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Preface

It is increasingly recognized by researchers, practitioners, and managers alike that corporate culture is of critical importance to organizational success.[1] Even though this is the case, there are many organizations where the corporate culture is not managed, and in some cases the concept is not even understood.

Corporate Culture: The Invisible Strategic Asset

For some companies—such as Google, Southwest Airlines, Johnson & Johnson, and many others described in this book—a strong positive culture is a true asset, if not in the strict accounting sense then in the real economic sense. Flamholtz (one of the authors of this book) has suggested that culture actually is an asset or form of organizational human capital in the accounting sense as well.[2] At the other extreme, are companies—such as GM, Reuters, AIG, and others to be described throughout this book—where corporate culture is a true economic liability, not in the technical accounting sense but in the colloquial sense of this term.

This dichotomy (asset or liability) and the critical importance of corporate culture is shown clearly in the case of two companies: Starbucks Coffee Company and General Motors. The former is a classic entrepreneurial success story with a strong positive culture that is an economic asset; the latter is a classic case of corporate decline attributable at least in part to a dysfunctional culture, lacking in entrepreneurship behavior for decades, even as its decline persisted.

Although its significance is recognized, the concept of corporate culture as well as how to manage it in a practical way in organizations has remained tantalizingly elusive. There is a substantial amount of literature on the concept of corporate culture, but much of it can be described as academic or theoretical. The focus tends to be on the concept of corporate culture as a social-psychological construct or as a dimension of organizational health.[3] The literature does not fully recognize the importance of culture as a driver of financial performance and as a component of corporate strategy. Further, little emphasis is placed on providing a systematic practical method for managing culture as a key dimension of corporate performance. As a result, there is a serious gap in the exiting literature.

Purpose of This Book

This book is intended to build on and complement, while at the same time fill the gap in, the existing literature. It is based on a different perspective from previous, competing books. Specifically, it views culture as a driver or determinant of corporate financial performance (the so-called bottom line) and as a source of sustainable competitive advantage. This book offers a theoretically sound but practical (user-friendly) method for managing corporate culture.

In brief, the rationale for this book, its ultimate goals, and its content orientation are different from the existing literature. Accordingly, this book:

1. Explains why corporate culture is a critical factor in organizational success and failure, a key driver or determinant of the bottom line of financial performance of business enterprises, and a critical source (and possibly the ultimate one) of sustainable competitive advantage in organizations (that is, a stealth competitive weapon)
2. Presents methods for measuring corporate culture to facilitate its management
3. Describes the current state-of-the-art in corporate culture management as well as the limitations, challenges and opportunities associated with developing this field
4. Offers a framework for understanding corporate culture

5. Identifies the five elements of corporate culture determined by empirical research to be the key drivers of organizational performance[4]
6. Introduces a six-step framework (model) for management of corporate culture as an ongoing process
7. Provides a set of tools for managing corporate culture in actual organizations

Throughout this book, we present examples of companies that are dealing with the issues involved with managing corporate culture and identify the lessons that can be learned from their experiences—that is, how they have used or are using the specific tools to identify, communicate, and reinforce their culture.

Overview

The focus of *Corporate Culture: The Ultimate Strategic Asset* is to help people actually manage corporate culture. It is not just a treatise about corporate culture. In this book, we instruct managers and students in how to manage corporate culture as a source of competitive advantage and as a means of influencing the bottom line of financial performance. We also give in-depth examples describing what actual companies do to manage their corporate culture.

The book is organized into three parts. Part I discusses the nature and importance of corporate culture, presents a framework for better understanding culture, and describes a process for managing it. Part II deals with management of the key dimensions of corporate culture, identified through our own empirical research and practical experience. Part III focuses on culture management leadership, including the important roles that senior executives and those in the human resource function need to play.

Part I: The Role of Corporate Culture and Culture Management in Organizational Success

Part I contains three chapters. Together, they constitute a foundation for understanding and managing corporate culture.

Chapter 1 deals with the concept of corporate culture and the many reasons it is a critical aspect of organizational performance—with special emphasis on its role as a source of sustainable strategic advantage and a key factor that has an impact on the financial success of business enterprises.

Together, Chapters 2 and 3 are designed to present a theoretically sound, but practical (usable), framework for management of corporate culture. In Chapter 2, we (1) define corporate culture operationally, (2) identify the key dimensions of corporate culture, (3) examine how to identify what a company's culture really is, and (4) present a method for measuring corporate culture. The chapter also includes a case study illustrating how organizations can use the culture measurement methods presented as a practical tool. It contains a technical appendix summarizing research using the measurement methods and showing that culture affects financial performance. Chapter 3 describes a systematic (six-step) process for managing corporate culture and presents a set of culture management tools. It also examines the need for culture management at different stages of organizational growth.

Part II: Management of the Key Dimensions of Corporate Culture

The second part consists of six chapters. Chapters 4 through 8 each deal with one of the five key dimensions of culture—customer orientation, employee (or people) orientation, performance standards and accountability, innovation and openness to change, and company process orientation. Each chapter draws on several examples of actual companies and how they accomplish management of these factors. Chapter 9 is titled "The Dark Side of Corporate Culture"; it deals with examples of dysfunctional cultures. This set of chapters also illustrates how the various tools for culture management (identified and described in Chapter 3) have actually been used by companies.

Part III: Leading Culture Management and Transformations

The third part is one final chapter, focusing on the process of culture management and change from the perspective of senior leadership, as well as the human resource function. We also examine the need for cultural transformation in response to overall changes in company size (growth-related changes), vision changes, and changes due to business combinations (mergers and acquisitions).[5]

Our Approach and Perspective

The approach underlying this book is based on a combination of inputs. Our perspective is infused, of course, by prior research and writing in this field. There have been some very important contributions to the literature of culture management prior to our book.[6] In addition to the usual sources of academic literature on this topic, there are frequently useful insights to be obtained from in-depth articles about actual companies found in professional magazines (such as *Fortune* and *Barron's*). Sometimes, this literature is actually more grounded in reality than academic literature is; but both serve a useful purpose. To a great extent, our approach and perspective are based on our own research, our personal experience in managing our own firm, and our experience as consultants helping companies understand, define, and manage their corporate culture.[7]

Corporate Culture: A True Invisible Asset

Corporate culture: you cannot see it, touch it, smell it, taste it, or hear it, but it is there. It pervades all aspects of organizational life, and it has a profound impact on organizational success and failure. If managed effectively, it is a real economic asset. If managed ineffectively or allowed to deteriorate, it can become a true economic liability and even lead to organizational failure.

As we shall see, management of corporate culture is quite complex. But there are clear examples of companies that have mastered the process of culture management. We show that corporate culture can have a significant impact on various aspects of organizational operations. We also show how companies can master aspects of corporate culture management and create competitive advantage as well as enhance their bottom line. We will also see that if culture management is done well, then a company will reap significant rewards.

For these companies, large and small, wherever they are located in the world, in whatever industries they operate, corporate culture is a true asset. And as an invisible asset, it is a significant source of their competitive advantage as well as a contributor to their long-term success.

It is our hope that this book will help companies and their leaders better understand how to master the process of culture management and transform their culture into a true invisible asset and source of sustainable competitive advantage.

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Although we acknowledge with gratitude the contribution of all those cited, we remain responsible for the book and its imperfections.

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Corporate Culture

Part I

The Role of Corporate Culture and Culture Management in Organizational Success

1 Corporate Culture
The Invisible Asset

Scholars, students, and practitioners of organizational studies are faced with a variety of "corporate enigmas"—strange organizational phenomena that, at least on the surface, require some special explanation. Specifically:

- How does a little company headquartered in Bentonville, Arkansas, become one of the largest retailers in the world, with more than $400 billion in sales?
- How does a company selling a commodity product that has existed for centuries grow from $122 million in sales to more than $5 billion in slightly more than a decade, and more than $12 billion in two decades?
- How does a small company in Texas with all the cards stacked against it—whose business plan was created on a napkin—grow into one of the largest and most profitable players in its market?
- How does a company with an odd, unbusinesslike name come out of nowhere in the competitive environment of Silicon Valley to challenge the behemoth Microsoft and replace it as the leader in the Internet space?
- How does a company retain its vitality for more than one hundred years when virtually all of its peers of a century ago have disappeared?
- How does a company with a dominant market position (more than 42 percent market share) fall from grace over a period of twenty years and face the abyss of failure?

- How does a company that has developed a carefully nurtured reputation for quality over a period of more than fifty years suddenly have it tarnished by serious product defects that were known to management but concealed from customers?[1]

Corporate Culture: An Invisible Strategic Asset

The answer in all these cases, we believe, is attributable to something that is very real but invisible to the naked eye. It is not magic but something that, under the best of circumstances, works much like organizational magic. The answer is the invisible asset (or liability!) of corporate culture.[2]

In the case of the little company from Bentonville, Walmart has grown to be a retailing colossus. In his book *The Wal-Mart Way*, Don Soderquist, former vice chairman and chief operating officer, of Walmart, now retired, attributes its success to the company's culture.[3] Similarly, both Howard Schultz, founder and chairman of Starbucks Coffee Company; and Howard Behar, former president of Starbucks International, have attributed their company's astounding success to its culture rather than its coffee.[4] Southwest Airlines recognizes that corporate culture has been a key ingredient to success and the ability to remain profitable, even in the face of significant challenges. As stated in their 2008 report "Southwest Cares: Doing the Right Thing," "It is the Southwest Culture that sets us apart."[5] Other airlines went bankrupt in the aftermath of September 11, 2001, or as a result of the financial crisis that began in the fall of 2008, but Southwest remained profitable[6] and consistently ranked in the top ten on *Fortune* magazine's "Most Admired Companies" lists.

The company from Silicon Valley with the odd, unbusinesslike name of Google has become the leader in the Internet space through its search engine technology. However, a key to the continuous development of that technology is the talent and creativity of its people. As one article aptly stated, "The secret of Google's success is its way of turning talented engineers into an extraordinarily creative team."[7] Google attracts its talent because of its culture. As a result of its special culture, Google is recognized as one of the best companies to work for.[8]

Almost unbelievably, GE is one of only two companies that were among the most successful at the beginning of the twentieth century that are still highly successful today. The company's success has also been attributed to corporate culture.[9] GE's cultural values emphasize creating a clear, simple, reality-based, customer-focused vision; a passion for excellence; and not just acceptance of change but initiation of it.

General Motors, which was once the undisputed leader and apotheosis of business greatness, has fallen from grace and is now in a battle for its very survival. Many people attribute this to the insularity of the GM culture, and its unwillingness to look beyond the boundaries of Grosse Pointe, Michigan. While GM was in decline, one of the chief beneficiaries was Toyota. For more than fifty years, Toyota burnished its image and reputation as a manufacturer of high-quality automobiles and strived to surpass GM and become the biggest automaker in the world. However, beginning around 2008 some of Toyota's automobiles experienced a "sudden acceleration problem" that led to a significant decline in the company's exquisite reputation and its sales as well. In a public apology, the president of Toyota explained that the company's managers were distracted from adhering to "the Toyota Way"—the cultural values and principles instilled by the company's founders—by the drive to become the biggest automaker in the world and by the push to increase manufacturing in North America.[10]

Like bacteria or X-rays or other invisible phenomena, corporate culture is real but difficult to observe. In spite of this invisibility, it has a profound impact on organizational success and failure;[11] it can be a true strategic asset and sometimes a toxic liability.[12] Throughout the remainder of this book, we describe in more depth how the culture of the companies identified here (and others) had a significant positive or not-so-positive impact on organizational success.

Corporate Culture: An Introduction

During the past few decades, the term *corporate culture* has become widely used in business. It is now well recognized that corporate culture is a significant aspect of organizational health and performance.[13] Explicitly or implicitly, it is presumed that corporate culture affects a company's overall financial performance.

Although its significance is recognized, the concept of corporate culture as well as how to manage it in a practical way in organizations have remained tantalizingly elusive. As a result, several important questions arise:

- What is corporate culture?
- How is it manifested (how can we see it) in organizations?
- Why is it important?
- What are the key aspects of corporate culture?
- How can it be managed?
- What tools are available to help manage corporate culture?

All of these questions and others related to this topic are addressed in this book in the following chapters. In Chapter 1, we begin by addressing the first three of these issues: What is culture? How is it manifested? Why is it important?

What Is Corporate Culture?

The concept of corporate culture has become embedded in management vocabulary and thought.[14] Although there are many definitions of the concept, the central notion is that culture relates to core organizational values.[15] In a very real sense, corporate culture can be thought of as a company's "personality." Every organization—regardless of size—has a culture that influences how people behave, in a variety of areas, such as treatment of customers, standards of performance, innovation, etc.

How Is Culture Manifested in Organizations?

Culture is manifested almost everywhere in an organization, if we know where to look for it. It is reflected in the words and language people use in communicating with one another. For example, a company with a language rich in acronyms can communicate that the company values efficiency. At the same time, though, it can signal that there are barriers to cultural entry; one needs to know the language to understand what is being discussed.

Culture is also manifested in the artifacts that are in (and on display in) the company's facilities. Everything in an organization—from coffee cups to artwork—contains a cultural message, whether explicitly intended or not. A simple coffee cup can be quite valuable to the person who owns it, if it was given for a reason that has meaning and purpose to the individual and to everyone in the company.

In brief, culture is manifested in everything from the cultural statements on posters to the furnishing of the office and to the art that adorns the walls. Sometimes, the culture of a company is obvious and clearly visible, as in the treatment we receive as customers and the artifacts we see that support this focus on customer service. Sometimes, a company's culture is subtler and needs to be "read."

Clear and Explicit Cultural Messages

Cultural messages may be clear and explicit, as in formal statements of culture. The Johnson & Johnson Credo is posted on the walls of subsidiaries such as Neutrogena and LifeScan; it is clearly meant to be absorbed by employees as well as observed by visitors.

Another clear but very different type of message about the importance of culture is found at Google, the quirky Silicon Valley company that has become a powerhouse in Internet search and caused mighty Microsoft to try to purchase its rival Yahoo! In 2006, Google's co-founders, Larry Page and Sergey Brin, decided to establish the position of "chief culture officer," currently held by Stacy Savides Sullivan, who is also director of human resources. The very existence of this position is a clear statement about the importance of corporate culture at Google. Sullivan's mission is to retain the company's culture as it grows, and keep the "Googlers" (the term used by the company to refer to its employees) happy.

At Southwest Airlines, a number of mechanisms are used to help reinforce and make the company's values real to all employees. There is a Culture Committee with 120 members and a number of alumni. Each cultural ambassador (team member) serves a three-year term and works as a member of the team to communicate and find ways to reinforce the company's culture. The company's blog frequently presents a description of this committee's activities. In addition, the company's website, written publications, and facilities (including the airplanes) all include statements of the company's values, whether presentation of the written values statement, recognition of the "Star of the Month" (in the company's *Spirit* magazine), or the heart that is present on every employee's shirt.

Implicit Cultural Messages

Sometimes you are literally surrounded by cultural symbols or icons of the organization, reflecting the company's identity but not containing an explicit message. For example, walking the halls at the Disney offices in Burbank or Glendale, California, you see the Disney characters (Mickey and Minnie, Goofy, Donald Duck, and all their compatriots) everywhere—as stuffed animals, in glass and plastic replicas, in pictures, and on posters. Similarly, the hallways of *Architectural Digest* are lined with framed covers from issues of the magazine. The halls of Pardee Homes, headquartered in Los Angles, are adorned with pictures of the houses and communities developed by the company. The offices of many investment bankers or venture capital firms in Silicon Valley contain various symbols of companies that were taken public. The boardroom of Citation Corporation, headquartered in Birmingham, Alabama, has framed pictures of people working in the foundries located throughout the United States. All of these are reminders of a company's business identity.

Cryptic Cultural Messages

Cultural messages may also be clearly visible, but subtler in meaning. Many U.S. company boardrooms boast art or statuary—expensive symbols of the stature of the company. However, in the boardroom of Melvin Simon & Associates (now Simon Properties), the largest shopping center (mall) developer in the country, there was displayed a picture of an old man and an old woman.[16] It was not artwork, but more like a family portrait, something one would see in a home rather than a boardroom. In fact, it was a picture of the parents of the founders and leaders of the company (Mel, Herb, and Fred Simon). The message, if somewhat cryptic, was a strong, implicit culture (values) statement: We are the Simons. We know who we are; and we assume you know who we are. We value family and where we came from; and we do not need to try to impress you. Needless to say, we were impressed by this message.

A "Cultureless Culture"

Although culture is everywhere and in everything, in some companies there are few clues about what the culture is: no culture statement, no pictures pertaining to the history of the business, no hint of what line of business the company is in. This is characteristic of a company whose culture is ill-defined (almost a "nonculture culture"), one devoid of obvious cultural symbols. This usually occurs by happenstance, rather than design. It is a marker of a company that does not recognize the importance of culture to people, whether to members of the organization or to those with whom they do business.

But the notion of a "cultureless" company is an illusion. Just as an individual must have a personality, a company must have a culture, even though it *appears not to exist. A company that appears cultureless is actually a company with a weak or ill-defined culture.* Nevertheless, we are using the term *cultureless* to characterize a special kind of organization that *seems* devoid of culture.

A Typology of Culture

All companies can be viewed as belonging to a few classic cultural types. Some have murky cultures, which are ill-defined and not clear to observers or employees. Others have well-defined cultures with specific statements of core values that all employees embrace and live by. This section provides a brief typology based on two key variables that can be used to classify culture: *cultural strength* and *cultural functionality*. Cultural strength refers to whether a culture is strong or weak (as explained below). Cultural functionality refers to whether a culture is functional or dysfunctional.

Strong and Weak Cultures

Companies differ in the extent to which they are effective in defining, communicating, and managing their culture. Companies where there is a clearly defined culture, where time is invested in communicating and reinforcing this culture, and where all employees are behaving in ways consistent with this culture are defined as having a strong culture.[17] Simply having a values statement is not enough to have a strong culture; the values need to be communicated in both words and actions, and they need to be reinforced. A strong culture is one that people clearly understand and can articulate.[18] A weak culture is one that employees have difficulty defining, understanding, or explaining. The culture may not have been defined, or it is not being actively managed. As a result, employees are left to interpret the company's values for themselves, which sometimes results in the company having not one but many cultures.

Cultural Functionality

Strong company cultures can be positive (an asset) or negative (a liability). If the company's values are constructive and support its goals, then having a strong culture is an asset. We define this as a functional culture. If the company's values are negative or dysfunctional, then having a strong culture will be a liability.

The culture at Ford Motor Company in the late 1960s and 1970s is a good illustration of a dysfunctional culture. The informal culture at Ford during the late 1960s and early 1970s was captured in a statement often made among employees: "If you can get it to drive out the door, we can sell it!" This was not a formal corporate pronouncement, of course, but a statement prevalent in conversations around the company. It contained an implicit disrespect for the customer and suggested that working to achieve high quality products was not important. The lack of focus on quality and reliability was also reflected in how customers talked about the company. Many customers said Ford stands for "Fix or Repair Daily." Ford later made the pronouncement that "Quality is Job One"—a clear response to the damage that had been done to its brand. Unfortunately, it took some time to overcome the perception of poor quality in customers' minds. This is an example of a strong dysfunctional culture in action.

In contrast, the Four Seasons Hotel chain is a good example of a strong, functional culture with respect to customer service. The Four Seasons trains its employees to stop what they are doing and escort "guests" to their desired destination whenever the latter ask for directions to someplace in the hotel, such as a ballroom, meeting room, or restaurant. Employees live the culture of customer service, and customers see it in action.

A culture can also be weak and functional, or weak and dysfunctional. In companies with weak functional cultures, employees behave in a way that supports achievement of company goals, but there is no overall understanding of the company's true personality because the culture is not being actively managed. Employees may understand that the customer is important, but they may have quite different interpretations of how to treat the customer. To overcome this problem, people must be trained or told how to treat customers under various situations. Dave Gold, the founder and now chairman of 99 Cents Only Stores (a NYSE-listed company with more than 250 stores and $1.5 billion in revenues), emphasizes to "99ers" that when they need to give a refund to a customer "it should be done with a smile and not a frown."

In companies with weak dysfunctional cultures, there is no consistent understanding of what the culture is, and employees' behavior significantly detracts from the company's overall effectiveness and ability to achieve its goals. Even though U.S. automakers such as Ford are trying to reestablish their reputation for quality, one of the authors who owned a Jaguar automobile at the time heard a service person at the car dealership refer to the car with a smirk as a "Jagataurus," a reference to the fact that the Jaguar was built on the platform for a Ford Taurus. This was an expensive car, and it was being demeaned (degraded) by an employee of the dealership that sold it. We are sure that neither the Jaguar dealership in Los Angeles nor Ford Motor would be pleased at this employee's comment, which denoted disrespect for the car, and probably also for the buyer.[19] We also believe that it is unlikely that either Ford or the dealership had engaged in culture management training to ensure that employees would avoid making such damaging comments.

Culture Typology Matrix

The two factors of strength and functionality can be brought together to create a culture typology matrix. This tool can be used to identify the type of culture present in a company, with the "best" type of culture being strong and functional. A sample culture typology matrix, with companies of each type, is shown in Exhibit 1.1.

	Functional	Disfunctional
Strong	Starbucks GE Southwest Airlines	Ford GM PowerBar
Weak	Amgen Toyota	A19 Kodak

Exhibit 1.1. Culture typology matrix.

Real vs. "Nominal" Cultures

What is presented in a values or culture statement is not necessarily what the real culture is within a company. We refer to formal statements of a company's culture as the "nominal" or "stated" culture. This is, in brief, what a company wants its culture to be. The real culture, by contrast, consists of the values, beliefs, and norms that actually influence employee behavior. A company can state that it values treating all employees as "assets" but then fail to invest in their development. Similarly, a company can talk about its most important assets as being its people, but then treat them poorly. These are examples of lack of alignment between the nominal (stated) and real cultures. Another company—like Southwest Airlines—might have an explicit statement of the value placed on meeting customer needs that is very much a reality for all of its employees. This value is reinforced through, among other things, constant communication with and feedback to employees, standards of performance relative to customer service, and recognition of those employees who achieve outstanding results in terms of meeting customer needs.

Why Is Culture Important?

As we shall explain in detail below, culture is not only manifested throughout virtually everything in an organization; it is of critical importance to all organizations. We believe that, if managed correctly, *culture might well be the ultimate strategic asset and competitive weapon for most companies.*

At the most fundamental level, culture is thought to be important because it is hypothesized to have an impact on organizational performance. The basic paradigm underlying the notion that culture affects performance is based on a few key ideas. The first is that culture affects goal attainment. More specifically, companies with strong cultures are more likely to achieve their goals than those with relatively weak cultures. So-called strong-culture organizations are thought to have a higher degree of organizational success (measured in market value or other financial measures of performance) because of a believed link to motivation. As stated by John Kotter and James Heskett, strong cultures are often said to help business performance because they create an unusual level of motivation in employees.[20]

There are, in fact, several specific reasons corporate culture is of vital importance in an organization:

- Culture does influence organizational success.
- Culture is a strategic asset (a source of competitive advantage), and it can even be the ultimate source of sustainable competitive advantage.
- Culture functions as "organizational glue," especially in siloed organizations.
- Culture affects financial performance.
- Culture is a driver or strategic building block of organizational success.
- Culture influences the success of people in organizations.
- Culture is a more important factor than "strategic fit" in mergers and acquisitions.

We shall examine each of these aspects of the importance of culture in turn, below.

Culture and Organizational Success

An increasing number of highly successful organizations have, at least in part, attributed their success to effective culture management. Among them are Starbucks Coffee, Google, and Walmart, to cite just three.[21]

Starbucks Coffee Company

Starbucks Coffee has grown from just two retail stores in Seattle to more than twenty-five hundred stores worldwide. Starbucks has accomplished this with a commodity product that has been around for quite some time: coffee.

Starbucks views culture as a critical factor in the organization's success.[22] Specifically, the company's paradigm is that "the way we treat our people affects the way our people treat our customers, and, in turn, our success, which includes financial performance." This belief has led the company to a number of human resource practices that are designed to enhance people's feeling of being valued by the company. Two examples are widespread use of stock options and the practice of offering full benefits to all employees who work more than twenty hours per week.

Howard Behar, former executive vice president of operations for Starbucks and president of Starbucks International, has stated very clearly in his book about the company that its success is not about the coffee![23] According to Behar (whose book is, in fact, entitled *It's Not the Coffee!*), the company's success is based on the leadership and culture of Starbucks. Similarly, Howard Schultz, the founder, chairman, and CEO of Starbucks, has stated that much of the company's success is attributable to culture. When asked about the secret to Starbucks' success, Schultz has said: "When people ask me about the reasons for Starbucks success, I tell them not what they expect to hear. I tell them that it was the people at Starbucks and the way we managed them that was the true differentiating factor."[24]

Google

Google has become the undisputed leader in the Internet space through its search engine technology. However, a key to the continuous development of that technology is the talent and creativity of its people, which in turn is influenced by the company's culture. As a result of its special culture, Google has become recognized as one of the best companies to work for, and this attracts talent—a truly virtuous circle.

Early in Google's history, Brin and Page recognized the importance of corporate culture. They instilled a trio of distinctive core values:

1. Don't be evil.
2. Technology matters.
3. We make our own rules.

Though stated provocatively, the first value refers to integrity and fair treatment of customers. As "Google's Statement of Philosophy" indicates, "We never manipulate rankings to put our (advertising or content) partners higher in our search results. No one can buy better PageRank. Our users trust Google's objectivity, and no short-term gain could ever justify breaking that trust."[25] The second value, concerning technology, is self-explanatory. The third value, about Google making its own rules, refers to various unorthodox practices. For example, Google auctioned its IPO shares rather than the traditional approach of allocating them on the basis of an underwriter's discretion. The company also refused to furnish earnings guidance to Wall Street, which, though not a unique practice, was not common.

In part, these values seemed to be related to the personalities of the founders, Page and Brin, who were not traditional corporate types but rather more like Silicon Valley entrepreneurial types in the tradition of Jerry Yang of Yahoo! and Pierre Omidyar of eBay. In part, Google's stated values also seemed to be an attempt to create the antithesis of the then-dominant player in software, Microsoft, which some wags termed "the evil empire" and which (in spite of its dominant market position) was not known for excellence in its technology. Page and Brin seemed to be creating the culture of a company that might be termed the "anti-Microsoft." In fact, Google has been able to attract talent because of its culture and some of this talent has come from former members of Microsoft.

To reinforce their commitment to culture, Page and Brin (as noted above) created the position of chief culture officer at Google. The mission of this position is to retain the company's culture as it grows and to keep the Googlers happy. The intent of this is to increase the likelihood that the company's culture remains a strategic advantage for Google.

Walmart

In his book *The Wal-Mart Way*, Soderquist attributes the company's success to its culture, which is labeled "the Wal-Mart Way."[26] As he states it, "The Wal-Mart Way is not about stores, clubs, distribution centers, trucks, or computers. These tangible assets are all crucial ingredients in the company's business plan, but the real story of success is about people." It is about how Walmart treats its people and customers. This is what makes up the culture or core values of Walmart.

The culture of Walmart consists of three key values, captured in these statements:

- We treat everyone with respect and dignity.
- We are in business to satisfy our customers.
- We strive for excellence in all that we do.[27]

These values are the cultural foundation of Walmart.[28] On the surface, they are relatively simple concepts or precepts. They are things that could have been (and sometimes are) stated by other companies as well. However, they have been the springboard for an unbelievable success story: in 2009, Walmart became the largest company in the world, with $408 billion in revenue.

Walmart vs. K-Mart: Financial Performance

To demonstrate the power of culture as a factor in success, compare the performance of Walmart with the company that (at least on the surface) is its "identical" competitor, K-Mart. There is virtually no product that Walmart has that K-Mart does not have. They sell the same things: Johnson's Baby Powder, Allegan lens solution, Colgate toothpaste, etc. They both have the same kinds of stores, and they operate in similar locations. They market to the same customers. They recruit employees from the same pool of people. Yet in spite of these similarities, one of them (Walmart) has produced vastly different financial results for investors from the other.

As seen in Exhibits 1.2 and 1.3, if we examine the financial return to investors measured in terms of stock price, Walmart and K-Mart have highly contrasting results. For the decade of the 1990s, the stock price of K-Mart almost doubled. An original investment of $10,000 would have been worth almost $20,000 by 1999. Not a bad return, but less than what might be expected. During the same period, an investment in Walmart of $10,000 in 1990 would have grown, by the end of the decade, to approximately $280,000! This is an astounding difference, especially because these companies are not like Microsoft or Amgen, with their proprietary intellectual property. Walmart and K-Mart are selling essentially the same commodities, but with vastly divergent results.

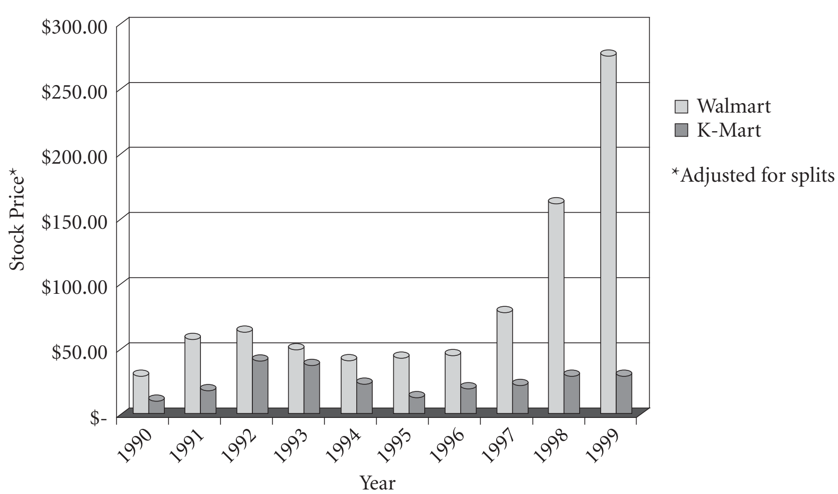

Exhibit 1.2. Walmart vs. K-Mart, 1990s.