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¹ The first author wrote this chapter while a Marvin Bower Fellow at the Harvard Business School, and is grateful for their support.

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Leading by Leveraging Culture

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December 11, 2001

To appear in, Subir Chowdhury (Ed), **Next Generation Business Series: Leadership**, Financial Times-Prentice Hall Publishers, forthcoming, 2003.

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We occasionally get calls from prospective clients who, having heard that we consult with organizations to improve their cultures, ask us to “come on down to our organization and get us a better one.” Perhaps they are thinking that, somehow, after we have worked our culture magic, employees will be singing and dancing in their cubicles. Although this is a nice image, simply trying to make employees happy misses the power of leveraging culture. The problem is that organizational culture has become faddish, and as such, it has been over-applied and under-specified. Our goal in this chapter is to precisely clarify why culture is powerful, and provide specific criteria for developing a strong, strategically relevant culture that is likely to enhance your organization’s performance over the long haul.

A few caveats apply to our discussion. First we won’t claim that by simply managing culture, leaders will be assured of organizational success, or by neglecting culture, doomed to fail. As this volume illustrates, leveraging culture is but one of a number of key leadership tools. We *will* claim, however, that by actively managing culture, your organization, and the people working within it, will be more likely to deliver on your strategic objectives over the long run. We begin by defining organizational culture and psychological basis of its powerful effects on performance. We then discuss how emphasizing innovation enhances long-term strategic success. Next, we present a set of managerial practices—recruiting and selecting employees for culture fit, intensive socialization and training, and the use of formal and informal rewards—that leverage culture for performance. Throughout the chapter, we show that culture boosts organizational performance when it (1) is strategically relevant, (2) is strong, and (3) emphasizes innovation and change. We conclude that culture “works” when it is clear, consistent and comprehensive, particularly during challenging times.

Why is Organizational Culture Powerful?

Focusing People Intensely on Strategy Execution

A *Fortune* magazine article highlighting path-breaking research by Ram Charan and Geoffrey Colvin (1999) led with a provocative cover – “Why CEOs Fail.” The definitive answer

had been found, and it was notoriously simple: CEOs failed when they failed to execute their strategy. This was an amazing conclusion because, in contrast to what industrial economists have been telling us for years—that firms with well-formulated and hard-to-imitate business strategies emerge as the winners (e.g., [Porter, 1980](#))—Charan and Colvin’s article suggested that firms with merely reasonable strategies who execute fully on those could be the most successful.

This shifts our focus from strategy formulation to strategy *execution*, and culture is all about execution. Consider the often-cited example of Southwest Airlines, a company with a transparent, almost simple, strategy: high volume; short, convenient flights; using only fuel efficient 737s; culminating in low costs and the ability to offer customers low-priced tickets. And yet, Southwest has been the only U.S. airline to be profitable for 28 consecutive years (Laing, 2001). One key to Southwest’s success is its remarkably short turnaround time, 15 minutes versus competitors’ average of 35 minutes (O’Reilly & Pfeffer, 1995). Planes don’t sit long at the jet way. Instead, employees across functional lines band together to get the planes out quickly, despite being 89% unionized. This results in an average plane utilization of around 12 hours at Southwest versus the industry average of closer to 9 hours. Southwest’s success hinges not on how brilliant, unique, or opaque their strategy is, but on the alignment between their culture and strategy, and how clearly employees understand, and intensely they feel, about the culture.

Strong cultures enhance organizational performance in two ways. First, they improve performance by energizing employees – appealing to their higher ideals and values, and rallying them around a set of meaningful, unified goals. Such ideals excite employee commitment and effort because they are inherently engaging (Walton, 1980), and fill voids in identity and meaning that some believe; characterize contemporary Western society (Baumeister, 1998). Second, strong cultures boost performance by shaping and coordinating employees’ behavior. Stated values and norms focus employees’ attention on organizational priorities that then guide their behavior and decision-making. They do so without impinging, as formal control systems do, on the autonomy necessary for excellent performance under changing conditions (Tushman & O’Reilly, 1997).

Culture is a system of shared values defining what is important, and norms, defining appropriate attitudes and behaviors, that guide members' attitudes and behaviors (O'Reilly & Chatman, 1996: 166). Culture is more specific than vision in that a good vision engages employees emotionally by setting up motivating overarching goals to which they can aspire. For example, Citigroup's admirable vision, "*We want to be seen as one of the most respected financial institutions in the world, as a unique global full-service bank,*" can be seen throughout the organization. The bank is global – located in 94 different countries for nearly 100 years, and full-service as evidenced by its recent merger with Travelers. But, if you work for Citigroup and wake up one morning saying, "Ok, today's the day – I'm going to be really global," it's not clear exactly what this would mean. Culture operates at the level of daily beliefs and behavior to translate abstract visions into useful information about how to behave and what decisions and tradeoffs to make.

An effective culture is also closely related to business strategy. Strategy focuses on the specific business objectives such as your target market, the products or services you offer, and how you compete. Indeed, you cannot craft an organizational culture until you fully develop and articulate your business strategy; strategy must come first. Thus, our first criterion for using culture as a leadership tool is that it must be *strategically relevant*.

Formal Versus Social Control: The Power of Shared Norms

Norms, or legitimate, socially shared standards against which the appropriateness of behavior can be evaluated ([Birenbaum & Sagarin, 1976](#)), are the psychological bases of culture. As regular behavioral patterns that are relatively stable and expected by group members, norms influence how members perceive and interact with one another, approach decisions, and solve problems (Bettenhausen & Murnighan, 1991: 21). Norms are distinct from rules, which are formal, codified directives. The concept of norms also implies social control; that is, norms act as positive or negative means of ensuring conformity and applying sanctions to deviant behavior (e.g., O'Reilly & Chatman, 1996).

We have appreciated the influence of norms at work since Roethlisberger and Dickson's (1939) classic research showing that group norms shaped employee's behavior more powerfully than either monetary rewards or physical work environments. Employees developed norms at Western Electric's Hawthorne Plant that dictated the acceptable amount of work each employee should complete. Unfortunately, this constrained many employee's productivity; just like those who worked too little, those who worked *too much* were shunned by other members of the work unit, and, as a result, few employees deviated from the norm. We are so influenced by other's expectations, specifically their expectations that we uphold shared social norms, that we are willing and likely to *alter our behavior* in their presence, that is, to do something different than we would do if we were alone. We assimilate because the consequences of violating strong norms—at best embarrassment, and, at worst, exclusion or alienation from the social group – threaten our ability to survive in an interdependent world.

How then, do norms work in today's organizations? Consider an example from the first author's personal experience. While shopping at Nordstrom, a strong culture organization known for its emphasis on customer service, Lance, a polite and attentive sales associate showed her nine pairs of shoes. Unfortunately, the store did not have the size/color/style combination that she wanted. As she was leaving, another sales associate, Howard, approached and suggested that he call a few other Nordstrom stores to find the shoes. Ten minutes later, Howard excitedly informed her that, though he had not found the shoes at another Nordstrom store, he did find them at a nearby Macy's (a primary Nordstrom competitor). Rather than sending her to Macy's, Howard had already arranged for the shoes to be overnight mailed to her home. "Of course," Howard informed her, "Macy's will bill you for the shoes, but Nordstrom will pay for the overnight delivery charge." Howard understood the importance of customer service and was willing to go above and beyond the call of duty to ensure that even Lance's customer was completely satisfied. But, the most interesting part of the story occurred next. While leaving Nordstrom, the first author overheard an interaction that she was not supposed to hear. Howard had gone back to Lance and

said, “I can’t believe you didn’t work harder to find those shoes for her. You really let *us* down.”

Remember, Howard is not Lance’s boss – they are peers – and yet, the norms encouraging customer service at Nordstrom are so strong that members are willing to sanction each other, regardless of level, for a failure to uphold those norms.

Nordstrom prides itself on providing, not average or good, but *outstanding* customer service. The problem is that relying on formal rules, policies, and procedures will not result in outstanding anything, be it customer service, innovation, or quality. Think back to the last time you had a peak consumer experience – you were “wowed” by someone or an organization – what impressed you? When we ask people this question they typically talk about how someone went above and beyond the call of duty to solve *their specific problem*. Formal rules are useful for standardizing performance and avoiding having to relearn things each time. But they are only useful for addressing situations that are *predictable and regular*. In contrast, outstanding service is determined, in customer’s eyes, by how you deal with situations that are nearly impossible to anticipate, unique to a particular person, and difficult to solve.

The irony of leading through culture is that the less formal direction you give employees about how to execute strategy, the more ownership they take over their actions and the better they perform. New employees at Nordstrom are told simply to, “Use your good judgment in all situations.” (Spector & McCarthy, 1995: 16), and at Southwest to, “Do what it takes to make the Customer happy” (O’Reilly & Pfeffer, 1995: 7). Employees have to be freed up from rules in order to deliver fully on strategic objectives; they have to understand the ultimate strategic goals and the norms through which they can be successfully achieved, and they must *care* about reaching those goals and what their coworkers will think of them if they don’t. Strong norms increase members’ clarity about priorities and expectations, and their bonds with one another. Unlike formal rules, policies and procedures, culture empowers employees to think and act on their own in pursuit of strategic objectives, increasing their commitment to those goals. Violations are considered in terms of letting their colleagues down rather than breaking rules. The

payoff is huge: If Howard is monitoring his own behavior against Nordstrom's strategic objectives – *and Lance's* – their manager does not have to spend time looking over their shoulders and can, instead, focus on the really important work of leadership: planning for the next strategic challenge and supporting employees so they can do an outstanding job. Thus, the second criterion for using culture as a leadership tool is that it be *strong*.

What Makes Culture Strong?

Strong cultures are based on two characteristics, high levels of agreement among employees about what's valued, and high levels of intensity about these values. If both are high, a strong culture exists, and if both are low, the culture is not strong at all. Some organizations are characterized by high levels of intensity but low levels of agreement, or what could be called "warring factions" (O'Reilly, 1989). Within many high-tech firms such intensity exists but groups disagree about priorities. For example, marketing groups typically focus on customer driven product features while engineering groups focus on elegant product designs. More common, however, are organizations in which members agree about what's important, but they don't much care, and as such, are unwilling to go the extra mile (e.g., take a risk, stay late) to deliver on strategic objectives or to sanction others for a failure to uphold those norms. These are called "vacuous" cultures (O'Reilly, 1989) and their frequency probably reflects the faddish nature of organizational culture and the lip service such organizations pay to it. Most organizations are aware of the importance of managing culture, but in their attempt to jump on the culture bandwagon, are unable to develop the clarity, consistency, and comprehensiveness that encourage employees to care intensely about executing strategic objectives.

Though strong organizational cultures have long been touted as critical to bottom-line performance in large organizations (e.g., Collins & Porras, 1994), new evidence from a unique sample suggests that developing a strong, strategically relevant culture may be best accomplished when an organization is new. In a longitudinal study of 173 young high technology companies, founders' initial model of the employment relation dramatically influenced their firms' later

success (e.g., [Baron, Hannan, & Burton, 2001](#)). Firms that switched models as they aged were less successful and firms that were built around the commitment model, which emphasized a strong culture and hiring based on cultural fit, stood out from those founded on the engineering or bureaucracy models by, for example, completing initial public stock offerings sooner ([Hannan, Burton, & Baron, 1996](#)).

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

Emphasizing Innovation

Though organizational norms revolve around many dimensions (e.g., [Chatman & Jehn, 1994](#)), only one appears to be universally applicable across organizations regardless of their size, industry, or age: innovation, or generating and implementing creative ideas ([Caldwell & O'Reilly, 1995](#)). In a comprehensive longitudinal study of 207 large firms over an 11-year period, [Kotter and Heskett \(1992\)](#) found that firms which developed a strong, strategically appropriate culture performed effectively over the long run only if their culture also contained norms and values that promoted innovation and change.

Most creativity research has focused on hiring creative people, but innovation may depend more on whether cultural norms support risk-taking and change ([Amabile, 1997](#)). Consider the following study: Outside observers were asked to evaluate the intelligence of product development team members engaged in meetings in which one member was pitching a product idea to the other members. Guess whose intelligence was rated the lowest by the outside observers time and again? The person pitching the product idea! Why would this be the case? Imagine what team members are saying – things like: “Didn’t you think of ...” and “We already tried...” The product pitcher is responding with phrases like, “Um, I’m not sure,” and “I don’t

know.” Not only are critical skills valued more than creative skills, but also creativity and wisdom are inversely related in people’s minds (Sternberg, O’Hara, & Lubart, 1997). Expressing a creative idea is, therefore, risky—since a person suggesting one can end up being perceived as unintelligent ([Amabile, 1983](#)). The lesson for organizations is clear: your people may not be generating creative ideas because the cost of expressing them is too high. You can bet on your employees having creative ideas in their head – about how to do their jobs better, improve a system, or develop a new product. The question is, are they willing to say their ideas out loud?

Establishing these norms and promoting innovation may require thinking unconventionally and adopting some “weird” ideas such as, “Ignore people who have solved the exact problem you face” and, “Find some happy people and get them to fight” (Sutton, 2001: 97). Three times a year, executives at Walt Disney Company host a "Gong Show," in which everyone in the company—including secretaries, janitors, and mailroom staff—gets to pitch movie ideas to the top executives (McGowan, 1996). Structured brainstorming groups can also create an environment where publicly raising creative ideas is not only acceptable, but also rewarded socially. At IDEO, one of the most successful product development companies in history, brainstorming sessions take on the character of a “status auction” where the more creative the idea, the higher the bid ([Hargadon & Sutton, 2000](#)).

Leaders also promote innovation by creating a shared belief that team members are safe to take interpersonal risks. When employees feel psychologically safe they engage in learning behavior such as asking questions, seeking feedback, experimenting, reflecting on results, and discussing errors or unexpected outcomes ([Edmondson, 1999](#)). Leaders create these norms by influencing the way creative ideas and errors are handled, which, in turn, leads to shared perceptions of how consequential it is to make a mistake. These perceptions influence employees’ willingness to report mistakes and ultimately can feed into a more lasting culture of fear or of openness that will influence employees’ ability to identify and discuss problems and develop new ideas ([Edmondson, 1996](#)).

Finally, leaders must move quickly to implement promising ideas. Consider Charles Schwab's foray into Internet stock trading, or rather, their near-invention of this entire category of trading ([Schonfeld, 1998](#)). In late 1995, one of CIO Dawn Lepore's research groups developed experimental software that would allow Schwab's computer systems to talk to one another. The research team was aware that it would be difficult to explain to Lepore the merits of this rather unsexy middleware project. So they put together a separate piece of front-end software that would demonstrate one of many possible applications. The demo was scheduled, and Lepore by chance, brought along Charles Schwab, a self-described techno-buff. The front-end software the engineers put together was a simple web-based software trade. They were, of course, less interested in pursuing an online brokerage than in gaining Lepore's approval to continue working on their obscure project. But, Lepore and Schwab instantly recognized the value of this technology, with Schwab recalling that, "I fell off my chair." ([Schonfeld, 1998: 95](#)).

Within weeks, Schwab had put together a team to commercialize an online brokerage. The team was fed resources and protected from the larger bureaucracy, reporting directly to Schwab President, David Pottruck. As Pottruck said, "We needed a group that felt like they were nimble, unshackled from the larger bureaucracy." ([Schonfeld, 1998: 96](#)). Within three months the team had developed a commercial product, and within two weeks of introducing it, Schwab amassed 25,000 online brokerage subscribers, their goal for the entire year. By 1998 Schwab had captured 30% of the online market share, roughly equal to the next three online competitors combined (E*Trade, Fidelity, and Waterhouse Securities). Two lessons are relevant: first, developing a culture that supports expressing creativity may cause good ideas to crop up from unexpected places. And, more importantly, once you spot a good idea, norms that emphasize urgency and speed will ensure its implementation.

Leadership Tools to Manage and Change Organizational Culture

We are not the first to identify these three criteria for using culture as a leadership tool. They are supported by substantial empirical and applied evidence (e.g., [Kotter & Heskett, 1992](#)).

The next question, however, is how can leaders develop, manage, and change their culture to meet these criteria and promote extraordinary performance? We now briefly describe three key managerial tools for leveraging culture for performance.²

Tool #1: Recruiting and Selecting People for Culture Fit

Selection is the process of choosing new members (for organizations) and choosing to join a particular organization (for job candidates). Our approach to selection contrasts with typical approaches by emphasizing person-culture fit in addition to person-job fit ([Chatman, 1991](#)). This requires anticipating whether the culture your firm emphasizes will be rewarding for potential recruits.

First, consider General Electric's description of desirable candidates, who "stimulate and relish change and are not frightened or paralyzed by it, see change as an opportunity, not a threat," and "have a passion for excellence, hating bureaucracy and all the nonsense that comes with it." Note the intensity of the language, which does not focus on which computer programs people know or their geographic preferences, but rather, their thirst for challenge and change. These are qualities that differentiate between people who are, and are not, successful at GE. Firms often get caught focusing exclusively on hiring people whose skills fit their entry-level jobs, and yet, if a person is successful, he or she will hold multiple jobs within the firm. These jobs are linked by the organizational culture. Therefore, it makes sense to hire people who will fit the culture, possibly even trading off some immediate skills necessary for the specific entry job for better culture fit. People can learn new skills; establishing cultural fit is much harder.

Second, be mindful of recruiter characteristics (Connerly & Rynes, 1997). A fundamental theory in psychology is the "similarity-attraction effect" (e.g., Berscheid & Reis, 1998). We are attracted to people who are similar to ourselves. Why? Well, most of us like ourselves, think we're doing a pretty good job, and wouldn't mind having lunch with ourselves now and then. So,

²For greater detail on these three tools, see, Chatman, 1991; O'Reilly, 1989; O'Reilly & Chatman, 1996; and Tushman & O'Reilly, 1997.

when you ask us to recruit new members, we are likely to pick people just like us! The message is simple but important: Be careful which people you send out to do your recruiting because you will get more of them back.

Third, consider your selection process in light of your culture. How, for example, did Cisco Systems ensure high culture fit despite facing Silicon Valley's brutally competitive labor market in the late 1990's, hiring an average of 1000 new employees through small acquisitions and individual recruiting *every month*? First, they developed culturally consistent selection criteria targeting candidates who were frugal, enthusiastic about the future of the Internet, smart, and not consumed with status (O'Reilly, 1998). Second, they conducted benchmarking studies and focus groups, so that the selection process was maximally effective in getting the people they wanted (Beck, 2000). Third, they targeted "passive applicants," people who are satisfied in their current jobs and not job hunting but who might be lured to Cisco, and developed a convenient website for them to learn about Cisco. Noticing that they were getting over 500,000 hits per month during work hours, Cisco made sure that the website was fast and easy to use; for example, the initial application took 5 minutes to complete. Applicants who pressed a "friends@Cisco" hot key got a call from a current Cisco employee at a comparable level within 24 hours (O'Reilly, 1998). These discussions typically focused on the hard-to-convey culturally relevant information that, because of the similarity of the source to the candidate, provided credible information about what it is really like to work at Cisco. Cisco aggressively pursued and won desired candidates by constructing a comprehensive, culturally relevant selection process.

Tool #2: Managing Culture Through Intensive Socialization and Training

Socialization is the process by which an individual comes to understand the values, abilities, expected behaviors, and social knowledge that are essential for assuming an organization role and participating as an organization member. Socialization and selection processes are somewhat substitutable ([Chatman, 1991](#)). In tight labor markets, firms need to rely

more on socializing people once they join, and, conversely, when labor is more freely available and firms can be highly selective, they will not need to invest as much in socialization practices. Much is known about effective socialization practices (e.g., [Pfeffer, 1998](#)). Here we comment on two key aspects of socialization, ensuring that employees acquire cultural knowledge and that they bond with one another.

At E*Trade, which was founded in 1996 and grew to become the #2 online brokerage by 1999, new employees are asked to stand up on a chair at their first staff meeting and tell everyone something embarrassing about themselves (Lee, 2000). Though a slightly bizarre practice, it jibes with sound psychological logic. Once newcomers disclose this embarrassing thing about themselves, asking questions about their new job or company won't be nearly as embarrassing. Newcomers will be much more likely to ask their new colleagues for the information they need to hit the ground running in their new job without worrying about a loss of face since they already lost their face at that first meeting! Newcomers are grateful that their new colleagues accept them despite their faults. Further, knowing that others have gone through this unique initiation rite creates a bond that allows members to work together more effectively, and, by increasing their accountability to others, makes it more likely that newcomers will work hard to uphold established organizational norms. E*Trade's CEO, Chistos Cotsakos, has also taken his executive team Formula One racing to make them "move faster," and enrolled them in cooking school to increase their agility in working together (Lee, 2000). These practices promote the two goals of socialization: clarifying the cultural values and creating strong bonds among employees so that they are accountable to one another for upholding those values.

Tool #3: Managing Culture Through the Reward System

Culture is an organization's informal reward system, and needs to be intricately connected to formal rewards. At CompUSA, the largest retailer and reseller of personal computer related products and services in the United States; CEO James Halpin has created "a cross between a college fraternity and a military boot camp" (Puffer, 1999: 29). The company's

strategic focus on revenue is extremely salient, sometimes encompassed in rather uncomfortable practices. For example, regional sales managers attending quarterly meetings are assigned a seat at the U-shaped table according to their store sales, with those with the lowest sales being assigned to the tables nearest the front because, as Halpin says, “they have to listen to everything we’ve got to say” (Puffer, 1999: 33). Name badges include a person’s name and their stores’ “shrink number,” or inventory losses due to theft or accounting errors. On the positive reinforcement side, when employees make large commissions—such as when a young employee made \$50,000 in commission in one month – Halpin travels to their store to deliver the cash to them personally, in front of customers and other employees. Though these specific rewards (and punishments) may be inappropriate for your organization, the lesson is that rewards need to be clear, consistent, and comprehensive – the focus on revenues at CompUSA is simply impossible for employees to miss.

Pitfalls Inherent in Leading Through Culture

We hope that we have convinced you that leaders should cultivate their organizational culture. Employees attend vigilantly to leaders’ behavior, even the rather mundane such as what they spend time on, put on their calendar, ask and fail to ask, follow up on, and celebrate (Pfeffer, 1981). These behaviors provide employees with evidence about what counts, and what behaviors of their own are likely to be rewarded or punished, and they convey much more to employees about priorities than do printed vision statements and formal policies. It is critical that, once leaders embark on the path to using culture as a business tool, they regularly review their own behavior to understand the signals they are sending to members.

Ironically, leading through culture can set leaders up to be vulnerable to a problem, created by a series of psychological processes recently labeled the hypocrisy attribution dynamic (Cha & Edmondson, 2001). The reasoning goes something like this: Cultural values are powerful because they inspire people by appealing to high ideals, and they clarify expectations by making salient the consistency between these values and each member’s own behavior (Rokeach, 1973).

But, just as emphasizing cultural values inherently alerts us to our own behavior, it makes others' behavior salient too, giving us high standards for judging them as well. We then become particularly attentive to possible violations, especially by leaders, who are highly visible based on their power over our fate at work. When we detect potential inconsistencies between stated values and observed actions, our cognitive tendency to judge others harshly then kicks in.

Leaders who emphasize cultural values should expect employees to interpret those values by adding their own layers of meaning to them. Over time, an event inevitably occurs that puts leaders at risk of being viewed as acting inconsistently with the values he or she has espoused. When leaders behave in ways that appear to violate espoused organizational values, employees, driven by the so called actor observer bias ([Jones & Nisbett, 1971](#)), or the human tendency to explain one's own behavior generously (viewing good outcomes as caused by one's own enduring dispositional attributes and bad outcomes as caused by situational influences) and to explain others' behavior unsympathetically (attributing good outcomes to situational influences and bad outcomes to others' enduring dispositional traits), conclude that the leader is personally failing to "walk the talk." In short, organization members perceive hypocrisy and replace their hard-won commitment with performance-threatening cynicism. Worse yet, because such negative interpersonal judgments are inherently threatening, employees say nothing publicly, precluding a fair test of their conclusions and disabling organizational learning from the event. The process cycles as subsequent events are taken to confirm hypocrisy, and eventually a large number of employees may become disillusioned.

To avoid this undermining dynamic, leaders need to uphold their commitment to their culture even in the most trying times. Consider a pivotal moment at Dreyer's Grand Ice Cream, a \$1 Billion company (Chang, Chatman, & Carroll, 2001). In June of 1998, a set of unexpected events coincided to make it the toughest period the company had ever faced. First, the investments and actions to implement Dreyer's Grand Plan's brand-building and national expansion goals took longer than expected and also substantially increased Dreyer's cost

structure, thus affecting profitability. Second, Dreyer's CEO, Gary Rogers, had been diagnosed with a brain tumor and had undergone neurosurgery and radiation treatment earlier that spring. A number of unexpected external challenges surfaced as well. Butterfat, the key ice cream ingredient, rose to a record high of \$2.91 per pound, costing the Company an unanticipated \$22 million in gross profits in 1998; but aggressive discounting by Dreyer's competitors made it difficult for Dreyer's to raise prices by an amount sufficient to compensate for higher dairy costs. Further, the entire "Better-For-You" segment (healthier low-fat desserts), in which Dreyer's had invested heavily, began to reverse its upward trajectory. Finally, Ben & Jerry's, the socially conscious superpremium ice cream company, was threatening to terminate its long-term distribution contract (and subsequently did so in August 1998), influencing Dreyer's national distribution system, which required distributing significant volumes of their own and competitors' ice cream to offset the cost of building such a system.

Rather than engaging in the kind of panicked cost-cutting common among organizations in tough situations like this, Dreyer's executive team intentionally handled this near-crisis period in a way that was consistent with the culture in which they had long invested. They started with honest and open communication and valuing their employees, core components of their culture that had taken many decades to develop and stemmed directly from Gary Rogers' and Rick Cronk's (Dreyer's President) personalities of openness and accessibility. As soon as they were prepared to announce the restructuring to the financial community and their employees, Executive Committee members were on planes, flying across the country, and by the end of that week, had met with every one of their more than 4000 employees. As Cronk put it, "we know our limits and understand the law, but we tend to be very open with our employees, we communicate a lot." An account executive recalled that, "They reassured us by calling it straight...they informed us of their game plan and that they needed us and counted on us...you looked at these [senior managers] and thought, you'd run through a wall for this guy," Dreyer's executive staff and employees were motivated by senior executive visits to rally around the company.

Rogers also instituted “1-800 calls” to reinforce Dreyer’s strategy and the successes and shortcomings of the Grand Plan. These 1-800 calls allowed employees to call in to hear pre-recorded speeches by Rogers, and humanized the leadership and ensured that employees had an avenue to learn about Dreyer’s strategy and plans directly from the leader. Rogers’ speeches had an honest tone that celebrated successes and disclosed shortcomings, and they were exceptionally popular with employees with anywhere between 600 to 1,100 employees calling in to listen.

In June 1998, Dreyer’s executive team made a key financial decision to continue to invest in the Dreyer’s Leadership University (DLU) providing unequivocal evidence that Dreyer’s cared about employee development, even during difficult times. They hoped to “reinvent and rejuvenate the Dreyer’s leadership,” said Cronk. They knew that they would reap the benefits of such training in the longer term. “There was a real foundational understanding that [DLU] was an investment in the future,” said the Director of People Support and Development, “...that you have to make an investment in your people and they’ll deliver in the future.” The VP of sales agreed, “when people heard that we were investing another million dollars into the [culture] and DLU it created a high degree of comfort and confidence that we’re focused on what’s really important and that it’s not just talk.”

These culturally consistent actions paid off for Dreyer’s. By the fall of 2000, the company rebounded with its robust premium and superpremium (e.g., Dreamery) product lines. Even though Dreamery only launched in September 1999, it successfully captured 11.5 percent of the superpremium category. Dreyer’s entire superpremium portfolio had a 31.3 percent volume share, while Haagen Dazs had a 34.1 percent share and Ben & Jerry’s had a 33.4 percent share (Teitelbaum & Geissler, 2000). The company also reported positive earnings and analysts estimated revenue to be \$1.2 billion in 2000 and \$1.4 billion in 2001 with earnings per share of \$.80 and \$1.33 respectively. Dreyer’s stock price, down as low as 9.88 in September 1998 at the time of the restructuring announcement, reached over 36 by January, 2001, and, despite the

recession and ice cream slow down in winter, closed on December 6, 2001 at 36.12. Dreyer's also signed a new agreement with Ben & Jerry's to distribute its products nationally (after the Unilever's purchase of Ben & Jerry's was finalized). Finally, Dreyer's acquired a number of distributors to expand its presence in non-grocery outlets. The acquisitions would provide Dreyer's with substantial synergies and cost savings.

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

Just as the executive team at Dreyer's did, leaders must instill employees with confidence and clarity about key cultural values. They must make the time to help employees interpret key events and changes in light of cultural values, on an ongoing basis. If they do not, employees will provide their own explanations, and when leader behaviors are ambiguous or beloved structures are axed, the explanations that employees spontaneously generate are not likely to be charitable.

The Three C's of Culture

Organizational culture can be a powerful force that clarifies what's important and coordinates members' efforts without the costs and inefficiencies of close supervision. Culture also identifies an organization's distinctive competence to external constituencies. Managing culture requires creating a context in which people are encouraged and empowered to express creative ideas and do their very best. Selection, socialization, and rewards should be used as opportunities to convey what's important to organizational members. Organizational cultures

that are strategically relevant, strong, and emphasize innovation and change are most effective. Three levers exist for forming, strengthening, and changing culture, how you (1) recruit and select, (2) socialize, orient, and train, (3) reward and lead people. Paradoxically, the very strength of cultural values can also be a leader's downfall. But, leaders who embrace cultural values when threatening events occur can avoid this risk. Culture "works" when it is clear, consistent, and comprehensive.

One thing is guaranteed: A culture will form in your organization, your group, and your department. In fact, it already has. The question is whether it is one that helps or hinders your ability to execute your strategic objectives. Organizational culture is too important to leave to chance; use your culture to fully execute your strategy and inspire innovation at your company. It is your primary role as a leader to develop and maintain an effective culture.

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