The Culture Cycle

How to Shape the Unseen Force That Transforms Performance

James Heskett
Praise for The Culture Cycle

“Reading Jim Heskett’s book is not some vague exercise in academic idealism. It is a well-written, practical, compelling manual of how to build an enterprise that will endure for 100 years or more. You cannot afford to ignore it.”

—John C. Bogle, Founder, The Vanguard Group; and author, Enough: True Measures of Money, Business, and Life

“Jim Heskett has delivered yet another breakthrough in our understanding of how corporate cultures shape performance. If leaders take Heskett’s sound advice to heart, corporate performance will improve and trust in business can be restored.”

—Bill George, Professor of Management Practice, Harvard Business School; former Chair and CEO, Medtronic; and author, Authentic Leadership

“For those who might regard culture as an abstract, soft, perhaps ‘hippie like’ concept, Jim Heskett brings home its manifest value to both the organization and the sensibilities of its people.”

—Herb Kelleher, Executive Chairman and CEO Emeritus, Southwest Airlines Co.

“The Culture Cycle inspires leaders to start with people and shape their organizations’ cultures to drive engagement, inclusion, trust, innovation, and results. Jim Heskett has developed a new and valuable way to think about culture. This is a must read.”

—Jane Ramsey, Executive Vice President, Human Resources, Limited Brands, Inc.

“Forget the squishy fluff; this book is hardcore, rooted in the numbers that drive margin. It shows the calculations…reveals the numbers for the ‘report card’ that predicts the future success of your company, division, or department…numbers every leader should know…and few do.”

—Scott Cook, Co-Founder and Chairman of the Executive Committee, Intuit

“Jim Heskett’s is the essential handbook for today’s organizations that care about their people and are determined that theirs is an organization of the future.”

—Frances Hesselbein, President and CEO, Leader to Leader Institute (formerly the Peter F. Drucker Foundation for Nonprofit Management)

“In his extraordinary book, Jim Heskett has nailed it. He explains the essential value and nature of organizational culture. In the vast world of management ‘how to’ books, this one needs to move to the top of any leader’s list.”

—William J. Bratton, Chairman, Kroll; and former Police Commissioner of Boston, New York, and Los Angeles

“Jim Heskett blends learnings from his stellar academic career with new research in this wise, beautifully written book about the most important determinant of organizational success—culture.”

—Leonard Berry, Distinguished Professor, Marketing, Texas A&M University; and coauthor, Management Lessons from Mayo Clinic

“Not only a call for action, this book provides a thoughtful perspective on how best to challenge the performance hurdles managers face in today’s competitive marketplace. In a very compelling way, it makes the case for culture being a primary driver for success.”

—Arkadi Kuhlmann, CEO, ING Direct; and coauthor, The Orange Code
“The Culture Cycle defines and highlights the attributes of culture through numerous examples. It identifies a series of metrics that are meaningful proxies for seeing the impact of culture in an organization (the ‘Four Rs’). It is an excellent read for leaders of organizations small or large, non-profit or for-profit.”

—John P. Morgridge, Chairman Emeritus, Cisco Systems

“In Heskett’s new book on understanding and enhancing the culture imperatives, he takes the reader step by step through complicated waters. This new piece of research and subsequent book will inspire even the most cynical managers to step up and concentrate even more to create cultures that support growth and development.”

—Thomas DeLong, Philip J. Stomberg Professor of Management Practice, Harvard Business School; and author, Flying Without a Net

“Jim Heskett has put his finger on the pulse of what organizations can do to reverse a downward spin through his latest book. There is no ‘spin cycle’ in The Culture Cycle…just wisdom that can transform our organizations.”

—Ginger Hardage, Senior Vice President Culture and Communications, Southwest Airlines Co.

“The body of literature that purports to assist us in understanding and managing organization culture suffers from a lack of systematic data supporting either the frameworks or the corresponding action agenda. Jim Heskett has managed to ‘crack the code’ on both fronts. This is an important book that deserves the careful attention of today’s manager.”

—Leonard A. Schlesinger, President, Babson College; and coauthor, Action Trumps Everything

“Jim Heskett has laid out a direction for successful organizations of the future…those that build an organizational culture founded on excellence, value their employees as assets, and see the world as their future market place.”

—William E. Strickland, Jr., CEO, Manchester Bidwell Corporation; and author, Make the Impossible Possible

“The critical role of cultural durability has been evident in sharp relief during the cathartic period since late 2008 when many leaders have put their organizations through wrenching reforms to address declining demand and rapid globalization. Those companies that have enhanced their position have done so through the embodiment of Heskett’s ‘culture cycle.’”

—Gary W. Loveman, Chairman of the Board, President and CEO, Caesars Entertainment

“Jim Heskett’s new book shows how culture affects the bottom line and is the most important task a leader faces.”

—Tom Watson, Cofounder, Omnicom Group; Vice Chairman Emeritus, Omnicom; and Dean, Omnicom University

“Jim Heskett provides us an in-depth understanding of how cultures can be developed and strengthened with a poignant reminder that they also need to be nurtured and renewed if they are going to grow and continue to flourish. As you read this book, you will be learning from a master teacher with a wealth of experience.”

—C. William Pollard, former Chairman and CEO, The ServiceMaster Company; and author, The Soul of the Firm
The Culture Cycle
How to Shape the Unseen Force
That Transforms Performance

James Heskett
For my beloved editor, Marilyn, our children, Sarah, Charles, and Ben, and grandchildren, Olivia and Sam
In an increasingly competitive world, it is quality of thinking that gives an edge—an idea that opens new doors, a technique that solves a problem, or an insight that simply helps make sense of it all.

We work with leading authors in the various arenas of business and finance to bring cutting-edge thinking and best-learning practices to a global market.

It is our goal to create world-class print publications and electronic products that give readers knowledge and understanding that can then be applied, whether studying or at work.

To find out more about our business products, you can visit us at www.ftpress.com.
# Contents

Acknowledgments .......................................................... x
About the Author .......................................................... xii

**Introduction** .................................................................. 1
Two Visits, One Story ......................................................... 3
Questions to Be Addressed .................................................. 12
How This Book Is Organized .............................................. 13

**Chapter 1** A Crisis in Organization Culture? ................. 15
What Culture Is and Isn’t .................................................... 17
Stealth Weapon or Humanizing Effort? ............................... 17
The Development of Interest in Organization Culture .......... 19
The Nature of an Organization’s Culture ............................. 22
Culture and the Workplace ............................................... 35
Culture and the Long-Term Erosion of Job Satisfaction ......... 38

**Chapter 2** Culture as “Know How” ................................. 41
ING Direct: Shaping a Culture ........................................... 41
Culture and Purpose (“Know Why”) ................................. 45
Culture and Strategy (“Know What, When, Where”) .............. 46
Culture and Execution (“Know Who”) ............................... 46
How Successful Managers View the Importance of Culture .... 48
Culture in the Context of Purpose, Strategy, and Execution .... 49

**Chapter 3** Culture: A Multi-edged Sword ....................... 55
Nature and Results of the 1992 Study ................................ 59
Strong Cultures Affect Performance ................................... 60
Strength of Culture Is Not Correlated with Good Performance ... 61
Adaptability Keys Long-Term Success ............................... 61
The Question of Fit .......................................................... 62
The Role of Leadership ..................................................... 65

**Chapter 4** Culture in an Organization’s Life Cycle ........... 69
How Cultures Are Formed ................................................ 69
The Process of Culture Formation ..................................... 72
How Cultures Are Articulated and Institutionalized ............... 72
How Cultures Are Diluted ............................................... 75
Enemies of an Effective Culture ........................................ 77
How Cultures Are Renewed .............................................. 88
Reinforcing Effective Cultures .......................................... 90

**Chapter 5** Economics of Culture: The “Four Rs” ............... 95
Economic Advantages of an Effective Culture: The “Four Rs” ... 97
Culture Impact Model ..................................................... 114
Several Caveats .............................................................. 114
## Chapter 6  
**The Culture Cycle: Measuring Effectiveness**

- USAA: Effectiveness Through Trust
- Nucor Steel: A Study in Learning, Accountability, Self-Direction, and Innovation
- Toyota and the Importance of Alignment and Agility
- Measuring a Culture's Strength
- Measuring a Culture's Health: The Culture Cycle
- Measuring a Culture's Fit
- Caveats

## Chapter 7  
**The Four R Model: A Field Test**

- The Setting: RTL, Inc.
- The Research and Findings
- The Blind Results
- Blind Result Comparisons
- Caveats Regarding the Blind Estimates
- Comparisons of Culture Cycle Elements
- Management's Interpretation of What Happened
- Conclusions

## Chapter 8  
**Culture and Innovation**

- The Culture Cycle and 3M Innovation
- Levels of Innovation
- Adaptability and Innovation
- Value “Clusters” That Foster Innovation
- Innovation “Value Clusters” at Apple

## Chapter 9  
**Culture and Adversity**

- Adversity and Response at Intuit
- Adversity and Response at BP
- 9/11 and the Southwest Airlines Response
- Adversity and Response at Goldman Sachs
- So What?
- The Fit Between Culture, Leadership Style, and the Nature of Adversity
- How Cultures Help and Hurt in Times of Adversity
- Culture as a “Filter” Between Adversity and Performance

## Chapter 10  
**Subcultures and Global Strategies**

- Enter the Culturalists
- Global Management Challenges from Cultural Differences
- What Do These Vignettes Suggest?
- The Selection of Leaders
- Managing the Relationship Between Headquarters and Subsidiaries
- Organizing, Coordinating, and Controlling Effort
- Implications for Subcultures in General
Chapter 11  Mission-Driven Organizations: Special Challenges  
Supergrowth .................................................. 251
Loss of Focus: “Mission Creep” ................................ 253
Making a Large Organization Seem Small ................. 255
Deploying Human Resources: The Challenge of Volunteer Labor .............................................. 255
Measuring and Rewarding Effectiveness Among an Organization’s Subcultures .................. 257
Coordinating Efforts with Other Mission-Driven Organizations ........................................... 259
Managing Board and Leadership Conflicts Concerning Basic Assumptions ............................ 260
Controlling Zealous Behavior .................................. 263

Chapter 12  Dealing with Forces That Challenge Organization Cultures Today ......................... 267
Information and Communications Technology .......... 268
Increasing Emphasis on Transparency ...................... 270
New Generations of Employees ................................. 272
Team-Based Work ............................................. 276
Employment and Deployment Strategies .................... 277
The Rise of Free Agency ........................................ 281
The Psychological Shrinking of the World ................. 281

Chapter 13  Leading Culture Change ......................... 285
How Do You Know Change Is Needed? ..................... 288
Monitoring Links in the Culture Cycle: RTL, Inc. Revisited ........................................... 289
Changing a Culture ............................................. 297
Sustaining Culture Change ..................................... 305
Conclusions .................................................... 309
The Role of the Leader in Reshaping Culture ................ 310

Chapter 14  Answers and Questions. ......................... 317
Characteristics of Effective Cultures ........................ 318
Economic Outcomes: Profit and Satisfied Stakeholders ......................................................... 320
Behavioral Outcomes: Great Places to Work ............. 320
Some Final Thoughts .......................................... 322

Appendix A  Sample Questions for Measuring the Strength and Health of a Culture ................. 325
Appendix B  Four R Assumptions and Computations .............................................................. 329
Appendix C  Complete Results of Employee Surveys, 2009 and 2010, for Three RTL, Inc. Offices ........................................... 333

Endnotes  339

Index  361
Acknowledgments

A book like this one is the product of a number of experiences and the friends and colleagues who shared them with me.

Material that I originally collected in case form supplied many ideas. It brought me into contact with case protagonists such as Luciano Benetton, Cofounder of the company that bears his name; Bill Bratton, formerly Commissioner of the Boston, New York City, and Los Angeles Police Departments; Scott Cook, Cofounder and Chairman of the Executive Committee of Intuit; Frances Hesselbein, when she was CEO of Girl Scouts of the USA (and since); James Kinnear, formerly CEO of Texaco; Arkadi Kuhlmann, CEO of ING Direct; Gary Loveman, Chairman, President, and CEO of Caesars Entertainment Corp.; John Morgridge, formerly Chairman and CEO of Cisco Systems; Bill Pollard, formerly Chairman and CEO of The ServiceMaster Company; Bill Strickland, CEO of the Manchester Bidwell Corporation; Lorenzo Zambrano, Chairman and CEO of CEMEX; and the people I came to know over the years and whose acquaintance I value at Southwest Airlines. Among them are Herb Kelleher, Executive Chairman and CEO Emeritus; Colleen Barrett, President Emeritus; CEO Gary Kelly; Executive Vice President and COO Mike Van de Ven; Senior Vice President Culture and Communications Ginger Hardage; Senior Vice President and Chief Marketing Officer Dave Ridley; and Vice President Network Planning John Jamotta.

Others who are not the subject of cases I’ve authored or coauthored, but who were instrumental in contributing ideas to the book, whether or not they are aware of it, include Pete Blackshaw, Cofounder of PlanetFeedback.com; John Bogle, founder of The Vanguard Group; James Goodnight, Cofounder and CEO of SAS; Bill Hybels, Founder of the Willow Creek Community Church; Eleanor Josaitis, CEO of Focus: HOPE; the late Will Rodgers of what was then the Management Analysis Center, with whom I conducted the early consulting work at GM that is described in the book; and Les Wexner, Founder, Chairman, and CEO of Limited Brands.

Still other executives who must remain anonymous supplied data on which analyses in Chapters 7 and 13 are based.
Those who read portions of the manuscript and contributed a number of ideas were Tom Watson, Bruce Nelson, Brian Emsell, and Brian Curran of The Omnicom Group; Jane Ramsey, Ezra Singer, Joe Simonet, and Jason Tostevin of Limited Brands; Dan Maher; and Dan O’Brien.

Coauthors of previous books and cases who have had a strong influence on my thinking are Earl Sasser, with whom I have written five books and to whom I owe a real debt of gratitude; Len Schlesinger, now President of Babson College and a coauthor on two books, always a source of stimulating ideas; and Joe Wheeler, Chris Hart, Roger Hallowell, and, of course, John Kotter, whose work on the impact of culture on performance and subsequently the management of change has helped countless practitioners and academics see issues associated with these topics more clearly.

The persons on these lists have been great teachers. I feel fortunate to still be learning from many of them.

While I’ll take responsibility for any inaccuracies in the material, I was aided by an outstanding research associate, fact-digger, and fact-checker, Chris Allen. Jacqueline Archer and Janice Simmons provided important help with graphics. Throughout the project, Paula Alexander and Luz Velazquez supplied all-around assistance. All are associated with the Harvard Business School, where I have had the privilege of teaching and researching under six deans. All have provided the leadership that has enabled an inspiring group of colleagues to, as the school’s mission states, “educate leaders who contribute to the well-being of society,” a fitting statement for a book like this.

Near the end of the substantive work on the manuscript, I sent portions of it to three publishers. One didn’t bother to reply. Of the two that gave it serious consideration, Jeanne Glasser, Executive Editor at FT Press, was most enthusiastic about it. If it hadn’t been for Bob Wallace, a longtime friend and editor, and his acquaintance at FT Press, Timothy Moore, the proposal might not have even reached Jeanne’s desk.

Finally, I owe the greatest debt to the person who has been at my side through at least a dozen of these book-length writing projects, my partner, Marilyn.

Jim Heskett
Cambridge, Massachusetts
June 2011
About the Author

James Heskett is Baker Foundation Professor Emeritus at the Harvard Business School. He joined the faculty in 1965 after completing his MBA and Ph.D. degrees at Stanford University and teaching at The Ohio State University. He has served as president of Logistics Systems, Inc. and on the boards of more than a dozen corporations and not-for-profit organizations. In addition, he has consulted for the management of companies in the U.S., Europe, Asia, and Latin America. He is currently a director of Limited Brands, Inc. While at Harvard Business School, he taught courses in marketing, business logistics, service management, general management, and entrepreneurial management. At one time he served as Senior Associate Dean responsible for all academic programs. He has written articles for the Harvard Business Review, Sloan Management Review, and other publications. He also cowrote Service Breakthroughs, The Service Profit Chain, The Ownership Quotient, and Corporate Culture and Performance, among other books.
Introduction

An organization’s culture matters a lot. That’s what John Kotter and I concluded from a three-year study of the relationship between corporate culture and performance in the early 1990s. CEOs generally agree, although I’m left wondering whether some of them really believe it or whether it’s something they’ve been conditioned to say when reminded to do so. It’s confirmed by even the best (5-star) investment analysts on Wall Street, a group that we might assume would look only to financial measures in recommending investments. They told us that culture helps corporate performance in higher-performing firms and hurts it in lower-performing firms.¹

But if culture is a force, it is an unseen force, most of the time taken for granted. Its importance sometimes rears its head when two organizations with strong and very different cultures, such as Chase Manhattan bank and J. P. Morgan, are merged. We become interested in culture when a foreign culture appears to produce especially productive behaviors, as in Japan in the 1980s. We speculate on how much of the positive difference between a company’s market value and its book value is due to intangible assets such as high employee engagement,² productivity, and innovation. These assets are called organizational capital and are as hard to measure as they are hard to replicate.³ We wonder about the role that the culture at companies such as Lehman Brothers, Enron, and Worldcom played in fostering behaviors that led to their downfall several years ago. And as we saw at GM, we hook our star to “a culture that can really win” as part of a herculean effort to emerge from bankruptcy.⁴

In many organizations, culture is the most potent and hard-to-replicate source of competitive advantage—far more important, for example, than technological innovation. By the time the superior
performance it produces comes to the attention of competitors and the public, an organization’s culture is well established and doing its job.

This book sets forth a conceptual framework—the culture cycle—that identifies relationships essential in shaping effective cultures. It demonstrates ways of calculating the economic importance of culture by means of the Four Rs: referrals, retention, returns to labor, and relationships. It describes a test of both the culture cycle and Four Rs in a real-world setting. It looks at ways in which cultures evolve and can be shaped that have a sustained positive impact on economic performance. And it examines the role of culture in the development of an organization’s strategy.

Both stories and numbers serve us in this effort. Stories, of course, don’t prove anything. But they provide memorable examples that make the numbers come alive. And they are an important way in which leaders communicate and reinforce an organization’s culture. As neuroscientists tell us, “Given the effect stories have on us, they are one of the most useful tools one can have in a mental world, replacing the carrot and stick of the physical world. We can use them both to understand and to shape how others think and behave.”

The numbers themselves can be impressive too. In studies that I will describe, as much as half of the difference in operating profit between organizations can be attributed to effective cultures. In addition, an organization’s culture provides especially significant competitive advantages in bad times, such as those we’ve seen in recent years. All of this is possible with little or no capital investment, yielding an infinite ROI. All it requires is the time of leaders. But this is time spent doing things that good leaders should be doing anyway. In short, it involves an investment that keeps on giving back for years and years.

The work here is a natural extension of a series of investigations into relationships that my colleagues and I characterized in 1994 as a “service profit chain” of relationships beginning with what we called “internal quality,” essentially the quality of work life. This, we posited, could be traced directly to employee satisfaction, loyalty, and productivity. Productivity in turn drives value for customers, which leads directly to customer satisfaction and loyalty. Customer loyalty in turn is a major determinant of profitability and growth. Numerous
subsequent studies have confirmed relationships between the links in the chain through both correlation and cause-and-effect analyses. Fewer have devoted much attention to the quality of work life, the first link in the service profit chain. One of the objectives of this book is to shed light on this link in the chain.

The thinking in this book really began in 1993, shortly after John P. Kotter and I completed our study of corporate culture and performance. Two trips about three weeks apart took me to meet with senior executives of two organizations with strong and successful cultures, Walmart and Southwest Airlines. Much has been written about these companies. But before you conclude that this is a rehash of material you’ve read many times, please read on. What follows provides a lens through which many other organizations will be observed later.

**Two Visits, One Story**

The visits fanned an interest that didn’t wane during years in which I was engaged in research and writing on other topics. In the interim, to say these companies did well is an understatement. Both would point to the effectiveness of their cultures as an important reason for that success. Because of that success, both have generated high expectations and have been held to high standards. Both have attracted a great deal of attention, both favorable and unfavorable.

A management meeting at Walmart Stores is an eye-opening experience. At 7:30 a.m. on a Saturday, nearly a thousand people gather in an auditorium at the company’s Bentonville, Arkansas headquarters. The audience comprises invited store managers, employees and their guests who happen to be in the area, celebrities, CEOs of supplier companies, the class from the Walton Institute (company management training program), and other guests. Proceedings are led from the stage by a senior executive (not necessarily the CEO since founder Sam Walton’s passing) selected for his dynamic personality. They include discussions of new policies, demonstrations of new products, “best-practice” examples from store managers with outstanding results, recognition of various achievements, and repeated
W-A-L-M-A-R-T cheers (with a rear-end motion to represent the “squiggly” between the L and the M, something that no longer exists in the name), capped off by the question, “Who’s number one?” Answer: “The customer.” The meeting is choreographed, but anyone in the audience is free to summon a microphone and contribute. Ideas get exchanged. Performance is recognized. Guests are made to feel like part of a family, albeit one of the largest in the world. Consider the following episode at a meeting I attended some years ago.

The COO at the time, Don Soderquist, introduced a regional vice president who had brought with him a “star” store manager from California. The store manager, who was sitting in the audience, was introduced and welcomed to Bentonville. After the store manager was lauded for his performance (an event captured on video by the in-company television broadcasting operation for later use on the company’s satellite-linked video network to all stores), the following exchange ensued:

Soderquist: “If I remember right, you’ve been making an effort to increase your soft-goods sales as a proportion of total sales. How’re you doing, Bill?”

Bill: “With a lot of work, we’ve gotten them up to about 20%.”

A voice from the back of the room: “Your dad would never have settled for 20%, Bill.” (Laughter from the audience.)

Bill: “I know. In fact, Dad’s been at the store trying to help me get those sales up.” (An employee sitting next to me whispers that Bill’s dad is a retired Walmart store manager.)

Soderquist: “We know you’re going to get the job done too, Bill. And do one more thing for us, will you? Say hello to your mom and dad when you get back.”

The significance of this exchange hit me when I remembered that Bill managed only one out of more than 1,800 Division One stores operated by the company at that time.

This management meeting was preceded by a merchandising meeting held on the previous day. Here, celebration is not one of the objectives. Operating executives have an opportunity to ask how merchandising managers could have possibly thought that the glow-in-the-dark cactus lamps bought for the stores could ever sell.
Merchandising managers, in turn, can question the way in which stores display and promote goods they’ve bought. Together, they plan the next big promotions. The atmosphere, however, is similar to that of a courtroom. Prosecutors and defense attorneys vigorously argue their respective cases. Then they go off together afterward, arms around each other, to continue talking shop.

What’s the purpose of all this? One artifact in the meeting room makes it clear. It’s a large electrified tote board on a wall of the auditorium that clicks every two seconds. It doesn’t track the national debt, but instead displays the billions of dollars that Walmart has saved its customers since its founding in 1962. The mission is as clear as the values and behaviors with which it is achieved.

Talk to Walmart managers at the meeting or employees in the stores, and you get a consistent impression that they like their jobs and the people they work with. This is in spite of the fact that Walmart’s starting wages are near-minimum and its salaries are modest in comparison with other multibillion-dollar companies. Store employees note that senior managers visit stores and work alongside them frequently. They are not names without faces. They are proud, for example, of the fact that during Hurricane Katrina it was Walmart that opened its stores in New Orleans; gave away products that local residents could use during the disaster; brought in additional supplies to be given away before the local, state, and national governments had figured out how to respond; and took extraordinary measures to ensure that its employees in the area were safe and solvent.

This impression is at odds with that of many outside the organization who see another picture. As one critic put it, “In 2005, Lee Scott, Walmart’s CEO...committed the company to the goals of being 100% supplied by renewable energy, creating zero waste, and selling products that sustain resources and the environment. Meanwhile, Walmart paid its employees almost 15% less than other large retailers, and because of the lower pay, its employees made greater use of public health and welfare programs.” Those holding these views cite lawsuits charging Walmart with unfair labor practices, rather than the remarkably small number of these lawsuits, or the absence of stories about Walmart laying off employees during the recent Great Recession. Combining these two perspectives conjures the image of
a cheapskate neighbor who would nevertheless enter your burning house to save you.

Much has been made of an ingenious strategy that has thrust Walmart into global prominence as the world’s largest private employer. This strategy comprises everyday low prices, small-town and suburban store locations, and state-of-the-art logistics, among other things. Attention is also given to the company’s ability to execute through end-of-the-week planning meetings, followed by the dispatch of senior executives into the field for four days in Walmart’s fleet of aircraft, as well as the effective use of the Internet combined with a proprietary television network. The company’s leading-edge information systems, well-planned logistics network, and unmatched bargaining power have enabled it to get merchandise to the right places in a timely manner at low everyday prices.

But perhaps the most overlooked and undervalued of Walmart’s assets is its culture (neighborly, people-friendly, trustworthy, frugal, understated—qualities typical of a small town) propagated globally. (As someone who grew up near a town similar to Bentonville, I felt right at home having lunch at a country club just like the one where I caddied as a boy.) Yes, Walmart’s continuing success is the result of a well-orchestrated strategy executed brilliantly. But a large part of its continued growth and success is due to a culture that fits the strategy and methods of execution like an old shoe.

Several days after my Walmart visit, I found myself in the modest headquarters of Southwest Airlines in Dallas, Texas. Buried in the reams of material written about the company (including several Harvard Business School case studies going back to 1975) are the reasons that the company’s founders and senior executives most often cite for the industry-leading success of Southwest. They don’t talk as much about strategy—point-to-point (versus hub-and-spoke) operations, on-time arrivals, frequent departures—as they do about the importance of the company’s culture. It’s summed up in a statement of The Southwest Way, focused around a “Warrior Spirit,” a “Servant’s Heart,” and a “Fun-LUVing Attitude.”10 It’s about values such as teamwork, individual initiative, having fun on the job, and giving back to each other and the community. The culture is supported by behaviors that include frequent celebrations and recognition, communication
of achievements, and impromptu and innovative spur-of-the-moment actions needed to get the job done.

In a recent conversation, I asked Southwest cofounder Herb Kelleher how he and his fellow founders had thought about mission, values, and strategy at the beginning (in 1969). His response was as follows:

At the beginning, we said “stop wasting time on five- or ten-year plans. We want to start an airline. Culture comes first; what we’re about is protecting and growing people. The questions we asked were “What do we want to be? What do we want to do for the world?”...We wanted to be the airline for the common man.”

This helps explain why Southwest is a way of life for Employees who put the company and their fellow Associates before themselves. It helps explain how the company has been able to survive adversity and report nearly 40 consecutive years of profits in an industry that in its entire history has made very little profit. And it helps explain why Southwest, after 9/11, departed from industry practice and laid off no one; or why Employees, at a time when fuel prices were spiking, symbolically bought fuel for the company; or why Southwest now, as competitors emulate elements of its strategy, can fall back on its culture as its secret weapon in maintaining low costs while providing differentiated personal service to its highly loyal Customers.

My visits suggested several similarities in these two organizations. First, it was clear that the mission comes first in both. If Walmart is about saving money for shoppers, Southwest is about saving money for travelers.

Managers in both of these companies view themselves as acting as “agents for the customer,” as David Glass, former CEO of Walmart, used to put it. This is a simple but profound thought. How did we ever forget it? At Walmart, this is played out in such things as the negotiating stance taken with vendors (which the vendors characterize as tough but fair), as well as the way in which the stores are merchandised and managed.

Dave Ridley, who was the senior executive for pricing at Southwest Airlines at the time I talked with him, put it in a similarly memorable way. He said that the objective of his group is to come into a
new market with the lowest sustainable price possible—not the lowest introductory price, the lowest sustainable price.¹⁴

Managers in both organizations constantly use the word “value.” Contrary to what some might suppose, this includes what their targeted customers also regard as high quality.

Both companies provide prime examples of efforts to foster organizations that think and behave in the best tradition of “families.” They spend a great deal of time together, enjoy each other, are visible to one another, communicate constantly, try to find ways to “let their hair down” together, fight and make up, and celebrate their triumphs and foibles.

This requires that managers spend a great deal of time in the field, at times sharing the work of the front line. To do this, both organizations incur higher-than-normal executive time and expenses for travel and communication. At Southwest, the head of the route-planning department, for example, tries to get his group into the field every six weeks for a full day of work on a counter or in a baggage-handling crew to understand the problems caused by certain kinds of scheduling moves. This is expected behavior, not an exception. Even in the age of the Internet, there is relatively low reliance on e-mail in preference to face-to-face, voice, and video communication. The culture also requires total dedication and “immersion” on the part of managers and perhaps accounts for the search for ways to involve employees’ families in the affairs of the companies. This is perhaps not all that remarkable until you realize that the family at Southwest Airlines is more than 40,000 strong; at Walmart, it exceeds 2.3 million, 1.4 million of them in the U.S. alone. It may help explain why senior managers have no time to serve on the boards of other companies.

Both companies select for attitude and train for skills. Furthermore, employee attitude is taken into account in the execution of strategy. At Walmart, potentially attractive markets are relegated to lower priority if there is any question about the company’s ability to staff new stores with people who have the right attitude. At Southwest, the route planners point out that one criterion stands out among others used in selecting new destinations. It is whether the new city or route will enable the company to maintain its “patina of spirituality,” expressed in terms of quality of work life.¹⁵ This is not phony talk. It
goes far beyond cheers and songs. It means that people are recognized for what they do as individuals. They are taken into account when important decisions are made.

Celebration is given high priority in both organizations. Although this may often engage employees in what some would regard as “hokey” behavior, it is memorable to participants and communicates the importance of people. Celebration, to the extent that it contributes to the quality of work life, may help explain why both of these companies achieve extraordinary productivity when compared with their peers.

Both of these organizations are frugal. This fact is reflected in everything from the appearance of corporate headquarters to compensation. Although this frugality has garnered Walmart occasional unfavorable publicity for its low wages for frontline employees, it is important to point out that compensation for senior executives is similarly low by the standards of the industries in which these two firms operate.

Behaviors that support these values are important. At Walmart, they tell a lot of stories and compare a lot of information; at Southwest Airlines, they hug before they start the stories. LUV appears everywhere at Southwest, including the company’s New York Stock Exchange stock symbol. Respect for others is the equivalent value at Walmart. This value is characterized by the “ten-foot greeting” accorded visitors to Walmart offices, like myself, who stray not far from employees. It is a close cousin to the welcome provided by greeters at the entrances to the company’s stores. (A series of these greetings in Walmart’s parking lot in Bentonville almost made me miss my plane out of Arkansas one day.) Southwest exudes a “cowboy” feeling and makes an effort to maintain an “underdog” mentality, characterized by the frequent use of the term “Warrior Spirit.” Both organizations have a clear code for how one works with others. And it is consistent with, and directly related to, the values and beliefs.

At Walmart and Southwest Airlines, employees are developed and promoted from within. Rarely is a senior executive hired from outside.

The strategies of both of these organizations have both market and operational focus. Most “merely good” competitors would settle
for one of these critical sources of focus. To be outstanding, I’m convinced you have to have both. The strategies, however, were not clear at the outset. They were shaped by the founders’ values. Among other things, the refusal of Helen Walton to move to a larger city influenced her husband’s decision to open Walmart stores in relatively small markets, avoiding larger cities for years in the company’s development. At Southwest, a pricing experiment to fill seats on late-night flights several months after the company began operations led to the airline’s eventual low-price, high-capacity utilization strategy. In both companies, the relationship between strategy and culture is complex. Attributing success primarily to either culture or strategy in these organizations (or any others) would be foolhardy. For example, both organizations are built on a set of values and a human resources business model that contributes to low cost. This includes high levels of productivity resulting from relatively high worker loyalty, low turnover, and hence low recruiting and training costs. It translates into closer relationships between employees and frequent customers, thereby contributing to sales and marketing “efficiency.” Wages may or may not be lower than those of competitors (at Southwest, they’re not), but combined with high productivity, they produce very low costs per unit of output.

The strategies differ on one dimension—the presence of organized labor. At Walmart, management’s human resources strategy has been driven in part by a desire to operate without unions. Southwest, on the other hand, is the most highly unionized airline in the U.S. However, it has been able to maintain labor agreements that allow employees to serve as needed in a wide range of jobs.

Unlike many organizations, both companies benefit from distinctive cultures that were attractive to the “right” people almost from the moment of their founding. Their successful strategies began to show results later, before the companies ran out of money. The point is that in these organizations, strategy (and how it is executed) and culture are intertwined and support one another.

Both of these companies have global “brands” that are among the strongest in their respective industries. This is particularly remarkable for Southwest, because it operates only marginally beyond U.S. borders. Conversations with employees at all levels create the impression
that both Walmart and Southwest Airlines, in spite of unremarkable pay practices, are good places to work. Both work hard at building distinctive cultures that contribute to their efforts to hire superior talent. One indication of their cultures’ strength and health is the number of candidates for every entry-level job opening. At Southwest Airlines, it exceeds 50. In the last pre-recession year, 2007, the company had 232,000 applicants for roughly 4,000 job openings. At Walmart the ratio is lower. But consider this: The company has to fill more than 200,000 jobs per year.

One other parallel is of particular curiosity to me. It is summed up in a passage in a letter I received from Herb Kelleher in response to the question of why Southwest Airlines does not employ MBA graduates of so-called “leading” business schools. (At one time, the letter might just as well have come from Walmart, although the company now has a handful of graduates from such schools in its executive ranks.) Herb wrote the following:

I guess that we pretty generally feel that we often fare better building from the bottom up rather than from the top down. Are there exceptions? Yes, there surely are and their contributions have been both profound and substantive. Nonetheless, the overarching truth is that all of the elements that make Southwest Airlines “different,” both operationally and atmospherically, were conceived and executed by people that did not have business school degrees, and in many cases, had so-called “inferior” college degrees, if any at all.¹⁸

I’ll return to this matter in the final chapter.

Are the parallels between these two organizations coincidence, or do they reflect patterns that beg to be understood? If it is the latter, what can other organizations—especially those with internally inconsistent strategies and values that are poorly understood by employees—learn from their experiences, as well as those of other relatively successful and unsuccessful organizations? And, perhaps most importantly, what difference does it make? Of what importance is it to employees of these organizations and to their financial performance? Finding answers to these questions required the exploration of others.
Questions to Be Addressed

This book addresses the following questions:

- How does culture contribute to and detract from an organization’s success?
- How, if at all, does an organization’s culture affect its attractiveness as a place to work; employee loyalty, engagement, “ownership,” turnover rates, and productivity; rate of new business development; client loyalty; and record of referring new business?
- To what extent can we estimate the importance of a culture’s influence on performance in relation to other traits such as leadership, business strategy, the quality of execution, organization, and policies and practices?
- How is the value of a culture measured? What is it worth in terms of better performance and profitability?
- How does culture matter in fostering innovation in times of adversity and when we create organizations, perhaps multinational, with different subcultures?
- Of what special significance is culture in mission-driven organizations, both for-profit and not-for-profit?
- Going forward, how will the rate of change in the environment— influenced by such things as new communication technologies, global competition (and cooperation), and the influx of new generations of people with different interests and values into the workforce— affect the role of culture in organizations?
- What leadership behaviors and management practices are most essential in fostering, preserving, and, in some cases, reviving successful cultures?

To explore these questions, I first examined a variety of secondary sources as well as my own library of field observations. Many of them were documented in forty years worth of cases prepared with the cooperation of the managements of both for-profit and not-for-profit organizations. This provided the basis for two conceptual frameworks for measuring the quantitative and qualitative importance of an effective culture: the Four Rs and the culture cycle. They are described and applied in Chapters 5 through 7.
I was then fortunate to find an organization whose management was willing to provide an unusual level of cooperation in the data collection and analysis needed to test the Four R conceptual framework. That work is described in some detail in Chapters 7 and 13 and Appendixes B and C.

In total, the research for the book uses a variety of quantitative and other data, including interviews with leaders of a number of organizations collected over two decades. This research helped me assemble an argument for the importance of an effective culture, and ways to measure it using elements of the culture cycle, in an organization’s success.

**How This Book Is Organized**

The book is divided into four parts. The first deals with what culture is and isn’t, ways in which it is associated with performance, and how it relates to other important determinants of success over an organization’s life cycle. It might as well be titled “thinking clearly about culture.” The implication is that people often don’t.

The second part presents results of an effort to determine just how and to what degree culture matters in fostering effective performance. In it, I set forth a Four R economic “model” that describes the information that is necessary to measure culture’s impact on the bottom line. That is combined with a description of noneconomic variables (the most important indicators of culture at work) derived from case studies of many organizations and organized into a culture cycle. The Four R and culture cycle concepts are then utilized in a field study for which findings and conclusions are reported.

In the third part, the attention shifts to the impact of culture on innovation; the ability of an organization to survive during times of adversity; its capability to operate globally, possibly with several subcultures; and its ability to adapt to changing technological, social, and legal challenges.

The role of leadership in shaping, sustaining, and changing culture is the subject of the final part.
Chapters 1 through 4 cover theories behind the development of cultures. If you’re interested in measuring the impact of culture on your own organization, you will benefit from a close look at Chapters 5 through 7 as well as the appendixes. Practicing managers may also be interested in Chapters 8 through 12, which explore the impact of culture from various vantage points. Senior managers may be most interested in Chapters 13 and 14. Summaries of each chapter should help you understand content you don’t otherwise read in detail.

Throughout the book, you’ll see cultures through the eyes of leaders in both for-profit and not-for-profit (including government) organizations. Some have failed, providing good object lessons. But others have shaped, fostered, and generally relied on cultures to achieve not only strategic goals but, more importantly, places to work that attract and inspire human beings to develop themselves.
Symbols

3M, 169-172, 188-190
  culture cycle, 172-174
  educated mistakes, 170
  funny farm, 173
  innovation, 172-174, 179-180
  misfits, 172
  Post-it Notes, 171-172
  value clusters, 180-187
9/11, Southwest Airlines response to, 203-205

A

acceptance of values, 134
access to data for human resources managers, 112-113
accountability, 138
“Aces in Your Places” (Taco Bell), 181
Ackerlof, George, 21, 109
acquisition of customers, 107-108
action, 33-35
adaptability, 61-62, 179
advantages of effective culture, 320
adversity, 197, 203-205
  BP, 200-203
  culture, 210-211
    as filter between adversity and performance, 214-215
    helps and hurts, 212-213
  Goldman Sachs, 204-209
  Intuit, 197-200
  leadership styles, 211
  nature of crisis, 210-212
  responding to, 209-210
Akerson, Daniel, 306-307
Alcone Marketing Group, 270

Allison, John A., IV, 29
altruism, 45
Amabile, Teresa, 186
Amazon, 178
American Microprocessors, Inc., 23
Americans, 221
Apple, 188-190
  arrogance in success, 78
  context-changing innovation, 178
  innovation value clusters, 187-194
  iPhone, 192
arrogance, 78-80
articulation of company culture, 72-74, 132-133
artifacts, 31-32
assumptions, shared. See shared assumptions
Athos, Tony, 20
Atlas Shrugged (Rand), 29
Avis, 78

B

Bakken, Earl, 32
Banc One, 145
Baptist Health Care, 299, 302-304, 307
BB&T, 29
Beer, Michael, 297, 301
behavioral outcomes of effective culture, 320-322
behaviors, 30-31
beliefs, shared, 29
  acceptance of, 134
  articulating, 132-133
  changing, 301-303
  communicating, 133-134
Bell Atlantic, 78
Ben & Jerry’s
  cultural significance, 236
  mission and values, 237-238
Berkshire Hathaway, 45
Berry, Leonard, 50
Blankfein, Lloyd, 208, 211
blind estimates, considerations for RTL, Inc., 159-160
blind results (RTL, Inc.), 156-158
board conflicts, 260-263
Boone, Garrett, 50
Bossidy, Larry, 47
boundarylessness, 142, 185
Bower, Marvin, 34
BP, 197, 200-203
Bratton, William, 300-305, 308
bribery, CEMEX, 232
Brin, Sergey, 263
Brown, Tim, 179
Browne, John, 200
Bryant, Adam, 51
Buckingham, Marcus, 47
Buffett, Warren, 45
Built to Last (Collins and Porras), 96, 119
burnout, rise in, 16
Burns, Ursula, 294, 319
Burr, Donald, 80

colors

Capitol One, 80
Carnegie, Andrew, 51
Carolson Companies, 87
Casey, Jim, 26
Catholic Church, 267-268, 272
celebrations, Walmart, 9
CEMEX, 233
  bribery, 232
  code of ethics, 227-228
  one company culture, 225-229
  strategic innovation, 176-177
center subculture, 246
challenges to company culture, 267-268
  increased emphasis on transparency, 270-272
  information and communications technology, 268-270
  new generations of employees, 272-276
  outsourcing, 280
  part-time employees, 277-278
  psychological shrinking of world, 281-282
  remotely based work, 278-279
  rise of free agency, 281
  team-based work, 276
  telecommuting and flex time, 279-280
changing culture, 285-287. See also sustaining culture change
  assumptions, values, and beliefs, 301-303
  Baptist Health Care, 299
  behaviors, measurements, and actions, 303
  culture change “scorecard,” 309
  culture creep, 294-297
  dissatisfaction with status quo, 297-300
  GM (General Motors), 286-287, 299
  monitoring culture cycle, 289-294
  NYPD, 300
  recognizing when change is needed, 288-289
  role of leader in reshaping culture, 297-298, 310-312
characteristics of effective cultures, 318-320
Charan, Ram, 47
Chase Manhattan, 1, 83
Chevrolet Nova, 242
Circuit City, 278
Cisco Systems, 30, 178, 275
City Year, 260
Cleveland, Harlan, 269
code of ethics, CEMEX, 227-228
Coffman, Curt, 47
collaboration, 139-141, 182
Collins, James, 21, 78, 81, 86, 119
collocation, 139-141, 182-183
communal cultures, 65
communication, 247
  information and communications technology, 268-270
  mission, assumptions, values, beliefs, and behaviors, 133-134
  relationships between headquarters and subsidiaries, 242-243
companies. See specific companies
Compaq, 30
comparisons of culture cycle
  elements, RTL, Inc., 160-163
competitive advantage of
organizational culture, 1-2,
109-114, 320
competitive environment, 63-65
The Container Store (TCS), 50-52
context-changing innovation, 177-178
contract negotiations, 240
controlling effort, 244
controlling zealous behavior, 263-264
Cook, Scott, 95, 197-200, 282
Coors, Peter, 58
Coors Brewing Company, 58, 78
Corzine, Jon, 206
Costonis, Michael, 276
Couette, Yves, 237
Cray, Seymour, 32
Cray Research, 32
cultural differences, managing,
223-224
CEMEX, 225-229
ISS, 224-225
Omnimcom Group, 229-231
cultural significance, 236
culturalists, 220-223, 245
culture. See also specific companies
adaptability, 61-62
adversity, 212-213
articulation, 72-74
artifacts, 31-32
behavioral outcomes of effective
culture, 320-322
behaviors, 30-31
challenges to, 267-268
increased emphasis on
transparency, 270-272
information and communications
technology, 268-270
new generations of employees,
272-276
outsourcing, 280
part-time employees, 277-278
psychological shrinking of
world, 281-282
remotely based work, 278-279
rise of free agency, 281
team-based work, 276
telecommuting and flex time,
279-280
changing, 285-287
assumptions, values, and
beliefs, 301-303
Baptist Health Care, 299
behaviors, measurements, and
actions, 303-305
culture change “scorecard,” 309
dissatisfaction with status quo,
297-300
GM (General Motors),
286-287, 299
monitoring culture cycle,
289-294
NYPD, 300
recognizing when change is
needed, 288-289
role of leader in reshaping
culture, 297-298, 310-312
characteristics of effective cultures,
318-320
communal cultures, 65
competitive advantage of
organizational culture, 320
competitive advantages of, 109-114
culture creep, 294-297
definition of, 17
development of interest in, 19-22
dilution of, 75-77
IBM, 76-77
ServiceMaster, 72-74
economic advantages
access to data about, 112-113
assumptions about, 97-98
Culture Impact Model, 114-116
customer acquisition, 107-108
customer retention, 105-107
employee retention, 100-103
identity economics, 108-109
referrals, 98-100
returns to labor (productivity),
103-105
as element of organizational
strategy, 17-19
and execution, 46-48
as filter between adversity and
performance, 214-215
fit between culture and people,
62-63
fit between culture, strategy, and
competitive environment, 63-65
formation of, 69-72
Goldman Sachs, 71-72
IBM, 70-71
process of culture formation, 72
ServiceMaster, 69-70
fragmented cultures, 65
importance of, 16-17, 48-49
and job satisfaction, 38
leadership, role of, 65-66
linear-active, 222
measurement and action, 33-35
measuring effectiveness of, 119-120
  Nucor Steel, 124-128
  Toyota, 128-132
  USAA, 121-124
measuring fit of, 146-147
measuring health of, 134-146
  boundarylessness, 142
  collaboration, collocation, team-based effort, 139-141
  inclusion, 141-142
  informed risk-taking, 138
  meeting expectations, 135-136
  organization before self, 142
  organizational learning, 142-143
  results measurement, 144-146
  self-direction, latitude, accountability, 138
  transparency, 138-139
  trust, engagement, ownership, 136-137
measuring strength of, 132-134, 325-328
mercenary cultures, 65
mission-driven organizations, 251
  board and leadership conflicts, 260-263
  City Year, 260
  controlling zealous behavior, 263-264
  coordinating efforts with other mission-driven organizations, 259-260
  The Denali Project, 260-263
  Focus: HOPE, 253-255
  Habitat for Humanity, 256
  loss of focus/mission creep, 253-255
  measuring and rewarding effectiveness, 257-259
Pioneer Human Services (PHS), 257-259
small-company feel, maintaining, 255
supergrowth, 251-253
volunteer labor, 255-257
Willow Creek Community Church, 251-253
mixed model, 229-231
multi-active, 222
multilocal culture, 224-225
negative influences on
  arrogance, 78-80
  failure to maintain small-company feel, 84-85
  inconsistent leadership, 77-78
  ineffective measurement, 86-87
  nonorganic growth, 82-83
  outsider leadership, 85-86
  too-little growth, 81-82
  too-rapid growth, 80-81
networked cultures, 65
one company culture, 231-237, 246
CEMEX, 225-229
  cultural significance, 236
and purpose, 45-46
reactive, 222-223
reinforcing, 90-91
renewal
  Goldman Sachs, 89-90
  IBM, 88-89
role in organizational performance, 44
shared assumptions, 22-25
  Theory X management, 25-27
  Theory Y management, 27-29
shared values and beliefs, 29
and strategy, 46
strong cultures, impact on
  organizational performance, 55-61
  sustaining culture change, 305-307
  Baptist Health Care, 307
  NYPD, 308
and workplace, 35-37
culture credibility gap, 234
culture cycle. See also health of culture, measuring
  3M, 172-174
  monitoring, 289-294
Culture Impact Model, 114-116
Cunningham William, 253
customer loyalty, 2
customers
  acquisition of, 107-108
  relationships with, 320
  retention of, 105-107
Cypress Semiconductor, 23
employees
burnout, rise in, 16
employee attitude
Southwest Airlines, 8-9
Walmart, 8-9
fit between culture and people,
62-63
job satisfaction, 2, 15-17, 38
Millenial employees, 272-276
outsourcing, 250
part-time employees, 277-278
productivity, 103-105
referrals by, 98-100
remotely based work, 278-279
retention, 100-103, 320
stress levels, rise in, 16
telecommuting and flex time,
279-280
Three RTL, Inc. employee survey
results, 333-337
encouraging and recognizing
leadership behaviors, 290-291
engagement, 136-137, 180-181,
291-292
Enron, 1
entrepreneurship, 185-186
excellence, 45
execution, 46-48
Executive Development Course
(General Electric), 235
expectations
meeting, 135-136
setting, 290

F
failure to maintain small-company
feel, 84-85
Fairbank, Richard, 80
field tests, RTL, Inc. See RTL, Inc.
fit
of culture, measuring, 146-147
between culture, strategy, and
competitive environment, 63-65
between culture and people, 62-63
flex time, 279-280
focus, loss of, 253-255
Focus: HOPE, 253-255
Forbes, Glenn S., 49
Ford, 296
Ford, Henry, 25

D
Darrow, Clarence, 55
Darwin, Charles, 55
Davis, Jim, 110-111
Davis, Stanley, 81
Deal, Terrence, 20, 132
definition of culture, 17
The Denali Project, 260-263
design thinking, 179
Dickson, William, 19
Digital Equipment Corporation, 30
dilution of company culture, 75-77
IBM, 76-77
ServiceMaster, 72-74
Dimon, Jamie, 83
discovery, 45
Disney, 18
disorientation, 240
dissatisfaction with status quo,
297-300
diversity, 182
Drucker, Peter, 285
Dudley, Robert, 202
Duff, Stuart, 279

economic advantages of company
culture. See also competitive
advantage of organizational culture,
1-2, 109-114, 320
access to data about, 112-113
assumptions about, 97-98
customer acquisition, 107-108
customer retention, 105-107
employee retention, 100-103
identity economics, 108-109
referrals, 98-100
returns to labor (productivity),
103-105
Edison, Thomas, 182
educated mistakes, 170
effective cultures
behavioral outcomes of, 320-322
characteristics of, 318-320
competitive advantage of, 320
measuring and rewarding
effectiveness, 257-259
measuring effectiveness, 119-120
Nucor Steel, 124-128
Toyota, 128-132
USAA, 121-124
INDEX

formation of company culture, 69-72
  Goldman Sachs, 71-72
  IBM, 70-71
  process of culture formation, 72
  ServiceMaster, 69-70

Four Rs, 320, 329-331

fragmented cultures, 65

free agents, 281

free associate, 191

Freese, Walt, 237

Friedman, Thomas, 281

Frontier Airlines, 80

frugality
  Southwest Airlines, 9
  Walmart, 9

Fry, Art, 171

Fuller, Linda, 256

Fuller, Millard, 256

funny farm, 173

G

Gates, Bill, 45

GE (General Electric), 21, 33-34, 66, 233, 295
  management development programs, 235
  Session C, 234

Gen Y employees, 272-276

Genentech, 36

George, Bill, 32

Germany, UPS (United Parcel Service), 219-220

Gerstner, Lou, 16, 21

Glass, David, 7, 103

global management, 223-224
  CEMEX, 225-229
  ISS, 224-225
  Omnicom Group, 229-231

GM (General Motors), 1, 242, 286-287, 296-301, 305-307

Coffee, Rob, 64

Goldman Sachs, 197, 242
  adversity, 204-209
  culture articulation, 72-74
  culture formation, 71-72
  culture renewal, 89-90
  employee turnover, 102

Goodnight, Jim, 111

Google, 47, 82, 139, 169, 263, 273-275
  entrepreneurship, 186
  transparency, 184

Google Labs, 184

Gore, Bill, 184

Gore-Tex, 181

Gottschalk, Ray, 270

growth
  nonorganic growth, 82-83
  supergrowth, 251-253
  too-little growth, 81-82
  too-rapid growth, 80-81

H

Habitat for Humanity, 256

Hackman, Richard, 140-141

Hansei, 222

Hansen, Ken, 32

Harrison, William, 83

Hart, Jim, 16

Hayward, Tony, 200, 211

HCL Technologies, 271

headquarters, relationship with subsidiaries, 241
  communication, 242-243
  staffing, 241-242

health of culture, measuring, 134-146
  boundarylessness, 142
  collaboration, collocation, team-based effort, 139-141
  inclusion, 141-142
  informed risk-taking, 138
  meeting expectations, 135-136
  organization before self, 142-143
  results measurement, 144-146
  self-direction, latitude, accountability, 138
  transparency, 138-139
  trust, engagement, ownership, 136-137

Hesselbein, Frances, 242

Henderson, Fritz, 286, 301

heroism, 45

Hewlett, William, 178

Hewlett-Packard, 178

Hypothesis, 180

Hofstede, Geert, 244

Homans, George, 20

Hsien, Tony, 41, 272

human resources managers, access to data, 112-113

Hybels, Bill, 252
I

Iacocca, Lee, 171
IBM, 16, 21, 29, 61
culture dilution, 76-77
culture formation, 70-71
culture renewal, 88-89
reinforcing effective culture, 91
identity economics, 21-22, 108-109
Illinois Tool Works (ITW), 84-85
importance of culture, 48-49
In Search of Excellence (Peters and Waterman), 20
inclusion, 141-142, 182
inconsistent leadership, 77-78
individual initiative, 184
ineffective measurement, 86-87
information and communications technology, 268-270
informed risk-taking, 184
ING Direct, 41-44, 48, 84, 107-108
initiative, 169
innovation, 194
3M, 172-174, 188-190
adaptability and, 179
levels of, 174
context-changing innovation, 177-178
strategic innovation, 176-178
tactical innovation, 174-176
transformational innovation, 177-178
supporting, 195
value clusters, 179-180
at Apple, 187-194
collaboration, inclusion,
collaboration, and transparency, 182-184
entrepreneurship, 186-187
latitude, individual initiative, and informed risk-taking, 184
leadership, policies, and practices that support entrepreneurship, 185-186
trust, engagement, and ownership, 180-181
useful failure, boundarylessness, and learning, 185
innovation gyms (Procter & Gamble), 185
insider-outsiders, 66
integrity, 181, 232
internal quality, 2-3

“I intrapreneurship,” 186
Intuit, 95, 197, 282
adversity, 197-200
Quicken, 197-200
tactical innovation, 175
iPhone, 192
ISS, 224-225
ISS Way, The, 225
ITW (Illinois Tool Works), 84-85
Iverson, Ken, 125, 139

J

J. P. Morgan, 1, 83
Jacobs, Charles, 22
JetBlue, 278
job satisfaction, 15-17, 38
Jobs, Steve, 78, 188, 193-194
Johnson & Johnson, 61
Jones, Gareth, 64
Josaitis, Eleanor, 253-254

K

Kaizen, 222
Katz, Barry, 179
Kay, John, 49
Kelleher, Herb, 7, 11, 66, 322
Kennedy, Allan, 20, 132
Kinnear, Jim, 57
Kopp, Wendy, 251
Kotter, John P., 1, 3, 59, 66, 303
Kranton, Rachel, 21
Kuhlmann, Arkadi, 41-42, 48

L

Lafley, A. G., 179, 285, 312
latitude, 138, 184
leadership, 185-186, 247
adversity, 211
arrogance, 78-80
conflicts in mission-driven organizations, 260-263
contract negotiations, 240
electivating and recognizing leadership behaviors, 290-291
inconsistent leadership, 77-78
leading culture change, 285-287
assumptions, values, and beliefs, 301-303
Baptist Health Care, 299
behaviors, measurements, and actions, 303
culture change “scorecard,” 309
culture creep, 294-297
dissatisfaction with status quo, 297-300
GM (General Motors), 286-287, 299
monitoring culture cycle, 289-294
NYPD, 300
recognizing when change is needed, 288-289
role of leader in reshaping culture, 297-298, 310-312
outsider leadership, 85-86
role of, 65-66
selecting, 239-241
sustaining culture change
Baptist Health Care, 307
GM (General Motors), 305-307
NYPD, 308
learning, 185
Lehmann Brothers, 1, 21
Leibinger-Kammüller, Nicola, 213
levels of innovation, 174
context-changing innovation, 177-178
strategic innovation, 176-178
tactical innovation, 174-176
transformational innovation, 177-178
Lewis, Richard, 222-223
Lin, Alfred, 18
Lincoln Electric, 27
linear-active cultures, 222
lore, 185
loss of focus, 253-255
Lutz, Bob, 301

Theory X management, 25-27
Theory Y management, 27-29
Martin, Joanne, 20
Martin, John, 181
Masaki, Mike, 222
Maslow, Abraham, 27
May, Tom, 174
Mayo, Elton, 19
Mayo Clinic, 49-50, 183-185, 319
The Mayo Effect, 183
MBO (management by objectives), 244, 247
McCoy, John B., 145
McGregor, Douglas, 22, 28, 139
McKnight, William L., 169, 188
measurements, 33-35
effectiveness of culture, 119-120, 257-259
Nucor Steel, 124-128
Toyota, 128-132
USAA, 121-124
fit of culture, 146-147
health of culture, 134-146
boundarylessness, 142
collaboration, collocation, team-based effort, 139-141
inclusion, 141-142
informed risk-taking, 138
meeting expectations, 135-136
organization before self, 142-143
results measurement, 144-146
self-direction, latitude, accountability, 138
transparency, 138-139
trust, engagement, ownership, 136-137
ineffective measurement, 86-87
strength of culture, 132-134, 325-328
Medtronic, 32
meeting expectations, 135-136
mercenary cultures, 65
Microsoft, 45, 82, 177
Millenial employees, 272-276
misfits, 172
mission
articulating, 132-133
defining and communicating, 290
mission creep, 253-255
mission-driven organizations, 251
board and leadership conflicts, 260-263
City Year, 260
controlling zealous behavior, 263-264
coordinating efforts with other mission-driven organizations, 259-260
The Denali Project, 260-263
Focus: HOPE, 253-255
Habitat for Humanity, 256
loss of focus/mission creep, 253-255
measuring and rewarding effectiveness, 257-259
Pioneer Human Services (PHS), 257-259
small-company feel, maintaining, 255
supergrowth, 251-253
volunteer labor, 255-257
Willow Creek Community Church, 251-253
Mitsubishi, 281
Mittlestand, 213
mixed model (Omnicom Group), 229-231
monetary rewards, 187
monitoring culture cycle, 289-294
Moritz, Michael, 194
Motorola, 78
Mourkogiannis, Nikos, 45, 251
MTV, 31-32, 237
Mulhair, Gary, 258-259
Mullaly, Allan, 296
Mullen, John, 50
multi-active cultures, 222
multilocal culture, 224-225
New York Police Department (NYPD), 300-305, 308
NeXT, 189
nonorganic growth, 82-83
Nordstrom, 45
not-for-profit organizations. See mission-driven organizations
Nucor Steel, 84, 124-128, 185
NYPD, 300-305, 308

O
obliquity, 49
Omnicom Group, 229-233
one company culture, 231-237, 246
CEMEX, 225-229
cultural significance, 236
The Orange Code (ING Direct), 42
O'Reilly, Charles A., III, 21, 111
organization before self, 142-143
organization performance, role of culture in, 44
organizational capital, 1
organizational culture. See culture
organizational learning, 293
organizational strategy, role of culture, 17-19
organizing teams, 243-244
outsider leadership, 85-86
outsourcing, 250
ownership, 136-137, 180-181, 291-292

P
P&G. See Procter & Gamble
Page, Larry, 263
Palacios, Samuel, 91
PARC laboratories, 189
Parker, Jim, 203
partnerships between for-profit and not-for-profit organizations, 259-260
part-time employees, 277-278
Pascale, Richard, 20
patient capital, 170
Pennzoil, 57
People Express, 80
Pepper, John, 96
performance, impact of strong cultures on, 55-61
Peters, Tom, 20
Pfeffer, Jeffrey, 21, 111, 322

N
nature of crisis, 210-212
Nayar, Vineet, 271
negative influences on corporate culture
arrogance, 78-80
failure to maintain small-company feel, 84-85
inconsistent leadership, 77-78
ineffective measurement, 86-87
nonorganic growth, 82-83
outsider leadership, 85-86
too-little growth, 81-82
too-rapid growth, 80-81
Nelson, Marilyn, 87
networked cultures, 65
Philp, Bruce, 310
Pinchot, Gifford, 171
Pioneer Human Services (PHS), 257-259
policies, employee perceptions of, 292-293
Pollard, C. William, 45, 70, 85-86
Porras, Jerry, 21, 119
Post-it Notes, 171-172
practices, employee perceptions of, 292-293
process of culture formation, 72
Procter, Harley, 61
Procter & Gamble, 61, 95-96, 179, 185, 285, 312
productivity, 2, 103-105
promotion from within
Southwest Airlines, 9
Walmart, 9
Proulx, Tom, 197
psychological shrinking of world, 281-282
purpose, 45-46
retention, 320
of customers, 105-107
of employees, 100-103
returns to labor, 103-105, 320
rewarding effectiveness, 257-259
Ridley, Dave, 7
risk-taking, informed, 184
Ritz-Carlton, 48, 304
Rodgers, T. J., 23
Roethlisberger, Fritz, 19
Rollwagen, John, 32
RTL, Inc., 151-152
blind estimate considerations, 159-160
blind results, 156-158
comparisons of culture cycle elements, 160-163
employee survey results, 333-337
management’s interpretation of what happened, 164-165
research and findings, 152-156, 289-294
research conclusions, 165-166

Q-R
quality, internal, 2-3
Quicken (Intuit), 197-200
Rackspace, Inc., 32, 137, 140
Ramada Inns, 278
Rand, Ayn, 29
reactive cultures, 222-223
recognizing
leadership behaviors, 290-291
when change is needed, 288-289
referrals, 98-100, 320
reinforcing effective culture, 90-91
relationships
with customers, 320
between headquarters and subsidiaries, 241
communication, 242-243
staffing, 241-242
remotely based work, 278-279
renewal of company culture
Goldman Sachs, 89-90
IBM, 88-89
research (RTL, Inc.), 152-156, 289-294
responding to adversity, 209-210
results measurement, 144-146

S
Sadove, Stephen, 144
Safelite, 27
Saks, Inc., 144
Salkowitz, Rob, 276
SAS Institute, 110-111
Schein, Edgar, 20-22, 30, 81
Scott, Lee, 5
Sculley, John, 192-193
Sears, 145
selecting leaders, 239-241
self-direction, 138
Selzman, Kent, 50
Selznick, Philip, 20
Senge, Peter, 16, 133
Senn, Larry, 16
serendipity, 172
service profit chain, 2-3
ServiceMaster, 32, 45, 85-86
culture dilution, 75-76
culture formation, 69-70
Session C (General Electric), 234
Seven S Framework, 20
shared assumptions, 22-25
articulating, 132-133
changing, 301-303
communicating, 133-134
INDEX

371

conflicts in mission-driven organizations, 260-263
defining and communicating, 290
Theory X management, 25-27
Theory Y management, 27-29
shared values and beliefs, 29
acceptance of, 134
articulating, 132-133
changing, 301-303
communicating, 133-134
Silver, Spencer, 171
small-company feel, maintaining, 84-85, 255
sociability, 64
Soderquist, Don, 4
solidarity, 64
Southwest Airlines, 3, 6, 18, 66, 80, 197, 202
adversity, 9/11 response, 203-205
competitive advantage of organizational culture, 322-324
culture and execution, 47-48
employee attitude, 8-9
employee productivity, 103
frugality, 9
global brand, 10-11
market and operational focus, 9-10
promotion from within, 9
staffing, 241-242, 247
status quo, dissatisfaction with, 297-300
strategic innovation, 176-178
strategy
culture and, 46
fit between culture, strategy, and competitive environment, 63-65
values-based strategies, 49-50
strength of culture, measuring, 325-328
stress levels, rise in, 16
Strickland, Bill, 261-263
strong cultures
impact on organizational performance, 55-61
measuring strength of culture, 132-134
Stubblefield, Al, 299, 304
subcultures, 220, 246
center subculture, 246
implications for, 245
subsidiaries, relationship with headquarters, 241
communication, 242-243
staffing, 241-242
supergrowth, 251-253
sustainability, 322
sustaining culture change, 305-307
Baptist Health Care, 307
NYPD, 308
T
Taco Bell, 181
“Aces in Your Places,” 181
ubiquity, 181
tactical innovation, 174-176
Taylor, Frederick Winslow, 19, 25
Taylorism, 25
TCS (The Container Store), 50-52
Teach for America, 251
teams, organizing, 244
teamwork, 139-141, 182, 276
Tedlow, Richard, 79, 90, 264
telecommuting, 279-280
Texaco, 57
Theory X management, 25-27
Theory Y management, 27-29
Tindell, Kip, 50-51
too-little growth, 81-82
too-rapid growth, 80-81
Toyoda, Akio, 130, 200
Toyota, 200, 295
measuring effectiveness of culture, 128-132
tactical innovation, 175
Toyota Way, The, 221-222
transformational innovation, 177-178
transparency, 138-139, 182-184, 270-272
Trump, 212
trust, 136-137, 180-181, 291-292
TurboTax, 198
Twenty20, 178
U
Unilever, Ben & Jerry’s
 cultural significance, 236
mission and values, 237-238
universities, 235
UPS (United Parcel Service), 26, 219-220
USAA, measuring effectiveness of culture, 121-124
useful failure, 185

V
value, 8
value clusters, 179-180
  at Apple, 187-194
  collaboration, inclusion, collocation, and transparency, 182-184
  entrepreneurship, 186-187
  latitude, individual initiative, and informed risk-taking, 184
  leadership, policies, and practices that support entrepreneurship, 185-186
  trust, engagement, and ownership, 180-181
  useful failure, boundarylessness, and learning, 185
values, shared, 29
  acceptance of, 134
  articulating, 132-133
  changing, 301-303
  communicating, 133-134
  defining and communicating, 290
values-based strategies, 49-50
venture capital, 175
volunteer labor, 255-257

W
W. L. Gore, 47, 180, 184
Wade, Marion, 69
Walmart, 3, 103, 263
  celebration, 9
  competitive advantage of organizational culture, 322-324
  contribution of culture to overall sales strategy, 6
  employee attitude, 8-9
  frugality, 9
  global brand, 10-11
  management meetings, 3-4
  market and operational focus, 9-10
  merchandising meetings, 4-5
  promotion from within, 9
Walton, Helen, 10
Walton, Sam, 3, 264
Walton Institute, 3
Waterman, Robert, 20
Watson, Thomas, 29, 61, 70-71, 73
Wegmans Supermarkets, 36
Weinberg, Sidney, 70
Welch, Jack, 21, 66, 233
Western Electric, 19
Whitacre, Edward, Jr., 286, 296-297, 301
Whitehead, John, 73
Whole Foods Market, 277
Willow Creek Association, 253
Willow Creek Community Church, 31-32, 251-253
work life, quality of, 2-3
workplace and culture, 35-37
Worldcom, 1
Wozniak, Steve, 188

X-Y-Z
Xerox, 82, 177, 189, 294-295, 319
Zambrano, Lorenzo, 226
Zappos.com, 18, 41, 272
zealous behavior, controlling, 263-264