

California Management Review



Leading by Leveraging Culture

Jennifer A. Chatman

Sandra Eunyoung Cha

© 2003 by The Regents of
the University of California

University of California
Berkeley
Haas School of Business

Leading by Leveraging Culture

Jennifer A. Chatman
Sandra Eunyoung Cha

We occasionally get calls from prospective clients who, having heard that we consult with organizations to improve their cultures, ask us, “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 here is to precisely clarify why culture is powerful and to provide specific criteria for developing a strong, strategically relevant culture that is likely to enhance an organization’s performance over the long haul.

We will not claim that by simply managing culture, leaders will be assured of organizational success, or that by neglecting culture, they will be doomed to failure. Leveraging culture is but one of a number of key leadership tools. We *will* claim, however, that by actively managing culture, an organization will be more likely to deliver on its strategic objectives over the long run.

Why Is Organizational Culture Powerful?

Focusing People Intensely on Strategy Execution

A 1999 *Fortune* magazine article highlighting pathbreaking research by Ram Charan and Geoffrey Colvin began with a provocative title: “Why CEOs Fail.”¹ The definitive answer had been found, and it was notoriously simple:

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

CEOs failed when they were unable to fully execute their strategy. This was an amazing conclusion because it stood 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.² Charan and Colvin's article suggested that firms whose strategies were merely reasonable but were executed fully could be the most successful.

This shifts the 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 along with short and convenient flights using only fuel-efficient 737s, culminating in low costs and the ability to offer customers low-priced tickets. As a result, Southwest has been the only U.S. airline to be profitable for 28 consecutive years.³ One key to Southwest's success is its remarkably short turnaround time, 15 minutes versus competitors' average of 35 minutes.⁴ Planes don't sit long at the jet way. Instead, employees across functional lines band together to get the planes out quickly. 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, on how clearly employees understand the culture and how intensely they feel about it.

Culture is a system of shared values (defining what is important) and norms (defining appropriate attitudes and behaviors).⁵ 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 engaging⁶ and fill voids in identity and meaning.⁷ 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.⁸

An effective culture is closely related to business strategy. Indeed, a culture cannot be crafted until an organization has first developed its business strategy. The 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—legitimate, socially shared standards against which the appropriateness of behavior can be evaluated—are the psychological bases of culture.⁹ Norms influence how members perceive and interact with one another, approach decisions, and solve problems.¹⁰ Norms are distinct from rules, which

Jennifer A. Chatman is the Paul J. Cortese Distinguished Professor of Management at the Haas School of Business, University of California. <chatman@haas.berkeley.edu>

Sandra Eunyoung Cha is a doctoral candidate in organizational behavior at the Harvard Business School. <scha@hbs.edu>

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.¹¹

Roethlisberger and Dickson's classic research showed that group norms shaped employee's behavior more powerfully than either monetary rewards or physical work environments.¹² Employees at Western Electric's Hawthorne Plant developed norms that dictated the acceptable amount of work each employee should complete. Unfortunately, this constrained many employees' productivity. Just as those who worked too little, those who worked *too much* were shunned by other members of the work unit. 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 could call a few other Nordstrom stores to find the shoes. Ten minutes

Relying on formal rules, policies, and procedures will not result in outstanding anything, be it customer service, innovation, or quality.

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. Furthermore, while leaving Nordstrom, the first author overheard an interaction that she was, clearly, 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 status, 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—when 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. However, they are only useful for addressing situations that are *predictable and regular*.¹³ In contrast, outstanding service is determined, in customer’s eyes, by how organizations deal with situations that are nearly impossible to anticipate, unique to a particular person, and difficult to solve.

The irony of leadership 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.”¹⁴ At Southwest, they are encouraged to “do what it takes to make the Customer happy.”¹⁵

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 as well as 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.¹⁶ 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—as well as 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*.

The irony of leadership 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.

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.”¹⁷ Such intensity exists within many high-tech firms, 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 and their prevalence probably reflects the faddish nature of organizational culture and the lip service such organizations pay to it.¹⁸ Most organizations are aware of the importance of managing culture, but in their attempt to jump on the culture bandwagon they 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,¹⁹ newer evidence from a unique sample suggests that developing a strong, strategically relevant culture may be best accomplished when an organization is young. In a longitudinal study of 173 young high-technology companies, founders' initial model of the employment relation dramatically influenced their firms' later success.²⁰ Firms that switched models as they aged were less successful. Firms that were built around the commitment model, which emphasizes a strong culture and hiring based on culture fit, stood out from those founded on the engineering or bureaucracy models by completing initial public stock offerings sooner.²¹

Emphasizing Innovation

The final criterion for using culture as a leadership tool involves the content of organizational culture. Though organizational norms revolve around many dimensions,²² only one appears to be universally applicable across organizations regardless of their size, industry, or age and that is innovation.²³ In a comprehensive longitudinal study of 207 large firms over an 11-year period, Kotter and Heskett found that firms that 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.²⁴

Most creativity research has focused on hiring creative people, but innovation may depend more on whether cultural norms support risk-taking and change.²⁵ 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? It was 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 such as "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.²⁶ Expressing a creative idea is, therefore, risky—since a person suggesting one can end up being perceived as unintelligent.²⁷ The lesson for organizations is clear: employees may refrain from generating creative ideas because the cost of expressing them is too high. Managers can bet on their

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.”²⁸ 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.²⁹ 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.³⁰

Leaders also promote innovation by creating a shared belief that team members are safe to take interpersonal risks.

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—they ask questions, seek feedback, experiment, reflect on results, and discuss errors or unexpected outcomes openly.³¹ 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.³²

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.³³ 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. Therefore, 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. However, Lepore and Schwab instantly recognized the value of this technology, with Schwab recalling that “I fell off my chair.”³⁴

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.”³⁵ 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 here. First, developing a culture that encourages employees to express creative ideas may cause good ideas to crop up from unexpected places. Second, and more importantly, once managers spot a good idea, norms that emphasize urgency and speed will ensure its implementation.

Leadership Tools to Manage and Change Organizational Culture

These three criteria for using culture as a leadership tool are supported by substantial empirical and applied evidence.³⁶ The question, however, is how can leaders develop, manage, and change their culture to meet these criteria and promote extraordinary performance? There are three key managerial tools for leveraging culture for performance.³⁷

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.³⁸ This requires anticipating whether the culture a 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

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.

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 culture fit is much harder.

Second, be mindful of recruiter characteristics.³⁹ A fundamental theory in psychology is the “similarity-attraction effect.”⁴⁰ 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. Therefore, 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 the selection process in light of the organizational culture. How, for example, did Cisco Systems ensure high culture fit despite facing Silicon Valley's brutally competitive labor market in the late 1990s, 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 obsessed with status.⁴¹ Second, they conducted benchmarking studies and focus groups so that the selection process was maximally effective in getting the people they wanted.⁴² 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 web site 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 web site 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.⁴³ 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 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.⁴⁴ 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.⁴⁵ Two key aspects of socialization are 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.⁴⁶ 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, Christos Cotsakos, has also taken his executive team Formula One racing to make them "move faster" and has enrolled them in cooking school to increase their agility in working together.⁴⁷ 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."⁴⁸ 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."⁴⁹ 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 some organizations, the lesson is that rewards need to be clear, consistent, and comprehensive—the focus on generating revenues at CompUSA is simply impossible for employees to miss.

Pitfalls Inherent in Leading through Culture

It is extremely important that organizational leaders cultivate their organizational culture. Employees attend vigilantly to leaders' behavior, even to the rather mundane aspects such as what they spend time on, put on their calendar, ask and fail to ask, follow up on, and celebrate.⁵⁰ These behaviors provide employees with evidence about what counts and what behaviors of their own are likely to be rewarded or punished. They convey much more to employees about priorities than do printed vision statements and formal policies. Once leaders embark on the path to using culture as a business tool, it is critical that 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.”⁵¹ Cultural values are powerful because they inspire people by appealing to their ideals, and they clarify expectations by making salient the consistency between these values and each member’s own behavior.⁵² However, 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 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 very values he or she has espoused. Employees are driven by the actor observer bias,⁵³ 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). When leaders behave in ways that appear to violate espoused organizational values, employees 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.⁵⁴ 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 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

Once leaders embark on the path to using culture as a business tool, it is critical that they regularly review their own behavior to understand the signals they are sending to members.

unanticipated \$22 million in gross profits in 1998; but aggressive discounting by their 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, emphasizing how much they valued their employees. This message was taken seriously by employees because Gary Rogers and Rick Cronk (Dreyer's President) had spent decades consciously building the core components of their culture from their own 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 they 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. Employees could call in to hear pre-recorded speeches by Rogers, which 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.

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, "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 had rebounded with its robust premium and superpremium product lines (e.g., Dreamery). 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.⁵⁵ 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. Despite the recession and the typical ice cream slow down in winter, Dreyer's stock price closed on January 2, 2003 at a whopping 71.23 after agreeing to merge with Nestlé (pending FTC approval). Dreyer's also signed a new agreement with Ben & Jerry's to distribute its products nationally (after 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."

To succeed, leaders must instill their employees with confidence and clarity about key cultural values just as the executive team at Dreyer's did. 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.

To succeed, leaders must instill their employees with confidence and clarity about key cultural values. If they do not, employees will provide their own explanations.

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 organizations: recruit and select; socialize, orient, and train; and reward and lead people. Paradoxically, the very strength of cultural values can also be a leader's downfall. However, 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 an organization, a department, and a work group. The question is whether the culture that forms is one that helps or hinders the organization's ability to execute its strategic objectives. Organizational culture is too important to leave to chance; organizations must use their culture to fully execute their strategy and inspire innovation. It is a leader's primary role to develop and maintain an effective culture.

Notes

1. Ram Charan and Geoffrey Colvin, "Why CEOs Fail," *Fortune*, June 21, 1999, pp. 68-78.
2. E.g., M.E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York, NY: Free Press, 1980).
3. J.R. Laing, "Nothing but Blue Skies," *Barron's*, July 2, 2001, pp. 25-29.
4. C. O'Reilly and J. Pfeffer, "Southwest Airlines: Using Human Resources for Competitive Advantage (A)," HR-1A, Graduate School of Business, Stanford University, 1995.
5. R.E. Walton, "Establishing and Maintaining High Commitment Work Systems," in J.R. Kimberly, R.H. Miles, and Associates, eds., *The Organizational Life Cycle: Issues in the Creation, Transformation, and Decline of Organizations* (San Francisco, CA: Jossey-Bass, 1980), pp. 208-290.
6. C. O'Reilly and J. Chatman, "Cultures as Social Control: Corporations, Cults, and Commitment," in L. Cummings and B. Staw, eds., *Research in Organizational Behavior*, Vol. 18 (Greenwich, CT: JAI Press, 1996), pp. 157-200, at 166.
7. R.F. Baumeister, "The Self," in D.T. Gilbert, S.T. Fiske, and G. Lindzey, eds., *The Handbook of Social Psychology*, 4th ed. (New York, NY: McGraw-Hill, 1998), pp. 680-740.
8. M.L. Tushman and C.A. O'Reilly, *Winning Through Innovation: A Practical Guide to Leading Organizational Change and Renewal* (Boston, MA: Harvard Business School Press, 1997).
9. A. Birenbaum and E. Sagarin, *Norms and Human Behavior* (New York, NY: Praeger, 1976).
10. K.L. Bettenhausen and J.K. Murnighan, "The Development of an Intragroup Norm and the Effects of Interpersonal and Structural Challenges," *Administrative Science Quarterly*, 36/1 (March 1991): 20-35, at 21.
11. E.g., O'Reilly and Chatman, op. cit.
12. F.J. Roethlisberger and W. J. Dickson (with H.A. Wright), *Management and the Worker: An Account of a Research Program conducted by the Western Electric Company, Hawthorne Works, Chicago* (Cambridge: MA, Harvard University Press, 1939).
13. C. O'Reilly, "Corporations, Culture, and Commitment: Motivation and Social Control in Organizations," *California Management Review*, 31/4 (Summer 1989): 9-25.
14. R. Spector and P.D. McCarthy, *The Nordstrom Way* (New York, NY: John Wiley & Sons, 1995), p. 16.
15. O'Reilly and Pfeffer, op. cit., p. 7.
16. O'Reilly and Chatman, op. cit.
17. O'Reilly, op. cit.
18. Ibid.

19. E.g., J.C. Collins and J.I. Porras, *Built to Last: Successful Habits of Visionary Companies* (New York, NY: HarperBusiness, 1994).
20. E.g., J.N. Baron, M.T. Hannan, and M.D. Burton, "Labor Pains: Change in Organizational Models and Employee Turnover in Young, High-Tech Firms," *American Journal of Sociology*, 106 (2001): 960-1012.
21. M.T. Hannan, M.D. Burton, and J.N. Baron, "Inertia and Change in the Early Years: Employment Relations in Young, High Technology Firms," *Industrial and Corporate Change*, 5 (1996): 503-537.
22. E.g., J.A. Chatman and K.A. Jehn, "Assessing the Relationship between Industry Characteristics and Organizational Culture: How Different Can You Be?" *Academy of Management Journal*, 37 (1994): 522-553.
23. D. Caldwell and C.A. O'Reilly, "Norms Supporting Innovation in Groups: An Exploratory Study," working paper, University of Santa Clara, Santa Clara, CA, 1995.
24. J.P. Kotter and J.L. Heskett, *Corporate Culture and Performance* (New York, NY: Free Press, 1992).
25. T.M. Amabile, "Motivating Creativity in Organizations: On Doing What You Love and Loving What You Do," *California Management Review*, 40/1 (Fall 1997): 39-58.
26. R.J. Sternberg, L.A. O'Hara, and T.I. Lubart, "Creativity as Investment," *California Management Review*, 40/1 (Fall 1997): 8-21.
27. T.M. Amabile, "Brilliant but Cruel: Perceptions of Negative Evaluators," *Journal of Experimental Social Psychology*, 19 (1983): 146-156.
28. R.I. Sutton, "The Weird Rules of Creativity," *Harvard Business Review*, 79/8 (September 2001): 94-103, at 97.
29. S. Wetlaufer, "Common Sense and Conflict: An Interview with Disney's Michael Eisner," *Harvard Business Review*, 78/1 (January/February 2000): 114.
30. A. Hargadon and R.I. Sutton, "Building an Innovation Factory," *Harvard Business Review*, 78/3 (May/June 2000): 157-168.
31. A. Edmondson, "Psychological Safety and Learning Behavior in Work Teams," *Administrative Science Quarterly*, 44 (1999): 350-383.
32. A.C. Edmondson, "Learning from Mistakes Is Easier Said than Done: Group and Organizational Influences on the Detection and Correction of Human Error," *The Journal of Applied Behavioral Science*, 32 (1996): 5-28.
33. E. Schonfeld, "Schwab Puts It All Online," *Fortune*, December 7, 1998, pp. 94-100.
34. *Ibid.*, p. 95.
35. *Ibid.*, p. 96.
36. E.g., Kotter and Heskett, *op. cit.*
37. For greater detail on these three tools, see J.A. Chatman, "Matching People and Organizations: Selection and Socialization in Public Accounting Firms," *Administrative Science Quarterly*, 36 (1991): 459-484; O'Reilly (1989), *op. cit.*; O'Reilly and Chatman, *op. cit.*; Tushman and O'Reilly, *op. cit.*
38. Chatman, *op. cit.*
39. M.L. Connerley and S.L. Rynes, "The Influence of Recruiter Characteristics and Organizational Recruitment Support on Perceived Recruiter Effectiveness: Views from Applicants and Recruiters," *Human Relations*, 50 (1997): 1563-1586.
40. E.g., E. Berscheid and H.T. Reis, "Attraction and Close Relationships," in D.T. Gilbert, S.T. Fiske, and G. Lindzey, eds., *The Handbook of Social Psychology*, 4th ed. (New York, NY: McGraw-Hill, 1998) pp. 193-281.
41. C. O'Reilly, "Cisco Systems: The Acquisition of Technology Is the Acquisition of People," Case # HR-10, Graduate School of Business, Stanford University, 1998).
42. B. Beck, "Cisco Systems," class presentation, Haas School of Business, Berkeley, CA, March 2000.
43. O'Reilly (1998), *op. cit.*
44. Chatman, *op. cit.*
45. E.g., J. Pfeffer, *The Human Equation: Building Profits by Putting People First* (Boston, MA: Harvard Business School Press, 1998).
46. L. Lee, "Tricks of E*Trade: In His Drive to Create a Net Powerhouse, Christos Cotsakos Is Building a Culture that's Edgy, a Bit Bizarre—and Often Brilliant," *Business Week*, February 7, 2000, p. EB18.
47. *Ibid.*

48. S. Puffer, "CompUSA's CEO James Halpin on Technology, Rewards, and Commitment," *Academy of Management Executive*, 13 (1999): 29-36, at 29.
49. *Ibid.*, p. 33.
50. J. Pfeffer, *Power in Organizations* (Marshfield, MA: Pitman Publishing Co., 1981).
51. S.E. Cha and A. Edmondson, "How Strong Organizational Values Can Inhibit Learning," working paper, Harvard University, Cambridge, MA, 2001.
52. M. Rokeach, *The Nature of Human Values* (New York, NY: Free Press, 1973).
53. E.E. Jones and R.E. Nisbett, *The Actor and the Observer: Divergent Perceptions of the Causes of Behavior* (Morristown, NJ: General Learning Press, 1971).
54. V. Chang, J. Chatman, and G. Carroll, "Dreyer's Grand Ice Cream (A) & (B)," OB-35 (A) & (B), Graduate School of Business, Stanford University, 2001.
55. G.L. Teitelbaum and D. Geissler, "Dreyer's Grand Ice Cream," Merrill Lynch, October 27, 2000, p. 2.

California Management Review

University of California ▪ F501 Haas School of Business #1900 ▪ Berkeley, CA 94720-1900
(510) 642-7159 ▪ fax: (510) 642-1318 ▪ e-mail: cmr@haas.berkeley.edu ▪ web site: www.haas.berkeley.edu/cmr/