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Culture and strategic leadership

A look at how and why corporate leaders often determine the successes and failures of an organization.

Organizational culture is created by the strategic leadership provided by an organizations founder or top management. As I observed before, and then reverified during my doctorate peer-reviewed literature research, an organization's founder is particularly important in determining culture because the founder imprints values and management styles on the organization that lasts for a long time. This may be good for a certain period but it can also be stifling over the long haul.

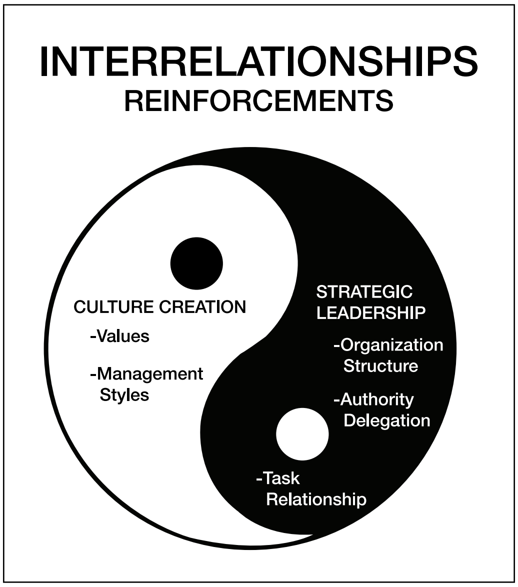
For example, Walt Disney's conservative influence on the company he established continued until well after his death. Managers were afraid to experiment with new forms of entertainment because they were afraid Walt wouldn't like it. It took the installation of new management under Michael Eisner to turn around the company's fortunes and allow it to deal with the realities of the new entertainment industry environment.

The leadership style established by the founder—or top management—is transmitted to the company's managers, and as the company grows, it typically attracts new managers and employees who share the same values. Thus, a company's culture becomes more and more distinct as its members become more similar. The virtue of these shared values and common culture is that it increases integration and improves coordination among organizational members. For example, the common language that typically emerges in an organization because people share the same beliefs and values facilitates cooperation among managers. When organizational members buy into cultural norms and values, this dynamic bonds them to the organization and increases their commitment to find new ways to help it succeed.

Strategic leadership affects organizational culture as well, through the way managers design organizational structure, that is, the way they delegate authority and divide up task relationships. Michael Dell, for example, keeps his organization as flat as possible and has decentralized authority to lower-level managers and employees who are charged with striving to get as close to the customer as they can. The result has been to create a cost-conscious customer service culture at Dell in which employees strive to provide high-quality customer service. Therefore, the way an organization designs its structure reinforces (or not) the affect on the created culture norms and values.

The interrelationships that reinforce each other are probably best illustrated with the familiar Yin and Yang symbol which depicts the dependency each side of the equation has on the other *(see "Interrelationships Reinforcements" chart below)*.

Our research shows that the arena of most leadership difficulty lies between the initial business vision, implementation and culture



development, and the point of needed change. Sustainability of a business depends on many leadership decision-making elements, none more important than recognizing when the business needs to change direction to continue to be viable.

Viability applies to both a business as well as to us human beings. Human beings vary in their ability to stay viable over a long stretch of time and circumstance changes. If one considers a business organization as a living, breathing organism, like a human, it must constantly re-examine and redefine itself as industries and markets change in order to remain sustainable.

Adrian J. Slywotzky, in his book, *Value Migragtion*, discusses the "Three Stages of Value Migration" of a product and/or a business *(see "The Three Stages of Value Shift" chart at right)*. In the first stage there is usually limited competition, high growth and high profits. In stage two there is stable competition, stable market shares and stable margins. However, in the third stage competitive intensity exists, declining sales and low profits prevail. In the paint and coatings industry, too many of our products are already in or rapidly approaching this third stage—Value Outflow. Reasons are many but one of the key reasons has to be a lack of vision among leaders.

Speaking very simplistically, when an entire business is at the end of the Value Stability stage and near the cusp of the beginnings of Value Outflow it is time for a leadership change.

There is no standard model of how a company should respond to a decline in its profitability and market position. Indeed, there can be no such model because every situation is unique unto itself. However, in most successful turnaround situations, a number of common features are present and include changing leadership, changing strategy and changing the organization to enhance the successful implementation of the new strategy.

Because the past leadership bears the stigma of failure, new leadership is an essential element of most successful turnarounds. Often, the new leader is from the outside. New leadership from the outside may be necessary because the existing managers have been socialized into the long-established cultural ways of operating within the company and might find it difficult to see how things might be done differently. To resolve a crisis, the new leader should be able to make difficult decisions, motivate lower-level managers, listen to the views of others and delegate power when appropriate.

A company's strategy and organization changes must also be made along with its leadership. These latter two important changes will be addressed in the next Business Corner column. ***CW***

The Three Stages of Value Shift