

Dublin' Down on Culture

To start, please take a look at this list of behavioral guidelines:



Now let me tell you that the list is the exact way one company articulated its organizational culture for its employees. With that in mind, I want to ask you three simple questions:

1. Can you guess the business strategy this company is pursuing?
2. The kind of product or service the company offers to its customers?
3. The industry the company operates in?

I have asked these same questions to literally hundreds of executives and managers. Rarely does anyone get it right (unless, of course, they knew the company in advance). Or even close to right. Indeed, really no one does. Common answers include: it is a technology startup, an R&D company, or a business pursuing an innovation strategy.

The correct answer is that it is a consumer ice cream producer, specifically Dreyer's Grand Ice Cream in the 1990s (before they were acquired by Nestle). The list comprises what Dreyer's called "The Grooves." As part of the effort, Dreyer's encouraged employees to "get in the groove," meaning follow the guidelines.

Now, you may be saying, well, that was not a good culture for Dreyer's and the question was a setup, a trick.

I don't deny the setup. I selected the example to be provocative and to stimulate a discussion about what makes an organizational culture good. In response, I get all kinds of answers but one very common theme has to do with strategy alignment, or congruence. The alignment imagined is between the business strategy a company is following and the content of a culture, thereby making the cultural principles a set of behavioral guides to effective strategy execution. Some easy examples would be Walmart (low-cost strategy) and its dictum of "everyday low prices" and Amazon with its "customer centric" cultural claim.¹ The broad point is that a firm's culture can affect performance through strategy alignment, providing substantive guides to action in unexpected or uncertain situations.

I do deny that the culture was not a good one for Dreyer's. Potential employees were attracted to the company by the culture, even in the midst of a tight Bay Area labor market. People who worked there openly and widely embraced the culture, and many regarded it as the most important aspect of their job. Dreyer's employees carried little cards around in their wallets summarizing the Grooves; you could see them pull it the out at times.

In terms of its value, I would go so far as to say that the Grooves-based culture saved the company in the late 1990s. At that time, Dreyer's was experiencing severe financial difficulties as its ambitious growth plan generated uncontrolled costs, which had exploded and brought the company near bankruptcy despite impressive growth. The resulting restructuring and turnaround depended heavily on the employees staying onboard and remaining highly engaged, offering numerous suggestions of things to cut, and helping tremendously to get things done. The outcome was truly remarkable and would not have happened without the loyalty and implicit coordination induced by the culture.²

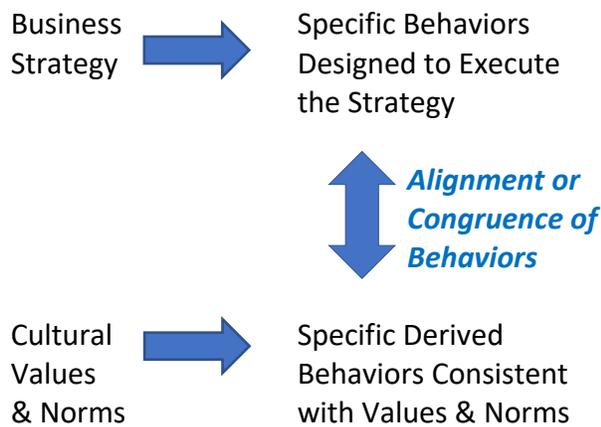
The Dreyer's case discussion is intended to illustrate the two ways an organization's culture might affect organizational performance. The first way is through strategy alignment, the second way is through enhanced commitment and coordination.

Let's take strategy alignment first. What exactly needs to be aligned? A business strategy is a general firm-wide orientation that positions an organization in a market. To execute the strategy successfully requires translation or derivation of the general orientation to specific

¹ These may not be the best examples: I am citing marketing claims rather than cultural rules *per se* but I do think the two firms have decent strategy alignment. I use these examples because of their wide familiarity.

² Details can be found in the 2005 case, "Dreyer's Grand Ice Cream (Abridged)," by Victoria Chang, Jennifer Chatman and Glenn Carroll, Stanford Graduate School of Business case No. OB53A.

behaviors for many different functions, products and situations. For example, a low-cost strategy firm needs to specify whether its cost advantage emanates from buying cheaper input materials or paying lower wages or both. An organizational culture is often described and communicated by a set of general values or norms, like the Grooves at Dreyer’s. But these too need translation or derivation into specific behaviors in order to drive action for particular tasks. For example, does the Grooves dictum “Hire Smart” mean you should hire smart people (yes, it does) or that you should run an efficient hiring and recruitment process using artificial intelligence algorithms (less so)? Within formal organizations, each of these translations or derivations often occurs somewhat independently (driven by the various responsible departments) and follows its own logic. Alignment or congruence is a master check to see whether the outcomes of the two processes are consistent with each other. Are we driving down two roads or one? Do they lead to the same place? The figure below shows the chain of reasoning involved in an alignment check.



Misalignment involves a conflict or contradiction between the strategy and the culture. There is plenty of room in between---a culture might not be aligned but also not a conflict. For instance, I say that Dreyer’s culture was not aligned, but it was not misaligned either. There is nothing in the Grooves that undermines or contradicts the strategy. Instead, I think it was more of a missed opportunity.

Organizational cultures are often assessed for strategy alignment. You can read more about alignment in many strategy or organizational design books.³ You will hear about alignment in an MBA or Executive Education class on strategy.

³ In Garth Saloner, Andrea Shepard and Joel Podolny’s book Strategic Management they call it the PARC (People, Architecture, Routines, Culture) framework (<https://www.wiley.com/en-us/Strategic+Management-p-9780470009475>). An earlier but still widely used framework is simply called the congruence model (see the book Winning Through Innovation by Michael Tushman and Charles O’Reilly for a good illustration of its usage (<https://hbsp.harvard.edu/product/8210-HBK-ENG?itemFindingMethod=Search>)).

Enhanced commitment and coordination is a different issue. This is about an effect on performance that occurs irrespective of cultural content. It is when people work together because they agree on the ideas and even the assumptions behind them. They understand each other and know what and why the other person is going to do, often without asking or even talking. They also feel strong solidarity with each other. The result is a smoother and more efficient operation.

When economists think of culture, they often use the commitment and coordination conception. The models of organizational culture built by economic theorists such as David Kreps use culture in this way and model it accordingly. It is important to recognize that for this pathway to generate better organizational performance, we at least need to know that the strategy is not misaligned. Misalignment would lead to efficient operation of the wrong or conflicting behaviors given the strategy. By contrast, if the cultural content is in that in-between territory of not aligned and not misaligned (like Dreyer's was), it likely has a positive impact on performance, efficient operation is usually better than inefficient.

Doubling down on culture means that the culture operates positively in both ways to affect performance. That is, when doubled down, the culture is aligned with the strategy and it also enhances commitment and coordination. It's the maximal way to get positive impact of the organization's culture, the dream of every CEO but the reality of few.

By Glenn R. Carroll
January 20, 2021

