

**FOUNDATIONS FOR A SOCIOLOGICAL BUSINESS PERFORMANCE  
PARADIGM BASED UPON THE FUNDAMENTAL RELIANCE ON AND  
AWARENESS OF CULTURAL IMPERATIVES**

A Thesis

by

HENRY SAMUEL MARSHALL

Submitted to the Office of Graduate Studies of  
Texas A&M University  
in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE

December 2004

Major Subject: Sociology

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## ABSTRACT

Foundations for a Sociological Business Performance Paradigm  
Based Upon the Fundamental Reliance on and Awareness of  
Cultural Imperatives. (December 2004)

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This thesis develops the theoretical foundation of the strategic-culture paradigm. This model focuses attention upon culture and appeals to the profit requisite associated with commercial activities, and is an integrator of business / domestic cultural expectations. I describe culture as an organizational attribute integral to behavior and strategy which represents a potentially powerful resource facilitating operational effectiveness, sustained competitive advantage, and increased business social accountability. This explanation relies upon conceptualizing culture at both the national and company level, and then explicating the dependent interplay between these realms. Specifically, I submit that corporations who establish and continually adapt their culture with the aim of striving to maintain a fit with the domestic context are more inclined to realize opportunities, attract customers, and endure unanticipated business environmental pressures. Using information collected on Nucor Steel and Southwest Airlines, I provide a preliminary assessment of the virtues of the strategic-culture model as it relates to explaining these firms and their operations.

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## INTRODUCTION

The study of organizational culture has fluctuated from being a very popular topic in the late 1970s to becoming outmoded by the mid 1990s (Hallet, 2003; Hill and Carley, 1999). During this era, the impetus for this interest was initially provided by management scholars in an effort to establish a link between an organization's culture and its influence upon worker morale, loyalty, and most importantly productivity (Fine, 1984; Frost et al., 1991). Moreover, by the mid 1970s Japanese automakers were competing successfully with American auto manufactures, there by calling into question American Industrial ascendancy. Japan's distinctiveness as the first non-Western society to develop an industrial base and achieve high levels of economic success intrigued organizational researchers. Not surprisingly, the divergent cultures involved in this commercial contest seemed a sound and compelling issue to investigate. Nevertheless, within the arena of sociology the academic ethos has generally gravitated to a more quantitatively oriented perspective and its associated effects which lend themselves to clearer operationalization (e.g. organizational structures or forms). As a result, enthusiasm surrounding organizational culture has steadily waned in the midst of a debate surrounding appropriate variables, their measures, and the manageability of firm culture (Ouchi and Wilkins, 1985). Gaining prominence within sociology's organization research is theoretical discourse that addresses organizational structures, and more recently their relation to external environments – investigating

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This thesis follows the style and format of the *Strategic Management Journal*.

organizational phenomena as they existed and the manifestations (Calhoun, 1990; Perrow, 1986). Interestingly, this line of research appears to ignore findings from several notable studies performed over 25 years ago (Cole, 1979; Lincoln et al., 1978; McMillan et al., 1973). The conclusions in these studies express frustration by the investigators who were unable to statistically capture what they characterized as “major organizational differences”, which they related to the individual organization’s atmosphere. Essentially, formal organizational structure paradigms were found to be deficient in explaining anomalous organizational behavior and performance, which was evidently not principally tied to an organization’s internal structures.

The irony of the situation is that at a time when sociology’s validation of the importance of organizational culture research is thin (Hallet, 2003), the attention being paid to individual corporate cultures or management culture across firms is receiving considerable attention by the media, politicians, and authors who are attempting to address the factors associated with the bubble market of the late 1990s, and the associated corporate malfeasance. For example:

As an observer of *corporate culture*, I believe strongly that the suicide of Arthur Anderson – and the assault on the investing public’s trust – could have been avoided had people paid attention to the danger signs flashing everywhere in the late 1990s. This is not a book about the Enron debacle, since Enron, in my view, was simply the final straw for Anderson. Instead this is a book about what it is like to work at a respected company as its *culture* began to decay (Toffler, 2003: 8).

The Tyco 8-k report provides another example of a *corporate culture* gone awry”. “With a mix of lax controls and poor ethics resulting in a pattern of aggressive accounting that was intended to increase reported earnings”. Among other things, the report provides considerable evidence that the conglomerate routinely engaged in practices it had long denied: suppressing the results of acquisition targets ahead of obtaining them, to boost its own post-deal profits (Maremont, 2002: A2).

Perusal of the popular rhetoric surrounding this issue suggests several implications: (1) firm attributes (e.g. unique capabilities) are suggested to be fundamental for understanding firm behavior, (2) corporate cultures have gone through a transformation (i.e. implying that corporate culture can change and possibly be directed), and (3) corporate reputations, legitimacy, and their commitment to social responsibility have been questioned. Consequently, I posit that the recent wave of corporate malfeasance and the associated heightened desire to explain business behavior and strategies<sup>1</sup> represents a unique opportunity for sociology and management researchers to revitalize culturally based theories. Hopefully, heightened academic attention focused on corporate culture will provide new insight and facilitate businesses to reexamine operational imperatives in order to effectively regain consumer trust, confidence, and loyalty - and furthermore to create a demand for socially responsible business practices from within the commercial sector.

I submit that the study of organizational culture should be fundamentally grounded within sociology. Essential to sociology and to the study of organizational culture is the idea that organizations are a social phenomenon that has unique features which distinguish them from the environment and from the individual desires and predispositions of its participants (Ouchi and Wilkins, 1985). But, a barrier to advancing organizational culture studies could be a result of sociology's reluctance to embrace and integrate diverse academic perspectives, while

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<sup>1</sup> I characterize strategies as a subgroup of an organization's behaviors. Strategies are an organization's activities which are developed and implemented in an effort to thwart challenges, and increase the firm's effectiveness at achieving a better competitive position - thus facilitating success which is commonly measured by financial performance.

demonstrating a considerable effort towards criticizing the shortcomings of other social science viewpoints. Furthermore, sociology tends to treat organizations as manifestations of macrosocial forces, as opposed to management investigators, who tend to treat the organization as relatively autonomous, thus focusing on the effect of organizational culture on employee cohesiveness, morale and performance (Ouchi and Wilkins, 1985). Not only is the level of analysis divergent in this scenario, but the designation of the dependent and independent variables are not in agreement. A synthesis of various combinations of these perspectives offers intriguing possibilities. For example, based upon adopting a notion that an organization's culture is not independent and is susceptible to the influences from the broader context in which it is embedded - not only offers a better understanding of the organization's culture, but the performance of the organization may be explained by the compatibility of this relationship.

Thus, in this thesis I will *first* apply the concept of culture to formal economic organizations (i.e. business organizations). I will describe culture as an organizational attribute integral to their behavior and strategy, which represents a potentially powerful resource facilitating the achievement of superior operational effectiveness, sustained competitive advantage, and increased business social accountability. The foundation of this argument relies upon conceptualizing and analyzing culture at two levels of analysis: One focuses on the domestic or national culture (i.e. macro level) in which a firm is located (i.e. the location of their primary

administrative operations, “home office”)<sup>2</sup>, and the other is corporate (or firm, company, organization) culture (i.e. micro level), which is a hybrid sub-culture unique to the firm. The rationale for this is to accentuate the claim that in order to facilitate the development and effective utilization of culture as a strategic imperative an awareness of these two realms of culture and the realization of their interplay is crucial.

*Second*, I will develop a theoretical formulation of a paradigm (i.e. the strategic- culture paradigm) which focuses attention upon culture and appeals to the profit requisite associated with commercial activities, and is an integrator of business / domestic cultural expectations leading to commercial and social benefits. The objective is to establish a foundation upon which to: (1) Describe the processes and outcomes intrinsic to the strategic-culture model, which facilitate social accountability, environmental sensitive policy, and financial performance, (2) Gauge whether the strategic-culture model corresponds with the priorities and processes expressed by two organizations that were selected for study as part of this project.

*Third*, link the elements that explain the strategic-culture model: culture, leadership, and strategy. The object at this juncture will be to extend organizational research, which has previously linked leadership to culture (e.g. Schein, 1992) or culture to strategy (e.g. Burgelman, 1983). As a result of bridging the relationship between these three concepts, the notion of leadership is extended beyond how and to what degree leaders influence the accomplishment of work, and describing it as

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<sup>2</sup> For the purposes of this project, the discussion will be constrained to corporations and business endeavors within the United States. With elaboration, the fundamentals of the strategic-culture model can be applied to multinational business operations, state and foreign policy, and select military operations.

an integral dynamic activity associated with corporate cultural synthesis and continual adaptation.

As a means to identify and isolate an internal organizational resource that facilitates company achievement, this study focuses on two corporations that have demonstrated an ability to perform well in industry sectors that are considered relatively unattractive (i.e. Southwest Airlines – commercial passenger air transportation, and Nucor Steel – steel manufacturing). Even though each of these companies is operating in what are commonly considered unattractive industries, they are consistently profitable, expand their workforce and operations, despite extraordinary challenges (e.g. 9/11 terrorist attack, increased security concerns, hypercompetitive pricing – commercial air transportation; global competition, over supply, environmental regulation, wage and benefit expectations – steel manufacturing).

Focusing on firms within unattractive commercial sectors provides the opportunity to reasonably rule out the inference that the primary determinant of a firm's performance is the industry or "strategic group" in which it is located (i.e. the industry-structure-performance paradigm; Caves and Porter, 1977). The industry-structure-performance paradigm fails to explain prior research providing evidence that there is a substantial amount of disparate performance within industries (Rumelt, 1991). Furthermore, by concentrating upon unattractive industries, I avoid one of the chief critiques of the industry-structure-performance paradigm, which insists that a rigorous evaluation of an industry resulting in its being deemed attractive (i.e. low levels of threat and high levels of opportunity; Porter, 1980)

cannot ignore an assessment of the individual skills and capabilities intrinsic to a particular organization (Barney, 1991, 1994). That is, if a firm is consistently able to perform extraordinarily and is doing business within an unattractive industry, it is reasonable to attribute this success to the firm's unique internal resource(s) (i.e. the resource based view of the firm; Barney, 1991). Thus, the questions to be ascertained as part of the examination of Nucor and Southwest are: (1) what do these corporations profess to be their unique attribute (or resource) that facilitates their extraordinary success? (2) What is distinctive about their cultures, and do their cultures represent an essential source facilitating their exceptional organizational performance (i.e. financial and/or social)?

Finally, before the intricacies of culture and the strategic-culture paradigm are elaborated, it is important to address the debate surrounding firm structure and strategy. This deliberation – at times presenting fundamentally different perspectives (e.g. Keats and Hitt, 1988 - structure facilitates a pattern of decision making which in turn shapes strategy; or Chandler, 1962 - strategy causes structures) has provided the impetus for tremendous theoretical deliberation. The dialogue surrounding structure / strategy will likely perpetuate indefinitely in conjunction with the development of new and compelling theories. More importantly, this discourse draws our attention to an important issue. What is the basis for the structure / strategy processes regardless of the causal flow? In other words, what is the foundation from which organizations and their managers approach the development of organizational forms or strategies? What would influence managers as to how they formulate, prioritize and facilitate structural or strategy imperatives? I posit that

culture represents the underpinning upon which these activities are built. This is not intended to completely preclude other environmental issues such as: competition, economic vitality, available technology, firm control, and other factors, which are potential influences. But, considering that exceptional commercial success is tied to company uniqueness, researchers need to focus on the organization, and the customer values / beliefs that are driving the means to generate goal creation and achievement. Thus, a focus on culture as a strategic issue warrants further examination.

## CULTURE

Culture is a blank space, a highly respected, empty pigeonhole. Economists call it “tastes” and leave it severely alone. Most philosophers ignore it – to their own loss. Marxists treat it obliquely as ideology or superstructure. Psychologists avoid it, by concentrating on child subjects. Historians bend it any way they like. Most believe it matters, especially travel agents (Douglas, 1982: 183).

As part of the introduction to *Culture*, Chris Jenks writes, “The idea of culture embraces a range of topics, processes, differences and even paradoxes such that only a confident and wise person would begin to pontificate about it and perhaps only a fool would write about it” (Jenks, 1993: 1). With this in mind, I commence my discussion of culture and elaborate on the two realms of culture integral to the strategic-culture model.

The concept of culture is at least complex, and at most so divergent in its various applications as to defy the prospect of any commonly agreeable designation. It nevertheless represents a significant concept as indicated by the daily and widespread use of cultural descriptions as a necessary rhetorical tool to explain all manner of behavior from commercial activities to the “war on terrorism”. The popular use of cultural idiom only seems to intensify the debate over the numerous definitions and other aspects of culture (e.g. organizational and national culture).

I submit this discourse is noteworthy, but not at the expense of the significance of organizational culture which is relegated to a tertiary subject. Answering the academic request for rigorous quantitative analysis of culture may be eventually achievable. The first step towards this is not to be deterred by its abstractness and to acknowledge that compromises and experimentation that explore cultural nuances are needed. I work from the notion of culture as a social

category - that is, culture regarded as the way of life of a people (Jenks, 1993)<sup>3</sup>. In order to promote and add value to existing organizational literature, I have chosen to carve out and describe two realms of culture (i.e. national and corporate), and their interdependence. Although generalizability is important, one of the values of this project lies in exploring the key variables that explain Nucor's and Southwest's commercial achievement as it relates to culture (i.e. both realms). From this, hypotheses that lend themselves to quantitative analysis can be developed that test those relationships on a sample of appropriate size and ultimately the appropriateness of the strategic-culture model. It is doubtful that further development of this research (i.e. beyond this project) will result in defining and statistically verifying the significant amount of a particular variable associated with culture that provides an unambiguous result. This would imply being able to delineate a specific "culture recipe" for a corporation to follow. What is more plausible, is conceiving that multiple variables at varying levels in various combinations will produce a synergistic fit between the two realms of culture, which is facilitated by the framework the strategic-culture model suggests.

### **Definitions: Two Characterizations of Culture**

(Social Character / Domestic or National Culture) – Character is the relatively permanent socially and historically conditioned organization of an individual's drives and satisfactions – a foundation with which people approach the world and other people. "Social Character" is the resulting aspect of character which is shared among social groups (Riesman, 2001: 4-5). Essentially, social character is a road

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<sup>3</sup> See (Jenks, 1993) for an elaboration of the genesis and conceptual categorizations of culture.

map (i.e. it can be at times conscious, semiconscious or completely unconscious) which guides collective behavior and serves as a distinguishing factor of groups within society. This includes the symbols and representations that people use to justify, describe or make sense of their lives and situations. Social character determines the frameworks or references people use to interpret their world (Smircich, 1983). It shapes people's self identity, which includes not only who people are, but also what they desire (Douglas, 1986). It involves what people want (normative feature) and what they believe to be true and acceptable (cognitive feature).

Corporate Culture – “A system of shared values (that define what is important) and norms that define appropriate attitudes and behaviors for members (how to feel and behave)” (O'Reilly and Chatman, 1996: 160).<sup>4</sup>

Envision a corporation's culture as a hybrid sub-culture of social character that borrows and is dependent upon social character for its livelihood as part of a dynamic interplay. A firm's culture may be due in part to “an internal negotiated order which emerges through the interactions of its members, a negotiated order that is particularly influenced by people with symbolic power” (Hallet, 2002: 130) (e.g. top management teams). But, the overriding aura of a firm's culture is characteristic of the “other-directed” schema (Riesman, 2001) where an organization's long-term achievement (i.e. livelihood – garnering investors, consumers, and attracting / retaining qualified employees) is tied to an ability, or process of interpreting signals from the social character and adapting itself. In other words, corporate culture and

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<sup>4</sup> Throughout this essay the use of firm, organizational, company, and corporate culture will be used interchangeably.

domestic culture are embedded within each other. Specifically, with regards to estimable success<sup>5</sup>, for business organizations the importance of social character lies in the conceptual frameworks it provides which in turn shape the organization's perceptions, goals and self-definition of the firm and its members (i.e. employees) - and in firm legitimacy engendered by the public (i.e. investors, customers, etc.) (March and Simon, 1958). These frameworks and classifications bind the options and ways in which decision makers perceive the world - which in turn influences plans and operations (Geletkanycz, 1997; March and Olson, 1976). Also, the members of an organization must "buy into" the firm's culture and exhibit a cohesive agreement with the organization's values and norms. If this employee connection is absent, the firm almost certainly will operate at less than optimal effectiveness or perhaps eventually be rendered relatively dysfunctional<sup>6</sup>.

A firm's culture is in effect an "enabler" that greatly affects its vision, behavior, and thus the formation and implementation of strategy. Yet, evidence suggests that awareness or recognition of the merit of this influence is questionable, such that top managers are not consistently vigilant and adaptive to the domestic context (Harrigan, 1985) - but exercise predominant reliance upon their background experiences (Hambrick and Mason, 1984). Consequently, managerial strategic orientations may be dominated or attributed to individual egoism and corporate goals

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<sup>5</sup> In the context of this project, "success" refers to more than financial achievement – it also entails demonstrated concern for employees and consumers, environmental stewardship, and value creating community relationships.

<sup>6</sup> The rationale for this supposition is that if an organization's values, beliefs, and standards diverge from social character and the associated elements of social character that employees bring with them to the job, the firm's culture becomes essentially abrasive and idiosyncratic – thus, a greater necessity for detailed planning is required. Consequently, there is greater probability that these plans will not be implemented as intended - because they will be interpreted in diverse ways and lead to contradictory actions.

generated without substantive consideration of the firm's responsibility to its employees or the populace (i.e. as may be the case with Enron, WorldCom, Tyco, etc.).

Consider a situation where top management decisions are generated as a reflection of their particular experiences, interests, and company culture (i.e. without an empathetic consideration of the domestic culture). In this situation, how would a firm engender validation and legitimacy from the customer base? Arguably, firms require legitimacy from the surrounding populace in order to garner investors and customers. Support and legitimacy in the eyes of the surrounding population in the form of a positive reputation (Roberts and Dowling, 2002) and corporate social performance have been linked to financial success. These in turn are a function of adhering to domestic cultural ideologies (Meyer and Rowan, 1977). In other words, domestic culture and company culture cannot operate *completely* autonomously. They must exist in a constant interplay of relations, in which they are shaped by and depend on each other. Neither company nor domestic culture provides a completely consistent set of ranked values, or action reference points (Beck and Moore, 1985). The degree of synchronization between these cultures is crucial. Crisis and poor business outcomes are facilitated when firms do not stimulate and sustain a corporate culture that is both supportive of the goals of the company, its employees, and also is in line with expectations from domestic culture. This is not to infer a one dimensional casual flow, because a corporation's culture may and arguably does have particular influence upon social character by means of advertising, product

development, and number of employees, thus highlighting the dependent relationship between firm and national culture.

### **Culture: Perception and Prior Performance Related Research**

In light of the current business environment (i.e. prevalence of malfeasance, consumer awareness, fragile economy, renewed interest in government regulation, intense competition - domestic and global); it is arguable that business strategies need to expand beyond a primary reliance upon financial controls. And consider an alternative imperative as a catalyst for identifying, developing and implementing actions - which in turn provide for long-term competitive advantage and associated desirable financial outcomes. This notion is supported by a recent Pricewaterhouse survey of 250 corporations:

Socially acceptable behavior, environmental sensitive policies and sound economic performance – known as sustainability – are likely to become important measures of corporate performance in the next five years, according to 89% of the executives surveyed by Pricewaterhouse. Yet, 72% of executives who responded said they aren't using those factors to determine risk to investments, to transaction or to project planning. (Bray, 2002: A5)

These survey results articulate the recognition of domestic cultural imperatives (i.e. socially acceptable behavior, environmental concern). The information suggests that corporations have the ability to interpret some of the more salient domestic cultural concerns and link it to performance, but for some reason do not yet see the value in emphasizing it as a principal priority. One could speculate that many of these surveyed corporations interpret their relationship with society as disproportionately autonomous, thus these data could be an indication of

complacency. Taking into consideration current business tendencies (e.g. downsizing, outsourcing, contingent workers, mergers and acquisitions), a more likely postulation is that this information indicates that firms see a need, but are entrenched in a primary reliance upon financial controls as a strategy to implement and monitor operations (i.e. the process) with financial performance outcomes as the measure of success (Hitt, Hoskisson, Johnson, and Moesel, 1996).

Possibly adding to the ambiguity surrounding corporate culture and its importance is the existing company culture and performance research. This research suggests that firms with cultures that offer competitive advantage have found and utilized the “right” culture and that firms that do not possess this attribute must look elsewhere for resources which will provide sustained superior performance (Barney, 1986). Other research has professed to identify the specific culture which, if utilized, will lead to sustained superior financial performance (Peters and Waterman, 1982)<sup>7</sup>, or that “strong” cultures offer performance advantages under stable environments, but these advantages rapidly become a hindrance as volatility increases (Sorensen, 2002). To clarify, just as contingency theory posits that there is no best way to organize (Galbraith, 1973) my argument is not that there is a definitive firm culture that will assure organizational prowess (e.g. superior strategy formulation and implementation). On the contrary, company culture formation and its effective operation as a strategic asset is a striving toward assimilating employees and business operations (Schein, 1992) while integrating

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<sup>7</sup> In the December 2001 issue of “Fast Company Magazine”, Tom Peters was interviewed and confessed to faking all the data that they collected for the book *In Search of Excellence*. Yet, Peters still maintains the relevance of this manuscript, and points out that it still represents one of the best selling business books published.

with the domestic culture. The strength of an organization's culture should be correlated to a firm's ability to timely and cohesive adaptation in relation to national culture. This leads to exceptional success for those firms that dedicate themselves to the idea that culture has potential as a principal resource worth gaining.

### **Culture and the Resource Based View of the Firm**

Discourse surrounding the issue of culture and its relationship with superior performance seems to be centered on the resource based view of the firm (Barney, 1986, 1991), and the notion of long-term (sustained) competitive advantage. "Long-term or sustained competitive advantage is when an organization is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors, and when these other firms are unable to duplicate the benefits of this strategy" (Barney, 1991: 102). My perspective coincides with this notion of competitive advantage, but extends this concept and posits that competitive advantage can also be achieved when several market competitors may be attempting to utilize the same resource (i.e. culture is the enabler of strategy and is a fundamental priority), but that extraordinary competitive advantage and associated performance as a result of an organization's culture, will be realized by firms that are able to develop and utilize their culture and embrace domestic culture with the most discernment. Consequently, to realize exceptional benefits associated with culture, an organization must achieve and maintain a robust relationship between the firm's culture and domestic culture.

According to the resource based view, in order for culture (i.e. a resource) to be a source of competitive advantage and by inference a basis for extraordinary performance – it must satisfy three criteria (Barney, 1986). *First*, a firm's culture must enable an organization to generate superior financial returns (Barney, 1986). If culture can be established as not only a fundamental tool in the pursuit of financial success, but also as a means to buffer the adherent firm from potentially negative market influences, then this criterion will be met. The answer to this issue will be ascertained during the data analysis section. *Second*, firm culture must be rare (Barney, 1986). By implication of my definitions of culture (i.e. domestic and firm), the recognition that firm culture is developed through an amalgamation of the priorities set by a firm, and its ability to empathize with the attributes of domestic culture – the possibility of many firms realizing equivalent internal cultures is highly improbable. *Third*, in order for an organization's culture to sustain superior competitive advantage, it must be a resource that cannot be copied (Barney, 1986). Because of the socially complex characteristics of culture and the varying levels of firm dedication to prioritizing culture as a fundamental strategic imperative, it is dubious that firms trying to duplicate the culture of a successful organization will be triumphant. This is assuming that firms trying to emulate a competitor's achievement attribute it to their cultural resource as opposed to something more tangible or definitive. Inevitably, a firm seeking to utilize culture as a source of competitive advantage may be better off developing their own culture based upon the general awareness of its potential and effective utilization of their internal human capital and associated firm skills.

The key is to envision culture as a desirable internal resource resulting from a dynamic relationship with social character (i.e. social character can also act as a beneficial reference). The challenges to establishing firm culture as a resource and developing this association are considerable. But this in itself elucidates the potential value of firm culture, which is a result of the difficulty to imitate it. A firm which effectively utilizes its culture to facilitate performance advantages essentially possesses an inimitable resource. Because of its intricacy, culture represents a unique resource which provides the foundation for corporate decisions and actions. Thus, culture can be considered the basis from which to propose the strategic-culture model.

## THE STRATEGIC - CULTURE MODEL

The strategic-culture model explicates several mechanisms which provide the adherent firm with desirable attributes. The model's interaction mechanism focuses on effective cultural utilization rather than organization cultural development. That is because the likelihood of entertaining culture as a strategic imperative is arguably enhanced if initially a depiction of what it offers and how it works is explained. This is not meant to imply that the mechanism of this model is more challenging than developing the firm culture needed to utilize it - the mechanism is quite straightforward. What will set a firm's performance outcome apart from their competition is their commitment to, awareness of, and the associated development of the necessary skills to utilize the model's principles.

In order for firms to facilitate growth or continued success within the dynamic market, the realization of opportunities is necessary. The ability or desire of firms to seek out these opportunities is based upon the values of individualism, uncertainty, commitment to current operations, perception of performance, and long-term orientation (Geletkanycz, 1997; Hambrick et al., 1993). Intrinsic to the strategic-culture model is the desire to seek out opportunities. A firm's culture that is purposefully embracing and accurately interpreting the external culture, in which it is located, is apt to identify clues as to what consumers and the public desire

Consider the analogy of the development of a therapeutic pharmaceutical and its mechanism of action. The goal for the pharmacologist is to develop a drug molecule that fits as many of the desired biological receptors within the body as possible, which in turn causes a sought-after result with the least number of

unanticipated and undesirable side effects. The more target receptors that are identified and engaged, the more efficacious the drug. If the molecule is a poor fit, the body either rejects the drug or unforeseen poor results may occur (i.e. no beneficial value or damaging effects). But, by utilizing understanding of biochemistry and the attributes of the problem being addressed, the goal is to not waste time developing an inappropriate preparation.

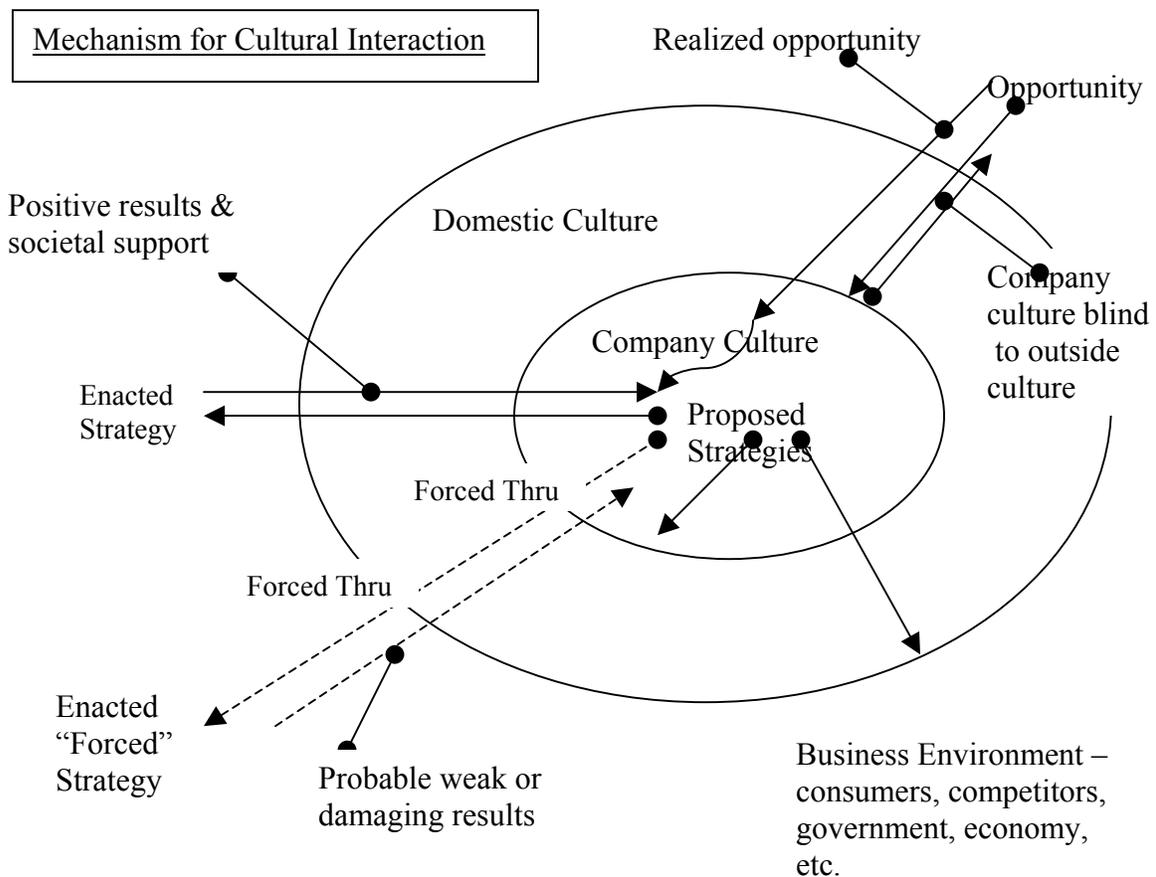


Figure 1. Mechanism for Cultural Interaction

An analogous scheme is the idea behind the strategic-culture model. Think of a firm's culture as a foundation from which the organization approaches issues and affects the focus of their lens to which they see through - and the domestic culture as a collection or series of receptors. Thus, the success of a corporation and its strategies can be related to not only the ability to identify receptors, but also embrace them. If operations and strategies are developed and implemented without prioritizing the nuances of the receptors (i.e. forced thru), the model would anticipate a short-term positive result at best and more likely detrimental results.<sup>8</sup> This is a situation in which the firm's culture was not utilized or was ineffective at identifying (filtering) a strategy that would produce poor results due to its incompatibility with social character (see figure 1). Clues to these receptors' mechanism of action (i.e. social character's inherent desires, needs, attitudes, and associated responses) are provided by the employees that work within the firm (i.e. everyone carries a segment of these cultural receptors with them). But, more comprehensive interpretations are derived when a priority is established to actively seek and expand cohesiveness with the domestic culture beyond what the limited (i.e. possibly biased) individual firm culture may provide. Moreover, the corporation essentially lives within this body of receptors (i.e. the domestic culture usually bounded by designations such as: communities, towns or even countries). As a consequence, long-term success of the organization can be viewed as a function of the synergy it creates within this body. Conversely, the vitality of communities can be associated to the operations and strategies of the firms which are embedded within them.

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<sup>8</sup> An example of this occurrence would be when the Coca Cola Corporation introducing a new formulation of Coke in 1984, and the devastating reception it elicited from the public - resulting in the product's recall and the Coca Cola Corporation losing of millions of dollars.

This may seem like an obvious priority or rather trivial organizational practice, but this may not be the case. If the recent Ford Motor Company and Firestone Tire controversy is considered, it could be argued that both corporations responses were based upon short-term financial concerns (i.e. initial refutation of a deficiency and deflection of responsibility / legal liability), apart from prioritizing the expectations of the populace and associated domestic culture. Certainly automotive consumers (more notably Ford Explorer owners which number in the hundreds of thousands) were uninterested with the public denunciation of Firestone by Ford. A casual interpretation of the domestic culture would indicate that it has a preoccupation with automobiles, which has evolved to include a significant concern for motor vehicle safety (i.e. a relatively new receptor that represents an opportunity if engaged). Thus, the strategy of both of these companies would have been more beneficial to all concerned if their activities had demonstrated a prioritization of this domestic cultural desire rather than ambivalence. As a result, a one hundred-year business relationship between Firestone and Ford was destroyed (i.e. Firestone no longer supplies Ford as an original equipment supplier) and both companies suffered financially (Firestone more than Ford). Moreover, if these companies would have worked together and demonstrated empathy for the public concern and developed a genuine strategy to ensure the safety of consumers, arguably each firm would have emerged from this circumstance in a better position facilitated by public legitimization and increased consumer loyalty. Instead, it could be argued that the cultures of these firms facilitated an unchecked sense of disproportionate autonomy and placed priority on company egoism to the point they were not able to see the potential

opportunity within this occurrence - or perceive how a different path may have facilitated a benign financial impact, and eventually garnered long-term competitive advantage. The actions demonstrated by both of these companies are an example of their deficiencies and negligence of the effective interplay of company culture and social character. Essentially, this is a situation where these corporate actions exhibited a policy and forced a strategy without regard or sensitivity to social character as a test or filter, which can indicate beneficial and objectionable (i.e. ultimately poor) strategies. I posit that these companies would have fostered a course of action that was more constructive if they had adhered to the general principles of the strategic-culture model<sup>9</sup>.

Another example of a firm demonstrating blindness to, or disregard for domestic culture is Ortho's recent birth control patch product launch. The patch was designed and produced in only one color (i.e. Caucasian skin). People of color were not provided a patch which attempted to match their skin. As a result, there was a backlash from consumers and the manufacturer lost the opportunity to initially attract an important and lucrative customer population. This event raises questions concerning this organization's culture as to how well it reflects social character, and the imperatives it employs in the course of its operations and strategy vision. Moreover, this occurrence illustrates the disregard of a significant domestic cultural

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<sup>9</sup> It appears that Firestone and Ford may have realized at least a semblance of the need to redirect their organizational approach, based upon a closer alignment with the domestic cultural. In February 2004, Firestone announced its second recall of Ford SUV tires before NHTSA initiated an investigation. "In contrast to the public feud that broke out between Ford and Firestone after the 2000 recall, Ford issued a statement praising Firestone for working cooperatively with NHTSA and Ford in the best interest of our customers" (Power and Aepfel, 2004: B2).

principle which rests upon a desire for recognition of racial and ethnic differences in combination with equal treatment.

## LEADERSHIP AND CULTURAL ADAPTATION

Cultural adaptation has been mentioned throughout this essay as integral to exceptional organization achievement, particularly for firms operating in environments that are not conducive (e.g. attempting to operate within an unattractive industry). This leads us directly into the issue of one of the principal contentions with the study of organizational culture: can a firm's culture be managed? And I add can a firm cultivate its culture so as to realize its full potential? I posit yes, but that two issues need to be addressed: (1) leadership leading to appropriate firm goals and values, (2) eventual firm cultural autonomy by means of the feedback loop.

The discourse surrounding the examination of leadership seems to focus on how and to what extent leaders influence the accomplishment of work (Daft, 1983; Trice and Beyer, 1991). More specifically, leadership and productivity models which have a general thesis which professes that "good" leadership centered on human relations rather than bureaucratic rules will lead to increased productivity (Perrow, 1986). The criticisms of this perspective which is commonly designated a branch of human relations theory are quite extensive.<sup>10</sup> The general tenor of these critiques are that leadership's effects on morale and attitudes are relatively small and difficult to separate from other considerations, and furthermore there does not appear to be consistent empirical evidence to support the notion that worker attitudes and associated morale have an appreciable relationship to explaining organizations or

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<sup>10</sup> See (Perrow, 1986). Criticisms seem to revolve around the Human Relations School's foundations which profess harmony, conflict resolution, and desire for participation as integral to understanding organizations.

their performance (Perrow, 1986; Hall, 1977). But, this point of view facilitates overlooking a firm's "culture" as an integral consideration in order to illuminate an organization's activities and performance - and by characterization has some influence on the attitudes and behaviors of members - thus describing reciprocal relations between an organization's activities / performance and employee's attitudes / behaviors. This is especially pertinent as our economy steadily moves from a manufacturing to a service based orientation. The service provider organization's success (i.e. because of the sheer volume of interpersonal contact) is fundamentally dependant upon the attitudes and behavior of individual employees as they are interpreted through interactions with customers. Thus, I propose that a consideration of how leadership relates to not only sustaining culture, but more importantly the aspect of leadership integral to cultural synthesis and adjustment is needed. From this perspective, "leadership is the effective activity of shaping the culture of an organization" (Selznick, 1957: 14).

### **Leadership and Values / Goals Creation**

As an organization is institutionalized, it comes to symbolize particular values and develops doctrine fundamental to self-protection. An organization's image or reputation is a way in which these values are conveyed. For example, the connotations of identifying yourself as a contented employee of the IRS versus Southwest Airlines instantly associates you with a specific identity and outlook reflective of your organization's values and goals. Leadership involves the expression and development of such goals and identity (Selznick, 1957). Moreover,

the goals and values which the corporation's culture favors are not static. The process of striving and the practice of paying close attention to the signals from social character are never-ending. This implies that a paramount leadership responsibility involves identifying the need for, and initiating adjustments to a firm's culture. A firm's leadership (i.e. predominately top management teams which are positioned within the organization with a principal responsibility and associated authority to orient operational activities) must skillfully make the transition from a cultural identification function into a development and implementation role. A notion of leadership as the power to suspend a firm's current cultural preferences through such things as procedural or asset deployment changes will not suffice. Leadership must entail influencing (i.e. changing) the firm's current cultural imperatives and associated predilections. Essentially, in order to realize culture as a resource, the effective management of a firm's culture is part of an ongoing activity which in itself is a strategy - that in turn aids in the development and implementation of other strategies.

Additionally, the formation of a "new" organization's culture (i.e. the initial culture a firm has and is founded upon) and its effect as a foundation from which future cultural adaptations and organizational strategies are gauged is an important consideration. Therefore, highlighting the potential impact and relational dynamics between leadership and culture as the firm evolves or experiences environmental challenges. One must bear in mind that corporate culture involves a set of values and that these values play a central role in the establishment of goals. A new firm's self-identity and culture are initially vulnerable since the culture of the new firm is

arguably a reflection of the leadership's values and perspectives (Goffee and Jones, 1998) more than at any other epoch in the life of the organization. If the firm is initially successful, the organization will likely develop a culture that is based upon these founding principles. But, long-term success is logically tied to the ability of the firm to continually adapt itself as it experiences market and/or domestic cultural shifts. In this situation, the firm may need to adjust its culture in order to bring it back in line with the environment. This is a situation where firm leadership is required to acknowledge that the firm's culture may be manifesting limitations, and develop activities which profess and facilitate cultural adaptation. This does not necessarily imply that all the founding cultural principles of a firm should be discharged.<sup>11</sup> The degree to which the new firm's culture reflects / embraces a relationship with domestic culture, and facilitates an ability to appropriately reference founding imperatives in the course of seeking to stay in line with social character indicates a need to create a delicate balance. This is not only a complex, but necessary task. It leads to the question: what are the leadership elements required of managers that facilitate these activities and associated desirable outcomes?

Research indicates that there are several traits / skills that assist leaders in creating, instilling, and maintaining culture (House, 1977; Trice and Beyer).

- Personal qualities such as: self confidence, dominance, and strong conviction in the moral righteousness of their beliefs.
- Vision and Mission: The ability to acutely discover opportunities and propose unique processes which engender successful exploitation.

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<sup>11</sup>See (Toffler, 2003). The inference is that the demise of Arthur Anderson can be traced to a shift from a founding culture which was based upon personal honor, duty, courage, integrity (i.e. sometimes referred to as the Samurai culture) and the eventual transition to a culture that focused upon generating profits as the primary imperative (i.e. a Merchant culture).

- Followership: The ability to empathize with subordinates and actively put aside ones own biases and assumptions.
- Demonstrated Behavior: Creating impressions of competence, communication of goals, optimism, and exhibiting confidence in subordinates.
- Performance: achievements of particular success and accomplishments.
- Use of Tradition: Utilization of stories, symbols, and reward systems communicate and affirm company culture.

It is important to consider that this list contains several components that are characteristic of pathology (e.g. haughtiness, dominance, righteousness of belief, manipulating impressions, and a dependence upon recognition of particular success and achievement) (Beers and Berkow, 1999). Taken in combination with the economic realization that markets tend to focus on short-term financial returns and profit is compulsory, a divergent amalgamation of forces is revealed that has the potential to reinforce objectionable leadership and associated organizational qualities. The firm must highlight an organizational, and thus leadership challenge of staying disciplined and focused upon being commercially astute and insistent, but not crossing into the realm of imprudent or disordered behavior. The firm thereby avoids what could lead to a less than advantageous company culture.

Hence, I submit additional leadership traits:

- Respect for and recognition of the potential for increasing capabilities as a result of seeking diverse, sometimes contradictory viewpoints.
- A resolute ethical and honorable orientation.

And I posit that all these attributes represents an interdependent list. That is, in regards to the process of developing and managing an organizations culture which

is regarded as value adding - all eight of these leadership characteristics are posited as necessary in order to garner a tempering and beneficial effect.

### **Cultural Autonomy**

Firm cultural autonomy represents another essential issue integral to managing organizational culture effectively (i.e. optimizing a firm's culture as an enabler of operations and strategies, thus realizing culture's potential to generate competitive advantage). Autonomy is the ability to make decisions and implement programs independent of external influence without worry of adverse reaction from observers (Smith, 1976). An organization's cultural autonomy depends on its position on the continuum that ranges from a direct reflection of external culture (i.e. social character) to the innovation and dissemination of a completely distinct company culture. A firm with a strong degree of attachment and identity with the external culture would possess relatively high autonomy. That is, because of the established relationship, the firm's activities and strategies are less apt to be scrutinized. The strategic-culture model impresses the importance of the firm's ability to embrace this relationship, which in turn garners public legitimacy and aids in generating and maintaining its own beneficial culture. This culture in turn constitutes the firm's identity and goals, and articulates the firm's taxonomy schemes in which it prioritizes and interprets the external environment. Different firms will have dissimilar success with this process; greater ability in this regard enhances autonomy and increasing the probability of establishing competitive advantage. The more autonomous the firm, the more it possesses an independent and legitimate right to interpret a

situation, analyze it using its internal capabilities, and then to dictate a suitable response (Abbott, 1988).

A “cautious” amount of autonomy is a valuable and desired firm attribute, but it also presents a future challenge for companies that are able to achieve it. In consideration of a firm’s autonomous position, complacency may set in. This in turn could eventually put the company in a situation where it does not adapt to the external environment to the point of putting into practice strategies which are not suitably receptive to social character - thus losing legitimacy, damaging its reputation, and diminishing its market success. In essence, initial dedication to, and utilization of the strategic-cultural scheme may be responsible for achieving a privileged business and social position – but if reliance on its imperatives wavers, the consequence may be substantial firm downfall.

### **Linking Culture, Strategy and Leadership**

As noted, prior research has discussed a relationship between leadership and culture (e.g. Schein, 1992) or culture and strategy (e.g. Burgelman, 1983). But these binary relationships do not fully explain the strategic-culture model. In order for the strategic-culture paradigm to realistically operate it is necessary to view effective utilization of culture as reliant upon strategies and at the same time a catalyst from which strategies are produced , all of which requires effective management of culture (i.e. leadership) – that implies management of strategies. This requires reconsidering the above posited distinctions of culture and the interplay between

cultural realms (i.e. company and domestic culture). From doing this the following interpretations are submitted:

- Culture is a semi-rational concept stemming from the values, traditions and norms of behavior brought into and held by the firm's managers / employees.
- Culture emerges out of the cumulative effect of many formal and informal actions and decisions in use daily and over years by employees.
- Culture is embedded and a form of pattern maintenance for employee and management behavior that provides direction for the firm.

The implication from these statements is that strategy could be substituted for culture in each of these phrases. "Strategy represents the more or less explicit articulation of the firm's theory about its past concrete achievements. This theory defines the identity of the firm at any moment in time. It provides a basis for maintenance of its identity and for the continuity in strategic activity" (Burgelman, 1983: 66). *Hence, this explanation of strategy forms the connection between leadership (which involves articulation activities, Selznick, 1957), culture and strategy, and thus the manner of the strategic culture model is recognized.*

## **NUCOR STEEL AND SOUTHWEST AIRLINES: A VIEW OF ACHIEVEMENT WITHIN UNFAVORABLE INDUSTRIES**

### **Data**

The analysis of these two organizations is based on public documents and historical data supplied by Southwest Airlines and Nucor Steel, and assessment of the United States Bureau of Statistics Economic Census (i.e. 1997 and 2002).

Nucor was contacted and subsequently provided the following information: Annual reports 1997 thru 2002, executive management review 2003, Financial statistical data 1991 thru 2002, historical financial data comparing each year 1966 through 2002, and a power point presentation elaborating the history of the company, operational priorities and goals, EPA assessment of Nucor, OSHA's report on Nucor, corporate mission statement, benefits policies, and management structure / philosophy.

Southwest Airlines was contacted and subsequently provided the following items: mission statement to the employees and customers, social responsibility statement, corporate governance guidelines, historical fact sheet, code of ethics, annual reports 1997 through 2002, equipment profiles as they relate to environmental concerns, and a statement of requirements elucidating the board of director's qualifications and code of ethics.

It is pertinent to establish that both Southwest and Nucor are recognized as exemplary firms not only within their respective industries, but also in relation to the overall field of commercial enterprise. For example, as of the conclusion of 2002 Southwest has reported thirty consecutive years of profitability and profit sharing

while maintaining 100 percent job security. This accomplishment is surprising when closer examination of their annual reports reveals that in 2002 Southwest was the only major airline that made a profit. The other major airlines reported an aggregate net loss in excess of \$10 billion, and two of them filed petitions for bankruptcy. And at the end of 2002, Southwest Airlines market capitalization exceeded that of all other major airlines, combined. Furthermore, in comparison of the 30 best performing stocks since its debut in 1972, Southwest is ranked No. 1. More specifically, since August 1972 Southwest has produced annualized returns of 25.99% (Southwest Airlines Annual Report, 2002).

Nucor as well has notable achievements that include being profitable every year and quarter since 1966, and despite the fact that the steel manufacturing sector's overall revenues decreased by 19.2% from 1997 to 2002 Nucor's sales increased 2.2%. Moreover, as the steel industry lost 116,102 jobs from 1997 to 2002, Nucor added 2900 jobs. Accordingly, Nucor has established itself as the largest U.S. structural steel bar, steel joist, and steel deck producer. In the midst of these accomplishments, Nucor has been the nations only steel facility acknowledged by the EPA's National Environmental Performance Track Program, and as of 2002 is recognized as the largest U.S. recycler, effectively converting over 13 million tons of scrap metal into useful products (Nucor annual report, 2002).

What do these corporations profess to be their unique attribute (or resource) that facilitates their achievements? Based upon an initial review of the information gathered on Nucor and Southwest and scrutiny of the rhetoric each company uses; I determined that the annual reports represented the most direct depiction of their

self-described strategies - and what each firm declared as the reason they feel their operations have been and will continue to be uniquely successful.

### **Assessment of Southwest Airlines**

The most obvious item to investigate was if the firms actually stated, "Our success is due to". The results of this exercise indicated an interesting result. In every annual report, whether it was in a letter to investors from Southwest's Herb Kelleher (company chairman) or a member of the top management team, they identified Southwest's culture or spirit and the people that encompass these entities as a primary reason for their success. For example:

Southwest has a unique and powerful Culture that is the envy of corporate America (Southwest Annual Report, 1997).

Culture is why we continue to produce winning seasons (Southwest Annual Report, 2000).

A noteworthy result from specifically examining the introduction section of Southwest's annual reports, which includes a letter to the investors by the chairman of the board and additional situation statements, revealed that there were 50 references to the admirable qualities and the integral feature Southwest employees play in the competence of the airline. Such as:

Although we cannot predict what external, uncontrollable events might transpire during 2003, we can forecast with considerable certainty that our valorous, caring, nimble, good-hearted People will ensure that Southwest ends 2003 just the way it ended 2002 - at the forefront of our industry (Southwest Annual Report, 2002).

As a result of the extraordinary efforts of our Employees, we quickly restored operations with exceptional on time performance and reliability (Southwest Annual Report, 2001).

The unity, altruism, and result-oriented focus of our People are both my joy and pride as we enter our 30<sup>th</sup> year of commercial air service (Southwest Annual Report, 2000).

Note that every time the word Employee, People (i.e. referring to a member of Southwest's staff), Culture, or Spirit is used in Southwest's text, it is capitalized.

In Southwest's 2002 annual report, the company indicates that 2002 was the worst financial year in the past 30 years for the entire airline industry. Yet, they are in a position to grow and prosper. They identify seven principle items that have facilitated this position:

1. Low Costs - Southwest has the lowest operating cost of all the major airlines. The reason for this: single aircraft type; efficient, high-utilization, point to point route structure; hardworking, innovative, and highly productive Employees.
2. Low Fares – Every seat, every flight, and every day. Southwest is known as “the” low fare carrier. And that brand serves Southwest well in today's difficult operating environment when, as Southwest submits, “we are all low fare carriers”. The Southwest philosophy is low fares.
3. Frequent flights – In markets served, Southwest strives to be the largest carrier in terms of customers carried and flights flown. This gives customers convenience and lots of options to reach their destination.
4. Strong Financials – Southwest is the only U.S. airline that maintains an investment grade credit rating (“A” Standard & Poor's and Fitch). As of 2002, Southwest had \$1.8 billion in cash on hand (six months of operating expenses), and unmortgaged assets of \$5 billion.
5. Legendary Customer Service – Due to Southwest's committed and insuperable Employees, despite the stress and strain of instituting drastic changes in airport security and a disastrous economic environment, Southwest's focus upon customer service and providing affordable air transportation never wavered. For the 12<sup>th</sup> straight year, Southwest had the best customer compliant record of any U.S. airline. Southwest ranked first among airlines for customer service satisfaction, according to a survey by the American Customer Satisfaction Index, as reported by The Wall Street Journal.
6. Rapid Rewards – Customers receive a roundtrip ticket to anywhere within the Southwest system after just eight round trips or 16 one way flights. This

program was honored as frequent flier Program of the Year, Best Award Redemption, and Best Bonus Promotion among all frequent flier programs in *Inside Flyer* magazine's annual Freddie Awards.

7. Cautious Growth – Steady manageable growth has enabled Southwest to keep its debt under control and profits intact while allowing the doubling of the aircraft fleet in less than nine years. Considering the difficult environment, no new cities were added in 2002 and none planned for 2003. However, four new city-pairs were added. Given the financial condition of Southwest's competitors and the resulting downsizing, Southwest is uniquely positioned to grow.

It is important to highlight that if the cultural attributes of motivation, loyalty, commitment, productivity, and innovation are removed from this list - what is left are procedural operations that are decidedly visible and imitable. It is feasible that a competitor could relatively easily identify and copy them - thus, rendering them no longer a source of long-term competitive advantage.

Further examination of Southwest's information revealed another intriguing notion. Southwest considers its "air service as freeing Americans to move about their country; enshrines Southwest as a symbol of Freedom for the United States; and honors their People as the industry's foremost Freedom Fighters" (Southwest Annual Report, 1997). This perspective is extensively elaborated through six "stories of freedom" requiring fifteen pages in the 1998 annual report. Southwest professes that air travel was segregated before it began operations (June 18, 1971) due to the prohibitive cost of flying. To bolster this proposition, Southwest indicates that it annually receives on average 100 requests from communities to add them as part of their flight schedule. And for those locations that are selected, the number of air travelers increases significantly - often three fold causing what the U.S. Department of Transportation refers to as the "Southwest Effect" (Southwest Annual

Report, 1998). Effectively, Southwest identified and acted upon a domestic cultural shift which involved a heightened demand for equality and independence - that was facilitated by the racially charged social movements of the 1960s and 70s. In the process Southwest identified a market opportunity (i.e. primarily domestic short haul).

We are proud to be a part of a vision that resulted in one of America's most basic freedoms – affordable flight (Southwest Annual Report, 1999).

The inference is that the theme behind all off the allegations Southwest professes to be producing their achievement is an altruistic spirit, facilitated by a set of values and goals, which are fundamentally grounded by referencing social charter and the ability to utilize an associated unique firm culture.

Southwest's Culture is often the yardstick for many American corporations. Our Culture is unique because of the SOUTHWEST SPIRIT of our Employees. Defining SOUTHWEST SPIRIT is difficult, but one of the important components is an altruistic nature that places others before self. Our Employees are famous for their warm hearts and giving nature, which is what makes Southwest a company with a conscience. The Employees of Southwest are committed to "doing the right thing," which is why giving back to the communities we serve and contributing positively to our environment is simply the way we do business (Southwest Airlines Social Responsibility Statement, 2002).

The idea that the Southwest's culture is the envy of corporate America is not a surprising submission. Southwest culture is notorious because they advertise and rely upon it. The rudiments behind their use of culture are reasonably evident. Consider the impetus upon which Southwest built the airline has an altruistic component - increase access to the speed and safety of air travel by bringing affordable and convenient air travel to the populace. To achieve this aspiration the

founders of Southwest overcame a plethora of obstacles<sup>12</sup> generated by established airlines in their effort to thwart competition. This contest seems to have solidified Southwest's resolve and arguably attracted support in the sense that Southwest was considered the underdog that took on goliath, and prevailed.

Competition (i.e. honorable competition) is a salient domestic cultural imperative. The basis of this domestic cultural receptor can be traced to the break with tradition which attended migration to the United States, and the two century collective challenge of subduing a rich and untamed continent. Embracing competition is so significant to Southwest that they feel the need to actually delineate their competitive viewpoint.

We seek to outperform our competitors fairly and honestly. We seek competitive advantage through low costs, low fares, and superior Customer Service, never through unethical or illegal business practices. Our advertising and other communications with customers are simple, direct, and straightforward, as well as compliant with the law. We make our decisions concerning pricing, markets, routes and customers to be served and do not enter into illegal agreements with our competitors (Southwest Airlines' Code of Ethics, 2003).

The main plaintiffs against Southwest (Texas International, Braniff and Continental airlines) were figuratively blind to the domestic cultural relationship Southwest was establishing and the associated opportunities. To the extent that Texas International and Braniff no longer exist and Continental's performance has been inconsistent (Maynard, 2004).

Based upon the limited data selected for this study, the evidence suggests Southwest has achieved a notable degree of conformity with social character. The number of domestic cultural receptors that Southwest strives to and actively

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<sup>12</sup> See (Freiberg K. and Freiberg J. , 1996) for an extensive description of the legal and advertising campaign that was brought to bear by several airlines in the effort to stop Southwest from operating.

embraces is fascinating when they are considered: environment, job security, community involvement, equality, competition, service excellence, candidness, and personnel relationships. Perpetuating this relationship and cultivating an internal culture that facilitates this connection is a purposeful tactic within Southwest. Southwest diligently seeks employees by focusing primarily upon synergy between the potential employee's values and attitudes, and the cultural attributes of Southwest (Southwest Annual Report, 1999, 2000). By doing this, Southwest demonstrates recognition that employees are representative of domestic culture. Prioritizing employees through the action of graciously crediting them for the reason behind Southwest's success indicates validation of the needs, drives and satisfactions of both firm and domestic culture.

Moreover, Southwest's history entails very consistent leadership. Herb Kelleher was part of the initial group of entrepreneurs that founded Southwest Airlines and was closely involved in day to day operations until the conclusion of 2003. During his tenure at the helm of Southwest a core doctrine was established and maintained. The idiom within the data indicates that this doctrine includes a principle set values that include: profitability, low cost, family, fun, love, hard work, individuality, ownership, legendary service, egalitarianism, common sense/good judgment, simplicity, and altruism. It appears that the combination of Kelleher's leadership, which arguably can be characterized as charismatic (Weber, 1978), and the integration of these core values has manifested a significant firm culture. Significant not only since it appears to be inimitable, but also because Southwest represents an organization which has developed an atmosphere conducive to a

unique level of social solidarity (Durkheim, 1933). This solidarity produces a strong sense of attachment between employees and provides a connection to domestic culture by prioritizing its desires. As a result, a sense of purpose is cultivated that manifests itself in the organizations ability to consistently meet environmental challenges such as the terrorist attacks of 9/11 - while maintaining firm objectives (e.g. low operating costs, customer service, etc.), and in the process produce desirable outcomes. An interesting query for further research would be to explore the variables that are inherent in Southwest's culture such as: charismatic leadership, leadership tenure, egalitarianism, job security, recognition of mistakes, environmental stewardship, and altruism as they relate to levels of social solidarity and firm performance for other organizations.

This illuminates an interesting issue. The evidence gathered for this project does not provide a clear delineation of Southwest's method to success as it relates to the cultural realm relationship. If an other-directed (Riesman, 2001) depiction of the organization's cultural dynamic is most appropriate, then the ability to be sensitive to social character as a primary source of direction, in combination with the associated sensory prowess that provides a communication with society that is beyond the externals of appearance and propriety - is critical to explaining this organization and its long-term commercial success. This is different than an inner-directed (Riesman, 2001) depiction of organizational culture. That is, if the company has a primarily inner-directed organizational culture, then the key to explaining the firm and its long-term success is a case where the organization's culture had in its infancy adopted a definitive set of guiding principles that are relatively static. These

in turn act as standards which are continuously referenced in the course of commercial operations. In essence, these guiding principles produce such a powerful framework from which to guide the organization's operations, a relative independence or insensitivity of domestic cultural shifts is realized. In the case of Southwest, it appears that they have the capacity to exercise both inner and other-directed attributes in a collaborative manner. This phenomenon highlights a crucial area for further examination, what perspective takes precedence and what is the threshold at which reliance upon founding standards needs to be adjusted in the course of changing social character as it relates to firm "success"?

### **Assessment of Nucor Steel**

As with Southwest, the examination of Nucor's information began with a detailed reading to ascertain if the company actually states what its success is attributable to, and how consistent is their submission. Markedly, the tone of Nucor's Annual reports' introductory statements and letters to investors are much more statistically based - especially during the 1997 through 2000 period before the selection of Daniel DiMicco as President and Chief Executive Officer. Comparing the literature elicits characterizing Southwest's language as very demonstrative, whereas Nucor's idiom is reserved and succinct. The 1997 thru 1999 introductory messages appear to be a form letter with changes to financial results and minor sentence structure the only differences. Nevertheless, it should be noted that the cover of all Nucor annual reports lists all the names of the firm's employees. Consequently, the company data before 2000 does not elaborate extensively concerning self-described reasons for its

success. The suggestion is that Nucor's initial achievement was tied to focusing on market niches that it considered under served – fabricating steel joist for use in nonresidential construction and making steel itself from recycled scrap metal. In the process of establishing the firm's prominence, Nucor located in rural areas across America where the company established strong ties with local communities, which resulted in many locales competing by providing amiable government policies and fervent “nonunion” workers. Nucor utilized very conservative financial practices, and aggressively sought to adapt innovative technology that would produce products more efficiently and facilitate lower operating costs. Additionally, the corporation was organized with only 4 management layers and a notably lean corporate staff (e.g. 30 people serving 9800 employees as of 2002) (Nucor Annual Report, 1997, 1998, 2002). This information indicates a very efficient corporation that is focused on productivity, technology, low operating costs, and community relationships - but not necessarily and strategies that are reliant upon a unique resource.

As part of the 2000 annual report, an executive recap of the more than three decades (1965 – 1997) in which Kenneth Iverson lead the corporation, and the associated success is elaborated as follows:

Ken Iverson took over a failing nuclear instruments company in 1965 and turned it into one of the most admired companies in America. Mr. Iverson cultivated a unique culture – where workers were rewarded for their production, executives received the same benefits as everyone else and plant managers operated their plants as independent businesses. Under these principles, Nucor grew into one of the largest and most profitable steelmakers in the United States and a company that could compete with any steelmaker worldwide. Mr. Iverson was quick to take intelligent risks. Yet, he never got carried away with his accomplishments. He was quick to point out his mistakes, to share credit with all Nucor employees and to respond to personal requests from any worker or customer (Nucor Annual Report, 2000).

Within the Nucor information assembled, the above passage is the first reference to culture, and also indicates several of the guiding principles of the firm: incentive pay, egalitarian benefits, plant autonomy, and risk predilection. This passage also provides a clue as to some of the leadership traits Iverson demonstrated: modesty, respect for employees, tolerance for mistakes, and altruism.

Starting in the 2000 annual report, which coincides with the transition of Daniel R. DiMicco to the President and Chief Executive Officer position, Nucor started advertising a new company theme, “Our Goal is to Take Care of our Customers.....its is our nature”. Furthermore, DiMicco elaborates that, “in order to accomplish this Nucor must be the safest, highest quality, lowest cost, most productive, and most profitable steel company in the world, while being cultural and environmental stewards in the communities where they live and work” (Nucor Annual Report, 2000). This information stresses the firm’s customer focus, several internal principles as a framework to work within, and interestingly he adds the components of being cultural and environmental stewards. This indicates some sensitivity to social character.

The examination of the power point presentation and 2002 annual report provided particular evidence as to the priority and necessity that Nucor places on its culture. Both pieces of data describe Nucor’s desire for continued growth. One of the approaches to achieve this growth is an acquisition strategy that is characterized as “a departure from normal policy” (Nucor Annual Report, 2002). The reluctance to embrace this strategy in the past is evidently tied to a concern for maintaining Nucor’s culture. For example:

We promise to move carefully down this path, starting slowly as we learn the art and science of integrating acquired assets into Nucor's culture (Nucor Annual Report, 2002).

The checked track record of other mergers in all industries boils down to three principles: Don't over-pay, Stick to business you know, Make sure the companies have compatible cultures (Nucor Annual Report, 2002).

It is easy for culture to become diluted through acquisitions and growth, so we must be stewards of our culture (Nucor Annual Report, 2002).

The reason DiMicco submits for such a concern for Nucor's culture is "our success in large part is driven by our culture" (Nucor Annual Report, 2002). Interestingly, the 2002 letter to stockholders contains seven references to the importance of Nucor's culture. This document also explicitly states the self-described elements of Nucor's culture are: commitment to employees, teamwork, safety, customer focus, high quality standards, ethics and integrity, continued improvement, risk taking, pay for performance, environmental focus, decentralized divisions, entrepreneurial spirit, and profitability. Noticeably, this list corresponds with many domestic cultural receptors, and thus provides indication that an intrinsic attribute of Nucor's operation is striving to and actively embracing social character. Moreover, the power point presentation submits that Nucor's capabilities "start with its culture and the fundamental commitment to employees who create tremendous efficiencies".

As with the Southwest data, it is important to notice the social and human focus of these submissions, which in the process of an amalgamation facilitated inside Nucor, creates a culture that empowers the firm to achieve extraordinary outcomes. This is evidence that their culture is acting as a resource within Nucor, and apparently a resource that is quite challenging to imitate as is indicated by the declining achievement of the American steel industry (see Table 1),

Table 1. U.S. Economic Census - metal manufacturing industry

| 1997<br>NAICS industry<br>code with link to definition | <u>Estab-<br/>lish-<br/>ments</u> | <u>Sales, receipts,<br/>revenue,<br/>or shipments<br/>(\$1,000)</u> | <u>payroll<br/>(\$1,000)</u> | <u>Paid<br/>employees</u> |
|--|-----------------------------------|---|------------------------------|---------------------------|
| <u>manufacturing</u>                                   | 5,059                             | 168,117,728   | 23,811,233                   | 605,085                   |
|  | 1997                              |   |                              |                           |

and August 2004 year to date financial comparisons of Nucor and several of its industry competitors (see Table 2).

Table 2. Direct Competitor Comparison\*

|                | <b>NUE</b> | <b>AKS</b> | <b>CMC</b> | <b>X</b> | <b>Industry</b> |
|----------------|------------|------------|------------|----------|-----------------|
| Market Cap:    | (6.26B)    | 625.32M    | 936.99M    | 3.99B    | 687.27M         |
| Employees:     | 9,900      | 9,000      | 7,873      | (47,000) | 3.15K           |
| Rev. Growth:   | 30.50%     | -5.80%     | 17.50%     | (34.20%) | 17.50%          |
| Revenue:       | (8.31B)    | 4.52B      | 4.11B      | N/A      | 1.44B           |
| Gross Margin:  | 11.15%     | 7.68%      | (12.38%)   | 10.40%   | 11.15%          |
| EBITDA:        | (1.01B)    | -219.90M   | 243.19M    | -164.00M | 81.06M          |
| Oper. Margins: | (7.31%)    | -9.63%     | 3.70%      | -5.09%   | 6.22%           |
| Net Income:    | (401.25M)  | -461.60M   | 95.41M     | 211.00M  | 9.70M           |
| EPS:           | (5.06)     | -4.256     | 3.209      | N/A      | 0.39            |
| PE:            | (15.61)    | N/A        | 9.99       | N/A      | 12.33           |
| PS:            | (0.74)     | 0.14       | 0.22       | N/A      | 0.41            |

**AKS** = AK Steel Holding Corp

**CMC** = Commercial Metals Co

**X** = United States Steel Corp

**Industry** = Iron & Steel

\* Competitors chosen based upon the most actively traded stocks in this industry year to date - Fidelity Investments, August 1, 2004.

Interestingly, the examination of Nucor's data raises some of the same issues as did the Southwest's data. The leading question is the relationship between cultural realms and how this dynamic plays out through the course of an organization's commercial endeavors. The evidence suggests that Nucor perceptively exhibits both inner and other-directed cultural characteristics as a means to produce distinctive achievement. Integral to this ability is a set of organizational variables that are intrinsic in Nucor's culture: employee focus, egalitarianism, solidarity, safety, leadership tenure, customer service, quality standards, ethics and integrity, continued improvement, risk taking, pay for performance, environmental concern, decentralized divisions, entrepreneurial spirit, and profitability. These variables represent an important list that has future cultural and organizational research relevance.

## CONCLUSION

Even though Southwest and Nucor are in very different industries, the correlations between the firms are quite striking. Each firm's culture seems to act as a guidance system which establishes and maintains a fit with social character. Nucor's and Southwest's history reflects stable leadership - not only in the person holding the position, but also in their continued reliance upon principles they established as basis to lead. The companies both submit their culture as a catalyst that produces unique capabilities and efficiencies. These organizations develop and implement relatively straightforward strategies such as growth through acquisitions or lowering operation costs while providing a superior product at competitive prices. But, by utilizing their culture during this process produce unique outcomes.

The realization that both companies exhibit inner and other-directed cultural attributes may serve to further substantiate the strategic-culture paradigm. This submission is reasonable if the characteristics of domestic culture are considered. Arguably social character is both inner and other-directed. A cautious submission is that the organizations in this study are simply mirroring social character in a purposeful manner. Their unique success with this strategy produces an extraordinary cultural fit, and associated capabilities that result in remarkable performance. Further study to substantiate this claim is needed.

As a last note, I address the ongoing discourse surrounding recent questionable corporate activities. The premise that intensifying business regulation will produce long-term alignment of commercial interests with populace expectations and satisfactions is not supported. That is, reliance upon government regulation to

effectively steer corporate behavior is an approach which has produced ephemeral results, and inevitably have been consistently thwarted by various corporations whose focus is to garner financial capital and exploit a regularity system that is interpreted as contrary to their financial aspirations (Prechel, 2000). The ostensibly widespread ideology that increased government regulation is “the key” to making business conform to populace expectations is compelling in that it ignores an ardent insight. Writing nearly seventy years ago, Thorstein Veblen, a noted economist, cultural theorist and sociological scholar posited the following argument:

Nothing can serve as a corrective of the cultural trend given by the machine discipline except what can be put in the form of a business proposition. The question of neutralizing the undesired effects of the machine discipline resolves itself into a question as to the cultural work and consequences of the business enterprise, and of the cultural value of business principles in so far as they guide such human endeavor as lies outside the range of business enterprise proper. It is not a question of what ought to be done, but of what is the course laid out by business principles; the discretion rests with the business men, not with the moralist, and the business men’s discretion is bounded by the exigencies of the business enterprise. Even the business man cannot allow themselves to play fast and loose with business principles in response to a call from humanitarian motives. The question therefore remains on the whole, a question of what the business men may be expected to do for cultural growth on the motive of profits (Veblen, 1935: 379).

Veblen illuminates a business and social reality. In order for business organizations to entertain refocusing or changing their methods, there must be some type of incentive that appeals to the obligatory profit requisite. My premise is that the strategic-culture paradigm addresses corporate concerns with generating profit, but more notably it illustrates a framework that integrates corporate and domestic culture expectations leading to commercial and social benefits. It explores an avenue by which organizations and their performance may be explained - and packages a strategy in the form of a business incentive that appeals to financial

requisites with added social benefit. That is, by establishing and continually adapting a firm's culture with the aim of striving to maintain a fit with the domestic context corporations are more inclined to realize opportunities, attract customers, and endure unanticipated business environmental pressures.

I acknowledge that annual reports represent an advertising opportunity for corporations. Additionally, the limited data collected for this project does not provide a definitive account of Southwest Airlines or Nucor Steel. However, the evidence does sufficiently demonstrate the merits of the strategic-culture paradigm and indicates variables that facilitate developing hypothesis and associated organizational clarification.

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