

STRATEGY: Core Concepts and Analytical Approaches
Arthur A. Thompson, The University of Alabama
2nd Edition

CHAPTER 12 Corporate Culture and Leadership—Keys to Good Strategy Execution

PowerPoint Presentation by Charle Cook
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Chapter 12 Learning Objectives

- Be able to identify the key features of a company's corporate culture.
- Understand how and why a company's culture can aid or block the drive for good strategy execution and operating excellence.
- Learn the kinds of actions management can take to change a problem corporate culture.
- Understand what constitutes effective managerial leadership in achieving superior strategy execution and operating excellence.

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Chapter 12 Roadmap

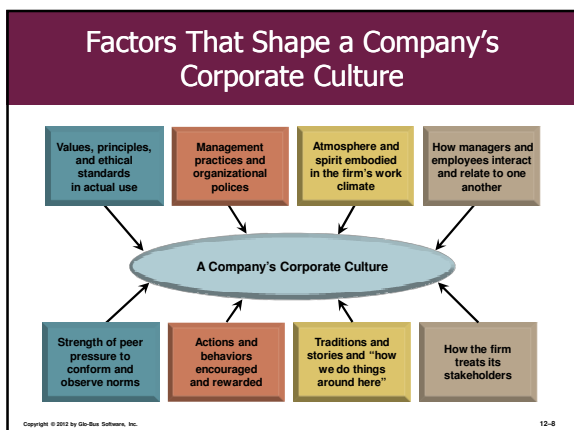
- **Instilling a Corporate Culture that Promotes Good Strategy Execution**
 - ▶ Identifying the Key Features of a Company's Corporate Culture
 - ▶ Company Cultures Are Often Grounded in Core Value and Ethics
 - ▶ Company Cultures Can Be Strongly or Weakly Embedded
 - ▶ Why Corporate Cultures Matter to the Strategy Execution Process
 - ▶ Healthy Cultures that Aid Good Strategy Execution
 - ▶ Unhealthy Cultures that Impede Good Strategy Execution
 - ▶ Changing a Problem Culture
- **Leading the Strategy Execution Process**

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Instilling a Corporate Culture That Promotes Good Strategy Execution

- Each firm has a unique culture that is a product of:
 - ▶ The core values and business principles articulated by executives
 - ▶ Its standards of what is ethically acceptable and what is not
 - ▶ The work practices and behaviors that define "how we do things around here"
 - ▶ Its approach to people management and its style of operating
 - ▶ The "chemistry" and the "personality" that permeates its work environment
 - ▶ Stories told repeatedly to reinforce its values, business practices, and traditions
- The specific cultural traits that emerge from a company's meshing of these culture-determining factors define its **corporate culture**
 - ▶ A company's culture is its *psyche* or *organizational DNA*
- A firm's culture is important because it influences its actions and approaches to conducting its business
- There are large variations in the character of company cultures

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Core Concept

Corporate culture refers to the character of a firm's internal work climate and personality—as shaped by its core values, beliefs, business principles, ethical standards, traditions, ingrained behaviors, work practices, approach to people management, and style of operating.

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How Are Corporate Cultures Formed?

- The values, beliefs, and practices that undergird a company's culture can have any of several origins:
 - ▶ A founder or certain strong executive leaders who articulated them as a set of business principles, company policies, and ways of operating
 - ▶ Exemplary actions on the part of certain company personnel that have come to be **role models**
 - ▶ Evolving consensus about "how we ought to do things around here."

Over time, these cultural underpinnings take root, become embedded in how the company conducts its business, and gain widespread acceptance among both managers and employees

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Example: The Corporate Culture at Wal-Mart

- Dedication to customer satisfaction
- Zealous pursuit of low costs
- Frugal operating practices
- Strong work ethic
- Ritualistic Saturday morning meetings
- Executive commitment to:
 - ▶ Visit stores
 - ▶ Listen to customers
 - ▶ Solicit employees' suggestions

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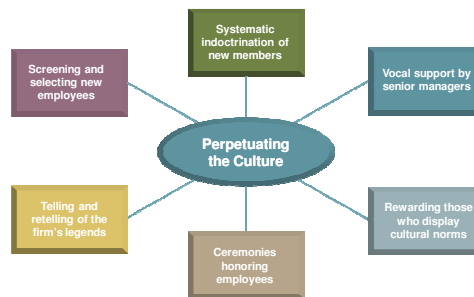
Example: Cultural Traits at General Electric

- A hard-driving results-oriented atmosphere
- Extensive cross-business sharing of ideas, best practices, and learning
- Reliance on "workout sessions" to identify, debate, and resolve burning issues
- A commitment to Six Sigma quality
- A globalized approach to operations.

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How Is a Company's Culture Perpetuated?



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Cultures Are Not Static, They Evolve

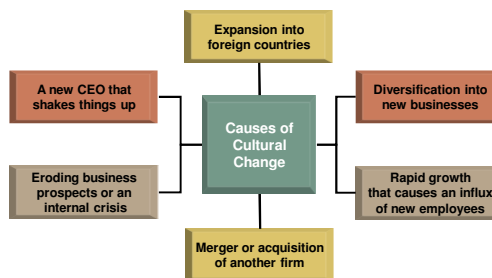
- Cultures evolve because a variety of factors breed a new work climate and new ways of doing things:
 - Diversification into new businesses
 - Expansion into foreign countries
 - Rapid growth that brings an influx of new employees
 - Merger with or acquisition of another firm
 - A new CEO who opts to shake things up
 - Shifting internal conditions—especially eroding business prospects or an internal crisis



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Why a Company's Cultures Evolves



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Company Cultures Are Often Grounded in Core Values and Ethics

- A firm's corporate culture is strongly influenced by its dedication to certain core values and the bar it sets for ethical behavior..
 - The culture-shaping significance of core values and ethical behaviors accounts for why so many firms have developed a formal values statement and a code of ethics
 - Sometimes a firm's stated core values and code of ethics are cosmetic, existing mainly to impress outsiders and help create a positive image.
- A firm's stated core values and ethical principles have two culture-building roles:
 - Fostering a work climate where personnel share common and strongly held convictions about how the firm's business is to be conducted
 - Providing personnel with guidance about the manner in which they are to do their jobs



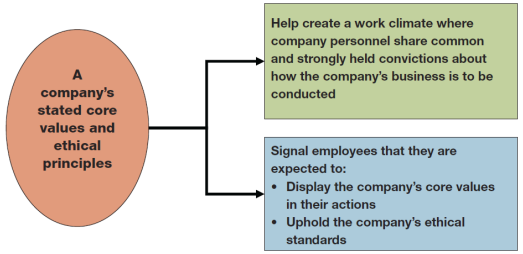
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Value and Ethics Have an Impact on Culture

A company's values statement and code of ethics communicate expectations of how all company personnel should conduct themselves in the workplace.

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Figure 12.1 The Two Culture-Building Roles of a Firm's Core Values and Ethical Standards



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The Presence of Company Subcultures

- It is not unusual for firm to have multiple cultures (or subcultures)
- Values, beliefs, and practices within a firm can vary by:
 - Department
 - Geographic location
 - Business unit
- Global and multinational firms tend to be multicultural because cross-country organization units have different operating histories and work climates, as well as members who speak different languages, have grown up under different customs and traditions, and have different sets of values and beliefs
- Subcultures can clash if:
 - They embrace conflicting business philosophies
 - Key executives use different approaches to people management
 - Differences between a firm's culture and recently-acquired businesses have not been ironed out
- Existence of subcultures does not preclude important areas of commonality and compatibility being established in different countries

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Company Cultures Can Be Strongly or Weakly Embedded

<ul style="list-style-type: none"> Strong-Culture Firm <ul style="list-style-type: none"> Has deeply rooted widely-shared values, behavioral norms, and operating approaches. Insists that its values and principles be reflected in the decisions and actions taken by all company personnel. 	<ul style="list-style-type: none"> Weak-Culture Firm <ul style="list-style-type: none"> Lacks values and principles that are consistently preached or widely shared. Has few or no traditions, beliefs, values, common bonds, or behavioral norms.
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Core Concept

In a strong-culture company, culturally approved behaviors and ways of doing things flourish, while culturally disapproved behaviors and work practices get squashed.

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Strong-Culture Companies

- The hallmark of a strong-culture firm is the dominating presence of certain deeply rooted values and operating approaches that “regulate” the conduct of a firm’s business and the climate of its workplace.
- In strong culture firms, senior managers
 - ▶ Make a point of reiterating business principles and core values to organization members and explaining how they relate to its business environment.
 - ▶ Make a conscious effort to display these principles in their own actions and behavior—they walk the talk
 - ▶ Insist that company values and business principles be reflected in the decisions and actions taken by all personnel
- Over time, the values come to be widely shared by rank-and-file employees—people who dislike the culture tend to leave
- Individuals encounter strong peer pressures from co-workers to observe the culturally approved norms and behaviors

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Strong-Culture Companies (cont’d)

- A strongly implanted corporate culture has a powerful influence on “how we do things around here” because:
 - ▶ So many company personnel are accepting of cultural traditions
 - ▶ There are strong management expectations and co-worker peer pressure to conform to cultural norms
- As a consequence, strongly implanted cultures provide a huge assist in executing strategy because company managers can use the traditions, beliefs, values, common bonds, or behavioral norms as levers to mobilize commitment to executing the chosen strategy
- If cultural norms involve habits, behaviors, and work practices that impede good strategy execution, then the strong culture poses a **HUGE OBSTACLE**

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Weak-Culture Companies

- A Weak-Culture Firm
 - ▶ Lacks values and principles consistently preached or widely shared
 - ▶ Has few widely revered traditions and evidences few culture-induced norms in its operating practices
 - ▶ Has top executives who do not repeatedly espouse any particular business philosophy or exhibit longstanding commitment to particular values or extol particular operating practices and behavioral norms
 - ▶ Has a working environment where its personnel feel little co-worker peer pressure to do things in particular ways
 - ▶ Breeds no strong employee allegiance to what the firm stands for or to operating the business in well-defined ways
- In many cases, cultural weakness can stem from moderately entrenched subcultures that block the emergence of a well-defined companywide work climate

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Why Corporate Cultures Matter to the Strategy Execution Process

When a firm’s present culture promotes attitudes, behaviors, and ways of doing things **that are conducive to first-rate strategy execution**, the culture

- Functions as a **valuable ally** in the strategy execution process
- Adds **considerable power** to management’s strategy execution efforts

Why?

Two reasons:

Because culturally approved actions, behaviors, and work practices are **in sync with the very actions, behaviors, and ways of doing things that are needed to execute the strategy proficiently**

Because culture-induced peer pressures induce personnel to do things in a manner that aids the cause of good strategy execution

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Core Concept

A culture that encourages actions, behaviors, and work practices conducive to good strategy execution adds significantly to the power and effectiveness of a firm’s strategy execution effort.

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Core Concept

It is in management’s best interest to dedicate considerable effort to establishing a corporate culture that encourages behaviors and work practices conducive to good strategy execution and that marshals organizational energy behind the drive for good strategy execution.

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Why Corporate Cultures Matter to the Strategy Execution Process (cont'd)

- When a firm's culture conflicts execution-supportive behaviors and work practices, the culture becomes a stumbling block and hurdle that must be cleared for a strategy's execution to get very far
 - ▶ Behaviors and work practices needed to execute strategy successfully are in conflict with culturally-approved behaviors, and operating practices
- Such a clash poses a dilemma for the firm's personnel:
 - ▶ Should they be loyal to the culture and traditions of the firm (to which they are emotionally attached) and resist or, at best, indifferent to behaviors and practices that promote better strategy execution?
 - ▶ Or should they go along with the strategy execution effort and engage in actions and behaviors that run counter to the culture?

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Why Corporate Cultures Matter to the Strategy Execution Process (concluded)

- Culture is important to the task of managing the strategy execution process: **Closely aligning corporate culture with the requirements for proficient strategy execution merits the full attention of senior executives**
- The culture-building objective is to **create a work climate and style of operating that mobilize the energy and behavior of company personnel** squarely behind efforts to execute strategy competently
- The more that **execution-supportive ways of doing things** are **embedded** in the culture, the more that the culture automatically steers company personnel toward **execution-supportive behaviors and work practices**

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Healthy Cultures That Aid Good Strategy Execution

- A strong culture, **provided it embraces execution-supportive attitudes, behaviors, and work practices**, is definitely a healthy culture
- Two other types of cultures that tend to be healthy and largely supportive of good strategy execution are:
 - ▶ High-performance cultures
 - ▶ Adaptive cultures

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High-Performance Cultures

- The standout traits are:
 - ▶ A "can-do" spirit
 - ▶ Pride in doing things right
 - ▶ No-excuses accountability
 - ▶ A pervasive results-oriented work climate where people go the extra mile to meet or beat stretch objectives
 - ▶ A strong sense of involvement on the part of company personnel
 - ▶ Emphasis on individual initiative and creativity
 - ▶ A clear and unyielding expectation that all personnel, from senior executives to front-line employees, will display high-performance behaviors and a passion for making the firm successful

Such a culture—permeated by a spirit of achievement and constructive pressure to achieve good results—**is a valuable contributor to strategy execution and operating excellence**

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Traits of Adaptive Cultures

- ▶ Have organizational members who are willing to accept change, introduce and execute new strategies, and adopt new work practices
- ▶ Have confidence that the firm can deal with new threats and opportunities
- ▶ Take a proactive approach to identifying issues, evaluating implications and options, and quickly moving ahead with workable solutions
- ▶ Are receptive to risk taking, experimentation, and innovation
- ▶ Are supportive of managers and employees who advocate useful change
- ▶ Have senior executives who seek out, support, and promote individuals who exercise initiative, spot opportunities, and display the skills to implement them.
- ▶ Have managers who openly evaluate ideas and suggestions, fund initiatives to develop new or better products, and are willing to take prudent risks to pursue opportunities

Firms with adaptive cultures thrive on change—driving it, leading it, and capitalizing on it

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Change in Adaptive Cultures

- Why is change so willingly embraced in an adaptive culture as opposed to organization members being fearful of how change will affect them?
- The answers lie in two distinctive and dominant traits of an adaptive culture:
 - ▶ Any **changes** in operating practices and behaviors **must not compromise core values and long-standing business principles**
 - ▶ The **changes that are instituted must satisfy the legitimate and best interests of stakeholders**—customers, employees, shareowners, suppliers, and the communities where the company operates

Changes are readily accepted by company personnel so long as the changes are viewed as fair to all stakeholders and management exhibits a commitment to doing the right thing

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An Adaptive Culture Is an Ally in Executing Strategy

As a firm's strategy evolves, an adaptive culture is a definite ally in the strategy-implementing, strategy-executing process as compared to cultures that have to be coaxed and cajoled to change.

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Unhealthy Cultures Can Impede Good Strategy Execution

- The distinctive characteristic of an unhealthy corporate culture is the presence of counterproductive cultural traits that adversely impact the work climate and firm performance
- Five particularly unhealthy cultural traits are:
 - ▶ Hostility to change
 - ▶ Heavily politicized decision-making
 - ▶ Insular thinking
 - ▶ Unethical and greed-driven behaviors
 - ▶ The presence of incompatible subcultures

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Five Unhealthy Cultures That Impede Good Strategy Execution

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Change-Resistant Cultures

- Change-resistant cultures are burdened by a number of undesirable or unhealthy behaviors:
 - ▶ Avoiding risks; being cautious and conservative is deemed wiser
 - ▶ Not making bold proposals to pursue emerging opportunities
 - ▶ A lax approach to both product innovation and continuous improvement in performing value chain activities
 - ▶ Following rather than leading market change because:
 - Being in the forefront of change is too risky
 - Acting too quickly increases exposure to costly mistakes
 - Moving later allows time for careful analysis and ability to learn from the missteps of early movers
 - ▶ Little enthusiasm for (or opposition to) proposals to do things differently
 - People who champion new ways of doing things are viewed as a nuisance or troublemaker; more comfortable with "we have done it this way for years"

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Politicized Cultures

- Internal politics and political infighting consumes a great deal of organizational energy
 - ▶ Empire-building managers jealously guard their prerogatives
 - Have their own agendas and operate the work units under their supervision as autonomous "fiefdoms"
 - Positions they take on issues are aimed at protecting or expanding their turf
 - ▶ Collaboration with other organizational units is viewed with suspicion, and cross-unit cooperation occurs grudgingly
 - ▶ The support or opposition of politically influential executives and/or coalitions among departments with vested interests in a particular outcome tend to shape what actions the firm takes
 - ▶ What's best for the firm takes a backseat to political maneuvering

All this political jockeying detracts from efforts to execute strategy and frustrates personnel who are less political and more inclined to do what is in the firm's best interests.

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Insular, Inwardly Focused Cultures


- The standout traits and behaviors:
 - ▶ A belief on the part of managers and key employees they have all the answers or can develop them
 - ▶ A tendency to neglect what customers are saying and how their needs and expectations are changing.
 - ▶ Unfounded confidence in the correctness of how the firm does things and an unflinching belief in the firm's skills and capabilities breeds arrogance that caused personnel to discount the merits of what outsiders are doing and see little payoff from studying best-in-class performers.
 - ▶ Insular thinking, internally driven solutions, and a must-be-invented-here mindset come to permeate the corporate culture which causes managerial inbreeding and a failure to recruit people who can offer fresh thinking and outside perspectives

The big risk of insular cultural thinking is underestimating the competencies and accomplishments of rival companies and overestimating the firm's progress—all of which diminishes a firm's competitiveness over time

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Unethical and Greed-Driven Cultures

- The standout traits and behaviors:
 - ▶ Executives exude
 - Arrogance, ego, and greed
 - An "ends-justify-the-means" mentality in pursuing performance targets
 - ▶ Senior managers
 - Wink at unethical behavior
 - May cross over the line to unethical (and sometimes criminal) behavior themselves
 - Are prone to adopt accounting principles that make financial performance look better than it really is



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Incompatible Subcultures

- Company subcultures are unhealthy when:
 - ▶ They embrace **conflicting** business philosophies, approaches to people management, and/or styles of operating
 - ▶ They spawn **warring factions** within the firm, creating a poisonous atmosphere
 - ▶ The **politics surrounding clashing subcultures** distracts personnel from the business of business as they become absorbed with the internal jockeying among the subcultures for cultural dominance
 - ▶ They **prevent or impede** teamwork among the firm's various organizational units and blocks the emergence of a collaborative approach to strategy execution

Lack of consensus among the subcultures about how to do things results in fragmented or inconsistent approaches to implementing new strategic initiatives and limited success in executing the firm's overall strategy

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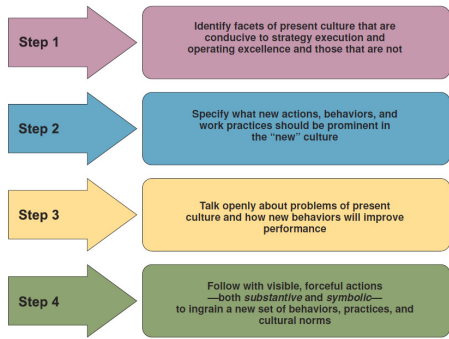
Changing a Problem Culture

- When a firm's culture is unhealthy or otherwise out of sync with the actions and behaviors needed to execute the strategy successfully, the culture must be changed as rapidly as can be managed
 - ▶ Entails altering aspects of the mismatched culture to ingrain new behaviors and work practices that will enable first-rate strategy execution
 - ▶ Requires competent, forceful leadership by top executives

The single most visible factor that distinguishes successful culture-change efforts from failed attempts is competent leadership at the top.

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Figure 12.2 Changing a Problem Culture



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Substantive Culture-Changing Actions

- Company executives must give the culture-change effort some **teeth** by initiating **a series of credible, forceful actions**
- Examples of ways to change a problem culture:
 1. Replacing high-profile executives and managers strongly associated with the old culture who are obstacles to instituting needed organizational and cultural changes.
 2. Promoting individuals who are advocates of the shift to a different culture and can function as new-culture role models
 3. Appointing outsiders with the desired cultural attributes to high-profile positions
 4. Screening all candidates for new positions carefully, hiring only those who appear to fit in with the new culture

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Substantive Culture-Changing Actions (cont'd)

Examples of ways to change a problem culture (cont'd):

5. Mandating that all company personnel attend culture-training programs
6. Pushing to implement new work practices and operating procedures
7. Designing compensation incentives that reward desired cultural behaviors and hit change-resisters in the pocketbook
8. Granting generous raises to individuals who leading adoption of new work practices, display new-style behaviors, and achieve pace-setting results
9. Revising policies and procedures to better drive cultural change
10. Taking management actions that leave no doubt that cultural transformation is inevitable

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Symbolic Culture-Changing Actions

- The most important symbolic actions are those that top executives take:
 - ▶ **Lead by example—Walk the talk**
 - If the firm is striving to be a low-cost provider, top executives must display frugality in their own actions and minimize executive perks
 - If the culture change imperative is to be more responsive to customers' needs and to pleasing customers, then executives should spend time talking with customers
 - ▶ **Hold ceremonial events**
 - To praise and honor people who display the desired cultural traits
 - To celebrate each culture-change success
 - ▶ **Appear at employee training programs to stress strategic priorities, values, ethical principles, and cultural norms**

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How Long Does It Take to Change a Problem Culture?

- Changing a problem culture is never a short-term exercise
 - ▶ It takes time for a new culture to emerge and prevail, overnight transformations don't occur.
 - ▶ It takes even longer for a new culture to become deeply embedded (2-5 years, maybe longer)
- The bigger the organization and the greater the cultural shift needed to produce an execution-supportive fit, the longer it takes

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Leading the Strategy Execution Process

- The litany of managing the strategy process is simple enough:
 - ▶ **Craft a sound strategic plan, implement it, fully execute it, adjust it as needed, and win!**
- Leading the strategy execution process is a top-down activity, driven by mandates to get things on the right track and show good results
- The leadership challenges are significant and diverse and call for three actions by the manager(s)-in-charge:
 - ▶ Staying on top of what is happening, closely monitoring progress, ferreting out issues, learning what obstacles lie in the path of good execution, and deciding which way to proceed to get things done
 - ▶ Putting constructive pressure on the organization to achieve good results and operating excellence
 - ▶ Pushing corrective actions to improve strategy execution and achieve the targeted results

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Staying on Top of How Well Things Are Going

- Requires senior executives to tap into information from a wide range of sources:
 - ▶ Talking with key subordinates
 - ▶ Staying in close contact with key personnel in outlying locations via e-mail and telephone
 - ▶ Attending meetings and quizzing presenters and attendees
 - ▶ Reviewing the latest operating results
 - ▶ Watching the competitive reactions of rival firms
 - ▶ Visiting with key customers and suppliers to get their perspectives
 - ▶ Visiting various company facilities and talking with many different personnel at many different organization levels—a technique often labeled as **managing by walking around (MBWA)**



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Core Concept

Management by walking around (MBWA) is one of the techniques that effective leaders use to stay informed about how well the strategy execution process is progressing.

MBWA allows managers to see firsthand how well the strategy execution process is proceeding, spot gridlock, learn what obstacles lie in the path of good execution, and start considering what might be done to clear the way for better progress.

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Putting Constructive Pressure on the Organization to Achieve Good Results and Operating Excellence

- Mobilizing organizational energy behind the drive for good strategy execution and operating excellence entails nurturing a results-oriented work climate, where performance standards are high and a spirit of achievement is pervasive

The goal is to build a good organizational track record in meeting or beating stretch performance targets

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Putting Constructive Pressure on the Organization to Achieve Good Results and Operating Excellence (cont'd)

- Successfully leading the effort to instill a spirit of high achievement into the culture generally entails such leadership actions and practices as:
 - ▶ Treating employees as valued partners in the drive for operating excellence and good business performance
 - ▶ Fostering an esprit de corps that energizes organizational members
 - ▶ Using empowerment to help create a fully-engaged workforce
 - ▶ Making champions out of the people who spearhead new ideas and/or turn in winning performances
 - ▶ Setting stretch objectives and clearly communicating an expectation that company personnel are to give their best in achieving performance targets
 - ▶ Using the tools of benchmarking, best practices, business process reengineering, TQM, and Six Sigma to focus attention on continuous improvement
 - ▶ Using the full range of motivational techniques and compensation incentives to inspire personnel, nurture a results-oriented work climate, and enforce high-performance standards
 - ▶ Celebrating individual, group, and company successes

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Leading the Process of Making Corrective Adjustments

- There are times at every firm when managers have to fine-tune or overhaul the approaches to strategy execution and push for better results
- Success in initiating corrective actions hinges on:
 - ▶ **Accurate analysis of the circumstances causing unacceptable performance** (correcting flawed strategy execution entails actions quite different than correcting flawed strategy)
 - ▶ The exercise of good business judgment in deciding **when corrective adjustments** are needed and deciding **what adjustments to make**
 - ▶ **Good implementation of the corrective actions that are initiated**
- Successful managers are skilled in getting an organization back on track rather quickly:
 - ▶ They (and their staffs) are good at discerning what actions to take and in ramrodding them through to a successful conclusion
 - ▶ Managers that struggle to show measurable progress in generating good results are candidates for being replaced

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Leading the Process of Making Corrective Adjustments

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    graph TD
      A([Making corrective actions successfully requires:]) --> B[Accurate analysis of the situation]
      A --> C[Good business judgment in deciding what actions to take]
      A --> D[Good implementation of the corrective actions]
    
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"Good Results" Are the Best Sign of Effective Leadership

Doing a good job of leading the strategy execution process is not about searching for the right way to proceed or for provably correct solutions. It is about proceeding in a manner that produces good results, namely proficient strategy execution, progress toward operating excellence, and good business performance.

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A Final Word on Leading the Process of Crafting and Executing Strategy

- In practice, it is hard to separate leading the process of executing strategy from leading the other pieces of the strategy process
- As emphasized in Chapter 1, strategy consists of five interrelated and linked tasks requiring continuous fine-tuning and adjustments to strategic visions, objectives, strategies, and implementation/ execution approaches to fit ever-changing circumstances
- The best tests of good strategic leadership and management are whether the firm has a good strategy, whether the strategy is being competently executed, and whether the enterprise is meeting or beating its performance targets
- If these three conditions exist, then the firm has good strategic leadership and is a well-managed enterprise.

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