

Unit 2.1 – Organizational Culture

Intro:

SPEAKER: We're all individuals. We each have our own values, our own beliefs about what's right, what is wrong, our own personally developed standards for how to behave. We've learned these values and beliefs and personal norms over time, and sometimes they change. These personal characteristics define who we are when we're with others, and who we are when we are alone. They influence what others think about us, they impact how others choose to behave with us. These characteristics define our self-identity, impact our decisions, and guide our behavior. Some of us have strong value sets that exert great influence on us. Others have weak value sets that have less impact. Some of us have healthy value sets that drive us to success. Others have unhealthy value sets that lead us to trouble.

Organizational Culture:

The values, beliefs and behavioral norms of its members are important to organizations. When values, beliefs and norms are shared by organizational members, they can become even more powerful and more important. When this happens, organizational culture is defined. Organizational culture is learned over time, and sometimes it changes. Organizational culture defines an organization's identity and can impact the decisions and behavior of its members. Organizational culture can influence how organizational members feel about their organization and can impact how they choose to behave in the organization. Culture can define how an organization is perceived externally, and can influence how others choose to behave toward the organization and its members.

Some organizations have strong cultures that exert great influence on their members. Others have weak cultures that have less impact. Some organizations have healthy cultures that help drive success. Others have unhealthy cultures that can lead them to trouble. This is what organization can do for and to an organization. We will discuss how organizational culture can serve as a facilitator of success in gaining competitive advantage, or as a hindrance. We will discuss the development and management of effective cultures.

Enduring Ideas:

Let's talk about the enduring ideas for organizational culture. First, by default, by nature, all organizations develop a characteristic culture, a set of values, norms, beliefs that are shared by its members. Second, organizations have the potential to gain competitive advantage by developing and managing a strong, healthy culture. A strong culture, however, is not necessarily a good culture. A healthy culture drives success while an unhealthy culture can hinder success. Organizational culture can take a long time to build in an organization, but it is something that an organization can nurture and can impact, and a lot of our time will be spent discussing ways to achieve that.

It's important to note that culture, strategy, and all other organizational systems must be aligned to create a synergy that drives competitive advantage and success. When we talked about organizational strategy, we talked about what we hope to achieve, and what we want to be in the future. When we talk about culture, we talk about who we are and what we are.

The Model:

We are building our overall organizational model. We began by talking about organizational strategy, talking about why an organization exists, how it defines success, and what it hopes to be in the future. Now, we're adding organizational culture, the values, the norms, the beliefs that are shared by members of an organization. It's extremely critical, as we will discuss, that the culture be aligned with the organization's strategy. These two must work together to produce a healthy, effective situation.

Unit 2.2 – Definition & Elements of Culture

Organizational Culture:

PROFESSOR: As we discuss organizational culture, we will address the following questions. First, what is organizational culture? Second, what are the functions that culture can serve in an organization? Third, what are the major elements or components of a culture?

We will spend a fair amount of time on how culture is developed, shared, transmitted, maintained, and changed. Please note that because of the very nature of organizational culture, we will use a lot of real organizational examples to help you get a good sense of ways to answer these questions about the meaning and value of organizational culture.

Definition:

Organizational culture can be defined as a set of shared, taken-for-granted, implicit assumptions that group holds and that determine how that group perceives, thinks about, and reacts to various environments and events in that environment.

Organizational Culture:

As we discuss culture, please keep in mind that culture defines a collective perspective of and for the members of an organization. Remember that it's not culture unless it's shared by most members of the organization. Every member has a wide range of values, norms, and beliefs that are personal. Culture only involves those values, norms, and beliefs that are shared by most members of the organization.

Keep in mind that organizational culture is systematically passed along to new members, so that when someone joins an organization they can discover what the culture is and hopefully become acculturated and become a part of that culture.

Culture shapes the views of organizational members of their organization. It shapes their views of their own job and where it fits and whether it's important. Culture shapes the views of outsiders as they look at the organization and ask what kind of organization is that? What are the people like in that organization? What do they care about? How do they behave?

Culture's Functions:

Culture has a lot of functions that can be effective or could be dysfunctional, and we will explore both possibilities, both by discussing functional and dysfunctional cultures, and giving you examples of functional and dysfunctional cultures.

Culture provides a sense of identity for its members. It guides and controls the behavior of its members, if it's a strong culture. It enhances cooperation, if that's what the culture says to do. Or it increases competition, if that's what the culture says to do.

A strong culture will guide decision making in organizations. Perhaps even more importantly, a strong culture where values, norms, and beliefs are broadly shared will allow any organizational member to anticipate the types of decisions likely to be made by another member of the organization.

That can be very useful and it can also reduce surprises and a lot of miscoordination.

Culture can also enhance the commitment of an organizational member to the organization. This happens when an organizational member who has a personal set of values, norms, and beliefs, discovers that some of his or her most treasured values, norms, and beliefs are shared by most of the other people in the organization.

A psychological attachment or commitment or engagement with the organization can be the result of discovering that my values, my norms, my beliefs match those that are shared by others in the organization.

Of course, when I discover that my values, norms, and beliefs are inconsistent with the organizational culture that will make it less likely that I will be committed to, care about, and look for ways to help the organization succeed.

Organizational culture can also provide justification for decisions and for behavior. In short, that's what the culture told me to do. Now this justification can be very positive. I believe my decisions and my behavior were appropriate because they were consistent with our shared values, norms, and beliefs.

It can also become dysfunctional if someone engages in a harmful behavior and justifies it by saying, oh, that's how we behave in our culture.

Iceberg Metaphor:

An iceberg is often used to depict the nature of organizational culture. The reason for that is because most of an iceberg is below the surface and cannot be observed directly. The same thing is true with culture. The true underlying values, norms, and beliefs are hidden from view. They're that largest part of the iceberg, but that part of the iceberg that cannot be directly observed.

As we move towards the surface, just breaking the surface, we come across what we will call espoused values, and norms and beliefs. These are the statements by the organization and by members of the organization that say this is what we care about, this is what we value, this is what we think is the right way to behave.

These are a little submersed, a little bit above the surface. These are the espoused and somewhat observable, because they're spoken or written, values, norms, and beliefs.

Above that is the most visible part of the iceberg, and it's this visible part of the iceberg that most people, both inside and outside the organization, use to draw conclusions and make inferences about the culture of the organization.

This is the set of artifacts that are directly observable. This isn't what an organization says they care about. This is what an organization shows they care about. These are the exhibited, observable, aspects of a culture.

When we think about culture, remember that most of the culture is buried deep below. It's critical, it determines the nature of the culture, but it's not directly observable.

Organizations attempt to espouse a culture by talking about their culture and writing about their culture, and then they enact that culture and they do so through decisions and behaviors, through symbols, rituals, stories, heroes, and slogans.

Observable Artifacts:

Let's talk a little more about some of the observable artifacts of a culture. With these artifacts, we're talking about things that can be experienced directly by members of the organization or people from outside of the organization.

They're not direct parts of the underlying values, norms, and beliefs. They are expressions of those values, norms, and beliefs, and people have to draw inferences about the meaning of these artifacts.

If I see these symbols, if I see these stories, if I hear these slogans, if I think about these heroes, if I see or participate in celebrations and rituals, I have to infer what those tell me about that hidden, underlying set of values, norms, and beliefs.

Let's talk a little more and look at some examples of each of these level 1 observable artifacts, those things we can see and from which we draw inferences about the underlying culture.

Symbols:

Let's start by first talking about symbols. You may or may not have noticed that in every part of this course I have a visible symbol that represents my organization. And it's found right here on my lapel.

Let's think about why organizations and members, like myself, use symbols and what their purpose is.

I have to tell you, I am proud to wear this University of Wisconsin lapel pin. When I wear it, whether I'm recording a lecture or I'm in a live class or I'm traveling, it reminds me about my organization. It reminds me about the underlying values, norms, and beliefs, and very importantly, very importantly, it reminds me that the decisions I make, that the things I do are a reflection on my organization and its culture.

On the screen you see a lot of logos, a lot of corporate logos. These are examples of symbols that companies use to have an impact both on their members and on people outside of the organization.

I can tell you that when I travel with my University of Wisconsin-Madison lapel pin, almost without fail, when I get on or off of an airplane, when I walk in or out of a room, I will get one of the following reactions. I will either get, I'm one of you, I know who you are, or tell me what that is, and why you're wearing it.

Each of those three responses gives me an opportunity to focus on the culture of my organization and emphasize how proud I am of it. Symbols are often used to remind that we represent, to trigger thoughts about the underlying culture, and to express to others a little bit about who I am, what I believe in, and what I value.

Slogans:

Most organizations also have slogans. Slogans that can be used internally or externally. Sometimes slogans are just advertising slogans. Sometimes the slogan is being used to advertise the organization's culture. That can be done internally or externally.

For a long time a very popular slogan at Google was, and still is, "Focus on the user, and all else will follow." This is a clear communication of a core part of the culture at Google. It informs members of the organization, when they make decisions, when they think about how to behave, their focus should be on the user with the assumption that if they focus on the user, all else will follow.

The long-term slogan, both internally and externally for Apple Computer, "Think different." This tells members of the organization it's not your job to copy. It's not your job to think like the other folks. It is your job to think different.

This slogan within Apple says we believe our path forward to achieving success, gaining competitive advantage, succeeding as an organization, will be facilitated by a culture that tells everyone, think different.

Apple also uses the slogan externally to communicate to customers that when they buy a product or a service from Apple, it's coming from people who think different.

I mentioned Cargill earlier. A slogan that is used inside of Cargill primarily, but also outside, is "Nourishing ideas, nourishing people."

Cargill is focused on making a reasonable return on its investments by improving the quality of life for people around the world. To reinforce that and to make that a part of the culture, Cargill has used the slogan nourish ideas, nourish people.

Vince Lombardi is popular in the part of the world that I come from. Vince Lombardi is known for creating a large number of slogans. Most of his slogans were developed to communicate a culture and to motivate members of his organization, not just his players, but all members of his organization.

I like this particular quote from Lombardi which he used effectively to instill and reinforce a culture. Let's put this on the screen.

"We will chase perfection and we will chase it relentlessly, knowing all the while we can never attain it. But along the way we shall catch excellence."

With a slogan like that, a member of the organization has clear signals about what they are to pursue. This leads to a philosophy and a culture of first best. First, do what is best. In the end, achieve excellence.

I also want to mention the slogan for the Wisconsin School of Business, which is "Together forward." Interestingly, we have put the word together before the word forward. The reason for this is to emphasize that in our culture, achieving our vision for the future, achieving success, gaining competitive advantage first requires us to be together. Without being together we cannot move forward. By being together we can and will move forward.

If that is just two words, it has very little impact. If it becomes embedded in the culture, every time we make a decision we're focused first on together and then moving forward.

Slogans can be used to express a culture, nurture a culture, or change a culture.

Heroes:

Many, but not all, organizations have heroes. People they refer to, pictures they put on the wall, images they use, quotes they use, visuals they use.

When an organization uses a hero, what they're attempting to do is to remind members of the organization, this person, this hero, had a set of values, a set of norms, a set of beliefs that we treasure, that we care about, that we want to perpetuate.

An organization could choose to just list those values, norms, and beliefs. They could just specify the behaviors that they hope their members will engage in, and they'll often do that.

But to reinforce it, to make it personal, to make it emotional, they will often use a hero who inspires and who reminds the members of the organization those values, norms, and beliefs that drove current success and that need to be carried forward to continue to pursue and achieve success.

Celebrations & Rituals:

Celebrations and rituals can be a critical part of building and reinforcing, or even changing an organization's culture. Some of these celebrations and rituals can be very formal. Some of them are very informal. Sometimes the celebration or ritual has been created by the organization and is managed by the organization.

Sometimes the celebration or ritual is developed by the members of the organization, and sometimes they're developed jointly. For them to have an impact on the culture of the organization, they have to become celebrations and rituals that have meaning to the members of the organization, and sometimes to people outside of the organization.

They can reinforce the culture of an organization. They can imbue on an individual importance or meaning. They can imbue on a group of people something that is shared.

Let's take a look at two celebrations that are ritual-like and see how each of these plays a very important role in the culture of their organizations.

Let's start with a very formal promotional celebration that's quite ritual-like in the U.S. Military. Let's look at the promotion to Brigadier General of Colonel Ronald F. Lewis, and as you watch this, think about what it communicates to him, and think about what it communicates to others, and also think about why the choice was made by the organization and by the general to post this ceremony where anyone can see it. Think about the role of culture on this celebration and think about the impact on culture of this celebration. Let's take a look.

[INSTRUMENTAL MUSIC]

SPEAKER: ...fidelity and abilities of Ronald F. Lewis. In view of increased responsibility, he is therefore authorized and directed to wear the uniform and one star insignia of Brigadier General by the authority of the

Secretary of Defense. Will Colonel Lewis' wife, Denise, and his father, Richard, come forward to pin on the rank of Brigadier General on his service uniform.

[CLICK OF CAMERA SHUTTERS]

[APPLAUSE]

[CLICK OF CAMERA SHUTTERS]

[APPLAUSE]

[INSTRUMENTAL MUSIC]

SPEAKER: In the grade of Brigadier General.

BRIGADIER GENERAL LEWIS: In the grade of Brigadier General.

SPEAKER: Do solemnly swear.

BRIGADIER GENERAL LEWIS: Do solemnly swear.

SPEAKER: That I will support and defend.

BRIGADIER GENERAL LEWIS: That I will support and defend.

SPEAKER: The Constitution of the United States.

BRIGADIER GENERAL LEWIS: The Constitution of the United States.

SPEAKER: Against all enemies.

BRIGADIER GENERAL LEWIS: Against all enemies.

SPEAKER: Foreign and domestic.

BRIGADIER GENERAL LEWIS: Foreign and domestic.

SPEAKER: That I will bear truth, faith, and allegiance to the same.

BRIGADIER GENERAL LEWIS: That I will bear truth, faith, and allegiance to the same.

SPEAKER: That I take this obligation freely.

BRIGADIER GENERAL LEWIS: That I take this obligation freely.

SPEAKER: Without any mental reservations.

BRIGADIER GENERAL LEWIS: Without any mental reservations.

SPEAKER: Or purpose of evasion.

BRIGADIER GENERAL LEWIS: Or purpose of evasion.

SPEAKER: And that I will well and faithfully.

BRIGADIER GENERAL LEWIS: And that I will well and faithfully.

SPEAKER: Discharge the duties.

BRIGADIER GENERAL LEWIS: Discharge the duties.

SPEAKER: Of the office upon.

BRIGADIER GENERAL LEWIS: Of the office upon.

SPEAKER: I am about to enter.

BRIGADIER GENERAL LEWIS: I am about to enter.

SPEAKER: So help me God.

BRIGADIER GENERAL LEWIS: So help me, God.

[APPLAUSE]

[INSTRUMENTAL MUSIC]

[MANY PEOPLE SINGING "THE ARMY GOES ROLLING ALONG"]

[INSTRUMENTAL MUSIC]

[NO AUDIO]

PROFESSOR: In many organizations this ceremony would be considered too formal. Might even be considered too much and over the top. But in this particular organization, this ceremony has tremendous meaning, tremendous cultural meaning to the new general, to the people with whom he works, to the people who work for him, and it communicates significant cultural meaning to people outside of the organization.

This defines a transition for him, a transition in terms of responsibilities and a transition in terms of his role with the culture of his organization.

Now let's look at a very different type of celebration and ritual, one that emerged through a combination of organizational efforts and member efforts. You know, the best thing I can do to lead you into this particular celebration is to say "Jump Around."

[ROAR OF CROWD]

KEVIN STEMKE: It was 1998. We played against Purdue University. To be there for that first one, to see the magnitude of the game, the reaction of the crowd, and being there and being on the field and seeing it, I get goose bumps just thinking about it. It was one of the best experiences I've ever had.

[INTRO/TRUMPET BLARE TO "JUMP AROUND."]

WOMAN: It's one of the most amazing experiences you'll ever be a part of.

MAN 1: There's nothing better in the entire world.

MASKED MAN: It's so intense that once you get involved and once the first [IMITATES HORN INTRO]

[INTRO/TRUMPET BLARE OF "JUMP AROUND"]

MASKED MAN: I think Badger football, I think winning, I think game day, I think being in that stadium.

MAN 2: I guess you could say it's like a culture, you know what I mean? We only have it, other people copy it, but there's only one "Jump Around," and that's here at Wisconsin.

[INTRO/TRUMPET BLARE OF "JUMP AROUND"]

KEVIN STEMKE: Just goose bumps.

MAN 1: Absolutely wild.

WOMAN: You just know it's coming.

KEVIN STEMKE: There's nothing like it.

[PLAYING "JUMP AROUND"]

KEVIN STEMKE: Once it starts happening, you can feel it.

MAN 2: You're just jumping as high as you can, as much as you can.

WOMAN: Everyone just gets a whole new energy and a whole new momentum.

MAN 3: We get to look up into all of our students. We're having a blast, and we get to have a blast right by the players, too.

KEVIN STEMKE: You could be anywhere in the city and you can kind of feel the ground shake a little bit.

MAN 4: When you see Camp Randall just going up and down, jumping around, it's the most beautiful sight in the world. Because "Jump Around" really is what Wisconsin is all about.

KEVIN STEMKE: "Jump Around" just continues to grow and be one of the great football traditions.

WOMAN 2: "Jump Around" is the greatest college game day tradition.

MAN 2: It's something special because you know it's happened before, it's just going to happen after us. We're a part of it.

WOMAN: "Jump Around" is one of the coolest traditions of any college sports town.

MAN 2: The best college game day tradition is "Jump Around" here at Wisconsin.

MAN 5: For sure.

[PLAYING "JUMP AROUND" AND CROWD REPEATEDLY SHOUTING "JUMP"]

[ROAR OF CROWD]

[NO AUDIO]

PROFESSOR: Any of you from the University of Wisconsin-Madison who has ever attended a football game in Camp Randall Stadium has seen, has heard, has probably participated in the "Jump Around." In fact, for those of you who have done so, watching this clip probably led to an emotional response and hopefully put a smile on your face.

It communicates something important about our culture. It is something that we all share. In many ways it's a more exciting, more live, more dynamic version of my lapel pin. This is who I am. This is who we are. This is something that we share. This is us. This is our culture.

Espoused Values:

We've talked about artifacts, things that are visible from which we can make inferences about underlying culture.

We also can talk about espoused values. These are statements made by an organization, made by members of the organization, that say our culture is. These are often espoused in writing. They can be espoused in verbal presentations.

But this is the organization or members of the organization saying, these are the values we share. These are the behavioral norms that we share. These are the beliefs that we share. This is the organization saying here is the set of behavioral norms that we are expected to follow. Here are the values that we share, that guide us as we make decisions and choose behaviors. Here are the beliefs that we share. These are espoused values.

We also, however, should think about enacted values. This is values as expressed through the actions of the organization and its members. Hopefully espoused and enacted values, norms, and beliefs will match. When they do, they reinforce one another very strongly. When they do, they clearly communicate to members of the organization we truly do share these values, norms, and beliefs.

But when the espoused and enacted values do not match, we see dilution of the organization's culture. We see confusion about which values, norms, and beliefs are actually shared.

One of the questions we need to ask, when we evaluate an organization's culture is do the espoused and enacted values, norms, and beliefs match?

When someone says to me, we value cooperation beyond competition among the members of our organizations, they are espousing a value from their culture.

When I watch them behave day-by-day, I observe whether they engage in cooperation or tend to compete. I make a judgment. In fact, when enacted values, norms, and beliefs do not match espoused values, norms, and beliefs, personally I consider the organization hypocritical. I think about my organization or another person's organization as having a hypocritical culture. That can be extremely dysfunctional.

Core Values & Basic Assumptions:

As we mentioned earlier, the deepest part of a culture is the part you cannot see. These are the core values that are critically important to the nature and meaning of an organization's culture. We're going to spend some time looking at common core values.

Before we do that, keep in mind that core values are usually the primary values, norms, and beliefs that are shared within the organization's culture, and keep in mind that these are invisible. We can only learn about these core values by listening to statements of espoused value or observing enacted values through behavior. Or by looking at artifacts.

Basic core values are the ones that organizations spend a lot of time developing, a lot of time reinforcing, and a lot of time sharing. When that happens, members of the organization take these for granted and assume that they are shared.

If someone's behavior or statements vary from these core values, it is appropriate and legitimate for an organizational member to say that thing that you said, that thing that you did, that decision that you made, is not consistent with our core values.

Either you need to change that thing that you said, that decision that you made, that behavior in which you engaged, or we need to realize that our core values aren't as strong as we thought they were.

Unit 2.3 - Cultural Frameworks & Dimensions

Competing Values Framework:

SPEAKER: One way to think about and evaluate an organization's culture, one way to determine an appropriate culture for an organization is to look at what's known as a competing values framework. And by the way, when I say appropriate culture for an organization, I'm talking about a culture that is aligned with the organization's strategy, I'm talking about a culture that drives success and helps an organization gain competitive advantage. The appropriate culture for a particular organization might be very different than the appropriate culture for another organization that has a different strategy, has a different vision for the future, has a different mission.

This graphic shows the competing values framework, and basically what this graphic is attempting to illustrate is that we can identify one of four types of organizational cultures, and that we can do so by looking at the intersection of whether a culture is focused on flexibility and discretion versus stability and control, intersecting with the degree to which the culture is focused on internal factors and integration of those, or is focused on external factors and differentiation. As shown in the graphic, the intersection of these two factors can produce a culture that can be described as a hierarchy culture, an adhocracy culture, a clan culture, or a market culture. Smart organizations make careful decisions about which of these types of cultures is most likely to serve them effectively, and then work on developing and reinforcing and communicating that chosen culture. Let's look at each of these four types of cultures from the competing values model.

Hierarchy:

The first of these is a culture that can be described as focusing on hierarchy. In a culture that's focused on hierarchy, the thrust, the push, the focus, is on control, and providing control through the hierarchy of the organization. This would be a culture in which members know to look upward for decision making, for reinforcement, for support, for guidance. This would be an organization in which the culture says, we value the hierarchy, we respect the hierarchy, and we're focused on control.

Adhocracy:

The second part of a culture that can be described as a hierarchy culture concerns the means -- the means to ends. In a hierarchy-type culture, we're focused on creating processes that are capable, the best practices for the work that we do. We're focused on creating and maintaining consistency in how we do our work. We're focused on process control -- monitoring what we're doing, how we're doing it and what the results are, and controlling that process. And we're focused very heavily on measurement.

Finally, a culture that's focused on hierarchy, tends to focus on end results, success measures, that focus on efficiency, focus on timeliness, focus on smooth functioning. So, if you are in a culture that is what we've called here a hierarchy culture, you are thinking that in my organization, we focus on control. To achieve success, we seek out capable processes, we want consistency, we focus on controlling processes, we measure, and we pay attention to our measures, and we seek efficiency, timeliness and smooth functioning as an organization. That culture, those characteristics of that culture, will guide me as I make decisions about what to work on, how to work on it, and what decisions to make.

The second cultural perspective from the competing values model is known as adhocracy. In a culture of adhocracy, the thrust, the focus is on "create", creating, innovate. The means? Be adaptable, be creative, be agile. The ends that we're seeking? Innovation, growth, cutting-edge output, cutting-edge products, cutting-edge service. So if you're in a culture that has these characteristics, when you make decisions, when you decide how to behave, you should be thinking, my focus is on creativity. I want to be adaptable. I want to be creative. I need to be agile, and I am seeking innovative growth; cutting-edge outcomes.

Clan:

The third type of culture that can emerge from the competing values framework is known as the clan culture. In a clan culture, the thrust, the focus is on collaboration. The means for success involve developing cohesion among the members of the organization, having a high level of participation of members of the organization, communicating openly and effectively vertically and horizontally, and developing a commitment to the organization. In a clan culture, we want to develop a psychological attachment, a commitment to engagement with the organization, that drives its members to be proactive in finding ways to contribute to the success of the organization, and other members of the organization. And the outcomes that we're seeking in a clan culture are to develop morale for the members of the organization, to develop the people who are the members of the organization, and to develop that commitment.

The idea in a clan culture is that our focus should be on collaboration, cohesion, participation, communication, and commitment, and our outcomes are focused on more who we are, how we work, with the assumption that this culture, if we follow it, will naturally lead to higher-level outcomes of competitive advantage and organizational success.

Market:

Finally, some cultures can be defined in this competitive value model as a market-oriented culture. In this culture, the thrust, the focus is on competition with outside organizations. The means to achieve success are to focus on the customer, to focus on productivity and to seek ways to enhance our competitiveness as an organization. The ends that we're seeking are kind of top-level outcomes that relate to market share, profitability, and strategic objective goal achievement. Rather than focus, as we do in a clan culture, on building the kind of organization and the shared values, norms, and beliefs, that will result in high-level outcomes, in the market culture, we're focused on those outcomes themselves -- creating market share, profit, and achievement.

Core Values:

This figure shows a wide range of core values that are often contained in an organization's culture. These are the core values that an organization will often espouse as critical to building a healthy culture in their organization. Some organizations will espouse a very large number of core values; some will focus on just one or two or three core values. Research on core values suggests that it's really pretty difficult to maintain more than two or three core values, so most organizations will select two or three or maybe four core values that truly are core to the culture of the organization, and are believed to drive the success of the organization. We're going to pull out for closer examination just three of these core values, and we'll look at these in a little more detail.

These are core values that for most organizations could create a positive, healthy culture that could drive success and help create competitive advantage. We're going to look at the nature of these three core values, followed by an examination of Enron, that adopted these core values, but did so in such a way that they became quite dysfunctional. So keep in mind that core values have to be carefully selected and carefully managed. The goal of building a healthy culture is to focus on core values, norms, and beliefs that will facilitate success and help an organization gain competitive advantage. The three core values on which we will focus for now are the degree to which a culture is outcome-oriented, the degree to which a culture is focused on innovation and risk-taking, and the degree to which the culture is aggressive.

Outcome Orientation:

The first of the three core values on which we're focused right now is outcome orientation. This is the degree to which managers and members of the organization focus more on results and outcomes than on how those outcomes are achieved. If you think back to our discussion of strategy, organizations define strategic objectives. Those are those high-level outcomes. Operational plans, grand strategies with operational plans, define the path to success. In a culture that is heavily outcome-oriented, the primary focus is on achieving the outcomes. The payoff to achieving those outcomes is not a part of the culture, which means members of the organization have a lot of discretion as they choose how to behave, as they chase these outcome objectives. Now I want to remind

you, this can be good for an organization to have a culture that focuses heavily on outcomes, or it could become dysfunctional if the payoff to those outcomes becomes dysfunctional.

Innovation & Risk Taking:

The second of the three core values on which we will focus for now is the degree to which a culture values and reinforces innovation and risk-taking. In a culture such as this, employees are encouraged to be innovative, they're encouraged to take risks. They are told by the culture, we are people -- we are an organization -- that chase innovation, that take risks, and that is something that you should keep in mind as you make decisions and chase those outcomes. Again, I want to note that this could be a healthy cultural component that contributes to the success of the organization, or it could become part of a culture that drives dysfunctional behavior and hinders the success of the organization.

Aggressiveness:

The third core value we will look at is the degree to which the culture encourages aggressiveness; aggressiveness inside the organization and aggressiveness outside of the organization. A culture that focuses on aggressiveness is one that says to employees, you should be aggressive, you should be competitive; cooperation is not what we do to chase outcome success; aggressive competition is what we do to achieve success. Again, aggressive competition, chasing success, can be a payoff to a healthy, successful organization, or it can become dysfunctional if the decisions that are made, the behaviors that are chosen based on the culture that says be aggressive, be competitive, creates dysfunction.

Unit 2.4 – Organizational Culture Examples

The Good, The Bad, and The Ugly:

SPEAKER: I think I mentioned earlier that as we address this topic, we're going to spend a fair amount of time looking at and hearing from people from organizations where their culture had a significant impact. To really give us a good sense of the importance of culture, I think it's important that we look at the good, the bad, and the ugly. So we will look at some examples where good culture had a positive impact. An example from the same organization where culture had a bad impact, and we'll start with the ugly: An example of an organization where culture led to disastrous outcome. Let's take a look at an organization where culture was a tipping point, not just in effectiveness, but in survival of the organization. Let's take a look at Enron.

As we look at Enron, let's focus on three particular elements of the culture that had emerged at Enron, particularly among the trading group there. We're going to look at three of the cultural elements that we mentioned previously: Outcome orientation, innovation and risk taking, and aggressiveness, and we will explore the role that those three played at Enron.

The Ugly: Enron:

As very brief background to Enron, Enron was founded by Kenneth Lay in 1985. It framed itself as a sales and transportation of natural gas company. It also framed itself as a creative organization that looked for creative opportunities to capitalize on various transactions surrounding the natural gas markets. It became the largest natural gas company in the US, one of the largest in the world, and it appeared to be a very successful organization. In fact, it was often cited in business publications as an example of a quick-moving, fast-paced rapidly accelerating, successful company.

From this clip and from other information that's now publicly available about Enron, we know that the culture at Enron -- particularly the subculture among the traders at Enron -- was a very strong culture. Much of that strong culture focused on three of the cultural components that we mentioned earlier: Outcome orientation -- what are the results; innovation and risk taking -- what can we do that no one else has done? What risk can we take that others have not taken that might pay off; and a very high level of aggressiveness.

On the surface, Enron appeared to be very successful, however, there were losses in the trading division, a division where Enron was trying to leverage trading practices to gain larger profits than could be gained by simple transactions involving natural gas. Apparently, there were a lot of losses in the trading division that had not been disclosed, many of those being covered by debt, and it was later discovered that Enron had hidden millions of dollars of debt. By 2001, this debt, the decision making, and the aggressiveness of the business practices at Enron led to the filing for bankruptcy, and the ultimate failure of Enron.

The question for today is what role did culture play in the rapid acceleration of Enron as a corporation, and the quick and disastrous decline?

Video Clip: The Smartest Guys in the Room:

[VIDEO PLAYING]

[UPBEAT VOCAL JAZZ, TOM WAITS', "I'M GOING STRAIGHT TO THE TOP"]

WOMAN: Ken Lay saw in Jeff Skilling the guy who had the answer to what the future of the natural gas business was supposed to be. Ken Lay is also a guy who considers himself a visionary, and he liked other people he thought of as visionaries. He liked people with big ideas, and Jeff Skilling was the person with the biggest ideas of all.

NARRATOR: Jeff Skilling's biggest single idea was to find a new way to deliver energy, rather than be bound by the physical flow of the pipeline, Enron would become a kind of stock market for natural gas. It was a magical new idea: Transform energy into financial instruments that could be traded like stocks and bonds.

JEFF SKILLING: So that was the one good idea. In 1992, using that good idea, we became the largest buyer and seller of natural gas in North America.

WOMAN: He really believed that the idea was everything, and a that when you came up with an idea you should be able to book the profits from that idea right away, because otherwise, some lesser man was taking the profits from the idea that some greater man had come up with in the past.

[OMINOUS MUSIC IN BACKGROUND]

NARRATOR: When Jeff Skilling applied to Harvard Business School, the professor asked him if he was smart. He applied, "I'm fucking smart." One of his favorite books was *The Selfish Gene*, about the ways human nature is steered by greed and competition in the service of passing on our genes. At Enron, Skilling wanted to set free the basic instincts of survival of the fittest.

WOMAN: Jeff had a very Darwinian view of how the world worked. He was famous for saying once in Enron's early years that money was the only thing that motivated people.

MAN: Skilling's notion of how the world should work really trickled down and affected everything about how Enron did business.

WOMAN: He instituted a system known as the PRC or Performance Review Committee. It required that people be graded from a 1 to a 5, and roughly 10% of people had to be a 5, and those people were supposed to be fired. Hence this came to be known as "rank and yank".

JEFF SKILLING: I personally am convinced that the PRC process is the most important process that we conduct as a company.

MAN: I've never heard of a company yet that would be successful terminating 15% of their people every year just to satisfy the fact that the other employees had to vote on.

JEFF SKILLING: And so when you're being evaluated by that group, you are getting direct communication from Ken and me about what the objectives of the company are and how you fit with those objectives.

WOMAN: It was a brutal process. The ability for a 25 year old to go in and to be reviewed, and to be superior, and as a consequence get a 5 million-dollar bonus, I don't think that's repeated in many places in corporate America.

JEFF SKILLING: Our culture is a tough culture. It is a very aggressive culture.

MAN: [SOUNDS LIKE NEWS REPORTER MONTAGE IN BACKGROUND] 8 million on new deals.

NARRATOR: At Enron, no one was more aggressive than the traders.

CHARLES WICKMAN: If I'm on the way to my boss' office, talking about my compensation, and if I step on somebody's throat on the way, that doubles it? Well, I'll stomp on the guy's throat. [CHUCKLING] You know? That's how people were.

WOMAN: On the trading side, we got to be the biggest, baddest house in town, and by necessity, if you wanted to be in the market, you had to deal with Enron.

[SOUNDS LIKE TRADERS ON PHONE IN BACKGROUND]

WOMAN: Enron's traders were like the super-powerful high school clique that even the principal doesn't dare to rein in. They had become the major engine of at least reported profits at the company. They took Jeff Skilling and Ken Lay's belief in free markets and turned it into an ideology.

MAN: But they pitch it almost as a new economic religion.

[MUSIC IN BACKGROUND]

[PEOPLE SPEAKING ANIMATEDLY]

NARRATOR: Enron Online will change the markets for many, many commodities. It is creating an open, transparent marketplace that replaces the dark, blind system that existed. It is real simple. You turn on your computer and it's right there. That's our vision, and we're trying to change the world.

[ELECTRONIC MUSIC WITH COMPUTERIZED VOICE, "WHY, WHY, WHY."]

WOMAN: I think Jeff Skilling had a desperate need to believe that Enron was a success. I think he identified with Enron. He proclaimed at one point, "I am Enron".

SPEAKER: Let's look at the culture of Enron and think about how those three characteristics of the culture taken to an extreme contributed to the failure of Enron. First, outcome-orientation: Throughout this course, we talk about how important it is to define success, to measure success, and to chase success, but at Enron that culture not only supported achieving desired outcomes, but it did so at any cost. It was extreme.

The second dimension we talked about was innovation and risk taking, and again, for many organizations, a culture that supports innovation, looking for new ways to drive success that supports risk taking, a willingness to chase success knowing that failure is possible, that can be very positive in a culture. But at Enron, these were to the extreme. Innovation and risk taking combined to the point where the culture was reinforcing the idea of doing anything that had any chance of producing big results.

And finally, the third dimension, aggressiveness: Aggressively pursuing outcomes could be a positive attribute of an organization's culture, but at Enron the aggressiveness led to the culture informing members of the organization, be as aggressive as you can as you chase those outcomes, and that aggressiveness carried over to the interactions between members the Enron organization. And I think you saw some of that in the video clip that we played.

So we start with three cultural components that individually, at the right level, might be very positive for an organization, might create a very healthy culture, but at Enron with each of these to the extreme, the combination of that extreme outcome focus, that extreme focus on innovation and risk taking, that extreme aggressiveness, created a toxic mix that led to, in large part, the failure of the organization.

By the way, there was a lot of collateral damage that occurred after Enron's failure. First, the vast majority of Enron employees were not a part of that subculture that helped to bring Enron down. The vast majority of Enron employees by all reports had a relatively healthy culture, they were behaving ethically, they were doing their jobs. But when Enron failed, they lost their jobs, they lost much of their retirement benefits, they lost their health care, and they were marked in the job market as coming from an organization that had failed. Tremendous negative impact on many of those employees of Enron.

And the collateral damage extended beyond Enron, because Enron worked with Andersen -- Arthur Andersen. A subset -- a very small subset -- of Arthur Andersen employees seemed to buy in to this toxic culture that was present at Enron, and they supported, apparently, the hiding of loans, the misrepresentation of fiscal information and behavioral decisions, and part of the collateral damage was that Arthur Andersen was also brought down. Arthur Andersen was one of the most respected of the big accounting firms in the world, and they were brought down through this toxic mix of culture at Enron that reached into part of Arthur Andersen. And when Andersen went down, not only did members of the Andersen organization go to jail, but everyone lost their jobs, and for many Andersen employees, retirement benefits were tied to the value of their partnership, their ownership in the Andersen organization, and they lost that. Now, culture was not the only reason that Enron and Andersen failed, but it was a significant factor that led to the ugly: The decline and fall of Enron and Arthur Andersen.

Unit 2.5 – Importance & Functions of Culture

Strong Cultures:

SPEAKER: Let's talk a little bit about the strength of cultures and what that means. Let's talk about how a culture can be healthy for an organization or unhealthy as was the case at Enron.

A strong culture has a high level of agreement across members of the organization in the underlying values, norms, and beliefs. In a strong culture, most members of the organization share a buy-in to a core set of values, norms, and beliefs. Also in a strong culture, the members of the organization have a high level of intensity, often passion, about those underlying values, norms, and beliefs.

In a strong culture, most of the members of the organization agree on what the core values are and agree that they're important, not only to the organization but to them personally; and they feel strongly about those. That creates a strong culture.

But please keep in mind that having a strong culture does not necessarily mean that an organization has a healthy culture. It's important for us to look at strength and health together. Remember Enron. Enron had one of the strongest cultures anywhere in that trading subculture. It was not, however, a healthy culture.

Healthy Cultures:

A truly healthy culture is one where the values, the norms, the beliefs of the culture are well aligned with the organization's strategy and with the other systems in the organization. Well aligned with the structure, well aligned with leadership practices, well aligned with reward systems. A healthy culture is one that is well aligned and supportive of the strategy of the organization and the systems that support that strategy.

A healthy culture will help an organization understand and adapt to its external environment. It informs members of the organization what's happening outside, why it's relevant, and how to respond to things that are occurring in the external environment.

Very importantly, a healthy culture is one that guides the decision making of the members of the organization and guides that decision making appropriately. The culture that is healthy helps members, as they make decisions, make decisions that are likely to lead to the success of the organization.

A healthy culture also can send very important signals to people outside of the organization. When members of an organization act on the culture of their organization, the values, norms, and beliefs, outsiders see that. They make inferences about what the organization is like. Based on those inferences, outsiders decide what kind of organization you have; and outsiders decide how to interact with you. A healthy culture also facilitates the interaction of the organization with important outside stakeholders.

Overall, a healthy culture that is adequately strong will facilitate the success of the organization by gaining a commitment of the members of the organization to the success of the organization because the members value the culture and want an organization like theirs to succeed. As a result, they're proactive in searching for ways to help the organization succeed.

This is how organizations use culture to gain competitive advantage. They create an adequately strong culture where the members agree on which values, norms, and beliefs are core to the culture and where organizational members have passion about those values, norms, and beliefs. And the culture is appropriately aligned to facilitate the success of the organization.

Unhealthy Cultures:

An unhealthy culture can be just as powerful as a healthy culture but powerful in a dysfunctional way. An unhealthy culture can be one that is not aligned with the organization's strategy or the organization's other

systems and processes. An unhealthy culture can actually make it difficult for an organization to understand its external environment and adapt effectively to the external environment.

An unhealthy culture, particularly when it's a strong culture, still provides guidance to its members when they make decisions. But with an unhealthy culture, one that's not aligned with the strategy of the organization, as the culture informs decision making, it is misdirecting the decision making. Because particularly in a strong culture, when members make decisions, they want to make decisions that are consistent with the culture; and they tend to do so. When the culture is unhealthy, that desire to make decisions consistent with the culture leads the decision makers in the wrong direction.

An unhealthy culture can send inappropriate signals to external stakeholders. That influences how external stakeholders perceive the organization and how they choose to behave toward the organization. Unhealthy cultures, in short, can hinder rather than facilitate the success of an organization. Although a strong, healthy culture can drive competitive advantage, a strong unhealthy culture can actually create competitive disadvantage.

Common Benefits:

Let's take a look at a graphic that shows us some of the research results on the relative benefits of the three types of cultures that we talked about previously. Let's see where the strengths and weaknesses are of each of these three types of culture. You'll recall we talked about the culture that can be described as a clan culture, an adhocracy culture, or a market culture.

Two of the big wins for a clan culture are in the area of job satisfaction and organizational commitment. Having a positive impact on job satisfaction may not always drive short-term success. But creating a high level of job satisfaction can help us retain the best employees, can help us engage the best employees, and can lead to some positive behaviors that benefit the organization long-term.

Probably more importantly though, clan cultures tend to be associated with very high organizational commitment. When a culture creates high organizational commitment, we have members who care about the organization and who tend to be proactive and looking for ways that they can contribute to the success of the organization. This is a clear example of a way that a strong healthy culture, if it drives organizational commitment, can create a platform for success for an organization.

If we look at adhocracy, probably the best way to describe the research results for cultures that can be described as adhocracy cultures is they're never the best and they're never the worst, kind of middle of the road results in terms of outcomes that organizations care about.

But when we look at market cultures, we see that there are some clear wins for the market culture. One of the biggest of those wins is in the area of innovation where market cultures tend to drive employees to seek innovation, to act on innovation, and to view innovation as one of the important paths to the success of the organization.

The second area where market culture wins, if you will, is in growth areas, particularly subjective growth where a market culture tends to drive a focus on let's create what we believe is growth for our organization.

Let's keep in mind that we need to pay attention to the strength of an organizational culture, the degree to which members share values, norms, and beliefs and the degree to which they care about those value, norms, and beliefs, the intensity and passion associated with them. Let's keep in mind we also have to think about whether a culture is healthy.

It's the combination of strength and a healthy focus of the culture that drive success and drive competitive advantage.

Unit 2.6 – Southwest Culture: Old & New

Southwest Culture:

SPEAKER: Let's take a look at another organization. This time let's look at one that has been considered successful over a period of decades and one in which culture has been considered by most analysts to be one of the important factors that has driven the success of this organization in a very difficult industry -- the airline industry.

Let's take a look at Southwest Airlines. As we do, let's look back a period of decades and see what the culture looked like as Southwest created its success, and let's look at how Southwest developed and reinforced that culture decades ago. Then let's look at how this culture has evolved preserving important pieces of the past but adopting over time. We will look at how the organization in contemporary times is attempting to build and nurture its culture. We also need to talk just a bit about how some external factors are threatening that culture that has been so important to driving the success of Southwest Airlines.

Southwest 20 years ago:

Let's watch a video from Southwest Airlines from more than 20 years ago and think about what this tells us about the culture at Southwest Airlines.

PILOT: [HIP HOP MUSIC] Today Amarillo.

PILOT: Tomorrow L.A.

PILOTS TOGETHER: Let us do the flying. We're on our way. We fly so smooth into the clouds above. The reason we're singing is 'cause we do it for love. Yeow! [CHORUS OF BOPPING]

HERB KELLEHER: My name is Herb, Big Daddy-O. You all know me. I run this show. But without your help, there would be no love. On the ground below or in the air above, you're truly my source of strength and pride. And I sure am glad you're on my side.

DEEP VOICE: Yeah.

AS A CHORUS: What a team! What a family! From the top to the bottom, we're a fun factory. The Southwest Shuffle is a circle and a rhyme. That's how we feel all the time. We surely work hard. But when all is said and done, Southwest Airlines is just plain fun. Triple fun, triple triple fun, triple fun fun. Triple fun fun, triple just plain fun. Triple fun, triple triple fun, triple fun fun. Triple fun fun, triple just plain fun. Fun fun fun fun fun fun fun fun. Southwest Airlines is just plain fun!

SPEAKER: What does this video tell you about the culture as Southwest built itself from a start-up to one of the most successful airlines in the world? Think about the message in this video -- just plain fun. The culture communicating to employees that if they have fun, if they make sure their customers have fun, success will follow.

This culture was used as part of a differentiation strategy by Southwest to say we, at Southwest Airlines, are different. We are different than those legacy carriers. It's not just our prices that are different. It's our people who are different. If you travel with us, you're not just traveling with our planes. You are traveling with our culture.

The video we watched was intended primarily for members of Southwest Airlines' organization to communicate the culture, to make them feel good about their culture, and it involved them in communicating this to one another. But as it turned out, that video became popular outside of Southwest Airlines; and Southwest produced a series of advertisements that played off of this targeting customers who shared some of the values, norms, and beliefs that hey, travel by air should be fun.

I do have to ask. What is your personal reaction to that video? Was it positive? Was it engaging? Did it make you want to travel on Southwest Airlines? Did it make you want to work for Southwest Airlines? This was a strong culture that was healthy for Southwest.

However, it also was a culture that engaged many people and disengaged many others. This was true for potential employees and potential customers. Southwest made a bet that by having a strong culture that was differentiated from the others in the industry that there would be enough potential employees who would want to work in that culture that they could draw some of the brightest and best even though some potential employees said there is no way I could work some place like that.

The same was true for customers. Southwest in differentiating itself by culture knew that it was turning some potential customers off who just wanted to get on an airplane, sit down, and read a book or work on their computer. The Southwest culture was saying, come on get on board. Have some fun with us. It was a bet.

Now, let's watch a more contemporary video of Southwest Airlines. Let's look at what Southwest is doing today to communicate their culture to their employees and to people outside of the Southwest organization. As you look at this, look for pieces of the old culture that have been capitalized on and carried forward and look for shifts in not only the way culture is expressed but what you think the underlying values, norms, and beliefs are.

FLIGHT ATTENDANT: Can I pretend to have your attention for just a few moments? My ex-husband, my new boyfriend, and their divorce attorney are going to show you the safety features for this 737-800 series [LAUGHTER]. It's been a long day for me. To properly fasten your seatbelts, slide the flat end of the buckle. To release, lift up on the buckle. Position your seatbelt tight and low across your hips like my grandmother wears her support bra [LAUGHTER].

If you remain and we're going to take you through to zeron, there is eight ways to get there. Two forward exit doors, strong window exits, two more exit doors. Signs overhead, disco lights on the floor light with each exit.

Everybody gets a door prize in the seat back pocket in front of you. Along with dirty diapers, chewing gum wrappers, banana peels, and all other gifts you leave for us are down there. It's a safety information card. Take that out. Check it out. You'll notice in the highly unlikely event that the captain lands us near a hot tub, everybody gets their very own teeny-weeny yellow Southwest bikini [LAUGHTER]. One size fits all. Take it out only if told to do so. Place it over your head, wrap that strap around your waist, buckle it in front until tightened. Once I start, pull down on the red tag and inflate to make it fully inflatable with the tube at your shoulder.

Flight attendants are coming by hoping that you'll tell them how good looking they are. We're going to make sure that your seat backs and tray table are in their full and upright, and in their most absolute uncomfortable position possible. [CHEERING AND SCREAMING] And your carry-on items are quietly stuffed completely under the seat in front of you leaving absolutely no room for your knees or feet.

Now, as you know, it's a no-smoking, no whining, no complaining flight [LAUGHTER]. It's a please and thank you and you are such a good looking flight attendant flight. Smoking is never allowed onboard on Southwest. If you're caught smoking in the lavatory, the fine for that is \$2,000. And if you wanted to pay that for your airfare, you should have flown somebody else [LAUGHTER].

If we do make you that nervous in the next hour and a half, you're more than welcome to step outside. We don't discriminate at Southwest. We have a special smoking section just for you.

We're going to show you a movie tonight. We have Up in the Air. And the flight attendant serving you is named Wendy; and her motto is "if you can light it, you can smoke it." Federal law prohibits tampering with, disabling, or destroying any smoke detector or webcam in either of our lavatories. Federal Aviation Regulation for our passenger compliance states be patient and basically just do what we say and nobody gets hurt [LAUGHTER].

And although we can never anticipate a loss in cabin pressure, if we did we certainly wouldn't be at work tonight. But if needed, four oxygen masks drop from the compartment overhead. Stop screaming. Let go of your

neighbor. Hold onto that plastic tubing is fully extended, place the mask over your nose and mouth and breath normally. To activate the flow of oxygen, simply insert 75 cents for the first minute and 10 cents for every additional minute. [LAUGHTER]. Although that plastic bag may not inflate, you are receiving lots and lots of gin [LAUGHTER]. Oxygen, that is.

If you're traveling with small children...we're sorry [LAUGHTER]. If you're traveling with more than one child, pick out the one that you think might have the most earning potential down the road. And if you're traveling with somebody needing very special assistance, like your husband -- bless his heart -- or your wife, put on your mask first.

That's it for the news and show and tell. Sit back and relax or you can sit up and be tense. Either way [LAUGHTER]. The clock is already ticking.

Seriously if there is anything at all that we can do to make your flight more enjoyable, please tell us...just as soon as we land in Salt Lake City. And if there is anything you can do to make our flight more enjoyable, we'll tell you immediately. We're not shy at Southwest. That's what we call very cheap entertainment. Nobody had to pay extra. But you certainly don't get a refund. That's it for Southwest. Welcome aboard [CHEERING AND APPLAUSE].

[ROCK AND ROLL MUSIC]

VOCALIST: Oh, yeah.

VOCALIST: [SINGING] Flying way up high. You can check in here or even online. You can check in one bag or even two. Southwest Airlines, we love you. Southwest Airlines gets you where you want to go, whether in Florida, New York, or Idaho. Our flight crew is ready to care. We're ready to share. We're working hard to get you there.

South -- Southwest has a few delays. We move our travelers every day. We help you whenever required, whether day or night, day or night, way up high. Southwest way up high. You can check in here or even online. You can check in one bag or even two. Southwest Airlines, we love you. Flying way up high. You can check in here or even online. You can check in one bag or even two. Southwest Airlines, we love you.

[RAPPING] ABC. 1, 2, 3. Take your positions next to me. Southwest Airlines flying high. All day long in the sky. A list, business select, rapid rewards. What's next. We do many cities, don't you know? Southwest Airlines is on the go. We've been around since '71. And still today, we still ain't done. Greenville to South and Newark, yes. These cities are the very best. Southwest will give you what you want -- a smile, a kiss, or a hug. Come to Southwest Airlines. You will feel our love.

Flying way up high. You can check in here or even online. You can check in one bag or even two. Southwest Airlines, we love you. Flying way up high. You can check in here or even online. You can check in one bag or even two. Southwest Airlines, we love you. We love you. We love you. We love you. We love you. We do. We love you, Southwest. Yeah. [MUSIC ENDS TO SOUND OF AIRLINE CABIN]

[SOUND OF AIRLINE ENGINE]

SPEAKER: I enjoy working for Southwest Airlines.

SPEAKER: They are one of the leading airlines.

SPEAKER: I enjoy the passengers, and I enjoy my co-workers.

CHRIS TOEDTENEIER: We really work together as a team -- ramp crew, the flight attendants, and the pilots.

MIKE TOPE: We know about their families. They know about yours. And you just kind of create a bond.

LARRY FISHER: We're talking about people that go above and beyond every day to make this company successful.

WADE HAINLINE: You know, I think the motivation and the drive for the employees to work hard for the company has always been there.

KIMBERLY GRAY: We all love this company. We need to know that we're appreciated as well. We've been without a contract for three years. It just seems like the company is just stalling at every chance they can get.

HARRY LOMBARD: It's abusing the system that was set up to protect both parties and to get peaceful resolutions to negotiations that they drag it on for years. Not a single boss would work a day without a labor agreement that they have with the organization.

LARRY FISHER: Everything they've proposed to change I disagree with. They're taking away what we have already.

JAY FENIMORE: They're denying OGIs. They're denying medical leaves.

RONNY CARKER: The benefits is what I really want to see continue. I got young kids, and I want to make sure they're -- they're cared for.

SPEAKER: I hate to see us closing stations.

MIKE TOPE: They want to reduce full-time employment down to part-time employment.

YOLANDA LONG: The focus of interest obviously is on gaining and not caring for their employees as they used to.

SPEAKER: When I first started, it was a fun place to go to work.

KIMBERLY GRAY: It's coming from GO. It was coloring outside of the lines. They wanted to see that you had a little bit of personality.

MIKE TOPE: We'd have water fights on the ramp during the summertime. We'd have, you know, bbq's.

KIMBERLY GRAY: Now you color outside of the lines and you're fired.

LARRY FISHER: There is no more love culture.

GARY KELLY: Southwest still stands alone with an unbroken string of quarterly profits dating back to the first Gulf War in 1991 as well as an unbroken string of annual profits dating back to 1972.

DAN AKINS: I'm Dan Akins. I'm an economist. I've been in the business of airline analyst for about 30 years. From every dollar that passengers pay Southwest to fly, Southwest retains its profits 7.3 cents. That's more than any other carrier in its category.

YOLANDA LONG: It's really disheartening for them to have that type of profit and not acknowledge the workers that also make it happen for the company.

LARRY FISHER: The cost of living has gone up. Healthcare has gone up. Meanwhile, our CEO gives himself a bonus.

TINA BOHR: If our CEOs are getting raises, why can't we?

DAN AKINS: It's going to grow from \$ 750 million to over \$1.2 billion forecast in 2014. And 2015 is even larger.

KIMBERLY GRAY: It's unbelievable that you can have those numbers reported, and yet they're not wanting to give us a cost of living increase.

MIKE TOPE: You really need \$100 million? What about the people that helped you make that 100 million? Why don't you share some of the proceeds with them and maybe next year you'll make 200 million?

HARRY LOMBARD: Give these members, employees the kind of raise America deserves and let's get on the business of building Southwest Airlines.

LARRY FISHER: There is a lack of compassion for the workforce itself.

JOSEPH POWELL: Over the last few summers, they would bring water out on the ramp.

MICHELLE KELLY: They're saying that they're not going to offer us water this summer.

JOSEPH POWELL: Record profits but yet you're telling me you don't have money in the budget for water? Today it's 95 degrees, and you're out there on this ramp. You pay us out, you pay us out. We'll just find somebody else to come finish the work.

SPEAKER: One thing that I always go back on is something that Herb always said.

PHILIP ANDERSON: Take care of your employees and they'll take care of your company.

MIKE TOPE: You make the employees happy, you gonna make the customer happy.

KIMBERLY GRAY: Customers are going to come back. That's repeat business. That, in turn, makes the shareholders happy.

ALEX GARCIA: Southwest Airlines historically has had a great working relationship with its employees and treated them fairly. And now it seems to be that there is a business model change where they have decided to take the route of those of bankruptcy carriers like American Airlines.

MIKE TOPE: If they would just come out and say, listen, this is the new Southwest Airlines; and this is how we're going to run. We're going to be the next American Airlines. At least that's being honest about it. But they don't even do that.

DAN AKINS: Southwest is operating today a much more complicated connecting system across major hubs.

SPEAKER: Some of our connection times are way too tight.

YOLANDA LONG: We have flights at the gate, and we have flights waiting to come into the gate.

DAN AKINS: Southwest has the most chronically late flights in the United States of any major carrier.

COMMERCIAL VOICEOVER: At Southwest, we fly your bags for free because we believe low fares should never mean low service.

DAN AKINS: The result of bags fly free is bags have increased about 15% in total. The staffing levels haven't kept pace with the demand.

SPEAKER: I just had a flight the other day had 213 bags going to San Juan. There was one person in the bin doing this.

SPEAKER: They try to work with less people to do more work.

LARRY FISHER: Get them in. Get them out. If you miss your flight, too bad. If you bags don't make it, too bad.

DAN AKINS: It's very stunning to me to see the drop in performance of Southwest on an operational basis. It cannot continue to lose bags and deliver its product late to so many people before they start walking away.

JAY FENIMORE: Years ago, I had no doubt and every faith I was going to have a comfortable retirement with Southwest. Now, yes, I worry.

MIKE TOPE: By the time I do retire, if it's still available, I think I'll be okay. But between now and then, I have no idea what's going to happen; and that's the scary part.

YOLANDA LONG: We have to stick together, support each other, and know that a positive change will come.

MIKE TOPE: I'm glad the union is there to -- to help us negotiate for fair wage, benefits, sick time the whole nine yards.

JOHN SAMUELSON: Stand together. Stand behind the leadership of your union. Stand behind your executive board. Don't let the bosses divide you.

YOLANDA LONG: I thank the union for their continuous hard work having voices for all of us.

HARRY LOMBARD: TWU is going to stand with our members of 555 for as long it takes.

ALEX GARCIA: In full support of them and any decisions they decide to make in order to obtain the contract that they deserve.

YOLANDA LONG: The one voice that's speaking for us, which is 555, they're speaking for all of us. [MUSIC]

VOCALIST: [MUSIC] Learned a lot in this old world from many points of view. One thing that I've learned there's nothing both of us can't do. If we put our heads and hearts together, call ourselves a team. Sky knows no limits. Pinch yourself. This ain't no dream. All in this together. Hearts together. We're all in this together having fun. [SOUND OF A JET ENGINE]

GORDON HILLARY: I'm Gordon Hillary, and I've been working for Southwest Airlines for 11 years.

CAPTAIN CALVIN THOMPSON: Calvin Thomas. And I'm a pilot for Southwest Airlines. Captain. My name is Carol Herzog. And I've worked for Southwest Airlines since 1979.

SPEAKER: It's been just about 16 years for me.

SPEAKER: And just about eight for me.

SPEAKER: She's new. She's the new girl.

PILOT NANCY MARTIN VALOS: I'm Nancy Martin Valos. I'm in my 20th year at Southwest.

KATIE SWAIN: I'm Katie Swain, and I'm a loyal Southwest customer. [SOUND OF JET ENGINE]

SPEAKER: When I first started with the company, everyone said hey, have fun. Have fun. The people that interview, everybody said have fun. Be yourself. Have fun. And so when I got on board, I just started having fun. And I just have a smile on my face, and this seemed to rub off on them.

SPEAKER: I always wanted to work for Southwest Airlines. When I started working the airlines, that's where I wanted to go. I had to wait five years to get on with them, but it was well worth the wait.

SPEAKER: We were hired as individuals, and they expect us to be that individual, and they trust us.

SPEAKER: Southwest Airlines empowers us to use our sense of humor and our style and just deliver our customer service with a sense of warmth.

SPEAKER: If you're willing to give 100 percent, this company will always give you 100 percent back.

SPEAKER: As southwest has gotten bigger, they haven't -- they haven't lost that team spirit that they started off with. Somehow they've managed to pass it on from one employee to the next to the next all these years later.

SPEAKER: Well, the first word that comes to mind is family. You know, you treat your family the way you want to be treated; and you care for them. You respect them. And everywhere I go in -- in my travels, I see that in the Southwest Airlines employees.

SPEAKER: When they say hi, how are you doing, you feel like they really mean it. And -- and that means a great deal. And it just feels like you're -- you're part of that family rather than just a number flying on the plane.

SPEAKER: And I know that the flight attendants will take good care of her and make sure that she's seen to. So I mean, where are you going to find that at?

SPEAKER: Well, I think what really sets Southwest Airlines apart is just how we take the customer into account in everything we do.

SPEAKER: Yeah. I think we just pretty much the golden rule of treating everybody like you like to be treated is the main -- the main rule that we like to live by at Southwest, and I think that that goes a long way.

SPEAKER: We're all in it together. And, you know, no one's job is too important that they can't pick up trash on the airplane. And, you know, so if the pilot's come back and help us pick up trash during our quick turns and everyone's pitching in and helping each other.

SPEAKER: I'm convinced that there's almost no limit that Southwest Airlines employees will go to to help out their customers.

SPEAKER: I met the aircraft at the gate, got the luggage, and run it over to the international terminal so.

SPEAKER: And when she says run it over, that's just what she did. Running from Terminal 1 where Southwest is over to the international terminal, probably the equivalent of four or five big city blocks.

SPEAKER: I was just thankful too that the bag made the flight.

SPEAKER: When -- when somebody looks at you and says if it can be done, I'll do it, that's sure a whole lot better than there is nothing I can do.

SPEAKER: I was scared, and I didn't look so great. I was pretty weak.

SPEAKER: I just sort of locked in on her, and I noticed in her reservation she was going in for open heart surgery.

SPEAKER: I walked into the airport and the first person I see looks at me like an angel like you're going to be okay. And she told me everything was going to be okay, and I -- I needed to hear that right then. And I was 2,000 miles away from my family. And she just really knew what to say to make me feel like it might actually be all right.

And it doesn't stop there because Darlina actually took the time to call around and find which hospital I was at. So she called and talked to my family while they were in the waiting room while I was actually going through my surgery. So one of the first things I remember in the recovery room was my mom saying, you know, Katie, we've just talked with your friend from Darlina from Southwest and she called to make sure that everything came out all right because she told you it was going to be. She made me feel special, and she made me feel like I was the only passenger in the airport that day and that she really did care what was going to happen to me after I left the kiosk. She really did care that I did turn out okay.

SPEAKER: It's so -- it's such a pleasure working for Southwest. And it's like I told one of my friends it's somebody like Katie that then makes all the difference.

SPEAKER: Thank you.

SPEAKER: I mean, we have hearts on our airplanes; and there's a reason for that because people care and Southwest has the heart and so do the people.

SPEAKER: When you're surrounded by people who are natural, who are themselves, and who genuinely care about you, it makes what should be a very miserable, unpleasant chore of a day in travel to actually be a very pleasant one.

SPEAKER: Mary is a joke teller.

SPEAKER: Not much, no.

SPEAKER: A singer.

SPEAKER: I sing. [SINGING] Hey, come on over and lend me an ear. If you're traveling on my flight, you'll be boarding here.

SPEAKER: There is always somebody that'll make you laugh. If not, you make them laugh. You know, you can -- you can get a ride on -- on anybody. I mean, an airplane is an airplane. It can take you from destination to destination. But what happens in between and your experience is what I think what really matters.

SPEAKER: This is a birthday cake that we make on the airplane. You start with a roll of toilet paper, decorate it with a Sharpie. Every good flight attendant carries Sharpie markers in their bag.

SPEAKER: Multicolored Sharpies.

SPEAKER: Multicolored Sharpies.

SPEAKER: It's not a job that comes with a whole lot of prestige. But as far as I'm concerned, it's one of the best kept secrets in the world.

SPEAKER: I just love getting up in the morning and hey, going to Southwest. And I just love it, and I'm planning to be there until they -- they might come and get me from the ticket counter when I just can't do anything else.

VOCALIST: [MUSIC] I don't have to be alone and neither do you. You're the one I lean on. You can lean on me too. We're all in this together. Hearts together. We're all in this together. Getting it done. Now we're on our journey, open road, blue sky above. We're free to follow all our dreams, and they all lead to love. Let's go make some history. Do what we've never done. We're all in this together, together for the long run.

For discussion:

SPEAKER: So where has the culture changed? Where has it stayed the same? Most would agree that Southwest still has a strong, healthy culture. It is still attracting employees. It's still motivating employees. It's engaging employees. It's motivating them to proactively look for ways to help drive the success of the organization. Most would agree that the strong, healthy culture of Southwest is still pulling a subset of customers to Southwest.

However, you should also see some subtle shifts in the culture; and the customer base has changed a bit for Southwest Airlines. Today Southwest is drawing a combination of customers, some who only care about the low price. Some who care about trying to have a more enjoyable travel experience. That subset that cares about having an enjoyable travel experience, a fun experience is still drawn to Southwest.

However, the legacy carriers -- United, Delta, American -- are creating new fare categories focused on attracting those customers only care about low cost. At the same time some of the employees of Southwest are starting to question if a strong, healthy culture that benefits the organization is enough for them. They're starting to question whether working for an organization that's fun is rewarding enough compared to the potential for working for an organization where the pay is fun.

We're now starting to see some contentious behavior, particularly among the pilot group at Southwest. Many of whom still care about this culture but are starting to question whether the organization is saying to employees we're giving you less money because we're giving you more fun. Only the right employee will trade off fun and money.

Over the coming years, let's watch and see how this plays out at Southwest Airlines.

Unit 2.7 – How Culture Emerges

How Culture Emerges:

SPEAKER: We're going to spend a fair amount of time with Zappos. We're going to be informed about Zappos for the most part by the CEO of Zappos. Mostly we're going to hear from Tony, the CEO himself. But I'll give a little structure to this as we look at Zappos.

First, we will look at what Zappos has done to build its culture, to define its core values, to reinforce its core values, to create and maintain its culture. Secondly, we'll hear about the general importance of culture to Zappos. Finally, we will hear a very strong signal that Tony believes much of the success of Zappos has been driven by the alignment of the culture and the strategy of the organization.

We also will hear that he feels so strongly about this that he had a prior start-up that was a successful, profitable company. But when he and other key players in the organization concluded the culture was not in the right place and they no longer enjoyed going to work, they no longer enjoyed working in the culture, they got rid of that company. But mostly we're going to focus on what most would consider to be very successful, Zappos organization, and the role of culture in driving that success.

Developing Core Values:

Let's start by hearing a little bit from Tony about how Zappos defined and developed its core values and built those into an important part of the culture that's driving success at Zappos.

INTERVIEWER: Tell me one or two of the biggest, hardest decisions you -- you had to make as Zappos became a - - Zappos.

TONY HSIEH: Yeah, I think one of the most important decisions we made was actually rolling out our core values. There were about five or six people. And it actually took a year for us to come up with our list of 10 core values. The original list was actually 37 long, and so we thought that might be a little tough to memorize. But even myself personally I resisted the idea of having a formal list of core values because it just seemed like one of those big corporate things to do.

I think most companies, they probably just have a few people from senior management go to an offsite, spend a weekend together, and come up with their list. Whereas --

INTERVIEWER: And then say here. Live this.

TONY HSIEH: Yeah. And whereas we actually asked -- I sent an email out to all our employees and asked them what do you think our core values should be and got a whole bunch of different responses back and basically combined them together and then sent that back out. And over -- over the period of a year, actually we came up with our list of 10.

We wanted to make sure that they were committable core values. A lot of companies have they might call them values or guiding principles or whatever. But the problem is they -- they're usually very lofty sounding and sound like a lot of other corporations, and they also kind of read like a press release that the marketing department does.

So what ends up happening is people maybe learn about them on Day One of orientation and then they never -- it's just -- it's a meaningless pack on the wall.

INTERVIEWER: They don't live them, right?

TONY HSIEH: So -- yeah. So we want a committable core values. By committable, meaning we're actually willing to hire and fire people based on whether they're living up to those core values or not regardless of their actual individual job performance for the job they were hired for.

So when we hire people now, we actually do two different sets of interviews. You know, there is the standard just stuff for experience -- technical ability and so on -- done by the hiring manager. But then our HR department does a separate set of interviews purely for culture fit. And we actually have an interview question for each -- for each one of our core values, and they have to pass both in order to be hired.

And the reverse is true too. If someone is performing fine in terms of their individual job but they're not doing something in line with our core values, then that's something that we would fire them for. And performance reviews are 50% based on whether they're living up to the core values or inspiring the core values than others. So --

When Culture Fails:

SPEAKER: Clearly Tony and others at Zappos believe that culture plays an important role in the success of the organization. But equally clearly Tony believes that culture does not just happen. He believes that a strong healthy culture needs to be created and nurtured, that core values need to be identified, defined, and reinforced.

TONY HSIEH: Yeah. So from the outside, it -- you know, the first company Link Exchange that I co-founded seemed like a success. It was actually a pretty sad thing selling the company. Most people actually don't know the reason why we ended up selling the company. And it's because the company culture just went completely downhill.

I remember when it was just five or 10 of us. It was kind of like your typical dot com back in the day. This was 1996. And we were working around the clock, sleeping under a desk, had no idea what day of the week it was. But it was a lot of fun. And -- but we didn't know any better to pay attention to company culture.

So by the time we got to 100 people, we hired all the people with the right skill sets and experiences but not all of them were culture fits. And yeah. When we got to 100 people, I remember I myself dreaded getting out of bed in the morning to go to the office. And that was kind of a weird feeling because this was a company I had co-founded. And if I felt that way, I wondered how all the other employees must have felt.

So we ended up selling the company. And with Zappos, I wanted to make sure that I didn't make the same mistake again. So from the beginning, culture has always been really important. And, you know, to this day, culture is actually the number one priority in the company. And our whole belief is that if we get the culture right that most of the other stuff like delivering great service or building a long-term enduring brand will just happen naturally on its --

Importance of Culture:

SPEAKER: I mentioned earlier that Tony was also involved in a company that he considered a failure. Now, most of us might not consider it a failure if we create a business that we can sell for more than \$100 million; but it's interesting that Tony considered this company, his first company, Link Exchange, to be a failure.

Let's listen to what he has to say about that first company and why he considered it to be a failure.

TONY HSIEH: Um, I think lot of companies think of customer service as trying to figure out all the right processes and rules and so on. Whereas our approach at Zappos is really focused on the company culture and the core values and, you know, the long-term vision of the company. And if you get those right, then usually the customer service stuff just takes care of itself. And not only that but you have engaged employees that really help you get closer to that vision every day.

Um, I think the challenges that most call centers are run a certain way where it's very metrics driven; and it's not really taking a bigger picture view of the company. So I guess part of my talk is about just taking that bigger picture view and don't focus on just trying to minimize your customer service costs because our view is that customer service is really an investment, not an expense. And ultimately customer service is a form of marketing. But I think a lot of people don't think that way.

Yeah. I think most people probably have frustrations with most companies. And, you know, sometimes it's because they've hired the wrong people; and sometimes it's because they've hired the right people but they haven't empowered them to do what it takes to make the customer happy. And so I think a lot of that is inspiration for us at Zappos in trying to raise the bar for everyone.

Well, it's interesting because actually it's only top down in the sense that our values are -- I mean, we had a process where we got everyone in the company involved in figuring out what our values are. But the enforcement of the values and -- and communicating the values, that's what's top down. But in terms of the culture that actually results from those values, that comes from bottom up. And if you take a tour of our offices, you'll see, for example, decorations all over the place or just creative ideas that were not ideas dictated by top down. It was really bottom up. Once they knew that they were empowered to really embrace the values and express themselves however they want, I think that needs to be driven from bottom up actually.

Importance of Alignment:

SPEAKER: It's clear that for Tony and many other members of his current organization that having a culture that is not aligned with their own personal values, norms, and beliefs is not a company where they want to spend their time. It's also clear that Tony considers an organization to be a failure if it does not develop a culture that drives success.

Tony's preference? Rather than stay with what could be a profitable company with a bad culture that he did not like, get rid of that company and move on with a renewed focus on building a company where the culture was strong, healthy, one that he could be proud of, and that helped to drive success for the organization. [HIP MUSIC]

INTERVIEWER: I want to really step into the internet time machine. Think 1990s.

TONY HSIEH: Yeah.

INTERVIEWER: I'll let you tell the specific times.

TONY HSIEH: So Link Exchange was founded in 1996 with my college roommate. And we specialize in on-line banner advertising and grew that to about 100 or so people and then ended up selling the company to Microsoft two and a half years later in '98.

And what a lot of people don't know is the real reason why we ended up selling the company. And the real reason was it just ended up not being a fun place to work at anymore. The company culture went completely downhill.

When it was just in the -- I remember in the early days when it was just five or 10 of us, even when it was 20 of us, it was actually a lot of fun. We were hiring friends and friends of friends and working around the clock and -- and growing in pretty exciting times. But we didn't know any better to pay attention to company culture. And at some point, you know, we made one hire that wasn't maybe great for the culture and then -- then that person made other hires and then just kind of when we went from 20 to 100 employees, the company culture just kind of slowly started going downhill and just woke up one morning realizing that I was dreading going to the office of my own company.

What's interesting is books like Good to Great by Jim Collins or Tribal Leadership has shown that through the research companies that have strong -- strong cultures actually outperform companies that don't. All other things being equal in the long run. So it's not just a feel good thing. It actually is a good long-term business strategy.

What the research has shown is that it actually doesn't matter what your values are which actually kind of surprised me. It's not like so -- such certain values are better than others. What matters is that you actually have them, and you commit to them as an organization, and then you align the entire organization around those values. And the power actually comes from the alignment, not from what the specific values. So there is no right or wrong in terms of what's the right culture or values. It's more what's the right --

Zappos Core Values:

SPEAKER: From this video, from the other videos, and from other things you might read about Zappos, it's pretty easy to learn about the core values at Zappos and how and why those core values not only make it a good place to work, considered one of the best, but also is driving the current and future success of the organization.

One of the core values is do more with less. This is critically important to start-up companies that have limited resources. Tony has experience with Zappos as a start-up, and he and his organization and his culture have maintained as a core value let's do more for ourselves. Let's do more for our customers. But let's do it with less money, less time, less energy. Core value, shared in the organization.

A second core value that is helping Zappos to be a successful organization is that the culture focuses on pursuing growth and learning. The culture informs members that every day when they come to work, when they're not at work, they should always be thinking about ways they can learn individually, ways the organization can learn, and how new knowledge and the development of new skills can contribute to the success of the organization as they pursue that other piece of this which is looking for ways to learn new paths to growth.

A third core element that can clearly be identified with success of the organization is a focus on measuring the right things. Tony and his organization are real believers in measurement. Measuring everything that's process, everything that's outcome that's relevant to the success of the organization. And the culture says it's important for us individually and collectively to identify what matters, to find ways to measure it, and to share the results of that measurement to drive our decision making.

More Zappos Values:

We've looked at the key importance of three of the core values that are broadly shared at Zappos and how they are well aligned with the organization's strategy and processes and how they help drive success. Zappos has additional core values that I'll mention but not spend as much time on. Many of these are focused primarily on the internal culture and how it impacts people while they are members of the organization. So some of these are a little less external looking than those first three core values.

People at Zappos to a large extent share the following beliefs. We should look for ways to create fun at the workplace. And you know what? Being a little weird, that's okay.

People at Zappos share a sense of adventuresome, creative, open minded behavior.

People at Zappos, driven by the culture, look for open relationships, honest relationships, positive team building, supporting one another's success.

People at Zappos tend to be passionate. If you talk to almost any Zappos employee, you will see they tend to be passionate about what they do; but they're really also passionate about what others in the organization are doing. That's driven by the culture.

They tend to be humble. You see very little from Tony or other members of the organization out there in people's faces bragging about what they've done, what they're going to do, how great they are. You don't see touchdown celebrations from this team at Zappos. You see humbleness.

Finally, the culture is one that embraces and drives organizational change. The culture at Zappos says, the things we do today are only important if they drive the success of our organization. Because of that, we should be willing to change anything we do any day if we find a better or more efficient way to achieve those objectives.

Cultural Alignment:

People inside of Zappos and people outside of Zappos have studied the culture at Zappos quite a bit. A lot of that study has been focused on the alignment of the culture and the strategy; the culture, the practices; the culture

and the processes. Much of that has crept into expressions that you can hear from Tony or other members of the Zappos organization and that you often see repeated outside of the organization.

Some of these are key beliefs. For example, Tony and others at Zappos believe that soon 30% of all retail transactions will be done on-line. Secondly, they believe that the people who are buying on-line will gravitate to the organizations, to the companies that provide the best service and the best selection. Their vision is that Zappos.com will be that company that that 30% of business gravitates to. And the reason that business will gravitate to Zappos will be because of service and selection. They believe that once that 30% is established, that 40, 50, 60% will come soon and that service and selection will continue to be the drivers with a little boost from -- I like that company, I respect its culture.

Zappos' values are clearly aligned with their mission, their strategic objectives, and their operational plan. But remember: To succeed going forward, the world is changing. Zappos will need to adapt. The question is will that core value focused on looking for change, looking for new paths to success be enough to maintain the success of Zappos in the new environment that's going forward as 30%, 40%, 50% buy on-line and the criteria used by those customers might change. Is the Zappos culture up to it? We'll find out.

Unit 2.8 – Embedding & Maintaining Culture

Managing Culture with Staffing:

SPEAKER: Culture can be managed indirectly or directly. Let's first talk about a method of indirectly managing culture. I'm going to oversimplify this a little bit, but let's assume that an organization has identified a set of core values that they hope will be a part of the culture of the organization.

One way to indirectly manage that culture is through the hiring process, the staffing process. The way we do this is the recruiting process, when we look at potential candidates, we pay particular attention to their personal values, norms, and beliefs. We are looking to hire people who already care about the things that we want to have as part of our culture.

So we hire those people who appear to already be a good match for our desired culture. We might reject a candidate who is technically qualified, but does not share the values, norms, and beliefs of our culture. So we bring them in if they match, we keep them out if we don't. And indirectly, we can manage culture by trimming through the staffing process, by identifying current members of the organization, whose values, norms, and beliefs are not consistent with the culture of the organization and managing them out of the organization.

So this indirect approach to managing culture is basically, let's bring in people who are already a good match and let's get rid of people who are not a good match. That seldom works perfectly. So although this indirect process can be quite useful and is actually quite common today in the selection process and the outplacement process, we have more opportunity to fine-tune this and more power to manage it more directly.

How Leaders Inform Culture:

A large part of the direct management of culture comes from a person's leader and his or her teammates in the organization, the people with whom he or she works most frequently. Culture is informed, culture is shaped, culture is reinforced by the behavior of the leader and teammates. What leaders pay attention to, what they measure, what they control clear signals to member of the organization what is important to the culture of the organization, same is true for teammates. What they talk about, what they pay attention to, what they work on signals to other members of the organization what teammates believe is important for the culture.

How leaders and teammates react to critical incidents can be very important for informing culture. Culture is very visible when things go very, very wrong. And it's also very visible when things go very, very well. Let's consider those critical incidents. Those are a key opportunity for a leader or a teammate or you as a member of an organization to show what your culture really is and how it drives reactions at times of critical incidents, whether they be opportunities or significant challenges.

Also signaling culture is the allocation of resources. If a leader devotes resources to initiatives that will not pay off for a very long time, that's likely to encourage a culture that has a long timeframe. On the other hand, if a leader invests and allocate resources to activities that have short-term pay off, that clearly informs the culture that our cultures says let's focus on things that pays off quickly and not pay as much attention to long-term success.

Leaders and teammates can also play a very important role by the way they coach members of an organization and the behavior that they model. So if a leader or a teammate coaches you on the culture, coaches you on appropriate decisions, that's really informing you about the culture when that coaching is consistent with what you hear from others. When a leader coaches you on appropriate decisions, approach behaviors, that can signal what's important to the culture.

Sometimes even more importantly is watching the leader watching the teammate. When they're not even trying to communicate directly with us, we look at them and we ask what kind of behavior, what kind of decision-making are they modeling. If we see our teammates investing a long-term pay off, we're likely to model after that, particularly if it's reinforced by a leader.

If we see a leader investing in the development of an individual, even though it takes a lot of time, that's modeling to us the concept of helping behavior as a part of our culture. Critically reward systems also can signal what's important to an organization and can shape culture. Using the same example as before, if we reward people for short-term success, we create a culture that focuses on short-term success. If we also reward them for taking risk, for pursuing long-term pay off, that drives a culture.

After all, what is the best signal of what an organization really cares about other than where it spends its money and what behavior and results it reinforces. So we can manage culture indirectly, bring in people who are already a good match, get rid of people who are not; or we can focus on the direct management of culture for those people who are in the organization now.

In general, leaders and teammates can play the big role we just discussed. We will also look at some tools we can use to shape, maintain, and sometimes redirect culture.

Unit 2.9 – Changing Culture

Ways to Reinforce or Change Culture:

SPEAKER: Earlier in this topic we talked about a number of visible things that can inform observers about the culture of the organization. But let's review some of those and let's think a bit about how we can use these to reinforce an existing culture or to redirect a culture if that's necessary and appropriate.

First we can use formal statements. Statements that are put out that explicitly talk about our values, our norms, and beliefs. Communicating, that doesn't automatically change culture, but it provides a definition of a central point where the organization hopes the culture will go. Often we use slogans and sayings. We've talked about a number of those. We use those slogans, we use those sayings to reinforce an existing culture or to try to change one. Work smarter, not harder.

We use symbols that remind people of the organization, and of the culture. My lapel pin is a symbol that we talked about earlier. Sometimes we will use references to heroes. We talked about Southwest Airlines. As a start up, during its early years of success, Herb Kelleher was not only one of the founders, but the CEO for a long period of time as Southwest Airlines went from startup to significant success. It's very clear that the members of that organization considered him to be a hero.

You saw a little video clip where he was the lead, he was the feature, he was singing, literally singing the culture of the organization. The CEO at Zappos is considered a hero inside the company. Celebrations, rituals, also equally powerful. Stories, legends, myths. You may remember the story that Aamir Farooqi [PH] told about the outside important who was accused of misconduct by the government in Asia and got off through reference to the culture of the Cargill organization.

Now, it doesn't matter if these stories are in fact accurate, actual stories or whether they're legends or whether they're myths where maybe there's a little connection to reality, but it's not really a true stories. What matters is whether the stories, the legends, and the myths are consistent with important core cultural factors and whether they are believed and reinforce those values.

Some organizations use physical design to reinforce cultural components. For example, in an organization that wants to focus on teamwork, that wants to focus on each member helping every other member succeed, you might see a physical layout in an office space that's on open office. Very few walls, very few barriers to physically signal to members of the organization, we are a team, we are here to succeed, not individually, but collectively.

As we mentioned, we can use rewards like pay, like bonuses, promotions, as clear signals of what we value. Organizations that attempt to manage their culture very systematically make sure that their reward systems reward people who behave in alignment with the core values of the organization. They make sure that the people who are promoted are clearly in alignment with the core values of the organization.

We mention measurement. Organizations manage culture through measurement by sharing numbers, by holding people accountable to numbers. They shape and reinforce culture through structure. Organization's structure is one of our upcoming topics in this course. We will talk about how the way we structure an organization vertically and horizontally can have a significant impact on the culture. Beyond just the idea of whether we have open office space or not, but how we structure reporting relationships and accountability.

And we build systems, we build procedures, we make job assignments in such a way that it should reinforce the culture of the organization. If we create job assignments so that everyone is competing individually and they're in a reward system where people are rewarded individually, not surprisingly, we're likely to develop a culture of me. Where if we have a system that focuses on working together and success is rewarded to teams, then we create a culture of us.

Special Circumstances:

I want to comment on changing culture and special circumstances. These are somewhat windows of opportunities if an organization wants to shift its culture. They are also windows where the culture might shift unintentionally. And sometimes that unintentional shift is in an undesirable direction. Let's talk about a few situations that are prime opportunities for either systematically managing toward a better culture or inadvertently allowing a less positive culture to emerge.

The first of these is when a CEO or the leader of a group is changed. Particularly in an organization where the leader has espoused the values of the organization. Particularly in an organization where the leader had been framed as a hero of the organization or of the team or of the department. When that leader changes, that embodiment of the culture is going away. If that culture that was embodied by that person was exactly the kind of culture that serves organization well, we have to be very careful who comes in as a replacement. Because without that human, without that hero, without that embodiment of the cultural norms and values and beliefs, we can lose what's very important to the organization.

However, the external world changes, internal organizations change, and often it's necessary to change a culture. When we have a change in leadership, we have a good opportunity to change the culture. That happens in sports teams when a coach changes, it happens when a general manager changes. It also happens in any other organization when the CEO changes, when your department head changes, when your team leader changes. We have an opportunity to redirect the culture through this new leadership. We've already created a cultural shock by losing the previous person, now we have an opportunity to say what culture will serve us best, how can this new leadership help us get there.

Another opportunity to drive change is when culture is weak. When members of the organization do not broadly share the values, norms, and beliefs, or when they're not very passionate about those values, norms, and beliefs. A weak culture is one that's prime for change. And this could go either direction, it could go in the direction of a healthy organization or the direction of an unhealthy one.

So when we have a weak organizational culture, we have a situation where events, symbols, people, can move the culture more easily than when we have a strong well-established culture. So remember, having a weak culture seldom benefits an organization, but it does create an opportunity to build a positive healthy culture without having to fight an existing strong culture.

Finally, an opportunity for change is when crisis occurs, a significant event, a critical incident occurs. I think the best way to think about how powerful a critical incident can be is to look at an example of a huge cultural change that spanned many organizations across an entire industry, it was driven heavily by one critical event.

Example: Betsy Lehman:

Let me tell you a little bit about a woman named Betsy Lehman. Betsy was a columnist for the Boston Globe. She had deep expertise on health care and health care systems. She did research, she was knowledgeable, she was connected, and she wrote really insightful pieces about health care and health care systems.

Unfortunately, still relatively early in her career, Betsy received a diagnosis of advanced breast cancer. Betsy's reaction was to attempt to capitalize on all the knowledge, all the experience, all the connections she had. And her conclusion was, I'm going to go to the treatment facility that is the best, the best at treating advanced breast cancer.

Through her reporting, through her research, she was led directly to the Dana-Farber Cancer Institute associated with the Harvard Medical School. She hated the diagnosis, she was delighted that she knew health care so well, knew the system so well, and was able to quickly identify what everything pointed to as the best, the Dana-Farber Cancer Institute associated with Harvard Medical School. So she went to them for her treatment.

Unfortunately, during her treatment, Betsy was given an accidental extreme overdose of the anti-cancer drug that was provided by the treatment center. Extremely unfortunately, this overdose killed her and killed her quickly. She did not die of her disease, she died from a medical error. Every year still today, over 100,000 people

die not because of their underlying disease, not because of an underlying accidental cause, but because of medical errors. And most feel that that estimate of 100,000 deaths directly traceable to medical errors is an underestimate.

We knew this, we knew this for years, but there is something about this critical incident where a well-known, respected individual suffered death because of one of those 100,000 accidental deaths due to medical error. That critical error, that mistake, served as a tipping point for change. Not at one cancer institute, but has driven change for the industry. And that change has been primarily cultural change. Associated with procedural changes, but the real driving force that has led to significant decreases in deaths and serious injury due to medical errors was triggered in large part by this one critical incident.

Resulting Cultural Change:

Let's look at this graphic that shows us some of the resulting cultural changes that occurred in the medical industry after this unfortunate incident. The old cultural perspective was errors are rare, after all, most of what I do, most of what we do succeeds. The new culture says errors are everywhere. I make errors, we make errors. The old culture said everything in our health care system is great, we invest more than any other country, we get people in, we let them take advantage of all kinds of treatment options, everything's great.

The new culture says things in our health care industry are excellent, but they're not perfect and they're clearly not as good as they could be. The old culture said as problems arise, solve it as we go. We're experienced, we're talented. Solve it as you go. The new approach says anticipate possible problems, develop guidelines, develop checklists, and follow them.

The old culture said deliver care to patients. The new culture says, partner with patients. Partners; the patient, the family, the health care providers are partners. The old culture said keep doctors and nurses focused on delivering care. Keep them out of quality improvement, keep them out of risk management, the new culture says doctors and nurses should be tasked with responsibility, shared responsibility for quality improvement and risk management.

The old culture said if you have great staff, you can overcome poor systems, you can complain about them, you can work around them. The new culture says, poor systems can overcome great staff, they need to be fixed. These are some of the key elements of the cultural shift that has occurred in health care throughout the U.S. Now, you can imagine if the providers and the managers of the health care system, instead of thinking we don't make many mistakes, everything is great, we'll fix it as we go, we deliver care, we know what's best.

Instead of saying to doctors, focus on what you do best, and if you're good enough you'll overcome problems, think about how different the thinking is and the decision-making is when you move from that to a culture that says errors are everywhere, we're great, we're not perfect, we need to follow guidelines, we need to follow checklists, we need to be partners with patients and family. We need to take personal responsibility for risk-management and for quality improvement and we need to take responsibility for improving systems so they help us, not hinder us.

This is a huge cultural shift that's been driven throughout one of the biggest industries in the world. And it was in large part a response to one critical incident. Critical incidents are usually not this big. Their impact usually does not span an entire industry. But critical incidents can serve as tipping points to signal, we need to change our culture if we want to reach the level of success that we hope to achieve.

Unit 2.10 – Alignment

Alignment:

SPEAKER: As we wrap up and as we prepare for the next topic in the course, let's revisit one last time the importance of having alignment between culture and strategy and other systems, such as the structure of the organization.

Zappos frequently says culture is the glue that holds our company together. Zappos has developed a differentiation strategy. They define success as profit through providing best customer service. And the Zappos culture says our values, our culture, define the path to our goals. Our culture leads us to success.

Throughout this course, we will continue to talk about the importance of alignment of culture, structure, leadership, teams, compensation, innovation, the importance of integration and alignment of all of those factors with the strategy of the organization. Everything we do, culture included, is important because it has the potential to help us succeed and gain competitive advantage.

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Culture + Structure:

Looking forward, we're going to talk about organizational design and structure next. And as shown in this graphic, it can be very difficult to separate culture and structure. In fact, it can be so difficult to separate the two, that many textbooks, including your own, combine the treatment of organizational culture and organizational structure. We have separated the treatment of organizational culture and structure to enable us to go more into depth of both culture and structure. But I promise, you will see the connection and you will see how much impact structure can have on culture and how much culture can drive the appropriate design of structure for an organization.

Wrap-up:

Remember our enduring ideas. By design or default, all organizations develop culture. Organizations can gain competitive advantage by managing an appropriate organizational culture. Cultures can be strong or weak, a strong culture is not necessarily a good culture. A healthy culture is one that facilitates the success of the organization. Organizational culture can take a long time to build and needs to be maintained. But we know that we can nurture and we can change a culture to better align it with the needs of the organization.

And on that topic, we know culture, strategy, and all the other organizational systems must be aligned with one another to drive success, to create synergy, and to avoid having them fight against one another.