

Managing Corporate Culture at Henkel

Applying the Denison Organizational Culture Survey

Daniel Denison and Rolf Schlue



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To the Reader



Liz Mohn



Ulrich Lehner

Lived corporate culture and exemplary leadership as success factors were at the centre of the Carl-Bertelsmann-Prize 2003. The "International Network Corporate Culture", a group of at present eleven multinational Europe-based companies, was founded as a follow-up to the Carl-Bertelsmann-Prize 2003. Its objective is not only the exchange among the participating companies but also the development, publication and dissemination of good practices in corporate culture.

Against the background of globalisation, internationalisation and increased competition, the question of whether corporate culture and economic success of a business are related gains even higher importance than before. Even companies that belong to the most successful worldwide in their respective industries and leave no doubt that they consider their specific culture relevant for their success are moved by the question of how this corporate culture can be correlated with performance parameters.

The network's first working phase was dedicated to this context. Within the framework of the network activities, a broad study was commissioned to investigate existing international models that assess this link with a view to their practicability, relevance and set of criteria. The study *Assessment, Evaluation, Improvement: Success through Corporate Culture*, produced by

Professor Dr. Sonja A. Sackmann, Bundeswehr University Munich, and published by the Bertelsmann Stiftung in 2006, assembled best practice models.

One of the most important results of the study was the insight that a direct connection between corporate culture and success can be established with the surveyed models. However, corporate leaders need a clear understanding of their objectives in applying a specific assessment tool. A measurement is only the description of a specific state. It may show strengths and weaknesses and thus the need for improvement. From the entrepreneurial perspective, an analysis must aim at determining potential for improvement and help develop mechanisms to make sustained use of such potential.

One of the assessment methods identified as particularly apt for this purpose is the Denison Organizational Culture Survey. Henkel, a Fortune Global 500 company and one of Germany's top-performing companies, applied the system developed by Daniel Denison, Professor of Management & Organization at the IMD International Institute for Management Development.

Within the framework of the International Network Corporate Culture Professor Denison and Henkel agreed to develop a case study on the basis of their cooperation. We are particularly

pleased as this study is the first in a series of case studies on approaches successfully and satisfactorily developed and/or applied in companies.

We would like to thank both Professor Denison and the IMD most cordially for helping make this case study possible. Particular thanks should also go to our colleagues at Henkel, Rolf Schlue and his team.

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Preface

Corporate culture counts. Simple and self-evident as this sounds, it is difficult to prove. It is even more difficult to prove if objective evidence is demanded to show in "hard factors", such as return on investment.

Research over the past 20 years has, time and again, focused on the link between corporate culture and the bottom-line performance of a company. Yet research was based on different concepts of corporate culture; reduced corporate cultures to different dimensions and components; used different approaches to defining performance; and took place in companies differing in size and coming from different industries. This did not really facilitate comparability and gave enough leeway to doubt the overall validity of results.

This is probably why companies are still in search of useful instruments to assess their corporate culture and its relevance for corporate success. The catch, however, is in the word "useful." Each assessment must be preceded by a clear determination of its goals. The end ought to justify the means, i.e. what kind of culture assessment is chosen crucially depends on why a company wants to assess its culture in the first place. Does it aim at basically gaining clarity about the existing culture in general? Is comparing oneself with others in the same (or another) industry, of the same (or another) size etc. the objective? Is an integration with another company, e.g. in the course of creating a strategic alliance of M&A activities, to be accompanied by a clearer understanding of "the other culture" in order to avoid or, at least, better deal

with conflicts? Does the company wish to find out what is at the heart of performance deficits or, on the contrary, success factors?

In the latter cases, in particular, a culture assessment would ultimately lead to managerial intervention. This might be the consolidation of individual aspects or components of the existing corporate culture to make better use of the potential. Yet it might as well be the contrary, i.e. a change of individual aspects of the existing culture or even an overall rearrangement in order to unleash still hidden potential.

At any rate, a culture assessment geared at change and improvement requires an understanding of the culture first.

An instrument which aims at doing both is the Denison Organizational Culture Survey (DOCS), developed and applied by Professor Daniel Denison, currently Professor of Management & Organisation at the International Institute for Management Development (IMD) in Lausanne. The DOCS assesses organizational culture in terms of four culture traits and twelve management practices, identifies vulnerable areas and links culture as assessed to performance measures. It makes culture accessible to managers and frames it in terms of dimensions that are relevant for business performance. Every organization is seen to need capabilities in the areas of mission, consistency, adaptability, and involvement. These four key concepts are related to different performance measures, such as profitability, market share, sales growth, innovation, and employee satisfaction. Moreover, they are linked

to return on shareholders' equity, customer satisfaction, sales increase.

The DOCS offers a number of starting points for required changes. Change can be based on the assessment within a particular unit or firm and the resulting high and low scores, on the one hand, and/or on the comparison of the unit's or firm's score with that of an existing benchmark database, on the other.

In research, the DOCS has been applied both in the US and in other national contexts such as Russia, Europe, the Middle-East, Africa and Asia (Hongkong). Denison and his US-based consulting firm have also widely applied the instrument in companies such as Daimler Chrysler, Norsk Hydro, Clariant, Danfoss, Swiss Re, IKEA, Roche, Shell, UBS or Credit Suisse.

Henkel, a multinational Fortune Global 500 company with its headquarters in Germany, also applied the DOCS. The initial reason for doing so was dissatisfaction with the traditional employee satisfaction surveys which, Henkel felt, had become less efficient over time and were no longer up to the company's requirements. The DOCS seemed to be the most adequate tool given its focus on establishing a link between corporate culture and corporate performance.

In the 2003 Carl Bertelsmann Prize on lived corporate culture and exemplary leadership, Henkel ranked among the top 10 European companies. The company is also a member of the International Network Corporate Culture initiated by the Bertelsmann Stiftung. One of the key interests of

the International Network Corporate Culture is the link between corporate culture and economic success. An immediate output of the project was a survey over 25 internationally relevant models to assess this link as well as a smaller volume depicting six recommendable instruments in more detail. In order to show how companies make such models operational, the obvious thing to do was develop a case study on the application of the DOCS at Henkel's.

As the following case study shows, Henkel considers its decision to apply the DOCS a major success in itself. Expectations and objectives were fully met, not only did the work yield a clearer picture of the Henkel culture as it was perceived and lived in the company over the five years under investigation, but it also provided highly relevant insight into required changes and amendments. Major survey results showed, for example, the need to improve communication about existing strategies throughout the whole company and a great demand to foster cross-divisional cooperation. Such issues were immediately tackled with obvious success.

Main challenges upon applying the DOCS at Henkel's turned out to be the operationalisation of the tool (intervals of the survey, anonymity etc.) and communication about the survey and its results. In addition, Henkel at a later stage will check to what extent involvement of more, if not all, employees rather than focusing on management levels only will be possible.

Two conclusions from the final chapter are worth being quoted as they best show what lies

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at the heart of using the DOCS at Henkel's: the effort "has grown into a strategic tracking tool that closely monitors the human capability of the organisation." Moreover, "Henkel learned to use survey results and the survey process to continuously improve the capability of the organization." As the Henkel case impressively shows, assessing and understanding culture and culture awareness within the organisation is a key to monitoring and improving performance.

Gabriele Schöler

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Acknowledgements

This project would not have taken place without the concerted efforts of all the partners involved. We would like to gratefully acknowledge their contributions: Bertelsmann Stiftung, for their original vision for this case study; Henkel, for supporting this project and sharing the insights and lessons from their point of view; and IMD, for their steadfast support of this project.

Daniel Denison

Professor of Management & Organization
International Institute for Management Development

We would like at this juncture to express our thanks to Professor Daniel Denison for his exceptional assistance in the promotion of our corporate and performance culture at Henkel.

Rolf Schlue

Corporate Vice President Human Resources
Henkel KGaA



1. Overview: The Purpose of this Case Study

This case study presents a detailed account of Henkel's recent efforts at building their corporate culture and aligning their most valuable resource – their people – with the principles and objectives of the corporation. In particular, the case study describes Henkel's application of the Denison Organizational Culture Survey as a key focal point of their efforts to build the culture of their organization in a way that would increase their competitiveness as a business enterprise. Henkel has used employee surveys in the past, but this effort put a performance-based culture metric at the center of the company's on-going efforts to improve their culture, and created a foundation of accountability that had not existed in their previous efforts.

Working in close cooperation with IMD, this process continued through 2006, with a clear commitment to extend their approach in future years. The learning curve over the first few years is significant, and these insights are a key part of our case study. The application of these lessons to Henkel's future efforts is also an important part of our discussion. We are grateful for Henkel's vision and their courage in sharing their insights, so that they can continue to improve and that others can learn from their insights.

This case study begins with an overview of Henkel, both as a business and as a human organization with a rich tradition and highly distinctive culture. Next, since the approach that Henkel has chosen for building their own culture has been closely integrated with the organizational culture model developed by Denison

and his colleagues, we briefly describe that model and the research that supports it. Following this, we give some of the background on employee surveys at Henkel, including their rationale for choosing the Denison approach. These sections are followed by an overview of the survey implementation, the results from 2003 and 2004, and an overview of the action planning, follow-up, and implementation steps taken after each survey. At the end, we summarize some of the key lessons learned from the experience at Henkel, and give some hints on the continuance of the project in 2006.

2. About Henkel: The Business, the Organization, and its Culture

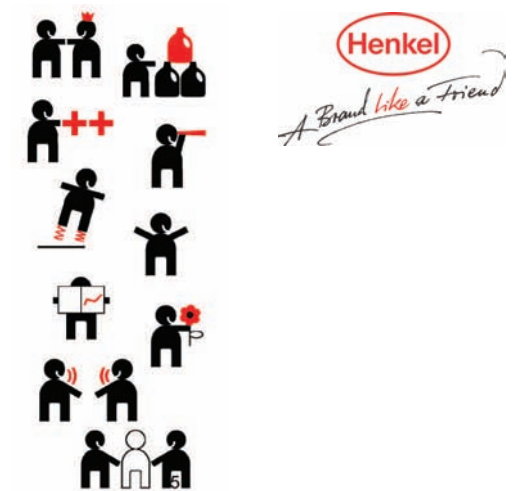
What makes a company successful? How does a company convince its employees to adopt a target-led approach in contributing to its corporate success? How can attitude, conduct and actions be molded into a coherent, performance-enhancing corporate culture that delivers success to shareholders, stakeholders and customers in equal measure?

For Henkel, the answers to these questions are particularly important because corporate culture plays a major role within this company. As in the past, it continues to be significantly influenced by the owner families and their descendants, who have constantly exhibited a high level of commitment to the corporation through an investment approach aligned to the long term.

The significance of the culture that has developed over the decades is clearly expressed in the firmly established corporate principle: "We preserve the tradition of an open family." This is one of ten values that Henkel has adopted as the framework for its corporate culture. The full set of maxims reads as follows:

Figure 1. Our values

- We are customer driven.
- We develop superior brands and technologies.
- We aspire to excellence in quality.
- We strive for innovation.
- We embrace change.
- We are successful because of our people.
- We are committed to shareholder value.
- We are dedicated to sustainability and corporate social responsibility.
- We communicate openly and actively.
- We preserve the tradition of an open family company.



Henkel is a leader with brands and technologies that make people's lives easier, better and more beautiful.

Founded in 1876, "Henkel – A Brand like a Friend" is today a leader with brands and technologies that make people's lives easier, better and more beautiful. Henkel, a Fortune Global 500 company, operates in three strategic business areas – Home Care, Personal Care, and Adhesives, Sealants, and Surface Treatment. In fiscal year 2005, Henkel generated sales of

€ 11,974 million and profits of € 1,162 million with more than 52,000 employees worldwide. People in over 125 countries around the world trust in brands and technologies from Henkel.

Within its three strategic areas, the Henkel Group holds leading market positions in all four business sectors, and continues to expand these on a global scale:

Laundry & Home Care. This business sector holds leading market positions worldwide, driving expansion from a strong European and North American base. 2005 sales in this sector were € 4,088 million.

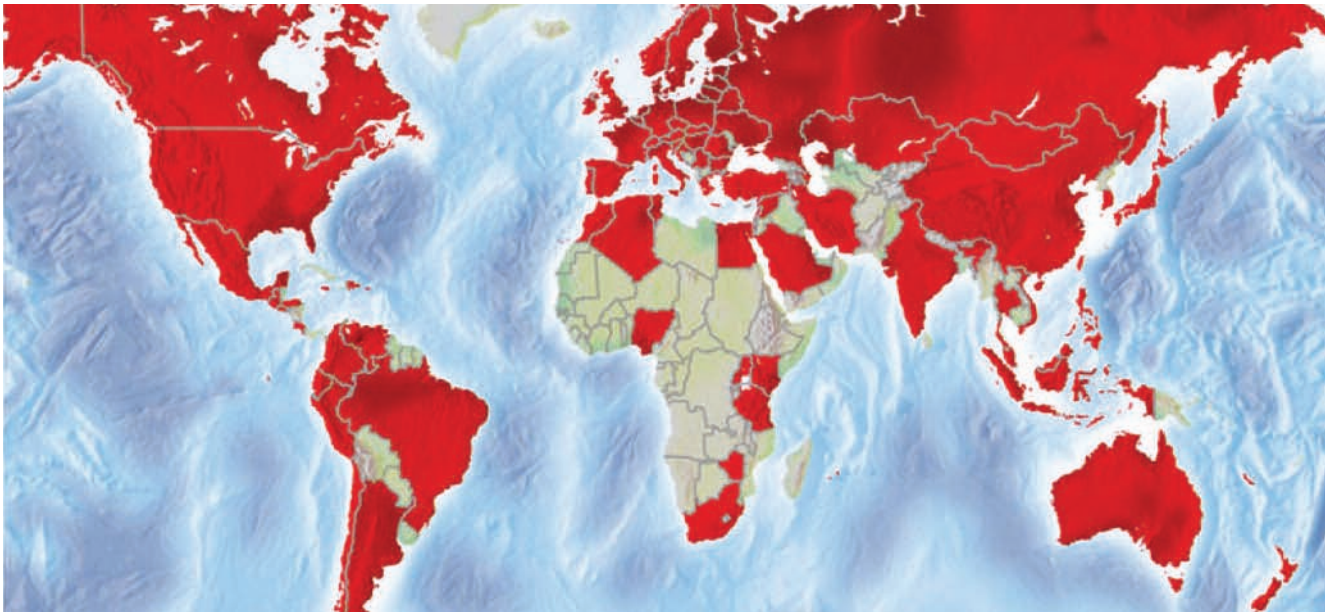
Cosmetics & Toiletries. This business sector also holds leading world market positions. The focus of its development effort is to further tap

existing growth potential with innovative products. 2005 sales in this sector were € 2,629 million.

Consumer & Craftsmen Adhesives. The products in this business sector are world leaders in their markets. 2005 sales were € 1,742 million.

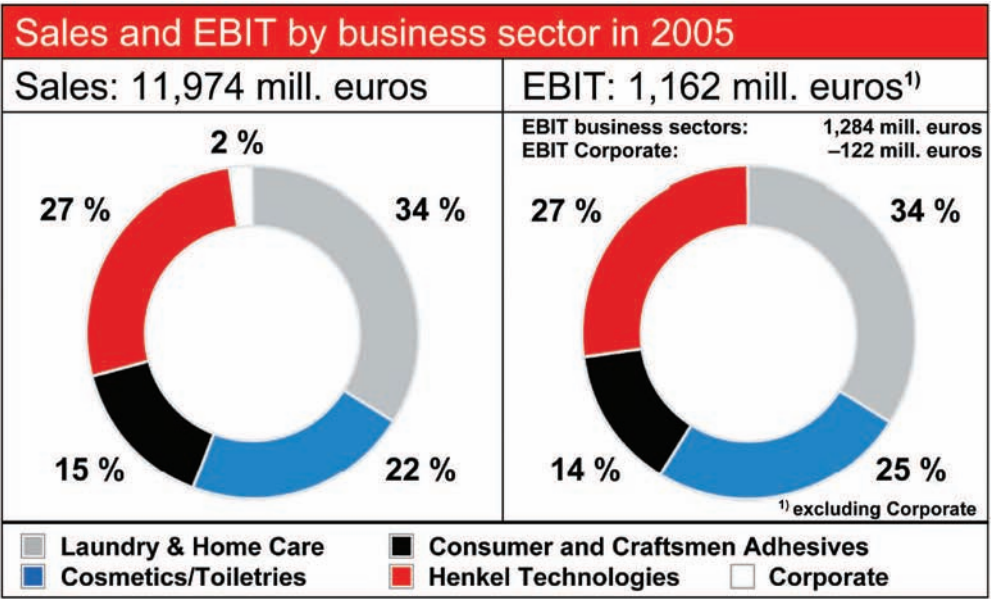
Henkel Technologies. This business sector also leads the world in its markets, offering products and services based on extensive know-how of its customers' processes. 2005 sales in this sector were € 3,266 million.

Figure 2. Henkel Worldwide



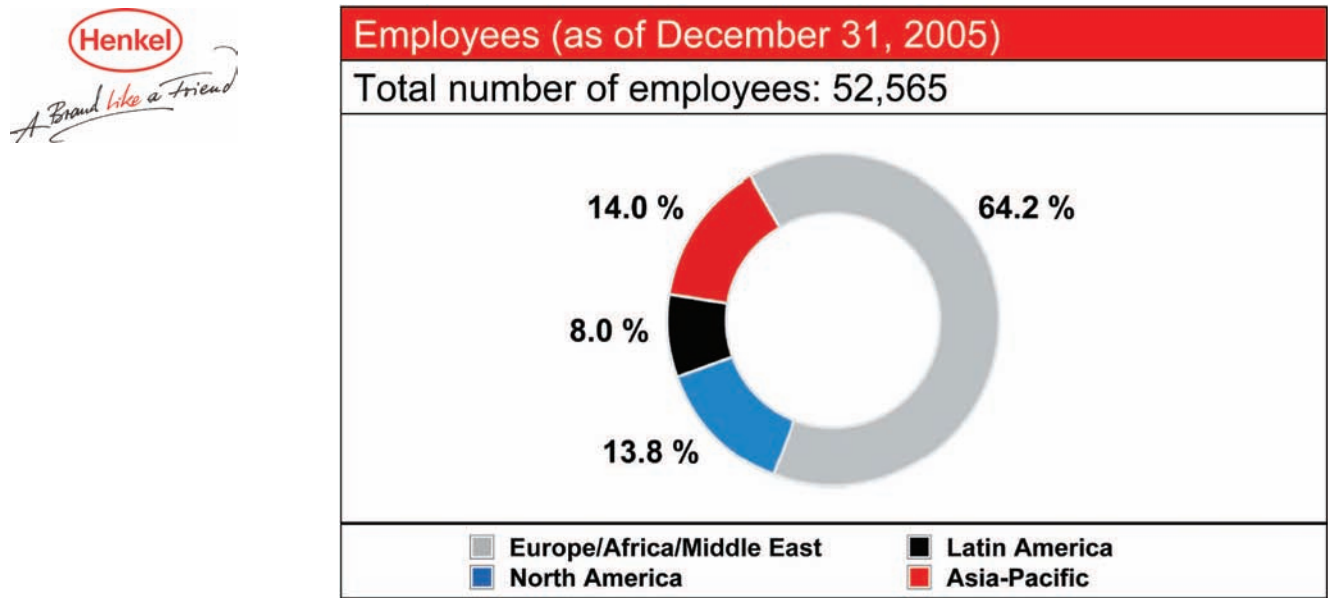
• Sales 11,974 mill. euros • 125 countries • 52,000 employees

Figure 3. Business Portfolio



Over the past decade, Henkel has expanded significantly across the globe. Of the 52,565 total workforce employed by Henkel as at the end of 2005, 64% (33,731) work in Europe/Africa/Middle East, 14% (7,271) in North America, 8% (4,208) in Latin America, and 14% (7,355) work in Asia-Pacific. Today Henkel is one of the most international German companies with more than 80% of its employees working outside Germany.

Figure 4. Employees 2005



The Henkel Culture

The innovative talents, flexibility, quality orientation and market focus of the organization and its employees are major factors driving Henkel's success. The company's human resources strategy has created the framework and set of conditions designed to promote the development of these essential performance drivers and ensure that this potential is converted into reality. This human resources strategy fits nicely with Henkel's traditionally appreciative attitude toward employees and one of its key corporate values: "We are successful because of our people." Henkel expresses its recognition of its 52,000 employees worldwide as the force driving corporate performance and the pillars of Henkel's corporate culture. This awareness can also be found in the commemorative volume written back in 1916 to mark Henkel's 40th anniversary. There, company founder Fritz Henkel writes: "A company in itself has no intrinsic strength from which to develop and grow. It is in the selection of its employees that its fate – its success or failure – ultimately lies." This corporate principle is the logical extension of these historic roots and the approach that has been consistently adopted by the company - at first through the actions of the Henkel family itself and later through the managing partners of the company. In 2006, then Executive Vice President Human Resources, IT, Infrastructure and Purchasing Kasper Rorsted formulated the following remit: "We have to get the best people for our company. If we are successful in this, we will also need to invest appropriate funds in order to retain them within our organization."

In meinen Mails konnte ich noch kein gesendetes Gruppenbild finden.

3. Organizational Culture and Performance: The Denison Model

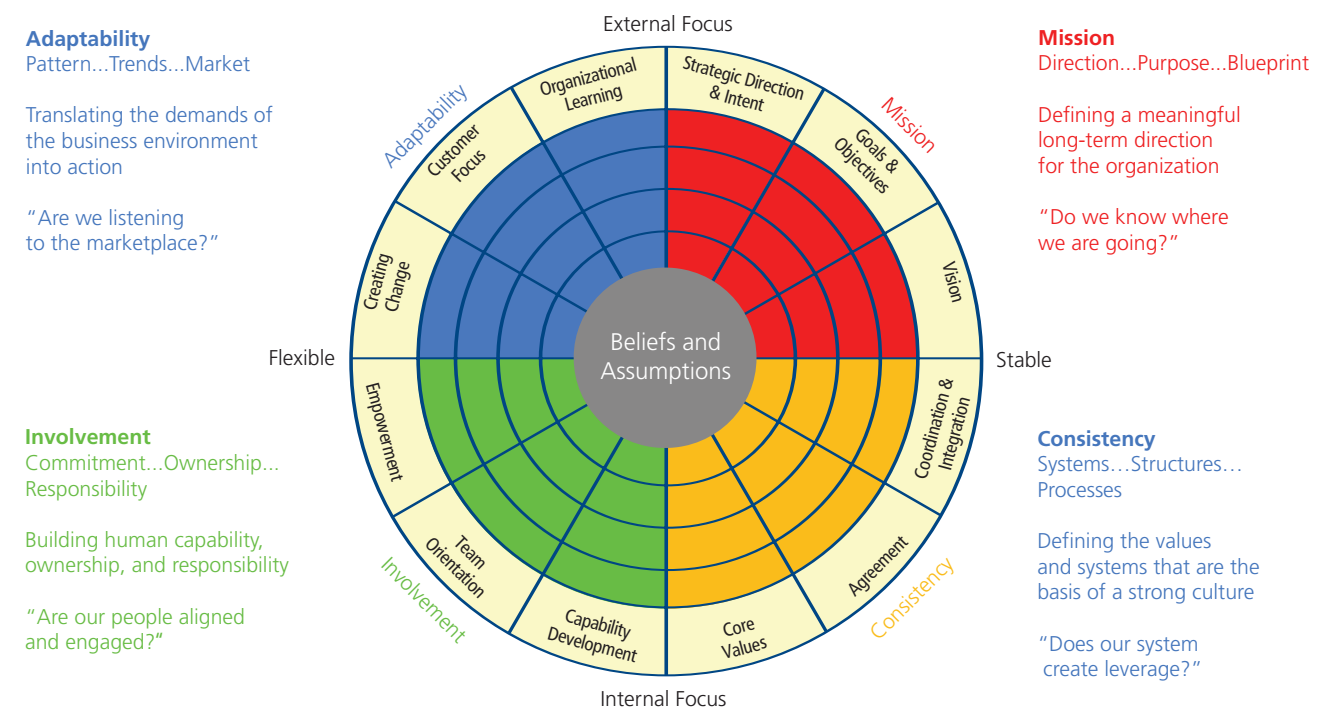
The basic premise of Henkel's approach to managing their corporate culture is a compelling one: The culture of the organization and the capability of its people are an important source of competitive advantage. But where is the evidence to support this point of view? Building an organization based on these principles may be the "right thing to do," but in order to survive over time, the culture must also be one that has a positive influence on performance. The powerful principles traditionally held by the Henkel family are the foundation of the company, but how will we know the best way to apply them in the future? Organizational cultures are a collection of habits, good and bad, that have developed over time. How do we decide which ones are most important to us in the future? How do we decide the meaning of these time-honored principles in a way that preserves our vision for the future?

Over the past twenty years, Denison and his colleagues have studied the link between organizational culture and business performance, trying to understand the cultural traits of high performance organizations. Out of this research they have developed an approach, based on the Denison Organizational Culture Survey, which is widely used in diagnosing organizations and helping to drive the change process. Henkel's approach to managing their culture has adopted this approach and used it in their own unique way as a key component to help build their culture. This next section of the case study gives a brief overview of the culture model, the survey, and the research that lies behind it.

The Denison Model

The Denison model is based around four key traits – mission, adaptability, involvement, and consistency that are summarized below. The focus on these four traits has evolved from a series of studies over the past two decades that have compared cultural traits and patterns of business performance. A brief research bibliography is presented at the end of this case. This model is the basis for a 60-item survey that was the core of Henkel's approach to measuring and managing culture over the past few years. A summary of this model is presented in Figure 5.

Figure 5. The Denison Organizational Culture Model



BertelsmannStiftung

Mission. Successful organizations have a clear sense of purpose and direction, which allows them to define organizational goals and strategies and to express a compelling vision of the organization's future. Leaders play a critical role in defining mission, but a mission can only succeed if it is well understood top to bottom. A clear mission provides purpose and meaning by defining a compelling social role and a set of externally defined goals for the organization. A sense of mission also allows an organization to shape current behavior by envisioning a desired future state. Being able to internalize and identify with an organization's mission contributes to

both short and long-term commitment to the organization. Like all of the traits, Mission is measured by three indexes, each of which has five survey items:

Strategic Direction and Intent. Clear strategic intentions convey the organization's purpose and make it clear how everyone can contribute and "make their mark" on the industry.

Goals and Objectives. A clear set of goals and objectives can be linked to the mission, vision, and strategy, and provide everyone with a clear direction in their work.

Vision. Effective organizations hold a shared view of a desired future state. It embodies core values and captures the hearts and minds of the organization's people, while providing guidance and direction.

Adaptability. A strong sense of purpose and direction must be complemented by a high degree of flexibility and responsiveness to the business environment. Organizations with a strong sense of purpose and direction can often be the ones that are the least adaptive and the most difficult to change. Adaptable organizations translate the demands of the organizational environment into action. They take risks, learn from their mistakes, and are good at creating change. They continuously improve the organization's ability to provide value for its customers by creating a system that translates signals from the environment into internal systems that ensure the organization's survival and growth. This trait is measured with three indexes:

Creating Change. The organization creates adaptive ways to meet changing needs. It is able to read the business environment, react quickly to current trends, and anticipate future changes. **Customer Focus.** The organization understands and reacts to its customers and anticipates their future needs. It reflects the degree to which the organization is driven by a concern to satisfy its customers.

Organizational Learning. The organization takes risks, learns from its mistakes, and constantly integrates this knowledge to improve the organizational system.

Involvement. Effective organizations empower and engage their people, build their organization around teams, and develop human capability at all levels. Organizational members are highly committed to their work, and feel a strong sense of engagement and ownership. People at all levels feel that they have input into decisions that will affect their work. They also feel that their work is directly connected to the goals of the organization. This allows high involvement organizations to rely on informal, voluntary, and implicit control systems, rather than formal, explicit, bureaucratic control systems. This trait is measured with three indexes:

Empowerment. Individuals have the authority, initiative, and ability to manage their own work. This creates a sense of engagement, ownership, and responsibility to the organization. **Team Orientation.** Value is placed on working cooperatively toward common goals for which all employees feel mutually accountable. The organization relies on team effort to get its work done.

Capability Development. The organization continually invests in the development of employees' skills in order to stay competitive and meet on-going business needs.

Consistency. Organizations are most effective when they are consistent and well integrated. Behavior must be rooted in a set of core values, and people must be skilled at putting these values into action by reaching agreement while incorporating diverse points of view. Consistent organizations develop a mindset that supports an internal system of governance based on con-

sensual support. These implicit control systems can be a more effective means of achieving coordination and integration than external-control systems that rely on explicit rules and regulations. These organizations have highly committed employees, a distinct method of doing business, a tendency to promote from within, and a clear set of "do's" and "don'ts." This type of consistency is a powerful source of stability and internal integration. In the model, this trait is measured with three indexes:

Core Values. Members of the organization share a set of values which create a sense of identity and a clear set of expectations. **Agreement.** Members of the organization are able to reach agreement on critical issues. This includes both the underlying level of agreement and the ability to reconcile diverse points of view when they occur.

Coordination and Integration. The different functions and units of the organization are able to work together well to achieve common goals. Organizational boundaries do not interfere with getting work done.

Like many contemporary models of leadership and organizational effectiveness, this model has focused on a set of tensions or contradictions. For example, the trade-off between stability and flexibility and the trade-off between internal and external focus are the basic dimensions underlying the framework. In addition, the diagonal tensions in the model are also important to understand. Achieving both internal consistency and external adaptability is easier said than done, while reconciling mission and involvement require that firms resolve the inevitable tensions

between top-down direction and bottom-up influence.

At the center of this model in the graph in Figure 5 are underlying beliefs and assumptions. This addition to the model reflects the fact that "deeper" levels of organizational culture (Schein, 1992) are difficult to measure using comparative methods. Nonetheless, they provide the foundation from which behavior and action spring. Beliefs and assumptions about the organization and its people, the customer, the marketplace and the industry, and the basic identity of the firm create a tightly knit logic that holds the organization together. They represent the core "DNA" and underlying logic of the firm.

None of the four cultural traits are unique to the model presented in this paper. They are all closely linked to central concepts in management theory. Furthermore, they all have close parallels in Henkel's own values and vision. The organizational culture model simply serves to integrate these concepts, develop a set of valid measures, show their close link to organizational performance, and then apply them as a method for diagnosing the key strengths and challenges of an organization.

Linking Organizational Culture and Performance

Published studies over the past two decades have explored many aspects of the link between organizational culture and business performance. These studies have examined the link between the four basic traits in the culture model and

performance measures such as profitability, sales growth, quality, innovation, and market value. The research has also examined these links in over twenty different countries. A complete review of this research is well beyond the scope of this paper, but many of the studies are cited in the bibliography at the end of this paper.

The most basic question addressed by this research is a simple one: Do companies that possess the traits described by the culture model indeed have higher performance? One simple

answer to this question is presented in the analysis in Figure 6. This study used data collected from 161 publically traded companies that had completed the Denison Organizational Culture Survey. Figure 6 contrasts the culture results for the top 10% and bottom 10% of that sample. Since this is a contrast between the companies with the best and worst culture profiles, it is no surprise that the profile on the right shows much higher scores than the profile on the left. But the more interesting finding is that the companies in the profile on the left side had a 6% profit ratio

(ROE), while the companies in the profile on the right side had a 21% profit ratio (ROE). Thus, the companies with high culture scores appear to be more than three times more profitable than those with low culture scores.

This research has also led to interesting results with respect to customer satisfaction. Figure 7 and Figure 8 present the results from a study of automotive dealerships in the USA. The culture profile on the left is the profile of the dealerships in which less than 50% of the customers reported that they were highly satisfied with

their service experience at the dealership. The culture profile on the right is the profile of those dealerships in which more than 80% of the customers reported that they were highly satisfied with their service experience at the dealership. Figure 8 presents a bar chart summarizing the differences in the culture scores on each of the twelve indexes between the high and low satisfaction dealerships.

Figure 6. Return on Shareholder Equity

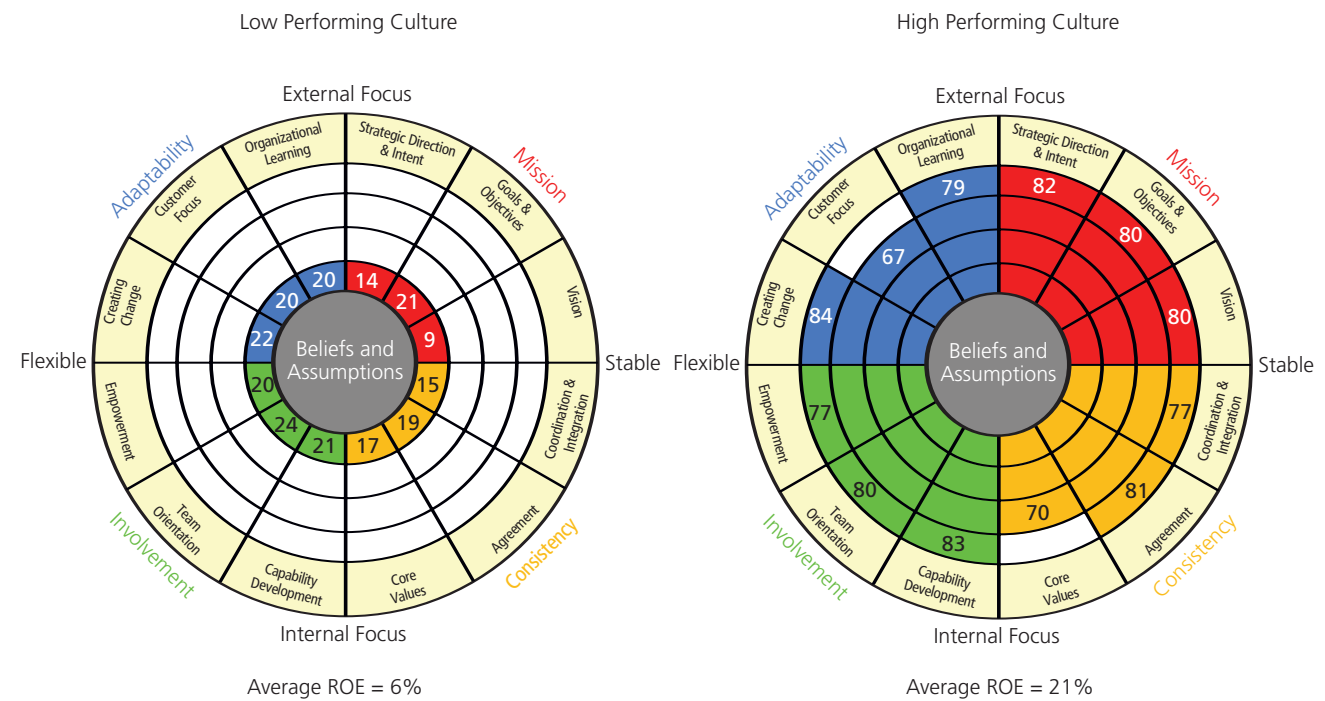
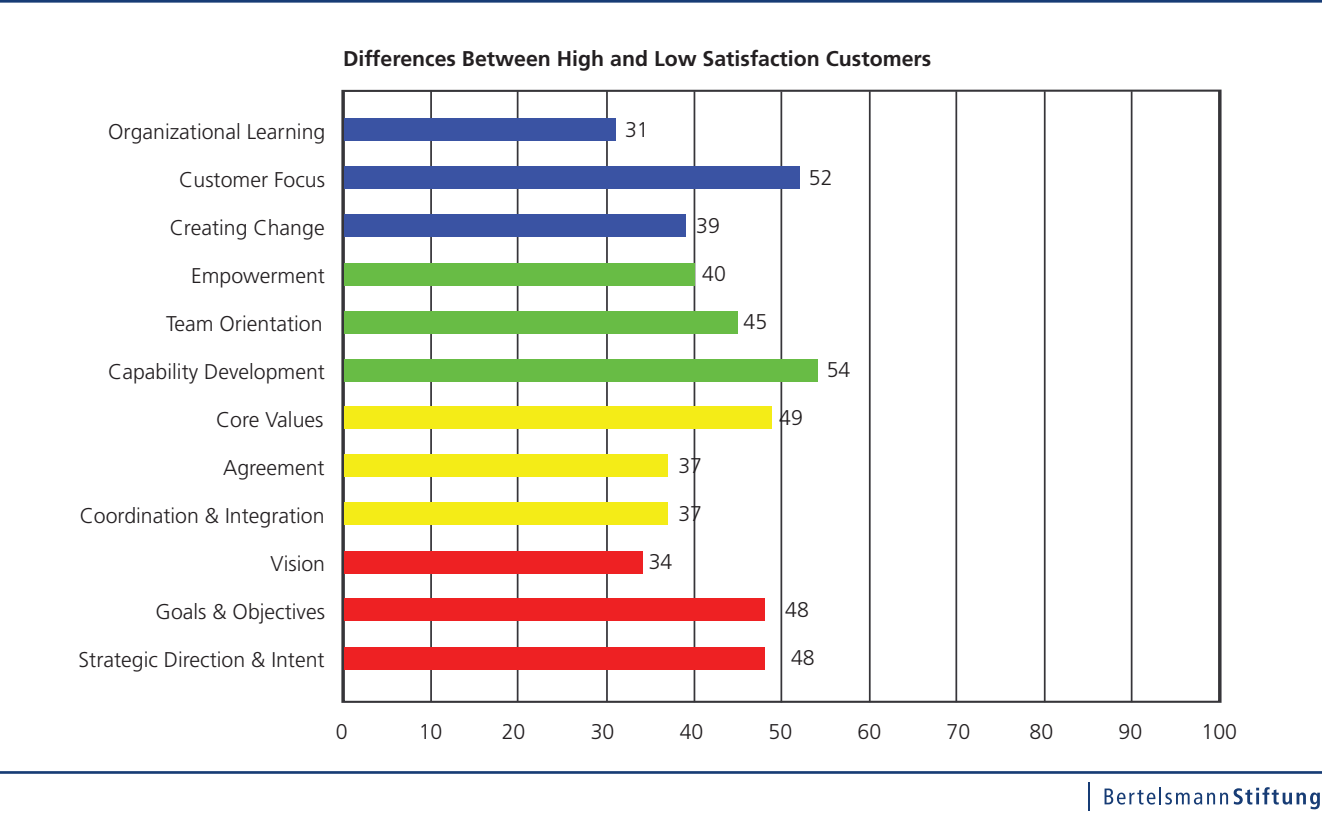


Figure 7. Organizational Culture and Customer Satisfaction



4. Henkel's Decision to Apply the Denison Model

Figure 8. Differences between High and Low Satisfaction Dealerships



These kinds of results and the stream of re-search that has produced them suggest that the culture of an organization is indeed an impor-tant asset that pays economic returns over time. This grounding in business results was a critical factor in Henkel's choice to apply the Denison model as a means to better manage their culture.

Employee surveys have been a regular feature within the Henkel corporate environment since the 1980s. Henkel's longstanding commitment to a dialog aimed at promoting the "common-alities" of the company has been supported by these surveys. Projects have typically been implemented every five years, to determine respondents' attitudes, their satisfaction, and their identification with the company. Within Germany, and also in the wider international context, Henkel was one of the first corporations to analyze such employee orientation on the basis of scientifically based questionnaires.

The last employee survey prior to adopting the Denison model was conducted in 1995 with 2012 managers responding. It was found to be a highly suitable method for

- providing insight into the company's internal image. Was Henkel an attractive employer? Was employee identification with their work generally high? Were they satisfied with their decision to join Henkel?
- assessing the levels and quality of cooperation within units and crossborder.
- discovering attitudes with regard to working conditions, compensation and benefits.
- assessing the perceived quality of information provided, Henkel's information policy, getting information on time and in sufficient detail.
- examining the leadership role. These ques-tions focused on leadership topics such as the supervision and discussion of work; the provi-sion of help and fair assessment; the assign-ment of challenging targets for improvement; and the acceptance of guidelines.

The interval between the 1990 and the 1995 surveys provided a clear indication of the changes that had taken place and the current challenges and areas in which further action and improvement were necessary. On the other hand, there was also plenty of scope for inter-pretation and detailed discussion was required in order to determine which challenges and changes had actually been revealed by the re-sults of the questionnaires.

But it also became apparent that the 110 questions included in these surveys addressed so many different issues that employees developed significant expectations that extensive and tan-gible change was on the way. Partly because of these high expectations, the activities and chan-ges actually introduced were regarded as rather insignificant and hardly registered. Overall, the surveys gave rise to a latent impression that not much had happened and that – consequently – little change could be expected in the future. Such perceptions have a major discouraging effect on employee willingness to participate in surveys.

It also became increasingly obvious that survey-ing employee satisfaction, while having an in-herent value, does not facilitate definition of the factors driving the success of a corporation or defining its cultural character. Henkel's in-house analysis of this issue and the many discussions conducted with experts clearly indicated that a company needed to know more than merely the level of satisfaction of its employees. It had to answer two questions: What drives success? What cultural elements do we need to improve in order to improve our performance?

Around this time, major changes were also occurring within the corporation, including organisational realignment, acquisitions, divestments, strategic focus on brands and technologies and, above all, the introduction of the Henkel Vision and Values as the framework for the corporate culture. Taken together, these conditions created much more far-reaching objectives for surveys, and caused Henkel – and specifically Human Resources as the lead unit – to step away from the traditional approach.

In September 2002 the principles and objectives of the Henkel Group were realigned to a single "Vision" and ten "Values." These were faithfully derived from the traditional roots of the company and chosen as the basis of a binding code governing the attitude, conduct and actions of the company's 52,000 plus employees worldwide. It is the managers and employees of the Henkel Group alone who are responsible for meeting the standards and achieving the ambitions embodied in the Vision and Values. It is the degree to which they identify with the Vision and Values that determines the true validity of these guidelines. Managers need to create the right opportunities for employees and to encourage and empower people to "walk the talk." This approach has led to a greater emphasis on cultural drivers and their influence on the performance of a company.

The search for a suitable system to measure these cultural drivers of success within a corporation led to IMD in Switzerland. Professor Daniel Denison – first at the University of Michigan Business School and since 1999 at

the International Institute for Management Development (IMD) in Lausanne, Switzerland – provided the ideal platform for Henkel to completely revise the methodology applied in its managerial surveys. Denison concentrates primarily on the effect of corporate culture on internal coordination of participants. In this way, he effectively positions culture as a key driver of corporate performance.

From an operational point of view, Henkel also wanted to answer the following questions:

- Which provider uses benchmarks as an integral part of its employee surveys to position itself vs. industry/peers?
- Which method is the most cost-effective, with less expense than in the past?
- Can the required analysis work be carried out quickly and within short intervals?
- Will the results be easier to communicate and understand than in the past?

Through a pilot project in the North American Technologies Division in 2002/03, Henkel tested the acceptability of this method and judged that the Denison Model satisfied these requirements, with an efficient analytical approach and easy-to-understand results that were on target. They felt that the method created high manager awareness of the cultural drivers and their importance for high performance. Henkel also saw that within an organization made up of different working units, the culture survey helped in understanding the diverse cultural elements that influence overall success. Henkel also saw the critical value of peer-level benchmarks,

comparing Henkel results to 557 companies from eight industries in 16 countries (75% North America, 20% Europe, 5% Asia). This global perspective was also a decisive factor.

Measuring the cultural drivers that influence the performance of a company was a completely different approach than the employee satisfaction surveys conducted in the past. The results and the improvements have fast, positive effects for Henkel customers. The results increased the awareness of managers of the importance of a performance-oriented, entrepreneurial culture and used relatively short (1-2 years) survey cycles to rejuvenate the culture and keep the organization "on its toes."

The survey process itself was also a compelling advantage. Less than four weeks were required for data collection for a global survey with over 7,000 participants, and complete results available four weeks later. The internet-based data collection process also saved time, effort, and cost on Henkel's part. In the past, Henkel's employee surveys would require two person-years for project planning, implementation, evaluation, communication and archiving. Henkel's effort using the Denison method was reduced to around two person-months. Thus, compared to earlier survey and evaluation methods, the DOCS thus represented around 10% of the usual cost per cycle.

5. Survey Implementation: Results from 2003 and 2004

It was clear to all involved that the new method would require a high level of commitment from Henkel's executives and HR officers around the world. Following the positive decision by the Management Board of the Henkel Group and prior to roll-out of the survey, the groundwork had to be laid within the global HR organization. As the strategic partner of the business units and regional managers, the HR group was expected to introduce, implement and evaluate the instrument.

The 2003 Survey

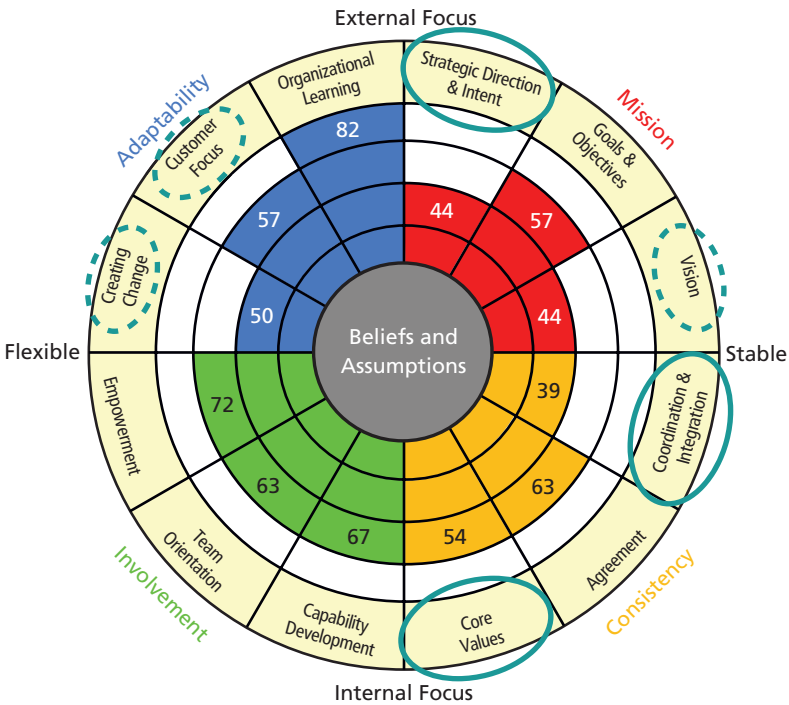
All management levels in Henkel were participants in the 2003 survey, a population of around 7,500 worldwide. When Henkel decided to relaunch the employee survey, they also decided to keep the pattern of the survey for management, executive staff and non-executive staff at different times. Thus the reason for concentrating on the management levels only at this stage was to avoid focusing the whole organization at the same time on the survey including the discussion of results and indicated actions, which might have meant to keep 50,000 employees busy and distracted from doing their original business.

Secondly, when the survey relaunch took place and the Denison Organizational Culture Survey was applied, Henkel wished to doublecheck first how this new survey was accepted and worked. Involvement of non-executives will be a point of discussion in the future, yet the challenge is, of course, how to tackle such a large and diverse group of people.

The response rate for the first survey was 61%. This is an average response rate, and thus was satisfactory, but the objective for the second survey was set at 75%.

The survey results presented in Figure 9 show the percentile scores for each of the twelve indexes in the Denison survey. The results also included an analysis of the 60 questions making up these twelve index scores. These scores compare the results from Henkel to the benchmark database and show Henkel's strengths and challenges relative to the benchmark. There are several clear messages from these results. First, they show a perceived lack of knowledge of the Henkel strategy. In addition, Henkel managers were apparently not sufficiently aware of the Vision and Values of the Henkel Group. The results also indicated that a large proportion of the respondents would welcome closer cooperation across departmental boundaries.

Figure 9. Henkel survey results



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In addition to the overall results, each manager also received the results relevant to their areas of responsibility so that they could discuss them with their employees within their organisational units. This allowed them to closely analyze the results relating to their domain, defining potential areas for further development and improvement with their team and developing action plans. Henkel recommended that feedback and discussion – "working through" the survey results – should begin by focusing on the following questions:

- What are the predominant patterns in the survey results?
- How do these results fit with your own perception of the organization?
- What conclusions might be drawn from the data with respect to our strategic objectives?
- What are the specific deficiencies that need to be addressed so that we may achieve our goals and targets?

Around 470 feedback workshops and numerous projects – in total around 470 – were organized in order to discuss and implement the activities, and plan the changes and improvements suggested by the survey. Of these 470 projects

- 47% dealt with Henkel's Strategy, Vision and Values;
- 25% dealt with Cross-divisional and Cross-functional Cooperation;
- 19% dealt with Customer Focus;
- 9% dealt with Teamwork and Cooperation.

Specifically, the groups discussed reasons for the low scores in the various areas, drew their conclusions and, where appropriate, recommended action steps to address these issues.

Out of the enormous number of initiatives the key areas for leadership to address was the area of Mission, especially addressing the Strategic Direction and Intent. Of course, strategies had been in place of any business and function, yet obviously at least penetration had not been good enough. Partly, strategies had not been communicated in detail (in order also to avoid easy transfer outside Henkel's). On the other hand, the top-down approach in communicating strategies was not seamless. Lower ranks, in particular, did not have full information. Moreover, occasionally strategies were so complex that it was not easy to communicate or recall them.

Having understood the deficit and being clearly willing to improve the situation from CEO level to all businesses and functions on corporate, regional and/or country level, all strategies then

underwent reworking, not necessarily content-wise but at least communication-wise. This was a Henkel-wide initiative. After this exercise it had become clear that intensive dissemination and penetration was the "name of the game" for all employees to achieve a clearer picture and understand where Henkel is heading.

Results, by the way, improved clearly in the next survey and encouraged management to move further to achieve a higher penetration rate and gain broad involvement and commitment.

Another outcome of the survey was that there was a desire for more cross-divisional cooperation. This led to the formation of numerous interdisciplinary teams, stronger involvement and utilization of the Henkel Global Academy, and helped generate a more intensive commitment to knowledge sharing and knowledge management. A cross-divisional job rotation program was set up with defined targets of rotation driven by corporate HR.

The 2004 Survey

The second survey, conducted in November 2004, showed many improvements. Once again, all management-level employees were participants in the survey. This time the response rate for this survey rose to 80%, reflecting improvements in the survey process and a broader acceptance of the survey as a useful tool for change. Comparing results from 2003 and 2004 shows that improvements occurred in all areas except Team Orientation. The significant improve-

ments in Mission are clearly linked to the intensive discussions held after the first survey and the intense communication of the Henkel Vision in the business sectors. Significant improvements also occurred in Coordination & Integration, but still left room for improvement, particularly with respect to cooperation across departmental boundaries.

Figure 10. 2004 Survey results

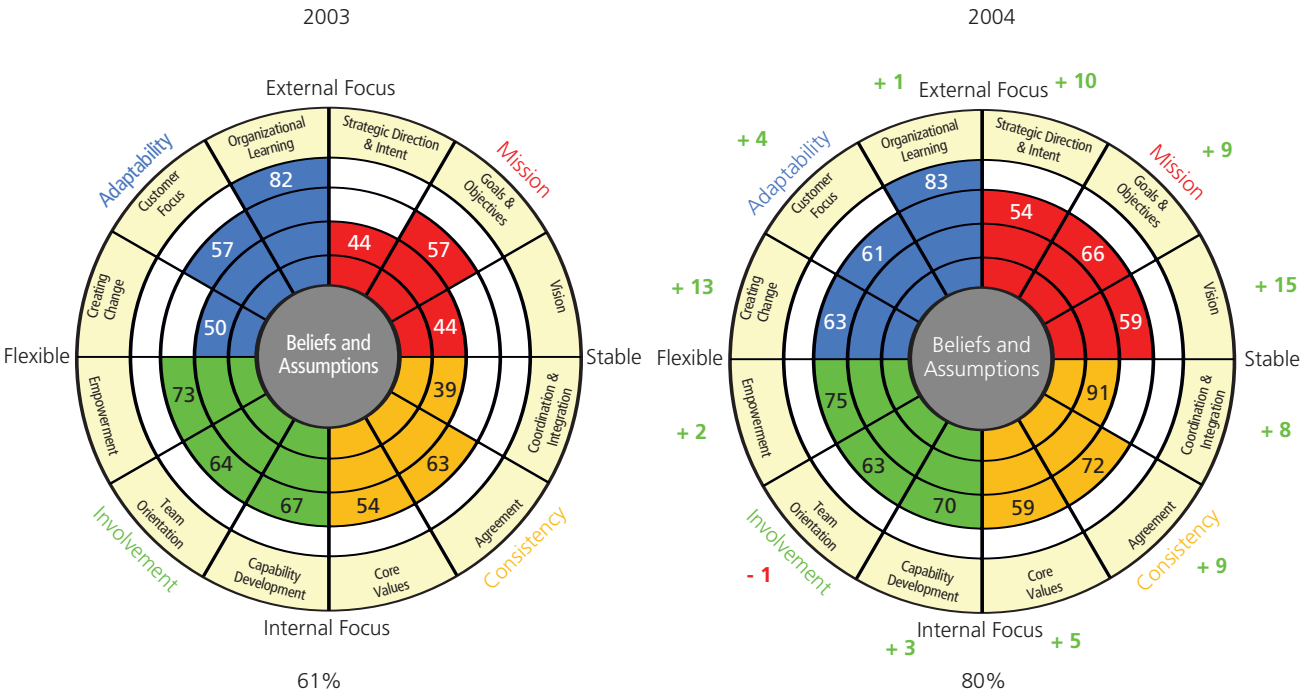
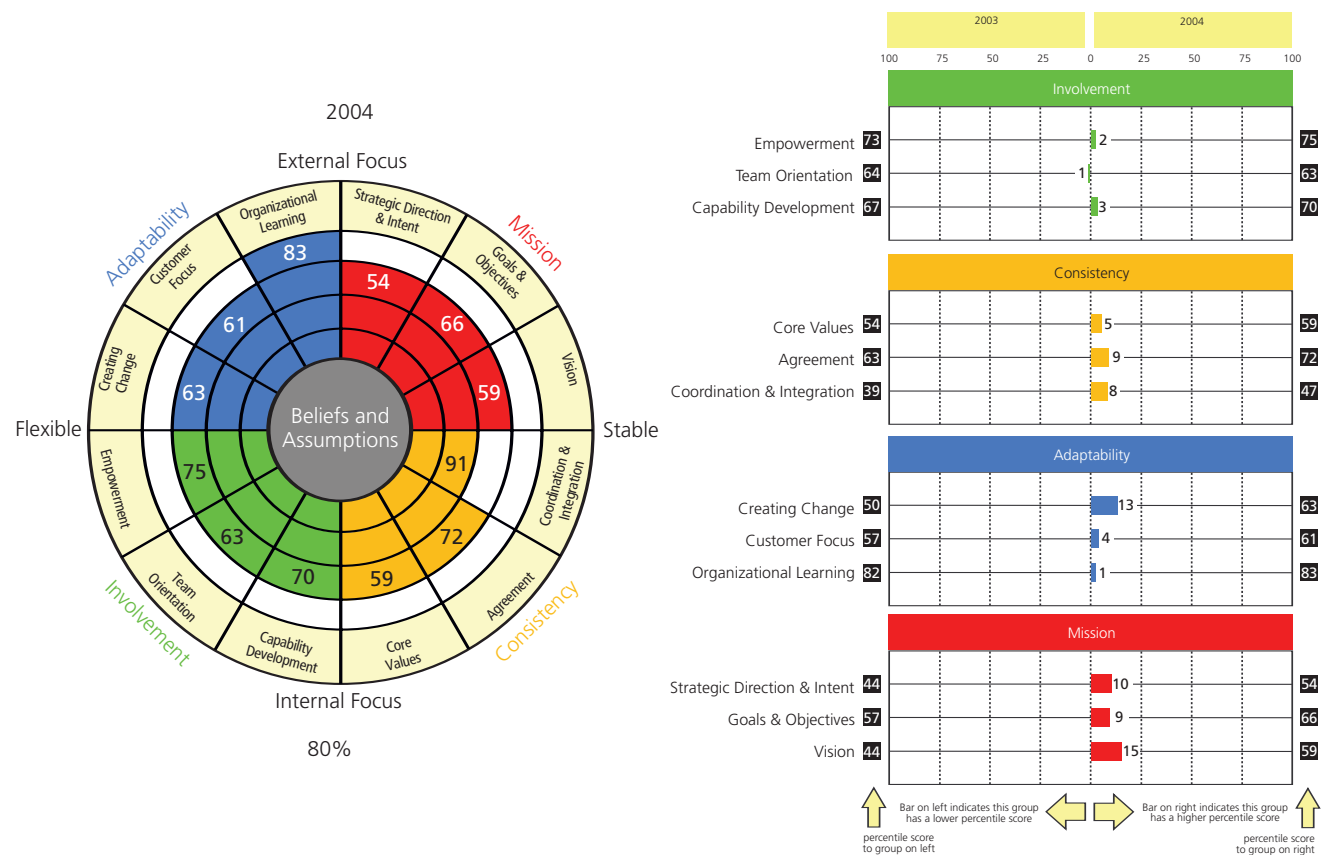


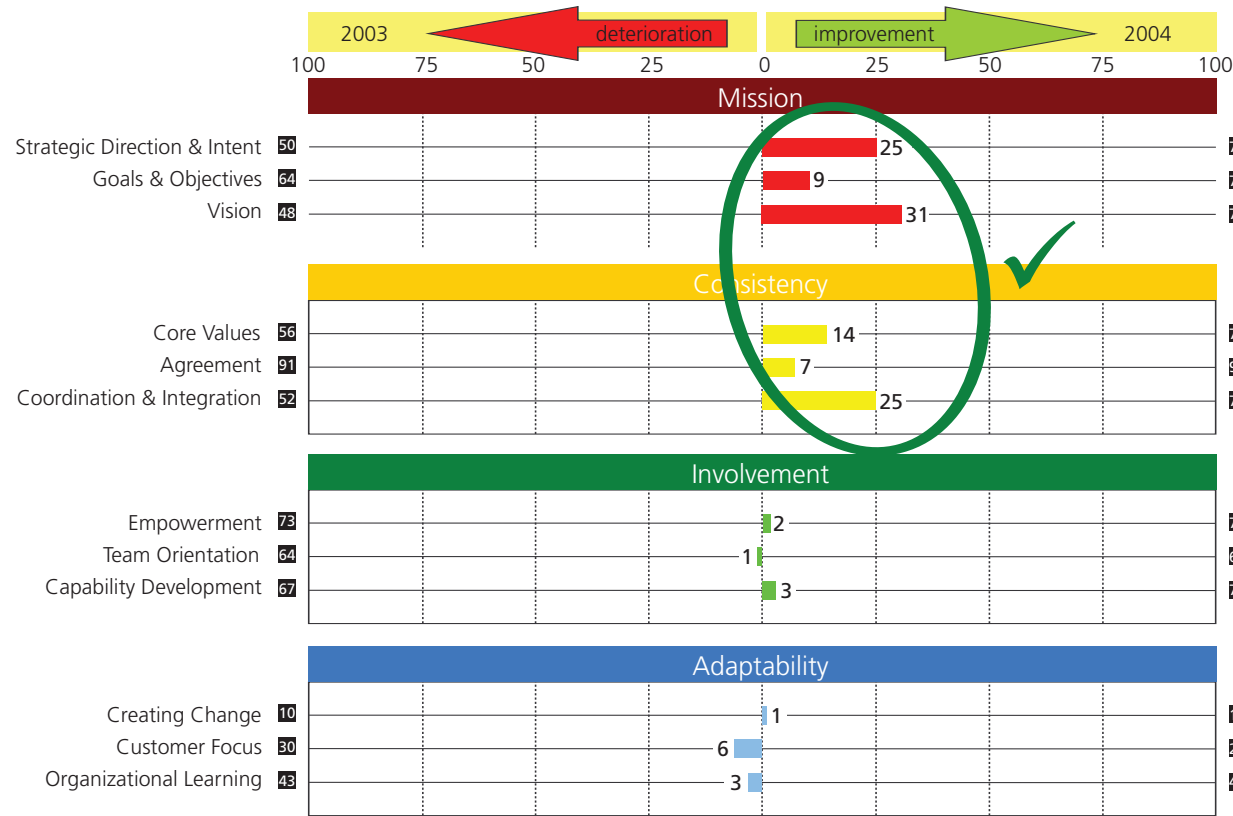
Figure 11. Henkel Overall



Analysis of the results by management level also show that the biggest impacts in the understanding of the mission occurred at the middle management level. The top level of management already had a clear understanding of Mission in 2003, but the results showed that this understanding was not shared at the middle level. Between 2003 and 2004, these level managers were clearly brought "on board" with

the mission and the core values. If this process had been extended to lower level of management during the 2003-2004 time period, then we would expect that the overall results would have been even stronger. Thus, applying the process at the lower management levels became a key objective of the planning process in 2005.

Figure 12. Comparison



Henkel also observed lots of specific improvements in different parts of the organization that reinforced the idea that they were making progress. The business unit that spent the most time clarifying and communicating their strategy showed the strongest results. Different country organizations that were high performing, well-managed business units showed stronger results than those that were not. All of these

findings helped substantiate that the survey process brought about tangible, positive change.

6. Lessons Learned

In May 2005, to focus their preparations for the third survey cycle in 2006, Henkel Corporate HR surveyed 2,000 managers that had been involved in the survey to determine their views, desires, and expectations about the survey as such:

- 53.5% responded to the survey.
- 90% of respondents were pleased with the convenience of the electronic survey.
- 80% regarded the time required to complete the survey as acceptable.
- 35% believed that the survey would change nothing.

Lesson: More intensive follow-up work is required in order to make a clearer linkage between the purpose, the results, the action planning efforts, and the implementation process.

- 22% expressed doubts as to the anonymity of the survey.

Lesson: Data security and preservation of anonymity is crucial to survey participants. Even after three years when their responses have been totally anonymous and no reports have been provided to Henkel unless there were five or more responses, they still have concerns. They have to be constantly addressed to ensure the credibility of the process. As a part of this process, Henkel provided an audit of the entire process, supported by an external provider.

- Around 50% did not wish to see the survey repeated on an annual basis.
- Lesson:** Henkel will conduct the survey every two years, i.e. following 2004 the next one would be in 2006.

- 90% would be willing to take part in the next survey.
- Lesson:** This indicated that we should be able to achieve the objective for 2006. Nonetheless, 100% participation were the goal since only those expressing an opinion can expect it to be heard and acted upon.
- Common to all respondents was a desire for more - and more coherent - communication in advance of the survey and also following the results.
- Lesson:** A more focused communication plan was required for 2006.

7. The 2006 Survey

The next survey took place in November 2006. Henkel hoped to increase participation to over 80% of managerial staff even though the company was well aware that the industry standard was lower.

In order to achieve this higher response rate and overall greater impact of the survey, Henkel took several important steps. They developed a better communication plan, introduced a new personalized internet-link approach for completing the survey and accessing the reports, and provided an additional guarantee of confidentiality and anonymity based on an externally audited data protection system.

The communication planning began in March 2006. A worldwide HR e-mail was sent to all managerial staff informing them of the planned third survey cycle. All Corporate Communications and Human Resources employees around

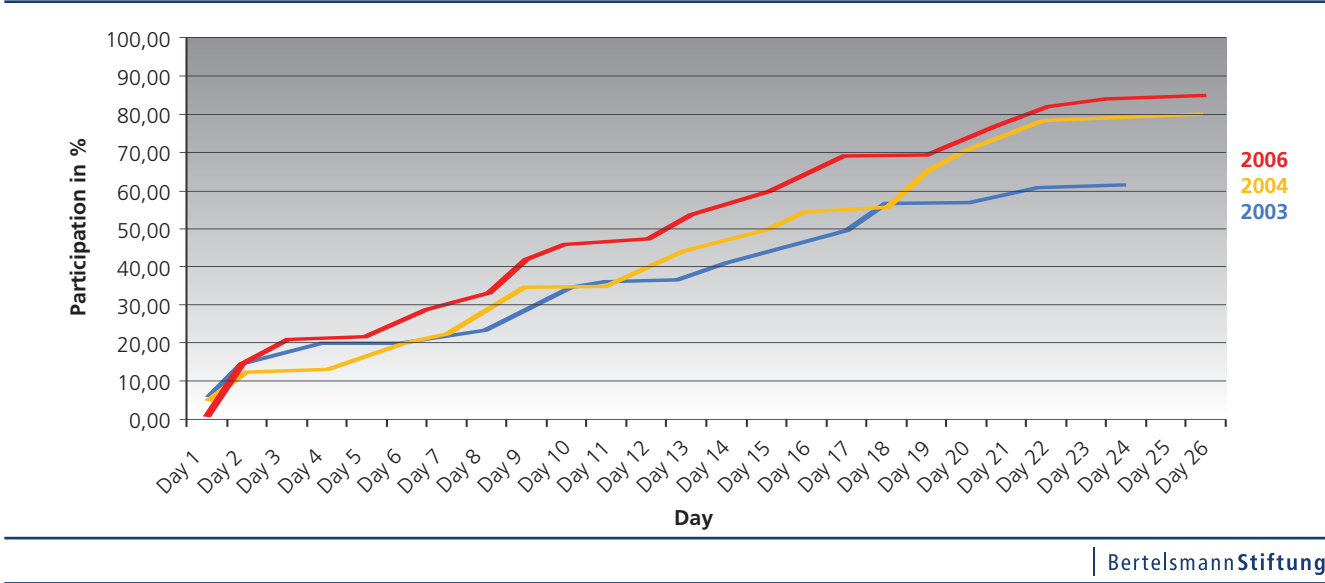
the world were also concurrently requested personally to ensure that the survey received constant mention in all appropriate general communications. In April 2006, Professor Denison explained the structure, purpose and objectives of the survey process in a detailed interview published in the German and international hardcopy and intranet editions of *Henkel-Life*. A report on the "Denison Case Study" then appeared in the fall 2006 edition of *Henkel-Life*. In September, *Henkel-Life* also reported on the survey to be conducted amongst managerial staff (to be launched in November).

In October 2006, prospective participants were each sent an e-mail requesting their active involvement, and on November 1 the actual survey invitations were sent out. The participation rate for the 2006 survey reached 85%, which was an excellent result and showed that internal com-

munication efforts had been successful. In Figure 13 it can be easily observed that over the three cycles the rate has constantly improved. Now it is the main target to secure at least the same results in upcoming cycles.

After collecting the data and preparing the summary reports, the results of the survey will be presented to the Management Board in January 2007, which will be followed by extensive feedback throughout the organization.

Figure 13. Participation rate Denison



8. Discussion

Over the five year time frame covered by this case study, Henkel was on a continuous learning curve. This effort began as an attempt to create an alternative to a traditional employee attitude survey, but has grown to become a strategic tracking tool that closely monitors the human capability of the organization. One part of this story is the technical evolution of the survey from a custom-made, individually focused, paper and pencil survey that was not benchmarked, and reported only raw scores, to a survey rooted in a research-based model, benchmarked and delivered online, with graphic reports that are immediately delivered to individual managers through an on-demand system. Henkel formed a close partnership with their provider to co-create a system to serve their growing needs.

But the second part of the story is the part that will have a far more lasting impact on Henkel. This part focuses on how Henkel learned to use the survey results and the survey process to continuously improve the capability of the organization. The first year, this part began with the simple objective of reporting the survey results back to the Management Board. From there, Henkel began an extensive feedback and action planning process that involved over 400 working groups. The groups focused on both their own results and the results for the company as a whole. Research on this process shows that the effort put into the feedback and planning process is reflected in the year-to-year improvement in the organization.

By the second round of the survey, the process was a more familiar one. Internal Henkel facilitators, trained during the first round, were very familiar with the survey and the process. Leaders were better able to integrate the survey feedback and action planning process with other planning activities. Thus, they were able to use the tool as a means to better manage their organizations rather than as a separate activity in itself. They began to see the survey as a recurring process that created a sense of accountability for the capability of the organizations that they managed. On-going research into the change process also began to give answers to crucial questions about managing change.

One important observation made over the process that proved that respondents clearly realized the potential of the survey and its findings to help improve leadership capacities and performance of the respective units was the approach to answering the questions of the survey: one might assume that in a second round respondents tend to give answers in a way that they might feel "conforming" to expectations (of top management or questioner). This did indeed not happen at Henkel: answers tended to become even more honest, pinpointing deficits honestly and thus showing that a real interest in improvement was desired by the respondents.

Which parts of the organization changed most quickly in response to the problems that were identified? In retrospect, those parts of the company changed most quickly whose leaders took the results as a personal challenge to improve leadership.

How can these changes best be sustained? It is obvious that changes do not come by finger-snapping. However, they can be sustained by constantly addressing the issue or area of improvement, in the first place. Secondly, diversity in terms of the progress helps to sustain changes targeted.

What approach to feedback and planning is most likely to make a lasting improvement in the business? Improvements, and lasting ones at that, have to do with measuring and showing the gap versus the plan. This means that the survey has to measure the status on a regular basis and then follow through a process of intensive discussion of the areas of improvement.

What type of support do managers need to guide them through this process? Management needs to understand the cultural driver. This is the most important lever for making the survey a success and guiding managers through the process. HR as partner of management still gives valuable support by delivering insights and solutions.

The third round of the survey included an extensive communication process prior to the survey, reinforcing the purpose of the project and greatly raising awareness of the importance of the culture of the organization to the business results. This awareness has also underscored the obligation of individual leaders to make their contribution by building the future Henkel culture in their own areas of responsibility. All of these lessons have helped Henkel position this as a strategic tool to increase their competitiveness for the future.

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This set of references gives an overview of the main research papers and books that support the model used by Henkel. For more information, please visit www.denisonculture.com.

Dr. Daniel Denison is Professor of Management and Organization at the International Institute for Management Development (IMD) in Lausanne, Switzerland. Previously, he was an Associate Professor of Organizational Behavior and Human Resource Management at the University of Michigan Business School. He has taught and lived in Asia, Europe, Latin America and the Middle East.

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Professor Denison's research, teaching and consulting focuses on organizational culture and the impact that it has on the performance and effectiveness of organizations. He has consulted with many leading corporations regarding organizational change, leadership development, and the cultural issues associated with mergers & acquisitions, turnarounds, and globalization.

At IMD, Prof. Denison is primarily involved in "Catalyst" programs with companies that are members of IMD's Learning Network. These custom-designed programs are targeted to transform the organizations and the individuals who lead them, and are designed to meet the challenges the companies face.



Rolf Schlue graduated from the University of Karlsruhe, Germany, and has been employed by Henkel since 1978. Through the years he has been responsible for several functions in the FMCG, Research and Human Resources areas. Currently he holds the responsibility as Corporate Vice President for Global Human Resource Management of the Purchasing, Infrastructure and Human Resource organization along with Corporate HR responsibility in the MENA region. As his main areas of competence have been in marketing, sales, customer focus and

result orientation (market shares, net sales and profit contribution) his approach in dealing with HR is different. His past experiences in these other areas of the business helped to lead the changes that he initiated starting in 2003. One example is the move from satisfaction surveys of the past to the more performance oriented cultural surveys, which establish a link between business performance and cultural traits, both of which are more meaningful to the company's overall performance.



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