I've noticed a curious thing on my travels among managers over the last year or so. People now seem to get just as excited about coming up with corporate value statements as they did about designing organization charts. But it's really not so curious, is it? Everything we've learned about reengineering drives toward one solid conclusion: The rules of governance (and self-governance) for effective business enterprises today are being determined by their culture, not their organizational structure.

--*James Champy, Reengineering Management,* 1995.

EDGAR H. SCHEIN

Leadership as Managed Cultural Change

In new and old, small and large companies, leaders must manage cultural change to grow and to survive the competition.

MISUNDERSTANDINGS, failures to reach consensus, and conflicts among individuals, groups, and organizations are caused to some degree by what I define as "culture."

Culture develops around the external and internal problems that groups face. Culture also solves problems for the group or organization, and, even more important, it contains and reduces anxiety. The taken-for-granted assumptions that influence the ways in which group members perceive, think, and feel about the world stabilize that world, give meaning to it, and thereby reduce the anxiety that would result if we did not know how to categorize and respond to the environment. In this sense, culture gives a group its character, and that character serves for the group the function that character and defense mechanisms serve for the individual.

The emotional issues that individual members bring with them when they enter organizations lead to coping behavior that results in predictable stages of evolution and in a complex interplay between individuals attempting to exercise leadership and group members attempting to solve problems of authority, intimacy, and identity for themselves. In resolving these issues, the group members also learn how to work and how to solve the problems of survival in the external environment. As solutions are worked out, they become *shared assumptions* that are passed on to new members and eventually become taken for granted and unconscious.

The importance of shared assumptions in the emotional life of the group will vary according to the stage at which the group finds itself, which, in turn, will determine whether the culture can be changed or only enhanced at any given stage. *The role of leadership is therefore very different at different stages of group development.*

Implications for Leaders

Leadership is intertwined with culture formation, evolution, transformation, and destruction. Culture is created in the first instance by the actions of leaders; culture also is embedded and strengthened by leaders.

When culture becomes dysfunctional, leadership is needed to help the group unlearn some of its cultural assumptions and learn new assumptions. Such transformations require what amounts to conscious and deliberate destruction of cultural elements, and it is this aspect of cultural dynamics that makes leadership important and difficult to define. In fact, the endless discussion of what leadership is and is not could, perhaps, be simplified if we recognized that *the unique and essential function of leadership is the manipulation of culture.*

This function provides the most difficult challenge of surmounting one's own taken-for-granted assumptions, seeing what is needed to ensure the health and survival of the group, and making things happen that enable the group to evolve toward new cultural assumptions. Without leadership, groups would not be able to adapt to changing environmental conditions. Let us examine leadership more closely from this perspective by seeing what is really needed at each major stage of group evolution.

Leadership in Culture Creation. In a growing organization, the leadership externalizes its own assumptions and embeds them gradually and consistently in the mission, goals, structures, and working procedures of the group. Whether we call these basic assumptions the guiding beliefs, the theories-in-use, the basic principles, or the guiding visions on which a founder operates, there is little question that they become major elements of the emerging culture of the organization.

At this stage the leader needs both vision and the ability to articulate it and enforce it. Inasmuch as the new members of the organization arrive with prior organizational and cultural experiences, a common set of assumptions is only forged by clear and consistent messages as the group encounters and survives its own crises. The culture creation leader also needs persistence and patience as certain key emotional issues arise, having to do with dependence on the leader, with peer relationships, and with how to work effectively. Leadership is needed to help the group identify the issues and deal with the anxiety that is unleashed when things do not work as they should. The leader may not have the answer, but he must provide temporary stability and emotional reassurance while the answer is being worked out.

This anxiety-containing function seems especially relevant in entrepreneurs and founders of companies. The traumas of growth appear to be so constant and so powerful that, unless a strong leader plays the role of anxiety and risk absorber, the group cannot get through its early stages of growth and fails. Being in an ownership position helps, since everyone then realizes that the founder is in fact taking a greater personal financial risk, but ownership does not automatically create the ability to absorb anxiety. Rather, it seems that people with certain kinds of creative needs, building skills, and emotional strengths are able to create, own, and develop new organizations.

When leaders launch new enterprises, they must be mindful of the power they have to impose their own assumptions about what is right and proper, how the world works, and how things should be done. Leaders should not apologize for or be cautious about their assumptions. Rather, it is intrinsic to the leadership role to create order out of chaos, and leaders are expected to provide their own assumptions as an initial road map into the uncertain future. And the more aware they are of this process, the more consistent and effective they can be in implementing it.

This process of culture creation, embedding, and reinforcement brings with it problems as well as solutions. Many organizations survive and grow but, at the same time, operate inconsistently or do things that seem mutually contradictory. One reason is that leaders not only embed in their organizations what they intend consciously to get across, but they also convey their own inner conflicts and the inconsistencies in their own personal makeup. The most powerful signal that subordinates respond

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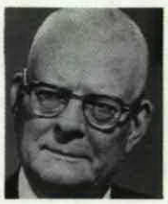
Western Managers Must Make Drastic Changes



The big problems are created by managers who drive their companies off course.

THE BIGGEST PROBLEM THAT most any company in the Western world faces is not its competitors, nor the Japanese. The biggest problems are self-inflicted, created right at home by management that are off course in the competitive world of today.

Systems of management are in place in the Western world that for survival must be blasted out; new construction commenced. Patchwork will not suffice.

Everyone doing his best is not the answer. Everyone is doing his best. It is necessary that people understand the reason for the changes that are necessary. Moreover, there must be consistency of understanding and of effort.

There is much talk about the need to improve quality and productivity. And everyone knows exactly how to go about it. It is for other people to accomplish, not for me.

In the eyes of many executives, the big trouble is that a lot of people in operations and in management are careless and neglectful on the job. One writer has the solution—hold all employees accountable for job behavior as well as for the results expected of them. The fact is that performance appraisal, management by the numbers, M.B.O., and work standards, have already devastated Western industry. Work standards double the cost of the operations that they are applied to.

Other writers see information as the solution. Anyone can improve his work, they say, if he has enough information. The fact is that a figure by itself provides no information, has no meaning, no interpretation, in the absence of theory. In short, there's no substitute for knowledge, and a figure by itself is not knowledge.

Other people put their faith in gadgets, computers, new machinery, and robotic machinery. Solving problems is not the answer, nor improvement of operations. They are not the transformation required.

It will not suffice to match the competition. He that declares his intention to meet the competition is already licked, his back to the wall. Likewise, zero defects are a highway down the tube. The sad truth is that all the parts of an apparatus may meet the specifications, yet the apparatus may be unsatisfactory or may even be a total failure. It is necessary in this world to outdo specifications, to move continually toward better and better performance of the finished product.

Likewise, it will not suffice to have customers that are merely satisfied. Satisfied customers switch, for no good reason, just to try something else. Why not? Profit and growth come from customers that can boast about your product or service. The loyal customer requires no advertising or other persuasion, and he brings a friend along with him.

Western management has for too long focused on the end product—get reports on people, productivity, quality, sales, inventory. It is necessary that management shift the focus to management's responsibility for the source of quality and service, viz., design of product and of the processes that turn out the product and service. Management in the Western world have too long been driving the automobile by keeping an eye on the rear view mirror (Myron Tribus).

Recognition of the distinction between a stable system and an unstable one is vital for management. A stable system in one whose performance is predictable; it appears to be in statistical control.

It is instructive to look at a plot of proportion of people absent from the job week by week over the past two years. Does the plot show a stable system? If yes, then only the management can reduce it. Other helpful plots might be the number of accidents week by week over the past year or two years; number of complaints of customers, costs of warranty, sales, outgoing quality, costs, scrap, rejections, accounts overdue by four weeks or more.

Such plots make clear the futility and fallacy of management by the numbers. A goal that lies beyond the capability of the system can not be achieved except at the destruction of other systems in the company. What is needed is not numerical goals, but constant improvement of design and of processes at the source, the responsibility of management. □

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to is what catches a leader's attention consistently, particularly what arouses him emotionally. But many of the things that they respond to emotionally reflect not so much their conscious intentions as their unconscious conflicts.

The organization then develops a culture around these inconsistencies and conflicts, or the leader gradually loses his position of influence if his behavior begins to be seen as too disruptive or actually destructive. In extreme cases the organization isolates or ejects the founder; in doing so, however, it is not rejecting all of the founder's assumptions but only those that are inconsistent with the core assumptions on which the organization was built.

The culture creation period puts an additional burden on the founder/creator to obtain enough self-insight to avoid unwittingly undermining his own creation. It's difficult for founding leaders to recognize that the very qualities and convictions that made them successful initially, can later become sources of difficulty, and that they also must grow as their organizations grow. Such insight becomes especially important as issues of leadership succession have to be faced, because succession discussions force into the open aspects of the culture that previously may not have surfaced.

Organizational culture does not start from scratch or come into being accidentally. Organizations are created by people, and the creators of organizations also create culture through the articulation of their own assumptions. Although the final form of an organization's culture reflects the complex interaction between the thrust provided by the founder, the reactions of the group members, and their shared historical experiences, there is little doubt that the initial shaping force is the personality and belief system of that founder.

Leadership at Organizational Midlife. Once the organization develops a substantial history of its own, its culture becomes more of a cause than an effect. The culture now influences the strategy, the structure, the procedures, and the ways in which the group members will relate to each other. Culture becomes a powerful influence on members' perceiving, thinking, and feeling; and these predispositions, along with situational factors, will influence the members' behavior. Because it serves an important anxiety-reducing function, culture will be clung to even if it becomes dysfunctional in relationship to environmental opportunities and constraints.

Midlife organizations show two different patterns: some have a highly integrated culture even though they may be large and diversified; others have allowed growth and diversification in cultural assumptions as well and, therefore, can be described as culturally diverse with respect to their business, functional, and geographical units. How leaders manage culture at this stage of organizational evolution depends on which pattern they perceive and which pattern they decide is best for the future.

Leaders at this stage need to know how to help the organization evolve to whatever will make it most effective in the future. In some instances, this may mean increasing cultural diversity, allowing some of the uniformity that may have been built up in the growth stage to erode; in other instances, it may mean pulling together a culturally diverse set of organizational units and attempting to impose new common assumptions on them.

SCOTT SNOW

In either case, the leader must have insight into the ways in which culture can aid or hinder the fulfillment of the organization's mission and the intervention skills to make desired changes happen. And how does an organization find and install a leader with such insights and skills? In American organizations, outside board members often play a critical role, but if the organization has had a strong founding culture, its board may be composed exclusively of people who share the founder's vision. Consequently, real changes in direction may not be possible until the organization gets into serious survival difficulties. Until that happens, the organization is, by definition, managed but not led.

Leadership in Mature Organizations. In mature organization, culture now defines what is to be thought of as "leadership," what is heroic or sinful behavior, and how authority and power are to be allocated and managed. Thus, what leadership has created now either blindly perpetuates itself or creates new definitions of leadership, which may not even include the kinds of entrepreneurial assumptions that started the organization in the first place.

What leaders must do at this point depends on the degree to which the culture of the organization has, in fact, enabled the group to adapt to the realities of its environment. If the culture has not facilitated adaptation, the organization either will not survive or will find a way to change its culture. If it is to change its culture, it must be led by someone who can, in effect, break the tyranny of the old culture.

A leader capable of such managed culture change can come from inside the organization if he has acquired objectivity and insight into elements of the culture. However, the formally designated senior managers of a given organization may not be willing or able to provide culture change leadership. It may have to come from several other boundary spanners (turnaround teams) in the organization or from outsiders.

If a leader is imposed from the outside, he must have the skill to diagnose accurately what the culture of the organization is, what elements are well adapted and what elements are problematic, and how to change that which needs changing. The leader must be a skilled change manager who first learns what the present state of the culture is, unfreezes it, redefines and changes it, and then refreezes the new assumptions.

The more interesting case is how leadership can operate from within. Is it possible for the insider to surmount his own culture and change those aspects that need to be changed? Such a process would seem to be the ultimate in leadership. For that to happen, let us look at what would be required.

Perception and Insight. Inside leaders must perceive the problem and have insight into the culture, its dysfunctional elements, and have objectivity about themselves and the organization— acquired from having worked in diverse (cross-functional or cross-divisional) settings or different cultures.

Motivation and Skill. To change any element of the culture, leaders must be willing to unfreeze their own organization. Unfreezing requires disconfirmation, a process that is inevitably painful for many. The leader must say to his own organization that

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things are not all right and, if necessary, must enlist the aid of outsiders in getting this message across. Such willingness requires a great ability to be concerned for the organization above and beyond the self, to communicate dedication or commitment to the group above and beyond self-interest.

Emotional Strength. Unfreezing also requires the creation of psychological safety, meaning that the leader must have the emotional strength to absorb much of the anxiety that change brings with it and the ability to remain supportive to the organization through the transition phase even if group members become angry and obstructive. The leader is likely to be the target of anger and criticism because he must challenge some of what the group has taken for granted. He may have to close down a division, lay off or retire loyal dedicated employees and old friends, or, worst of all, communicate that some of the founder's most cherished assumptions are wrong in the contemporary context.

Ability to Change Cultural Assumptions. If an assumption is to be given up, it must be replaced or redefined in another form, and the leader must make that happen. Leaders must be able to articulate and sell new visions and concepts. They must be able to bring to the surface, review, and change some of the group's basic assumptions.

Creation of Involvement and Participation. A paradox of culture change leadership is that the leader must be able not only to lead but also to listen, to involve the group in achieving its own insights into its cultural dilemmas, and to be genuinely participative in his approach to change.

Depth of Vision. Leadership in this sense means the ability to step outside one's culture even as one continues to live within it. It is not enough just to set goals and sell symbols. The goals and symbols and the assumptions on which they are based must be "correct" in the sense that they solve key problems for the group and fit with other deep cultural assumptions.

Mistakes are common. Remember when Warner Communications, the parent company, decided to improve Atari's marketing by bringing in as president an experienced marketing executive from the food industry. This executive brought with him the assumption that the key to success is high motivation and high rewards based on individual performance. He created and sold an incentive system designed to pick out the engineers who were doing the best job in inventing and designing new computer games and gave them large monetary rewards. Soon some of the best engineers were leaving, and the company was getting into technical difficulty.

What was wrong? The assumption that the incentives and rewards should be based on individual effort. What the president failed to understand, coming from the product-management-oriented food industry, was that the computer games were designed by teams and that the engineers were happy being group members and would have responded to group incentives.

Five Final Implications

- If leadership is critical both to the formation of culture and to culture change, we should examine more carefully the development of this form of leader, the culture manager.
- If leadership is culture management, do we develop in our leaders the emotional strength, depth of vision, and capacity for self-insight and objectivity that are necessary for culture to be managed?
- Do our management development processes nurture "creative individualists," emotionally strong boundary spanners with high objectivity and tolerance of deviant points of view?
- If the environment in which organizations function is changing rapidly, can we specify what kind of organizational culture will be most adaptive—or is the real implication that the more rapidly things change, the more dependent we are on leaders to manage the changes? If so, are we developing enough cultural change leaders?
- In the rush for everyone to self-actualize, have we lost the leadership to see how the United States and the organizations within it can become truly adaptive in the increasingly turbulent environments that world conditions are creating?

If there is to be a single final conclusion drawn from this intellectual journey through parts of organization theory, social psychology, and anthropology, it is that *leadership and culture management are so central to understanding organizations and making them effective that we cannot afford to be complacent about either one.* □

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JOHN NATHAN

Entrepreneurs: Excellence in Action

People who start companies are instantly immersed in a sea of problems, and even the best of swimmers and sailors sometimes take on water.

SOMEONE ONCE SAID THAT entrepreneurship was like the heffalump, a mythical beast that many had claimed to have seen, but that few could describe, and in each case described differently. Nonetheless, the consensus in the business world is that entrepreneurship is a vital, critical force in the economy, a process that must be studied and encouraged. But how is it possible to encourage a process which seems so elusive of description?

Our film, *Entrepreneurs*, addresses this challenge. It offers the viewer a vivid portrait of five remarkable entrepreneurs building and managing their organizations: Steven Jobs of NeXT, Inc.; Mitchell Kapor (formally) of Lotus Development Corporation (he recently called it quits); Lane Nemeth of Discovery Toys; Doug Tompkins of Esprit; and Fred Smith of Federal Express. Collectively, these men and women have created billions of dollars of value and thousands of new jobs over the past 15 years.

By presenting these consummate entrepreneurs *in action* as they confront and labor to solve a variety of real problems, we provide people an opportunity to observe and learn for themselves what entrepreneurship is and how it works.

Steven Jobs, NeXT, Incorporated

This is a rare look at Steven Jobs architecting his new company, NeXT, Inc., at his very first and second corporate retreats. The first retreat, in December, 1985, was held in secrecy and under the cloud of an Apple lawsuit still pending at the time (later resolved). Needless to say, we were fortunate to have been allowed in with our cameras.

What emerges about Jobs as he interacts with his team is that, like all successful entrepreneurs, he is *possessed* by a business vision. He perceives the vision in great detail, as though it were a reality sitting before him and not just an idea. And he succeeds brilliantly at communicating the vision in all its detail to the *people* on his team whom he must empower to make the vision real.

Jobs: "More important than building a product, we are in the process of architecting a company that will hopefully be more than the sum of its parts. And the cumulative effort of approximately 20,000 decisions that we're all going to make over the next two years is going to define what our company is. And one of the things that made Apple great was that in the early days it was built from the heart.

"Now unfortunately we didn't always use our heads, and we can do better in many respects because we are wiser and smarter and know more and those kinds of things. But one of the most important things, one of my largest wishes is that we build NeXT from the heart. And the people that are thinking about coming to work for us, or buying our products or who want to sell us things, feel that, that we're doing this because we have a passion about it."

Of course, communicating the vision is not enough. Action must be taken, and priorities established. Here again, Jobs' clarity about the ultimate goal allows him to hold the team on course as they move toward basic product and marketing decisions.

Jobs: "It's not a drive, it's not like something pushing me to do it internally, it's like a pull almost. You see something out there that you know can help make something be born. So it's not a push, it's a pull. And I think everyone here feels that way. It's not like there's buckshot racing to hit us in the back, it's like we see this thing out there and we're all running to it as fast as we can."

Mitchell Kapor, Lotus Development

When we first went to Lotus we were looking for a story about diversification. How does a company founded on a single, megahit product—Lotus 1-2-3—continue to grow by identifying and exploiting new opportunities? To be sure, we did capture Mitch Kapor and his senior managers wrestling with the challenge of discovering new possibilities within the changing economics of the software market.

However, as we visited and revisited Lotus late in 1985 and through the spring of 1986, a very different theme began to emerge. What we saw, and captured on film, was the founder and CEO of an immensely successful business relinquishing control of his company.

Kapor: "I thought I was doing at best an adequate job, some areas very well, other areas like marketing not so well, and the punch line was that I was very unhappy. It was stressful, it was not something that I felt like I was using my best talents, and I felt pushed and pulled in a thousand different directions, and I was just getting profoundly buried under the weight of all this. So I went off my myself for about four days. I was agonizing. Was there any kind of role for me at Lotus, at all? Or had the company just grown up around me so far so fast that any kind of role that I would have would be some kind of make-work?

"And the trick to doing this was in going through the agony of detaching my ego from the success of Lotus. It used to be that if a customer called up and complained that they had to wait too long to get through to our customer service, I'd feel hurt personally. I'd feel like 'what am I doing wrong?' There was this identification between me and the company that made a lot of sense as the founder and the CEO.

"So that having given that up, out of necessity, because there was no longer any active role for me to have, if I had that identification, it's a lot easier now. I still care, passionately, but I care not with that sense of being so bound up in it. I have some distance on it."

Simply stated, the Lotus sequence is about delegating authority. But there is a larger lesson in Mitch Kapor's gradual transfer of authority from himself to the Company's President, Jim Manzi. Successful entrepreneurs view change not as a threat but as a new opportunity to be exploited. In stepping aside, Kapor demonstrates his understanding that the Company's increased size and complexity and the changing nature of the software marketplace require a new set of management skills and attitudes inside Lotus. In his view, his departure amounts to a tactical decision aimed at transforming change into new opportunity for further growth.

Lane Nemeth, Discovery Toys

Successful entrepreneurship can be seen as a difficult game of balance. In this highly charged sequence, we observe an entrepreneur laboring to establish a critical balance between letting go—delegating responsibility—and holding on—retaining control of those parts of the operation which depend for success on the unique skills and vision of the entrepreneur/founder.

Since Discovery Toys is a direct sales company, continued growth depends on expanding the sales force and keeping the women in the field identified with the Company goals. Until now, founder and CEO Lane Nemeth has taken principal responsibility for achieving and maintaining this critical harmony. But clearly the task has become too difficult for any one person to manage: in her own words, Lane is "splintering."

Nemeth: "I've been trying to play Chief Executive Officer because I didn't start with a partner, I've been trying to be marketing, and to a great degree sales, and to keep my family and child together. And I'm splintering. It's not working. So I decided that what I am best at really is what I would call marketing/sales. Probably marketing is my favorite. But I get out in the field and that means that I have to delegate, and that's terrifying to me, because I did it a couple of times and it didn't work all that well."

Lane Nemeth's reluctance to relinquish authority in any critical area of her business is understandable: twice in the past she has brought professional managers into the Company with nearly disastrous results. At the same time, she understands that she cannot retain total control if Discovery Toys is to continue to grow. The conflict that results is a vivid illustration of how very difficult it is to balance delegation and control.

Doug Tompkins, Esprit

This is how it looks behind the scenes of a company whose founder/CEO has achieved the balance between delegation and control! Doug Tompkins and his wife Suzie have built a 900-million-dollar international organization which continues to grow dizzyingly. Yet far from being buried under the weight of managing Esprit, Tompkins is away climbing mountains around the world for many months of every year.

He manages this by delegating sweeping authority. Each of Esprit's six divisions is run as an independent entrepreneurial venture with its own leadership responsible for keeping the division competitive. Moreover, Tompkins has empowered a General Management Committee to oversee Company policy at the highest level in his absence.

Tompkins: "It's a building process, so I love to see things expanding, growing, and that has a way of reenergizing itself. It's really amazing what happens when your interest is totally absorbed, you have a capacity and an energy that you really wouldn't believe possible in yourself."

On one level, the Esprit segment is about empowerment of the management team in an entrepreneurial venture. But there is an additional, important lesson to be learned from watching Doug Tompkins in action when he is on the scene: successful letting go is only possible when the entrepreneur knows precisely where to hold on. Tompkins retains control of everything having to do with creating Esprit's image and communicating it inside the Organization and to the public.

Tompkins: "I asked Suzanne when I was in Brazil, where are the little labels on the shoes? Why aren't they designed from the word go? 'Oh, we'll put that on afterwards.' By that time it's too late; it's got to be an integral part of the design, just as the sole is a design, just as the threads—it is part and parcel of the entire style of the product.

Notice Tompkins' remarkable attention to detail. Successful entrepreneurs seem to share a capacity to attend to details which might strike others as trivial but which to them are crucial elements of the vision as they perceive it.

Fred Smith, Federal Express

Federal Express provides us the opportunity to observe a successful entrepreneur communicating his vision inside a giant organization. It is one thing for Steve Jobs to instill his own purpose and urgency in a small team of highly qualified followers. But Fred Smith undertook the challenge of committing a multi-billion-dollar corporation with 35,000 employees to the pursuit of a new vision, Zap Mail. The lesson implicit in this segment is that great entrepreneurs are never complacent about past successes: they are constantly seeking to break new ground, to identify and exploit new opportunities.

Fred Smith: "Most societies are very resistant to change. They're very negative in their orientation. It was Machiavelli who said, you know if you really want to see people at their worst just try to change the existing order of things. And I've found that to be true. And so, if you're going to engage in some sort of attempt to make a big change where there's no road map out there, there are only opinions, there are no facts, then you're going to have to be fairly secure. You've got to be inner directed."

Implicit in Smith's search for a solution to the Zap Mail problem is another aspect of the balancing game at the heart of entrepreneurship: a balance of long-term goals against short-term costs. Fred Smith affirmed Federal's commitment to Zap Mail for two years, despite the fact that the project was costing the Company 40 million dollars a quarter! The senior management team you will see in action, people like Tom Oliver and Carole Pressley, were able to give the project their best because they knew Smith was behind them, balancing short-term cost against long-term benefits. By creating the space inside the Organization for innovative trial and error to occur, Smith was maximizing the potential for Zap Mail to succeed.

In the end, the Project failed. But that does not invalidate either the commitment or the tireless effort to find the right answers.

Some Questions & Lessons

Following are some of the *issues to address* after viewing Entrepreneurs: How do you define and identify an opportunity? What are the critical resources you need to turn opportunity into reality and how do you gain control over these resources? What are some of the issues that arise in exploiting perceived opportunities? How and when, for example, does the entrepreneur delegate responsibility? How does one make pursuit of opportunity a corporate goal? How does one empower people at all levels of the organization to focus on exploiting new opportunities rather than protecting past successes?

And here are some *lessons to be learned:*

• Entrepreneurs pursue opportunity relentlessly and without regard to the magnitude of their task relative to their existing resources.

• An opportunity is not synonymous with a good idea; the opportunity in entrepreneurship is the opportunity to create viable, successful companies, not just exploit a single, ephemeral good idea.

• Often, opportunity can be identified by listening to a set of customers whose needs are not being met, but that can be in the near future.

• To build successful companies, entrepreneurs attract great people. They share the vision and they share the rewards. The people who join them feel that they "own" the opportunity for which they are responsible.

• In addition to attracting great people, entrepreneurs gain access to other resources ranging from capital to parts supplies.

• Entrepreneurs do not seek risk; they seek reward and try to manage the inevitable risk they must bear. They plan on success, but they protect their flank at every opportunity.

• Entrepreneurs create organizations that are never content with past successes; indeed their own success makes them anxious to move forward rather than protect their gains. They encourage people at every level of the organization to continue the same process that got the company to its current level.

• Successful entrepreneurial companies show a remarkable ability to adapt as circumstances warrant.

• Entrepreneurs have goals; they focus on creating great products or great companies; the fact that they might make a great deal of money in the process is secondary, a way of keeping score rather than an objective per se.

Most importantly, we learn that entrepreneurship is really a way of managing, a way of creating companies that focus on pursuit of opportunity rather than on protecting existing assets. As Mitch Kapor says, "If you can genuinely present a picture that makes sense to people, that unifies the seemingly disparate elements of their experience, if you can give people something they can resonate with because it's meaningful, then they'll be immensely responsive to it."

The practice of entrepreneurship is not confined to high technology companies; to companies where the founder still runs the show; to companies financed by venture capital; to start-up companies; or even to for-profit companies. It is being practiced in little companies and big companies; in service companies and manufacturing companies; in low-tech and high-tech companies; in low growth industries and high growth industries; in for-profit companies and non-profit organizations. In short, the relentless pursuit of opportunity knows no arbitrary bounds. □

John Nathan and Sam Tyler are partners in Nathan/Tyler Productions, producers and distributors of the Nathan/Tyler Management video series—including *In Search of Excellence: The Video and Management Action Program, Service Excellence, Competing Through Manufacturing,* and *Entrepreneurs,* from which this article was excerpted and used with permission. Address inquiries to Nathan/Tyler Productions, P.O. Box 1102, Waltham, MA 02254; (617) 893-8010.

YOUR COMPANY OR YOUR VALUES

which one would it be; which two would you subordinate?

Be prepared to defend your answers by citing some choices you have made recently. Do some choices or decisions contradict your answers? If so, how do you account for those?

Once you have clarified your values, ask yourself, "How far am I willing to go to get what I want? Am I willing to assume more risk?" My experience is that most company presidents are not big risk-takers. They might think they are, however. If you ask them about their company strategy, they will tell you, "We'll do anything to increase profits; we intend to double our size every three years for the foreseeable future." But few are really willing to put everything on the line, gambling the very future of the company.

And so the challenge is to strike a balance between the degree of satisfaction you seek in terms of money, status, or power on one hand and the degree of risk you're willing to take on the other.

What are some of the other values to take into account when planning the future of your company? What about the value of buildings on strengths. You probably do certain things very well, but do you set the future direction of the company to take advantage of the things you do best? Do you structure your office to allow you to concentrate on those things—thus making your company more of an extension of your own value system? If you can structure your job to fit your unique talents, maybe you can do the same thing for others in your organization. The resulting increase in productivity can be enormous.

What about the issue of specialization vs. diversification. Do you like to do one thing at a time and do it extremely well or do you like to keep several activities going at the same time? Whatever your preferences, do your company structure, strategy, and systems reflect your chosen values? If not, you and your company may be in for heavy going.

While value clarification is just a small part of setting the overall strategy of a company, it is an extremely important part. It may well determine the future growth and prosperity of your operation. □

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DONALD E. KANE

A GENERAL ELECTRIC CASE STUDY

Four Critical Steps to Cultural Change

The culture at General Electric has been evolving rather rapidly under chief executive Jack Welsh, a designated change agent. The new climate encourages "constructive conflict." And, "lean and agile" are the new watchwords.

When Jack Welch took over the reins from Reg Jones as Chairman and Chief Executive Officer of General Electric Company in 1981, he inherited a financially strong, highly diversified multinational with an excellent reputation for quality management. One course of action might have been to preserve the status quo to avoid damaging a good thing. But Jones hadn't selected Welch to be a caretaker and gatekeeper. Rather, Welch had been identified as the change agent needed to keep the Company successful in the face of a rapidly and drastically changing business environment.

During the 1950 to 1980 period, growth was pervasive in both the domestic and world economies. Organization structure, strategies, and management practices were all geared to growth. Like many other companies, GE capitalized on this growth and prospered by it. But now, in the 1980s and possibly continuing into the 1990s, we're witnessing a sea-change. Slowing growth patterns worldwide have resulted in intensified competition. We've shifted from a seller's market to a buyer's market with intensive cost pressures and a premium for quick, incisive, but clearly thought-through decisions.

After surveying this distinctively different environment, Jack Welch perceived that we needed to make a broad and deep cultural change at General Electric to remain competitive. "Lean and agile" became the watchwords. But as we started down the uncertain road of change in the early 1980s, we noted that simply cutting out the fat in the structure would not be nearly enough. We needed to change our practices, our attitudes, and even our values. The true breadth of cultural change became apparent.

Four Critical Steps

While we're still only part-way down the road, our success to date would lead us to believe that four steps are critical to implementing a change strategy.

1. *Articulate what change is desired.* While it may be possible and desirable to articulate the contour of the change on a "macro" basis to gain general understanding, cultural change can best be made on a "micro" basis. Our experience is that this "building-block" approach is more meaningful to our people than lofty statements of intent which are not sufficiently specific to guide changes in behavior. While Jack Welch initially played the prime role here, our entire management staff, along with their support personnel, are now articulating desired changes.

2. *Make the changes in structure, processes, and practices.* In a sense, this may be the easiest step to implement, since management can control how we're structured and what processes and practices we use. However, some of these changes, such as the budgeting process or not subsidizing weak businesses even in strong economic periods, constitute wrenching changes to many of our people. Anticipating this, we have hammered away anew on the *reasons* for the changes.

3. *Communicate broadly and deeply.* It's not enough that general management understand the desired changes; *everyone* must. Change may be initiated top-down, but its confirmation is mostly bottom-up. And it's important to create a groundswell from below to neutralize the impact of any pockets of resistance between top management and the rank and file. To accomplish this, we set up new avenues of communication. For instance, Jack Welch began meeting monthly for breakfast with a small number of secretaries and individual contributors at corporate headquarters on a rotating basis to talk about the business, to clarify the reasons behind the cultural change, and to answer their questions. He also "puts himself in the barrel" and

ORVILLE SCHAEFFER

Your Company or Your Values!

Most hold-ups and shoot-outs in smaller companies occur over company values (or the lack of them). If owner–managers do not identify their values and integrate them into the strategy and structure of their organizations, they and their key people will forever be bumping heads, if not outright brawling in the boardroom.

According to Tom Wolfe, one of the better chroniclers of our times, the 1960s represented the "me" era. It was reflected in some of the best-selling books of the decade. These told us how to pull our own strings, how to become our own best friend, and otherwise how to promote our own self-interest.

Presumably the "me" era has now passed and none too soon, say those who associate the movement with increased self-centeredness or selfishness.

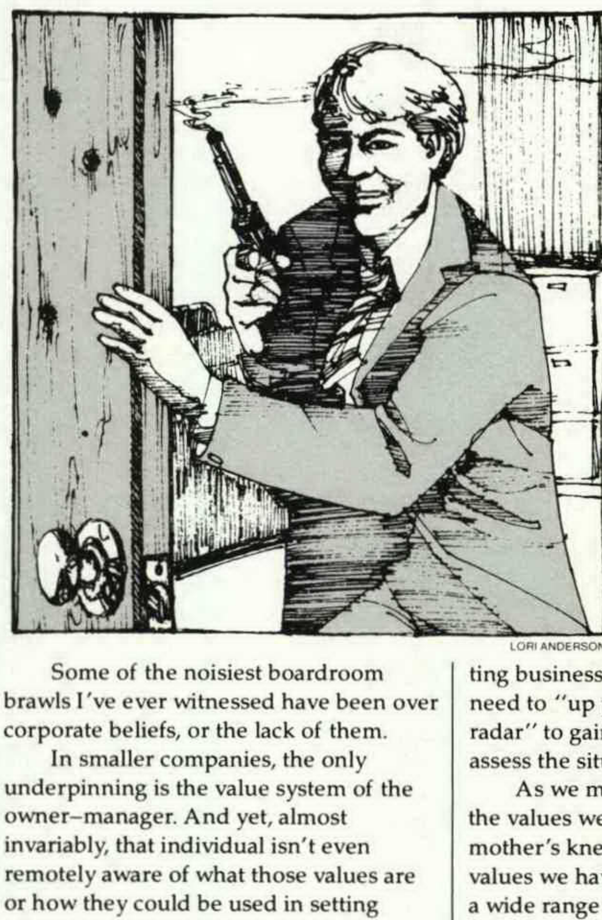
I hold a different view. My observation is that the "me" era caused individuals to assess their own beliefs and values, perhaps for the first time, and to determine what they really wanted. For many people, it was a valuable, albeit painful, exercise.

However, many CEOs never went through this process. As a result, they have never really clarified their personal values or used their values to shape the character and direction of their companies.

Even after years of consulting with chief executives in the areas of value clarification and strategic planning, I found myself in the same dilemma when I started my own company, The Strategy Institute. Thinking I needed a New York address to add increased credibility and corporate identity, I set up shop in Bronxville, New York.

But I never really wanted to live and work in New York. And after some soul-searching of my own, I picked up and moved the company to Captiva Island, Florida, where I feel right at home.

My contention is that in the smaller, owner–managed companies (representing ninety percent of American business), the company strategy should reflect the personal values of the owner–manager, even becoming an extension of those values. Otherwise, the owner and his or her company are in for some real shootouts.



LORI ANDERSON

Some of the noisiest boardroom brawls I've ever witnessed have been over corporate beliefs, or the lack of them.

In smaller companies, the only underpinning is the value system of the owner–manager. And yet, almost invariably, that individual isn't even remotely aware of what those values are or how they could be used in setting company strategy.

For example, in one small company, a partnership in the mid-West, one partner was known as Mr. Outside, responsible for sales, while the other was Mr. Inside, responsible for production and administration. One afternoon, while I was there, Mr. Outside came running in with the biggest order in the company's fourteen-year history. The only sound in the room was a mutter from Mr. Inside. "Nuts," he said, shaking his head. "Now we'll have to buy that new equipment."

It was painfully obvious, at least to me, that one of the partners valued growth and some risk while the other was more concerned with comfort and security.

An extreme case? Not really. I see it all too often. And unless these partners—and the CEOs of every other company—spend some time clarifying their personal values and setting strategy based on those values, they are in for heavy going.

Perhaps my own sensitivity to this matter sharpened when I served as a consultant to the Research Institute of America. There I directed a wide range of projects, including an "early warning" system for helping executives anticipate and manage change. Over and over again, I saw the need for chief executives to sharpen their own anticipatory skills and set strategy based on personal and corporate values.

Also, while serving as a Navy submarine officer, I learned first-hand about the problems of command under stress. I have since published several articles drawing corollaries to the business situation. Many chief executives operate as if under water, certainly under stress, with limited vision and direction.

Whether you're operating a submarine or setting business strategy, periodically you need to "up periscope" and "check radar" to gain perspective and properly assess the situation.

As we mature, most of us reassess the values we inherit or learn at our mother's knee and begin operating on values we have chosen freely from among a wide range of values open to us. When we act on these values, we feel whole and right, confident, and fulfilled. It follows that if CEOs fail to build their companies on the basis of their personal values, they will be operating in a sea of conflict.

To determine what particular values are basic to your company culture and strategy, begin by focusing on three things: money, status, and power. This is a simple "litmus test" of value clarification. How would you rank-order these three items? How much of any one is enough? If you could satisfy your drive for just one, holds wide-open, question–answer sessions at management education courses and entry-level training programs about twenty times each year. These are held at corporate headquarters and questions on controversial subjects are highly encouraged.

4. *Establish role and behavior models.* To be truly effective, model behavior must start right at the top. For instance, several other corporate staff officers have taken their cue from Welch and are holding coffee sessions on a skip-level basis with their people. Also, we are selecting managers who personify the new values, and we illuminate and showcase these individuals whenever possible. Overall, we're trying to establish congruence between what we articulate and what we actually do. These actions rarely go unnoticed, and they speak far louder and more effectively than words.

Specific Change Areas

Perhaps this cultural change can best be understood in specific terms rather than global generalities. Outlined below for each of eighteen parameters is a description of changes of the recent past as well as a description of our objectives for the future—in effect, what we're evolving *from* to what we're evolving *to*.

1. *Growth Capacity.* As one of the world's most diversified companies, General Electric had an image in the financial community of being a microcosm of the economy as a whole. Our growth was seen to mirror the growth of the Gross National Product of the nation. Yet, for many years we have consistently grown much faster than the GNP by focusing on high-growth segments in the high technology and services areas. By demonstrating to financial analysts that GE was really only fifteen or twenty basic businesses rather than five thousand product lines and a quarter-million catalogue items, we began to be better understood as the high-growth company that our track record confirmed.

2. *Diversification.* We set out to become even more focused by consolidating and exiting businesses which were deviant from the high tech/services area or our profitable core businesses.

3. *Market Share.* We did this by taking a much higher profile stance regarding market share. Whereas we formerly had businesses which ranged from very high to very low share, we articulated an objective of only participating where we were first or second in market share or could clearly demonstrate how we could get there in a reasonable period of time. The alternative to fixing businesses which failed to measure up was to sell or exit them.

4. *Subsidizing Weak Businesses.* Divesting weak businesses was, in itself, a cultural change. Previously, some businesses with weak profit situations had been subsidized by the profitable businesses. Since they were "part of the family," this practice was condoned. But in the new environment, each business must stand on its own. Some will face divestiture or exit even when the overall Company is doing very well financially.

5. *Portfolio Change.* For many years, the portfolio of our businesses was changed mostly by internal growth. While this will still be true to a degree, acquisitions and divestitures will become more important. Compatible "niche" acquisitions are more likely than "big hit" acquisitions, although these are not ruled out. Conversely, some divestitures may be quite large, as demonstrated by the recent sales of our Utah International natural resources affiliate and our Housewares business.

"WE NO LONGER CONDONE SHOOTING THE MESSENGER OF BAD TIDINGS.

6. *Management Mode.* To give each of our key businesses the best chance to beat its competition, we are encouraging them to distinguish themselves from their peer businesses. In some cases, this will mean different organization structure and titles. In others, it will mean different management processes. In still others, it may mean a different motivation and reward system. We've tried to set the tone at corporate level by rapidly moving away from a rather monolithic approach to our management practices. Strategic planning, for example, is much more tailored to the needs of each business today than it was several years ago.

7. *Texture of Change.* We now encourage our businesses to entertain *fundamental* changes rather than incremental ones. To be competitive, we'll need "quantum leaps" rather than small steps—"a little bit better than we did last year."

8. *Layers of Management.* To facilitate quicker decisions in response to changes in the environment, we're reducing the layers of management. At present, there are seven to eight echelons of management between the Chairman and production workers. We intend to eliminate at least one layer, possibly two, in selected areas. In an August 1984 reorganization, eight of our Strategic Business Units now report directly to the Corporate Executive Office without any intermediate layers of management. By reducing the number of people in GE by 64,000 in recent years, by trimming the management structure, and by exiting less profitable businesses, we're putting new meaning into the terms "lean and agile."

9. *Outlook Toward Environment.* In all of our planning, we're encouraging our businesses to be totally realistic—to view their world as it *is* rather than as they might wish it to be. In the past, we sometimes were too optimistic, perhaps because optimistic projections were better received in upward reviews.

10. *Strategic Planning Mode.* In addition to becoming more differentiated, our strategic planning has changed from a staff-intensive to a line-intensive process. Instead of "staff talking to staff," we now have "line talking to line." With the reduction of several planning personnel at three different layers of management, line officers now "own" their strategic plan to a much greater degree.

11. *Measurement.* Realism has also permeated our measurement system. In the past, the budget was a "sacred instrument" with its provisions etched in granite for the year. Understandably, people negotiated a budget which they could then beat, thus securing the applause of higher level management. And once set, budgets were rarely changed, up or down. Now, we want our businesses to focus their attention on beating their competition in the marketplace rather than merely on meeting their budget. Instead of a budget, we have an operating plan which is in place for one year *or* until there's a significant change in the environment. When this occurs, whether the impact of the shift is positive or negative, we draw up a new operating plan.

12. *Role of Corporate Staff.* Consistent with changes in operating practices, the role of corporate staff is changing as well. During the 1970s, many staff people thought their role in life was to "second guess" the business—that is, to demonstrate that they were smarter than the business management team. Their new role, infinitely more difficult, is to help the Corporate Executive Office to facilitate cultural change.

13. *Source of Candidates.* For many years, our practice at GE has been to promote from within. While this is still basically the case, we now have a healthy

influx of external hires for key management positions. We have even hired a few Company Officers from outside the Company—a practice almost unheard of a few years ago.

14. *Candidate Selection.* Even our candidate selection practices have changed. Whereas we used to give heavy weighting to an individual having "sat in all the right chairs," we now look for an individual's unique ability to do a job regardless of the "normality" of his background. This is wrenching to some of our people, but as non-stereotypes succeed—and succeed big—the change in strategy is gaining credibility.

15. *Meetings Climate.* We've seen the climate of our meetings change from "polite presentations," wherein gut issues were sometimes submerged, to a climate wherein constructive conflict is heavily encouraged. Again, the Corporate Executive Office has set the example in our top level meetings of the Corporate Executive Council.

16. *Personal Risk.* In the area of personal risk, we're evolving from a climate wherein high risk was considered dangerous, since the culture seemed to suggest, "One strike and you're out." Recently, we've demonstrated—and even showcased at our annual General Management Conference—that we do indeed give second and even third chances to people who give it their best swing but miss. We're encouraging managers to take sanctioned risks, concurrently providing greater rewards, a realistic safety net, and second chances.

17. *Trust.* In terms of trust, we're evolving away from the old value of "Trust the Company" (in a paternalistic sense) toward a new value of "Trust one another.

18. *Overall Climate.* Overall, I think we're evolving from a "buttoned-down" managerial climate to a more "candid, open, and entrepreneurial" management style.

CHANGING A CORPORATE culture requires that we act opportunistically as well as programmatically. Repetition and congruence between what we say and what we do are critical. Some changes take a long time, thus we must be patient. We realize there's still a long road ahead of us. But we're spurred on by the significant progress already behind us. □

Donald E. Kane is a member of the executive management staff at General Electric. He is responsible for Corporate Organization Planning.

JOHN NAISBITT

Managing in a New Economic Age

John Naisbitt, a featured presenter at the recent Executive Excellence Seminar in Los Angeles, told the 140 senior managers in attendance that they and their companies must learn how to operate in a new age of global economic interdependence.

WE HAVE NOT BEEN IN a recession, and we are not now in a recovery: we are in a new economic age, a time of transition from an industrial to an informational society, from a national to a global economy.

Our great hope for world peace is this global economic interdependence. There is a growing awareness that nuclear war would be bad for business.

In times of change, we see a revival of traditional values and ceremonies. We seek to hold onto the past a bit longer before embracing the future. Marriage and religion are making a comeback. We need those institutions to give us stability.

My conviction is that what's happening locally is what's happening. Nothing of much consequence starts in New York or Washington, D.C. Three states—California, Texas, and Florida—account for sixty-five percent of the economic growth. The entrepreneur is the new hero. Of the twenty million new jobs that have been created, ninety percent are in the information and service sectors—and eighty percent of those in companies that are less than four years old. One-third of them are started by women.

The new economy is decentralized and diversified. The old accounting system is obsolete. We need new data. We're currently sorting out who in the world will make what. By the year 2000, one-third of the world's goods will be made in third world countries, and that figure will continue to increase.

Beginning in 1986, we will see a drop in new labor in America. We will enter a period of full employment and see a shortgage of skilled labor. People will be trained more by the companies that employ them. We will also witness an intense shakeout in high technology industries. Just as the number of automobile manufacturers dropped from 2,300 to four, the number of computer companies will drop precipitously.

We have turned Orwell on his ear. In 1984, we are not a "big brother" but a "bottom up" society. We're reclaiming our self-reliance. Except in times of crisis, a democracy has no great leaders. The idea of the politician is to find a parade and to get in front of it. Today, the parades are smaller and more numerous. We're a nation of great diversification and specialization. *Life, Look,* and *Post,* the general-interest giants of the 1950s and 1960s, have given way to some 14,000 special interest magazines. ABC, NBC, and CBS are the *Life, Look,* and *Post* of the 1980s. As cable TV stations specialize, the networks will have fewer than half of the viewers by the end of this decade.

The computer invites more complexity. We are going in dual directions: high tech, high touch. Technology is anti-human; we counter with high touch. We see a revival of handwriting, a new emphasis on human resources. We want to be with people. Except for Mondays, we want to be at the office. We now make decisions about where to live, where to relocate, on the basis of quality of life, not the geographic infrastructure.

In Japan, the world's most technical society, people resonate to this idea of high touch. They are reviving the art of flower arranging, the ceremonial tea party, and spirituality.

In the United States, as we change from an industrial to an informational society, we face unparalleled opportunity and uncertainty. As individuals and companies, we can have have great influence and leverage if we have a clear vision of the road ahead. For many, it will not be easy. Many companies will have to reinvent themselves to survive.

But no country is better positioned than the United States. We have the richest cultural mix for innovation and creativity. We have yet to experience the full potential of our society or use its full resources to gain a competitive edge. □