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Managing corporate culture through reward systems

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The concept of corporate culture has captured the imagination of executives and researchers alike.[1] For executives struggling to manage organizational change, corporate culture has become an important tool. They realize that significant strategic or structural realignment cannot occur if it is not supported by the organization's values and behavioral norms.[2] Yet, culture has proved to be a subtle, intangible phenomenon—pervasive but difficult to manage or influence. Many managers have found that culture cannot be manipulated directly.[3]

Most have an intuitive understanding of culture. Anthropologist Clyde Kluckhohn has defined culture as "the set of habitual and traditional ways of thinking, feeling and reacting that are characteristic of the way a particular society meets its problems at a particular point in time." (p. 86)[4] A corporation's culture simultaneously determines and reflects the values, beliefs, and attitudes of its members. These values and beliefs foster norms that influence employees' behavior. While most managers are aware of their companies' cultures, they are unsure about how it is maintained, transmitted, or influenced.

We believe that the reward system represents a particularly powerful means for influencing an organization's culture. Much of the substance of culture is concerned with controlling the behaviors and attitudes of organization members, and the reward system is a primary method of achieving control. The reward system defines the relationship between the organization and the individual member by specifying the terms of exchange: It specifies the contributions expected from members and expresses values and norms to which those in the organization must conform, as well as the response individuals can expect to receive as a result of their performance.

The reward system—who gets rewarded and why—is an unequivocal statement of the corporation's values and beliefs. As such, the reward system is the key to understanding culture. An analysis of reward systems can provide executives with a basis for effectively managing long-term cultural change. In this article, we will describe the reward systems operating in a sample of firms and show how these systems reinforced and influenced cultural values and norms. We will then link reward systems and culture to the corporate strategies pursued by top managers in these firms.[5]

Examining Reward Systems

Reward systems are concerned with two major issues: performance and rewards. Performance includes defining and evaluating performance and providing employees with feedback. Rewards include bonus, salary increases, promotions, stock awards, and perquisites.

Of course, large corporations with several different businesses may have multiple reward systems. And while they may share some fundamental philosophies and values, they may differ according to the particular business setting, competitive situation, and product life cycle. Thus multiple reward systems can support multiple cultures (or subcultures) within one organization.

Subcultures are a natural by-product of the tendency of organizations to differentiate. As organizations grow with respect to the number of products, services, and divisions, subcultures may reflect a number of distinct work and social environments. Through increasing differentiation, opportunity for the emergence of countercultures is also increased. Countercultures are shared values and beliefs that are in direct opposition to the patterns of the dominant culture. To the extent that divisional reward systems reinforce these distinct behavioral norms and belief systems, subcultures and countercultures are likely to be articulated and even reinforced.

Data-Collection Methods

We studied the reward systems of 14 companies in the northeast and midwest regions of the United

States. All but one of the companies were included in *Fortune*'s listing of the top 500 corporations. Sales ranged from $125 million to over $8 billion. The companies ranged from single-product industrial firms to multidivisional conglomerates.

Initial contact in each firm was made with the top human resources (HR) manager. HR managers were key informants and provided the names and titles of other managers in their firms who might be willing to participate in the study. To ensure the selection of knowledgeable managers, we asked that only those who had been with the company for at least five years and had received significant rewards (for example, salary increases, bonuses, perquisites) be included. In addition, at least one manager interviewed in each firm was responsible for authorizing rewards for subordinates. Thus, both sides of the reward relationship—allocating and receiving—were represented in the sample.

In all, 75 interviews were conducted. Interview time per manager ranged from one hour to five or six hours. The average interview took 90 minutes and was conducted in the manager's office. We interviewed, on average, 5 managers from each firm, with as many as 10 managers interviewed in one firm. The interviewee group included 5 chief executive officers, 7 group-level executives, 5 line vice-presidents (manufacturing, production), 6 staff vice-presidents, 25 division general managers, and 27 director-level managers.

Initial interviews in each firm concentrated on gathering objective data on the managerial reward system. These focused on performance definition and evaluation, feedback processes, and the administration of rewards (bonus, salary, stock, perquisites, and promotion). The first interviews were structured so that comparable data would be obtained. Subsequent interviews gathered subjective data on the firm's history, founders or dominant leaders, traditions, values, and norms. These interviews were necessarily open-ended and exploratory.

In addition to interview data, company documents such as annual reports, 10-K reports and company histories (when available) were also examined. Some firms provided documentation on the reward system itself. The 10-K and annual reports gave an overview of the firm's products, corporate and business strategy, and past economic performance. The company histories provided insight into the origins of the firm, which included their stated values and traditions. Data from these sources served as a check on the information gathered through the interviews.

Two Kinds of Reward Systems

From these interviews, we identified two distinct reward systems: the hierarchy-based system and the performance-based system. Eight firms were classified as hierarchy-based and six as performance-based. Of course, the descriptions of reward systems and cultures that follow are composites representing "pure" types. Actual reward systems and cultures showed some variation but conformed to these general types.

The Corporate Hierarchy

In the hierarchy, superiors defined and evaluated the performance of subordinates. Performance was defined qualitatively as well as quantitatively. Nonquantifiable aspects of the subordinate's role were sometimes considered to be more important than quantifiable ones. Superiors were free to define those aspects of a manager's role that would be considered important. Thus, performance criteria could vary according to who one was working for.

Managers' jobs were broadly and subtly defined. Managers were accountable for how they conducted their interpersonal relationships, as well as the consequences of their actions. Numbers (for example, return on investment) did not tell the whole story, and more subtle aspects of performance were sometimes viewed as more important. Superiors played a critical role in career mobility and success with the firm. They were the source of training, socialization, feedback, and rewards and were to be studied, emulated, and satisfied if subordinates expected to succeed.

Superiors interpreted the performance of subordinates according to subjective criteria. Even in quantified areas, superiors did not hesitate to interpret numerical outcomes in the context of their own knowledge of the situation. Factors such as interdivisional cooperation, long-term relations with customers, leadership style, and development of junior managers were evaluated, despite obvious difficulties in quantifying them. Such evaluation communicated the importance of the hierarchy and the subordinates' dependence on superiors. The subjective nature of evaluation allowed for the inclusion of qualitative performance criteria and reinforced the message that managers had to be concerned with more than the numbers. Subjective evaluation permitted consideration of the long-term consequences of managerial action. This implied an ongoing commitment to the activity or business in question.

In this system, formal performance appraisals

took place once a year. Informal feedback, however, was quite frequent. A high level of interaction existed between superiors and subordinates. Feedback occurred on the job, in the dining room, during executive retreats, or at the country club, and was oriented more toward employee development than toward evaluation. Since performance definition and evaluation were subjective, the quality of performance could be known only through superiors. The high level of interaction coupled with a developmental approach communicated the organization's commitment to the individual manager's success and future. This was conducive to the development of mentoring relationships and to extensive socialization of younger managers. The sense of dependency and vulnerability was balanced by a message of concern for the individual as a valued resource whose development was important to the organization.

Bonuses were based on corporate performance. The system rewarded the team, not individuals. This provided a basic rationale for cooperative rather than competitive behavior. The fact that potential bonus payouts increased by level emphasized the importance of long-term commitment to the organization (tenure was a precondition for promotion) and conformity to its norms. Bonus was a relatively small proportion of total compensation, ranging from 20% to 30%, while salary was the largest part of compensation. By severely limiting bonus for the individual star, the system removed the incentive for behaviors that benefited single managers rather than the entire organization. The bonus system also reinforced the subordinate's dependence on superiors' judgment, because they determined bonus amounts.

Salary increases generally were determined through a formal salary plan, such as the Hay system. Two major factors in the size of a salary increase were tenure (time in grade) and performance (subjective evaluation by superiors). The tenure component gave structure to salary decisions. Policies specified the range of possible increases within job classifications.

Perquisites were even more constrained by policy than were raises and were carefully monitored. Status symbols, such as locations of offices, furniture, club memberships, first-class travel, and so forth, were considered important symbols of rank. Superiors sometimes insisted that managers use them, even if they did not want them. Perquisites communicated the importance of rank, tenure, and commitment, as well as a sense of ritual and tradition. Receiving a particular type of desk upon promotion, being told (not asked) to join a prestigious men's club because everyone of a given rank had always done so, being met at airports by local managers, attending specific executive development programs, were all rituals symbolizing a unique and shared tradition and history. Even for those not eligible for such perquisites, the fact that they existed provided a feeling of belonging not simply to an economic entity but to a social system.

In contrast to perquisites, stock awards were not structured in any obvious way. Managers had little knowledge about how and why awards were made. Awards were not directly related to individual or even corporate performance. Generally, the higher the managerial rank, the greater the eligibility for stock awards. The lack of information about stock awards meant that subordinates could not influence their distribution in any way. This lack of clarity imparted a sense of mysterious ritual to the reward. The message was that subordinates must trust superiors to do the right thing for them. Receiving stock awards symbolized acceptance into the inner circle. Therefore, managers had to be well aware of the total set of company values and norms and how to conform to them. Any deviation might be serious enough to reduce or temporarily eliminate a manager's stock awards.

Promotion from within was the standard policy in hierarchical firms. Promotions were relatively frequent (every two to four years) and were often motivated more by the individual's need for development (that is, exposure to new functional areas) than by the organization's need to fill a slot. Many promotions did not entail significant increases in authority, responsibility, or salary. Commitment to employee development and cross-fertilization often resulted in lateral or diagonal movement rather than vertical movement. Managers were transferred on a regular basis across divisions or functional boundaries, in keeping with the emphasis on developing general managers with strong internal networks throughout the company. Promotion practices expressed concern for the lifetime career of employees. They contributed to a tight, homogeneous organization with common language, experience, and values. Lack of movement signaled a disinvestment in the individual and a loss of interest on the part of the organization.

Clan Culture. We can characterize the kind of culture that emerged from the hierarchy-based reward system as a clan. William Ouchi has used the term *clan* to describe a control system based on socialization and internalized values and norms. Exhibit 1 summarizes the major features of the clan culture. In this culture, individuals in the organization are like a fraternal group. Everyone recognizes an obligation that goes beyond the simple exchange of labor for salary. It is tacitly under-

Exhibit 1
Characteristics of a Clan Culture

The relationship between individual and organization:
- Fraternal relationship
- Mutual long-term commitment
- Rests on mutual interests, a shared fate
- Sense of tradition, history, company, style
- Hierarchy structures relationship

The relationship among organization members:
- Pride in membership
- Sense of interdependence, identification with peers
- Extensive collegial network
- Pressure from peers to conform
- Stresses collective rather than individual initiative, ownership

The process of acculturation:
- Long, thorough socialization
- Superiors are mentors, role models, agents of socialization
- "Rich" normative structure governs wide range of behaviors

stood that required contributions to the organization may exceed any contractual agreements. The individual's long-term commitment to the organization (loyalty) is exchanged for the organization's long-term commitment to the individual (security). This relationship is predicated on mutual interests.

The clan culture accomplishes this unity through a long and thorough socialization process. Members progress through the ranks by pursuing traditional career paths in the company. Older members of the clan serve as mentors and role models for younger members. It is through these relationships that the values and norms of the firm are maintained over successive generations of managers. The clan is aware of its unique history and often documents its origins and celebrates its traditions in various ceremonies. Statements of its credo or publicly held values are reinforced. Members have a shared image of the organization's "style" and manner of conduct.

In the clan culture, members share a sense of pride in fraternity and in membership. The socialization process results in strong identification among members and a strong sense of interdependence. The up-through-the-ranks career pattern results in an extensive network of colleagues whose paths have crossed and who have shared similar experiences. Communication, coordination, and integration are facilitated by shared goals, perceptions, and behavioral tendencies.

In addition, pressure to conform is considerable. The very richness of the culture creates an environment in which few areas are left totally free from normative pressures. The culture does not usually generate risk taking or behavior or innovation, nor does it generate in members feelings of personal ownership for a division, product, or ideas. Not surprisingly, the culture is not conducive to entrepreneurial activity.

The Performance-Based Reward System

In contrast to the hierarchy, the performance-based system objectively defined and measured performance and explicitly linked rewards to performance—which was almost completely defined quantitatively. Qualitative aspects of performance were generally ignored. Specific rewards or proportions of rewards were directly related to specific performance criteria (for example, bonus based partly on return on assets, and partly on pretax profits, and so forth). In this way, managers exerted influence by objectively weighting the various components of the subordinate's job.

This reward system sent the message that the manager's job was specifically defined. Performance in divergent roles was assessed by a few basic financial outcomes. Accountability was primarily for results and not for the methods by which results were achieved. The message was that the numbers were paramount. Evaluations frequently were based on a formula in which the manager's financial results served as inputs. Nonquantifiable aspects of performance were generally not evaluated. Because of the quantitative emphasis, performance evaluation necessarily focused on the immediate time frame with little consideration of long-term consequences.

This type of evaluation communicated to managers their independence from subjective judgments of superiors, since manager results could be understood by examining financial outcome. Superiors had few channels through which to express concern for stylistic aspects of a subordinate's performance. The system clearly told managers to focus on those performance elements that could be quantified. Because activities that might contribute to long-term competitiveness were sometimes hard to quantify, such activities were not formally incorporated into the reward system.

Performance feedback under this system was erratic. Some companies held one or more formal performance appraisal sessions while others held none. Informal interactions between superior and subordinate were infrequent. Feedback was oriented more toward evaluation than toward employee development. Because performance was defined and measured quantitatively, the subordinate manager was not dependent on the superior for interpretation.

The low level of superior-subordinate interaction and the evaluative, as opposed to developmental, approach to feedback served to emphasize autonomy. Concern was not expressed for subordinate development or long-term career progress. The reward system was not conducive to a mentoring relationship, nor was it likely to contribute to the transference of subtle norms and values. Socialization was not an important function of this system.

Bonuses were a very significant part of compensation. Bonus maximums ranged from 40% of salary to "no limit." In some firms, there was no cap on what a manager could earn in bonus if the financial criteria were met. Bonus was based almost exclusively on the performance of the division over which the manager had authority; the performance of other divisions or the entire corporation, whether better or worse, had almost no effect on the individual's bonus. Each division was a profit center and generated its own bonus pool. Actual bonus payment was determined by formula, and the resulting figure was rarely altered by superiors.

The bonus system communicated that the manager was an independent operator whose fate was somewhat independent of superiors and other divisions as well. No economic rationale for cooperative behavior between or among divisions existed. The potentially large size of bonuses communicated the value placed on the "star" performer rather than the team player. The bonus system also deemphasized rank as an important source of rewards.

Salary increases and stock rewards were indirectly based on managerial performance. Salary increases were affected by the external labor market, the cost of living, and the manager's overall performance. Stock arrangements were frequently negotiated when a manager joined the firm. These rewards were loosely related to performance, and actual amounts were subjectively determined by superiors. This practice opposed the overall emphasis on objectivity, but stock awards and salary increases had a relatively lower value in the reward systems of these organizations. Significant performance feedback was conveyed in a manager's bonus. Perhaps superiors operating under this system needed to have some mechanisms available to them to express subjective perceptions of subordinate performance. The flexibility of salary increases and stock awards, relative to the bonus formula, may have satisfied that need.

Perquisites were almost nonexistent in the performance-based system. Symbols of rank and status were not emphasized, because the manager's level was not emphasized. While this communicated a sense of egalitarianism, it also lessened the sense of community and singularity. If reward rituals (predicted on tenure and hierarchical position) convey the existence of an in-group, then the absence of such rituals weakens the feeling of participation in a tradition and membership in a special group.

Promoting from within was not a norm in this system. It was common to find high-ranking managers brought in from the outside. Many had been with their companies only a few years. Promotions were generally motivated by the organization's need to fill a vacancy rather than the individual's need for exposure. Relative to the hierarchy-based system, promotion occurred infrequently and was usually vertical (and within the same division or function).

The practice of hiring from outside conveyed to members that the organization's commitment to them was not necessarily long-term. Individuals repeatedly could be passed over for promotion when more attractive candidates from other firms or industries were identified. These organizations were indicating that they did not necessarily value tenure or the socialized individual and did not expect a long-term commitment from members. Under such conditions, we found a mutually exploitive relationship. The individual was utilized to fill a role or perform a particular function until he or she was needed elsewhere or was replaced by a more qualified person. This relationship engendered a similar response from individuals, who exploited the organization until better rewards could be gotten elsewhere.

The performance-based system provided few mechanisms for integration between divisions. Vertical promotions rather than cross-divisional movement tended to facilitate specialization. A wide network of managers who had worked together, known each other, and understood each other's responsibilities was not fostered, and promotional practices encouraged divisional independence and uniqueness. These organizations did not seek an integrated system based on shared language, norms, and goals.

Market Culture. William Ouchi has used the term *market* to describe a system of control in which behaviors are constrained by negotiated terms of exchange. Exhibit 2 lists the major characteristics of the market culture. In this culture, the relationship between individual and organization is contractual. Obligations of each party are specified in advance. The individual is responsible for some level of performance, and the organization promises a given level of rewards in return. Increased levels of performance are exchanged for

Exhibit 2
Characteristics of a Market Culture

The relationship between individual and organization:
- Contractual relationship
- Mutual short-term commitment
- Rests on self-interest, utilitarianism
- Terms of exchange structure relationship

The relationship among organization members:
- Independence from peers
- Limited interaction
- Little pressure from peers to conform
- Stresses individual initiative, ownership

The process of acculturation:
- Little socialization
- Superiors are distant; are negotiators, resource allocators
- "Lean" normative structure governing few behaviors

increased rewards as specified in a negotiated schedule. Neither party recognizes the right of the other to demand more than was originally specified. The organization does not promise (or imply) security; the individual does not promise (or imply) loyalty. The contract, renewed annually if each party adequately performs its obligations, is utilitarian, since each party uses the other as a means of furthering its own goals. Rather than promoting a feeling of membership in a social system, the market culture encourages a strong sense of independence and individuality in which everyone pursues his or her own interests.

The market culture does not exert a great deal of normative pressure on its members. Members do not share a common set of expectations regarding management style or philosophy. There is little pressure from peers to conform to specific behavior or attitudes. Much of superiors' interactions with subordinates consist of negotiating performance-reward agreements and/or evaluating requests for resource allocations. A superior's influence on subordinate rewards is limited. Superiors are less effective as role models or mentors, and the absence of long-term commitment by both parties weakens the acculturation process.

Relations among peers are also distant. Little evidence of economic independence gives little rationale for cooperating with peers. Managers do not interact frequently with counterparts in other divisions, nor do they develop an extensive network of colleagues in the company. Vertical career paths result in little understanding of or identification with other divisions.

The market culture is not designed to generate loyalty, cooperation, or a sense of belonging to a social system. Members do not feel constrained by norms, values, or allegiance to an accepted way of doing and thinking. But the market culture does generate personal initiative, a strong sense of ownership and responsibility for operations and decisions, and an entrepreneurial approach to management. The individual is free to pursue goals with a minimum of organizational constraints.

Reward Systems, Culture, and Strategy

It is important to recognize that a given culture and its associated reward system is neither good nor bad, effective nor ineffective, except in terms of its support for the total organizational system of which it is part. The hierarchy-based and the performance-based systems each identify and reward a set of complex behaviors. The difference lies in the cultural values that are expressed through the reward system. To the extent that it is congruent with organizational strategy, structure, and process, the reward system will effectively contribute to organizational goals. Thus the clan culture may be ineffective in an environment that requires innovation, aggressiveness, and a strong desire for individual achievement. Similarly, the entrepreneurship, autonomy, and short-term focus of the market culture may be dysfunctional in mature, capital-intensive industries, where systemwide integration is critical.

Matching Organization Strategy with Reward Systems

We analyzed our sample of firms according to two environmental factors: type of industry and growth strategy. To analyze the corporate growth strategies of our firms, we used Milton Leontiades's steady state-evolutionary distinction.[6] Steady state firms grow through internally generated diversification or through increased penetration of existing markets. They are internally focused and concerned with the development of new products and technologies and with integration across business units. Evolutionary firms grow primarily through acquisitive diversification. They actively pursue new markets and industries and are receptive to mergers and joint ventures.

Each firm's history was examined to ascertain the extent of its external activity (acquisitions, mergers, joint ventures, divestitures). If, within the previous three years, a firm engaged in no external activities that resulted in entering a previously unoccupied industry, it was classified as steady state. In addition, we looked at each firm's 20-year history to determine the consistency of its strategy.

Exhibit 3 shows each firm's industry, growth strategy, and reward system. First, we looked at

Exhibit 3
Type of Industry and Growth Strategy of 14 Firms

Steady State Strategy	Evolutionary Strategy
Aluminum (H)	Diversified foods products and restaurants (P)
Forest products (H)	
Power generation (utility) (H)	Diversified consumer and industrial products
Integrated chemicals producer (H)	Diversified consumer and industrial products (P)
Mining and related machinery (P)	Diversified consumer products and services (P)
Machine tools (H)	Diversified consumer products and services (P)
Building and home improvement products (H)	Diversified industrial services (P)
Pharmaceuticals (H)	

(H) indicates a hierarchy-based reward system.
(P) indicates a performance-based reward system.

the relationship between growth strategy and reward systems. All but one firm pursuing a steady state strategy utilized a hierarchy-based reward system. Every firm pursing an evolutionary strategy utilized a performance-based system.

It is also clear that evolutionary firms are more diverse enterprises than steady state firms. In fact, except for the food products company, the firms pursuing an evolutionary strategy were generally considered to be conglomerates. In contrast, the firms in this steady state group tend to be focused on particular industries or technologies. Most are capital-intensive industries that require long-term commitment and a high degree of vertical integration. Forest products, aluminum, power generation, pharmaceuticals, and machine tools are all mature businesses that, to be effective, require massive investment in plant and equipment, research and development, and distribution systems.

Successfully competing in a mature industry requires long-term commitment to the business and a highly integrated organization. The steady state strategy, with its internal market focus, concern for integration, and growth through market penetration, fits the demand of a mature business. The strategy does not rely on acquisitions or divestitures, and companies survive by committing substantial physical, financial, and managerial resources to a stable set of businesses.

The steady state strategy requires a reward system that encourages stability, cooperation, and a long-term systemwide perspective from its managers. Coordination and control are more important than aggressiveness and entrepreneurship. The hierarchy-based reward system provides this kind of support. Its subjective, qualitative character allows for the inclusion of long-term performance criteria that would be difficult to quantify. Frequent contact between superiors and subordinates encourages the transference of subtle values to a younger generation of managers. Cross-divisional promotions foster integration and understanding of the total system. Promotion from within and bonus based on corporate performance reinforce long-term commitment and a sense of community.

How does corporate culture fit with strategy and reward systems design? A clan culture comprises a set of values and norms that are highly consistent with the demands of a steady state strategy. The need for integration and a systemwide perspective is addressed by the fraternal values, the sense of mutual interest, pride in membership, and an extensive collegial network. Long-term commitment is supported by a sense of history and tradition. The role of superiors as models and mentors emphasizes the importance of continuity and experience. Peer pressure and the rich normative structure underscore the need to perform in ways that are consistent and widely shared among members. The star is not valued as highly as the team player. In other words, the clan culture provides a foundation of values, norms, and attitudes that encourage behaviors consistent with the steady state strategy. Corporate culture and reward system design function as complementary elements in directing members toward achieving the strategic goals of the firm.

The demands of the evolutionary strategy are quite different. The effectiveness of this strategy depends on corporate managers choosing acquisitions carefully and knowing when to divert businesses from the portfolio. It frequently requires that management make business decisions in areas that are partially or even completely unfamiliar to them. Because the strategy hinges on changes in the portfolio of businesses, commitment to a particular business or technology is not as highly valued as it is in firms that have chosen a steady state strategy.

The evolutionary strategy requires a reward system that permits managers to make evaluations and reward decisions that are equitable and defensible to division managers despite their lack of familiarity with these divisions. The reward system should allow corporate managers to make comparisons across unrelated businesses. The large bonus component, based on divisional results, creates a sense of ownership in division management. The autonomy inherent in this system encourages an entrepreneurial orientation. The system tends not to foster cooperation among

divisions. Such cooperation is not critical when divestment of divisions occurs with some regularity. In short, the performance-based system rewards independence and entrepreneurship, the star performer versus the team player, and does not require extensive involvement from corporate-level managers in the reward process.

Exhibit 2 shows that the values of the market culture fit closely with both the evolutionary strategy and the performance-based reward systems. The relatively low level of commitment to businesses is reflected in the contractual relationship between organization and individual. The need for autonomous, entrepreneurial interaction between divisions is reflected in limited peer interaction, weak peer pressure, and a lean normative structure. We would not expect conformity to be highly valued in an organization that pursued diversity. We would not expect loyalty and commitment to be highly valued in an environment where divestment of divisions and/or their managements was a distinct possibility and part of overall corporate strategy. The performance-based reward system clearly expresses and reinforces a market culture. Clearly, corporate culture is the foundation for normative behaviors that support the overall corporate strategy.

Engineering Cultural Change

Reward systems express and reinforce the values and norms that comprise corporate culture. A careful consideration of reward system design can help decision makers successfully modify the organization's culture. Reward systems are, in effect, powerful mechanisms that can be used by managers to communicate desired attitudes and behaviors to organization members. We believe that, over time, cultures are amenable to change through the clear communication of performance criteria and the consistent application of rewards.

At the same time, we hope some sense of the complexity of culture has come through, along with a healthy respect for the difficulty of the task of changing a company's values, norms, and attitudes. Large organizations are like societies; their cultures are reinforced and modified over years. Culture itself is rooted in the countless details of organization life. How decisions are made, how conflict is resolved, how careers are managed—each small incident serves to convey some aspect of the organization's culture to those involved. Given the pervasiveness of culture, it is not surprising that managers are frequently frustrated in their attempts to change it.

There is some basis for optimism, however. Culture does not develop in a vacuum. It is an integral part of the company's fabric. Even with little or no attention paid to it, an organization's culture is likely to evolve in conjunction with the day-to-day activities of the company. Thus, except in unusual circumstances, the manager's task usually is not to create a basic congruence among rewards, culture, and business strategy, but to focus and fine-tune the natural interaction of these elements.

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Endnotes

[1] Several major popular books about culture have been written in the past five years. Some of the most recent include Edgar Schein's *Organizational Culture and Leadership* and Ralph Kilmann et al.'s *Gaining Control of the Corporate Culture* (both published by Jossey-Bass, San Francisco, 1985). Recent academic reviews of this literature include "Concepts of Culture and Organizational Analysis," by Linda Smircich, *Administrative Science Quarterly*, 1983, 28, 339–358; "The Uniqueness Paradox in Organizational Stories," by Joann Martin et al., *Administrative Science Quarterly*, 1983, 28, 438–453; and "On Studying Organizational Cultures," by Andrew Pettigrew, *Administrative Science Quarterly*, 1979, 24, 570–581.

[2] The difficulty of changing an organization's culture so that it is more closely aligned with the firm's strategy has been explored by Howard Schwartz and Stanley Davis in "Matching Corporate Culture and Business Strategy," *Organizational Dynamics*, Summer 1981, 30–48; by Paul Shrivastava in "Integrating Strategy Formulation with Organizational Culture," *Journal of Business Strategy*, Winter 1984, 103–110; and by Jay Barney in "Organizational Culture: Can It Be a Source of Sustained Competitive Advantage?" *Academy of Management Review*, 1986, 11, 656–665.

[3] For examples of how culture either facilitated or impeded change, see Thomas Moore's "Culture Shock Rattles the TV Networks," *Fortune*, April 14, 1986; Harold Seneker's "Why CEOs Pop Pills (and Sometimes Quit)," *Fortune*, July 12, 1978; John Main's "Waking Up AT&T: There's Life After Culture Shock," *Fortune*, December 24, 1984; and John Solomon and J. Bussey's "Cultural Change: Pressed by Rivals, Procter & Gamble Company Is Altering Its Ways," the *Wall Street Journal*, May 20, 1985.

[4] Anthropologist Clyde Klukhohn's work cited in the text is titled "The Study of Culture," in D. Lerner and H. Lasswell (eds.) *The Policy Sciences*, Stanford, Cal.: Stanford University Press, 1951.

[5] For an excellent description of how diversification strategies affect managerial behavior, see Jeffrey Kerr's "Diversification Strategies and Managerial Rewards: An Empirical Study," *Academy of Management Journal*, 1985, 28, 155–179.

[6] See Milton Leontiades's *Strategies for Diversification and Change*, Boston, Mass.: Little, Brown, 1980.

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