The Role of the Founder in the Creation of Organizational Culture

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Introduction

The purpose of this paper is to show how entrepreneur/founders of organizations create organizational cultures and how such cultures can be analyzed. I will examine what organizational culture is, how the founder creates and embeds cultural elements, why it is likely that first generation companies develop distinctive cultures, and what the implications are for the transition from founders or owning families to "professional" managers.

There has been much confusion over the term "organizational culture," so we need to begin the discussion with some definitions of terms. For an organizational culture to exist, there must be a definable organization in the sense of a number of people interacting with each other for the purpose of accomplishing some goal in their defined environment. The founder of an organization simultaneously creates such a group and, by force of his or her personality, begins to shape the culture of that group. But the culture of that new group is not there until the group has had its own history of overcoming various crises of growth and survival, and has worked out solutions for how to cope with its external problems of adaptation and its internal problems of creating a workable set of relationship rules.

Organizational culture, then, is the pattern of basic assumptions which a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, which have worked well enough to be considered valid, and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.

For example, in terms of external survival problems, I have heard the following kinds of assumptions in first generation companies:

> "The way to decide on what products we will build is to see whether we ourselves like the product; if we like it, our customers will like it."
>
> "The only way to build a successful business is to invest no more than 5% of your own money in it."
>
> "The only way to be successful in this kind of business is to break down functional barriers and learn how to be more of a project team on every project, from the time it is sold until the time it is completed."
>
> "The customer is the key to our success, so we must be totally dedicated to total customer service."

In terms of problems of internal integration the following examples can be cited:

> "People are our most important resource and asset; therefore, we will never have a layoff."
>
> "Ideas can come from anywhere in this organization, so we must maintain a climate of total openness."
>
> "The only way to manage a growing business is to supervise every detail on a daily basis."
>
> "The only way to manage a growing business is to hire good people, give them clear responsibility, tell them how they will be measured, and then leave them alone."

Several points should be noted about the definition and the examples. First, culture is not the overt behavior or visible artifacts that one might observe if one were to visit the company. It is not even the philosophy or value system which the founder may articulate or write down in various "charters." Rather, it is the assumptions which lie behind the values and which determine the behavior patterns and the visible artifacts such as architecture, office layout, dress codes, and so on. This distinction is important because founders bring many of these assumptions with them when the organization begins, and their problem is how to teach, embed, articulate, and in other ways get their own assumptions across and working in the system.

Founders often start with a "theory" of how to succeed, and have a cultural "paradigm" in their heads, based on their own prior experience in the culture in which they grew up. If there is a founding group, then one must first examine how that group reaches consensus on their assumptions about how to view things. In that case, the evolution of the culture is a multi-stage process reflecting the several stages of group formation. The ultimate organizational culture will always reflect the complex interaction between the assumptions and theories which founders bring to the group initially, and what the group learns subsequently from its own experiences.

What is Organizational Culture About?

Any new group has the problem of developing shared assumptions about the nature of the world in which it exists, how to survive in it, and how to manage and integrate internal relationships such that it can operate effectively and make life livable and comfortable for its members. These external and internal problems can be categorized as shown in Table 1.

Insert Table 1

The external and internal problems are always intertwined and acting simultaneously. A group cannot solve its external survival problem without being integrated to some degree to permit concerted action, and it cannot integrate itself without some successful task accomplishment vis-a-vis its survival problem or primary task.

The model of organizational culture which then emerges is one of shared solutions to problems which work well enough to begin to be taken for granted, to the point where they drop out of awareness, become unconscious assumptions, and are taught to new members as a reality and as the correct way to view things. If one wants to identify the elements of a given culture, one can go down the list of issues and ask how the group views itself in relation to each of them: what does it see to be its core mission, its goals, the way to accomplish those goals, the measurement systems and procedures it uses, how it remedies actions, its particular jargon and meaning system, the authority system, peer system, reward system, and ideology. One will find, when one does this, that there is in most cultures a deeper level of assumptions which ties together the various solutions to the various problems, and this deeper level deals with more ultimate questions. The real cultural essence, then, is what members of the organization assume about the following issues shown in Table 2.

Insert Table 2

In a fairly "mature" culture, i.e., in a group which has a long and rich history, one will find that these assumptions are patterned and interrelated into a "cultural paradigm" which is the key to understanding how members of the group view the world. In an organization that is in the process of formation, the paradigm is more likely to be only in the founder's head, but it is important to attempt to decipher it in order to understand the biases or directions in which the founder "pushes" or "pulls" the organization.

How do Organizational Cultures Begin? The Role of the Founder.

Groups and organizations do not form accidentally or spontaneously. They are usually created because someone takes a leadership role in seeing how the concerted action of a number of people could accomplish something which individual action could not. In the case of social movements or new religions, we have prophets, messiahs, and other kinds of charismatic leaders. Political groups or movements are started by leaders who sell new visions and new solutions. Firms are created by entrepreneurs who have a vision of how concerted effort could create a new product or service in the marketplace. The process of culture formation in the organization begins with the founding of the group. How does this happen?

In any given firm the history will be somewhat different, but the essential steps are functionally equivalent:

1. A single person (founder) has an idea for a new enterprise.
2. A founding group is created on the basis of initial consensus that the idea is a good one, is workable, and is worth running some risks for.
3. The founding group begins to act in concert to create the organization by raising funds, obtaining patents, incorporating, etc.
4. Others are brought into the group according to what the founder or founding group considers necessary, and the group begins to function, developing its own history.

In this process the founder will have a major impact on how the group solves its external survival and internal integration problems. Because the founder had the original idea, he or she will typically have biases on how to get the idea fulfilled, based on prior cultural experiences and personality traits. I have observed a dozen or more entrepreneurs over the last several decades, and have consistently found them to be very strong minded about what to do and how to do it. They typically already have strong assumptions about the nature of the world, the role which their organization will play in that world, the nature of human nature, truth, relationships, time, and space.

Three Examples

Founder A built a large chain of supermarkets and department stores. He was the dominant ideological force in the company until his death in his seventies. He assumed that his organization could be dominant in the market, and that his primary mission was to supply a quality, reliable product to his customers. There are many stories about A when he was only operating a corner store with his wife, of building customer relations by a credit policy which displayed trust in the customer, and by always taking products back if the customer was not satisfied. He assumed that stores had to be attractive and spotless, and that the only way to insure this was by close personal supervision. He would show up at all his stores frequently and would check into small details. He assumed that only close supervision would teach the right skills to subordinates, so he expected all of his store managers to be very visible and very much on top of their jobs.

His theory about how to grow and win against his competition was to be innovative, so he encouraged his managers to try new approaches, to bring in consulting help, to engage in extensive training, and to feel free to experiment with new technologies. His view of truth and reality was that one had to find it wherever one could and, therefore, one had to be open to one's environment and never take it for granted that one had all the answers. If new things worked, A encouraged their adoption.

Measuring results and fixing problems was, for A, an intensely personal matter. In addition to using the traditional business measures, he went to the stores, and if he saw things not to his liking, immediately insisted that they be corrected. He trusted those managers who operated by similar kinds of assumptions and clearly had favorites to whom he delegated more.

Authority in this organization remained very centralized, and the ultimate source of power, the voting shares of stock, remained entirely in the family. A was interested in developing good managers throughout the organization, but he never assumed that sharing ownership through some kind of stock option plan would help in that process. In fact, he did not even share ownership with several key "lieutenants" who had been with the company through most of its life, but who were not in the family. They were well paid, but received no stock. Peer relationships, as a result, were officially defined as competitive. A liked managers to compete for slots and felt free to get rid of "losers."

A also introduced into the firm a number of family members who received favored treatment in the form of good developmental jobs which would test them for ultimate management potential. As the firm diversified, family members were made heads of divisions, often with relatively little general management experience. Peer relationships were, therefore, highly politicized. One had to know how to stay in favor, how to deal with family members, and how to maintain trust with non-family peers in the highly competitive environment.

A wanted open communication and high trust levels, but his own assumptions about the role of the family, the effect of ownership, and the correct way to manage were, to some degree, in conflict with each other, leading many of the members of the organization to deal with the conflicting signals by banding together to form a kind of counter-culture within the founding culture. They were more loyal to each other than to the company.

Without going into further detail, I want to note several points about the "formation" of this organization and its emerging culture. By definition, something can only become part of the culture if it works. A's theory and assumptions about how things "should be" worked, in that his company grew and prospered. He personally received a great deal of reinforcement for his own assumptions, which undoubtedly gave him increased confidence that he had a correct view of the world. Throughout his lifetime he steadfastly adhered to the principles with which he started, and did everything in his power to get others to accept them as well. At the same time, however, A had to share concepts and assumptions with a great many other people. So, as his company grew and learned from its own experience, A's assumptions gradually had to be modified, or A had to withdraw from certain areas of running the business. For example, in their diversification efforts, the management bought several production units which would permit backward integration in a number of areas, but, because they recognized that they knew little about running factories, they brought in fairly strong, autonomous managers and left them alone.

A also had to learn that his assumptions did not always lead to clear signals. He thought he was adequately rewarding his best young general managers, but could not see that for some of them the political climate, the absence of stock options, and the arbitrary rewarding of family members made their own career progress too uncertain. Consequently, some of his best people left the company, and left A perplexed but unwilling to change his own assumptions in this area. As the company matured, many of these conflicts remained and many sub-cultures formed around groups of younger managers who were functionally or geographically insulated from the founder.

Founder B built a chain of financial service organizations using sophisticated financial analysis techniques in an urban area where insurance companies, mutual funds, and banks were only beginning to use these techniques. He was the conceptualizer and the salesman in putting together the ideas for these new organizations, but he only put a small percentage of the money up himself, working from a theory that if he could not convince investors that there was a market, then the idea was not sound. He made the initial assumption that he did not know enough about the market to gamble with his own money, and told a story about the one enterprise in which he failed miserably. It was one where he trusted his own judgement on what customers would want, only to be proven totally wrong by circumstance.

B did not want to invest himself heavily in his organizations, either financially or personally. Once he had put together a package, he tried to find people whom he trusted to administer it. These were usually people like himself who were fairly open in their approach to business, and not too hung up with prior assumptions about how things should be done. One can infer that B's assumptions about concrete goals, the means to be used to achieve them, measurement criteria, and repair strategies were pragmatic. Have a clear concept of the mission, test it by selling it to investors, bring in good people who understand what the mission is, and then leave them alone to implement and run the organization, using only ultimate financial performance as a criterion.

B's assumptions about how to integrate a group were, in a sense, irrelevant since he did not inject himself very much into any of his enterprises. To determine what the cultures of those enterprises were, one had to study the managers who were put into key positions by B, and that turned out to vary quite dramatically from one enterprise to the next. This short example illustrates that there is nothing automatic about an entrepreneur's personal vision or style being inserted into his or her organization. It depends very much on whether and how much that person wants to impose himself or herself.

Founder C, like A, was a much more dominant personality who had a clear theory of how things should be. He and four others founded a manufacturing concern 10 years ago, based on a product idea which the founder had, combined with a strong intuition that the market was ready for a product of this sort. In this case, the founding group got together because they shared a concept of the core mission, but they found after a few years that the different members had very different assumptions about how to build an organization. These differences were sufficient to split the group apart, and to leave C in complete control of the young and rapidly growing company.

C's assumptions about the nature of the world, how one discovers truth and solves problems, were very strong and they were reflected in his management style. He believed that good ideas could come from any source, and, in particular, he believed that he himself was not wise enough to know what was true and right, but that if he heard an intelligent group of people debate that idea and examine it from all sides, he could judge accurately whether or not it was sound. He also knew that he could solve problems best in a group where many ideas were batted around and where there was a high level of mutual confrontation around those ideas. Ideas came from individuals, but the testing of ideas had to be done in a group.

C also believed very strongly that even if he knew what the correct course of action was, unless the parties who were critical to successful implementation were completely sold on the idea they would either misunderstand or unwittingly sabotage the idea. Therefore, on any important decision, C insisted on a wide debate, many group meetings, selling the idea down and laterally in the organization, and only when it appeared that everyone understood and was committed would he agree to going ahead. C felt so strongly about this that he often held up important decisions even when he personally was already convinced of the course of action to take. He said that he did not want to be out there leading all by himself if he could not count on the troops supporting him, and cited past cases where he had thought he had group support, made a decision, and, when it did not work out, found his key subordinates claiming that he had been alone in the decision. These experiences, he said, taught him to insure commitment before going ahead on anything, even if it was time consuming and frustrating.

While C's assumptions about how to make decisions led to a very group oriented organization, his theory about how to manage led to a strong individuation process. C was convinced that the only way to manage was to give clear and simple individual responsibility, and then to measure the person strictly on those responsibilities. Groups could help to make decisions and obtain commitment, but they could not under any circumstance be responsible or accountable. So once a decision was made, it had to be carried out by individuals, and if the decision was complex, involving reorganization of functions, C always insisted that the new organization had to be clear and simple so that individual accountilities could be assigned.

C believed completely in a pro-active model of man and in man's capacity to master nature, hence he expected of his subordinates that they would always be on top of their jobs. If a budget had been negotiated for a year, and if after three months the subordinate recognized that he would overrun the budget, C insisted that the subordinate make a clear decision either to find a way to stay within the budget or to renegotiated a larger budget. It was not acceptable to allow the overrun to occur without informing others and renegotiating, and it was not acceptable to be ignorant of the likelihood that there would be an overrun. The correct way to behave was always to know what was happening, always to be responsible for what was happening, and always to feel free to renegotiate prior agreements if they no longer made sense. C believed completely in open communications and the ability of people to reach reasonable decisions and compromises if they confronted their problems, figured out what they wanted to do, were willing to argue for their solution, and honored any commitments they made.

On the interpersonal level, C assumed "constructive intent" on the part of all members of the organization, a kind of rational loyalty to organizational goals and to shared commitments. This did not prevent people from competitively trying to get ahead, but the playing of politics, hiding of information, blaming others, or failing to cooperate around agreed-upon plans were defined as sins. However, C's assumptions about the nature of truth and the need for every individual to keep thinking out what he or she thought was the correct thing to do in any given situation led to frequent interpersonal tension. In other words, the rule of honoring commitments and following through on consensually reached decisions was superceded by the rule of doing only what you believed sincerely to be the best thing to do in any given situation. Ideally, there would be time to challenge the original decision and renegotiate, but in practice time pressure was such that often the subordinate, in doing what was believed to be best, had to be insubordinate. Thus people in the organization frequently complained that decisions did not "stick" yet had to acknowledge that the reason they did not stick was because the assumption that one had to do the correct thing was even more important. Subordinates learned that insubordination was much less likely to be punished than doing something which the person knew to be wrong or stupid.

C clearly believed in the necessity of organization and hierarchy, but he did not trust the authority of position nearly so much as the authority of reason. Hence, bosses were only granted authority to the extent that they could sell their decisions, and, as indicated above, insubordination was not only tolerated, but actively rewarded if it led to better outcomes. One could infer from watching this organization that it thrived on intelligent, assertive, individualistic people, and, indeed, the hiring policies reflected this bias. So, over the course of 10 years the organization tended to hire and keep the people who fitted into the kind of management system I am describing. And those people who fitted the assumptions of the founder found themselves feeling increasingly like members of a family in that strong bonds of mutual support grew up among them, with C functioning symbolically as a kind of benign but demanding father figure. These familial feelings were very important, though quite implicit, because they provided subordinates with the feeling of security which was needed to challenge each other and C when a course of action did not make sense.

The architecture and office layout in C's company reflected his assumptions about problem solving and human relationships. He insisted on open office landscaping, minimum status differentiation in terms of office size, location, and furnishings (in fact, people were very free to decorate their offices any way they liked), open cafeterias instead of executive dining rooms, informal dress codes, first-come, first-serve systems for getting parking spaces, many conference rooms with attached kitchens to facilitate meetings and to keep people interacting with each other instead of going off for meals, etc.

In summary, C represents a case of an entrepreneur with a clear set of assumptions of how things should be, both in terms of the formal business arrangements and in terms of internal relationships in the organization, and these assumptions reflect themselves clearly in the organization many years later.

Let us turn next to the question of how a strong founder goes about embedding his assumptions into the organization.

How Are Cultural Elements Embedded?

The basic process of embedding a cultural element, a given belief or assumption, is a "teaching" process, but not necessarily an explicit one. The basic model of culture formation, it will be remembered, is that someone must propose a solution to a problem which the group is facing. Only if the group shares the perception that the solution is working will that element be adopted, and only if it continues to work will it come to be taken for granted and taught to newcomers. It goes without saying, therefore, that only elements which solve the group's problems will survive, but the prior issue of "embedding" is how a founder or leader gets the group to do things in a certain way in the first place, so that the question of whether or not it will work can be settled. In other words, embedding a cultural element in this context only means that the founder/leader has ways of getting the group to try out certain responses. There is no guarantee that those responses will, in fact, be successful in solving the group's ultimate problem. How do founders/leaders do this? I will describe a number of mechanisms ranging from very explicit teaching to very implicit messages of which even the founder may be unaware. These are shown in Table 3.

Insert Table 3

As the above case examples attempted to show, the initial thrust of the messages sent is very much a function of the personality of the founder, where some founders deliberately choose to build an organization that reflects their own personal biases while others create the basic organization but then turn it over to subordinates as soon as it has a life of its own. In either case, the process of culture formation is complicated by the possibility that the founder is "conflicted," in the sense of having in his or her own personality several mutually contradictory assumptions. The commonest case is probably that of the founder who states a philosophy of delegation but who retains tight control by feeling free to intervene, even in the smallest and most trivial decisions, as A did. Because the owner is granted the "right" to run his or her own company, subordinates will tolerate this kind of contradictory behavior and the culture of the organization will develop complex assumptions about how one runs the organization "in spite of" or "around" the founder. If the founder's conflicts are severe to the point of interfering with the running of the organization, buffering layers of management may be built in, or, in the extreme, the Board of Directors may have to find a way to move the founder out altogether.

The mechanisms listed in the table are not equally potent in practice, but they can reinforce each other to make the total message more potent than individual components. In my observation the most important or potent messages are the role modeling by leaders (item 3), what leaders pay attention to (item 6), and leader reactions to critical events (item 7). Only if we observe these leader actions can we begin to decipher how members of the organization "learned" what the right and proper things to do were, and what model of reality they were to adopt.

To give a few examples, A demonstrated his need to be involved in everything at a detailed level by frequent visits to stores and detailed inspections of what was going on in them. When he went on vacation, he called the office every single day at a set time and wanted to know in great detail what was going on. This behavior persisted into his period of semi-retirement, when he would still call <u>daily</u> from his retirement home where he spent three winter months. A's loyalty to his family showed up in ignoring bad business results if a family member was responsible, yet punishing those results if a non-family member was involved. If the family member was seriously damaging the business, A put a competent manager in under him, but did not always give credit for subsequent good results to that manager. If things continued to go badly, A would finally remove the family member, but always with elaborate rationalizations to protect the family image. If challenged on this kind of blind loyalty, A would assert that owners had certain rights which could not be challenged. Insubordination on the part of a family member was tolerated and excused, but the same kind of insubordination from a non-family member was severely punished.

In complete contrast, B tried to find competent general managers and to turn a business over to them as quickly as he could. He only involved himself if he absolutely had to in order to save the business, and he pulled out of businesses as soon as they were stable and successful. B separated his family life completely from his business and had no assumptions about the rights of a family in a business. He wanted a good financial return so that he could make his family economically secure, but he seemed not to want his family involved in the businesses.

C, like B, was not interested in building the business on behalf of the family, and his preoccupation with making sound decisions overrode all other concerns. Hence C set out to find the right kinds of managers and then "trained" them through the manner in which he reacted to situations. If a manager displayed ignorance or lack of control of an area for which he or she was responsible, C would get publicly angry at that person and accuse them of incompetence. If a manager overran a budget or had too much inventory and did not inform C when this was first noticed, he would be punished by publicly being chided, no matter what the reason for the condition. If the manager attempted to defend the situation by noting that it was due to actions in another part of the same company, actions which C and others had agreed to, C would point out emotionally that the manager should have brought that issue up much earlier and forced a rethinking or renegotiation right away. In other words, C made it clear by the kinds of things he reacted to that poor ultimate results could be excused, but not being on top of one's situation could never be excused.

C taught his subordinates his theory about building commitment to a decision by systematically refusing to go along with something until he felt the commitment was there, and by punishing managers who acted impulsively or prematurely in areas where the support of others was critical. He thus set up a very complex situation for his subordinates by demanding both a strong individualistic orientation which was embodied in all the official company creeds and public relations literature, and strong rules of consensus and mutual commitment which were embodied in organizational stories, the organization's design, and many of its systems and procedures.

In the above examples I have highlighted how these three founders differed to show the biases and unique features of the cultures which grew in these companies, but there were some common elements as well which need to be mentioned. All three founders assumed that the success of their business[es] hinged on meeting customer needs, and their most severe outbursts at subordinates occurred around incidents where they learned that a customer had not been well treated. All of the official messages highlighted customer concern, and the reward and control systems focused heavily on such concerns. In the case of A, the needs of the customer were even put ahead of the needs of the family, and one way a family member could really get into trouble was by messing up a customer relationship.

All three founders were obsessed with product quality and had a hard time seeing how some of their own managerial demands could undermine quality by forcing compromises. This point is important because in all the official messages, commitment to customers and product quality were uniformly emphasized, making one assume that this value was a clear priority. It was only when one looked at the inner workings of A's and C's organizations that one could see that other assumptions which they held created internal conflicts which were difficult to overcome and which introduced new cultural themes into the organizations.

For example, in C's organization there was simultaneously a concern for customers and an arrogance toward customers. Many of the engineers who were involved in the original product designs had been successful in estimating what customers would really want, leading them to assume that their "understanding" of customers was sufficient to continue to make product designs without having to pay too much attention to what sales and marketing were trying to tell them. C officially supported marketing as a concept, but his underlying assumption was similar to that of his engineers, that he really understood what his customers wanted, leading to a systematic ignoring of some customer inputs.

As the environment in which the company was operating changed, the old assumptions about the role of the company in that environment were no longer working, and neither C nor many of his original group had a paradigm which was clearly workable in the new situation, leading to a period of painful conflict and new learning. More and more customers and marketing people began to complain, yet some parts of the organization literally could not hear or deal with these complaints because of their own prior assumptions that they knew what customers wanted and their belief in the superiority of their products.

In summary, the mechanisms shown in Table 3 represent <u>all</u> of the possible ways in which founder messages get communicated and embedded, but they vary in potency, and one can often find that they conflict with each other, either because the founder is internally conflicted or because the environment is forcing changes in the original paradigm leading different parts of the organization to have different assumptions about how to view things. Such conflicts often result because new, strong managers who are not part of the founding group begin to impose their own assumptions and theories. Let us look next at how these people may differ, and the implications of such differences.

Founders/Owners vs. "Professional Managers"

First generation firms which are still heavily influenced by their founders, and companies which continue to be run by family members have the distinctive characteristics or "biases" which the assumptions of the founders introduce. As was noted above, such biases give the first generation firm its distinctive character, and such biases are usually highly valued by first generation employees because they are associated with the success of the enterprise. As the organization grows, as family members or non-family managers begin to introduce new assumptions, as the environment changes forcing new responses from the organization, the original assumptions begin to be strained. Employees begin to express concerns that some of their "key" values will be lost or that the characteristics which made the company an exciting place to work are gradually disappearing.

Clear distinctions begin to be drawn between the founding family and the "professional" managers who begin to be brought into key positions. Such "professional" managers are usually identified as non-family and as non-owners and, therefore, as less "invested" in the company. Often they have been specifically educated to be managers rather than experts in whatever is the company's particular product or market. They are perceived, by virtue of these facts, as being less loyal to the original values and assumptions which guided the company, and as being more concerned with short-run financial performance. They are typically welcomed for bringing in much needed organizational and functional skills, but they are often mistrusted because they are not loyal to the founding assumptions.

Though there are strong stereotypic components to these perceptions, if one examines a number of first generation and family owned companies, one can see that much of the stereotype has a firm basis in reality. Founders and owners do have distinctive characteristics which derive partly from their personalities and partly from their structural position as owners. It is important to understand these characteristics if one is to explain how strongly held many of the values and assumptions of first generation or family owned companies are. Table 4 examines the "stereotype" by polarizing the founder/owner and "professional" manager along a number of motivational, analytical, interpersonal, and structural dimensions.

Insert Table 4

The main thrust of the differences noted is that the founder/owner is more self-oriented, more willing to take risks and pursue non-economic objectives, and, by virtue of his or her position as founder/owner, more able to take risks and to pursue such objectives. Founder/owners are more often intuitive, holistic in their thinking, able to take a long-range point of view because they are building their own identities through their enterprises. They are often more particularistic in their orientation which results in the building of more of a community in the early stages of their organizations. That is, the initial founding group and the first generation of employees will know each other well and will operate more on personal acquaintance and trust than on formal principles, job descriptions and rules.

The environment will often be more political than bureaucratic, and founder value biases will be staunchly defended because they will form the basis for the group's initial identity. New members who don't fit this set of assumptions and values are likely to leave because they will be uncomfortable, or they will be ejected because they are seen to be disruptive and disconfirming of the accepted patterns.

Founder/owners, by virtue of their position and personality also tend to fulfill some unique functions in the early history of their organizations:

1) Containing and absorbing anxiety and risk. Because they are secure and confident, owners more than managers absorb and contain the anxieties and risks which are inherent in creating, developing, and enlarging an organization. Thus, in times of stress owners play a special role in reassuring the organization that it will survive. They are the stakeholders, hence they do have the ultimate risk.

2) Embedding non-economic assumptions and values. Because of their willingness to absorb risk and their position as primary stakeholders, founder/owners are in a position to insist on doing things which may not be optimally efficient from a short-run point of view, but which reflect their own values and biases on how to build an effective organization and/or how to maximize the benefits to themselves and their families. Thus founder/owners often start with humanistic and social concerns which become reflected in organizational structure and process. Even when "participation," or "no layoffs", or other personnel practices such as putting marginally competent family members into key slots are

"inefficient," owners can insist that this is the only way to run the business and make that decision stick in ways that professional managers cannot.

3) Stimulating innovation. Because of their personal orientation and their secure position, owners are uniquely willing and able to try new innovations which are risky, often with no more than an intuition that things will improve. Managers must document, justify, and plan much more carefully, hence would have fewer degrees of freedom to innovate.

As the organization ages and the founder becomes less of a personal force, there is a trend away from this community feeling toward more of a rational, bureaucratic type of organization dominated by general managers who may care less about the original assumptions and values, and who are not in a position to fulfill the unique functions mentioned above. It is this trend which is often feared and lamented by first and second generation employees. If the founder introduces his or her own family into the organization, and if the family assumptions and values perpetuate those of the founder, the original community feeling may be successfully perpetuated. The original culture may then survive. But at some point there will be a complete transition to general management, and at that point it is not clear whether the founding assumptions survive, are metamorphosed into a new hybrid, or are displaced entirely by other assumptions more congruent with what general managers as an occupational group bring with them.

Evolution through hybridization. The founder is able to impose his or her assumptions on the first generation employees, but these employees will, as they move up in the organization and become experienced managers, develop a range of new assumptions which are based on their own experience. These new assumptions will be congruent with some of the core assumptions of the original cultural paradigm, but will add new elements learned from experience. Some of these new elements or new assumptions will solve problems better than the original ones because external and internal problems will have changed as the organization matured and grew. The founder often recognizes that these new assumptions are better solutions, and will delegate increasing amounts of authority to those managers who are the best "hybrids", who maintain key old assumptions, but add relevant new ones.

The best example of such hybrid evolution comes from a company which was founded by a very free-wheeling, intuitive, pragmatic entrepreneur, "D", who, like C in the example above, believed strongly in individual creativity, a high degree of decentralization, high autonomy for each of the organizational units, high internal competition for resources, and self-control mechanisms rather than tight, centralized organizational controls. As this company grew and prospered it became increasingly difficult to coordinate so many autonomous units, and the frustration which resulted from internal competition made it increasingly expensive to maintain this form of organization. Some managers in this company, notably those coming out of manufacturing, had always operated in a more disciplined, centralized manner without, however, disagreeing with the core assumptions about the need to maximize individual autonomy. But they had learned that in order to do certain kinds of manufacturing tasks one had to impose some discipline and tight controls. As the price of autonomy and decentralization increased, D began to look increasingly to these manufacturing managers as potential occupants of key general management positions. Whether or not he was conscious of it, what he needed was senior general managers who still believed in the old system but who had, in addition, a new set of assumptions about how to run things which were more in line with what the organization now needed. Some of the first generation managers were quite nervous about having what they considered to be their "hardnosed" colleagues being groomed as heirs apparent. Yet they were relieved that these potential successors were part of the original group rather than complete outsiders.

If one analyzes the situation theoretically, one can see that evolution through hybrids is probably the only model of culture change which can work because the original culture is based so heavily on community assumptions and values. Any outsider coming into such a community with new assumptions is likely to find the culture too strong to budge, and either to give up in frustration or to be ejected by the organization as being too foreign in orientation. What makes this scenario especially likely is the fact that the <u>distinctive</u> parts of the founding culture will often be based on biases which are not economically justifiable in the short run. As was noted, founders are especially likely to introduce humanistic, social service, and other non-economic assumptions into their paradigm of how an organization should look, and the general manager who is introduced from the outside often finds these assumptions to be the very thing which he or she wants to change in the attempt to "rationalize" the organization and make it more efficient. Indeed, that is often the reason why the outsider is brought in. But if the current owners do not recognize the positive functions which their culture plays, they run the risk of throwing out the baby with the bath water, or, if the culture is strong, wasting their time because the outsider will not be able to change things anyway.

The ultimate dilemma for the first generation organization with a strong founder-generated culture is how to make the transition to subsequent generations in such a manner that the organization remains adaptive to its changing external environment without destroying those elements of its culture which have given it its uniqueness, and which have made life fulfilling in the internal environment. Such a transition cannot be made effectively if the succession problem is seen only in power or political terms. The thrust of this analysis is that the <u>culture</u> must be analyzed and understood, and that the founder/owners must have sufficient insight into their own culture to make an intelligent transition process possible.

Table 1

The Problems of External Adaptation and Survival

1. Developing consensus on the <u>primary task, core mission, or manifest and latent functions of the group,</u> e.g., strategy.

2. Developing consensus on <u>goals</u>, such goals being the concrete reflection of the core mission.

3. Developing consensus on the <u>means to be used</u> in the accomplishment of the goals, e.g., division of labor, organization structure, reward system, etc.

4. Developing consensus on the <u>criteria to be used in measuring how well the group is doing against its goals and targets</u>, e.g., information and control systems.

5. Developing consensus on <u>remedial or repair strategies</u> as the group finds the need because it is not accomplishing its goals.

The Problems of Internal Integration

1. <u>Common language and conceptual categories</u> — if members cannot communicate with and understand each other, a group is impossible by definition.

2. Developing consensus on <u>group boundaries and criteria for inclusion and exclusion</u> — one of the most important areas of culture is the shared consensus on who is in and who is out and by what criteria one determines membership.

3. Consensus on criteria for the allocation of power and status -- every organization must work out its pecking order and its rules for how one gets, maintains, and loses power. This area of consensus is crucial in helping members to manage their own feelings of aggression.

4. Consensus on criteria for intimacy, friendship, and love -- every organization must work out its rules of the game for peer relationships, for relationships between the sexes, and for the manner in which openness and intimacy are to be handled in the context of managing the organization's tasks.

5. Consensus on criteria for allocation of rewards and punishments -- every group must know what its heroic and sinful behaviors are, what gets rewarded with property, status, power, and what gets punishment in the form of withdrawal of the above and, ultimately, excommunication.

6. Consensus on ideology and "religion" every organization, like every society, faces unexplainable and inexplicable events which must be given meaning so that members can respond to them and avoid the anxiety of dealing with the unexplainable and uncontrollable.

Table 2

Basic Underlying Assumptions Around Which Cultural Paradigms Form

1. The Organization's Relationship to its Environment: Reflecting even more basic assumptions about the relationship of humanity to nature, one can assess whether the key members of the organization view the relationship to be one of dominance, submission, harmonizing, finding an appropriate niche, and so on.

2. The Nature of Reality and Truth: The linguistic and behavioral rules which define what is real and what is not, what is a "fact," how truth is ultimately to be determined, and whether truth is "revealed" or "discovered;" basic concepts of time as linear or cyclical, monochronic or polychronic; basic concepts of space as limited or infinite, communal or individual property, etc.

3. The Nature of Human Nature: What does it mean to be "human," and what attributes are considered intrinsic or ultimate? Is human nature good, evil or neutral? Are humans perfectible or not? Theory X or Theory Y?

4. The Nature of Human Activity: What is the "right" thing for humans to do, based on the above assumptions about reality, the environment, and human nature; to be active, passive, self-developmental, fatalistic, etc.? What is work and what is play?

5. The Nature of Human Relationships: What is considered to be the "right" way for people to relate to each other, to distribute power and love? Is life cooperative or competitive, individualistic, group collaborative or communal, based on traditional lineal authority, law, or charisma, etc.?

Table 3

How is Culture Embedded and Transmitted?

Each of the mechanisms listed below is used by founders and key leaders to embed a value or assumption which they hold, though the message may be very implicit, in the sense that the leader is not aware of sending it. Leaders also may be conflicted, which leads to conflicting messages. A given mechanism may convey the message very explicitly, ambiguously, or totally implicitly. The mechanisms are listed below from more or less explicit to more or less implicit ones.

1. Formal statements of organizational philosophy, charters, creeds, materials used for recruitment, selection, and socialization.
2. Design of physical spaces, facades, buildings.
3. Deliberate role modeling, teaching, and coaching by leaders.
4. Explicit reward and status system, promotion criteria.
5. Stories, legends, myths, and parables about key people and events.
6. What leaders pay attention to, measure, and control.
7. Leader reactions to critical incidents and organizational crises.

    (Times when survival of the company is threatened, norms are unclear or are challenged, insubordination occurs, threatening or meaningless events occur, etc.)

8) How the organization is designed and structured.

    (The design of work, who reports to whom, degree of decentralization, functional or other criteria for differentiation, and mechanisms used for integration carry implicit messages of what leaders assume and value.)

9) Organizational systems and procedures.

(The types of information, control, and decision support system in terms of categories of information, time cycles, who gets what information, when and how performance appraisal and other review processes are conducted carry implicit messages of what leaders assume and value.)

10) Criteria used for recruitment, selection, promotion, leveling off, retirement, and "excommunication" of people.

(The implicit and possible unconscious criteria which leaders use to determine who "fits" and who doesn't "fit" membership roles and key slots in the organization.)

Table 4
How Do Founders/Owners Differ From "Professional Managers?"

Entrepreneurs/founders/owners are ...	Professional Managers are ...
A. Motivation and Emotional Orientation	
Oriented toward creating, building;	Oriented toward consolidating, surviving, growing;
Achievement oriented;	Power and influence oriented;
Self-oriented, worried about own image; high need for "glory"	Organization oriented, worried about company image;
Jealous of own prerogatives; high need for autonomy;	Interested in developing the organization and subordinates;
Loyal to own company, "local;"	Loyal to profession of management "cosmopolitan;"
Willing and able to take moderate risks on own authority;	Able to take risks, but more cautious and in need of support;
B. Analytical Orientation	
Primarily intuitive, trusting of own intuitions;	Primarily analytical, more cautious about intuitions;
Long-range time horizon;	Short-range time horizon;
Holistic, able to see total picture, patterns;	Specific, able to see details and their consequences;
C. Interpersonal Orientation	
"Particularistic," in the sense of seeing individuals as individuals;	"Universalistic," in the sense of seeing individuals as members of categories such as employees, customers, suppliers, etc.;
Personal, political, involved;	Impersonal, rational, uninvolved;
Centralist, autocratic;	Participative, delegation oriented;
Family ties count;	Family ties are irrelevant;
Emotional, impatient, easily bored;	Unemotional, patient, persistent;

Structural/positional differences

Have the privileges and risks of ownership;	Have minimal ownership, hence fewer fewer privileges and risks;
Have secure position by virtue of ownership;	Have less secure position, must constantly prove themselves;
Are generally highly visible and get close attention;	Are often invisible and do not get much attention;
Have the support of family members in the business;	Function alone or with support of non-family members;
Have the obligation of dealing with family members and deciding on the priorities which family issues should have relative to company issues;	Do not have to worry about family issues at all, they are by def-..inition irrelevant;
Have weak bosses, Boards which are under their own control.	Have strong bosses, Boards which are not under their own control.

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Earlier work along these lines has been incorporated into my book <u>Career Dynamics</u> (Addison-Wesley, 1978). Further explication of the ideas of an organizational culture can be found in Pettigrew's article "On Studying Organizational Cultures" (<u>Administrative Science Quarterly</u>, 1979, 24, 570-581), Meryl Louis's article "A Cultural Perspective on Organizations" (<u>Human Systems Management</u>, 1981, 2, 246-258), and in H. Schwartz & S.M. Davis "Matching Corporate Culture and Business Strategy" <u>Organizational Dynamics</u>, Summer, 1981, 30-48.

The specific model of culture which I am using was first published in my article "Does Japanese Management Style Have a Message for American Managers" <u>Sloan Management Review</u>, 1981, 23, 55-68, and is currently being elaborated into a book on organizational culture.