

Teaching Note on Managerial Levers to Build and Maintain Strong Organizational Culture

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During discussions with managers across the years, I have routinely and systematically asked them whether their organization's culture needed to change and if so, what are the first things they would do to make it happen. Answers to these questions have remained eerily constant across many different groups and years. Astoundingly, about 80% of managers state that their organization's culture needs to change, often emphatically. And, among these managers, the same specific managerial levers for changing culture always rise to the top of the list. Invariably, they are: (1) get top management to agree on the needed behavioral norms and values; (2) align compensation to reward the intended outcomes; and (3) communicate and train people in the agreed-upon features of the intended culture.

While these three levers are powerful, they are also only a few from a much longer list of scientifically proven levers that managers can use to build strong culture within an organization. Moreover, the three cited levers might be considered somewhat unimaginative because they involve activities that are familiar and comfortable to managers: each of these levers typically involves something under direct control of a manager and entails activities that they often do on a regular basis. "Let's call a meeting and talk," or tweak the reward system, or send out communications, or ask people to enroll in a training program. Managers tend to stay in their comfort zones, so to speak, when contemplating cultural change efforts. On the other side, employees get weary of hearing about a new cultural change effort that uses the same techniques the last one did, only the words in slide deck have changed.

The three top-cited levers might work in building and sustaining a strong culture, but they are not necessarily the strongest in terms of behavioral change. Also, why would a manager want to play it so timidly and not use other tools at his/her disposal? Effective cultural management requires a comprehensive and consistent approach across a full set of levers, many of which are structural or architectural in nature. The systemic effects from these design-based levers may not be attributable to any specific managerial action but the impact is often powerful and long term. The essence of cultural management is to design a system that runs as expected without direct control or intervention. Managing indirectly by design is hard for many managers to do, as it involves giving up control; it is especially hard to do when an organization is in crisis or disarray. Likewise, full consistency is hard to achieve but is critical for cultural acceptance, as exceptions to the norms are quickly spotted and interpreted as meaningful, even if everything else points in a different direction.

In this note, I review briefly the most important managerial levers to build strong culture within an organization. Social science theory and research on culture refers to this set of managerial levers over and over again, in all kinds of organizations and for all kinds of cultures, ranging from religious cults to terrorist cells to special commando teams to companies that execute with great operational efficiency to high tech innovative companies. Deciding how many, and which of the levers to use is a social engineering problem for the manager in charge. Effectiveness of impact depends on the approach being comprehensive and the implementation being consistent.

Strong organizational culture is typically defined by the combination of: (1) a high degree of agreement among participants in their values, beliefs and norms and (2) high intensity of participants in adherence to these values, beliefs and norms. Managerial levers to enhance cultural strength therefore should serve to decrease heterogeneity within the organization or to increase intensity of participants. A secondary goal is to eliminate distractions.

Managerial levers for strong culture can be usefully organized into four categories, those concerning (1) the Content of the Culture; (2) the Employment System; (3) the Design of the Organization; and (4) the Incentive System. Below, I list the main levers for each category. I describe the lever, explain why it works, and point to an example. Obviously, some of these are impractical for any given type of organization and in some cases, they may not be effective. (Some are even potentially at odds with each other.) Judgment is required in choosing and implementing any lever.

Cultural Content Levers

Agree and align on the intended cultural attributes. The leaders of the organization need to be in agreement about what the values, beliefs and norms of the organization should be. Agreement is the pre-condition to strong culture—it simply will not exist if leaders do not hold a consensus. Alignment means that the culture supports the strategy of the organization and facilitates its execution. An example is Goldman Sachs, especially in its early days when it chose and served client firms.

Training and communications about the intended culture are essential because it is very easy for members to misunderstand or to be misled. In large and complex organizations, the communication and training tools need to be thoughtfully composed for mass usage. Continual and repeated communication of the same message may be boring to some but it is necessary to reach everyone in the organization. Try varying the modality of the message. DaVita does extensive training and communications. The Disney Institute runs cultural training programs.

Cultural messaging needs to be authentic, aligned and affective in order to be salient and impactful. Authentic means that the message does not seem generic, no matter how good it is. Aligned means that it supports the strategy and is consequential. Affective message taps into emotions and enhances intensity. Google's ten original cultural mission items are a good example.

Assess and survey the culture. Taking periodic and systematic snapshots of the culture allows one to figure out where change is needed most. Assessments can be qualitative or quantitative but they need to be sober and objective. An example can be found at Genentech when Jennifer Cook ran GMIO.

Leader modeling means that leaders publicly exhibit behaviors that are consistent with the culture and avoid those that are not. Members look to leaders constantly and scrutinize their action to infer what is really important. Leaders need to “walk the walk” and not just “talk the talk” because they are so visible and powerful. Herb Kelleher at Southwest Airlines was a good example—he exemplified someone having fun as work.

Recruit and support cultural leaders. Members look to peers and other colleagues for advice and support about how to do work and what is appropriate. Engaging and acknowledging some members to be cultural leaders shows others the way and

requires little management effort. After the HP/Compaq merger, the company recruited effective cultural leaders to assist in training.

Employment System Levers

Culturally selective hiring is the identification and selection of new members because they hold values, beliefs and norms that match the organization's intended culture. This lever works because it reduces dramatically the heterogeneity of values, beliefs and norms allowed inside the organization. Google's emphasis on "Googly-ness" in hiring is an example.

Very early intense socialization involves the rapid and forceful exposure to the organization's cultural values, beliefs and norms. It works because organizational newcomers are especially impressionable and aim to please; they either conform or leave. The classic boot camp of the Marines is an extreme example.

Broad job designs mean that jobs are not highly differentiated in a formal sense; many people in the organization hold the same job title. This lever serves to reduce distinctions among members and thereby reduces heterogeneity. The autonomy afforded by broad jobs design also often ramps up commitment and intensity. A good example can be found at Zappos.

Regular job rotation is a system where members routinely change jobs every so often. The changes are planned and expected and can involve changing geographies, divisions and duties. Job rotation gives members a wide set of perspectives about the organization and its work and serves to decrease heterogeneity by affording an understanding of various interests. The consulting firms of Deloitte and Bain use job rotation to sustain culture.

Intended long-term employment means that people who join the organization expect to stay a long time if not their entire career. Intended long-term employment reduces heterogeneity by fostering a connection to the firm rather than a specific job. An example would be Caterpillar.

Organizational Design Levers

Wide unit groupings mean that the average unit or department in the organization has broad scope; it implies that internal structural differentiation is kept low, preventing the buildup of local interests and reducing heterogeneity. Netflix would appear to be an example.

Flat hierarchy implies that the organization has few layers, a short chain of command and decentralized responsibility. Reducing hierarchy creates transparency, strengthens accountability, fosters a sense of egalitarianism and generates high involvement, all of which reduce heterogeneity and ramp up intensity. A good extreme is the gaming company Valve.

Broad decision-making structures get many people involved in the decisions of the organization. Even if their impact is minimal, say a public forum seeking input, involvement helps them understand and implement decisions. Examples include Intel with its "Disagree and commit" principle.

Socialization by peers. Co-workers, especially peers, know best what is going on with others in the organization; peers also potentially have great influence on each other and enhance connectedness. Peer collaboration enhances agreement and places pressure on peers to perform to gain respect. Examples include Google with its Googler to Googler program.

Transparency creates an environment of openness and can build trust. Transparency can include structures, policies and decisions. Transparency allows members to understand organizational decisions and their rationale even if they disagree. Examples include Bridgewater, and Open Book management companies like Back Roads.

Full embeddedness refers to organizations where members can access and receive many of their daily needs from inside and do not need to venture out and get exposed to others. Extreme examples include what social scientists call total institutions; the classic company town verges on being a total institution. Contemporary organizations with higher-than-usual degrees of embeddedness include Facebook and other young high-tech companies that provide free food, day care, dry cleaning etc.

Incentive System Levers

Aligned compensation means that the endorsed cultural traits are consistent with respect to compensation practices and promotion chances. If the culture message is about high performance and accountability, then compensation must be aligned or the message is disregarded. Examples include Cypress Semiconductor and Netflix.

Reward cultural behavior directly implies that members who behave according to the culture are rewarded regardless of the impact of their actions on revenue or performance. Conversely, people who behave counter-normatively are penalized. Cultures that encourage things like “taking risks without regard to failure” lack credibility if that behavior is not rewarded directly.

Group-based compensation ties rewards to group outcomes, teams, divisions or the entire company. Whether in pay or bonuses group-based compensation creates a sense of solidarity and enhances agreement within the group (and can do the opposite for those outside the group); it also works against individual efforts that undermine group outcomes, even if they seem beneficial in isolation. An example would be partnerships where partners share returns equally or based on some set rule such as seniority.

Non-monetary rewards include awards, honors, and acknowledgments. These rewards are often more symbolic than material but because they represent social acceptance and approval, they are often highly valued by employees. Examples can be found at DaVita, and Zappos.

Making cultural misfits uncomfortable sends signals about inappropriate behavior and encourages voluntary departures. At the extreme, some companies terminate misfits, including Zappos, Cypress Semiconductor and Netflix.

Manage emotional reactions by listening to complaints and taking appropriate action, including eliminating annoying bureaucratic processes that induce irrational reaction and explaining those that are requisite. Conversely, activities and events

that generate goodwill towards the company and management should be promoted, provided they are consistent with the culture. An example would be vacation dates at Netflix.

Summary

Unlike many executive functions, managing organizational culture is not an intellectual mystery—the levers used are based on well understood social and psychological processes of influence and motivation and commitment. Nonetheless, social scientific understanding does not imply that managing culture is easy to do or can be done effectively by anyone. The historical record shows just the opposite: companies and managers are attracted to culture because of its potential power, but more often than not, they fail to deliver fully on the promise, and if they do, rarely is it sustained over long periods of time. The failures often emanate from a lack of consistency in managerial actions and organizational structures, even episodic. Managers often could also use a more comprehensive set of levers to manage culture.