Corporate Cultures

The Rites and Rituals of Corporate Life

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errence E. Deal and Allen A. Kennedy

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Terrence E. Deal and Allan A. Kennedy

MINE:

(1) TEAMWORK – EVERYONE PITCHES IN + GETS INVOLVED – RESPECT VS VANITY EGO

(2) INFORMAL – WE ARE FAMILY – FRIENDS

(3) THINK BIG – EVERYTHING MUST RELATE TO SPIRITUAL VALUES – WE ARE A SMALL PART OF A BIG PICTURE.

(4) MAKE USE OF [illegible]ility – USE THOSE

MEN AS COINS

(5) FRIENDLY

ADDISON-WESLEY PUBLISHING COMPANY, INC.
Reading, Massachusetts • Menlo Park, California • New York
Don Mills, Ontario • Wokingham, England • Amsterdam • Bonn
Sydney • Singapore • Tokyo • Madrid • San Juan

To Tom Peters, Willie Nelson, and others like them.

Library of Congress Cataloging in Publication Data

Deal, Terrence E.
Corporate cultures.

Bibliography: p.
Includes index.
1. Organization. 2. Culture. 3. Corporations.
I. Kennedy, Allan A. II. Title.
HD38.D397 1982 658.4 82-71753
ISBN 0-201-10277-3 AACR2
ISBN 0-201-10287-0 (pbk.)

Cover design by Marshall Henrichs

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MNOPQR-DO-898

Thirteenth Printing, October 1988

Acknowledgements

Two greenhorn writers weaned on memos, academic treatises, and consulting reports need all the editorial assistance they can get. Eliza Collins of the *Harvard Business Review* introduced us to Addison-Wesley and provided material, suggestions, and spirit as the book moved along. Roland Mann of McKinsey got us set on the right track and was there when we needed him. We got help from Doug Dickson of the *Harvard Business Review* and a lot from our editor Harriet Rubin of Addison-Wesley's New York Office and from Ann Dilworth, publisher.

Tom Peters is the intellectual and spiritual godfather of this book. Tom rejoined McKinsey several years ago after having spent time in a variety of places—Palo Alto, Washington, Southeast Asia, and Candlestick Park—learning about the whys and wherefores of organizational behavior. His official stated charter when he rejoined the firm was to improve McKinsey's technology for addressing the organizational problems of its clients.

In pursuing this charter for several years, Tom wrote notes, memos, articles; traveled thousands of miles, usually under extreme time pressures; gave literally hundreds of speeches, offered thousands of ideas to any who cared, and formed some very close friendships—one of them with Allan Kennedy. We will not catalogue the specifics of Tom's influence on the book; suffice to say his influence is pervasive throughout. Without Tom's relentless pushing, encouraging, cajoling, and just plain emotional support, the ideas contained in this book would not have evolved nearly as far as we hope they have.

Along with Tom, many others at McKinsey contributed to this book. Julien Phillips, who did the original work on the ideas in the values chapter, had even more influence on the rest of the book because of his comprehension of the full scope of issues related to culture and his unfailing willingness to contribute fresh perspectives whenever asked. Next, Bob Waterman, who kept us all going through a near magical capacity for the right kind of nudge—intellectual, emotional, or managerial—at precisely the right time. For all the interference Bob has run as well as the continual input of ideas, we are grateful. Finally, and by no means definitively, there is the long list of McKinsey colleagues who have made input at one stage or another: Dave Anderson, Jim Balloun, Ron Bancroft, Steve Brandon, Dick Cavanagh, Fons Driessen, Alan Gayer, Fred Gluck, Don Gogel, Nancy Kaible, Jon Katzenbach, Peter Kraljic, Paul Krauss, Linda Levinson, Bill Meehan, David Meen, George Norsig, Bob O'Block, Hugh Parker, Bob Paulson, Bill Seelbach, and Lee Walton.

Jeannette Robinson, a recent graduate of Harvard College, was a painstaking researcher whose ability to ferret out fresh facts from old dusty volumes and keen anthropological insight were much appreciated.

Sara Roy, a graduate student at Harvard's Graduate School of Education, stalked biographies and research studies in the dusty corridors of Baker and Widener libraries. Her early efforts to bring historical accounts to our attention provided a link between our contemporary experience and the rich legacy of corporate heroes and values—old fashioned but still sound. Her wise counsel was always welcomed.

Bill Epifanio of McKinsey and Harvard College chased the most obscure facts, found many interesting stories and examples, and contributed throughout the whole experience.

Stone Wiske and Cynthia Ingols, graduate students at Harvard, made many suggestions on earlier drafts which we found very helpful.

Gloria Bronsema, Sue Lowe, and Mary Amsler provided case information which is salted throughout the manuscript.

Sharon McDade, first-year doctoral student at the Harvard Graduate School of Education and a former drama teacher, provided consultation in the area of theater and dramatics.

Chris Argyris, Jerome T. Murphy, Lee Bolman, and other colleagues at Harvard's Graduate School of Education provided insights and criticism that we always welcomed and occasionally

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followed. Conversations with Sara Lawrence Lightfoot, John Shlien, Dick Katz, David Cohen—all at the Harvard Graduate School of Education—stimulated ideas that undergird the book. Earlier talks with Liz Cohen, Vic Baldridge, Jim March, John Meyer, Sandy Dornbusch, Dick Scott, and Ed Bridges at Stanford started the early gravitation toward these ideas. Brooke Derr, University of Utah, was also helpful. The rich conversations and discussions in the academy stimulate many thoughts and ideas. We can see the imprints of a thousand interchanges between the covers of this book. We hope people will publicly claim what they like and silently disown what they don't. The parade of other thoughtful scholars whose ideas have influenced our own can be witnessed by skimming the bibliography.

Claudine Wilder, formerly of Prime Computer, now one of Mary Kay's field representatives, made numerous suggestions about ideas and provided first-hand material from her corporate experience.

Lee Regal, Polaroid's former director of corporate education, provided us with first-hand observations about Land and Polaroid.

Jerry Mechling—with able assistance from Gerry Brehm—did all of the original research and thinking on cultures of the future. Little did Jerry or we realize that what started out as research on the impact of technology on organizations would end up as a chapter in a book on corporate cultures.

Students who enrolled in Symbolism in Organizations for the past three years provided stimulation, ideas, and examples that have been incorporated throughout the book.

Betty Barnes, Linda Pollet, and Beverly Parker provided important secretarial and administrative support throughout.

Sandra Deal and Alison Kennedy—women with important careers of their own—put up with the agony and ecstasy that writing a book always produces in the authors. Their stinging and insightful criticism was always welcome and without their support we would never have made it to the end. We'll be repaying the debt for many years.

Finally, we are grateful to a legion of past clients, current friends, and the ghosts of corporate heroes who have taught us all we know about the real world of corporate cultures. We will not name them here; they know who they are.

Needless to say, all the fuzzy thinking, faulty logic, poor grammar, and just plain mistakes are our fault.

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Part I

CULTURES

1

Strong Cultures: The New "Old Rule" for Business Success

S. C. Allyn, a retired chairman of the board, likes to tell a story about his company—the National Cash Register Corporation. It was August 1945, and Allyn was among the first allied civilians to enter Germany at the end of the war. He had gone to find out what had happened to an NCR factory built just before the war but promptly confiscated by the German military command and put to work on the war effort. He arrived via military plane and traveled through burned-out buildings, rubble, and utter desolation until he reached what was left of the factory. Picking his way through bricks, cement, and old timbers, Allyn came upon two NCR employees whom he hadn't seen for six years. Their clothes were torn and their faces grimy and blackened by smoke, but they were busy clearing out the rubble. As he came closer, one of the men looked up and said, "We knew you'd come!" Allyn joined them in their work and together the three men began cleaning out the debris and rebuilding the factory from the devastation of war. The company had even survived the ravages of a world war.

A few days later, as the clearing continued, Allyn and his coworkers were startled as an American tank rumbled up to the site. A grinning GI was at its helm. "Hi," he said, "I'm NCR, Omaha. Did you guys make your quota this month?" Allyn and the GI embraced each other. The war may have devastated everything around them, but NCR's hard driving, sales-oriented culture was still intact.

This story may sound unbelievable, but there are hundreds like it at NCR and every other company. Together they make up the myths and legends of American business. What do they mean? To us these stories mean that businesses are human institutions, not plush buildings, bottom lines, strategic analysis, or five-year plans. NCR was never just a factory to the three men who dug it out of the rubble. Nor was it to others like them. Rather it was a living organization. The company's real existence lay in the hearts and minds of its employees. NCR was, and still is, a corporate culture, a cohesion of values, myths, heroes, and symbols that has come to mean a great deal to the people who work there.

Culture, as *Webster's New Collegiate Dictionary* defines it, is "the integrated pattern of human behavior that includes thought, speech, action, and artifacts and depends on man's capacity for learning and transmitting knowledge to succeeding generations." Marvin Bower, for years managing director of McKinsey & Company and author of *The Will to Manage,* offered a more informal definition—he described the informal cultural elements of a business as "the way we do things around here."

Every business—in fact every organization—has a culture. Sometimes it is fragmented and difficult to read from the outside—some people are loyal to their bosses, others are loyal to the union, still others care only about their colleagues who work in the sales territories of the Northeast. If you ask employees why they work, they will answer "because we need the money." On the other hand, sometimes the culture of an organization is very strong and cohesive; everyone knows the goals of the corporation, and they are working for them. Whether weak or strong, culture has a powerful influence throughout an organization; it affects practically everything—from who gets promoted and what decisions are made, to how employees dress and what sports they play. Because of this impact, we think that culture also has a major effect on the success of the business.

Today, everyone seems to complain about the decline in American productivity. The examples of industries in trouble are numerous and depressing. Books proclaim that Japanese management practices are the solution to America's industrial malaise.

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But we disagree. We don't think the answer is to mimic the Japanese. Nor do we think the solution lies with the tools of "scientific" management: MBAs' analyses, portfolio theories, cost curves, or econometric models. Instead we think the answer is as American as apple pie. American business needs to return to the original concepts and ideas that made institutions like NCR, General Electric, International Business Machines (IBM), Procter & Gamble, 3M, and others great. We need to remember that people make businesses work. And we need to relearn old lessons about how culture ties people together and gives meaning and purpose to their day-to-day lives.

The early leaders of American business such as Thomas Watson of IBM, Harley Procter of Procter & Gamble, and General Johnson of Johnson & Johnson believed that strong culture brought success. They believed that the lives and productivity of their employees were shaped by where they worked. These builders saw their role as creating an environment—in effect, a culture—in their companies in which employees could be secure and thereby do the work necessary to make the business a success. They had no magic formulas. In fact, they discovered how to shape their company's culture by trial and error. But all along the way, they paid almost fanatical attention to the culture of their companies. The lessons of these early leaders have been passed down in their own companies from generation to generation of managers; the cultures they were so careful to build and nourish have sustained their organizations through both fat and lean times. Today these corporations still have strong cultures and still are leaders in the marketplace.

We think that anyone in business can learn a lot from these examples. A major reason the Japanese have been so successful, we think, is their continuing ability to maintain a very strong and cohesive culture throughout the entire country. Not only do individual businesses have strong cultures, but the links among business, the banking industry, and the government are also cultural and also very powerful. Japan, Inc., is actually an expansion of the corporate culture idea on a national scale. Although this homogenization of values would not fit American culture on a national scale, we do think that it has been very effective for individual companies. In fact, a strong culture has almost always been the driving force behind continuing success in American business.

We came to this conclusion through our work and study—Kennedy at McKinsey & Company and Deal at Harvard's Graduate School of Education. The idea had several origins. One was at a meeting at Stanford. A group of sociologists was puzzling over the absence of relationships among variables that organizational theory said should be related. If the structure of an organization doesn't control work activities, what does it do? These questions led to new theories and views: structure and strategy may be more symbolic than substantive. The other was a McKinsey meeting. We were talking about the problems of organizations, and someone asked, "What makes for consistently outstanding company performance?" Another person offered the hypothesis that the companies that did best over the long haul were those that believed in something. The example was, "IBM means service." Others chimed in, and soon the table was full of examples:

- GE: "Progress is our most important product."
- DuPont: "Better things for better living through chemistry."
- Chubb Insurance: "Excellence in underwriting."

While the focus at that point was on slogan-like evidence of a paramount belief—which we later called a "superordinate goal"—we were struck by the fact that each of the companies named had an impressive track record in the marketplace.

Intrigued by this initial evidence of support for our somewhat unconventional hypothesis, we conducted an informal survey over the next several months by interviewing McKinsey consultants about companies or organizations* they knew on a firsthand basis. The questions we asked were:

- Does Company X have one or more visible beliefs?
- If so, what are they?
- Do people in the organization know these beliefs? If so, who? And how many?

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*Our survey covered both profit-making companies and a few non-profit organizations we found particularly intriguing. For simplicity we refer in the text to all of these as "companies."

- How do these beliefs affect day-to-day business?
- How are the beliefs communicated to the organization?
- Are the beliefs reinforced—by formal personnel processes, recognition, rewards?
- How would you characterize the performance of the company?

In total, over a period of about six months, we developed profiles of nearly eighty companies. Here's what we found out:

- Of all the companies surveyed, only about one third (twenty-five to be precise) had clearly articulated beliefs.
- Of this third, a surprising two-thirds had qualitative beliefs, or values, such as "IBM means service." The other third had financially oriented goals that were widely understood.
- Of the eighteen companies with qualitative beliefs, all were uniformly outstanding performers; we could find no correlations of any relevance among the other companies—some did okay, some poorly, most had their ups and downs. We characterized the consistently high performers as strong culture companies.*

These strong culture companies, we thought, were on to something. And so were we. Although this was far from a scientific survey, we did have evidence that the impact of values and beliefs on company performance was indeed real. We decided to follow up this "finding" by trying to figure out how these values got there and how they were transmitted throughout the corporation. We wanted to see what had made America's great companies not merely organizations, but successful, human institutions.

---

*These were: Caterpillar Tractor, General Electric, DuPont, Chubb Insurance, Price Waterhouse & Co., 3M, Jefferson-Smurfit, The Training Services Administration Agency of the British government, Digital Equipment Corporation, International Business Machines, Dana Corporation, Procter & Gamble, Hewlett-Packard, Leo Burnett Advertising Agency, Johnson & Johnson, Tandem Computer, Continental Bank, and the Rouse Corporation.

Here we stumbled onto a goldmine of evidence. Biographies, speeches, and documents from such giants of business as Thomas Watson of IBM, John Patterson (the founder of NCR), Will Durant of General Motors, William Kellogg of Kellogg's, and a host of others show a remarkable intuitive understanding of the importance of a strong culture in the affairs of their companies.

We read about Edwin Land, who built Polaroid into a successful $1 billion company (before losing control and having the company fall on hard times) and who developed a whole theory for Polaroid's culture; he called it "Semi-Topia" after the theories of Utopia. We also learned about Alfred Sloan, the manager who built General Motors into a monolith, who spent three full days every quarter reviewing person-by-person the career progression of his top 1,000 managers. And about Charles Steinmetz, the crippled Austrian dwarf who brought alternating current into electrical systems of the world while at GE, but who also adopted his lab assistant and the man's entire family. These, and many more stories, led us to one unmistakable conclusion: the people who built the companies for which America is famous all worked obsessively to create strong cultures within their organizations.

In our own research and consulting, we also found that many of the exciting, new, high-tech businesses springing up around Route 128 in Boston and Silicon Valley in California seem obsessed with culture. Consider the case of Tandem.

The Business of Culture

The Tandem Corporation, one of Silicon Valley's most highly publicized companies, is a company whose president deliberately manages the "informal," human side of the business. Founded by four former Hewlett-Packard employees, Tandem has built a highly successful company by solving a simple problem: the tendency of computers to break down. By yoking two computers together in one mainframe, Tandem offers customers the assurance that they will always have computer power available. If one of the processors breaks down, the other will carry on.

"Tandem is saying something about the product and people working together. Everything here works together. People with people; product with product; even processor with processor, within the product. Everything works together to keep us where we are." The quotation is not from Jim Treybig, Tandem's chief executive officer. It came from one of Tandem's managers, and the same sentiment is echoed through the ranks of the employees:

"I feel like putting a lot of time in. There is a real kind of loyalty here. We are all working in this together—working a process together. I'm not a workaholic—it's just the place. I love the place."

"I don't want anything in the world that would hurt Tandem. I feel totally divorced from my old company, but not Tandem."

These employees seem to be describing an ideal corporation, one most managers would give their eyeteeth to create. And by most standards, Tandem is enormously successful. It is growing at the rate of 25 percent per quarter, with annual revenues over $100 million. The turnover rate is nearly three times below the national average for the computer industry. Tandem's loyal employees like their jobs and the company's product. They are led by a talented group of experienced managers, a group which so far has been able to handle the phenomenal growth of the company.

Only time will tell whether Tandem can maintain its pattern of high performance. While it is easy to attribute the success of the company to fast growth and lack of competition, other things at work internally at Tandem suggest an interesting rival explanation—that the strong culture of Tandem produces its success. Here is how.

① **A Widely Shared Philosophy.** Tandem is founded on a well-ordered set of management beliefs and practices. The philosophy of the company emphasizes the importance of people: "that's Tandem's greatest resource—its people, creative action, and fun." This ethic is widely shared and exemplified by slogans that everyone knows and believes in:

> "It's so nice, it's so nice, we do it twice."
>
> "It takes two to Tandem."
>
> "Get the job done no matter what it takes."
>
> "Tandemize it—means make it work."

The slogans are broadcast by T-shirts, bulletin boards, and word of mouth.

Top management spends about half of its time in training and in communicating the management philosophy and the essence of the company. Work is underway on a book that will codify the philosophy for future generations of workers at Tandem. "The philosophy is our future," one senior manager notes:

> "It mostly tells the 'whats' and 'hows' for selecting people and growing managers. Even though everything else around here changes, I don't want what we believe in and what we want to change."

At Tandem the management philosophy is not an afterthought, it's a principle preoccupation.

The Importance of People. Tandem has no formal organizational chart and few formal rules. Its meetings and memos are almost non-existent. Jobs are flexible in terms of duties and hours. The absence of name tags and reserved parking spaces suggests a less well-defined hierarchy than is typical in the corporate world. Despite this, the organization works and people get their jobs done.

What keeps employees off each other's toes and working in the same direction? One possibility is the unwritten rules and shared understandings. As one person put it: "There are a lot of unwritten rules. But there is also a lot of freedom to make a jerk out of yourself. Most of the rules are philosophical rules." Another is dispersed authority:

> "The open door policy gives me access to anyone—even the president."
>
> "Everyone here, managers, vice-presidents, and even janitors, communicate on the same level. No one feels better than anyone else."

Tandem seems to maintain a balance between autonomy and control without relying heavily on centralized or formalized procedures, or rigid status hierarchies.

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