11 | Organizational Culture and Control

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Learning Objectives

After reading this chapter you should be able to:

1. Define organizational culture and identify symbols, rituals, stories, or other observable elements that signal cultural values in a company you are familiar with.
2. Describe the four types of organizational culture.
3. Explain the relationship between culture, corporate values, and performance.
4. Explain how managers create a high-performance culture.
5. Contrast a decentralized culture of control with a hierarchical culture of control.
6. Explain the feedback control model.
7. Describe the balanced scorecard's value for organizational control.

Chapter Outline

Organizational Culture

What Is Culture? · Emergence and Purpose of Culture · Interpreting/Shaping Culture

Culture and Organization Design

The Adaptability Culture · The Achievement Culture · The Clan Culture · The Bureaucratic Culture

Culture Strength and Organizational Subcultures

Culture and Performance

The Cultural Focus of Control Systems

The Changing Philosophy of Control · Feedback Control Model · Organization Level: The Balanced Scorecard · Department Level: Behavior Versus Outcome Control

Before reading this chapter, please check whether you agree or disagree with each of the following statements:

1 Top managers typically should focus their energy more on strategy and structure than on corporate culture.

   I AGREE _____   I DISAGREE _____

2 For a department manager, it should not matter much exactly how or when people get their work done, just as long as they produce good results.

   I AGREE _____   I DISAGREE _____

3 For a high-level manager, emphasizing cultural values is more important than emphasizing performance metrics to achieve high performance.

   I AGREE _____   I DISAGREE _____

Amazon has grown into a huge, multinational corporation and owns more than 40 subsidiaries, including Zappos, Twitch, and Whole Foods Market. What makes Amazon distinctive is that it retains many elements of the startup culture embedded by its founder Jeff Bezos and other early leaders. Some former employees, or *escapees* as some call themselves, refer to Amazon's internal environment as a "gladiator culture" where a fierce competitiveness among employees seems embedded in everything. After the acquisition of Whole Foods Market, stories of employees literally crying on the job over changes Amazon was making began circulating. As one example, Whole Foods began using scorecards to measure how well people were complying with a new inventory control system, and the scores were being used to punish and sometimes fire workers. At Amazon, all aspects of performance are subject to constant measurement and review. Strict rules, aggressive goals, and surveillance keep behavior tightly controlled. Moreover, people are encouraged to report on their colleagues through various internal systems. Some people who have left Amazon say they wouldn't think of returning to work there. Others, however, love the pace and challenge of such a confrontational culture and find they can't work effectively anywhere else.[1]

Amazon is a highly successful company, and it has employees and managers who enjoy their jobs and generally like the way things are done at the company. It also has managers and employees who think the cultural values and ways of doing things are detrimental to employee happiness and long-term company success. Every organization, like Amazon, has particular values that characterize how people should behave and how the organization carries out everyday business. One of the most important jobs organizational leaders do is instill and support the kind of values needed for the company to thrive. Hiroshi Mikitani, co-founder and CEO of Rakuten, once said, "Leaders often treat culture as a happy accident—something that develops organically, driven by personalities. What a mistake. Culture is a critical building block of success."

Strong cultures can have a profound impact on a company, which can be either positive or negative for the organization. Google is known for its unique company culture that treats employees like gold and provides them with numerous perks in a laid-back, fun work environment. As co-founder Larry Page puts it, "it's important that the company be a family, that people feel that they're part of the company, and

that the company is like a family to them. When you treat people that way, you get better productivity." Google is able to hire the best and brightest because people want to work there.[2] Negative cultural norms, however, can damage a company just as powerfully as positive ones can strengthen it. The culture at CBS has come under attack after more than two dozen women accused chairman and CEO Leslie Moonves, who was one of Hollywood's most celebrated entertainment executives for decades, of sexual misconduct. By the end of 2018, Moonves and two other high-ranking executives had lost their jobs. Managers at music trade publication *Billboard* are also working to build a more ethical culture after allegations of sexual harassment and management interference in editorial decisions came to light in a detailed article published by *The Daily Beast*. CEO John Amato left the company following an internal investigation, but current and former employees say the culture Amato instilled has led to routine incidents of harassment, inappropriate comments, and bullying by executives, as well as ongoing corporate meddling in editorial decisions.[3]

A related concept concerning the influence of norms and values on how people work together and how they treat one another and customers is called *social capital*. **Social capital** refers to the quality of interactions among people and whether they share a common perspective. In organizations with a high degree of social capital, relationships are based on trust, mutual understandings, and shared norms and values that enable people to cooperate and coordinate their activities to achieve goals.[4] An organization can have either a high or a low level of social capital. One way to think of social capital is as *goodwill*. When relationships both within the organization and with customers, suppliers, and partners are based on honesty, trust, and respect, a spirit of goodwill exists and people willingly cooperate to achieve mutual benefits. A high level of social capital enables frictionless social interactions and exchanges that help facilitate smooth organizational functioning. Relationships based on cutthroat competition, self-interest, and subterfuge can be devastating to a company.

Purpose of This Chapter

This chapter explores ideas about corporate culture and values, including those associated with organizational control. The first section describes the nature of corporate culture, its origins and purpose, and how to identify and interpret culture by looking at the organization's rites and ceremonies, stories and sayings, symbols, organization structures, power relationships, and control systems. We then examine how culture reinforces the strategy and structural design the organization needs to be effective in its environment and discuss how managers build a high-performance culture. Next, the chapter considers the cultural focus of organizational control systems, looking at the differences between hierarchical control and decentralized control. We describe the key steps in the feedback control model, discuss the balanced scorecard as a comprehensive control system, and look at the differences between behavior control and output control.

11.1 Organizational Culture

The popularity of the corporate culture topic raises a number of questions. Can we identify cultures? Can culture be aligned with strategy? How can cultures be managed or changed? The best place to start is by defining culture and explaining how it is reflected in organizations.

11.1a What Is Culture?

Culture is the set of values, norms, guiding beliefs, and understandings that is shared by members of an organization and taught to new members as the correct way to think, feel, and behave.[5] It is the unwritten, feeling part of the organization. Culture represents the informal organization, whereas topics discussed in previous chapters, such as structure, size, strategy, and technology, represent the formal organization. Every organization has two sides at work: formal structures and systems and the informal values, norms, and assumptions of the corporate culture.[6] Everyone participates in culture, but culture generally goes unnoticed. It is only when managers try to implement new strategies, structures, or systems that go against basic cultural norms and values that they come face to face with the power of culture.

Organizational culture exists at two levels, as illustrated in Exhibit 11.1. On the surface are visible artifacts and observable behaviors—the ways people dress and act; office layouts; the type of control systems and power structures used by the company; and the symbols, stories, and ceremonies organization members share. The visible elements of culture, however, reflect deeper values in the minds of organization members. These underlying values, assumptions, beliefs, and thought processes operate unconsciously to define the culture.[7] For example, recall from the previous chapter's BookMark that leaders at TechCo don't have separate offices but sit in open bullpens with everyone else to encourage sharing of information. Another example comes from Germany's TeamBank, where top executives made the informal *Du* the mandatory form of address rather than the formal *Sie* commonly used in German workplaces. These are observable symbols. The underlying values are openness, collaboration, egalitarianism, and teamwork.[8] The attributes of culture display themselves in many ways but typically evolve into a patterned set of activities carried out through social interactions.[9] Those patterns can be used to interpret an organization's culture.
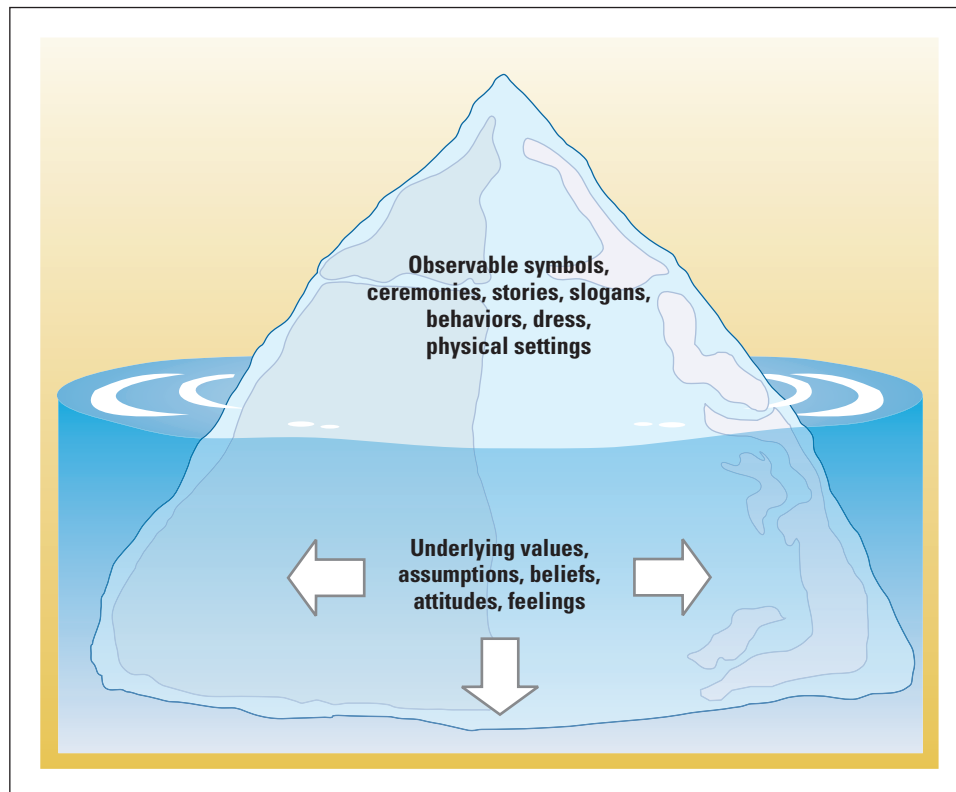

EXHIBIT 11.1
Levels of Corporate Culture

Observable symbols, ceremonies, stories, slogans, behaviors, dress, physical settings

Underlying values, assumptions, beliefs, attitudes, feelings

11.1b Emergence and Purpose of Culture

Culture provides people with a sense of organizational identity and generates in them a commitment to beliefs and values that are larger than themselves.[10] Though ideas that become part of the culture can come from anywhere within the organization, an organization's culture generally begins with a founder or early leader who articulates and implements particular ideas and values as a vision, philosophy, or business strategy.

When these ideas and values lead to success, they become institutionalized, and an organizational culture emerges that reflects the vision and strategy of the founder or leader. For example, the culture at Amazon, described in the opening example, reflects the values of founder Jeff Bezos, who thrives on disagreement and challenge. Bezos believes leaders are responsible for challenging decisions or opinions when they disagree, even if it feels uncomfortable. Leaders have courage and stand by their convictions. They are tenacious and don't compromise for the sake of social cohesiveness. But once a decision is made, they commit to it wholeheartedly. Other values Bezos instilled in the Amazon culture include frugality, customer obsession, innovation, and a bias for action. When an employee asked at one of the early all-hands meetings when the company was going to create a better work–life balance for employees, Bezos bluntly told her that perhaps Amazon wasn't the company for her. "The reason we are here is to get stuff done, that is the top priority," Bezos said. "That is the DNA of Amazon."[11]

Cultures serve two critical functions in organizations: (1) to integrate members so that they know how to relate to one another and (2) to help the organization adapt to the external environment. **Internal integration** means that members develop a collective identity and understand how to work together effectively. It is culture that guides day-to-day working relationships and determines how people communicate within the organization, what behavior is acceptable or not acceptable, and how power and status are allocated. **External adaptation** refers to how the organization meets goals and deals with outsiders. Culture helps guide the daily activities of employees to meet certain goals. It can help the organization respond rapidly to customer needs or the moves of a competitor. Consider how the culture at Google fosters internal integration and helps the company adapt to the external environment.

☑ **IN PRACTICE**
Google

Why has Google topped *Fortune*'s list of best places to work for six years in a row? The company is known for its fun perks, such as free food, nap pods, and ping pong tables. But those elements are a minuscule part of the culture that makes Google a great place to work and makes it so hard to get a job there. "If you took all that stuff away. . . you would still have the same company, the same drive for creativity and innovation," said Google's former Senior Vice President of People Relations.

People at Google are motivated by both the company's unofficial motto, "Don't be evil," and its formal mission, "to organize the world's information and make it universally accessible and useful." Google's founders created a clear list of core values when the company was only a few years old, including:

- Focus on the user and all else will follow
- It's best to do one thing really, really well
- You can be serious without a suit
- Great just isn't good enough

Having a clear list of values has helped Google hire people who fit the culture and reinforce desired behaviors and attitudes, such as flexibility, collaboration, fun, and trust. Employees are encouraged to work when and how they like, to bring their pets to work if they want, and to learn from one another. Collaboration is so valued that managers encourage people to coach one another in the "Googler to Googler" program. This can include business skills such as public speaking as well as outside activities like kickboxing or dog training. Managers build and strengthen trust by being open and honest with employees at weekly Q&A sessions. At Google, failure is not punished but applauded as a way to learn and grow. Google is able to constantly innovate because employees feel free to experiment and fail, learning from their own and others' mistakes.[12]

An organization's culture also guides employee decision making in the absence of written rules or policies.[13] Thus, both functions of culture are related to building the organization's social capital by forging either positive or negative relationships both within the organization and with outsiders.

11.1c Interpreting/Shaping Culture

To identify and interpret culture requires that people make inferences based on observable artifacts. Artifacts can be used by leaders to shape culture, and they can also be studied to interpret culture. However, artifacts may be hard for outsiders to decipher accurately. An award ceremony in one company might have a different meaning than it does in another company. To understand what is really going on in an organization requires detective work and probably some experience as an insider. Exhibit 11.2 shows some aspects of the organization that can be observed to help decode the organizational culture.[14] At the same time, these aspects can be used or changed by managers to shape and influence culture. These aspects include rites and ceremonies, stories and sayings, symbols, organization structures, power relationships, and control systems.[15]
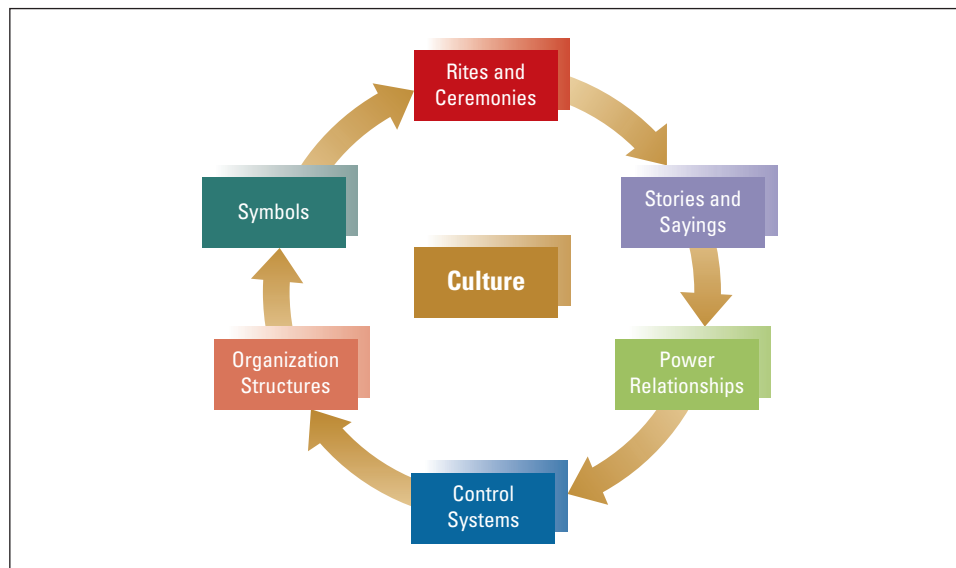

EXHIBIT 11.2
Observable Aspects of Organizational Culture

Sources: Based on Gerry Johnson, "Managing Strategic Change—Strategy, Culture, and Action," *Long Range Planning* 25, no. 1 (1992), 28–36, and Gerry Johnson, "Rethinking Incrementalism," *Strategic Management Journal* 9, no. 1 (1988), 75–91.

Rites and Ceremonies. Cultural values can typically be identified in **rites and ceremonies**, the elaborate, planned activities that make up a special event and are often conducted for the benefit of an audience. Managers hold rites and ceremonies to provide dramatic examples of what a company values. These are special occasions that reinforce specific values, create a bond among people for sharing an important understanding, and anoint and celebrate heroes and heroines who symbolize important beliefs and activities.[16]

One type of rite that appears in organizations is a *rite of passage*, which facilitates the transition of employees into new social roles. Organizations as diverse as religious orders, sororities and fraternities, businesses, and the military use rites to initiate new members and communicate important values. Another type often used is a *rite of integration*, which creates common bonds and good feelings among employees and increases commitment to the organization. Consider the following examples:

- A rite of passage at Gentle Giant Moving Company, based in Somerville, Massachusetts, is the "stadium run." Founder and CEO Larry O'Toole decided to have new hires run the tiers of Harvard University stadium as a way to emphasize that people at the company work hard, challenge themselves, and go the distance rather than letting up if things get tough. After the run, O'Toole provides a hearty breakfast and gives an orientation speech. "You're not a Gentle Giant until you've done the run," said employee Kyle Green.[17]
- Pope Francis, leading an organization that has been rife with scandal, has used rites to capture attention and re-energize Catholics around the world. For example, to symbolize the values of humility and inclusivity, he modified a traditional ritual by washing the feet of prisoners at a youth detention center on Holy Thursday instead of washing the feet of priests, as his predecessors had done. The ritual also reportedly included two females and two Muslims for the first time. This might be considered a rite of integration.[18]

Stories and Sayings. **Stories** are narratives based on true events that are frequently shared among employees and told to new employees to inform them about an organization. Many stories are about company **heroes** who serve as models or ideals for upholding cultural norms and values. Some stories are considered **legends** because the events are historic and may have been embellished with fictional details.[19] Stories keep alive the primary values of the organization and provide a shared understanding among all employees. **Sayings** are mottoes or mantras that encapsulate key cultural values, such as Walmart's "Save Money, Live Better" or Google's "Don't be evil." Examples of how stories and sayings shape culture are as follows:

- At Brinker Capital, managers wanted a culture where people are held accountable, but CEO Noreen Beaman knew that sometimes people make mistakes, because she admits she made a big one early in her career. The point is to solve the problem and not make the same mistake again. One of the company's sayings is "Find it, fix it, prevent it." Lush Cosmetics uses the motto, "We reserve the right to make mistakes." Another firm uses the tag line, "Set Targets, Keep Score, Win" to emphasize values of competitiveness, risk-taking, and taking ownership for results.[20]
- Sometimes a saying grows out of a story, such as LEGO's "Only the best is good enough." As the story goes, back when the company was still making wooden toys, founder Ole Kirk's son Godtfred boasted that he had saved money by

using just two coats of varnish rather than the usual three coats on a shipment of toy ducks going out that day. Ole was offended by the deception and made Godtfred go back to the train station, retrieve the shipment, and spend the night correcting his error. Godtfred, who worked for the company from the time he was 12 years old and later became its CEO, immortalized his father's ideal by carving the motto into a wooden plaque. A photo of it now hangs over the entrance to the cafeteria at LEGO headquarters in Billund, Denmark.[21]

Symbols. Another tool for interpreting culture is the **symbol**. A symbol is something that represents another thing. In one sense, ceremonies, stories, sayings, and rites are all symbols because they symbolize deeper values. Another symbol is a physical artifact of the organization. Physical symbols are powerful because they focus attention on a specific item. Examples of physical symbols are as follows:

- In the conference rooms at Amazon headquarters, the conference tables are composed of half a dozen door-desks pushed together side by side. Frugality is one of the core values at Amazon, and founder Jeff Bezos says the door desk is "a symbol of spending money on things that matter to customers and not spending money on things that don't." Bezos built his first desk out of a door with four-by-fours as legs and reportedly still uses a door desk today, as do most employees at Amazon. The company gives "Door-Desk awards" to employees who come up with ideas that help deliver lower prices to customers.[22]
- When Mike Hyatt took over as CEO of Thomas Nelson Publishers, one of his first acts to change the culture from hierarchical to more egalitarian was to change the boardroom conference table. The boardroom was seldom used and had a long, narrow rectangular-shaped table that signaled hierarchy with the most important person sitting at the head of the table. Hyatt replaced that long table with a large circular table, signaling a new egalitarian culture. Hyatt also changed the boardroom to a conference room that was used often for employee meetings. Whenever Hyatt attended a meeting in the room, he sat in a different location to signal equality with other employees at the meeting.[23]

Organization Structures. How the organization is designed is also a reflection of its culture. Does it have a rigid *mechanistic* structure or a flexible *organic* structure, as described in Chapters 1 and 4? Is there a tall or a flat hierarchy, as discussed in Chapter 3? The way in which people and departments are arranged into a whole, and the degree of flexibility and autonomy people have, tells a lot about which cultural values are emphasized in the organization. Here are a couple of examples:

- Nordstrom's structure reflects the emphasis the department store chain puts on empowering and supporting lower-level employees. Nordstrom is known for its extraordinary customer service. Its organization chart, shown in Exhibit 11.3, symbolizes that managers are to support the employees who give the service rather than exercise tight control over them.[24]
- To get a struggling Chrysler back on its feet quickly after bankruptcy reorganization, its former CEO, the recently deceased Sergio Marchionne, cut several layers of management to flatten the structure and get top executives closer to the business of making and selling vehicles. Marchionne also chose a fourth-floor office in the technical center, rather than occupy the top-floor executive suite, to symbolize the importance of top executives being close to the engineers and supervisors making day-to-day decisions.[25]
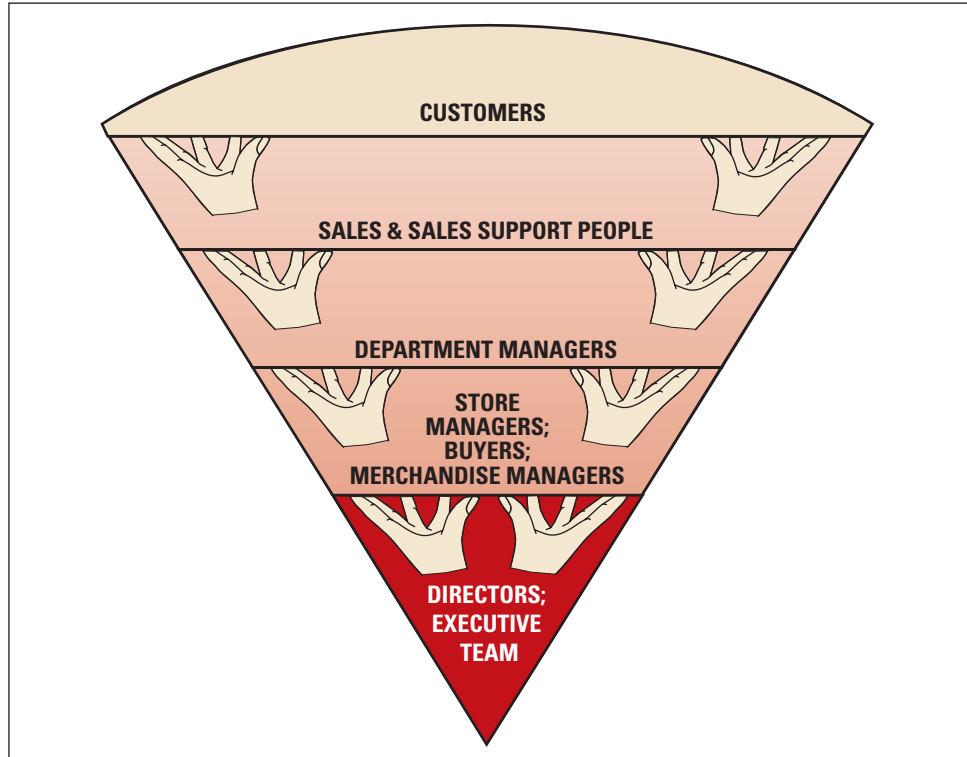
Source: Used with permission of Nordstrom, Inc.

Power Relationships. Looking at power relationships means deciphering who influences or manipulates or has the ability to do so. Which people and departments are the key power holders in the organization? In some companies, finance people are quite powerful, whereas in others engineers and designers have the most power. Another aspect is considering whether power relationships are formal or informal, such as whether people have power based primarily on their position in the hierarchy or based on other factors, such as their expertise or admirable character. Consider the following examples:

- An investment firm in Atlanta, Georgia, has an "inner sanctum" with special offices, restrooms, and a dining room for senior executives. The entry door has an electronic lock that only members can access. Mid-level managers hold the title of "director" and eat in a separate dining room. First-level supervisors and other employees share a general cafeteria. Dining facilities and titles signal who has more power in the vertical hierarchy of the organization.
- At W. L. Gore, few people have titles, and no one has a boss. Rather than people having power based on their position, leaders emerge based on who has a good idea and can recruit people to work on it.[26]

Control Systems. The final element shown in Exhibit 11.2 relates to control systems or the inner workings of how the organization controls people and operations. This includes such things as how information is managed, quality control systems, methods of financial control, reward systems, how decisions are made, and whether managers apply behavior or outcome control related to employee activities. Behavior versus outcome control and other aspects of controlling the organization will be

discussed in detail later in this chapter. Two examples of how control systems reflect culture are as follows:

- At Anheuser-Busch InBev, distribution center managers frequently start the day with a sort of pep rally reviewing the day's sales targets and motivating people to get out and sell more beer. The company's incentive-based compensation system and its focus on increasing sales while relentlessly cutting costs are key elements of a highly competitive corporate culture.[27]

- Facing regulatory and legal problems related to multibillion-dollar losses from the "London Whale" investment fiasco and other issues, JPMorgan Chase CEO Jamie Dimon said, "Fixing our control issues is job No. 1." Dimon shifted the reporting lines so that Morgan's top compliance officer reports directly to the bank's chief operating officer, not to the general counsel. In addition to giving compliance and risk managers more stand-alone authority, Dimon added thousands more staff members to work on legal and regulatory matters. These changes symbolize that Morgan is as dedicated to maintaining control as it is to recording profits, Dimon says.[28]

Recall that culture exists at two levels—the underlying values and assumptions and the visible artifacts and observable behaviors. The rites and ceremonies, stories and sayings, symbols, organization structures, power relationships, and control systems just described are visible manifestations of underlying company values. These visible artifacts and behaviors can be used to interpret culture, and they are also used by managers to shape company values and to strengthen the desired corporate culture. Thus, the summary of cultural artifacts shown in Exhibit 11.2 can serve as both a mechanism for interpretation and a guideline for action when managers need to change or strengthen cultural values.[29]

REMEMBER THIS

- Cultural values help determine the organization's social capital, and the right values can contribute to organizational success.
- Culture is the set of key values, beliefs, and norms shared by members of an organization.
- Organizational cultures serve two critically important functions—to integrate members so that they know how to relate to one another and to help the organization adapt to the external environment.
- Culture can be both interpreted by and shaped by the organization's rites and ceremonies, stories and sayings, symbols, structures, control systems, and power relationships. Managers can also use these elements to change the organization's culture.

11.2 Culture and Organization Design

Managers want a corporate culture that reinforces the strategy and structural design that the organization needs to be effective within its environment. For example, if the external environment requires flexibility and responsiveness, such as the environment for Internet-based companies like Twitter, Facebook, Pinterest, or Netflix, the culture should encourage adaptability. The correct relationship among cultural values, organizational strategy and structure, and the environment can enhance organizational performance.[30]

Cultures can be assessed along many dimensions, such as the extent of collaboration versus isolation among people and departments, the importance of control and where control is concentrated, or whether the organization's time orientation is short range or long range.[31] Here, we focus on two specific dimensions: (1) the extent to which the competitive environment requires flexibility or stability and (2) the extent to which the organization's strategic focus and strength are internal or external. Four categories of culture associated with these differences, as illustrated in Exhibit 11.4, are adaptability, achievement, clan, and bureaucratic.[32] These four categories relate to the fit among cultural values, strategy, structure, and the environment. Each can be successful, depending on the needs of the external environment and the organization's strategic focus.

ASSESS YOUR ANSWER

1 **Top managers typically should focus their energy more on strategy and structure than on corporate culture.**

ANSWER: *Disagree.* Smart top managers know that for the organization to be successful, the right culture has to support and reinforce the strategy and structure to be effective in its environment. Someone once said, "Culture eats strategy for lunch." Managers can invest all the time and resources they have in defining a killer strategy but implementing it will be impossible if the cultural values are out of line.

EXHIBIT 11.4
Four Types of Organizational Culture
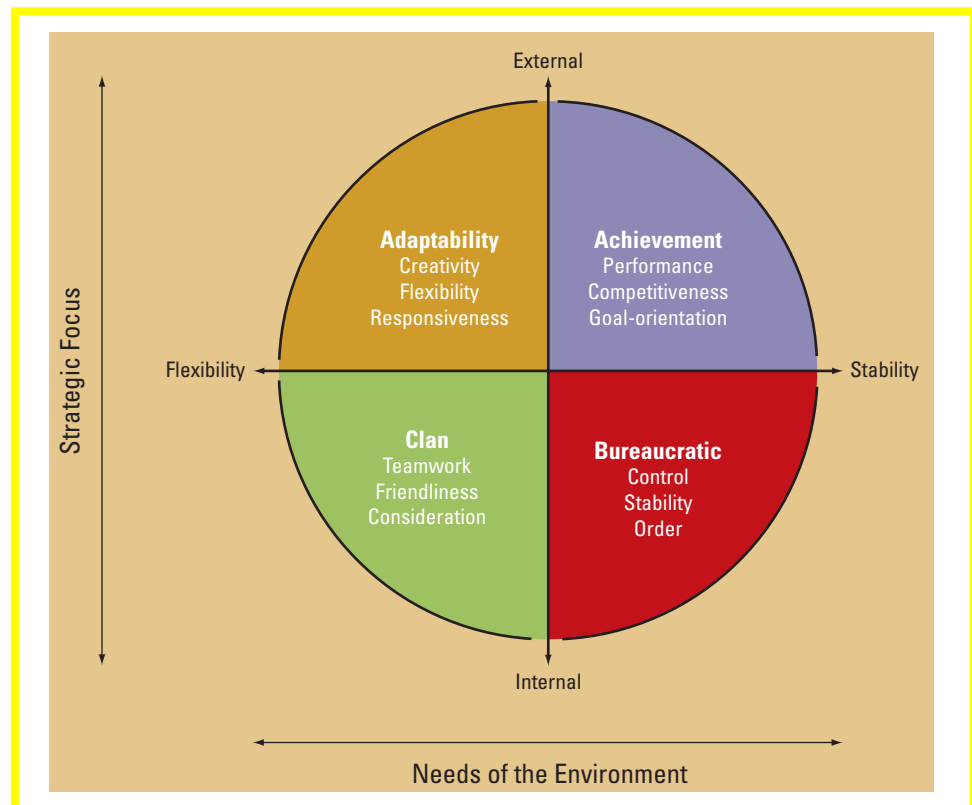
Sources: Based on Daniel R. Denison and Aneil K. Mishra, "Toward a Theory of Organizational Culture and Effectiveness," *Organization Science* 6, no. 2 (March–April 1995), 204–223; Robert E. Quinn, *Beyond Rational Management: Mastering the Paradoxes and Competing Demands of High Performance* (San Francisco: Jossey-Bass, 1988); and Mohamed Hafar, Wafi Al-Karaghouli, and Ahmad Ghoneim, "An Empirical Investigation of the Influence of Organizational Culture on Individual Readiness for Change in Syrian Manufacturing Organizations," *Journal of Organizational Change Management* 27, no. 1 (2014), 5–22.

11.2a The Adaptability Culture

The **adaptability culture** is characterized by strategic focus on the external environment through flexibility and change to meet customer needs. The culture encourages entrepreneurial values, norms, and beliefs that support the capacity of the organization to detect, interpret, and translate signals from the environment into new behavior responses. This type of company, however, doesn't just react quickly to environmental changes—it actively creates change. Innovation, creativity, and risk taking are valued and rewarded.

Most Internet-based companies, such as Google, described in the previous In Practice, use the adaptability type of culture, as do many companies in the marketing, electronics, and cosmetics industries, because they must move quickly to satisfy customers.

11.2b The Achievement Culture

An organization concerned with serving specific customers in the external environment, but without the need for rapid change, is suited to the achievement culture. The **achievement culture** is characterized by emphasis on a clear vision of the organization's purpose and on the achievement of goals, such as sales growth, profitability, or market share, to help accomplish the purpose. Individual employees may be responsible for a specified level of performance, and the organization promises specified rewards in return. Managers shape behavior by envisioning and communicating a desired future state for the organization. Because the environment is stable, they can translate the vision into measurable goals and evaluate employee performance for meeting them. In some cases, achievement cultures reflect a high level of competitiveness and a profit-making orientation. Amazon, described in the opening example, reflects aspects of an achievement culture with its emphasis on competitiveness, assertiveness, and achieving growing sales and market share. Chinese technology company Huawei illustrates a radical version of the achievement culture.
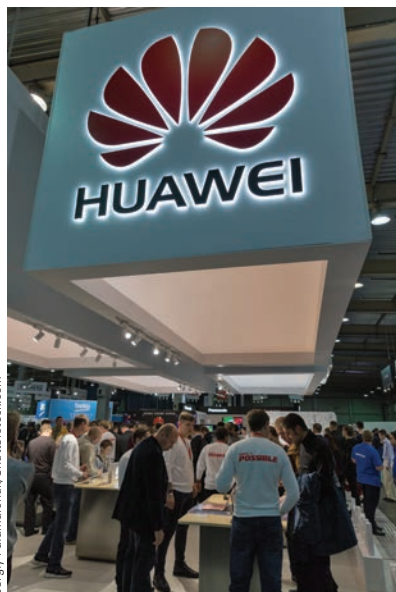
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☑ IN PRACTICE
Huawei

They call it the "wolf culture." Company stories celebrate heroes such as the employees who worked to keep telecommunication services running despite a terrorist attack in Mumbai and those who battled freezing cold, low oxygen levels, and sleeplessness to provide mobile phone service to climbers on Mount Everest. Tenacity, drive, determination, and aggressiveness are core values at Huawei, the giant Chinese telecommunications and consumer electronics company that has rapidly expanded around the world.

Employees are encouraged to work grueling hours, to persevere under dangerous conditions to gain new business, and even to bend company rules as long as doing so enriches the company and not the employee personally. New employees undergo boot camp-style training that includes morning jogs, classes on the company's culture, and writing and performing skits that illustrate how they would persevere to serve customers in war zones or other challenging conditions.

(Continued)

This hard-charging culture has helped Huawei grow, but it has also gotten it into trouble. Workers have been accused of bribing government officials, copying a competitor's source code, and committing bank fraud, among other misdeeds. Huawei previously evaluated employees solely according to how much business they won. Founder and CEO Ren Zhengfei said Huawei is now paying more attention to internal rules and controls to prevent employee misconduct, but in an e-mail to employees, he made it clear that enforcing rules and standards shouldn't become a hindrance: "If it blocks the business from producing grain, then we all starve to death," Ren said.[33]

Another company that reflects an achievement culture is Anheuser-Busch InBev, mentioned earlier in the chapter. Managers keep employees focused on achieving high sales and profit levels, and those who meet the demanding goals are handsomely rewarded. Bonuses and promotions at Anheuser-Busch InBev are based on performance, not seniority, and top executives are unapologetic about giving special treatment to high achievers.[34]

11.2c The Clan Culture

The **clan culture** has a primary focus on the involvement and participation of the organization's members and on rapidly changing expectations from the external environment. This culture is similar to the clan form of control described in Chapter 10. More than any other, this culture focuses on meeting the needs of employees as the route to high performance. Involvement and participation create a sense of responsibility and ownership and, hence, greater commitment to the organization.

In a clan culture, an important value is taking care of employees and making sure they have whatever they need to help them be satisfied as well as productive. Southwest Airlines, which ranked No. 1 on *Workforce* magazine's 2019 list of the top 100 companies that excel in people management, illustrates a clan culture. "We've really put our employees first since the beginning . . .," said Julie Weber, vice president and chief people officer. "Our belief is that happy employees make for happy customers, which make for happy shareholders."[35] The approach to culture taken by Marc Benioff at software company Salesforce.com also reflects elements of a clan culture. "I want a company where people are excited to come to work every day, where they feel good when they get here, where it doesn't take from them but it's giving to them, it's giving to others," Benioff says. On an employee's first day at Salesforce, the morning is spent showing the new hire around the offices and introducing colleagues. "Then we take them out and they do service in the afternoon," says Benioff. "They'll go to a homeless shelter or they'll go to the hospital or go to a public school. This is a very core part of our culture."[36]

11.2d The Bureaucratic Culture

The **bureaucratic culture** has an internal focus and a consistency orientation for a stable environment. This type of culture supports a methodical approach to doing business. Symbols, heroes, and ceremonies reinforce the values of cooperation,

tradition, and following established policies and practices as ways to achieve goals. Personal involvement is somewhat lower here, but that is outweighed by a high level of consistency, conformity, and collaboration among members. This organization succeeds by being highly integrated and efficient.

Today, most managers are shifting away from bureaucratic cultures because of a need for greater flexibility. However, SAS Institute and Pacific Edge Software (now part of Serena Software) have successfully used some elements of a bureaucratic culture to keep projects on time and on budget and to ensure saner lives for employees. Emphasis on order and discipline means the formal workweek at SAS is 35 hours, for instance. Although sometimes being careful means being slow, Pacific Edge and SAS have managed to keep pace with the demands of the external environment.[37]

Some people like the order and predictability of a bureaucratic culture, whereas other people would feel stifled and constrained by too much discipline and would be happier working in some other type of culture. Complete the questionnaire in the "How Do You Fit the Design?" box to get an idea of which type of culture—adaptability, achievement, clan, or bureaucratic—you would be most comfortable and successful working in.

REMEMBER THIS

- Organizational culture should reinforce the strategy and structure that the organization needs to be successful in its environment.
- Four types of culture that may exist in organizations are adaptability culture, achievement culture, clan culture, and bureaucratic culture.

HOW DO YOU FIT THE DESIGN?

CORPORATE CULTURE PREFERENCE

The fit between a manager or employee and corporate culture can determine both personal success and satisfaction. To understand your culture preference, rank the following items from 1 to 8 based on the strength of your preference (1 = highest preference; 8 = lowest preference).

1. The organization is very personal, much like an extended family. _____

2. The organization is dynamic and changing, where people take risks. _____

3. The organization is achievement-oriented, with the focus on competition and getting jobs done. _____

4. The organization is stable and structured, with clarity and established procedures. _____

5. Management style is characterized by teamwork and participation. _____

6. Management style is characterized by innovation and risk-taking. _____

7. Management style is characterized by high-performance demands and achievement. _____

8. Management style is characterized by security and predictability. _____

(continued)

11.3 Culture Strength and Organizational Subcultures

Culture strength refers to the degree of agreement among members of an organization about the importance of specific values. If widespread consensus exists about the importance of those values, the culture is cohesive and strong; if little agreement exists, the culture is weak.[38] A strong culture reflects clear values and social norms—that is, people know what is expected. There is generally little differentiation among people within the culture and a low tolerance for deviation from the norm. Resistance to change is strong because people like the culture and want to keep things as they are.[39]

A strong culture is typically associated with the frequent use of ceremonies, symbols, and stories and sayings that express key values, as described earlier, and managers align structures and processes to support the cultural values. These elements increase employee commitment to the values and strategy of a company. However, culture is not always uniform throughout the organization, particularly in large companies. Even in organizations that have strong cultures, there may be several sets of subcultures. **Subcultures** develop to reflect the common problems, goals, and experiences that members of a team, department, or other unit share. An office, branch, or unit of a company that is physically separated from the company's main operations may also take on a distinctive subculture.

For example, although the dominant culture of an organization may be an achievement culture, various departments may also reflect characteristics of adaptability, clan, or bureaucratic cultures. The manufacturing department of a large organization may thrive in an environment that emphasizes order, efficiency, and obedience to rules, whereas the research and development (R&D) department may be characterized by employee empowerment, flexibility, and customer focus. This is similar to the concept of differentiation described in Chapter 4, where employees in manufacturing, sales, and research departments studied by Paul Lawrence and Jay Lorsch[40] developed different values with respect to time horizon, interpersonal relationships, and formality in order to perform the job of each particular department most effectively. Consider how the credit division of Pitney Bowes, a global technology company most known for its postage meters, copiers, and other office equipment, developed a distinctive subculture to encourage innovation and risk-taking.

David J. Green/Alamy Stock Photo

Pitney Bowes, a maker of postage meters and other office equipment, has long thrived in an environment of order and predictability. Its headquarters reflects a typical corporate environment and an orderly culture with its blank walls and bland carpeting. But step onto the third floor of the Pitney Bowes building in Shelton, Connecticut, and you might think you're at a different company. The domain of Pitney Bowes Credit Corporation (PBCC) looks more like an indoor theme park, featuring cobblestone-patterned carpets, faux gas lamps, and an ornate town square-style clock. It also has a French-style café, a 1950s-style diner, and the "Cranial Kitchen," where employees sit in cozy booths to surf the Internet or watch training videos. The friendly hallways encourage impromptu conversations, where people can exchange information and share ideas they wouldn't otherwise share.

PBCC traditionally helped customers finance their business with the parent company. However, PBCC's president and CEO worked with other managers to redefine the division as a *creator* of services rather than just a provider of services. Rather than just financing sales and leasing of existing products, PBCC now creates new services for customers to buy. For example, Purchase Power is a revolving line of credit that helps companies finance their postage costs. It was profitable within nine months and quickly signed up more than 400,000 customers. When PBCC redefined its job, it began redefining its subculture to match by emphasizing values of teamwork, risk taking, and creativity. "We wanted a fun space that would embody our culture," said the CEO. "No straight lines, no linear thinking. Because we're a financial services company, our biggest advantage is the quality of our ideas." So far, PBCC's new approach is working. In one year, the division, whose 600 employees make up less than two percent of Pitney Bowes' total workforce, generated 36 percent of the company's net profits.[41]

IN PRACTICE

Pitney Bowes Credit Corporation

Subcultures typically include the basic values of the dominant organizational culture plus additional values unique to members of the subculture. However, subcultural differences can sometimes lead to conflicts between departments or divisions, especially in organizations that do not have strong overall corporate cultures. When subcultural values become too strong and outweigh the corporate cultural values, conflicts may emerge and hurt organizational performance. Conflict will be discussed in detail in Chapter 14. Cultural conflicts can be particularly challenging in the case of mergers and acquisitions. Studies by consulting firms such as Hay Group and McKinsey & Company suggest that performance declines in about 20 percent of acquired companies after acquisition. Some experts estimate that 90 percent of mergers never live up to expectations.[42] One reason is the difficulty of integrating the separate corporate cultures. For example, after Facebook bought the popular messaging service WhatsApp, disagreements emerged as WhatsApp leaders' and staff members' strong cultural belief in protecting user privacy came into conflict with Facebook's broad data-gathering about user activities. WhatsApp's founders eventually left the company, and it remains to be seen if Facebook can effectively blend the Facebook and WhatsApp cultures.[43] The BookMark further examines the idea of cultural conflicts.

REMEMBER THIS

- When widespread consensus exists about the importance of specific values, the organizational culture is strong and cohesive.
- Even in organizations with strong cultures, several sets of subcultures may emerge, particularly in large organizations.
- After a merger or acquisition, one of top managers' toughest jobs is often that of integrating different corporate cultures.

BOOKMARK 11.0   HAVE YOU READ THIS BOOK?

Rule Makers, Rule Breakers: How Tight and Loose Cultures Wire Our World

By Michele Gelfand

Psychologist Michele Gelfand says it is culture (ideals, beliefs, and symbols) rather than more tangible, material things such as money, circumstances, and opportunity that ultimately drives human behavior. In *Rule Makers, Rule Breakers,* Gelfand draws attention to one aspect of culture she believes has been ignored—social norms, the rules, the dos and don'ts that come about whenever people come together. Social norms are the glue that holds groups together. They help people cooperate, adapt, and survive but they can also be the source of much conflict.

From studies of around 7,000 people in over 30 countries Gelfand developed a tightness-looseness system for classifying cultures. The degree of strictness of rules determines where a culture falls on a continuum from *tight* to *loose.* "Tight cultures have strong social norms and little tolerance for deviance, while loose cultures have weak social norms and are highly permissive," she states. Gelfand notes that tight cultures tend to form when there is a perception of threat; the greater the sense of threat, the tighter the rules and norms and vice versa. These norms and the interaction between tight and loose, between the rule makers and the rule breakers, affect nations, social classes, family and friendship circles, and even the happiness of individuals. They also influence organizations and can be particularly bothersome in the case of mergers and acquisitions.

WHAT HAPPENS WHEN CULTURES CLASH

Here are some examples of what happens when cultures collide after a merger:

- *Will the Cultures Get Along?* "When tight and loose cultures merge, there is a good chance that they will clash." In looking at more than 6,000 mergers and acquisitions between 1980 and 2013, Gelfand and her colleagues discovered that more than half of all mergers destroy shareholder value. "In fact," Gelfand writes, "when there was a pronounced cultural mismatch, the acquiring company lost [US] $30 million on average within five days of the merger's announcement."

- *The Marriage Made in Heaven Goes to Divorce Court.* Gelfand points to the 1988 merger of Germany's Daimler and U.S.-based Chrysler. Daimler leaned heavily toward the tight side of the social norms scale, with its emphasis on precision and consistency and top-down management while Chrysler leaned toward the loose with "a more relaxed, freewheeling, and egalitarian business culture." With such a disparity in social norms, what was billed as a marriage made in Heaven led to key executives leaving, steep losses for investors, and in 2007, the divorce—Daimler's sale of Chrysler to private equity firm Cerberus Capital, at a loss of billions of dollars.

LOOSE OR TIGHT—WHICH IS RIGHT?

Gelfand says the answer lies in the Goldilocks Principle—somewhere between too hot and too cold, too tight and too loose, is just right. To reach the right balance to survive and prosper, companies should become culturally ambidextrous, incorporating features from the other end of the spectrum. Tight companies should work toward a "flexible tightness" and loose companies toward a "structured looseness." When considering a merger, managers should always consider cultural compatibility and promote a culture in which cohesion and diversity can coexist, but Gelfand admits, "It's not easy, no matter how minor the change."

Rule Makers, Rule Breakers: How Tight and Loose Cultures Wire Our World, by Michele Gelfand, is published by Scribner.

11.4 Culture and Performance

One of the most important things managers do is shape organizational culture to meet strategic goals because culture has a significant impact on performance. In *Corporate Culture and Performance,* John Kotter and James Heskett provided evidence that companies that intentionally managed cultural values outperformed similar companies that did not. Other research validates that elements of corporate culture are positively correlated with higher financial performance.[44] A strong culture that encourages responsiveness and change enhances organizational performance by energizing and motivating employees, unifying people around shared goals and a higher mission, and shaping and guiding behavior so that everyone's actions are aligned with strategic priorities. The right culture can drive high performance.

Successful companies are those in which managers are evaluated and rewarded for paying careful attention to both cultural values *and* business performance. Exhibit 11.5 illustrates four organizational outcomes based on the relative attention that managers pay to cultural values and business results.[45] For example, managers in Quadrant C pay little attention to either values or business results and the company is unlikely to survive for long. Managers in Quadrant D are highly focused on creating a strong cohesive culture, but they don't tie organizational values directly to strategic goals and desired business results.

When cultural values aren't connected to business performance, they aren't likely to benefit the organization during hard times. For example, the corporate culture at the LEGO Group nearly doomed the toymaker in the 1990s when sales plummeted as children turned from traditional toys to video games. At that time, LEGO reflected the characteristics found in Quadrant D of Exhibit 11.5. Imagination and

BRIEFCASE

As an organization manager, keep these guidelines in mind:

Pay attention to both cultural values and business results to build a high-performance culture. Consciously manage culture to shift values toward high performance and goal accomplishment.
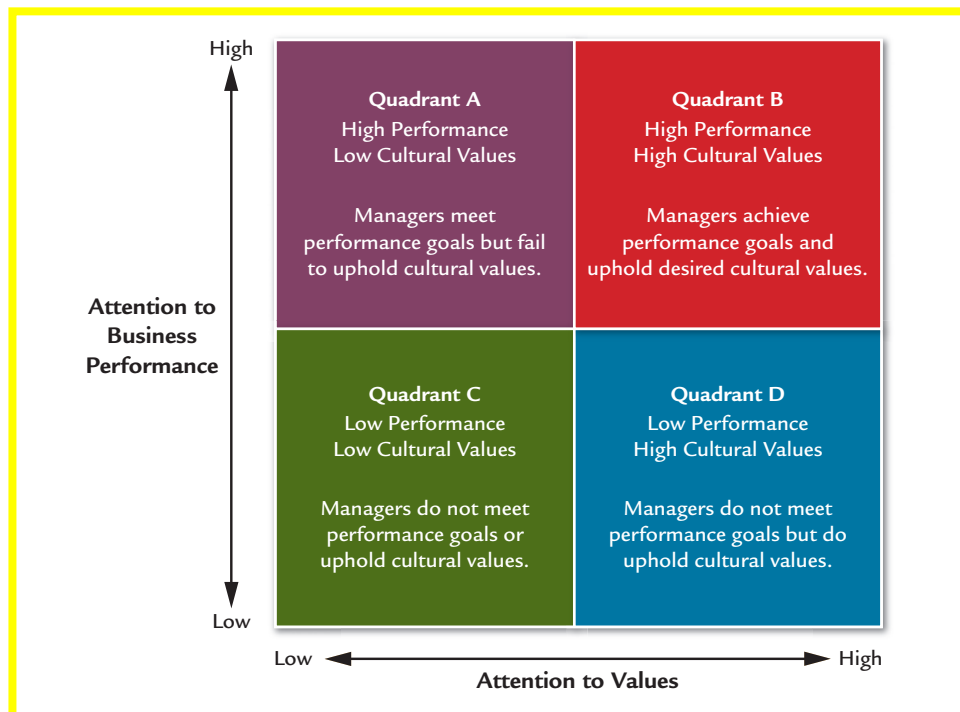

EXHIBIT 11.5
Combining Culture and Performance

Sources: Adapted from Jeff Rosenthal and Mary Ann Masarech, "High-Performance Cultures: How Values Can Drive Business Results," *Journal of Organizational Excellence* (Spring 2003), 3–18; and Dave Ulrich, Steve Kerr, and Ron Ashkenas, Figure 11-2, GE Leadership Decision Matrix, *The GE Work-Out: How to Implement GE's Revolutionary Method for Busting Bureaucracy and Attacking Organizational Problems—Fast!* (New York: McGraw-Hill, 2002), 230.

creativity, not business performance, were what guided the company. The attitude among managers was, "We're doing great stuff for kids—don't bother us with financial goals." When he became CEO in 2004, Jørgen Vig Knudstorp upended the corporate culture with a new employee motto: "I am here to make money for the company." The shift had a profound impact, and LEGO has become one of the most successful companies in the toy industry.[46]

Quadrant A represents managers who are focused primarily on bottom-line results and pay little attention to organizational values. This approach may be profitable in the short run, but the success is difficult to sustain over the long term because the "glue" that holds the organization together—that is, shared cultural values—is missing. Indeed, a leader driven only by performance can create a toxic culture. As we have discussed in previous chapters, former Uber CEO Travis Kalanick built the ride-hailing firm into one of the world's most valuable startups, but his

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ASSESS YOUR ANSWER

2 For a high-level manager, emphasizing cultural values is more important than emphasizing performance metrics to achieve high performance.

> **ANSWER:** *Disagree.* An emphasis on positive cultural values is important, but managers must also pay strong attention to performance metrics for the organization to be successful. Achieving high performance requires attention to both values and solid business performance.

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focus on rapid growth and lack of attention to positive cultural values damaged the company's reputation and threatened its continued expansion. Kalanick was forced out and the board of directors began working with new leaders to overhaul the culture. Director Arianna Huffington said, "Creating a great culture will be the key to future success and, going forward, there can be no room at Uber for brilliant jerks and zero tolerance for anything but totally respectful behavior."[47]

Finally, managers in Quadrant B put high emphasis on both culture and solid business performance as drivers of organizational success. Managers in these organizations align values with the company's day-to-day operations—hiring practices, performance management, budgeting, criteria for promotions and rewards, and so forth. Consider the approach that GE took to accountability and performance management under the leadership of Jack Welch. Welch helped GE become one of the world's most successful and admired companies by creating a culture in which risk was rewarded and accountability and measurable goals were keys to individual success and company profitability.[48] The company's traditional approach had achieved stellar financial results, but managers motivated people to perform primarily through control, intimidation, and reliance on a small circle of staff. Welch was interested in more than just financial results—he wanted managers to exhibit the following cultural values in addition to "making their numbers":[49]

- Have a passion for excellence and hate bureaucracy
- Be open to ideas from anywhere
- "Live" quality, and drive cost and speed for competitive advantage

Welch knew that for the company to succeed in a rapidly changing world, managers needed to pay careful attention to both cultural values and business performance. Quadrant B organizations represent the **high-performance culture**, a culture that (1) is based on a solid organizational mission or purpose,

(2) embodies shared adaptive values that guide decisions and business practices, and (3) encourages individual employee ownership of both bottom-line results and the organization's cultural backbone.[50]

REMEMBER THIS

- There is evidence that companies that intentionally manage cultural values outperform similar companies that do not.
- Managers emphasize both values and business results to create a high-performance culture.
- The right culture can enable solid business performance through the alignment of motivated employees with the mission and goals of the company.

11.5 The Cultural Focus of Control Systems

Earlier in the chapter we described control systems as one element that reflects an organization's cultural norms and values. The ways in which managers control people and operations vary depending on the corporate culture. For example, a company such as Salesforce.com, which has primarily a clan culture as described previously, will handle control issues differently from one such as Anheuser-Busch InBev, which has an achievement culture. Managers consider both control of the overall organization and control of departments, teams, and individuals. Some control strategies apply to the top levels of an organization, where the concern is for the entire organization or major divisions. Control is also an issue at the lower, operational level, where department managers and supervisors focus on the performance of teams and individual employees.

11.5a The Changing Philosophy of Control

Managers' approach to control is changing in many organizations. In connection with the shift to employee participation and empowerment, many companies are adopting a *decentralized* rather than a *hierarchical* control process. Hierarchical control and decentralized control represent different philosophies of corporate culture. Most organizations display some aspects of both hierarchical and decentralized control, but managers generally emphasize one or the other, depending on the organizational culture and their own beliefs about control.

Hierarchical control involves monitoring and influencing employee behavior through extensive use of rules, policies, hierarchy of authority, written documentation, reward systems, and other formal mechanisms.[51] In contrast, decentralized control relies on cultural values, traditions, shared beliefs, and trust to foster compliance with organizational goals. Managers operate on the assumption that employees are trustworthy and willing to perform effectively without extensive rules and close supervision.

Exhibit 11.6 contrasts the use of hierarchical and decentralized methods of control. Hierarchical methods define explicit rules, policies, and procedures for employee behavior. Control relies on centralized authority, the formal hierarchy, and close personal supervision. Responsibility for quality control rests with quality control inspectors and supervisors rather than with employees. Job