

Changing the Organization Culture

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Abstract: Initially, an organization's core values are based on the leaders' values. Once these values are established, the organization culture forms around these values. The author discusses the importance of values and culture in guiding employee behavior. Examples are provided on the importance of culture, CEOs that consider developing culture their most important task, and examples of the culture of corporations. Examples are provided of CEO's that changed the corporate culture. A process to change an organization's values and culture is provided, as well as how to sustain the changes.

Typically, when one or more individuals start a company, they spend some time identifying values that are important to them, values they want to guide the behavior of people who make up the organization. The executive team may develop the first version but everyone should be involved in determining the final version. These values become known as core values and are written and prominently displayed for all stakeholders to see. Organization culture, which develops around the core values, is a set of rules and regulations that are usually unwritten but are critical in further guiding behavior. Employees are expected to conform to these organization norms which prescribe or prohibit behavior.

The Importance of Culture

When employees live, endorse, and reinforce the culture the advantages are many. They may work hard, keep operating costs low, output and quality high, provide exceptional customer service, show respect for others, and put peer pressure on their colleagues to adhere to these norms. When employees internalize the culture the result is a highly committed high performance workforce.

Rita Bailey of Southwest Airlines stated that their employees don't put up with complaining or "bad mouthing" management. Employees exert peer pressure to work together to get the job done. Pilots will load bags if that is what it takes to get a plane turned around on time.¹

Culture can be the source of the company's sustainable competitive advantage. Unlike a new product, marketing strategy, or logistic strategy which can be easily duplicated within a

relative short period of time, culture is extremely difficult to duplicate. “Southwest’s culture is what has set it apart from other airlines and companies since its start in 1971.”² No other airline has been able to match Southwest Airlines’ performance – flying time per aircraft, flights per gate, turnaround time, employees per aircraft, passengers served per employee, number of crew and agents to turn around an airplane, and customer satisfaction.³

The Leader’s Responsibility

It is likely that every CEO recognizes the development of culture as a primary responsibility. For example, Jeff Immelt, CEO of GE says that his “most important job is to attract talented and loyal people who work together effectively and support them with a culture based on performance, teamwork, and integrity.”⁴ Donald Carty, CEO American Airlines⁵ and Jim Rose, CEO of QXL.com⁶ believe that the leader’s primary responsibility is to develop a corporate culture. Carty emphasizes that employees should value the company family as much as they value their own individual families.⁷ Gary Goldstein CEO of Headway Corporate Research and Jeff Christian, CEO of Christian and Timbers indicate that an organization must provide a culture that ensures employee satisfaction.⁸ Carly Fiorina, former CEO of HP believes that the leader must develop an organization structure and culture that will make people want to stay.⁹ Jamie Dimon, former CEO of Bank One, advises that the CEO must ensure that the culture is spread consistently over the organization.¹⁰ Raymond Gilmartin, former CEO of Merck and Company, believes that the culture must be one that involves employees in identifying what the problems are – what needs to be fixed.¹¹ Mark Andreessen, founder of Loudcloud, states that the CEO should spend time developing a high commitment high performance culture, particularly in a downturn in the economy when you have more time.¹²

GE’s culture is depicted as the key component in the corporation’s success. GE is famous for a culture formed around the core value of a meritocracy, a deeply embedded core human resource value from Thomas Edison’s time. GE’s integrated system is built around this meritocracy culture where ability and results ensure success. All the recruitment, development, training, evaluation, and rewards are built around this meritocracy culture. A cultural norm is that line managers at every level of the organization are responsible for developing those that work for them. It is a clear measured performance standard against which managers are held accountable. This situation is far from the reality in most companies today. The meritocracy culture makes it possible to have the compensation systems, the vitality curve judgments on the bottom 10%, and the selectivity of nominations for training programs.¹³

Corporations That Changed

Welch used “boundaryless,” and “workout” to change GE’s culture. Boundaryless was a concept of sharing ideas. Welch challenged everyone in GE to look for the best ideas regardless of the source. Ideas could be from a different GE business, anyone in GE, or from a competitor. “Workout” was an additional generator of ideas. It was a three day session held away from the workplace. Workout meant working out the nonsense in the company and dealing with the problems that needed to be worked out. The boundaryless organization and workout helped

break down barriers that separated businesses, functions, and geographic regions. They no longer had time to climb over barriers between functions like engineering and marketing, or between people – hourly, salaried, management. Business leaders also presented their best practices that others could use. Company wide meetings, training sessions, personal discussions, and the intranet were used to generate and present ideas. Through the boundryless culture the best ideas, best practices, and initiatives were transferred throughout GE.¹⁴

One of the most common occurrences of a change in organization culture is when a new CEO assumes control. Once the CEO has assembled an executive team they begin to transform the culture to adjust to the changing environment, restore the organization to its former prominence, or take it to new heights.

John Martin joined Taco Bell in 1983 and was President and CEO in the 1980s and 1990s. Martin changed Taco Bell's culture by implementing changes in the organization structure, information systems, operations, compensation, training, and authority systems. If these had been made in isolation or in succession, he would have achieved only incremental improvements. By making radical changes rapidly in a coordinated and closely controlled process he created a positive, synergistic change effect. This leveraged approach was assisted by a high turnover rate. Those who could not or would not adapt to the culture's new work standards were replaced by managers and employees who were skilled in or adaptable to teamwork, management by exception, empowerment, and coaching. This was a refreshing change from the autocratic, command and looking over the shoulder culture of control. Once their training was complete the new crew members could run the store without calling the manager to ask questions. If they needed help, they called crew members at other restaurants instead of the manager.¹⁵

A learning organization was created to maintain the advantage by learning better and faster than competitors. The learning organization concept was intended to support the cultural shift where people were encouraged to embrace the change, think creatively and independently, take ownership of ideas, and quickly communicate those ideas.¹⁶

Cultural change can occur when an organization's current leadership is insightful enough to realize that the environment they have operated in is rapidly changing – that technology, and particularly internet technology, is rapidly changing businesses and industries. And, there are companies such as Sapient whose purpose is to help the world realize the promise of technology.¹⁷

Dow Chemical is a prime example of an organization whose leadership recognized the need for change. Dow had been successful for a couple hundred years and had not changed. William Stavropoulos, the CEO realized that the world was changing radically and if Dow did not change, it would have been history. So Stavropoulos and his management team set new aspirations for the company. They developed a new strategy. They changed the organization, the culture, the product mix – there was not one part of the company that they did not change.¹⁸

Perhaps you are a new CEO and you recognize the need to change your organization's culture. Or you may be the CEO of a successful company did not foresee the rapidly approaching change in the environment. As Herb Kelleher, former CEO of Southwest Airlines, said there is an "old law that companies die from excessive prosperity."¹⁹ The concern is that

success leads to complacency. And, as Winston Churchill said: “Success is never final. It must be earned over and over or it disappears.”²⁰

If you are a new CEO one of the most important and immediate things you need to do is get to know your people. Have breakfast and lunch with your employees. Convene town hall meetings with them. Your employees know what the problems are and what needs to be fixed. By analyzing what they say you can learn a lot about the values they think are important.

Bright CEOs often think that knowing what to do or what the culture should be and telling people to develop this culture throughout the organization automatically results in it being done. But this is not sufficient. You must have processes that ensure development and effective implementation. If you want “buy in” and complete acceptance of a new culture, you must involve everyone in the organization in building the culture. This requires several months, depending on the size of your firm.

If you are a new CEO it is assumed that you have assembled an executive team. It is likely that some members of the executive leadership team have joined you from your previous organization and are familiar with your values and leadership style. The need for change may be the result of the leader’s vision of what the organization can become. The executive team must understand the need, urgency, and benefits of the change in culture. Moreover, this must be understood up and down the line.

The Change Process

The process of examining organization values and culture begins with a one day meeting of the senior team.²¹ The outcome is to redesign or ensure that the design of the current systems – the processes of how management is going to hire, fire, and promote to instill in employees a set of values that result in the desired corporate culture to guide the behavior of the workforce. The executive team initiates the process with each member answering seven important questions:

What are our core values or what do we want to establish as core values?

How closely do you perceive that employees are adhering to these values now?

What values need clarifying or redefining?

Is the corporate culture aligned with corporate values?

If any part of the culture is inconsistent with corporate values, how can the misalignment be corrected?

Are the company’s objectives and strategy (programs, policies, practices) consistent with company values and culture?

What changes or adjustments are needed in objectives and strategy to align or realign them with corporate values and culture?

After each member develops answers to the questions, the team meets the next day to discuss and reach a consensus on the answer to each question.

The executive team then appoints a task force of eight of its best managers to interview key people in all parts of the organization. This sends a message that the executive team wants organization wide input on the values that are to guide the organization.

The task force interviews a representative sample of 100 people, including managers, who are most responsible for implementing the changes. Senior managers need to keep everyone informed three to four levels below them and across business functions about what has been learned. This sends the message that the task force controls this part of the process – not senior management.

Task force members interview people outside their organizational area to minimize bias and increase honest feedback. The focus is on values that will develop company strengths to build on and barriers to implementing the changes. Confidentiality is maintained by avoiding comments that can be attributed to any person.

The task force selects the 3 or 4 most commonly mentioned barriers to implementing a particular value as well as the major organizational strengths that need to be preserved.

The task force presents its findings to the senior management team in the form of a fishbowl discussion.

For each major value the task force discusses the range of perspectives that emerge and the questions the value raises. The team does not recommend solutions.

Senior team members are not allowed to interrupt or challenge the task force.

At the end of the discussion of each value, they are allowed to ask questions for clarification to determine the effectiveness of the value in guiding the organization.

The senior team has an overnight assignment to identify the core strengths and weaknesses as they relate to corporate values and culture.

The senior team meets for two more days to clarify and redefine the corporate values and the expected impact on the culture. The senior team identifies any weakness in organizational structure, management processes, human resource policies, the leadership team, etc. that would be in conflict with or misaligned with one or more of the values.

On the final day the senior team makes decisions about organization changes necessary to implement the values. The senior team presents its diagnosis and action plan to the task force.

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The senior team presents its diagnosis and action plan to the task force. The task force considers the findings and reports back to the senior team, giving feedback about how to best communicate and implement the senior team's plan.

The senior team makes any necessary modifications and announces change plans to the top 100 and initiates further dialogue. The senior team may fine tune any changes in organizational structure, management processes, human resource policies, or the leadership team to ensure alignment with corporate values. The corporate values are then widely distributed to all stakeholders.

The entire process is repeated to define the corporate culture that will result in employees living, endorsing, and reinforcing the culture. Once the new or revised culture is established, the critical element in reinforcing the culture is through human resources policies of selecting, socializing, appraising performance, rewarding those who adhere to the values and culture, demonstrating to employees that they are the most important part of the organization, telling stories and engaging in rituals that depict the culture. Employees that cannot or do not

embrace the values and culture are replaced with people whose personal values match those of the organization.²²

Sustaining the Change

While it is common practice to publish organization values, few corporations publish the organization's culture. Southwest Airlines is an example of one that does, listing "The Southwest Way" on its web site.²³ If your organization has gone through the enormous effort to create or change the culture, it is recommended that you place the culture statement on your web site and publish corporate materials that include a copy of the culture statement.

To further sustain the new culture, complement the human resource strategy of culture with front line forums to discuss how company doing, has it changed, and what needs to be done to keep the culture alive. Discuss the culture at every level, promote the culture with videos, brochures, and meetings. Conduct surveys to learn about employee attitudes and concerns. Hold managers accountable for employee survey results. Create a culture committee with the responsibility of preserving and enhancing the company's culture and spirit. The committee should meet with the VP of Human Resources four times a year for a full day to discuss cultural issues and suggest solutions.²⁴

Summary

Initially, an organization's core values are based on the leaders' values. Once these values are established, the organization culture forms around these values. The values and culture are important because they can guide employee behavior that results in a highly committed high performance workforce. Many CEOs consider the development of their corporation's culture as their most important responsibility. There are many examples of corporate cultures and instances of CEO's changing the corporate culture. It is not sufficient for a leader to issue instructions for a management team to develop corporate values and culture. The change process must ensure that the entire organization is involved in developing and implementing the change. For the new or revised culture to endure, human resource and other management policies must be developed or in place to sustain the values and culture.

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³ www.southwest.com/careers/culture.html (2009).

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- ²⁰ O'Reilly, C. & Pfeffer, J.
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