

CHAPTER ELEVEN

## IMPLEMENTING STRATEGY: CULTURE AND LEADERSHIP

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*Weak leadership can wreck the soundest strategy; forceful execution of even a poor plan can often bring victory.*

Sun Zi

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*Effective leaders do not just reward achievement, they celebrate it.*

Shelley A. Kirkpatrick and Edwin A. Locke

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*Ethics is the moral courage to do what we know is right, and not to do what we know is wrong.*

C. J. Silas

CEO, Philips Petroleum

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*... A leader lives in the field with his troops.*

H. Ross Perot

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In the previous two chapters we examined six of the strategy-implementer's tasks—building a capable organization, steering ample resources into strategy-critical activities and operating units, establishing strategy-supportive policies, instituting best practices and programs for continuous improvement, creating internal support systems to enable better execution, and employing appropriate motivational practices and compensation incentives. In this chapter we explore the two remaining implementation tasks: creating a strategy-supportive corporate culture and exerting the internal leadership needed to drive implementation forward.

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### BUILDING A STRATEGY-SUPPORTIVE CORPORATE CULTURE

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Every company has a unique organizational culture. Each has its own business philosophy and principles, its own ways of approaching problems and making decisions, its own embedded patterns of "how we do things around here," its own lore (stories

**ILLUSTRATION CAPSULE 32****THE CULTURE AT NORDSTROM**

The culture at Nordstrom, a department store retailer noted for exceptional commitment to its customers, revolves around the company's motto: "Respond to Unreasonable Customer Requests." Living up to the company's motto is so strongly ingrained in behavior that employees learn to relish the challenges that some customer requests pose. Usually, meeting customer demands in pleasing fashion entails little more than gracious compliance and a little extra personal attention. But occasionally it means paying a customer's parking ticket when in-store gift wrapping takes longer than normal or hand delivering items purchased by phone to the airport for a customer with an emergency need.

At Nordstrom, each out-of-the-ordinary customer request is seen as an opportunity for a "heroic" act by an employee and a way to build the company's reputation for great service. Nordstrom encourages these acts by promoting employees noted for outstanding service, keeping scrapbooks of "heroic" acts, and paying its salespeople entirely on commission (it is not unusual for good salespeople at Nordstrom to earn double what they would at other department store retailers). For go-getters who truly enjoy retail selling and pleasing customers, Nordstrom is a great company to work for. But the culture weeds out those who can't meet Nordstrom's demanding standards and rewards those who are prepared to be what Nordstrom stands for.

Source: Based on information in Tracy Goss, Richard Pascale, and Anthony Athos, "Risking the Present for a Powerful Future," *Harvard Business Review* 71, no. 6 (November-December 1993), pp. 101-2.

Corporate culture refers to a company's values, beliefs, traditions, operating style, and internal work environment.

told over and over to illustrate company values and what they mean to employees), its own taboos and political don'ts—in other words, its own ingrained beliefs, behavior and thought patterns, business practices, and personality. The bedrock of Wal-Mart's culture is dedication to customer satisfaction, zealous pursuit of low costs, a strong work ethic, Sam Walton's legendary frugality, the ritualistic Saturday morning headquarters meetings to exchange ideas and review problems, and company executives' commitment to visiting stores, talking to customers, and soliciting suggestions from employees. At Frito-Lay, stories abound of potato chip route salesmen slogging through mud and snow to uphold the company's 99.5 percent service level. At McDonald's the constant message from management is the overriding importance of quality, service, cleanliness, and value; employees are drilled over and over on the need for attention to detail and perfection in every fundamental of the business. Illustration Capsule 32 describes the culture of Nordstrom's.

**WHERE DOES CORPORATE CULTURE COME FROM?**

The taproot of corporate culture is the organization's beliefs and philosophy about how its affairs ought to be conducted—the reasons why it does things the way it does. A company's culture is manifested in the values and business principles that management preaches and practices, in its ethical standards and official policies, in its stakeholder relationships (especially its dealings with employees, unions, stockholders, vendors, and the communities in which it operates), in the traditions the organization maintains, in its supervisory practices, in employees' attitudes and behavior, in the legends people repeat about happenings in the organization, in the peer pressures that exist, in the organization's politics, and in the "chemistry" and the "vibrations" that permeate the work environment. All these sociological forces, some of which operate quite subtly, combine to define an organization's culture.

Beliefs and practices that become embedded in a company's culture can originate anywhere: from one influential individual, work group, department, or division, from

the bottom of the organizational hierarchy or the top.<sup>1</sup> Very often, many components of the culture are associated with a founder or other early leaders who articulated them as a company philosophy, a set of principles which the organization should rigidly adhere to, company policies, a vision, a business strategy, or a combination of these. Over time, these cultural underpinnings come to be shared by company managers and employees and then persist as new employees are encouraged to adopt and follow the professed values and practices. A company's culture is a product of internal social forces; it represents an interdependent set of values and behavioral norms that prevail across the organization.

Once established, company cultures can be perpetuated by continuity of leadership, by screening and selecting new group members according to how well their values and behavior fit in, by systematic indoctrination of new members in the culture's fundamentals, by the efforts of senior group members to reiterate core values in daily conversations and pronouncements, by the telling and retelling of company legends, by regular ceremonies honoring members who display cultural ideals, and by visibly rewarding those who follow cultural norms and penalizing those who don't.<sup>2</sup> However, even stable cultures aren't static. Crises and new challenges evolve into new ways of doing things. Arrival of new leaders and turnover of key members often spawn new or different values and practices that alter the culture. Diversification into new businesses, expansion into different geographical areas, and rapid growth that adds new employees can all cause a culture to evolve.

Although it is common to speak about corporate culture in the singular, companies typically have multiple cultures (or subcultures).<sup>3</sup> Values, beliefs, and practices can vary significantly by department, geographic location, division, or business unit. A company's subcultures can clash, or at least not mesh well, if recently acquired business units have not yet been assimilated or if different organizational units have conflicting managerial styles, business philosophies, and operating approaches.

## THE POWER OF CULTURE

Most managers, as a consequence of their own experiences and of reading case studies in the business press, accept that an organization's culture is an important contributor (or obstacle) to successful strategy execution. Thomas Watson, Jr., who succeeded his father as CEO at IBM, stated the case for a culture-performance link eloquently in a 1962 speech at Columbia University:

The basic philosophy, spirit, and desire of an organization have far more to do with its relative achievements than do technological or economic resources, organization structure, innovation, and timing. All these things weigh heavily on success. But they are, I think, transcended by how strongly the people in the organization believe in its basic precepts and how faithfully they carry them out.<sup>4</sup>

The beliefs, goals, and practices called for in a strategy may be compatible with a firm's culture or they may not. When they are not, a company usually finds it difficult to implement the strategy successfully.<sup>5</sup> A close culture-strategy match that energizes people throughout the company to do their jobs in a strategy-supportive manner adds

<sup>1</sup>John P. Kotter and James L. Heskett, *Corporate Culture and Performance* (New York: Free Press, 1992), p. 7.

<sup>2</sup>Ibid., pp. 7-8.

<sup>3</sup>Ibid., p. 5.

<sup>4</sup>"A Business and Its Beliefs," McKinsey Foundation Lecture (New York: McGraw-Hill, 1963), as quoted in Kotter and Heskett, *Corporate Culture and Performance*, p. 17.

<sup>5</sup>Kotter and Heskett, *Corporate Culture and Performance*, p. 5.

significantly to the power and effectiveness of strategy execution. Strong cultures promote good long-term performance when there's fit and hurt performance when there's little fit. When a company's culture is out of sync with what is needed for strategic success, the culture has to be changed as rapidly as can be managed; the more entrenched the culture, the greater the difficulty of implementing new or different strategies. A sizable and prolonged strategy-culture conflict weakens and may even defeat managerial efforts to make the strategy work.

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A strong culture and a tight strategy-culture fit are powerful levers for influencing people to do their jobs better.

A tight culture-strategy alignment is a powerful lever for channeling behavior and helping employees do their jobs in a more strategy-supportive manner; this occurs in two ways:<sup>6</sup>

- *A work environment where the culture matches well with the conditions for good strategy execution provides a system of informal rules and peer pressures regarding how to conduct business internally and how to go about doing one's job. Culturally approved behavior thrives, while culturally disapproved behavior gets squashed and often penalized. In a company where strategy and culture are misaligned, ingrained values and operating philosophies don't cultivate strategy-supportive work habits; often, the very kinds of behavior needed to execute strategy successfully run afoul of the culture and attract negative recognition rather than praise and reward.*
- *A strong strategy-supportive culture nurtures and motivates people to their best; it provides structure, standards, and a value system in which to operate; and it promotes strong company identification among employees. All this makes employees feel genuinely better about their jobs and work environment and, more often than not, stimulates them to perform closer to the best of their abilities.*

This says something important about the task of leading strategy implementation: *anything so fundamental as implementing a strategic plan involves moving the organization's culture into close alignment with the requirements for proficient strategy execution.* The optimal condition is a work environment that enlists and encourages people to perform strategy-critical activities in superior fashion. As one observer noted:

It has not been just strategy that led to big Japanese wins in the American auto market. It is a culture that enspirits workers to excel at fits and finishes, to produce moldings that match and doors that don't sag. It is a culture in which Toyota can use that most sophisticated of management tools, the suggestion box, and in two years increase the number of worker suggestions from under 10,000 to over 1 million with resultant savings of \$250 million.<sup>7</sup>

### **STRONG VERSUS WEAK CULTURES**

Company cultures vary widely in the degree to which they are embedded in company practices and behavioral norms. A company's culture can be weak and fragmented in the sense that many subcultures exist, few values and behavioral norms are widely shared, and there are few traditions. In such cases, organizational members typically have no deeply felt sense of company identity; they view their company as merely a place to work and their job only as a way to make a living. While they may have some feelings of loyalty toward their department, their colleagues, their union, or their boss, they usually have no strong emotional allegiance to the company or its

<sup>6</sup>Ibid., pp. 15-16.

<sup>7</sup>Robert H. Waterman, Jr., "The Seven Elements of Strategic Fit," *Journal of Business Strategy* 2, no. 3 (Winter 1982), p. 70.

business mission. On the other hand, a company's culture can be strong and cohesive in the sense that the company conducts its business according to a clear and explicit set of principles and values, that management devotes considerable time to communicating these principles and values to organizational members and explaining how they relate to its business environment, and that the values are shared widely across the company—by senior executives and rank-and-file employees alike.<sup>8</sup> Strong-culture companies typically have creeds or values statements, and executives regularly stress the importance of using these values and principles as the basis for decisions and actions taken throughout the organization. In strong culture companies values and behavioral norms are so deeply rooted that they don't change much when a new CEO takes over—although they can erode over time if the CEO ceases to nurture them.

Three factors contribute to the development of strategically supportive strong cultures: (1) a founder or strong leader who establishes values, principles, and practices that are consistent and sensible in light of customer needs, competitive conditions, and strategic requirements; (2) a sincere, long-standing company commitment to operating the business according to these established traditions, thereby creating an internal environment that supports decision-making based on cultural norms; and (3) a genuine concern for the well-being of the organization's three biggest constituencies—customers, employees, and shareholders. Continuity of leadership, small group size, stable group membership, geographic concentration, and considerable success all contribute to the emergence of a strong culture.<sup>9</sup>

### LOW-PERFORMANCE OR UNHEALTHY CULTURES

There are a number of unhealthy cultural characteristics that can undermine a company's business performance.<sup>10</sup> One unhealthy organizational trait is a politicized internal environment that allows influential managers to operate their fiefdoms autonomously and resist needed change. In politically dominated cultures, many issues get resolved on the basis of turf, vocal support or opposition by powerful executives, personal lobbying by a key executive, and coalitions among individuals or departments with vested interests in a particular outcome. What's best for the company plays second fiddle to personal aggrandizement.

A second unhealthy cultural trait, one that can plague companies suddenly confronted with fast-changing business conditions, is hostility to change and to people who champion new ways of doing things. Executives who don't value managers or employees with initiative or new ideas put a damper on experimentation and on efforts to improve the status quo. Avoiding risks and not screwing up become more important to a person's career advancement than entrepreneurial successes and innovative accomplishments. This trait is most often found in companies with multilayered management bureaucracies that have enjoyed considerable market success and whose business environments have been hit with accelerating change. General Motors, IBM, Sears, and Eastman Kodak are classic examples; all four gradually became burdened by a stifling bureaucracy that rejected innovation. Now, they are struggling to reinvent the cultural approaches that caused them to succeed in the first place.

A third unhealthy characteristic is promoting managers who understand structures, systems, budgets, and controls better than they understand vision, strategies, inspiration, and culture-building. While the former are adept at solving internal organiza-

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A strong culture is a valuable asset when it matches strategy and a dreaded liability when it doesn't.

<sup>8</sup>Terrence E. Deal and Allen A. Kennedy, *Corporate Cultures* (Reading, Mass.: Addison-Wesley, 1982), p. 22.

<sup>9</sup>Vijay Sathe, *Culture and Related Corporate Realities* (Homewood, Ill.: Richard D. Irwin, 1985).

<sup>10</sup>Kotter and Heskett, *Corporate Culture and Performance*, chapter 6.

tional challenges, if they ascend to senior executive positions, the company can find itself short on the entrepreneurial skills and leadership needed to manage strategic change—a condition that ultimately erodes long-term performance.

A fourth characteristic of low-performance cultures is an aversion to looking outside the company for superior practices and approaches. Sometimes a company enjoys such great market success and reigns as an industry leader for so long that its management becomes inbred and arrogant. It believes it has all the answers or can develop them on its own. Insular thinking, inward-looking solutions, and a must-be-invented-here syndrome often precede a decline in company performance. Kotter and Heskett cite Avon, BankAmerica, Citicorp, Coors, Ford, General Motors, Kmart, Kroger, Sears, Texaco, and Xerox as examples of companies that had low-performance cultures during the late 1970s and early 1980s.<sup>11</sup>

Changing problem cultures is very difficult because of the heavy anchor of deeply held values, habits, and the emotional clinging of people to the old and familiar. Sometimes executives succeed in changing the values and behaviors of small groups of managers and even whole departments or divisions, only to find the changes eroded over time by the actions of the rest of the organization. What is communicated, praised, supported, and penalized by the entrenched majority undermines the new emergent culture and halts its progress. Executives can revamp formal organization charts, announce new strategies, bring in managers from the outside, introduce new technologies, and open new plants, yet fail at altering embedded cultural traits and behaviors because of skepticism about the new directions and covert resistance to altering traditional methods.

### ADAPTIVE CULTURES

In fast-changing business environments, the capacity to introduce new strategies and organizational practices is a necessity if a company is to achieve superior performance over long periods of time.<sup>12</sup> This requires a culture that *helps* the company adapt to environmental change rather than a culture that has to be coaxed and cajoled to change. The hallmarks of an adaptive culture are: (1) leaders who have a greater commitment to timeless business principles and to organizational stakeholders—customers, employees, shareowners, suppliers, and the communities where the company operates—than to any specific business strategy or operating practice; and (2) group members who are receptive to risk-taking, experimentation, innovation, and changing strategies and practices whenever necessary to satisfy the legitimate interests of stakeholders.

In adaptive cultures, members share a feeling of confidence that the organization can deal with whatever threats and opportunities come down the pike. Hence, members willingly embrace a proactive approach to identifying issues, evaluating the implications and options, and implementing workable solutions—there's a spirit of doing what's necessary to ensure long-term organizational success *provided core values and business principles are upheld in the process*. Managers habitually fund product development initiatives, evaluate new ideas openly, and take prudent risks to create new business positions. Entrepreneurship is encouraged and rewarded. Strategies and traditional operating practices are modified as needed to adjust to or take advantage of changes in the business environment. The leaders of adaptive cultures

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Adaptive cultures are a strategy-implementer's best ally.

<sup>11</sup>Ibid., p. 68.

<sup>12</sup>This section draws heavily from Kotter and Heskett, *Corporate Culture and Performance*, chapter 4.

are adept at changing the right things in the right ways, not changing for the sake of change and not compromising core values or business principles. Adaptive cultures are very supportive of managers and employees at all ranks who propose or help initiate useful change; indeed, executives consciously seek, train, and promote individuals who display these leadership traits.

In adaptive cultures, top management genuinely cares about the well-being of all key constituencies—customers, employees, stockholders, major suppliers, and the communities where the company operates—and tries to satisfy all their legitimate interests simultaneously. No group is ignored, and fairness to all constituencies is a decision-making principle—a commitment often described as “doing the right thing.”<sup>13</sup> In less-adaptive cultures where resistance to change is the norm, managers often behave conservatively and politically to protect or advance their own careers, the interests of their immediate work groups, or their pet projects. They avoid risk-taking and prefer following to leading when it comes to technological change and new product innovation.<sup>14</sup>

### CREATING THE FIT BETWEEN STRATEGY AND CULTURE

It is the *strategy-maker's* responsibility to select a strategy compatible with the “sacred” or unchangeable parts of prevailing corporate culture. It is the *strategy-implementer's* task, once strategy is chosen, to change whatever facets of the corporate culture hinder effective execution.

Changing a company's culture and aligning it with strategy are among the toughest management tasks—easier to talk about than do. The first step is to diagnose which facets of the present culture are strategy-supportive and which are not. Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed. The talk has to be followed swiftly by visible actions to modify the culture—actions that everyone will understand are intended to establish a new culture more in tune with the strategy.

**Symbolic Actions and Substantive Actions** Managerial actions to tighten the culture-strategy fit need to be both symbolic and substantive. Symbolic actions are valuable for the signals they send about the kinds of behavior and performance strategy-implementers wish to encourage. The most important symbolic actions are those that top executives take to serve as role models—leading cost reduction efforts by curtailing executive perks; emphasizing the importance of responding to customers' needs by requiring *all* officers and executives to spend a significant portion of each week talking with customers and understanding their requirements; and initiating efforts to alter policies and practices identified as hindrances in executing the new strategy. Another category of symbolic actions includes the events organizations hold to designate and honor people whose actions and performance exemplify what is called for in the new culture. Many universities give outstanding teacher awards each year to symbolize their commitment to and esteem for instructors who display exceptional classroom talents. Numerous businesses have employee-of-the-month awards. The military has a long-standing custom of awarding ribbons and medals for exemplary actions. Mary Kay Cosmetics awards an array of prizes—from ribbons to pink automobiles—to its beauty consultants for reaching various sales plateaus.

<sup>13</sup>Ibid., p. 52.

<sup>14</sup>Ibid., p. 50.

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Awards ceremonies, role models, and symbols are a fundamental part of a strategy-implementer's culture-shaping effort.

The best companies and the best executives expertly use symbols, role models, ceremonial occasions, and group gatherings to tighten the strategy-culture fit. Low-cost leaders like Wal-Mart and Nucor are renowned for their Spartan facilities, executive frugality, intolerance of waste, and zealous control of costs. Executives sensitive to their role in promoting strategy-culture fits make a habit of appearing at ceremonial functions to praise individuals and groups that "get with the program." They honor individuals who exhibit cultural norms and reward those who achieve strategic milestones. They participate in employee training programs to stress strategic priorities, values, ethical principles, and cultural norms. Every group gathering is seen as an opportunity to implant values, praise good deeds, reinforce cultural norms, and promote changes that assist strategy implementation. Sensitive executives make sure that current decisions and policy changes will be construed by organizational members as consistent with and supportive of the company's new strategic direction.<sup>15</sup>

In addition to being out front personally and symbolically leading the push for new behaviors and communicating the reasons for new approaches, strategy-implementers have to convince all those concerned that the effort is more than cosmetic. Talk and plans have to be complemented by substantive actions and real movement. The actions taken have to be credible, highly visible, and unmistakably indicative of the seriousness of management's commitment to new strategic initiatives and the associated cultural changes. There are several ways to accomplish this. One is to engineer some quick successes that highlight the benefits of strategy-culture changes, thus making enthusiasm for the changes contagious. However, instant results are usually not as important as having the will and patience to create a solid, competent team psychologically committed to pursuing the strategy in a superior fashion. The strongest signs that management is truly committed to creating a new culture include: replacing old-culture traditionalist managers with "new breed" managers, changing long-standing policies and operating practices that are dysfunctional or that impede new initiatives, undertaking major reorganizational moves that bring structure into better alignment with strategy, tying compensation incentives directly to the new measures of strategic performance, and making major budgetary reallocations that shift substantial resources from old-strategy projects and programs to new-strategy projects and programs.

At the same time, chief strategy-implementers must be careful to *lead by example*. For instance, if the organization's strategy involves a drive to become the industry's low-cost producer, senior managers must display frugality in their own actions and decisions: Spartan decorations in the executive suite, conservative expense accounts and entertainment allowances, a lean staff in the corporate office, scrutiny of budget requests, and so on. The CEO of SAS Airlines, Jan Carlzon, symbolically reinforced the primacy of quality service for business customers by flying coach instead of first class and by giving up his seat to waitlisted travelers.<sup>16</sup>

Implanting the needed culture-building values and behavior depends on a sincere, sustained commitment by the chief executive coupled with extraordinary persistence in reinforcing the culture at every opportunity through both word and deed. Neither charisma nor personal magnetism are essential. However, personally talking to many departmental groups about the reasons for change *is* essential; organizational changes are seldom accomplished successfully from an office. Moreover, creating and sustaining a strategy-supportive culture is a job for the whole management team. Major

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Senior executives must personally lead efforts to align culture with strategy.

<sup>15</sup>Judy D. Olian and Sara L. Rynes, "Making Total Quality Work: Aligning Organizational Processes, Performance Measures, and Stakeholders," *Human Resource Management* 30, no. 3 (Fall 1991), p. 324.

<sup>16</sup>*Ibid.*

cultural change requires many initiatives from many people. Senior officers, department heads, and middle managers have to reiterate values, “walk the talk,” and translate the organization’s philosophy into everyday practice. In addition, for the culture-building effort to be successful, strategy-implementers must enlist the support of firstline supervisors and employee opinion-leaders, convincing them of the merits of practicing and enforcing cultural norms at the lowest levels in the organization. Until a big majority of employees join the new culture and share an emotional commitment to its basic values and behavioral norms, there’s considerably more work to be done in both instilling the culture and tightening the culture-strategy fit.

The task of making culture supportive of strategy is not a short-term exercise. It takes time for a new culture to emerge and prevail; it’s unrealistic to expect an overnight transformation. The bigger the organization and the greater the cultural shift needed to produce a culture-strategy fit, the longer it takes. In large companies, changing the corporate culture in significant ways can take three to five years at minimum. In fact, it is usually tougher to reshape a deeply ingrained culture that is not strategy-supportive than it is to instill a strategy-supportive culture from scratch in a brand new organization.

### ESTABLISHING ETHICAL STANDARDS AND VALUES

A strong corporate culture founded on ethical business principles and moral values is a vital driving force behind continued strategic success. Many executives are convinced that a company must care about *how* it does business; otherwise a company’s reputation, and ultimately its performance, is put at risk. Corporate ethics and values programs are not window dressing; they are undertaken to create an environment of strongly held values and convictions and to make ethical conduct a way of life. Morally upstanding values and high ethical standards nurture the corporate culture in a very positive way—they connote integrity, “doing the right thing,” and genuine concern for stakeholders.

Companies establish values and ethical standards in a number of different ways.<sup>17</sup> Companies steeped in tradition with a rich folklore to draw on rely on word-of-mouth indoctrination and the power of tradition to instill values and enforce ethical conduct. But many companies today set forth their values and codes of ethics in written documents. Table 11-1 indicates the kinds of topics such statements cover. Written statements have the advantage of explicitly stating what the company intends and expects, and they serve as benchmarks for judging both company policies and actions and individual conduct. They put a stake in the ground and define the company’s position. Value statements serve as a cornerstone for culture-building; a code of ethics serves as a cornerstone for developing a corporate conscience. Illustration Capsule 33 presents the Johnson & Johnson Credo, the most publicized and celebrated code of ethics and values among U.S. companies. J&J’s CEO calls the credo “the unifying force for our corporation.” Illustration Capsule 34 presents the pledge that Bristol-Myers Squibb makes to all of its stakeholders.

Once values and ethical standards have been formally set forth, they must be institutionalized and ingrained in the company’s policies, practices, and actual conduct. Implementing the values and code of ethics entails several actions:

- Incorporation of the statement of values and the code of ethics into employee training and educational programs.

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An ethical corporate culture has a positive impact on a company’s long-term strategic success; an unethical culture can undermine it.

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Values and ethical standards must not only be explicitly stated but they must also be ingrained into the corporate culture.

<sup>17</sup>The Business Roundtable, *Corporate Ethics: A Prime Asset*, February 1988, pp. 4-10.

T A B L E 11-1 | Topics Generally Covered in Value Statements and Codes of Ethics

Topics Covered in Values Statements	Topics Covered in Codes of Ethics
<ul style="list-style-type: none"> <li>• Importance of customers and customer service</li> <li>• Commitment to quality</li> <li>• Commitment to innovation</li> <li>• Respect for the individual employee and the duty the company has to employees</li> <li>• Importance of honesty, integrity, and ethical standards</li> <li>• Duty to stockholders</li> <li>• Duty to suppliers</li> <li>• Corporate citizenship</li> <li>• Importance of protecting the environment</li> </ul>	<ul style="list-style-type: none"> <li>• Honesty and observance of the law</li> <li>• Conflicts of interest</li> <li>• Fairness in selling and marketing practices</li> <li>• Using inside information and securities trading</li> <li>• Supplier relationships and purchasing practices</li> <li>• Payments to obtain business/Foreign Corrupt Practices Act</li> <li>• Acquiring and using information about others</li> <li>• Political activities</li> <li>• Use of company assets, resources, and property</li> <li>• Protection of proprietary information</li> <li>• Pricing, contracting, and billing</li> </ul>

**ILLUSTRATION CAPSULE 33****THE JOHNSON & JOHNSON CREDO**

- We believe our first responsibility is to the doctors, nurses, and patients, to mothers and all others who use our products and services.
- In meeting their needs everything we do must be of high quality.
- We must constantly strive to reduce our costs in order to maintain reasonable prices.
- Customers' orders must be serviced promptly and accurately.
- Our suppliers and distributors must have an opportunity to make a fair profit.
- We are responsible to our employees, the men and women who work with us throughout the world.
- Everyone must be considered as an individual.
- We must respect their dignity and recognize their merit.
- They must have a sense of security in their jobs.
- Compensation must be fair and adequate, and working conditions clean, orderly, and safe.
- Employees must feel free to make suggestions and complaints.
- There must be equal opportunity for employment, development, and advancement for those qualified.
- We must provide competent management, and their actions must be just and ethical.
- We are responsible to the communities in which we live and work and to the world community as well.
- We must be good citizens—support good works and charities and bear our fair share of taxes.
- We must encourage civic improvements and better health and education.
- We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.
- Our final responsibility is to our stockholders.
- Business must make a sound profit.
- We must experiment with new ideas.
- Research must be carried on, innovative programs developed, and mistakes paid for.
- New equipment must be purchased, new facilities provided, and new products launched.
- Reserves must be created to provide for adverse times.
- When we operate according to these principles, the stockholders should realize a fair return.

Source: 1982 Annual Report.

## ILLUSTRATION CAPSULE 34

**THE BRISTOL-MYERS SQUIBB  
PLEDGE****To those who use our products . . .**

We affirm Bristol-Myers Squibb's commitment to the highest standards of excellence, safety, and reliability in everything we make. We pledge to offer products of the highest quality and to work diligently to keep improving them.

**To our employees and those who may join us . . .**

We pledge personal respect, fair compensation, and equal treatment. We acknowledge our obligation to provide able and humane leadership throughout the organization, within a clean and safe working environment. To all who qualify for advancement, we will make every effort to provide opportunity.

**To our suppliers and customers . . .**

We pledge an open door, courteous, efficient, and ethical dealing, and appreciation for their right to a fair profit.

**To our shareholders . . .**

We pledge a companywide dedication to continued profitable growth, sustained by strong finances, a high level of research and development, and facilities second to none.

**To the communities where we have plants and offices . . .**

We pledge conscientious citizenship, a helping hand for worthwhile causes, and constructive action in support of civic and environmental progress.

**To the countries where we do business . . .**

We pledge ourselves to be a good citizen and to show full consideration for the rights of others while reserving the right to stand up for our own.

**Above all, to the world we live in . . .**

We pledge Bristol-Myers Squibb to policies and practices which fully embody the responsibility, integrity, and decency required of free enterprise if it is to merit and maintain the confidence of our society.

Source: 1990 Annual Report.

- Explicit attention to values and ethics in recruiting and hiring to screen out applicants who do not exhibit compatible character traits.
- Communication of the values and ethics code to all employees and explaining compliance procedures.
- Management involvement and oversight, from the CEO down to firstline supervisors.
- Strong endorsements by the CEO.
- Word-of-mouth indoctrination.

In the case of codes of ethics, special attention must be given to sections of the company that are particularly sensitive and vulnerable—purchasing, sales, and political lobbying.<sup>18</sup> Employees who deal with external parties are in ethically sensitive positions and often are drawn into compromising situations. Procedures for enforcing ethical standards and handling potential violations have to be developed.

The compliance effort must permeate the company, extending into every organizational unit. The attitudes, character, and work history of prospective employees must be scrutinized. Every employee must receive adequate training. Line managers at all levels must give serious and continuous attention to the task of explaining how the values and ethical code apply in their areas. In addition, they must insist that company values and ethical standards become a way of life. In general, instilling values and insisting on ethical conduct must be looked on as a continuous culture-building,

<sup>18</sup>Ibid, p. 7.

culture-nurturing exercise. Whether the effort succeeds or fails depends largely on how well corporate values and ethical standards are visibly integrated into company policies, managerial practices, and actions at all levels.

### **BUILDING A SPIRIT OF HIGH PERFORMANCE INTO THE CULTURE**

An ability to instill strong individual commitment to strategic success and to create an atmosphere in which there is constructive pressure to perform is one of the most valuable strategy-implementing skills. When an organization performs consistently at or near peak capability, the outcome is not only improved strategic success but also an organizational culture permeated with a spirit of high performance. Such a spirit of performance should not be confused with whether employees are “happy” or “satisfied” or whether they “get along well together.” An organization with a spirit of high performance emphasizes achievement and excellence. Its culture is results-oriented, and its management pursues policies and practices that inspire people to do their best.

Companies with a spirit of high performance typically are intensely people-oriented, and they reinforce their concern for individual employees on every conceivable occasion in every conceivable way. They treat employees with dignity and respect, train each employee thoroughly, encourage employees to use their own initiative and creativity in performing their work, set reasonable and clear performance expectations, utilize the full range of rewards and punishment to enforce high-performance standards, hold managers at every level responsible for developing the people who report to them, and grant employees enough autonomy to stand out, excel, and contribute. To create a results-oriented organizational culture, a company must make champions out of the people who turn in winning performances:<sup>19</sup>

- At Boeing, General Electric, and 3M Corporation, top executives make a point of ceremoniously honoring individuals who believe so strongly in their ideas that they take it on themselves to hurdle the bureaucracy, maneuver their projects through the system, and turn them into improved services, new products, or even new businesses. In these companies, “product champions” are given high visibility, room to push their ideas, and strong executive support. Champions whose ideas prove out are usually handsomely rewarded; those whose ideas don’t pan out still have secure jobs and are given chances to try again.
- The manager of a New York area sales office rented the Meadowlands Stadium (home field of the New York Giants) for an evening. After work, the salespeople were all assembled at the stadium and asked to run one at a time through the players’ tunnel onto the field. As each one emerged, the electronic scoreboard flashed the person’s name to those gathered in the stands—executives from corporate headquarters, employees from the office, family, and friends. Their role was to cheer loudly in honor of the individual’s sales accomplishments. The company involved was IBM. The occasion for this action was to reaffirm IBM’s commitment to satisfy an individual’s need to be part of something great and to reiterate IBM’s concern for championing individual accomplishment.
- Some companies upgrade the importance and status of individual employees by referring to them as Cast Members (Disney), crew members (McDonald’s), or

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A results-oriented culture that inspires people to do their best is conducive to superior strategy execution.

<sup>19</sup>Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence* (New York: Harper & Row, 1982), pp. xviii, 240, and 269, and Thomas J. Peters and Nancy Austin, *A Passion for Excellence* (New York: Random House, 1985), pp. 304–7.

associates (Wal-Mart and J. C. Penney). Companies like Mary Kay Cosmetics, Tupperware, and McDonald's actively seek out reasons and opportunities to give pins, buttons, badges, and medals for good showings by average performers—the idea being to express appreciation and give a motivational boost to people who stand out doing “ordinary” jobs.

- McDonald's has a contest to determine the best hamburger cooker in its entire chain. It begins with a competition to determine the best hamburger cooker in each store. Store winners go on to compete in regional championships, and regional winners go on to the “All-American” contest. The winners get trophies and an All-American patch to wear on their shirts.
- Milliken & Co. holds Corporate Sharing Rallies once every three months; teams come from all over the company to swap success stories and ideas. A hundred or more teams make five-minute presentations over a two-day period. Each rally has a major theme—quality, cost reduction, and so on. No criticisms and negatives are allowed, and there is no such thing as a big idea or a small one. Quantitative measures of success are used to gauge improvement. All those present vote on the best presentation and several ascending grades of awards are handed out. Everyone, however, receives a framed certificate for participating.

What makes a spirit of high performance come alive is a complex network of practices, words, symbols, styles, values, and policies pulling together that produces extraordinary results with ordinary people. The drivers of the system are a belief in the worth of the individual, strong company commitment to job security and promotion from within, managerial practices that encourage employees to exercise individual initiative and creativity in doing their jobs, and pride in doing the “itty-bitty, teeny-tiny things” right. A company that treats its employees well generally benefits from increased teamwork, higher morale, and greater employee loyalty.

While emphasizing a spirit of high performance nearly always accentuates the positive, there are negative reinforcers too. Managers whose units consistently perform poorly have to be removed. Aside from the organizational benefits, weak-performing managers should be reassigned for their own good—people who find themselves in a job they cannot handle are usually frustrated, anxiety-ridden, harassed, and unhappy.<sup>20</sup> Moreover, subordinates have a right to be managed with competence, dedication, and achievement. Unless their boss performs well, they themselves cannot perform well. In addition, weak-performing workers and people who reject the cultural emphasis on dedication and high performance have to be weeded out. Recruitment practices need to aim at selecting highly motivated, ambitious applicants whose attitudes and work habits mesh well with a results-oriented corporate culture.

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## EXERTING STRATEGIC LEADERSHIP

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The litany of good strategic management is simple enough: formulate a sound strategic plan, implement it, execute it to the fullest, win! But it's easier said than done. Exerting take-charge leadership, being a “spark plug,” ramrodding things through, and getting things done by coaching others to do them are difficult tasks. Moreover, a strategy manager has many different leadership roles to play: chief entrepreneur and strategist, chief administrator and strategy-implementer, culture builder, supervisor,

<sup>20</sup> Peter Drucker, *Management: Tasks, Responsibilities, Practices* (New York: Harper & Row, 1974), p. 457.