision.....	314
6.3	Product-market strategy .....	316
6.4	Personnel management system .....	317
6.5	Implications of the Kirin case .....	323
7	Limitations of organizational settings and personnel management systems in changing organizational culture .....	323
8	Summary.....	324
8.1	The principle of providing innovation conditions .....	324
8.2	Innovation principles differ from those for organic organizations .....	325
8.3	Change of behavior by rules and sanctions .....	325
8.4	Personnel management systems .....	325
10	Top management .....	327
1	Organization of top management .....	327
2	Types of top management team decision-making and CEO leadership .....	328
2.1	Innovative and analytical type.....	330
2.2	Innovative and authoritarian type.....	331
2.3	Conservative and analytical type.....	332
3	Interviews with company presidents on the required managerial attitudes of top managers .....	333
4	Factors affecting top management team decision-making and leadership patterns .....	336
4.1	Primary environments .....	336
4.2	Specifically Japanese demographic factors of top management .....	340
4.3	Difference in demographic factors among top management of Japanese corporations and their effects on decision-making and on corporate culture .....	342
5	Organization .....	345

5.1	The power of the board of directors .....	345
5.2	Effects of group decision-making at the top .....	345
5.3	The leadership of the president in the management committee .....	346
6	Selection and turnover of the president – CEO .....	346
6.1	Selectors .....	347
6.2	Cases of defective selection .....	348
6.3	Limitation of effects on the corporate culture by a change of top management .....	349
7	Change of attitude of the top management .....	349
7.1	Information approach .....	349
7.2	Experience approach .....	350
7.3	Sanctions from the market mechanism and from the social feedback system .....	351
8	The case of 3M .....	352
9	Summary .....	353
9.1	Top management .....	353
11	International comparison of corporate culture .....	357
1	Increased interest in Japanese corporate culture .....	357
1.1	Specific reasons for the interest in Japanese corporate culture .....	357
1.2	Japanese corporate cultures – a partial perspective .....	358
1.3	Japanese culture .....	358
1.4	Organization orientedness and consensus in Japan .....	360
1.5	Japanese corporate culture in comparative perspective .....	365
2	International comparison of overall culture – Japan, the United States, and India .....	365
2.1	Assumptions in cross-cultural analysis .....	265
2.2	General features for comparison .....	367
2.3	Shared values .....	368
3	Corporate philosophy .....	372
3.1	Long-term growth .....	372
3.2	Creeds and visions .....	373
4	Information collection .....	374
4.1	Analytical method .....	374
4.2	Shared information .....	375
4.3	Problems with analytical methods and information sharing in Japan .....	376
4.4	Idea generation .....	378
5	Evaluation .....	380

5.1	Risk-taking by consensus .....	380
5.2	Long term growth is an important basis of evaluation .....	382
5.3	Problems with evaluation .....	382
5.4	Social distance .....	383
6	Response to new opportunities .....	385
6.1	Quick response after consensus .....	385
6.2	Concentrated resource allocation .....	386
6.3	Problems with responses to new opportunities .....	387
7	Commitment to the job and to the organization .....	387
7.1	Untiring efforts and the sacrifice of private life.....	387
7.2	Life time employment .....	388
7.3	Problems with commitment to the job and to the organization.....	388
8	Future of Japanese corporate culture .....	390
8.1	Causal factors and the characteristics of Japanese culture.....	390
8.2	Future problems of Japanese culture .....	393
9	Comparing corporate cultures.....	395
9.1	Comparison of corporate culture between companies.....	395
9.2	Comparison of corporate culture among industries.....	400
9.3	Inter-organizational comparisons at the level of functional departments.....	401
9.4	Inter-organizational comparisons at the level of differences between hierarchical levels .....	403
9.5	Inter-organizational comparisons at the level of differences among age groups.....	404
10	Summary.....	406
10.1	Cross national comparison of Japan, United States, and India .....	406
10.2	Future changes in corporate culture? .....	407
10.3	Intra-organizational variations in corporate culture .....	408
10.4	Comparative interorganizational differences in subcultures....	408
11	Addendum.....	408
11.1	Survey of causal factors associated with culture .....	408
11.2	Some problems with sample bias and external factors .....	410

## Appendices

1	Phrases expressing corporate culture – contrasting patterns .....	413
2	Factor analysis.....	417
3	Cluster analysis .....	421
4	Questionnaire .....	422

<b>Table of contents</b>	<b>XXI</b>
<b>References .....</b>	<b>429</b>
<b>Index .....</b>	<b>441</b>



# 1 Concept of corporate culture\*

Culture varies from one country and political system to the next. For instance, the organizational culture of the former centrally planned economies was very different from that of the capitalist countries. Under state planning of production, managers and workers were eager to accomplish the quantitative goals set for them. However, they paid little attention to quality; they did not present new ideas or try to do new things that were customer-oriented and possibly risky. Where there was a centralized and planned economy, there was typically a monopoly over production systems. Ideological and price control were normal, exercised by the communist party members in the organization, and reward systems were unrelated to risk-taking. Bureaucratic behavior predominated in the former centrally planned systems. By contrast, the capitalist economies were able to be much more flexible. It is easy to see the difference in culture between different political economic systems, but, even in capitalist countries, corporate culture differs from company to company.

Corporate culture in any large, complex organization is rarely unitary or homogenous. Rather, ambiguities, uneven power relations, and complex processes of accommodation and resistance mark corporate culture. These complexities remain somewhat unexplored in the “corporate culture” literature, as suggested by recent state-of-the-art surveys, such as that of Frost and Martin (1996). Some research, such as the various “excellence” projects, has concentrated on “strong” culture, and is based on unitary assumptions about the homogeneity of culture. However, the assumption that culture is unitary is not an analytical *a priori* but a matter of empirical investigation as we argue in this book. Even where research, such as ours, suggests that some cultures are more dynamic and vibrant, more energized than others, the reason is not necessarily that they are strong unitary cultures.

It is not easy to design and cultivate corporate culture deliberately, to transform an existing culture into one that is more dynamically innovative

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\* Thanks to John Gray, Gregory Teal, and Thekla Rura-Polley for comments on earlier drafts of this chapter.

and resourceful, in which decision-making is more proactive. Yet, it does happen. In this book we study some successful cases of Japanese corporations in order to identify strategies associated with vibrant, dynamic, energized, and enterprising corporate cultures – ones where the members make a difference.

When we use the term “corporate culture,” what are we thinking about? In this book the concept is employed to emphasize the values shared by members, their method of decision-making or way of thinking (including basic assumptions), and their overt behavior patterns. Each of these aspects taps into the reality of a society that is organized through relationships and dependencies. Shared values are the implicit needs or wants of the group and determine which decisions and actions are deemed desirable and which are not. Decision-making patterns shape information collection and communication, idea presentation, and evaluation. Power distance structures patterns of communication and idea presentation.

Grounded research, based on extensive discussion with senior Japanese managers, provided the basis for the conceptualization of corporate culture. Subsequent survey analysis, conducted both through mail surveys and interviews, collected data on the opinions of over 400 managers in leading Japanese companies. Analysis of this data crystallized the elements crucial for the conception of corporate culture. The basic elements of this conception are shown in simple diagrammatic form in Figure 1.1.

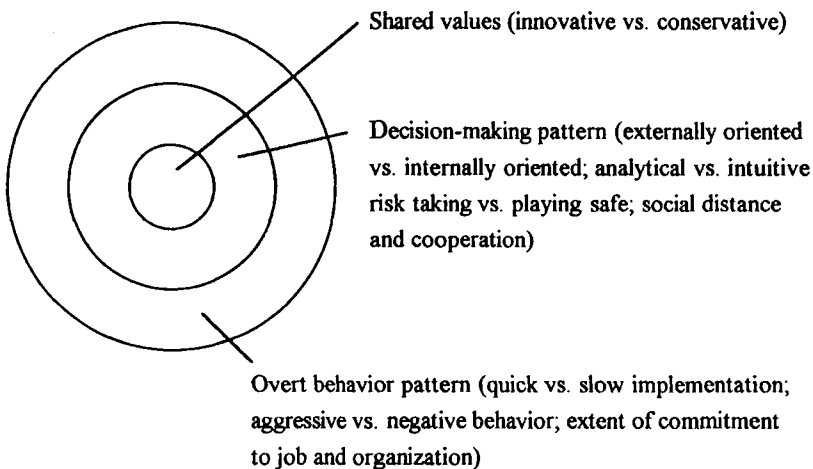


Figure 1.1: Contents of corporate culture



Various descriptions concerning the three elements of corporate culture: shared values; decision-making patterns, and overt behavior patterns, were collected from as many sources as possible. We have condensed them in Appendix 1 at the end of the book. A detailed picture of corporate culture in a number of Japanese organizations can be formulated from these descriptions.

Our focus in this book is on concrete empirical cases of shared values, decision-making patterns and overt behavior patterns in particular corporations in Japan.<sup>2</sup> Within Japanese organizations it is the extent and the substance of shared values that determine the members' decision-making patterns. Shared values are those values that members jointly believe to be good. Where there are few shared values, and thus much that differentiates people in the organization in terms of their values, members will find it harder to act as an organization, to act in concert to achieve some common goal. Shared values make the achievements of goals much easier because they delimit the parameters of disagreement about their achievement. When values are shared, the achievement of goals is more likely a matter of means rather than ends. They are those things that people agree on in a value sense, that which is common between them, the source of their harmony, and their difference from others, and thus their identity.

Decision-making patterns, coherent modes of rationality in decision-making, arise from the methods that are used to collect information, generate ideas, and to evaluate alternatives. It is these patterns that we argue are at the core of corporate culture. They are the means whereby goals are achieved. For the purposes of this project, there are three important distinctions to be made in patterns of overt decision-making, which are the:

- Degree of externally oriented information collection versus internal orientation;
- Extent of analytical versus intuitive reasoning;
- Ways in which risks are evaluated.

The social and power distance that exists in an organization determines the quality and quantity of its communications and the extent of its members cooperation in decision-making and in implementation. Some organizations

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<sup>2</sup> Members' actual degree of choice and what members perceive to be the parameters of choice, vary from one organizational and national context to the next and depend on such institutional arrangements as the industrial relations system, the extent of state intervention in labor-management relations, and specific organizational practices. Holding the country constant and focusing only on Japanese cases means that we can gain far more purchase on specific organizational practices and the way that they are embedded within labor-management relations and specific organizational practices.

are characterized by a very high social and power distance between members. (An example might be a foreign transnational branch plant in which the branch managers share neither language nor culture with the home parent national executives in the transnational headquarters. Both in the quality and the quantity of their communications, the power distance will tend to be greater than that in other organizations.) Social and power distance affect both the decision-making pattern and implementation pattern in an organization.

Overt decision-making patterns display themselves in typical methods for implementing plans. Salient factors in this regard are whether, routinely, there is quick implementation, whether there is a predisposition to try many new experiments or follow old and existing patterns. New product development achieved through concurrent engineering, for example, is mediated in its success by the habitual degree of cooperation that exists between a member and other members or between a department and other departments, or by the extent of trust relations. The degree of cooperation can have a central impact on the organization.

The level of effort that members of the organization make is another element that can aid or hinder implementation. It is expressed by various commitments to the job and to the organization. Such commitments feed back to decision-making patterns and are as much measures of the effectiveness of organizations as are data on financial performance. Overt behavior affects decision-making patterns through processes of learning. Typically, the more that the members of the organization are committed to their jobs, the more they will tend to present new ideas. These are feedback processes. New behavior can elicit new values and can change the decision-making patterns by feedback of intrinsic and extrinsic rewards.

At Honda, for example, an ideas contest is held every two years. Members of groups design new and sometimes strange entries, such as a vehicle without wheels. Some groups win a prize for their ideas, and in this way the organizational value of innovation develops. Decision-making patterns in which things are looked from new angles are cultivated. Likewise, when a quality circle finds a new way to enhance quality, the improvement encourages the group to become more interested in challenging other things as well and in presenting new ideas.

Successful Japanese companies have a long-term view and are innovation-oriented. This outlook is revealed by actual behavior, such as aggressive capital investment and large spending on research and development. The majority of members of such an organization believe that the company is a community organization (*Gemeinschaft* by Tönnies' definition, Tönnies, [1887]). The aim of the employees will be to try to remain in its employment and thus spend their entire working life there. This belief, in turn,

makes it necessary for the management to take a long-term view and to have an orientation both to growth and competition in order to provide life-time jobs to the members (Kono, 1984). Of course, the community metaphor covers up a number of discrepancies, notably the fact that companies consider and treat large numbers of employees as contingent, temporary, or contract employees.

In Section 2 of this chapter we look closely at the overall concept of corporate culture, drawing on the presentation of three cases of corporate culture. It will focus on interrelations among the three dimensions of culture that we have identified as: the values shared by members; their methods of decision-making, and their overt behavior patterns. Additionally, we identify some of the more specific aspects of corporate culture, including group behavior, the longevity of culture as a phenomenon, the way in which culture is frequently implicit and tacit rather than overt, and the integrative role that culture plays.

## 1 Introduction to the study of corporate culture

### 1.1 Previous approaches

There are four approaches to the study of corporate culture:

- a) In the anthropological approach emphasis is placed on the study of rites, rituals and symbols of the company. Emphasis is given also to the importance of myths, stories of success, and the influence of heroes (Deal and Kennedy, 1982; Trice and Beyer, 1985; Trice and Beyer, 1993). International comparisons of culture tend to use this approach. The specific features of the value system of a company are major subjects of the study.
- b) In the cognitive theory approach researchers emphasize that culture is a cognitive map, a schema, or a basic assumption. The members of the company share the same pattern of perception and the same meaning about almost everything. Example are "our company is a growth company" and "a defective rate of one out of one hundred means poor quality." These expressions depend on the shared perception and common meaning of words. Whether "the floor is clean or dirty," whether "the air in a room is warm or cold" depends on the shared perception and common meaning of words. This approach is similar to the study of climate. The concept of organizational climate deals with the perception members have of organizational structure and personnel management systems. The classical studies of human relations by Mayo (1933) and Roethlisberger and Dickson (1939) state that the attitude of the group affects productivity

to a greater extent than does the wage system or the physical environment. Although they do not describe the cause of this relationship, they state that the common perception of the environment and the attitudes of members have a great impact on productivity (Mayo, 1933; Roethlisberger and Dickson, 1939). The study by Lawrence and Lorsch (1967) describes how the time horizon and perception vary depending on the environment the department faces.

A schema is a cognitive structure that represents organized knowledge about a given stimulus. It provides observers with a knowledge base that serves as a guide for the interpretation of information, actions, and expectations. For example, when we watch most movies, it is easier to understand them when we see them from the beginning, but harder to understand when we start to watch from the middle. (There are exceptions, of course: Andy Warhol's infamous *Empire State* would be one.) A schema helps people simplify and effectively manage the information in a complex task and social environment (Weick, 1979; Harris, 1990). Other research that follows this approach includes Glick (1985), Joyce and Slocum (1984), Field and Abelson (1982), and Guzzo in Schneider (1990).

- c) Leadership theory is an approach that focuses on the relations between leadership style and morale. Bass (1985) studies the relations between charismatic leaders and followers and shows how the charismatic leader can change the value system and behavior patterns of followers through the example of their leadership (Bass, 1985). The “new leadership studies” (Bryman, 1996) also attempt to use leadership to transform culture.
- d) In the decision-making approach researchers stress attitudes towards change. They analyze information collection, idea generation, and overt behavior as well as describing the interaction between culture and corporate strategy.

The study by Peters and Waterman (1982) of what they deemed at the time to be “excellent companies”, was probably the single most instrumental factor in drawing attention to the significance of a more applied or consulting conception of corporate culture. The authors analyzed eight characteristic principles that describe features of a vitalized culture (Peters and Waterman, 1982):

- Bias for action;
- Closeness to the customer;
- Autonomy and entrepreneurship (use of project teams, and so on);
- Productivity through people;
- Hands-on, value-driven management (importance of corporate philosophy);

- Sticking to the knitting (related product diversification);
- Simple form, lean staff;
- Simultaneous loose–tight properties (using the corporate culture rather than rules).

Schein (1985), from a more anthropological perspective, stated that a culture comprises three levels:

- Artifacts, (such as overt behavior, products, technology, and room layout);
- Values and beliefs, (such as individualism, habit, and freedom of new ideas);
- Basic assumptions, (such as the assumptions of theory X and Y, concerning whether people tend to exercise creativity or accept environmental control, apply moralism or pragmatics, have a past orientation or a future orientation, and so on).

These assumptions pattern behavioral adaptation to the environment and integrate individual behavior with that of other members (Schein, 1986). Schein analyzed the fit between culture and strategy and the way in which culture can change (Schein, 1986). In Chapter Two and Five Schein's theory is considered in further detail.

Kotter and Heskett (1992) suggest that corporate culture comprises shared values and group behavior norms. According to them, adaptive cultures share values that care about customers, stockholders and employees. In the view of these authors the group behavior norms of an adaptive culture mean that the employees are quick to respond to requests from customers, even if it entails taking some risks. They maintain that the culture change occurs when one convinces people that a crisis is at hand, then communicates a new vision, and implements a new set of strategies. Other research includes Reynold (1986); Meyerson and Martin (1987); Rousseau (1990); Siehl and Martin (1990); Thompson and Luthans (1990); Kono (1988b); Kagono (1988).

## 1.2 Negative perspectives on corporate culture

Some researchers argue against the existence of a corporate culture. They deny the “functionalism” that assumes that the members accept goals common to the company as a whole and that the members are willing to contribute to the common goals. Rose (1988) and Lucas (1987), for instance, stated that the values held by members vary depending on their jobs and

that, because of new technologies and the expanding size of organizations, unitary cultures are disappearing. The means of integration that they stress are rules, communications and negotiation. While they do not deny the existence of subcultures they are critical of the concept of corporate culture as a whole.

### 1.3 Limitations of past research

Past research on corporate culture has certain limitations: it describes only the narrow scope of cause-effect relationships. Anthropological approaches do not explain decision-making patterns. They do not explain why rites, rituals, myths, and heroes are key elements of the culture. They do not analyze the interaction between the product-market strategy, the culture, and performance.

The cognitive approach concerns the definition and measurement of perceptions. However, it states neither the cause of these perceptions nor their interaction with the performance of the organization. Most of the research does not explain the interaction between culture and corporate strategy or between culture and the performance of the company.

## 2 Nature and kinds of corporate culture

Case study material can illuminate concepts of corporate culture. Table 1.1 illustrates actual problems related to the corporate cultures of three companies. We have classified these problems according to the three dimensions of corporate culture. Analysis through these dimensions provides a better understanding and visualization of the five general characteristics of corporate culture conceptualized in this book.

Table 1.1: Case of problems in corporate culture

Dimension of corporate culture	U company	F company (electronics)	D company (advertisement)
1. Values	Lack of challenging spirit, innovativeness profit mindedness; No clear goals	Avoid risks; Perform only easy jobs; Do only what is ordered	Conservative; Negative, not aggressive
2. Information collection	Closed to external environment; Lack of responsiveness to outside; Not customer oriented	Upward oriented; Say "I was not informed," Create too many copies	Frog in a well
3. Ideas	Lack of strategic ideas; Lack of long-range visions; Formalism	No quick response; Create new products of one's own interest, without regard to customer needs	No fresh ideas; No risky ideas
4. Evaluation	Formalism	"There is no precedence," "I cannot do it," "This is a custom"	Tradition oriented, old styled
5. Organizational process, social distance	Demerit evaluation; Unclear responsibility	Criticism of others, no implementation; Follow the head office; Watching the face of the senior, then scold the junior	Reliance on parent company; Groups to friendly
6. Implementation	Plans not implemented; Female workers not fully utilized	Leave the office at 5 o'clock if the telephone is ringing	Honest but not powerful

### 2.1 Interrelationships between the three dimensions

Overt behavior patterns are manifested in tendencies characterizing the implementation of decision-making, that is, the way in which action occurs and effort is made. In some organizations members cooperate with each other, implement plans aggressively, and quickly respond to environmental changes. In other cases the members do not commit themselves to the job or to the organization, and they do not implement new ideas easily. Such overt behavior is visible in implementation patterns relating to decisions, in coop-

eration patterns relating to colleagues, in commitment patterns relating to the job and to the organization. These patterns of shared values, decision-making, and action are interrelated (see Figure 1.2).

*Model 1*

$$B = f(E, P)$$

B: behavior, E: environment, P: personality

*Model 2*

Performance = f (role perception, ability, M)

$$M = X + PY + E Q_i Z_i$$

M: motivation, X: value of action, P: subjective probability, Y: value of accomplishment, Q: subjective probability, Z: value of extrinsic rewards

*Model 3*

Determinants of corporate culture

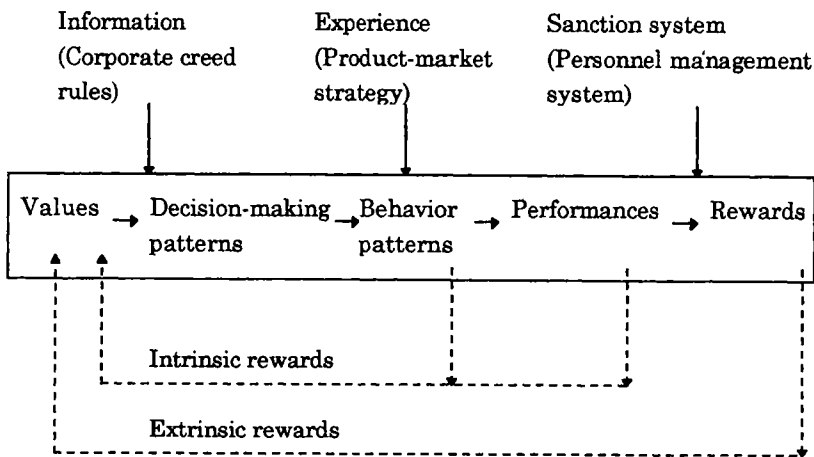


Figure 1.2: Interrelationship of elements of culture

In the model that we use to interpret the cases, values refer to the basis of decisions, while behavior refers to their implementation. In addition, there are feedback loops. Learning through experience affects values. By accomplishing challenging jobs, members come to enjoy taking risks. Extrinsic rewards or reinforcements affect both values and decision-making patterns. For example, when failure entails strict punishment, decision-making will become conservative.



## 2.2 Corporate culture: A group behavior

The group behavior aspects of corporate culture might refer to the organization as a whole or to a group formed for a specific task. Corporate culture is perceivable through similarities in the individual behavior of group members, such as attitudes towards friends or social phenomena. Concepts of corporate culture thus seek to capture the similarity of members' attitudes towards both their jobs and other members. Individuals have a variety of behaviors; the concept of corporate culture helps one analyze the commonality of such behavior.

There are many factors that assimilate members toward cultural or organizational norms in their behavior. The members may do similar jobs, or work under the same business creed and personnel management system. A specific corporate culture develops through the internal environment rather than as a result of external factors common to a general organizational milieu, although external factors certainly impinge on corporate culture. The amount of similarity depends on the extent to which the members identify with the organization. The more that members identify with the organization, and the fewer the sources of difference that they bring with their identity to the organization, the more one will anticipate similar behavior developing. Other things being equal, the more interaction between members, be it through small-group activities such as quality circles or through leaders activating interaction and communication, the more similar behavior develops.

## 2.3 Corporate culture: A lasting feature

Corporate culture differs from moments of unanimity around single decisions. Such unanimity is cause for celebration, perhaps, but its occurrence is fleeting and not characteristic of the organizational life-world. Corporate culture is an overall pattern of decisions and behaviors. If some members retire and newcomers enter, culture should stay the same because patterns of decisions develop through learning by experience. Also, they develop through observation of others' experiences and through the socialization of new members to existing practices (see Figure 1.2).

Rohlen (1974) was an early and important anthropological observer of the centrality given to socialization experiences in Japanese organizations. With regard to socialization, we may say in general that when a behavior pattern internalizes, it is stable. Internalization means that the members believe the common values and that behavior does not change dramatically even if there is an unfavorable stimulus. Behavior endures because of deeply held beliefs

patterning it. Typically, internalization occurs when the members learn through their own experiences and when they derive satisfaction through intrinsic rewards. Corporate culture's may last long, but they are not static: they change. Corporate culture tends to deteriorate, to become more bureaucratic, as the company grows, as the rules increase, and as the members become older. In Japan, the colloquial term refers to big business disease. An enduring corporate culture can change, however. Change of the president, the business creed, the product-management strategy, or the personnel management systems all can transform a culture.

#### 2.4 Corporate culture: An invisible and unconscious process

Ordinarily, members are not aware of corporate culture. For instance, they may have slipped into a cultural pattern of "playing safe," of not taking risks, without even being aware of it. Their overt behavior is visible, but the underlying rationality of corporate culture and the way that it patterns decisions is not. Thus a deterioration in culture may be invisible; members may not be able to articulate reasons for their company's declining share of the market or its failing financial performance. Such invisibility is a problem because, although corporate culture helps structure the member's consciousness, they may be not be aware either that it does or how it does so. In this sense, the corporate culture is the "software" part of the corporation, not the "hardware." On the one hand, it is an intervening variable between the business creed, corporate strategy, and the resource structure. On the other hand it connects to the company's financial performance and members' satisfaction.

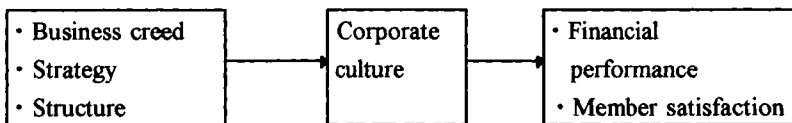


Figure 1.3: The role of corporate culture

This invisible software affects the performance of the organization. Though it is an unconscious process, it also has manifest effects on the organization. Affected by formal principles, it plays an intentional role in constituting initiative and behavior. It is affected by stated policy but functions as the real motive of members. Affected by explicit rules, it manifests itself as an implicit code of behavior.

### 2.5 Corporate culture: Potentially integrative for the organization

Corporate culture integrates the behavior of organization members, enabling them to adapt to changes in their environment. A pattern of behavior also harmonizes behavior. It can thus replace formal rules. Some cultures are more adaptive; some tend to be more bureaucratic. The latter can be referred to as less vitalized (i.e., less lively), whereas the former are more vital, more innovative and creative. When an organization is aggressive in utilizing opportunities in the environment and can avoid threats, its corporate culture can be called vitalized, not stagnant. Where one cannot assume that the members share the same values and vision, that the same tacit imperatives control them, the tendency is for plans and rules to operate. Corporate culture can replace such corporate plans and rules as a more subtle device for implicit control. Control need not be as explicit, based on imperative command, as in the bureaucratic model. Put differently, the exercise of control in organizations operates in various ways. Where members of an organization share at least some common values or tend to regard systems and mechanisms of control as being cultural rather than managerial, such systems will tend to be more effective.

### 2.6 Kinds of corporate culture

We said at the outset that culture is rarely the unitary phenomenon so frequently assumed. Not only is there culture, there are also subcultures, dominant cultures and dominated cultures. Thus, corporate culture divides into several kinds by level of analysis.

- a) Total culture and subculture: One can conduct a cultural analysis on an organization as a whole or of its groups (Trice and Beyer, 1993). The total culture refers to those values and common decision-making patterns shared by members of the organization as a whole. We study subcultures in Chapter Three but we may note here that subcultures may be defined in several different ways. They relate to aspects of identity: the greater the sources of differentiation between people, the greater the opportunities for subcultural formation around salient aspects of identity. The existence of subcultural groups may not necessarily be good or bad in its own right. In certain circumstances, such differentiation may lead to a fatal weakness of strategic resolve and purpose; in others, pluralism can be a source of great strength.
- b) Stratification: Corporate culture can also be analyzed in terms of groups. One way of thinking about groups might be through the stratification that

exists in the organization. One may differentiate upper level culture, middle level culture and lower level culture, for example. There are differences and similarities between these hierarchical levels.

- c) Departmentalization: Another way to analyze corporate culture is to think of the organization in terms of its departmentalization. There may be departmental subcultures, such as are based on differences among different functional departments or different product divisions. Where task differentiation is based on different “professions” (a term that has little meaning in Japanese as compared to English usage) it will be stronger, for the characteristic dichotomy between professionals and bureaucracy in the West occurs with far less frequency in Japan, where occupational identity tends to be less strong than organizational identity.
- d) Parent vs. overseas subsidiary cultures: National cultures are also important. For instance, there are subcultures of foreign subsidiaries. The subsidiaries of multinational companies operating in foreign countries frequently have cultural dynamics different from those of the parent company. A frequent organizational problem is how to transplant the corporate culture of a parent company to its subsidiaries. Such subsidiaries often play the role of change agents in host countries.
- e) Subcultures by gender groups: In some countries, particularly those where discriminatory practices of one kind or another structure female labor market participation, then organizations may have particular problems dealing with gendered subcultures. For instance, how does one motivate female employees employed largely in secondary labor market segments where the very nature of the jobs does little to inspire commitment?
- f) Subcultures by age groups: Younger members frequently have a divergent culture from that of older employees. Young people have yet to climb the status ladder of the corporation and achieve more senior roles. Hence, realistically, their commitment to the organization is less than those with an identity more encapsulated within and defined by the corporate culture.

There are other aspects of identity formation that might be important in some societies. Ethnic or cultural identity comes to mind for instance. However, their consequence is slight in a society that is, relatively, as homogeneous as Japan.

### 2.7 Dominant, espoused, and internalized culture

According to the extent to which members internalize culture, we refer to one or other of:

- Espoused culture;
- Internalized culture.

Espoused culture is a forced or officially sanctioned culture, one that people espouse or speak but do not necessarily believe in as something authentic. Internalized culture is based on real beliefs and has enduring patterns of decision that may well operate unconsciously. The formal corporate creed is a typical case of an espoused culture. Such an espoused culture may be internalized through intrinsic rewards gained by experience of success, through observation of the success of other members, or through the absence of legitimated alternatives. For example, an external or customer orientation may be encouraged. If salespeople's reports on the specific needs of customers help the organization to develop successful niche products, then members realize that customer orientation is important. Internalization occurs not only through experience but also through communication and rewards. Speeches from the president, speeches by managers in morning meetings, and information on the development of new products that have symbolic meaning are examples of such communication. Changes of reward systems can also affect internalization.

When members internalize values and behavior patterns they behave with confidence. In other words when internalized culture exists, the members have confidence in their behavior, and, if there are obstacles that impede their behavior, they move automatically to overcome them. Unlike a schema, that enables automatic discrimination between a priori categories of a phenomenon, this automatism is not a pattern of recognition. Instead, it is a pattern of behavior whose most important cause is to gain intrinsic rewards through successful experience, as mentioned earlier. Members of a corporation sometimes clean the floor of a factory, following the slogan of "clean floors make high-quality products," and then experience a decrease in the number of defective products. Consequently, the members become more confident in the new behavior pattern of cleaning (an effect observed at Bridgestone).

Change of corporate culture starts with the change of espoused culture. The "dominant culture" could mean the espoused culture or the internalized total culture. An "umbrella culture" is almost the same as the dominant culture.

## 2.8 Counterculture

The “counterculture” is a culture that articulates against the philosophy and the policies of the corporation. If the members believe that they should not try new things, because punishment will follow if failure results, or that they “should not work hard, because it will result in lay-offs by increased efficiency,” they are members of a counterculture. Countercultures often find support in factors such as labor unions that are antagonistic towards the firm. One should not assume “irrationality”: Frequently countercultures will have their own coherent mode of rationality.

## 2.9 Thick culture and thin culture

Depending on the extent of its diffusion, one can classify corporate culture into thick culture and thin culture. A thick culture means that a group of members believes in certain assumptions and follow similar patterns of decisions. Members responding similarly to questionnaire items about culture are a sign of a thick culture. Members believe in the common values of the organization (intensity of culture), and the standard deviation between the sum of their attitudes will be small (extent of crystallization). In the case of thin culture, members share the common values to a lesser extent, with a greater deviation around the mean score. A thick culture may be a counterculture and if it is, when viewed from the management perspective, performance probably will appear poor. In such a situation there will be a more coherent “informal” counter-culture than “formal” dominant culture. A thin culture often occurs in a research laboratory, where members tend to be rather individualistic. Creative organizations tend to have thin cultures. Also, in Japan, in cases where part-timers are many, and where there are many women and new recruits, it is also the case that the organization tends to have a thin culture. When a culture is thin, rules and sanction systems effect the integration of group activity through the management processes of planning, organizing, staffing, motivating, and controlling. (For further commentary, see the discussion at the end of Chapter Three.)

### 3 Functions of corporate culture

A corporate culture emerges for several reasons.

#### 3.1 From the members' viewpoint

- a) Simplification and adaptation of decisions: Corporate culture is manifest in a program of decision, or a habit of decision. Such patterns make organization decisions, individual decisions and behavior simpler. It becomes unnecessary to make judgments for every event. Unlike routines produced according to formal rule, there is more scope to innovate and establish experimentation around the norms. The interaction of members in a group makes it possible to exchange information on successful practices. Under these conditions groups formulate similar patterns of perception, similar interpretations of some subjects, and similar evaluation of alternatives. There is an adaptation function whereby groups arrive at successful results to satisfy their needs.
- b) Affiliation: By following the norms of the group, people gain acceptance from the group. A desirable decision-making pattern, from a group's view point, we term a group norm. If one does not follow the group norm, one becomes a "lone wolf" or a "stray sheep." Acceptance by a group signifies affiliation or cohesiveness.
- c) Motivation: By sharing the values of the organization, the members can understand the meaning of their jobs and they can satisfy their achievement needs. At Matsushita Electric the statement "We will provide the consumer with electric home appliances that are as inexpensive and abundant as water" was a corporate philosophy. This philosophy sought to make it possible for the routine production workers assembling refrigerators, who at Matsushita were women, to create meaning in daily jobs. From the corporate viewpoint, what is more important is that it motivated them to present new ideas. This sort of motivation works where the espoused culture becomes internalized and where the corporate philosophy fits with the values of members.

#### 3.2 From the corporate viewpoint

First, from the corporate or top down viewpoint, corporate culture aids adaptation to an outside environment. The corporate creed and the actual implementation of codes of behavior are useful in directing strategic decisions to adapt to the demands of customers. "Consumer-driven marketing" and

“quality first” are examples. If members accept these slogans and internalize them, they become the pattern for decision-making. Second, corporate culture may also integrate the decisions of individuals and groups into the goals of the organization. With a vitalized corporate culture, the members of the organization look to the outside world, look for new opportunities, and present new ideas. They do not resort to tradition as a bastion against innovation. Members initiate these activities without coercion, thereby improving goal attainment and satisfaction. Sharing values and having similar perceptions and assumptions will tend to result in harmonious activities (Schein, 1985; Weick, 1979). Some scholars maintain that there are three means for integrating the activities of members: rules (the bureaucracy), market mechanism (rewards allocated according to the profit of product divisions and subsidiaries), and organizational culture (Ray, 1986; Schein, 1985).

The management process comprises planning, organizing, staffing, motivating, and controlling, including the reward system. If the corporate culture is thick, and the members have an internalized corporate philosophy and a common decision-making pattern, it can replace this formal management system. The situation then is self-organizing. The members will conduct various activities on their own initiative. On the other hand, when the culture is thin, the management process has to dominate.

The third aspect of corporate culture is activation. One activates members, as we have suggested, by enabling them to understand the meaning of their jobs and the meaning of innovation. The new business creed of the Kirin brewery, after the firm suffered a drop in market-share from 60 percent to 50 percent, was “We create a new value of life for the customer. We wish to be creative and to accept new challenges”. Based on this new philosophy, the company established new strategies and new personnel management systems that provided rewards to those who met new challenges, not those who routinely repeated past practices. A new philosophy often seeks to transmit, and to encourage, a sense of an activated atmosphere.

In other circumstances the corporate culture protect members from the authority of the organization. When a counterculture performs such a function, where there are values such as “do not work hard” or “do not work overtime,” it is difficult to activate the employees. Thus activation depends on the nature of the corporate culture.

Having now analyzed the function of corporate culture from the viewpoint of members and from the view of the corporation we conclude that corporate culture has three aspects. It:

- Simplifies and adapts;
- Integrates;
- Motivates and activates members.



## 4 Importance of corporate culture

A corporate culture exists in any organization, inasmuch as there exist patterns of behavior by members. For instance, societies based on hunting have a different culture from those in which people tend to be cultivators. In the management area, the research reported from the Hawthorne Electric plant was a pioneering case of “applied anthropological” research into small group behavior (Roethlisberger and Dickson, 1939). Recently, corporate culture has become a focus for a large number of corporations and many management researchers; there has been an explosion of papers and research on corporate culture (see Frost and Martin, 1996). We can summarize the increased importance of corporate culture in the following situations.

### 4.1 Where the strategy changes, but the corporate culture tends to stay the same

As the environment changes, the company needs to develop new products and to change the product mix. The marketing system and production system need to change. In order to introduce these changes, the members need to have a willingness to change. The “willingness to change” is the most important feature of a vitalized culture. However, there is an inertial tendency for corporate culture to stay the same, and, in the long run, deteriorate.

One of the reasons that a culture might not fit with a new strategy is that the major products tend to dominate the culture. For example, a pharmaceutical company may find it difficult to move into selling cosmetics because of differences between the “pharmaceutical” and “cosmetics” way of thinking, despite the common core of applied chemistry. These differences in styles of thought and action have a marketing impact. For pharmaceutical products, the most important value is to cure diseases safely. Information develops through research and development and is technology-oriented. The creation of ideas is by scientific research. Evaluation is by technical testing, putting emphasis on safety. For cosmetic products, beauty is usually the most important value, and it is a function of emotional appeal rather than laboratory research. Marketing research generates information. Ideas focus on presenting new life-styles. Evaluation is by marketing research in which experiment is important. Sales of new products are hard to estimate and are known only after the products are sold in the market. In the case of the cosmetic’s industry, unlike the case in the pharmaceuticals sector, there is no specific disease or illness to target for treatment, no particular malady with a well known demographic incidence.

## 4.2 Where the culture becomes more stagnant

The previous discussion concerned the direction of corporate culture. Another aspect is the vitalization or stagnation of culture. Corporate culture has a tendency to become stagnant, that is, stay the same, or it may even deteriorate. Vitalized types of culture may tend to shift to bureaucratic ones and then to stagnant ones. The founders of successful companies formulate an invigorated culture and the companies display youthful behavior patterns. These patterns form through experiences. Often, in Japanese corporations, the founder and the members learn through experience what sort of behavior is effective for adapting to the environment and enhancing the productivity in the organization. The strong leadership of the founder frequently establishes these behavior patterns. At Hitachi, the founder N. Odaira formulated a business creed:

- Devotion to society, quality products for the society;
- Frontier spirit, self-help, and aggressiveness;
- Harmony and friendliness.

This Odaira Spirit is still alive at Hitachi. It has guided the corporate strategic decisions and the behavior patterns of the members, leading observers to refer to the “Hitachi country-knight” type of behavior.

Early styles of culture may shift to other types in some cases, as a company grows and ages. Typically, they become more bureaucratic and stagnant. The reasons for this shift are several. First, as the average age of the employees rises, and as employees repeat the same pattern of behavior, they come to lack fresh ideas, and their willingness to change deteriorates. For example, workers in the old ship-building companies and the old railway companies came to have an average age of over 40 years, because of low organizational growth in employment in the past. These demographic reasons are a frequent cause of these companies' stagnant culture. Our survey of 38 companies shows that the average age of employees in vitalized companies is between 38 and 46 years while the average age in stagnant companies is between 51 and 53 years. The age of directors of the board also matters. In Japan, the jobs of directors correspond to those of vice presidents in American corporations. A survey of 47 companies showed that the ages of CEOs and directors of vitalized companies are slightly younger than those in stagnant companies (see Chapter Ten). Another reason for this shift from a vitalized to a stagnant culture is that some companies establish a rigid organizational structure and increase the number of rules over time. These developments strengthen authority, subdivide jobs into smaller pieces, and enlarge the power distance between the hierarchical levels, thus harming

and limiting freer ways of thinking, making people less responsible for their duties. In Japan the term used in everyday speech is big business disease.

Shiseido, one of the largest producers of cosmetics, came to suffer from a bureaucratic culture. One of its vice-presidents, Ihino, says "Shiseido has come to be hampered by too much emphasis on procedures, neglecting results. The company is more bureaucratic and formalistic than government offices." Most of the members felt that the organization became rigid and that sectionalism was prevailing. As a result, Shiseido forced chain stores to receive unordered goods to increase the sales of the company. The inventory at the stores increased to a level that would take four months to sell. The new president of the company, Fukuhara, launched a movement "New Shiseido," and formed a team to prescribe a new corporate creed which became "Aim at pleasing customers. Seek results without sticking to formalities. Talk with each other and express real intentions." Shiseido distributed small cards describing this creed to every member to carry. As a result, the company decided to take back the overstock at the chain stores, a decision that cost the company ¥30 billion.

#### 4.3 Where the necessity of initiatives by individual members increases

When the needs of customers become more diversified and sophisticated, it is necessary for each member to be sensitive to changes in customer needs. Ideas from salespersons are important sources of new product development (Kono, 1987b). In research and development laboratories, the initiative of researchers is essential for the creative development of new products and for outstanding research activities. A formal strategic planning process is not enough; even when there are formal plans, there is need for grass root activities. The top-down approach requires supplementing with a bottom-up approach. The corporate culture needs activation. "Only a small number of innovators and a majority of people resisting change" will not result in excellent strategic decisions. The capacity to adapt to changes in the environment is essential for the high performance of a company.

On the other hand, members can come to request more meaningful jobs. They express dissatisfaction with being part of a mechanical system and want to be self-actualizing people. They want more than a simple exchange of salary for work under strict rules. In such cases a corporate culture can replace the rules. The more vitalized the corporate culture is the less need there is for formal rules.

#### 4.4 Where the corporate culture relates to the performance of the company

A number of factors affect the financial performance of a company. These include the product mix (whether the company has a growth product), its competitive position (whether its share of market is high), and other factors such as product differentiation. A vitalized culture supports these strategies. Excellent strategies also vitalize culture by providing challenging jobs, for there are mutual relations between jobs that engage employee interest and commitment to the organization. The reasons why the performances of nationalized companies or public organizations are poor in many respects, are mostly due to the poor corporate culture. Because of strong control by the government, the monopolistic situation, and inflexible personnel management systems, the members tend to be internally oriented, discouraged from presenting new ideas, and unwilling to take risks.

According to our survey, companies with vitalized cultures have higher financial performance than companies without such cultures (see Type I and Type II as discussed in Chapter Two). We measured financial performance by ten-year growth rates, rates of return before tax and interest on total assets, and equity ratios. The vitalized-culture companies have a number of features. The members take risks and have a clearly stated business creed that is well understood; the members collect a great deal of external information, and communication within the company is active; frequently, they present opposing ideas to those of superordinates and colleagues; members are not afraid of taking risks; and there is trust between hierarchical levels. (on the 1993 survey, see the end of Chapter Two). This analysis did not show whether the vitalized culture is the cause of the financial performance or the result of it. Which was cause and which was effect was not clear. We can say that there was a high correlation between the extent of vitalization of corporate culture and financial performance. (On the relations between culture and performance, see Peters and Waterman [1982]; Siehl and Martin [1990]; Kopelman et al. [1990]. Most of the other studies on corporate culture implicitly assume that the culture relates to corporate performance.)

## 5 Summary

### 5.1 Corporate culture: Shared values, decision-making patterns, and overt behavior patterns

Corporate culture is an aggregate of the attitudes of members, but it continues to exist if the members change, and there are many forces to assimilate the attitudes of members. Corporate culture is also a pattern of behavior that is enduring and specific to one company. Some companies have a vitalized culture in which the members are willing to present new ideas and take risks. In other companies the members do not look at the external environment. Instead, they try to follow only old patterns and play safe, with a resulting tendency to poor performance and poor satisfaction.

### 5.2 Relations between the kind of corporate culture and the unit of analysis

Upper level culture is usually more important than lower level culture, except where a subculture has become a dominant counterculture. Subcultures vary depending on factors such as the product, the function, the gender, and the age group. Appropriate differences between subcultures and the umbrella culture will result in more satisfaction of the members and vitalization of the total culture.

### 5.3 The three functions of corporate culture

First, corporate culture aids simplification and adaptation. It determines the best method of decisions. Second, it can foster affiliation and integration. It can replace more explicit and imperatively framed management processes. Third, it encourages member motivation and activation. Shared values explain the meaning of working.

### 5.4 The importance of corporate culture in the initiation and implementation of successful strategy

As the environment changes, the product market has to change, and a vitalized corporate culture is essential for creating and executing a successful strategy for reacting to such changes. The corporate culture tends to deteriorate

rate as the organization ages. Thus the vitalization of culture is important for good performance.

Excellent ideas for new product development require initiative by members, as does improvement in productivity, especially when the needs of the customers become more diversified and sophisticated. Formal systems are not enough. Corporate culture relates to the performance of the company and the satisfaction of members.

### 5.5 Four previously dominant approaches to research on corporate culture

There have been four main approaches to the study of organizational culture:

- Anthropological approach
- Cognitive approach
- Leadership approach
- Decision-making approach.

This book follows the fourth approach, which focuses on the willingness to change. Researchers using it analyze shared values, decision-making patterns, and behavior patterns. It is particularly useful for describing the relationships between corporate culture and product-market strategy.

## 2 Dimensions and types of corporate culture

### 1 Dimensions

#### 1.1 Principles concerning the selection of dimensions

Research derives from many interests. An anthropological interest concerns phenomena such as rites, patterns of marriage, the meaning of colors and language, and the ways in which specific cultural groups interpret natural events. From the ways in which peoples, communities, and societies interpret their world through such categories, anthropologists seek to interpret human behavior. Psychologists who study personality show interest in the “abnormal” behavior of the patient, because they wish to “normalize” the patient. Research managers who study the creativity of researchers interest themselves in creative behavior. Signs such as preference for complexity, conceptual flexibility, independence, and attitudes towards authority will be the dimensions affecting the creativity of scientific researchers in laboratories that interest them.

The dimensions attributed to the concepts of any particular topic depend upon the interests implicit in the analysis. Our interest is in the performance of organizations and the satisfaction of their members, thus we consider shared values, decision-making patterns, and overt behavior patterns to be the key components of corporate culture. It was this grounded trilogy of concepts that our respondents signaled to us as the core of corporate culture as they understood it.

We display details of the building-blocks of corporate culture in Tables 2.1 and 2.2. We selected these dimensions from the key processes of decision-making and overt behavior patterns. Following Hofstede (1980), we define corporate culture as a program of decision and action patterns. This divides into several processes. (We explained the relationships between these elements in the previous chapter in Figure 1.2.)