CHAPTER TWO

USING ORGANIZATIONAL CULTURE AS A LEADERSHIP TOOL

Jennifer A. Chatman
Sandra E. Cha

Despite all the press—and credit—given to larger-than-life leaders like Jack Welch and Lou Gerstner for their organizations' magnificent successes, we disagree with the underlying assumption that vibrant personalities are what make for good leadership.[1] In our view, you don't have to be charismatic, a "born leader," or even a particularly astute observer of people's motives or distinct personalities to be an outstanding leader. The traditional notion of leadership conjures up images of a single leader—like an athletic coach—directing, coaching, and evaluating individual subordinates or small groups. But a more appropriate image, representing the most critical role of a leader, is more behind the scenes—that of an architect, designing the deeper structure of an organization using sound principles of human behavior.[2] Of these principles, some of the most powerful have to do with organizational culture.

Now, when we mention the term *culture,* we suspect that many of you are rolling your eyes and yawning, "Not culture again!" Indeed, you have every right to be skeptical, since the very concept of culture has become faddish and, as such, overapplied and underdefined. In this chapter, however, we clarify precisely the power of leveraging culture, at its psychological core, and provide you with specific criteria for developing a strong, strategically relevant culture that will increase the chances that your organization will perform effectively over the long run. We believe that by understanding and creating an effective organizational culture, you can unleash the full potential of your leadership and your organization.

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A few caveats apply to our discussion. First, we won't claim that by simply managing your culture you will be assured of organizational success or by neglecting culture, doomed to fail. As this volume illustrates, leveraging culture is but one of a number of key tools of leadership. We *will* claim, however, that by paying attention to culture and using it as a leadership tool, your organization, and the people working within it, will be more likely to deliver on your strategic objectives over the long run.

We begin by defining culture and delineating why culture affects performance. Then, we discuss the cultural norms that leaders should emphasize to maximize their chances of strategic success. We present a set of leadership practices that focus on leveraging culture and conclude that culture "works" when it is clear, consistent, and comprehensive, particularly during challenging times. Finally, a note about our approach and a last caveat: We combine our discussion of the theoretical underpinnings of leading through organizational culture with examples from a variety of strong-culture organizations. These principles are powerful: they are drawn from decades of carefully controlled empirical research in psychology, sociology, and economics. Though we present examples that vividly illustrate how culture works, none of the examples we provide will be completely, and without modification, importable into your organization. Instead, we present the principles governing how culture influences employees, along with some illustrative examples, so that you, as a business leader, can determine what will work in your context, at your level, with your people, in your organization.

Why Is Organizational Culture Powerful?

Focusing People Intensely on Strategy Execution

A *Fortune* magazine article highlighting pathbreaking research by Ram Charan and Geoffrey Colvin led with a provocative cover: "Why CEOs Fail."[3] Finally, the definitive answer was in, and it was strikingly simple: CEOs failed when they failed to execute their strategy. This was a startling conclusion because, in contrast to what industrial economists have been telling us for years about the victories of firms with well-formulated and hard-to-imitate business strategies,[4] it suggests that firms with merely reasonable strategies that execute fully on those will be the most successful.

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This finding shifts our focus from strategy formulation to strategy execution—and culture is all about execution. Consider the often-cited example of Southwest Airlines, a company with a transparent strategy: high volume; short, convenient flights; and the use of a single type of plane, the fuel-efficient 737—culminating in low costs and the ability to offer customers low-priced tickets. And yet Southwest has achieved the strongest balance sheet in the airline industry.[5] Profitable for 31 consecutive years, Southwest is the only airline to have continuously increased earnings, maintained a full flight schedule, and avoided layoffs since the September 11, 2001, terrorist attacks.[6] One key to Southwest's success is its remarkably short turnaround time: 15 minutes versus competitors' average of 35 minutes.[7] Planes don't sit long at the Jetway. Instead, employees across functional lines band together to get the planes out quickly, despite the company's being 81 percent unionized. This results in an average plane utilization of around 12 hours at Southwest versus the industry average of closer to 9 hours. Southwest's success hinges not on how brilliant, unique, or opaque its strategy is but on how motivated, clear, and committed employees are with respect to the strategy.

Strong cultures—widely understood and intensely held values and norms—enhance organizational performance in two ways. First, they improve performance by creating energetic employees—by appealing to higher ideals and values and rallying people around a set of meaningful, unified goals. Such ideals excite employee commitment and effort because they are inherently engaging,[8] and they fill voids in identity that, some believe, characterize contemporary Western society.[9] Second, strong cultures boost performance by shaping and coordinating employees' behavior. Stated values and norms focus employees' attention on organizational priorities, which then guide employees' behavior and decision making. They do so without impinging, as formal control systems do, on the autonomy necessary for excellent performance under changing conditions.[10]

Defining Organizational Culture: Values and Behavioral Norms

What, then, is organizational culture? Culture is simply a system of shared values (defining what is important) and norms (defining appropriate attitudes and behaviors) that guide employees' attitudes and behaviors.[11] Culture is more specific than vision, in that a good vision engages employees emotionally by setting up motivating overarching goals to which they can aspire. For example, Citigroup's vision, "We want to be seen as one of the most respected financial institutions in the world, as a unique global full-service bank," can be seen throughout the organization. The bank is global, located in 94 different countries, and has been for nearly 100 years. The bank is full-service, as evidenced by its merger with Travelers and acquisition of Solomon Smith Barney. But if you work with Citigroup and wake up each morning saying, "OK, today's the day I'm going to be really global," it's not clear exactly what this would mean. Similarly, employees of Qualcomm take great pride in their vision, "We are a company full of people with BIG IDEAS and those ideas are changing the wireless world," but would be hard-pressed to identify the big idea that they created to change the wireless world on any given day.

In contrast to vision, culture operates at the level of daily beliefs and behavior to translate abstract visions into useful information about how to behave and what daily decisions and trade-offs to make. An effective culture is closely related to business strategy. Strategy focuses on the specific business objectives, such as your target market, the products or services you offer, and how you compete. Indeed, you cannot craft an organizational culture until you clearly understand and articulate your business strategy. Strategy must come first. Thus, our first criterion for using culture as a leadership tool is that it must be *strategically relevant.*

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Formal versus Social Control: The Power of Shared Norms

Norms—or legitimate, socially shared standards against which the appropriateness of behavior can be evaluated—are the psychological key to culture.[12] As regular behavioral patterns that are relatively stable and expected by group members, norms influence how members perceive and interact with one another, approach decisions, and solve problems.[13] Norms are distinct from rules, which are formal, codified directives. The concept of norms also implies social control; that is, norms act as positive or negative means of ensuring conformity and applying sanctions to deviant behavior.[14]

The influence of norms at work has been appreciated since F. J. Roethlisberger and W. J. Dickson's classic finding: group norms shaped employee behavior on the job more powerfully than either monetary rewards or the physical work environment.[15] Employees developed norms at Western Electric's Hawthorne Plant in Cicero, Illinois, that dictated the acceptable amount of work each employee should complete. Unfortunately, this constrained many employees' productivity. Just like those who worked too little, those who worked *too much* were shunned by other members of the work unit, and as a result, few employees deviated from the norm. We think that this suggests that we are so influenced in our behavior by other people's expectations of us—specifically, their expectations that we uphold shared social norms—that we are willing and likely to *alter our behavior,* that is, to do something different than what we would do if we were alone, when we are in the presence of others. We assimilate because the cost of violating strong norms is simply too high—at best, embarrassment and, at worst, exclusion or alienation from the social group, which ultimately can threaten a person's ability to survive in an interdependent world.

How, then, do norms work in today's organizations? Consider an example from the first author's personal experience. While shopping at Nordstrom, a strong-culture organization known for its emphasis on customer service, she was shown nine pairs of shoes by a polite and attentive Nordstrom shoe sales associate named Lance. Unfortunately, the store did not have the size/color/style combination that she wanted. As she was leaving, another sales associate, Howard, approached and offered to call a few other Nordstrom stores to find the shoes. Ten minutes later, Howard excitedly informed her that although he had not found the shoes at another Nordstrom store, he did find them at Macy's (a primary Nordstrom competitor). Rather than sending her up to Macy's, Howard had already arranged for the shoes to be overnight-mailed to her home. "Of course," Howard informed her, "Macy's will bill you for the shoes, but Nordstrom will pay for the overnight-delivery charge." Howard was so clear about the importance of customer service that he was willing to go above and beyond the call of duty to ensure complete satisfaction. The most interesting part of the story occurred next, however. As the author was leaving Nordstrom, she overheard an interaction that she clearly was not supposed to hear. Howard had gone back to Lance and said, "I can't believe you didn't work harder to find those shoes for her. You really let *us* down." Remember, Howard is not Lance's boss—they are peers—and yet, the norms encouraging customer service at Nordstrom are so strong that employees are willing to sanction one another, regardless of level, for a failure to uphold those norms.

Nordstrom prides itself on providing, not average or good, but *outstanding* customer service. The problem is that relying on formal rules, policies, and procedures will not result in outstanding anything, be it customer service, innovation, or quality. Think back to the last time you had a peak consumer experience—you were "wowed" by someone or some organization. What impressed you? When we ask people this question, they typically talk about how

someone went above and beyond the call of duty to solve *their specific problem.* Formal rules are useful for standardizing performance and avoiding having to relearn things each time. But they are only useful for addressing situations that are *predictable and regular,* whereas outstanding service is based on situations that are nearly impossible to anticipate, unique to a particular person, and often difficult to solve. Formal rules, policies, and procedures will enable your organization to perform at an average level but not to reach the level of outstanding performance on your strategic objectives.

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The irony of leading through culture is that the less formal direction you give employees to execute strategy, the more ownership they take over their actions and the better they perform. New employees at Nordstrom are simply told, "Use your good judgment in all situations,"[16] and at Southwest, they are told, "Do what it takes to make the Customer happy."[17] Employees have to be freed up from rules in order to deliver fully on strategic objectives; they have to understand the ultimate strategic goals and the norms through which they can be successfully achieved, and they must *care* about what their co-workers think of them. This is the force behind culture: strong norms increase employees' clarity about priorities and expectations and their bonds with one another. Unlike formal rules, policies, and procedures, culture empowers employees to think and act on their own in pursuit of strategic objectives, increasing their commitment to those goals. Violations are considered in terms of letting their colleagues down rather than breaking rules. The payoff is huge: if Howard is monitoring his own behavior against Nordstrom's strategic objectives—*and Lance's*—their supervisor does not have to spend time looking over their shoulders and can instead spend time doing the really important work of leadership: planning for the next strategic challenge and supporting employees so that they can do an outstanding job. Thus, the second criterion for using culture as a leadership tool is that it be *strong.*

What Makes Culture Strong?

Strong cultures are based on two characteristics: high levels of agreement among employees about what's valued and high levels of intensity about these values. If both are high, a strong culture exists, and if both are low, the culture is not strong at all.[18] Some organizations are characterized by high levels of intensity but low levels of agreement, or what could be called "warring factions."[19] Many people in high-tech firms have told us that this is exactly their situation: high levels of intensity and agreement exist within the marketing and engineering groups, respectively, but the two groups disagree strongly about priorities, with marketing focusing on features customers want and engineering focusing on the elegance of the product design. Interestingly, however, the most common cases are organizations in which employees agree about what's important, they just don't much care and are unwilling to go the extra mile (e.g., take a risk, stay late) to deliver on strategic objectives or to sanction others for a failure to uphold those norms. These could be called "vacuous" cultures,[20] and their frequency probably reflects the faddish nature of organizational culture and the lip service such organizations pay to it.

Most organizations are aware of the importance of managing culture but, in an attempt to jump on the culture bandwagon, are unable to develop the clarity, consistency, and comprehensiveness needed to encourage employees to care intensely about executing strategic objectives. Though strong organizational cultures have long been touted as critical to bottom-line performance in large organizations,[21] new evidence from a unique sample suggests that developing a strong, strategically relevant culture may be best accomplished when an organization is new. In a longitudinal study of the life cycles of 173 young high-technology companies, founders' initial model of the employment relation dramatically influenced their firms' later success.[22] Firms that switched models as they aged were less successful, and firms that were built around the "commitment model," which emphasized a strong culture and hiring based on cultural fit, stood out from those founded on the engineering or bureaucracy models, by completing initial public stock offerings sooner.[23]

So far, we have identified two of three criteria for using culture as a leadership tool. First, culture must be strategically relevant; that is, Southwest's culture emphasizes keeping costs low, whereas Nordstrom's emphasizes customer service. Second, the culture needs to be strong, in that people agree and care about what's important. The final criterion involves the content of organizational culture, to which we now turn.

Culture Content and Innovation

Though organizational norms revolve around many dimensions,[24] only one appears to be universally critical across organizations regardless of their size, industry, or age: innovation, or generating and implementing creative ideas.[25]

In a comprehensive, longitudinal study of 207 firms over an 11-year period, J. P. Kotter and J. L. Heskett found that, even if firms developed a strong, strategically appropriate culture, they performed effectively over the long run only if their culture also contained norms and values that *promoted innovation and change.*[26]

People may not implement creative ideas because the cost of expressing a creative idea is too high rather than because they have no ideas.

Most creativity research has focused on hiring creative people. But developing creative ideas may depend more on whether the norms in the culture support risk taking and change.[27] Consider the following study: outside observers were asked to evaluate the intelligence of product development team members engaged in meetings in which one member was pitching a product idea to the other members. Guess whose intelligence was rated the lowest by the outside observers time and again? The person pitching the product idea! Why would this be the case? Imagine what is being said in such meetings. The team is probably saying things like, "Didn't you think of . . . ?" and "We already tried. . . ." The idea pitcher is responding with phrases like, "Um," "I'm not sure," and "I don't know." This suggests that expressing creative ideas is risky, in that a person can end up looking less intelligent, since critical skills are valued more than creative skills.[28] The lesson for organizations is clear: people may not implement creative ideas because the cost of expressing a creative idea is too high rather than because they have no ideas. You can bet on your employees' having creative ideas in their heads—about how to do their jobs better, improve a system, or develop a new product. The question is, are they willing to say them out loud?

Establishing these norms may require thinking unconventionally and adopting some "weird" ideas, like "Ignore people who have solved the exact problem you face" and "Find some happy people and get them to fight."[29] Structured brainstorming groups can also create an environment in which publicly raising creative ideas is not only acceptable but also rewarded socially. At IDEO, one of the most successful product development companies in history, brainstorming sessions take on the character of a "status auction," in which the more creative the idea, the higher the bid.[30]

Leaders also promote innovation by creating a shared belief that employees are safe to take interpersonal risks.[31] When employees feel psychologically safe, they are more likely to engage in learning behaviors such as asking questions, seeking feedback, experimenting, reflecting on results, and discussing errors or unexpected outcomes of actions. Leaders create these norms by influencing the way creative ideas and errors are handled—which, in turn, shapes perceptions of how consequential it is to make a mistake. These perceptions influence employees' willingness to report mistakes. Ultimately, they can feed into a more lasting culture of fear or of openness. This culture may further influences employees' ability to identify and discuss problems and to develop new ideas.[32]

Finally, in addition to stimulating the expression of creative ideas, leaders must move quickly to implement the promising ones. Consider Charles Schwab's foray into Internet stock trading, or rather, its near invention of this entire category of trading.[33] In late 1995, one of CIO Dawn Lepore's research groups developed some experimental software that would allow Schwab's computer systems to talk to one another. The research team was aware that it would be difficult to explain the merits of this rather unsexy middleware project to anyone other than techies. So they put together a separate piece of front-end software that would show one of many possible applications. The demo was scheduled, and Lepore, by chance, brought Charles Schwab, a self-described techno-geek, along. The front-end software the engineers had put together was a very simple Web-based software trade. Of course, Lepore's researchers were less interested in online brokerage than in winning her approval to continue working on their obscure project. But Lepore and Schwab instantly recognized the implications of this technology, with Schwab recalling that, "I fell off my chair."[34]

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Within weeks, Schwab had put together a team to commercialize an online brokerage product. The team was fed resources and protected from the larger bureaucracy by reporting directly to President David Pottruck. As Pottruck said, "We needed a group that felt like they were nimble, unshackled from the larger bureaucracy."[35] Within three months, the team had developed a commercial product, and within two weeks of introducing it, Schwab had 25,000 subscribers, its goal for the entire year. By 1998, Schwab had captured 30 percent of the online market share, roughly equal to the next three online competitors combined (E*Trade, Fidelity, and Waterhouse Securities). The lessons are clear: if you develop a culture that supports the expression of creative ideas, these ideas may crop up from unexpected places. And once you spot a good idea, norms that emphasize urgency and speed will help ensure its implementation.

Leadership Tools to Manage and Change Organizational Culture

We have now identified the three criteria for using culture as a leadership tool: strength, strategic relevance, and an emphasis on innovation. We are not the first to identify these criteria,[36] and they are supported by substantial empirical and applied evidence. The next question becomes, How can leaders develop, manage, and change their culture to meet these criteria and to promote extraordinary performance? Three tools will allow you to start making those changes today.

Tool 1: Recruiting and Selecting People for Culture Fit

An organization begins with selection—the joint process of choosing new employees (for organizations) and choosing to join a particular organization (for job candidates). Typical approaches to selection emphasize one kind of "fit" between organizations and prospective employees—person-job fit. Our approach emphasizes person-*culture* fit as well. Ensuring that the culture emphasized in your firm is rewarding for potential employees requires three considerations.

First, specify candidate characteristics in terms of culture fit, not just job fit.[37] General Electric's description of desirable candidates includes phrases such as "stimulate and relish change and are not frightened or paralyzed by it, seeing change as an opportunity, not a threat" and "passion for excellence, hating bureaucracy and all the nonsense that comes with it; who have enormous energy and the ability to energize and invigorate others; who understand speed as a competitive advantage and see the total organizational benefits that can be derived from a focus on speed." Pay attention to the intensity of the language; it is not focused on which computer programs people know or their geographic preferences but, rather, their thirst for challenge and change. These are qualities that GE has determined differentiate those who are successful at GE from those who are not. Firms often get caught focusing exclusively on hiring people who fit their entry-level jobs, and yet, if a person is successful, he or she will hold multiple jobs within the firm linked only by the organizational culture. Thus, it makes sense to hire people who will fit the culture, possibly even trading off the immediate skills necessary for the specific job; people can learn new skills, but establishing cultural fit is much harder.

Be careful whom you send out to do your recruiting because you will get more people like them back.

Second, recruiters are essential to selecting the people you want.[38] A fundamental theory in psychology is called the "similarity-attraction effect."[39] We are attracted to people who are similar to ourselves. Why? Well, most of us kind of like ourselves, think we're doing a pretty good job, and wouldn't mind having lunch with ourselves now and then. So when you ask us to go out and recruit new employees, we are extremely likely to pick people just like us! Our point is simple but critical: be careful whom you send out to do your recruiting because you will get more people like them back.

Finally, tailor your selection process to tap into pools of strong potential candidates. How, for example, did Cisco Systems ensure high culture fit despite facing Silicon Valley's brutally competitive labor market in the late 1990s, hiring an average of 1000 new employees through small acquisitions and individual recruiting *every month?* Cisco began by developing culturally consistent selection criteria, targeting candidates who were frugal, enthusiastic about the future of the Internet, smart, and not consumed with status.[40] Next, Cisco conducted benchmarking studies and focus groups, so that the selection process was maximally effective in winning over promising candidates. Finally, Cisco targeted "passive applicants," people who were satisfied in their current jobs and not job hunting but who might be lured to Cisco, and developed a convenient Web site for them to learn about Cisco. Noticing that the site was getting more than 500,000 hits per month during work hours, Cisco made sure that the site was fast and easy to use; for example, the initial application took five minutes to complete. Applicants who pressed a "friends@Cisco" hot key got a call from a current Cisco employee at a comparable level within 24 hours.[41] These discussions typically focused on hard-to-convey culturally relevant information that, because of the similarity of the source to the candidate, provided a credible view of what it is really like to work at Cisco. Cisco aggressively pursued and won desired candidates by constructing a comprehensive, culturally relevant selection process.

Tool 2: Managing Culture through Intensive Socialization and Training

Socialization refers to the "getting to know you" process by which an individual gradually learns the values, abilities, expected behaviors, and social knowledge

that are essential for assuming an organization role and participating as an employee. Socialization and selection processes are somewhat substitutable.[42] In tight labor markets, firms need to rely more on socializing people once they join; conversely, when labor is more freely available and firms can be highly selective, they do not need to invest as much in socialization practices.

Of the substantial amount that is known about effective socialization practices,[43] we highlight two key aspects of socialization: ensuring that employees acquire cultural knowledge and ensuring that they bond with one another.

At E*Trade, which was founded in 1996 and which became the number 2 online brokerage by 1999, new employees are asked to stand up on a chair at their first staff meeting and disclose something embarrassing about themselves.[44] Although this practice is slightly bizarre, it meshes with sound psychological logic. Once newcomers reveal an embarrassing fact about themselves, it isn't nearly as embarrassing for them to ask their new colleagues for information they need to hit the ground running in their new job. Newcomers don't worry about losing face because they already lost face at that first meeting! Instead of worrying, they are grateful that their new colleagues accept them despite their faults. Knowing that others have gone through this unique initiation rite also creates a bond that allows employees to work together more effectively and that increases their feelings of accountability to others (so that newcomers work hard to uphold established organizational norms). E*Trade's CEO, Chistos Cotsakos, has also taken his executive team Formula One racing to make them "move faster" and enrolled them in cooking school to increase their agility in working together.[45] These practices promote the two goals of socialization: clarifying the cultural values and creating strong bonds among employees so that they are accountable to one another for upholding those values.

Tool 3: Managing Culture through the Reward System

As an organization's informal reward system, the culture needs to be intricately connected to formal rewards. At CompUSA, the largest retailer and reseller of personal computer–related products and services in the United States, CEO James Halpin has cultivated "a cross between a college fraternity and a military boot camp."[46] CompUSA's strategic focus on revenue is extremely salient and sometimes manifested in rather uncomfortable practices. For example, regional sales managers attending quarterly meetings are assigned a seat at the U-shaped table according to their store sales—with those lowest in sales assigned to the front of the room because, as Halpin says, "they have to listen to everything we've got to say."[47]

In addition, all managers' name badges include their store's "shrink number," or inventory losses due to theft or accounting errors. And on the positivereinforcement side, when employees make large commissions—such as when a young employee made $50,000 in commissions in one month—Halpin travels to their store to deliver the cash to them personally, in front of customers and other employees. Although these specific rewards (and punishments) may be inappropriate for your organization, the lesson is that rewards need to be clear, consistent, and comprehensive. The focus on revenues at CompUSA is simply impossible for employees to miss.

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Pitfalls Inherent in Leading through Culture

Leaders play a crucial role in signaling the true organizational priorities and values. Employees pay a tremendous amount of attention to leaders' every behavior, even the rather mundane, such as what they spend time on, put on their calendar, ask and fail to ask, follow up on, and celebrate.[48] These behaviors provide employees with key evidence about what counts and what behaviors of their own are likely to be rewarded or punished, and they convey *much* more to employees about priorities than do printed vision statements and formal policies. It is critical that, once leaders embark on the path to using culture as a business tool, they regularly review their behavior, to understand the signals they are sending to employees.

Leaders are thus the human embodiment of organizational values. But when leaders put a strong emphasis on such values, this can ironically make them vulnerable to a problem created by a series of psychological processes recently labeled the hypocrisy attribution dynamic.[49] The reasoning goes something like this: Cultural values are powerful because they inspire people by appealing to high ideals[50] and clarify expectations by making salient the consistency between these values and each employee's own behavior.[51] But, just as emphasizing cultural values inherently alerts us to our own behavior, it makes others' behavior salient, too, giving us high standards for judging them, as well. We then become particularly attentive to possible violations—especially by leaders, who are salient due to their power over our fate at work. When we detect potential inconsistencies between stated values and observed actions, our deep cognitive tendency to judge others harshly then kicks in.

Because values (think about "empowerment" or "equality," for example) are inherently abstract and fuzzy concepts, employees interpret them by adding their own meanings and associations to them—and in the process, the values become personally meaningful. But over time, leaders may inevitably act in ways that employees see as inconsistent with the values as they understand them. When leaders behave in ways that appear to violate espoused organizational values, employees, driven by the so-called actor-observer bias,[52] or the human tendency to explain their own behavior generously (viewing good outcomes as caused by their own enduring personalities and intentions and bad outcomes as caused by situational forces) and to explain others' behavior harshly (attributing good outcomes to situational influences and bad outcomes to others' enduring traits), conclude that the leader is personally failing to "walk the talk." In short, employees perceive hypocrisy, and this perception fuels a sense of cynicism that undermines employees' hard-won commitment and threatens performance. Worse yet, because such negative interpersonal judgments are inherently threatening, employees say nothing publicly, precluding a fair test of their conclusions and disabling organizational learning from the event. The process cycles as subsequent leader actions are taken to confirm hypocrisy, and eventually, a large number of employees may become disillusioned.

To protect their organizations from this undermining dynamic, leaders need to uphold their commitment to their culture even in the most trying times. Let's consider a pivotal moment at Dreyer's Grand Ice Cream, a $1 billion company.[53] In June 1998, a set of unexpected issues coincided to make it the toughest period the company had ever faced. First, the investments and actions to implement the brand-building and national expansion goals in Dreyer's grand plan took longer than expected and also substantially increased Dreyer's cost structure, thus affecting profitability. Second, Dreyer's CEO, Gary Rogers, had been diagnosed with a brain tumor and had undergone neurosurgery and radiation treatment earlier that spring. A number of unexpected external challenges surfaced, as well. Butterfat, the key ice cream ingredient, rose to a record high of $2.91 per pound, costing the company an unanticipated $22 million in gross profits in 1998; but aggressive discounting by Dreyer's competitors made it difficult for Dreyer's to raise prices by an amount sufficient to compensate for higher dairy costs. Further, the entire "Better-for-You" segment (healthier low-fat desserts), in which Dreyer's had invested heavily, began to reverse its upward trajectory. Finally, Ben & Jerry's, the socially conscious superpremium ice cream company, was threatening to terminate its long-term distribution contract (and subsequently did so in August 1998), influencing Dreyer's national distribution system, which would require distributing significant volumes of its own and competitors' ice cream to offset the cost of building such a system.

The executive team explicitly set about handling this crisis period in a way that was consistent with the culture in which they had long invested. They started with honest and open communication, a core component of their culture that had taken many decades to develop and that stemmed directly from the open and accessible personalities of Gary Rogers and Rick Cronk (Dreyer's president). As soon as they were prepared to announce a necessary restructuring to the financial community and their employees, the executive team members were on planes, flying across the country, and by the end of that week, they had met with every one of the company's more than 4000 employees. An account executive recalled that, "they reassured us by calling it straight[;] . . . they informed us of their game plan and that they needed us and counted on us. . . . You looked at these [senior managers] and thought, you'd run through a wall for this guy." Dreyer's employees were motivated by these senior-executive visits to rally around the company.

One of the key financial decisions the executive team made in June 1998 was to continue to invest in the Dreyer's Leadership University (DLU). They wanted to signal to the employees that Dreyer's cared about employee development, even during difficult times. They hoped to "reinvent and rejuvenate the Dreyer's leadership," said Cronk. They knew that they would reap the benefits of such training in the longer term. The VP of sales stated, "When people heard that we were investing another million dollars into the [culture] and DLU it created a high degree of comfort and confidence that we're focused on what's really important and that it's not just talk."

These culturally consistent actions paid off for Dreyer's. By the fall of 2000, the company rebounded with its robust premium and superpremium product lines, representing a 31.3 percent volume share, while Häagen-Dazs had a 34.1 percent share and Ben & Jerry's had a 33.4 percent share.[54] The company also reported positive earnings, and analysts estimated revenue to be $1.2 billion in 2000 and $1.4 billion in 2001, with earnings per share of $0.80 and $1.33, respectively. Its stock price, down as low as $9.88 in September 1998, at the time of the restructuring announcement, reached more than $36.00 by January 2001 and, despite the recession and ice cream slowdown in winter, closed on December 6, 2001, at $36.12. Dreyer's also signed a new agreement with Ben & Jerry's to distribute its products nationally after the Unilever purchase agreement was finalized. Finally, Dreyer's acquired a number of distributors to expand its presence in nongrocery outlets. The acquisitions would provide Dreyer's with substantial synergies and cost savings.

Reflecting on that period, a senior executive recalled his confidence in his sales team to help Dreyer's through difficult times: "We've invested in the culture, I know my people, my people are winners, not losers[;] . . . we've hired people with the right personalities and we've instilled in them the Dreyer's culture and we have the confidence that they will do the right thing." Cronk said, "It was a common trust and of sharing the facts—openness[;] . . . we weren't sugarcoating anything, putting a Hollywood spin on anything[;] . . . we were honest and clear[;] . . . people believed the story and they understood[;] . . .there was an enormous amount of pride and optimism."

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As the executive team at Dreyer's did, it is imperative that leaders give employees confidence and clarity about key cultural values. Leaders absolutely must make the time to help employees interpret key events and changes in light of cultural values on an ongoing basis. If they do not, employees will provide their own explanations, and their spontaneous explanations may not be charitable.[55] Leaders can also engage in an ongoing, two-way discussion with employees about the values and what they mean to both employees and the organization. In this way, leaders can keep abreast of the meanings employees have made of the values—and especially the organizational features, like Dreyer's Leadership University, that employees see as core manifestations of the values. In addition, leaders can work to create a psychologically safe environment in which employees feel comfortable raising their concerns about leader actions.

The Three Cs of Culture

Organizational culture can be a powerful force that clarifies what's important and coordinates employees' efforts without the costs and inefficiencies of close supervision. Culture also identifies an organization's distinctive competencies to external constituents. Culture "works" when it is clear, consistent, and comprehensive.

> ***Culture "works" when it is clear, consistent, and comprehensive.***

Leveraging culture requires that it be strategically relevant, strong (involving agreement and intensity), and emphasize innovation and change. Three levers exist for forming, strengthening, and changing culture: how you (1) recruit and select; (2) socialize, orient, and train; and (3) reward and lead people. Paradoxically, the very strength of cultural values can also be a leader's downfall—as when employees, vulnerable to human biases in how they make sense of others' behavior, perceive a leader's actions as threatening to the values and quickly conclude that the actions are a sign of underlying hypocrisy. However, leaders who embrace cultural values when threatening events occur can substantially reduce this risk.

One thing is guaranteed: a culture will form in your organization, your group, and your department. In fact, it already has. The question is whether it is one that helps or hinders your ability to manage change and execute strategic objectives. Organizational culture is too important to leave to chance. It is your primary role as a leader to leverage culture in order to fully deliver on your strategy and inspire innovation.

CHAPTER THREE

LEADERSHIP AND INNOVATION

Joaquim Vilà

No executive task is more vital and demanding in today's business environment than achieving sustained innovation. Rapid changes in the marketplace make it essential for any business to reassess and refine its definition of how is it going to add value.

Innovation is a core ingredient for enduring greatness, but it is also central for the continued success of any company. To compete in today's ever-changing environment, companies must create new products, services, and processes. To dominate, they must adopt innovation as a way of corporate life.

Innovation Is Central but Difficult

Managing innovation differs significantly from managing traditional operations. It poses a number of challenges, as innovation entails managing a moving target that must coexist with current operations. Symptoms that indicate a need for companies to change their approach to managing innovation include the following:

- Companies place strong emphasis on developing breakthrough products, yet most of the new introductions are mere line extensions and incremental improvements to existing products and services.

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