they lead. Those ethical standards then become powerful, informal guidelines for the behaviors, decisions, and dealings of members of that culture or tribe.

Leaders use every means available to them as an organizational leader to influence an organization's culture and their relationship with it. It bears repeating in this regard that reward systems, assignment of new managers from within versus outside the organization, composition of the firm's board of directors, reporting relationships, and organizational structure—each of these fundamental elements of executing a company's vision and strategy are also a leader's key "levers" for attempting to shape organizational culture in a direction she or he sees it needing to go. Because we have already discussed these levers, we move on to other ways leaders have sought to shape and reinforce their organization's culture.

Emphasize Key Themes or Dominant Values

Businesses build strategies around distinct competitive advantages they possess or seek. Quality, differentiation, cost advantages, and speed are four key sources of competitive advantage. Insightful leaders nurture key themes or dominant values within their organization that reinforce competitive advantages they seek to maintain or build. Key themes or dominant values may center around wording in an advertisement. They are often found in internal company communications. They are most often found as a new vocabulary used by company personnel to explain "who we are." At Xerox, the key themes include respect for the individual and services to the customer. At Procter & Gamble (P&G), the overarching value is product quality; McDonald's uncompromising emphasis on QSCV quality, service, cleanliness, and value—through meticulous attention to detail is legendary; Southwest Airlines is driven by the "family feeling" theme, which builds a team spirit and nurtures each employee's cooperative attitude toward others, cheerful outlook toward life, and pride in a job well done. Du Pont's safety orientation—a report of every accident must be on the chairman's desk within 24 hours—has resulted in a safety record that was 27 times better than the chemical industry average and 68 times better than the all-manufacturing average.

Encourage Dissemination of Stories and Legends about Core Values

Companies with strong cultures are enthusiastic collectors and tellers of stories, anecdotes, and legends in support of basic beliefs. Frito-Lay's zealous emphasis on customer service is reflected in frequent stories about potato chip route salespeople who have slogged through sleet, mud, hail, snow, and rain to uphold the 99.5 percent service level to customers in which the entire company takes great pride. Milliken (a textile leader) holds "sharing" rallies once every quarter at which teams from all over the company swap success stories and ideas. Typically, more than 100 teams make five-minute presentations over a two-day period. Every rally is designed around a major theme, such as quality, cost reduction, or customer service. No criticisms are allowed, and awards are given to reinforce this institutionalized approach to storytelling. L.L.Bean tells customer service stories; 3M tells innovation stories; P&G, Johnson & Johnson, IBM, and Maytag tell quality and innovation stories. These stories are very important in developing an organizational culture, because organization members identify strongly with them and come to share the beliefs and values they support.

Institutionalize Practices That Systematically Reinforce Desired Beliefs and Values

Companies with strong cultures are clear on what their beliefs and values need to be and take the process of shaping those beliefs and values very seriously. Most important, the values espoused by these companies underlay the strategies they employ. For example, McDonald's has a yearly contest to determine the best hamburger cooker in its chain. First, there is a competition to determine the best hamburger cooker in each store; next, the store winners compete in regional championships; finally, the regional winners compete in the "All-American" contest. The winners, who are widely publicized throughout the company, get trophies and All-American patches to wear on their McDonald's uniforms.

Adapt Some Very Common Themes in Their Own Unique Ways

The most typical beliefs that shape organizational culture include (1) a belief in being the best (or, as at GE, "better than the best"); (2) a belief in superior quality and service; (3) a belief in the importance of people as individuals and a faith in their ability to make a strong contribution; (4) a belief in the importance of the details of execution, the nuts and bolts of doing the job well; (5) a belief that customers should reign supreme; (6) a belief in inspiring people to do their best, whatever their ability; (7) a belief in the importance of informal communication; and (8) a belief that growth and profits are essential to a company's well-being. Every company implements these beliefs differently (to fit its particular situation), and every company's values are the handiwork of one or two legendary figures in leadership positions. Accordingly, every company has a distinct culture that it believes no other company can copy successfully. And in companies with strong cultures, managers and workers either accept the norms of the culture or opt out from the culture and leave the company.

The stronger a company's culture and the more that culture is directed toward customers and markets, the less the company uses policy manuals, organization charts, and detailed rules and procedures to enforce discipline and norms. The reason is that the guiding values inherent in the culture convey in crystal-clear fashion what everybody is supposed to do in most situations. Poorly performing companies often have strong cultures. However, their cultures are dysfunctional, being focused on internal politics or operating by the numbers as opposed to emphasizing customers and the people who make and sell the product.

Manage Organizational Culture in a Global Organization[19]

The reality of today's global organizations is that organizational culture must recognize cultural diversity. *Social norms* create differences across national boundaries that influence how people interact, read personal cues, and otherwise interrelate socially. *Values* and *attitudes* about similar circumstances also vary from country to country. Where individualism is central to a North American's value structure, the needs of the group dominate the value structure of their Japanese counterparts. *Religion* is yet another source of cultural differences. Holidays, practices, and belief structures differ in very fundamental ways that must

[19] Differing backgrounds, often referred to as *cultural diversity,* is something that most managers will certainly see more of, both because of the growing cultural diversity domestically and the obvious diversification of cultural backgrounds that result from global acquisitions and mergers. For example, Harold Epps, manager of a computer keyboard plant in Boston, manages 350 employees representing 44 countries of origin and 19 languages.

EXHIBIT 12.9
Managing the Strategy-Culture Relationship

Changes in key organizational factors that are necessary to implement the new strategy

	High	Low
Many	Link changes to basic mission and fundamental organizational norms 1	Reformulate strategy or prepare carefully for long-term, difficult cultural change 4
Few	2 Synergistic—focus on reinforcing culture	3 Manage around the culture

Potential compatibility of changes with existing culture

be taken into account as one attempts to shape organizational culture in a global setting. Finally, *education,* or ways people are accustomed to learning, differs across national borders. Formal classroom learning in the United States may teach things that are only learned via apprenticeship in other cultures. Because the process of shaping an organizational culture often involves considerable "education," leaders should be sensitive to global differences in approaches to education to make sure their cultural education efforts are effective. Henning Kagermann, former CEO of German-based global software company SAP, spoke to this issue when he said: "If you are a big company, you need to tap into the global talent pool. It's foolish to believe the smartest people are in one nation. In Germany, we now have this big public debate about there being a shortage of engineers in the country. Well, I don't care, or at least not as CEO of SAP. We are a collection of talented engineers in Germany, India, China, the U.S., Israel, Brazil, and the diversity therein represented enriches the culture, creativity, and market responsiveness of SAP."[20] Kagermann was seeking significant representation of cultures and communities worldwide so that SAP truly reflected the vast global settings in which it does business.

Manage the Strategy-Culture Relationship

Managers find it difficult to think through the relationship between a firm's culture and the critical factors on which strategy depends. They quickly recognize, however, that key components of the firm—structure, staff, systems, people, style—influence the ways in which key managerial tasks are executed and how critical management relationships are formed. And implementation of a new strategy is largely concerned with adjustments in these components to accommodate the perceived needs of the strategy. Consequently, managing the strategy-culture relationship requires sensitivity to the interaction between the changes necessary to implement the new strategy and the compatibility or "fit" between those changes and the firm's culture. Exhibit 12.9 provides a simple framework for managing the strategy-culture relationship by identifying four basic situations a firm might face.

Link to Mission

A firm in cell 1 is faced with a situation in which implementing a new strategy requires several changes in structure, systems, managerial assignments, operating procedures, or other fundamental aspects of the firm. However, most of the changes are potentially compatible with the existing organizational culture. Firms in this situation usually have a tradition of

[20] "Tapping Global Talent in Software," *BusinessWeek,* June 9, 2007.

effective performance and are either seeking to take advantage of a major opportunity or are attempting to redirect major product-market operations consistent with proven core capabilities. Such firms are in a very promising position: they can pursue a strategy requiring major changes but still benefit from the power of cultural reinforcement.

Four basic considerations should be emphasized by firms seeking to manage a strategy-culture relationship in this context:

1. *Key changes should be visibly linked to the basic company mission.* Because the company mission provides a broad official foundation for the organizational culture, top executives should use all available internal and external forums to reinforce the message that the changes are inextricably linked to it.

2. *Emphasis should be placed on the use of existing personnel* where possible to fill positions created to implement the new strategy. Existing personnel embody the shared values and norms that help ensure cultural compatibility as major changes are implemented.

3. *Care should be taken if adjustments in the reward system are needed.* These adjustments should be consistent with the current reward system. If, for example, a new product-market thrust requires significant changes in the way sales are made, and, therefore, in incentive compensation, common themes (e.g., incentive oriented) should be emphasized. In this way, current and future reward approaches are related, and the changes in the reward system are justified (encourage development of less familiar markets).

4. *Key attention should be paid to the changes that are least compatible with the current culture,* so current norms are not disrupted. For example, a firm may choose to subcontract an important step in a production process because that step would be incompatible with the current culture.

P&G's new innovation approach under Alan Lafley, described in Exhibit 12.10, Strategy in Action, offers an excellent example of a company in this situation. P&G's long-standing mission as a consumer products company had been one of innovative product design and development. Alan Lafley was very careful to push for a more open culture in terms of who would help P&G innovate more effectively, but he was also emphatic about linking these new efforts at changing how the "great innovator" innovated with the core notion that P&G people, and P&G's 100-year-old tradition or mission was still *THE* global consumer products innovator. He linked changes to the basic P&G mission. Lafley next emphasized speaking positively about P&G people and getting them to buy in to the changes he sought. He placed emphasis on existing personnel. Third, he included new rewards to encourage acceptance of the different way of doing things. And fourth, he made sure on changes that were "stretching people too much" to use what he called an accelerator and a throttle approach. He identified himself as the accelerator, pushing aggressively for change. And he assigned his managers as his throttle, to regularly meet and discuss and perhaps alter the pace of change, depending on their assessment of whether the changes were taking or whether people were being pushed to change too quickly. So in this way Lafley made sure to monitor changes least compatible with P&G's current culture.

Maximize Synergy

A firm in cell 2 needs only a few organizational changes to implement its new strategy, and those changes are potentially quite compatible with its current culture. A firm in this situation should emphasize two broad themes:

1. *Take advantage of the situation to reinforce and solidify the current culture.*
2. *Use this time of relative stability to remove organizational roadblocks to the desired culture.*

Strategy in Action

Exhibit 12.10

Recreating P&G and Its 170-Year-Old Culture

Alan Lafley has dramatically changed Procter & Gamble since he became CEO. Founded in 1837, it has long had a culture that emphasized internally focused, "invented-here" innovation; incremental innovation; and intense loyalty to its brands like Tide, Crest, and Pampers. Lafley, a P&G veteran, turned it upside down, much to others' surprise. He followed Durk Jager, an aggressive change agent who launched several new brands, openly criticized P&G's internally focused culture, and sought to dramatically change that culture. Jager's efforts at changing P&G failed to improve earnings, which, along with employee resistance, resulted in his departure. Lafley then replaced Jager.

Lafley, considered an insider, has opened up P&G far beyond what anyone expected. He has made innovation from folks outside P&G a key priority, started new product lines, and outsourced key functions like IT and soap manufacturing. He has made major acquisitions and moved P&G into the beauty care business. He personally spends considerable time with everyday consumers around the globe to understand their basic cleaning product needs and processes.

Lafley described his perspective in an interview with Jay Greene of *BusinessWeek*:

Q: When you started, you weren't perceived as a forceful change agent like your predecessor. Yet you're making more dramatic changes. Can you discuss that?

A: Durk and I had believed very strongly that the company had to change and make fundamental changes in a lot of the same directions. There are two simple differences: One is I'm very externally focused. I expressed the change in the context of how we're going to serve consumers better, how we're going to win with the retailer, and how we're going to defeat the competitor in the marketplace.

The most important thing—I didn't attack. I avoided saying P&G people are bad. I thought that was a big mistake [on Jager's part]. The difference is, I preserved the core of the culture and pulled people where I wanted to go. I enrolled them in change. I didn't tell them.

Q: Why did you both see a need for change?

A: We were looking at slow growth. An inability to move quickly, to commercialize on innovation and get full advantage out of it. We were looking at new technologies that were changing competition in our industry, retailers, and the supply base. We were looking at a world that all of a sudden was going to go 24/7, and we weren't ready for that kind of world.

Q: Are you concerned about the [trying to change P&G too fast]?

A: I'm worried that I will ask the organization to change ahead of its understanding, capability, and commitment, because that's a problem.

I have been a catalyst of change and encourager of change and a coach of change management.

And I've tried not to drive change for the sake of change.

Q: How do you pace change?

A: I have tremendous trust in my management team. I let them be the brake. I am the accelerator. I help with direction and let them make the business strategic choices.

Q: Did the fact that P&G was in crisis when you came in help you implement change?

A: It was easier. I was lucky. When you have a mess, you have a chance to make more changes.

Source: Jay Greene and Mike France, "P&G: New & Improved," *BusinessWeek*, July 7, 2003.

3M's current effort to reacquire its culture of innovation illustrates this situation. Earlier this decade, James McNerney became the first outsider to lead 3M in its 100-year history. He had barely stepped off the plane before he announced he would change the DNA of the place. His playbook was classic pursuit of efficiency: he axed 8,000 workers (about 11 percent of the workforce), intensified the performance-review process, tightened the purse strings, and implemented a Six Sigma program to decrease production defects and increase efficiency. Five years later, McNerney abruptly left for a bigger opportunity—Boeing. His successor, George Buckley, faced a challenging question: whether the relentless emphasis on efficiency had made 3M a less creative company. That's a vitally important issue for a company whose very identity is built on innovation—the company that has always prided itself on drawing at least one-third of sales from products released in the past five years; today that fraction has slipped to only one-quarter.

Those results are not coincidental. Efficiency programs such as Six Sigma are designed to identify problems in work processes—and then use rigorous measurement to reduce variation and eliminate defects. When these types of initiatives become ingrained in a company's culture, as they did at 3M, creativity can easily get squelched. After all, a breakthrough innovation is something that challenges existing procedures and norms. "Invention is by its very nature a disorderly process," says CEO Buckley, who has dialed down some key McNerney initiatives as he attempts to return 3M to its roots and its culture of innovation. "You can't put a Six Sigma process into that area and say, well, I'm getting behind on invention, so I'm going to schedule myself for three good ideas on Wednesday and two on Friday. That's not how creativity works." While process excellence demands precision, consistency, and repetition, innovation calls for variation, failure, and serendipity.[21] Buckley is taking advantage of this difficult situation to reinforce and solidify 3M's "re"-embrace of its former, innovation culture by bringing back flexible funding for innovative ideas among other traditions. At the same time, he is using the general embrace of a return to its old culture to make some key changes in manufacturing practices and plant locations outside the United States to make 3M more cost effective and competitive in a global economy.

Manage around the Culture

A firm in cell 3 must make a few major organizational changes to implement its new strategy, but these changes are potentially inconsistent with the firm's current organizational culture. The critical question for a firm in this situation is whether it can make the changes with a reasonable chance of success.

A firm can manage around the culture in various ways: create a separate firm or division; use task forces, teams, or program coordinators; subcontract; bring in an outsider; or sell out. These are a few of the available options, but the key idea is to create a method of achieving the change desired that avoids confronting the incompatible cultural norms. As cultural resistance diminishes, the change may be absorbed into the firm.

IBM's 2004 sale of its PC business to China's Lenovo, creating the third-largest global PC firm behind Dell and HP, was a strategic decision it took three years to conclude. IBM management became increasingly concerned with the problem that the PC business, and the culture surrounding it, were incompatible with the culture and direction IBM's core business had been taking for some time. The conflict, and the inability to reconcile different cultural needs, led IBM executives to explore the sale of the PC division to Lenovo. At the time IBM's PC division was in disarray and losing $400 million annually. Lenovo's reaction was to send IBM packing out of China with a sense they had tried to take Lenovo's executives for fools who would buy a "pig in a poke." But IBM executives, still desperately concerned about the fundamental and cultural difference between the PC business and the rest of IBM set about an intense 18-month effort to wring costs out of the PC's supply chain, bring it back to profitability, and then go to call on Lenovo again. They achieved both in 18 months and, in their next business, found a more receptive Lenovo management team—ultimately concluding the deal a few months later. In so doing, IBM worked feverishly even to include creating a profitable global PC business only to then sell it quickly and cheaply so that it could "manage around a culture" in the sense of allowing IBM to unify around a different

21 "At 3M, a Struggle Between Efficiency and Creativity," *BusinessWeek*, June 11, 2007.

business model and remove the business it was most known for, the IBM-PC business, from its organization along with the cultural incompatibility it represented.

Reformulate the Strategy or Culture

A firm in cell 4 faces the most difficult challenge in managing the strategy-culture relationship. To implement its new strategy, such a firm must make organizational changes that are incompatible with its current, usually entrenched, values and norms. A firm in this situation faces the complex, expensive, and often long-term challenge of changing its culture; it is a challenge that borders on impossible.

When a strategy requires massive organizational change and engenders cultural resistance, a firm should determine whether reformulation of the strategy is appropriate. Are all of the organizational changes really necessary? Is there any real expectation that the changes will be acceptable and successful? If these answers are yes, then massive changes are often necessary. Alan Mulally's actions at Ford over the last few years saw him making major changes in an attempt to change Ford's culture to suit its new strategy: bringing outsiders in as top execs, changing long-standing executive compensation programs, emphasizing sales and marketing over the traditional, patronage-based culture as, sadly, Ford's most "prized" cultural element. These are elements through which Ford, under Mulally, is undergoing massive change as he tries to build a different culture compatible with a new vision and strategy.

The John Deere company faced a growing challenge in a globally competitive farm equipment industry as it moved into the twenty-first century. Its financial performance was marginal, and it retained a "family" culture borne out of its century-long roots in the land and farm setting it served. New CEO Bob Lane[1] first developed a new strategy that placed straightforward emphasis on improving Deere's efficient use of its assets and clear profitability targets. Pursuing this strategy required several organizational changes at Deere, which were received relatively easily in a tradition-laden company. But Lane quickly found that a greater challenge needed confronting— and that was Deere's "family" culture, which manifests itself in what he called a "best efforts mentality." That mentality drove the culture that had many Deere managers often satisfied with making earnest efforts and doing "pretty good." Lane had to change that culture, or change his new results-driven strategy. He chose to change the culture, which meant moving from the commonly heard expression of "the John Deere family" to one that prioritized high-performance teams. As Lane described it, "We're changing from being a family to being a high-performance team. To use an American football analogy, some people prefer to play intramurals. That's okay, but they are no longer a good fit for John Deere. It was as if you could always count on Deere to move the ball at least six or seven yards. And when we got to that point, we could say 'good work, good enough'—even though we hadn't reached the first-down marker." Now, Deere people are expected to have exhausted every legitimate effort to move the ball farther and meet the goal, and then move the ball farther again. CEO Lane, and his management team, have decided to stick with the strategy and reformulate Deere's culture.[22]

[22] "Leading Change," *McKinsey on Organization,* McKinsey and Company, December 2006.

Summary

This chapter has examined organizational leadership and organization culture—two factors essential to the successful implementation and execution of a company's strategic plan. Organizational leadership is guiding and shepherding an organization over time and developing that organization's future leadership and its organization culture.

We saw that good organizational leadership involves three considerations: clarifying strategic intent, building an organization, and shaping the organization's culture. Strategic intent is clarified through the leader's vision, a broad picture of where he or she is leading the firm, and candid attention to and clear expectations about performance.

Leaders use education, principles, and perseverance to build their organization. Education involves familiarizing managers and future leaders with an effective understanding of the business and the skills they need to develop. Perseverance, the ability to stick to the challenge when most others falter, is an unquestionable tool for leaders to instill faith in the vision they seek when times are hard. Principles are the leader's personal standards that guide her or his sense of honesty, integrity and ethical behavior. They are more essential than ever in today's world as key building blocks for the type of organization for which a leader's principles reflect and are watched with great interest by every manager, employee, customer, and supplier of the organization.

Leaders start to shape organizational culture by the passion they bring to their role, and their choice and development of young managers and future leaders. Passion, a highly motivated sense of commitment to what you do and want to do, is a force that permeates attitudes throughout an organization and helps them buy into your cultural aspirations. Combining those with the skills, aspirations, and inclinations you seek to make the vision a reality—and then helping them develop—is a key way to build a culture over the long term. One of the key skills of these rising leaders is to learn how to motivate, lead, and get others to do what they need.

Understanding seven sources of power and influence, rather than just the power of position and punishment, is a critical skill for effective future leaders to grasp.

Organizational culture is the set of important assumptions, values, beliefs, and norms that members of an organization share in common. The organizational leader plays a critical role in developing, sustaining, and changing organizational culture. Ethical standards, the leader's basis for differentiating right from wrong, quickly spread as a centerpiece between the leader and the organization's culture. Leaders use many means to reinforce and develop their organization's culture—from rewards and appointments to storytelling and rituals. Managing the strategy-culture relationship requires different approaches, depending on the match between the demands of the new strategy and the compatibility of the culture with that strategy. This chapter examined four different scenarios.

Key Terms

ethical standards, *p. 342*
expert influence, *p. 338*
information power, *p. 338*
leadership development, *p. 331*
leader's vision, *p. 328*
organizational culture, *p. 340*
organizational leadership, *p. 326*
passion (of a leader), *p. 334*
peer influence, *p. 339*
perseverance (of a leader), *p. 332*
position power, *p. 338*
principles (of a leader), *p. 333*
punitive power, *p. 338*
referent influence, *p. 338*
reward power, *p. 338*
strategic intent, *p. 328*

Questions for Discussion

1. Think about any two leaders you have known, preferably one good and one weak. They can be businesspersons, coaches, someone you work(ed) with, and so forth. Make a list of five traits, practices, or characteristics that cause you to consider one good and the other weak. Compare the things you chose with the seven factors used to differentiate effective organizational leadership in the first half of this chapter.
2. This chapter describes seven attributes that enable good leadership—vision, performance, principles, education of subordinates, perseverance, passion, and leader selection/development. Which one have you found to be the most meaningful to you in the leaders you respond to the best?