

strategy&



*Global Culture Survey*  
***Managing culture  
change in Japanese  
organizations***

&

**How leveraging our  
cultural assets will help  
us win the culture game**



**pwc**



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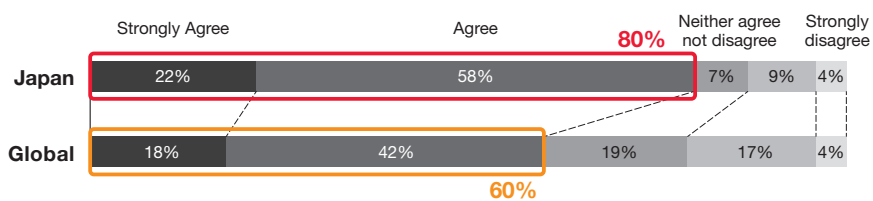
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# Foreword

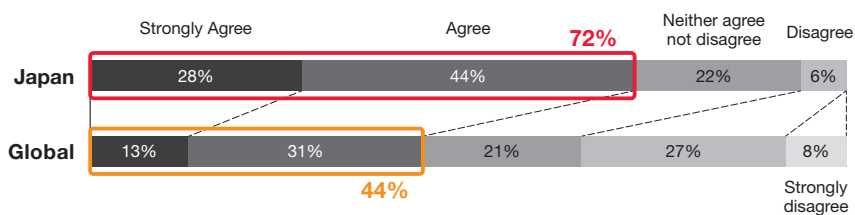
For Japanese organizations to thrive in today's competitive global environment, an organizational culture that attracts top talent is more important than ever. According to the Global Culture Survey conducted by the Katzenbach Center (PwC Strategy&'s Center of Excellence specializing in organizational culture) in 2018 with more than 2,000 responses collected, 80% of Japanese respondents agree that organizational culture is a strong reason that people join an organization (vs. 60% globally). It is also a strong reason that people leave an organization (72% vs. 44% globally; see Graph 1). In this article, we explore the cultural aspirations and the current cultural states of Japanese organizations with the aim of providing practical recommendations on how to reach a target state while maintaining aspects of the positive and unique characteristics of the existing culture.

*Graph 1*  
**Organizational culture: Reasons for talent to join or leave organizations**

**Culture is a strong reason people join their organization**



**Culture is a strong reason people leave their organization**



Source: PwC Strategy& Global Culture Survey 2018

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# ***I - The increasing importance of organizational culture: Surviving in the era of continuous change***

Organizational culture is a top priority of business leaders worldwide. It is even more so in Japan, where leaders view culture as a very important topic on their agenda (87% of Japanese respondents either agreed or strongly agreed. See Graph 2.) Furthermore, 76% of Japanese respondents either agreed or strongly agreed that culture was more important than strategy or operational model, whereas global results show that 65% either agreed or strongly agreed. See Graph 3. Not only do Japanese respondents value culture, 96% (vs. 80% globally) felt that their culture must evolve significantly or a fair bit to succeed, grow and retain the best people going forward. See Graph 4

We define organizational culture as an organization's "self-sustaining patterns of behaving, feeling, thinking, and believing – that determine how we do things around here". This definition encompasses the iterative way culture develops organically over time, in line with the cumulative traits of the people, including leaders. Despite its intangible nature, culture can, at its best, be an asset that enables, energizes, and enhances human behavior. When wisely leveraged, it can accelerate and sustain business results. When used poorly, however, culture can reduce productivity and emotional commitment.<sup>1</sup> According to an organizational DNA survey, conducted by Strategy&, a distinctive culture positively correlates to improved business execution and results.<sup>2</sup>

For Japanese organizations to remain competitive in the ever-changing global market and current with the accompanying megatrends (e.g., rise in technology and demographic shifts), they must continuously evolve and adapt. Various external and internal forces are encouraging leaders in Japanese organizations to reassess their organizational cultures and to ensure the culture remains conducive to achieving their strategic goals.

Despite the significant time and effort invested by Japanese leaders in transforming their organizational cultures, many organizations still struggle. We explore why this is the case and what can be done to make a difference.

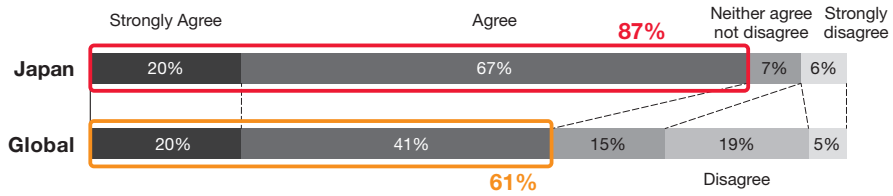
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1 : "A Perspective on Organizational Culture - Strategy." <https://www.strategyand.pwc.com/media/file/Strategyand-Perspective-on-Organizational-Culture.pdf>

2 : Strategy& OrgDNA Survey - public site and private data set; ~27 K and ~24 K responses (~51 K responses total), respectively; 2011–2015

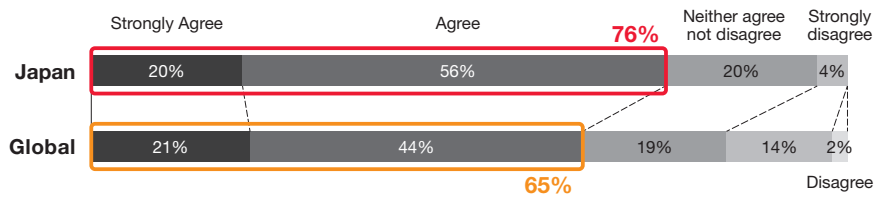
*Graph 2*  
**Organizational culture — Importance of the topic on senior leadership’s agenda**

*Importance of the topic on senior leadership’s agenda*



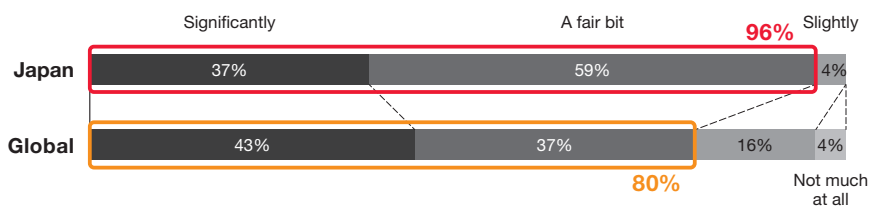
*Graph 3*  
**Organizational culture — Importance to the organization**

*Importance of culture compared to strategy or operating model*



*Graph 4*  
**Organizational Culture — Evolution in the upcoming years**

*In order to succeed, grow, and retain the best people, how much do you think your organization's culture will need to evolve in the next three to five years?*



Source: PwC Strategy& Global Culture Survey 2018

## ***II - Cultural aspiration of Japanese organizations: Defining the cultural state three to five years from now***

What cultural state are Japanese companies aspiring toward? What is the current state? How big is the gap between now and the target state in three to five years?

### ***A - The uniqueness of the current Japanese organizational culture: Understanding the differences from the rest of the world***

Japanese business culture is comparatively unique when viewed against the rest of the world, with deeply rooted characteristics in terms of leadership, decision-making styles, conflict resolution, and sense of teamwork. The results of the Global Culture Survey have reconfirmed that this is still the case today. See Graph 5. Japanese leaders tend to be more consensus-driven decision makers (76% vs. 57% globally). They stress team performance vs. individual performance (74% vs. 55% globally). They value breadth of knowledge versus depth (54% vs. 43% globally). They also have a tendency to stay polite and cordial during their interactions rather than to accept conflict (78% vs. 66% globally). They are known to be detailed in their planning to prevent problems before they arise. Only 37% fix problems as they appear vs. 68% globally. See Graph 5. These results are consistent with other cultural studies PwC has undertaken, including several cultural workshops with clients.<sup>3</sup> Interestingly, the characteristics have not changed much over time. These traits are deeply embedded in Japanese organizations.

Questions remain, such as, how can Japanese organizations maintain the positive traits of their existing cultures while adjusting certain traits to effectively adapt to the evolving world? What practical actions can be taken to ensure effective transformation? When responding to these critical questions, we should begin by understanding what cultural state the Japanese organizations are aspiring to reach.

### ***B - Aspiring for an agile culture: How do Japanese business culture attributes align with agility?***

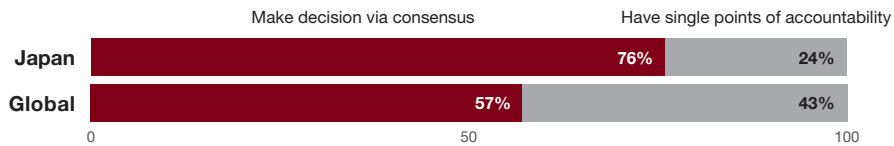
The Global Culture Survey shows that 41% of the Japanese organizations aspire for a more agile culture over the next five years

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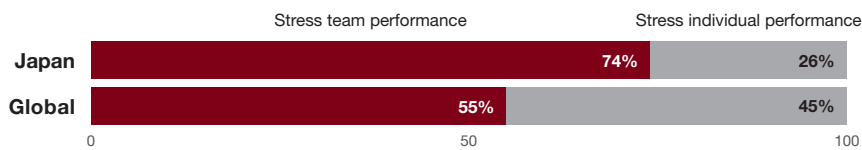
3 : "Unlocking Japan's potential: How culture can drive success in post-merger integration - PwC Australia."  
<https://www.pwc.com.au/publications/pdf/unlocking-japans-potential.pdf>.

Graph 5  
Organizational characteristics — Comparing Japan to Global

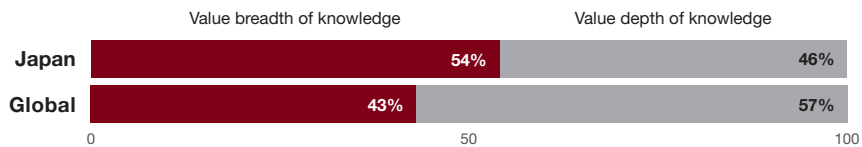
• Decision making-style



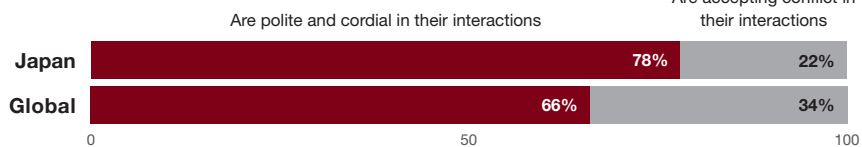
• Sense of teamwork



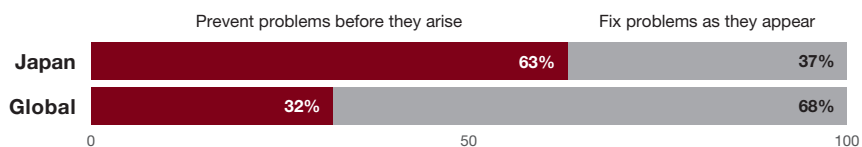
• Knowledge



• Preferred type of interactions



• Problems anticipation



Source: PwC Strategy& Global Culture Survey 2018

(vs. 20% globally). See Graph 6.

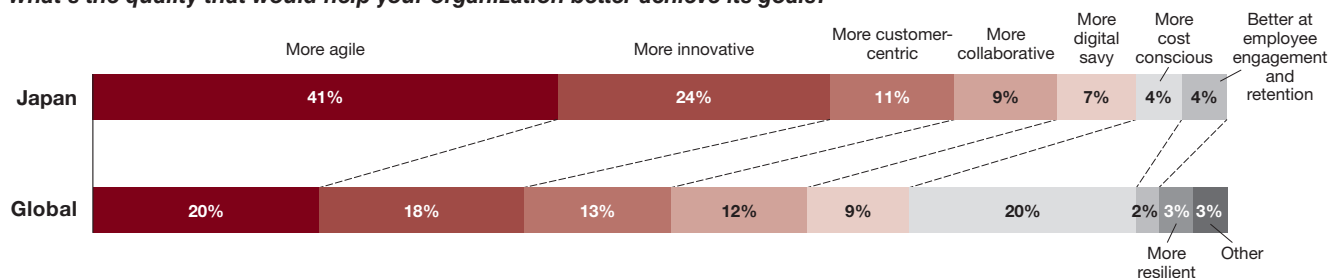
An agile organization is one that focuses on developing teams to work collaboratively, to enhance innovation, and to deliver value to customers. With such teams, speed, collaboration, strong customer focus, and the ability to take risks is required. Agile is about working



Graph 6

Organizational culture — New quality or trait to “embed” to achieve goals

Over the next three to five years, imagine that you could "embed" a new quality or trait into your organization's culture. What would you choose?  
 What's the quality that would help your organization better achieve its goals?



Source: PwC Strategy& Global Culture Survey 2018

smarter, rather than harder. It is not about doing more work in less time. It is instead about generating more value with less work, thereby allowing organizations to cope with continuous change in a complex and ambiguous environment.

The aforementioned characteristics of Japanese organizations, reflected in the results of the Global Culture Survey, may hinder those organizations from achieving agility. The reliance on consensus-based decision making and the resistance to confronting and tackling conflicts head on will potentially affect speed. Furthermore, the Global Culture Survey showed that the “have-a-go” mentality to take risks is less common in Japanese organizations. In response to a question related to problem anticipation, only 37% of Japanese organizations responded that they fix problems when they appear rather than prevent them before they arise, compared to 68% at the global level. This could be interpreted as how Japanese organizations undertake detailed analysis and planning in advance to avoid errors from occurring, stemming from their conservative approach to risk and avoidance of risk as much as possible. However, some of the existing attributes of Japanese organizations may be effective in promoting agility. The strong sense of community of the Japanese people is also embedded deeply in organizations. Working together to achieve a common goal fosters collaboration within the organization. Furthermore, Japanese organizations are known to be very customer centric, maintaining a strong focus on understanding the changing needs of customers. By adapting to those changing needs, they demonstrate attributes of agile organizations.

### III- The common obstacles in organizational culture transformation: Understanding and learning from the past

Next, we share our findings on the challenges faced by Japanese organizations in transforming their organizational cultures and the root causes of those difficulties, based on our experiences supporting Japanese organizations and from the results of the Global Culture Survey. Japanese organizations who wish to change their culture typically face the following three obstacles (Graph 7):

- 1) Lack of commitment from frontline and middle management: 38% of Japanese respondents stated that “our frontline and middle management was not on board” was the main challenge;
- 2) Differences in commitment levels across the organization: 23% of

Graph 7  
Organizational culture — Challenges when undertaking the culture work

What challenges has your organization experienced in undertaking the culture work? — Japan



Source: PwC Strategy& Global Culture Survey 2018

\* Other response options to the above survey included “Senior leadership was not aligned”, “We lacked the skills necessary to execute” and “Other / None Listed”

Japanese respondents stated that “certain parts of the organization were more on board than others” was the main challenge; and 3) Lack of clarity on how the change translates into day-to-day actions: 23% of Japanese respondents stated that “it was not clear how the desired culture change translated into day-to-day actions” was the main challenge.

Based on our experiences with our clients, the informal power of middle management is particularly strong in Japanese organizations. They have the best knowledge about the “ins and outs” of the organization and tend to be the drivers of new ideas and projects. When it comes to organizational culture, however, there is a lack of effective communication from top to middle management. Therefore, middle management typically does not seem to understand the need for change, unless there is an urgent business need. They do not seem to be fully aware that they play a role in cultural transformation. When supporting cultural transformation, they are also rarely convinced in terms of the question, What’s in it for me? This leads to a lack of commitment from middle management regarding organizational change. Furthermore, it makes it difficult for them to translate and cascade the cultural transformation story to the rest of the organization in a way that will resonate. This can also impact commitment levels across the organization. When messages are unequally spread to different teams, it makes it difficult to effectively implement change and to demonstrate behaviors that are newly expected within the changing culture.

Another main obstacle is the lack of clarity in the translation of change into day-to-day actions. With our clients, we often see that the “to-be” state of the organizational culture communicated by leadership is summarized at a very high level, using conceptual words. These should stick in the minds of employees, given the aspirational tone, but it is often impractical to translate into daily behaviors.

Finally, we ask the “how” question: How should Japanese organizations desiring to transform their organizational cultures overcome these challenges?

## IV- Our practical approach and success stories: Applying our lessons learned

Graph 8  
Steps for organizational culture transformation



Source: PwC Strategy&



### **Step 1: Defining the cultural aspiration**

To begin any kind of change, organizations should clearly define their cultural aspirations and vision. They must answer, What does success look like? If the aspiration is to change an organization to a more agile one, leaders must be able to answer, What does an agile organization look like? in terms of people, structure, systems, interactions with clients, and so forth. It is important to note that each organization should find a culture that is right for it: one that supports its business strategy.

In Japan, where middle management has significant influence, it is critical to engage with and align them as change leaders, because they will be the core drivers of transformation. Engaging them early in the process and empowering them are key success factors for any transformation. We should ensure that there is appropriate representation from the different departments and business units

from the initial phases of defining the target state. We should engage middle management effectively and win their involvement by taking the time to articulate several questions to explain the context and the goal of cultural transformation: What is shaping our thinking?, What challenges are we solving for?, Whom are we doing this for?, and What's in it for you? Senior leaders need to conduct a number of workshops with middle management to codefine the cultural aspiration and to discuss the “what,” “how,” and “why” of transformation.

Based on our experiences with clients, whereas Japanese companies tend toward a somewhat slower decision-making process, owing to the cultural preference for consensus, they are very quick when it comes to execution and implementation. Once consensus is obtained, because everyone is now facing the same common goal, they move steadily and quickly. The fact that Japanese organizations are more team oriented further accelerates the execution process. Concretely, this means that once we win the heart of middle management, the various levers to drive change will be pulled quickly, and visible changes are to be expected.



### ***Step 2: Assessing the current cultural state***

Once the aspiration has been defined, it is necessary to understand where we are today. Japanese organizations should reassess their levels of risk aversion, evaluate their decision-making styles, and observe if they encourage team over individual performance. When determining this, it is important to obtain both quantitative (e.g., employee engagement surveys, customer satisfaction data) and qualitative input (e.g., interviews with management, focus groups, key influencers). Understanding where the organization is today not only highlights the gap between the current and desired states but also allows organizations to reflect on positive traits that may support cultural transformation and persist in the desired state. Moreover, transformation does not imply throwing away everything we have today and forming something completely new. It is “an evolution, not a revolution.”

When defining the current and desired states of organizational culture, the next step is to evaluate the gaps and understand what needs to be done to bridge them. This raises questions: How far from agile are we?, What currently works really well in our company and should not change?, and What processes, policies, and behaviors are hindering the organization from becoming more agile?



### ***Step 3: Identifying the behavioral priorities***

The culture gap is best bridged via changes in personal behaviors.

Graph 9

**Perspectives of the critical few behaviors and examples of behaviors to be demonstrated by middle management in an agile organization**

<b>Perspectives</b>	<b>Examples of Critical Few Behaviors in an agile organization</b>
<b>Leadership</b>	Delegate authority to the greatest extent possible Don't penalize failure and utilize it for future improvements
<b>Relationships</b>	Conduct meetings cross-functionally Actively seek collaboration opportunities
<b>Decision-making</b>	Ensure a quick decision-making process Delegate decision-making authority to the extent possible
<b>Information sharing</b>	Share ideas with your team in informal settings Provide direct and indirect feedback in a timely manner
<b>Business operations</b>	Encourage new opinions and ideas from your peers Collect customers' voices proactively

Source: PwC Strategy&

Thus, for the third step, we define the “critical few behaviors” that drive organizations to achieve its cultural aspirations. Behaviors are patterns within a company of how individuals spend their time, make decisions, live relationships, handle conflicts and truths, and perform their jobs; what people “do” on a day-to-day basis.<sup>4</sup> Critical behaviors are derived from numerous discussions among the key stakeholders of the cultural transformation, especially middle management who deeply understands the behaviors that have the most impact on the target culture. Furthermore, required behaviors may vary, depending on teams and titles.

The first step for organizations is brainstorming the critical behaviors. For example, if an organization aspires to be more agile, the following behaviors should be considered (Graph 9).

After brainstorming critical behaviors, we should prioritize them

4: “The Critical Few”, Jon Katzenbach with James Thomas and Gretchen Anderson, 2018

based on ease of implementation and impact to determine the “critical few behaviors”. As behavior change is not a simple task and requires persistent effort, it is important to focus on the few critical behaviors that matter most: those that are high impact, easy to implement. Middle management can play a key role in leading task forces to workshop these behavior plans and to bring these behaviors to life throughout the organization. They should be involved in the definition of clear and realistic roadmaps that will be used to monitor progress through the transformation process. They should be made accountable for the success or failure of achieving goals by using defined metrics. These metrics should be simple, easily measurable, and easily used to demonstrate success stories.



#### ***Step 4: Creating and cascading the messages of cultural aspiration and behaviors to the entire organization***

Transformation of organizational culture should be understood and adopted not only by the leadership group but also by all levels of the organization. Thus, the creation and cascading of cultural messages and expected behaviors are critical to success.

To implement effective messaging for cultural transformation, we offer the following guiding principles:

- **Involvement of middle management in the early creation process:** The key messages should be cocreated with the support of middle management to ensure their practical viewpoints from their interactions with the rest of the organization are reflected.
- **Connecting and embedding the cultural transformation story:** Connect and embed the story around the transformation of organizational culture to the bigger picture of where the business is heading, and provide context (i.e. refrain from telling the culture transformation story in isolation).
- **A story that talks to all employees:** Ensure the story can be understood and digested. Ensure it encourages actions to be taken by all employees and not just the leaders. The messaging should be consistently shared from the leadership group to demonstrate a high level of commitment.
- **Translating the intent of the messages:** Non-Japanese leaders of multinational organizations based in Japan tend to share the directly translated version (e.g., from English to Japanese) of the key messages for their employees without paying careful attention to the subtle cultural nuances that are very important in Japanese culture. We must ensure that translations clearly reflect the intentions of the leaders and provide the appropriate context that fits the organizational culture.

Furthermore, for the messages to have a real and sustainable

impact, cascading them is critical. The leadership messages should be cascaded downward by middle management to the rest of the organization via town halls, emails, focus groups, etc. It is necessary for middle management to translate the leadership message to, What does that mean for our team at a practical level? and What kind of behaviors are particularly important for our teams that will support the cultural transformation? To further accelerate the cascade of messages, it is important to leverage the “authentic informal leaders” (i.e., individuals who influence the organization regardless of their formal title).

Leaders, middle managers, and authentic informal leaders must also “walk the talk.” Success is not just about what we say. It is also about what we do. They should commit to changing their own behaviors and making those changes visible to the organization both horizontally and vertically through their wide networks. Additionally,

## ***Our experiences: Leveraging middle management as transformation leader***

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The positive impact of leveraging middle management as change leaders is illustrated in the following case with one of our clients. The chief executive of a large Japanese technological company decided to join forces with next-generation leaders (i.e. middle management) to transform their organizational culture and to become more agile. We currently provide leadership training with sessions focusing on, How do we cocreate with our clients going digital?, focusing on the way we behave externally, and on, How do we become change leaders in the digital age?, focusing on the way we behave internally.

The main objectives of the training course are to build a sense of leadership and responsibility among middle management, to transform and lead the success of the organization going forward, and to encourage middle management to speak about the company’s vision and strategies in their own words to the rest of the organization. At first, the nominated middle managers did not fully understand their roles in leading the transformation and their impact on cascading the company’s vision and strategy to their teams. However, after we conducted a few training sessions, they understood the need (i.e., the “burning platform”) and the importance of their

role. Thus, several middle managers subsequently held team meetings to share the company vision and strategy and to collect feedback from their teams. They are now more engaged and are becoming leaders of change. This has had an impact on employee behavior, resulting in increased cross-functional collaboration. It has transformed the mentality of the employees to set stretch goals. By involving middle management from the beginning of the transformation process and by aligning them in the same direction as the leaders, we have seen immediate action and impact throughout the organization.



to ensure that the messaging is multidirectional, middle management must collect feedback and opinions from the employees. This can be done using email groups, social networks, anonymous questions-and-answer tools at town halls, etc. This feedback should make it to the leadership group. They need to understand what is working well vs. what should change. As mentioned above, middle management again plays a key role in ensuring that the cultural aspirations are reflected in the day-to-day work.

Historically, in Japanese organizations, middle management has been treated as messengers of the leadership group, expected to simply relay messages by repeating content. However, to effectively transform the organizational culture, middle management must become change leaders. They should be provided with the opportunity to actively contribute to the transformation process from the very beginning. See Step 1: defining the cultural aspiration. They should also be encouraged to speak openly and honestly to their senior leaders about the effectiveness of the process.



### ***Step 5: Supporting the change through policies, systems, and processes***

Furthermore, the expected behaviors must be accompanied by changes in policy, systems, and processes for the transformation to have a sustainable impact. For example, a company that expects its employees to be more agile and innovative should ensure that they encourage them to try new things. This could be supported by the company's performance evaluation system and/or its method of compensating for new ideas. Google, which is known to be one of the most innovative companies in the world, provides an initiative known as the "20% project," which allows employees to spend 20% of their time, one day a week - not in addition to their daily work), undertaking a side project with the aim of creating new things. The initiative is governed by clear rules that ensures that the ideas are aligned to the company strategy. When the behavior of constantly trying new things is encouraged and there is a supportive policy in place to further support such behaviors, the innovative organizational culture truly works at its best. This is evident from the number of innovative products and services launched by Google.

The steps outlined above seem simple, but in reality, they require strong commitment from all levels of the organization. They require deep thinking, planning, alignment, and intervention to succeed.



### ***Step 6: Monitoring your progress and communicating the success stories quickly***

The final step comprises understanding progress toward the target

state. It asks, How well are you doing against the road map set? and How far are you from your expected results? By monitoring progress, success stories can be highlighted and communicated to acknowledge efforts by employees to achieve milestones. It also reinforces expected behaviors and ensures that employees understand what change means on a day-to-day basis. The monitoring process and the related metrics used can evolve throughout the transformation process. It is also important to recognize the work of middle management to ensure they remain engaged in the process and that that they continue demonstrating the identified critical few behaviors.

Finally, there is no easy solution for attaining an effective organizational culture. Culture is inherently complex. It has an inertia of its own and requires strong and persistent efforts to change it. However, complexity allows for differentiation. When cultural aspiration is achieved and is rooted in people, the organization's potential is unlocked, differentiating it from other organizations.

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