International Review of Entrepreneurship 7(3): 175-194.
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The Management of Corporate Culture in Entrepreneurial Firms

Eric G. Flamholtz and Yvonne Randle,
Anderson School of Management, UCLA and Management Systems Consulting Corporation, USA

Abstract. It has been recognized that corporate culture is of critical importance to organizational success. For some companies, a strong positive culture is a true "asset." For others, their corporate culture is a true economic "liability." Given its role in organizational success and failure, scholars and practicing managers must understand the nature, functioning, evolution and management of corporate culture, especially in entrepreneurial firms. Although the importance of culture has been recognized, a systematic framework for its management has remained elusive. This article takes steps towards this objective. It addresses several key issues: What is "corporate culture"? Why is it important? How does culture manifest itself in organizations? What are the different "types" of cultures? What are the key aspects of corporate culture? How is created in entrepreneurial companies? How does culture evolve, "mutate" or change? What are some of the special cultural challenges facing entrepreneurial firms? How can corporate culture be managed?

Keywords: corporate culture; culture management; key cultural dimensions; entrepreneurial culture transformation crisis.

1. Introduction

It has been increasingly recognized that corporate culture is of critical importance to organizational success. For some companies, a strong positive culture is a true "asset," if not in the strict accounting sense, then in the real economic sense.[1] For others, their corporate culture is a true economic "liability" not in the accounting sense, but in the colloquial sense of that term.

This dichotomy and 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, while the latter is a classic case of corporate decline attributable at least in part to a dysfunctional culture, lacking in entrepreneurial behavior for decades even as its decline persisted.

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1. Flamholtz (2005) has proposed that corporate culture is an asset in the accounting sense. See Eric Flamholtz, (2005), "Conceptualizing and measuring the economic value of human capital of the third kind: Corporate culture", *Journal of Human Resource Costing and Accounting,* 9(2): 78-93.

1.1. Starbucks Coffee Company: The Essence of an Entrepreneurial Culture

For many people, Starbucks Coffee Company is an enigma. How does a company rise from nothing to become the dominant force in its space with a commodity product that has been around of centuries if not millennia? When asked to explain the success of Starbucks, one of the great entrepreneurial success stories of the last twenty years, Howard Schultz, founder and CEO, has stated that: "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."[2] Similarly, Howard Behar, former Executive VP of Operations for Starbucks and President of Starbucks International, has stated very clearly in his book about Starbucks that the company's success is not about the coffee![3]

1.2. General Motors: The Apotheosis of Anti-Entrepreneurship

If Starbucks is the essence of entrepreneurship, then General Motors might be the apotheosis of anti-entrepreneurship. The decline and recent bankruptcy of General Motors, *once the most profitable company in the world* with a dominant market share of more than 50% of the passenger car market, has been attributed to, at least in part, its stagnant bureaucratic culture. The CEO of the "new" GM, which has just emerged from bankruptcy, has pledged the end of business as usual, and changes in the company's culture.

1.3. Purpose

Given the role of corporate culture in success of companies like Starbucks, and its equally important role in the decline of companies like General Motors, it is critical that scholars, students of management and practicing managers understand the nature, functioning, evolution and management of corporate culture, especially in entrepreneurial firms. Although the importance of culture has been recognized, a systematic framework for its management has remained elusive.

Our purpose is to provide a framework and related research that will help relevance audiences understand and manage corporate culture in firms as they grow from new entrepreneurial ventures to established companies, while ideally retaining the entrepreneurial spirit. This paper is based upon a combination of

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2. Howard Schulz, Video (1994), Boston, MA: Harvard Business Publishing: Product No. 994515.
3. Howard Behar with Janet Goldstein (2008), "It's Not About the Coffee", Portfolio.

practical experience in working with many companies dealing with culture and related issues as well as formal empirical research.[4]

1.4. Organization

We will first review the major literature on corporate culture in order to position our framework within that context. We will then focus upon several related issues about corporate culture: what is "corporate culture"? Why is it important? How does culture manifest itself in organizations? What are the different "types" of cultures? What are the key aspects of corporate culture? How is created in entrepreneurial companies? How does culture evolve, "mutate" or change? What are some of the cultural challenges facing entrepreneurial firms? How can corporate culture be managed? Each of these questions and others related to this topic are addressed in this article. We do not propose to have all of the answers, but we do believe we can provide a lens that will enhance the likelihood of successfully managing corporate culture as a company grows.

2. Related Prior Research on Culture Evolution and Management[5]

Our review of prior research and literature is structured a little differently for the conventional approach for reasons explained below. In this section, we review *related* prior literature on corporate culture in terms of certain key themes, such as the role of culture, the impact of culture on financial performance, and culture at different stages of growth. To some extent, we also note the extent to which we agree or disagree with its conclusions, and how our approach to the evolution of culture and culture management differs from other existing frameworks. However, since this is not intended as a state of the art paper, we do not propose to do a comprehensive literature review. Instead, we will focus on some of the major frameworks that discuss culture evolution and management in the organizational literature; but focus upon those that are related, at least in part, to our approach.

2.1. Classic Concept of Culture as a Control Mechanism

The classic concept that culture is a control mechanism through which organizations, achieve superior financial performance has been suggested by previous researchers (e.g. Deal & Kennedy, 1982; Flamholtz, 1996; Peters &

4. We are currently working on a book on this topic under contract to Stanford University Press.
5. We are indebted to Rangapriya Kannan-Narasimhan, PhD Candidate, Anderson School, UCLA, for assistance in the research for the preparation of this section.

Waterman, 1982). In addition, organizational culture has been viewed as the starting point for the design of an organization's control system (Flamholtz, 1996).

2.2. Culture as a Source of Competitive Advantage

It has also been argued that organizational cultures which are valuable, rare and inimitable are a source of sustained competitive advantage for firms (Barney, 1986). Our forthcoming book strongly supports this notion.[6]

2.3. Culture as a Driver of Financial Performance

Research by Kotter and Heskitt (1992) provided some of the first empirical evidence of a statistically significant relationship between culture and financial performance.[7] Their intent was to test the prevailing assumption of a link between "strong" cultures and superior financial performance. In their cross sectional research study, they selected 207 firms from 22 different US industries.[8] Using a survey they constructed "culture strengths" indices. They then calculated measures of economic performance for their sample of companies. These included: 1) average yearly increases in net income, 2) average yearly increases in return on investment, and 3) average yearly increases in stock prices. Then they examined the relationship between the performance measures and the culture strength measure. They found a positive correlation between corporate culture and long-term economic performance. They stated: "Within the limits of methodology, we conclude from this study that there is a positive relationship between strength of corporate culture and long term economic performance."[9]

In another different type of empirical research study, Flamholtz (2001) found that culture can account for as much as 46% of "EBIT" (Earnings Before interest and Taxes).[10] The intent of his study was to determine whether corporate culture has a significant impact on financial performance. However, the study by Flamholtz differed from the prior research by Kotter's and Heskett in that it utilizes data from a single company with 15 operating divisions, as opposed to cross sectional data.

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6. Eric Flamholtz and Yvonne Randle, Op. Cit, 2009.
7. Kotter J. and Heskitt J. (1992), *Corporate Culture and Performance*, New York, NY: The Free Press.
8. For a detailed discussion of their methodology, see Kotter and Heskitt (1992), pp.18-20.
9. Kotter and Heskitt, *ibid,* p. 21.
10. Flamholtz, E. (2001), "Corporate Culture and the Bottom Line", *European Management Journal*. 19(3): 268-275.

2.4. Types of Organizational Cultures

Cameron and Quinn (1999), using "the competing values map" have classified organizational cultures into clan culture, adhocracy culture, market culture and hierarchy culture. These classifications are based on two dimensions: 1) stability and control versus flexibility and discretion, 2) internal focus and integration versus external focus and differentiation. While clan and adhocracy cultures value flexibility and discretion, market and hierarchy cultures emphasize stability and control. Similarly while clan and hierarchy cultures focus on internal focus and integration, adhocracy and market cultures emphasize external focus and differentiation.

2.5. Key Cultural Dimensions

Cameron and Quinn (1999) have developed an organizational culture assessment instrument ("OCAI") which has six categories through which organizations are profiled along these cultural dimensions. The six categories are: 1) dominant organizational characteristics, 2) leadership style, 3) management of employees, 4) organizational glue, 5) strategic emphasis, and 6) criteria for success. Cameron and Quinn (1999) did *not* study the relationship between these hypothesized factors and financial performance, as was done in the study described below.

Based upon empirical research and factor analysis, Flamholtz (2001) and Flamholtz and Kannan-Narasimhan (2005) identified five areas of organizational culture which have a statistically significant relationship to financial performance. These areas are: (1) customer orientation, (2) orientation toward employees, (3) standards of performance, (4) accountability, and (5) innovation or commitment to change. In contrast to Quinn and Cameron, the emphasis in this model is on the relationship between these cultural factors and financial performance. We have been able to identify the exact areas which impact an organizations financial performance.

2.6. Culture Management Frameworks

There are three primary frameworks for culture management: Kotter (1996), Cameron and Quinn (1999), and Flamholtz (2000); Flamholtz and Randle (2007). Kotter (1996) suggests an eight-stage process of in which organizational culture can be managed and changed. These "steps" include: 1) establishing a sense of urgency, 2) creating the guiding coalition, 3) developing a vision and strategy, 4) communicating the change vision, 5) empowering broad-based action, 6) generating short term wins, 7) consolidating gains and producing more change, and 8) anchoring new approaches in the culture.

Cameron and Quinn (1999) propose a process in which organizations map their current culture to their preferred culture. Then strategies are mapped to change the company's current culture to the preferred one. Quinn and Cameron (1999) identify three different cultural "states" of conditions: 1) the current organizational culture as perceived by the employees; 2) the desired organizational culture as envisioned by the employees; and 3) the required organizational culture as envisioned by management. Organizations must first "map" their current culture to the preferred desired culture. Then strategies are mapped to change the company's current culture to the preferred one.

Flamholtz (2001) proposed a five-step framework: 1) describe the current culture, 2) define the desired culture, 3) identify cultural gaps, 4) develop culture management plan, and 5) monitor cultural changes.

The Cameron and Quinn and Flamholtz framework are most similar to each other. Both are more operationally oriented than the Kotter framework, which includes a combination of actual "steps" and "principles." Establishing and creating the guiding coalition is a process step and so is "developing a vision and strategy," "empowering broad-based action," "generating short term wins," and "consolidating gains and producing more change" which are criteria for success or principles rather than steps in a systematic process.

2.7. Towards an Integrative Framework for Culture Management

Although there has been a considerable amount of research and conceptual thinking in culture management, we are still lacking an integrative framework to guide management practice. The two other culture management frameworks – Cameron and Quinn and the Kotter model address organizational culture in isolation. Organizations cannot manage or change cultures in isolation. Organizational cultures are impacted by several variables such as the market that the organization is in, the products and services they provide, their operational and production constraints. Thus a "one size fits all" culture management framework cannot lead to efficient culture management among organizations. Our framework addresses this gap in theory and practice of organizational culture management.

The model suggested by us is integrative in the sense that it proposes culture as a part of an organization's ecosystem. We propose that an organization's culture is a part of an organization's overall framework that includes markets, products and services, resources, operational systems and management systems. Furthermore the existing cultural models provide a static perspective of culture management. For example the Cameron and Quinn model suggests how to move the organizational culture from the current stage to the future stage *at a given point in time* for a particular organizational size. Our model proposes a dynamic perspective of how to manage culture through the growth cycle of an organization since the challenges faced by organization change through the different stages. These two features distinguish our framework from others that look at organizational culture in isolation from a static perspective. In contrast, we provide a dynamic comprehensive perspective which is rooted in the organization's ecosystem. The purpose of the remainder of this paper is to provide our effort toward the development of a systematic framework for culture management, with a special emphasis upon the issues and needs of entrepreneurial firms.

3. The Concept of Corporate Culture

The concept of corporate culture has become embedded in management vocabulary and thought. Although there are many different definitions of the concept, the central notion is that culture relates to core organizational values. In turn, values are things which are important to organizations and underpin decisions and behavior. All organizations have cultures or sets of values which influence the way people behave in a variety of areas, such as treatment of customers, standards of performance, innovation, etc.

To us, corporate culture consists of "values," "beliefs," and "norms" which influence the thoughts and actions (behavior) of people in organizations. Values are the things an organization considers most important with respect to its operations, its employees, and its customers. These are the things an organization holds most dear – the things for which it strives and the things it wants to protect at all costs. Beliefs are assumptions individuals hold about themselves, their customers, and their organization. Norms are unwritten rules of behavior that address such issues as how employees dress and interact. Norms help "operationalize" actions which are consistent with values and beliefs.

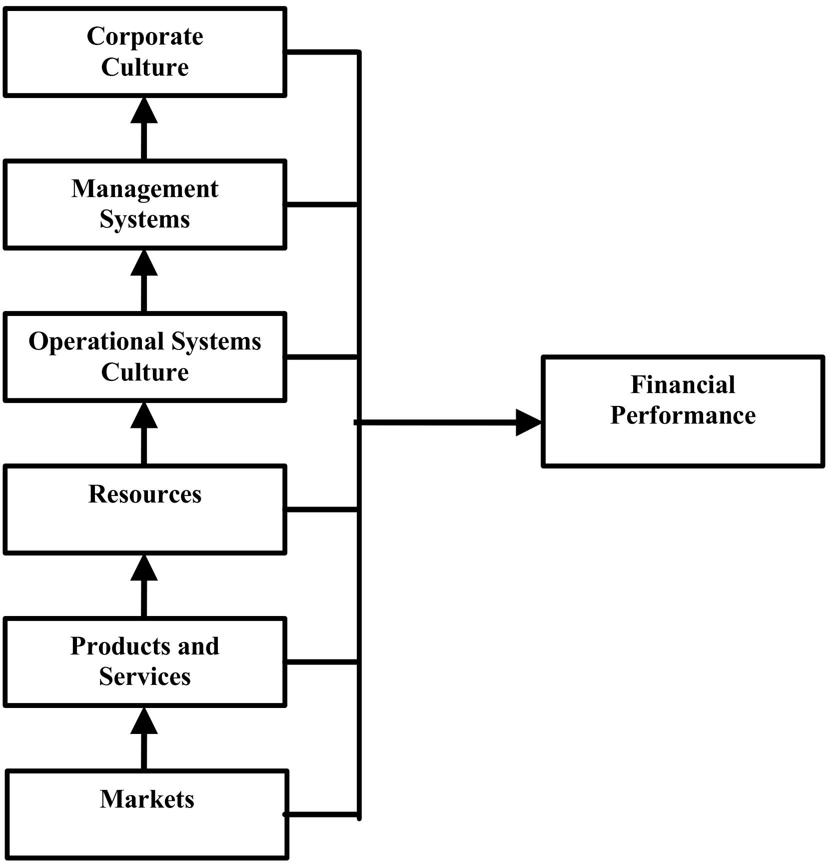
Values, beliefs, and norms, are the key components or elements of corporate culture. These three elements of culture are actually part of an overall mosaic of culture in an organization. They are not necessarily all visible either in isolation or in combination.

There are actually several levels or layers of culture in an organization. There is the surface layer which is what we see and observe, mostly in the norms of behavior on a day to day basis. Then there are the core values and related beliefs or assumptions which drive or underlie the behavioral norms. However, below that is what might be termed a set of "cultural attributes," which are the "DNA" of culture. These cultural attributes are dimensions of "corporate personality." These are things such as attitudes towards risk, or ethics; propensity towards planning (or not!), systems, processes; attitudes towards professionalism, or entrepreneurialism, or even bureaucracy. These underlying cultural attributes drive the core beliefs, values, and norms which constitute the most observable level of culture.

3.1. Culture is a Strategic Building Block of Organizations

In addition to the relationship between culture and financial performance, culture also has come to be viewed as a component of other organizational effectiveness or success models.[11] It has been theorized that the role of culture, as part of a six factor framework, explains organizational effectiveness and, in turn, financial performance.[12] This is shown schematically in Exhibit 1. Specifically, culture has been viewed as a critical organizational development area, or key strategic building block, of successful organizations. This framework has, in turn, been supported by further empirical research.[13]

Exhibit 1: Strategic Building Blocks of Organizations and Drivers of Financial Performance



11. Flamholtz and Randle (1999); (2001); see also Eric G. Flamholtz (2002/03), "Towards an Integrative Theory of Organizational Success and Failure: Previous Research and Future Issues", *International Journal of Entrepreneurship Education*, 1(3): 297-319.
12. Flamholtz (1995); Flamholtz and Randle (2007).
13. Flamholtz and Aksehirli (2000).

3.2. How Culture is Manifest in Organizations

Culture is manifest almost everywhere in organizations, if we know where to look for it. Sometimes it is obvious and clearly visible. Sometimes it is subtle and needs to be "read." Culture is manifest in the "words and language" people use in communicating with one another and in the "artifacts" that are in the offices or plants.

Virtually everything in an organization from coffee cups to art work contains a cultural message, whether explicitly intended to be or not! Culture is manifest in everything from the cultural statements in posters on the wall to the furnishing of the office and to the art (or of lack of it) that adorns the walls.

3.3. Clear and Explicit Cultural Messages

Sometimes cultural messages are clear and explicit, and take the form of a formal statement of culture. For example, the J & J (Johnson and Johnson) Credo is posted on the walls of subsidiaries such as Neutrogena and LifeScan, and is clearly meant to be seen as well as observed. 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 and purchase its rival Yahoo! In 2006, Google's co-founders Larry Page and Sergy Brin decided to establish a "Chief Culture officer", a position 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, which has been ranked by Fortune Magazine as the best place in the U.S. to work. Sullivan's mission is to retain the company's culture as it grows and to keep the "Googlers" happy.

3.4. Implicit Cultural Messages

Sometimes you are literally surrounded by cultural symbols or icons of the organization, without an explicit message, but a constant reminder of the company's identity. For example, walking the halls at Disney offices in Burbank or Glendale California the Disney characters (Mickey and Minnie; Goofy; Donald Duck and all of their counterparts) are seen everywhere as stuffed animals, in glass and plastic replicas, in pictures and posters. Similarly, the hallways of Architectural Digest are lined with framed covers from the magazines. The halls of Pardee Homes, headquartered in Los Angles, California contains 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 which were taken public. The Boardroom of Citation Corporation headquartered in Birmingham, Alabama contains framed pictures of people working in the company's foundries located throughout the U. S. All of these are reminders of the company's business identity.

3.5. Cryptic Cultural Messages

Sometimes cultural messages are clearly visible but more subtle in meaning. For example, if you walk in to the Board Room of most companies there might be art or statuary, expensive symbols of the stature of the company. However, in the Boardroom of Melvin Simon & Associates (now Simon Properties), now the largest shopping center (Mall) developer in the U.S., there was a picture of an old man and an old woman prominently displayed.[14] It was not an art picture but more like a family portrait, something one would see in a home rather than a Board room. 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 with grand artwork."

3.6. A Typology of Culture

Although there are countless companies, they can be viewed as comprising a few different classic types. Some have murky cultures, which are ill-defined and not clear to observers or members. Others have well-defined cultures with specific statements of core values. This section provides a brief typology based upon two key variables that can be used to classify cultures: "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."

3.7. "Strong" and "Weak" Cultures

Companies differ in the extent to which they make an attempt to "manage" their cultural messages (statements, pictures, icons, etc.). Organizations that take the time to make explicit statements about their culture and display cultural icons tend to have "strong" cultures. The intention is to have people understand and embrace the company's history and culture. A "strong" culture is one that people clearly understand and can articulate.[15]

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14. Simon Properties is the developer of the largest shopping mall in the U.S., The Mall of America, located in suburban Minneapolis.

When a company is devoid of obvious cultural artifacts, it is typically a weak culture company. A "weak culture is one that people will have difficulty in defining, understanding, or explaining what the culture is."

3.8. A "Cultureless Culture"

Although culture is everywhere and in everything, sometimes you enter organizations where it is not easy to determine what business they are in. In such environments, the décor is plain, almost non-descript. There are no clues to suggest what the business does: no culture statements, no pictures about the business, no hint of what business the company is in. This is characteristic of a company whose culture is so ill-defined (almost a "non-culture culture"), a culture devoid of obvious cultural symbols, that it is the apotheosis of a weak culture. It usually occurs by happenstance rather than design. It is a marker of a company that does not recognize the importance of culture to people, either to members of the organization or to those whom they do business with.

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.* It is not possible for an organization to have no culture, just as it is not possible for a person to have no personality. Nevertheless, we are using the term to characterize a special kind of organization that *seems* devoid of culture.

3.9. Cultural Functionality

Strong culture companies can be either positive (an asset) or negative (a liability). If the company's values are constructive, then having a strong culture is an asset. If the company's values are negative or dysfunctional, then having a strong culture will be a liability. For example, the informal culture at Ford Motor Company during the late 1960s and early 1970s was captured in the statement made among employees that: "if you can get it to drive out the door, we can sell it!" This was not a formal corporate pronouncement, but a statement that was prevalent in conversations at the company. It was a statement that contained an implicit lack of respect for the customer, and suggested the lack of importance of true product quality. Although Ford later made the pronouncement that "Quality is Job 1," this was clearly a response to damage to its brand when customers realized that Ford products had declined in quality. In contrast, Toyota has steadily increased its customer loyalty and overcome the once prevailing view that products "made in Japan" were of inferior quality. It has accomplished this

15. Strong cultures can be either positive or negative.

by a culture that emphasizes "perfection" in the customer experience from the product to the sales process and the service process as well (Liker and Hoseus, 2008).

4. The Key Dimensions of Corporate Culture

We believe that while many aspects of culture are important. However, typically most attempts (actually almost all we have seen) to define and manage a culture are based upon ad hoc statement of core values that have "face validity" (intuitively "make sense") to organizations and entrepreneurs. These typically consist of lists of key words or phrases that seem reasonable or meaningful. For example, one company stated that '"our core values are 'professionalism,' 'integrity,' 'hard work,' 'teamwork', and 'results.'" Another used phrases such as "every penny counts," "doing more with less," "the best idea wins," and "working managers."

Although on the surface this seems to be a reasonable approach, there are two significant problems with this "method" of deriving a set of core values. First, it is lacking in empirical (predicative) validity. How do we know that these asserted values are meaningful or relevant to performance and organizational success? Second, how do we know that these are what the key core values ought to be? To answer these questions, we have been engaged in empirical research designed to identify the key dements in of culture than companies ought to be managing.

Based upon our own original research and experience in working with organizations, we have identified five key aspects of culture which *have a statistically significant relationship to financial performance*.[16] These areas are: (1) customer orientation, (2) orientation toward employees, (3) standards of performance, (4) accountability, and (5) innovation or commitment to change. Although we have reviewed the literature of culture management, we have not found any other set of variables that have been identified as empirically related to (drivers of) financial performance. All other variables are proposed with face validity rather than empirical validity. Admittedly, this is difficult research to do, and requires a "special research site." This is why our empirical research is unique. This uniqueness has been recognized in the legal arena. Specifically, in a legal case involving corporate culture at Wal-Mart, this research on the relationship between cultural dimensions and financial performance was the only research cited in the legal proceedings.[17]

In addition, we have conducted factor analytic studies which have supported the validity of the proposed five factor framework. Each of these dimensions is described briefly below.

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16. Flamholtz (2001), Flamholtz and Kannan-Narasimhan (2005), Flamholtz and Randle (2008).
17. Cited in Beth Dukes et al., vs. Wal-Mart Stores, Inc. Ninth Circuit US Court of Appeals, Nos. 04-16688 and 04-16720, December 6, 2004, p. 16.

4.1. Customer-Client Orientation

The importance attached to how the company views its customers or clients as well as the assumptions employees hold about the nature of their customers and clients can have a profound impact on how the company operates and thus on its success.

Some companies have been very effective at developing and communicating to their employees their values with respect to customers. Employees at Disneyland, for example, refer to their customers as "guests." The word was chosen carefully to send a message to Disneyland employees about the company's customer orientation. It is intended to have an impact on the way employees interact with customers and, in fact, employees are trained to make customers feel "at home." The goal is customer satisfaction, which hopefully will encourage them to return to the park in the future.

Southwest Airlines is another company that has, throughout its history, effectively managed its culture with respect to treatment of customers. The culture promotes having "fun" and was built on "Luv" (a play on the airfield where the company was borne). Customers who travel this air line, which offers "no frills, low cost" travel, experience the caring first hand – from check in to baggage claim. Flight attendants have been known to play games in flight (like who has the most pennies) and to sing songs. This airline has also won the airline industry's highest customer satisfaction award six years in a row (all the time remaining highly profitable).

4.2. People (Employee) Orientation

The second critical cultural area is the view people hold about themselves and others within the organization itself. Again, as was true with customer orientation, there are two components to the value: how people are viewed with respect to their roles within the firm and how important people feel. Some companies devote a great deal of effort to satisfying employee needs and making them feel valued. At the extreme, these organizations develop a strong competitive team spirit that is directed at other companies and even at departments within the same company. At the other end of the spectrum are those companies in which employees are viewed as replaceable. Somewhere in between are companies where some employees are considered valuable assets (by themselves and everyone else) but where other employees are considered ''second class citizens".

4.3. Performance Standards

Performance standards include things like what and how much employees are held accountable for, the level of quality expected in products, and the expected level of customer satisfaction. When organizations have high performance standards which are embedded in the culture it can have a profound impact upon people's behavior. For example, the culture at Ford Motor Company in the late 1960s and early 70s is captured by the statement: "If you can get it to drive out the door, we can sell it!" Unfortunately this culture was not just prevalent at Ford, but at all of the U.S. car manufacturers. Is it a surprise that Toyota is now the number 1 car manufacturer in the world and that the U.S. car manufacturers are fighting to avoid bankruptcy?

4.4. Accountability

Another key aspect of culture is "accountability." Unfortunately, there are many examples of companies in which accountability is not explicitly part of the culture. There is a special problem with "accountability" in Italy, because there is no word for this concept in the Italian language![18]

4.5. Commitment to Change and Innovation

The fifth major cultural element is how a company views and reacts to change, including innovation. Growing organizations that embrace change as a "way of life" tend to experience less difficulty in making the required transitions. Those, in which change is viewed as threatening, tend to experience sometimes significant problems.

5. Creation of Corporate Culture in Entrepreneurial Companies

How is culture created in entrepreneurial companies? Culture in entrepreneurial companies is derived from its founder or founders. The personal professional values of the founder(s) comprise the "DNA" of the culture of the company during its initial stages. If the founder is a perfectionist, then the performance standards for the company will be all about perfection. If the founder is hyper critical, then the culture will take on a critical character.

Typically, there is no systematic statement of corporate value in an early stage entrepreneurial company. In addition, there is not typically a comprehensive set

18. The authors are indebted to Professor Alessandro Spano, University of Cagliari, who translated one of the author's books dealing with "organizational control" into Italian, noted this.

of corporate values that match the five categories of culture identified as the critical or key dimensions of corporate culture.

Formal systems of culture management are not typically found in most early stage entrepreneurial companies. The culture is transmitted by the personal day to day interaction of people with the entrepreneur or founding group. As the entrepreneur makes decisions his or her values are communicated in behavioral terms.

5.1. Some Cultural Challenges Facing Entrepreneurial Firms

There are a variety of cultural problems facing entrepreneurial companies as they grow. Two of the classic challenges concern increasing size and geographical dispersion of company operations.

5.2. Effects of Increasing Size on Culture

As a company increases in size in terms of the number of employees, culture tends to evolve or mutate. New people enter the organizations and some of the original founding group of employees might leave. This leads to an attenuation of the culture.

The process of attenuation becomes critical when a company reaches about 100 employees. However, geographical dispersion of operations also will accelerate the process. If a company operates in multiple locations, even within the same state of country, the culture can fragment into multiple cultures or subcultures.

By the time a company reaches approximately 500 employees or five “generations” of employees, the need for formal culture management is critical.[19] With approximately 500 people the cultural issues and conflicts which can emerge can be catastrophic for a company.

5.3. The Classic Entrepreneurial Cultural Transformation Crisis

At roughly this organizational size (about 500 people or $100 millions in revenue), a company will encounter a “classic entrepreneurial cultural transformation crisis.” This is the cultural dimension of a transformation form entrepreneurship to professional management that must occur sometime between $10 to $100 millions in revenues (Flamholtz, 2002/03; Flamholtz and Randle, 2007).

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19. A “generation” of employees is defined as a cohort of people who enter an organization at about the same time and therefore share a common set of experiences as the company grows.

Typically the transformation of the company from entrepreneurship to professional management begins with the recruitment of people who are more skilled and "professional" experts in various fields, such as marketing, production, or finance. In turn, these professionals initiate structural changes and the development management systems. Initially this group of professionals is simply outnumbered by the earlier group of people who joined the company. However, as some point they achieve "critical mass" and constitute a powerful sub group with common values.

At that point there is typically a classic cultural crisis, in which there is a "battle" between the professionals and the early stage recruits to the entrepreneurship. The battle is often expressed in terms of who is valued, but in effect is it is largely a battle over the "soul" or sensibility of the company. The underlying cultural issue is whether the company will remain free spirited and without systems and processes or will become more structured and professionally managed.

5.4. Effects of Corporate Acquisitions on Culture

In addition, if a company is created by the process of corporate acquisitions then even with a fewer number of people the issue of culture can be critical. Each acquired company comes with its own culture, and the result can be a kind of a company with multiple personality (culture) disorder.

6. The Management of Corporate Culture

How can corporate culture be managed? Based upon our experience in working with companies, we believe that the process of managing corporate culture can be of as much importance as the content of the culture per se. A model of the culture management process is shown in Exhibit 2.

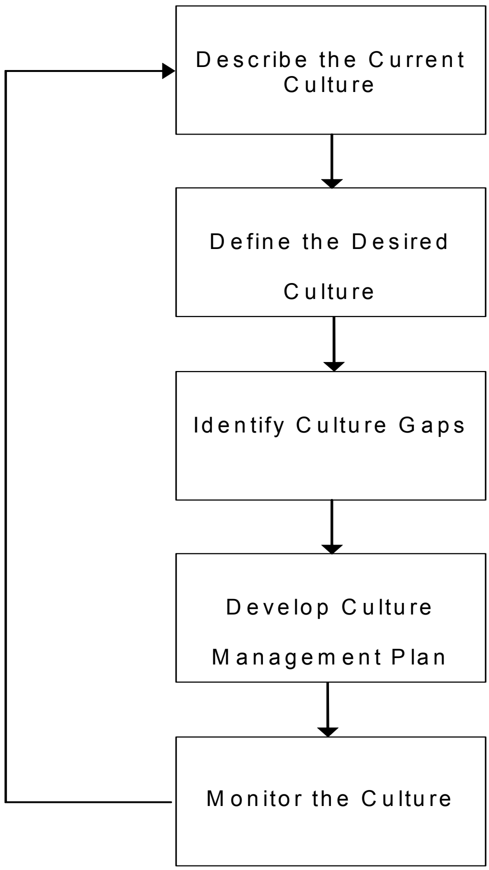
As seen in Exhibit 2, the culture management process begins with the identification of the existing corporate culture. These are the current actual values of the organization with respect to certain key dimensions, such as treatment of customers, etc.

The next step is to formulate the ideal or desired culture of the organization. These are what the organization wants the culture to actually be or become. In addition, this desired culture can be viewed as the organization's "strategic culture" because it is intended to support the overall strategic development of the enterprise.[20] This can be accomplished by either having the culture defined by

20. It should also be noted that steps 1 and 2 can be reversed, with the identification of the desired culture first and then identification of the current culture. This can be necessary in situations where there is no strong preexisting culture.

the Alpha leader of the organization or be the entire senior leadership team working together. Typically, it will require (or at least be useful to have) a facilitator to assist with the development of the culture statements.

Exhibit 2: The Culture Management Process



The third step in the culture management process is to assess the extent to which the current and desired culture are consistent and identify any "cultural gaps," that is, significant differences between the current and desired culture. The key issue here is the extent to which the desired or strategic culture is actually being practiced in day to day behavior.

The fourth step is to develop a plan to actually mange the corporate culture including cultural change. This will draw upon a set of tools available for the management of corporate culture. Briefly, these include culture statements, recruiting people for cultural fit, training and socializing people in the culture, and the use of rewards as incentives for aspects of culture emphasis such as customer orientation and or innovation, retention of people fitting the culture, and related tools.[21] Many companies develop specific statements of corporate culture or core values.[22]

The fifth (and nominally the final step) in the culture management process is monitoring cultural changes to assess the effectiveness of the culture management program and determine the necessary future interventions. This, in turn, leads back to the first step in this process.

6.1. Culture Management as A Way of Life

The process as suggested by the feedback loop after step five is an on going iterative process. Culture management is not a five steps and done process; it is, or must become, a way of life in an organization. Although culture generally changes slowly, except when there are certain major events such as mergers and acquisitions, it does requires change and the organization grows in size, complexity and geographical dispersion of people.

When this state or degree of culture management is achieved it is typically denoted by references to "The Hewlett-Packard Way," or "The Wal-Mart Way." At that point, culture management has been engrained into the actual fabric of daily life; it has become institutionalized as a way of life.

7. Discussion

This section steps back from the presentation of the integrative framework to examine some of the implications of our research and synthesis. Although there is a considerable body of research on culture, most of it focused upon particular aspects and there has been a lack of an overarching systematic framework dealing with all of the relevant issues. The objective of the framework is to serve as a practical tool for management. This is a prerequisite for making culture management practice day to day reality entrepreneurial organizations. This also provides a potential paradigm for research and theory on culture as well. Future research needs to be directed towards the key issues embedded in the framework, including the types of organizational cultures, the impact of culture upon financial performance, and the key aspects of corporate culture requiring management. At present, there are some competing theories and research findings. For example, the there are competing theories of the key factors or dimensions of culture (Cameron and Quinn, 1999; and Flamholtz, 2001). The same two authors have

21. These will be described in depth in our book on culture management which is in progress.
22. See for example the statement of Starbucks core values in Eric G. Flamholtz and Yvonne Randle (2007), *Growing Pains: Transitioning from an Entrepreneurship to a Professionally Managed Firm*, Fourth Edition, San Francisco, CA: Jossey-Bass: p. 23.

identified different typologies of culture. However, *only one of these competing theories* has been supported with empirical research that links culture with financial performance (Flamholtz, 2001; Flamholtz and Kannan-Narasimhan, 2005). This sets the standard for the future research in corporate culture. This also suggests that a critical avenue for future research will be the relationship between proposed cultural frameworks and factors and financial performance.

8. Conclusion

From a managerial standpoint, there are some important implications of this framework for practice. First, we have identified a specific set of cultural factors which relate to financial performance and, therefore, *must* be managed. This also suggests that formal culture statements ought to include or address these factors. Often cultural statements observed in companies address a variety of ad hoc factors that seem to have face validity to management. These are not necessarily optimal practice, unless they specifically address the five key factors identified by empirical research and linked to financial performance, as described above.

In addition to this important consideration, the framework provided also has a number of other features that are relevant to managerial proactive. These include the typology of organizational cultures, and the identification of the classic entrepreneurial cultural transformational crisis.

The development, evolution and management of corporate culture are elusive but critical processes in entrepreneurial organizations. Culture is not static, and it is sometimes an extraordinarily value intangible asset.[23] The framework presented here is intended to help more effectively manage the processes that creates and sustains this tenuous but extraordinarily precious asset.

23. See Eric Flamholtz (2005), "Conceptualizing and measuring the economic value of human capital of the third kind: Corporate culture", *Journal of Human Resource Costing and Accounting,* 9(2): 78-93.

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