Chapter 9

Corporate Culture and Leadership

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Learning Objectives

- **Building a Corporate Culture that Promotes Good Strategy Execution**
  - Culture: Ally or Obstacle to Strategy Execution?
  - Types of Cultures
  - Creating a Strong Fit Between Strategy and Culture
  - Establishing a Strategy-Culture Fit in Multinational Companies
- Leading the Strategy Execution Process

Objective 1

Building a Corporate Culture that Promotes Good Strategy Execution

The Defining Characteristics of a Company's Culture

- Its core values, beliefs, and business principles

- Patterns of "how we do things around here"—its style of operating and ingrained behaviors of company personnel

- Oft-told stories illustrating company's values

- Its approach to people management

- Ethical standards

- Internal politics

- Traditions

What to Look for in Identifying Corporate Culture

A *company's culture* is *manifested* in . . .

- Values, beliefs, and business principles management preaches and practices

- Official policies and procedures

- Its revered traditions and oft-repeated stories

- Attitudes and behaviors of employees

- Peer pressures that exist to display core values

- Its politics

- Approaches to people management and problem solving

- Its relationships with external stakeholders

- "Chemistry" and "personality" permeating work environment

Where Does Corporate Culture Come From?

- Founder or early leader

- Influential individual or work group

- Policies, vision, or strategies

- Traditions, supervisory practices, employee attitudes

- The peer pressures that exist

- Organizational politics

- Relationships with stakeholders

- Company's approach to people management

How Is a Company's Culture Perpetuated?

- Selecting new employees who will "fit" in

- Systematic indoctrination of new employees

- Senior management efforts to reinforce core values, beliefs, principles, key operating practices

- Story-telling of company legends

- Ceremonies honoring employees who display cultural ideals

- Visibly rewarding those who follow cultural norms

Forces and Factors Causing Culture to Evolve

- New challenges in marketplace

- Revolutionary technologies

- Shifting internal conditions

    – Internal crisis

    – Turnover of top executives

- Arrival of a new CEO

- Diversification into new businesses

- Expansion into foreign countries

- Rapid growth involving adding new employees

- Merger with or acquisition of another company

Culture: Ally or Obstacle to Strategy Execution?

- A company's culture can **contribute to** – **or hinder** – successful strategy execution

- A **culture** that promotes **attitudes and behaviors that are well-suited to first-rate strategy execution is a valuable ally** in the strategy execution process

- A culture that embraces attitudes and behaviors which impede good strategy execution is a huge obstacle to be overcome

Why Culture Matters: Benefits of a Tight Culture-Strategy Fit

- A culture that encourages *actions and behaviors supportive* of *good strategy execution*
  - Provides employees with clear guidance regarding what behaviors and results constitute good job performance
  - Creates significant peer pressure among coworkers to conform to culturally acceptable norms
- A culture imbedded with *values* and *behaviors* that *facilitate strategy execution* promotes strong employee commitment to the company's
  - Vision
  - Performance targets
  - Strategy

Optimal Outcome of a Tight Culture-Strategy Fit

- A *good job* of *culture-building* by managers

  – Promotes can-do attitudes

  – Encourages acceptance of change

  – Instills strong peer pressure for strategy-supportive behaviors

  – Enlists enthusiasm and dedicated effort to achieve company objectives

The Perils of Strategy-Culture Conflict

- Conflicts between culturally-approved behaviors and behaviors needed for good strategy execution send mixed signals

  - **Should** employees by loyal to the culture and company traditions and resist actions and behaviors promoting better strategy execution?

  - **Or** should they support the strategy by engaging in behaviors that run counter to the culture?

Characteristics of Strong Culture Companies

- Conduct business according to a clear, widely-understood philosophy

- Considerable time spent by management communicating and reinforcing values

- Values are widely shared and deeply rooted

- Have a well-defined corporate character, reinforced by a creed or values statement

- Careful screening/selection of new employees to be sure they will "fit in"

How Does a Culture Come to Be Strong?

- Leader who establishes values and behaviors consistent with
    - Customer needs
    - Competitive conditions
    - Strategic requirements
- A deep, abiding commitment to espoused values, beliefs, and business philosophy
    - Practicing what is preached!
- Genuine concern for well-being of
    - Customers
    - Employees
    - Shareholders

Characteristics of Weak Culture Companies

- Lack of a widely-shared core set of values

- Few behavioral norms evident in operating practices

- Few strong traditions

- No strong sense of company identity

- Little cohesion among departments

- Weak employee allegiance to company's vision and strategy

Characteristics of Unhealthy Cultures

- Highly politicized internal environment

    – Issues resolved on basis of political clout

- Hostility to change

    – Avoid risks and don't screw up

    – Experimentation and efforts to alter status quo discouraged

- "Not-invented-here" mindset – company personnel discount need to look outside for

    – Best practices

    – New or better managerial approaches

    – Innovative ideas

Hallmarks of Adaptive Cultures

- Willingness to accept change and embrace challenge of introducing new strategies

- Risk-taking, experimentation, and innovation to satisfy stakeholders

- Entrepreneurship is encouraged and rewarded

- Funds provided for new products

- New ideas openly evaluated

- Genuine interest in well-being of all key constituencies

- Proactive approaches to implement workable solutions

Dominant Traits of Adaptive Cultures

- ***Any changes*** in operating practices and behaviors

    - ***Must not*** compromise core values and long-standing business principles

    - ***Must satisfy*** legitimate interests of key stakeholders

        - **Customers**

        - **Employees**

        - **Shareholders**

        - **Suppliers**

        - **Communities**

Substantive Culture-Changing Actions

- Engineer quick successes to highlight benefits of proposed cultural changes

- Bring in new blood, replacing traditional managers

- Change dysfunctional policies

- Change reward structure

- Reallocate budget, downsizing and upsizing

- Reinforce culture through both word and deed

- Enlist support of cultural norms from frontline supervisors and employee opinion leaders

Objective 2

Leading the Strategy Execution Process

Leadership Activities of the Strategy Implementer

1. Stay on top of what's happening

2. Put constructive pressure on company to achieve good results

3. Keep company focused on operating excellence

4. Lead development of stronger core competencies and competitive capabilities

5. Exercise ethics leadership

6. Take corrective actions to improve overall strategic performance

**Carly Fiorina
Hewlett-Packard**

Role #1: Stay on Top of What's Happening

- Develop a broad network of formal and informal sources of information

- Talk with many people at all levels

- Be an avid practitioner of MBWA

  – Observe situation firsthand

- Monitor operating results regularly

- Get feedback from customers

- Watch competitive reactions of rivals

Role #2: Put Constructive Pressure on Company to Achieve Good Results

- Successful leaders spend time
    - Mobilizing organizational energy behind
        - **Good strategy execution and**
        - **Operating excellence**
    - Nurturing a results-oriented work climate
    - Promoting certain enabling cultural drivers
        - **Strong sense of involvement on part of company personnel**
        - **Emphasis on individual initiative and creativity**
        - **Respect for contributions of individuals and groups**
        - **Pride in doing things right**

Role #3: Keep Organization Focused on Operating Excellence

- Promote openness to improving how things are done

- Support mavericks with creative ideas to improve ways of operating

- Ensure rewards for successful champions are large and visible

- Use all kinds of ad hoc organizational forms to support experimentation

- Use tools of benchmarking, best practices, reengineering, TQM, and Six Sigma to focus attention on continuous improvement

Role #4: Promote Stronger Core Competences and Capabilities

- Top management intervention is required to establish better or new

  - Resource strengths and competences

  - Competitive capabilities

- Senior managers must lead the effort because

  - Competences reside in combined efforts of different work groups and departments, thus requiring cross-functional collaboration

  - Stronger competencies and capabilities can lead to a competitive edge over rivals

Role #5: Exercise Ethics Leadership

- Set an excellent example in

  - Displaying ethical behaviors *and*

  - Demonstrating character and personal integrity in actions and decisions

- Make it a duty for employees to

  - Observe ethical codes

  - Report ethical violations

- Encourage compliance and establish tough consequences for unethical behavior

Role #6: Lead the Process of Making Corrective Adjustments

- Requires deciding
  - When adjustments are needed
  - What adjustments to make

- Involves
  - Adjusting long-term direction, objectives, and strategy on an as-needed basis in response to unfolding events and changing circumstances
  - Promoting fresh initiatives to bring internal activities and behavior into better alignment with strategy
  - Making changes to pick up the pace when results fall short of performance targets

Summary

In this chapter we explore the two remaining managerial tasks that shape the outcome of efforts to execute a company's strategy: creating a strategy-supportive corporate culture and exerting the internal leadership needed to drive the implementation of strategic initiatives forward and achieve higher plateaus of operating excellence.