

## Four Management Practices That Create a Strong Corporate Culture

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## Abstract

Corporate culture is a combination of the values, beliefs and rituals in a company that regulate the way executives and employees think and act.<sup>2</sup> Frances Cairncross of *The Economist* says that the common characteristic of success in a business is the deliberate creation of a corporate culture. However, there is not much research on the specific management practices that create a strong corporate culture in successful businesses. In *The Future of Excellence in Public Relations and Communication Management*, author Krishnamurthy Sriramesh writes, “The authors positioned that researchers should focus also on specific management practices in individual firms (that often reflect corporate culture), which have a greater impact in increasing our insight into effective management practices globally.”<sup>10</sup> By exploring David Ogilvy’s management practices at Ogilvy & Mather and Tony Hsieh’s management practices at Zappos, I have created a list of four management practices that are essential in creating a strong corporate culture.

## Introduction

According to Frances Cairncross of *The Economist*, the common characteristic of success in a business is the deliberate creation of a corporate culture.<sup>1</sup> Corporate culture is a combination of the values, beliefs and rituals that a company develops over time. This culture, whether written as a mission statement or merely understood, regulates the way a company's executives and employees think, feel and act.<sup>2</sup> It is imperative, then, to understand the management practices that effectively create a strong corporate culture in which employees can excel, thus creating a successful company. This paper explores four core management practices that have helped create the corporate cultures of two of today's most profitable businesses – world-renowned advertising agency Ogilvy & Mather and the famous online retailer Zappos. The four management practices include:

1. Ask, "What is right for the enterprise?"
2. Require an internal market orientation.
3. Practice two-way communication.
4. Remember your humanity.

### Ask, "What is right for the enterprise?"

According to Peter F. Drucker, effective executives need to ask themselves, "What is right for the enterprise?" They don't ask what's right for the owners, stock price, employees or the executives.<sup>3</sup> Although the aforementioned factors are important if a decision is to be operative, effective executives should know that a decision that isn't right for the enterprise will ultimately not be right for the owners, stock price, employees or executives either.

Drucker says that the practice of asking, “What is right for the business?” is important for executives making hiring decisions at family owned or run businesses. He writes, “In the successful family company, a relative is promoted only if he or she is measurably superior to all nonrelatives on the same level.”<sup>3</sup> This thought process should apply to all corporations, family run or not. There should be no nepotism or prejudice when promoting or hiring. David Ogilvy, founder of Ogilvy & Mather, one of the largest advertising agencies in the world, discusses the hiring process and corporate culture in his book, *Confessions of an Advertising Man*. He writes, “The way up our ladder is open to everybody. We are free from prejudice of any kind – religious prejudice, racial prejudice, or sexual prejudice. We detest nepotism and every other form of favoritism. In promoting people to top jobs, we are influenced as much by their character as anything else.”<sup>1</sup> This philosophy creates a corporate culture in which people work hard because they know they have a fair chance of being promoted. Employees don’t look at a job at Ogilvy & Mather as a one to two year position during which they can gain valuable experience before going elsewhere. They look at a job at Ogilvy & Mather as something permanent. This sense of permanence and opportunity to succeed creates a strong corporate culture.

Zappos has a similar philosophy around promoting employees. They have developed what they call a “pipeline” in which every single department contains employees with varying levels of experience, from entry level to senior management. Their vision is for almost all new hires to be entry level, but for the company to provide the training and mentorship necessary to become a senior leader within the company within five to seven years. Again, the Zappos corporate culture is about learning both personally and professionally. A job with Zappos isn’t just for a year; it’s for a lifetime. Much like the culture at Ogilvy & Mather, the Zappos pipeline plan encourages employees to work hard and stay with the company because they will

have a fair shot at large promotions. Again, this sense of permanence and opportunity to succeed creates a strong corporate culture.

It is evident from my research that what is right for the enterprise often coincides with what is right for the customer. For example, online shoe retailer Zappos had been raking in a large portion of their revenue from the drop ship business since the company's inception in 1999. They didn't have to carry an inventory for this sector of the business, so there was no risk or cash flow problem. However, Zappos had customer service challenges to boot due to shipping issues. In 2003, CEO Tony Hsieh decided to eliminate that side of the business and focus on inventoried products and customer service.<sup>4</sup> On June 19, 2003, Hsieh wrote an email to his employees that said:<sup>5</sup>

Already, we've done a lot of revolutionary things that our customers love. We have the best in-stock shoe selection available anywhere, offline or online. We provide free shipping and free return shipping... for all of our customers as a standard part of our service. And although we promise our customers they will receive their shoes within 4-5 days, we upgrade service for almost all of our customers... It's not something we have to do, and it's not something that will increase our profits in the short-term. But because it's something that creates a great customer experience, we choose to do it, because we believe in the long run, little things that keep the customer in mind will end up paying huge dividends. Our goal in doing all this is to one day become the #1 e-commerce company.

Because Zappos was a struggling startup at the time, it was not an easy decision to drop the easy cash flow. But, Hsieh and the other executives evaluated the situation and asked

themselves, “What’s right for the enterprise?” The drop ship business was the only sector giving them customer service issues. Ultimately, the best thing to do was to drop it and create a new focus on customer service. If in one day Zappos could create a great experience for just five customers by upgrading their shipping, those customers would likely come back and shop again. They would also be likely to tell their friends and family about their great experience. If this happened a million times over, business would drastically increase, improving both revenue and stock price and, thus, the moods of the owners and executives. It was costly in the short run, but the decision paid off in the long run.

The focus on customer service from executives contributes to an adaptive corporate culture - a positive work environment for employees. Hsieh listened to customer complaints about the drop ship experience, took action and adapted the business model. This is not always the case. John P. Kotter and James L. Heskett write, “The response at Coors to customer complaints about a newly designed can top is typical: ‘We have heard that some customers have had problems opening the cans,’ the firm told its distributors. ‘But since we produce the best beer available, we are confident that our customers will find a way to get to it.’”<sup>6</sup> This type of unadaptive corporate culture undermines economic performance.<sup>6</sup> Executives that are unlikely to adapt their business to keep customers happy are also unlikely to make adaptations to help keep employees happy. Unadaptive corporate cultures can create frustration and unrest in an office environment. A business cannot perform well with unhappy customers and employees. Not adapting to change is not what is right for the enterprise. An adaptive corporate culture is a strong corporate culture.

Require an internal market orientation.

In *Internal branding: Exploring the employee's perspective*, authors Ceridwyn King and Debra Grace discuss how “important it is to recognize the commitment of individuals to the firm as well as providing an environment that is one in which individuals choose to stay. Thus, organizations must create an environment that supports intellectual capital through the effective transmission of knowledge.”<sup>7</sup> This deepened transmission of brand knowledge helps employees meet customer needs and expectations and creates a competitive advantage within the global economy. Each of these results helps answer the question, “What is best for the enterprise?”

In order to create this deepened knowledge in employees, effective management must require employees to participate in an internal market orientation (IMO). According to Ian N. Lings in *Internal market orientation: Construct and consequence*, “IMO involves the generation and dissemination of the intelligence of information pertaining to the wants and needs of employees, and the design and implementation of appropriate responses to meet these wants and needs.”<sup>8</sup> Ultimately, IMO results in the development of employee brand knowledge, which in turn enables the attraction and retention of, as well as motivation for, employees to deliver brand promise.<sup>7</sup> King and Grace state that, “Through the internalization of the brand, employees are better equipped to fulfill the explicit and implicit promises inherent in the brand and, therefore, expected by customers.”<sup>7</sup> The implementation of IMO and the realization of human capital that is able to deliver the brand promise require the creation of a work environment that fosters encouragement, appreciation and understanding of employees. In short, it requires the creation of a strong corporate culture and system that enables employees to use their talents.<sup>7</sup>

King and Grace also claim that the IMO approach “requires inspiring employees through setting clear goals that are well articulated, widely shared among the organization and act as the foundation upon which the organization’s competitive advantage is built.”<sup>7</sup> As previously stated

in the introduction, these clear goals, whether written in the form of a mission statement or merely understood by all employees, are what define a company's corporate culture.

Hsieh created such a list of goals (with the help of his employees), known as the 10 core values. These values clearly state the goals of Zappos and define the corporate culture. The list includes:<sup>9</sup>

1. Deliver WOW Through Service
2. Embrace and Drive Change
3. Create Fun and a Little Weirdness
4. Be Adventurous, Creative, and Open-Minded
5. Pursue Growth and Learning
6. Build Open and Honest Relationships with Communication
7. Build a Positive Team and Family Spirit
8. Do More with Less
9. Be Passionate and Determined
10. Be Humble

These goals are disseminated to new employees during a four-week training program. New employees learn company history, the importance of customer service, the long-term vision of Zappos and the philosophy of company culture. They then spend two weeks on the phone taking calls from customers, regardless of department or title. Hsieh says:<sup>9</sup>

At the end of the first week of training, we make an offer to the entire class. We offer everyone \$2,000 to quit (in addition to paying them for the time they've already worked), and it's a standing offer until the end of the fourth week of training. We want to make sure that employees are here for more than just a paycheck. We want employees that

believe in our long-term vision and want to be a part of our culture. As it turns out, on average, less than 1% of people end up taking the offer.

With the brand knowledge that the Zappos IMO provides, employees are able to transform the brand vision into the brand reality. Just as King and Grace suggest, Zappos has provided a work environment that fosters encouragement and appreciation through both its IMO and core values. This type of environment attracts and retains great employees and creates a corporate culture in which employees may use their talents. The strong corporate culture Zappos has fostered is the reason why less than one percent of new employees take the \$2,000 offer to quit.

#### Practice two-way communication.

While reading *The Relationship Between Culture and Public Relations*, author Krishnamurthy Sriramesh discusses an assessment between organizational culture and public relations conducted by Cameron and McCollum. He says the authors, “posited that ‘consensus between employees and management at the level of constructs, ideals, and beliefs is both a product and facilitator of communication between management and employees.’”<sup>10</sup> At the end of the study, Cameron and McCollum conclude that the practice of two-way communication between management and employees would ultimately result in a stronger corporate culture.<sup>10</sup> The practice of two-way communication should extend beyond managers and employees in public relations practice to include other professions.

Drucker also focuses on the need for two-way communication between an effective manager and his employees. He states that executives should share their action plans with and ask for comments from superiors, subordinates and peers. Drucker writes, “The information flow

from subordinate to boss is usually what gets the most attention. But executives need to pay equal attention to peers' and superiors' information needs. We all know, thanks to Chester Barnard's 1938 classic *The Functions of the Executive*, that organizations are held together by information rather than by ownership or command."<sup>11</sup>

The practice of two-way communications creates a work environment known as a participative culture. In *Bringing Corporate Culture to the Bottom Line*, Daniel R. Denison states that participative culture works for four different reasons. First, "A participative culture encourages a higher degree of inclusion of the individual in the work environment. Workers become more than 'hired hands' and develop a sense of ownership over their efforts within the organization and a pride in their contribution to the workplace."<sup>12</sup> Second, employees in a participative culture "seek to minimize transaction costs associated with conflicts while defining a course of action that furthers their *collective* interests."<sup>12</sup> Third, a participative culture "fosters the long-term development of responsible work habits on the part of individual members."<sup>12</sup> Eventually, identification with organizational goals will also develop. Last, groups of people better solve complex issues than do individuals. Denison writes that, "This is particularly true if the interactions of group members are structured in an effective manner."<sup>12</sup>

Hsieh has proven that executives who practice two-way communication create a strong, participative corporate culture through his communication practices with Zappos employees. Back in October 2000, Zappos was struggling to survive with no outside investors. Hsieh was investing out of his own pocket. He took no time filling his employees in on the financial situation in an email that stated the importance of getting Zappos to profitability before they completely ran out of cash. He discussed a nine-month plan in which the hiring would be slimmed down, projects would be cut back and customer conversion would increase. At the end

of his email he wrote, “As I mentioned above, if anyone has any questions about how things fit into our 9-month plan, please don’t hesitate to ask.”<sup>13</sup> In communicating the financial situation to employees and asking for questions and feedback, Hsieh began to create a participative culture at Zappos. Employees felt included in the organization because they knew exactly what the nine-month plan was and that their contributions were going to mean something. Thus, they were able to pull through this particularly rough financial period. As Denison said, those working in a participative culture will work to minimize transaction costs associated with conflict and work toward a course of action that follows their collective interests. This email was just the first of many emails to employees regarding financial situations over the years.

A second example of two-way communication within Zappos involves the creation of the Zappos Culture Book and the Ask Anything newsletter. In August 2004, Hsieh sent an email to all employees asking them to write 100-500 words describing the company culture. All (unedited) contributions were combined into the Zappos Culture Book, which was intended for distribution among new hires at orientation. However, the culture book turned into something much bigger. It is now an annual ritual to collect employee statements on the company culture and combine them into the Zappos Culture Book for the following year. The book is now available to not only new hires, but also job applicants, business owners and future entrepreneurs. It also includes statements from vendors, partners and customers.<sup>14</sup> Hsieh writes that while the majority of the first culture book entries were positive, the executives also learned that not every employee was happy about Zappos’ growth. A few long-term employees complained about additional processes and procedures that had been implemented. Hsieh says that, “Some things, like filling out expense reports, were necessary by-products of our growth. Other things, such as criticism about communication within the company being harder than

before, served as a wake-up call for us to be more proactive on that front.”<sup>14</sup> The Zappos executives paid attention to the needs of their subordinates and were able to fix communication issues before they became a hindrance. This two-way communication helped create their strong corporate culture.

Part of this fix was the implementation of the Ask Anything monthly newsletter. Hsieh writes, “Employees are encouraged to send an e-mail and ask any question they want. The anonymous questions and answers are compiled each month and e-mailed to the entire company.”<sup>14</sup> Example questions include anything from “Who is on the Zappos.com board of directors?” to “Do vegetarians eat animal crackers?”<sup>14</sup> Again, the ability for employees to freely ask executives important questions is an important part of practicing two-way communication and thus, fostering a strong, participative culture.

Two-way communication also fosters relationship building between a manager and his employees. One of the core values of Zappos is Build Open and Honest Relationships with Communication. While discussing this core value, Hsieh writes, “Fundamentally, we believe that openness and honesty make for the best relationships because that leads to trust and faith.”<sup>15</sup> He says:<sup>15</sup>

As the company grows, communication becomes more and more important, because everyone needs to understand how his/her team connects to the big picture of what we’re trying to accomplish. Communication is always one of the weakest spots in any organization, no matter how good the communication is. We want everyone to always try to go the extra mile in encouraging thorough, complete, and effective communication.

Again, Hsieh’s practice of two-way communication has fostered a strong, participative culture at Zappos that every manager should try and emulate.

Remember your humanity.

This may sound like a strange practice, but remembering your humanity will result in having compassion for others. This compassion will create a strong corporate culture. In *Storytelling That Moves People*, Robert McKee writes that, “A great CEO is someone who has come to terms with his or her own mortality and, as a result, has compassion for others.”<sup>16</sup> This practice will lead managers to do two great things.

First, managers will be better able to practice storytelling and, thus, better able to persuade and motivate their employees. McKee claims that self-knowledge is at the root of great storytelling. He writes:<sup>16</sup>

The more you understand your own humanity, the more you can appreciate the humanity of others in all their good-versus-evil struggles. I would argue that the great leaders Jim Collins describes are people with enormous self-knowledge. They have self-insight and self-respect balanced by skepticism. Great storytellers – and, I suspect, great leaders – are skeptics who understand their own masks as well as the masks of life, and this understanding makes them humble. They see the humanity in others and deal with them in a compassionate yet realistic way. That duality makes for a wonderful leader.

Peter Gruber holds a similar point of view in his article, *The Four Truths of the Storyteller*. He says that being true to yourself involves sharing and showing emotion, which is often difficult for managers because it also requires displaying vulnerability. Gruber writes that sharing emotion “often requires being vulnerable – a challenge for many leaders, managers, sales-people and entrepreneurs. By willingly exposing anxieties, fears and shortcomings, the storyteller allows the audience to identify with her and therefore brings listeners to a place of understanding and catharsis, and ultimately spurs action.”<sup>17</sup>

Amazon acquired Zappos in 2010 and shortly after, Hsieh began to receive numerous speaking requests to discuss his company's culture. He says that he would write out his speech weeks in advance and spend days memorizing and practicing it. After a few speaking engagements, he began to pick up on something very important. Hsieh writes:<sup>18</sup>

I had also noticed that while people appreciated the content of my speeches, they generally commented about two things afterward. They told me they really enjoyed the personal stories, and they said that, even though many of them had already read about Zappos in the press, it made a huge difference to actually hear it come from me. They told me they could really feel my passion for my company culture, customer service, and Zappos in general.

The emotion displayed by Hsieh in his speeches is one of Gruber's key storytelling concepts. Not only does Hsieh share emotion in his speeches, he shares it throughout his novel. At no point in the story of Zappos is he unwilling to recognize the mistakes made and challenges confronted in the early days of the company. Hsieh is an open leader. This translates not only to his storytelling in speeches and writing, but his two-way communication with employees. This sharing of emotion is essential to good leadership. As Gruber says, "the visionary manager crafting his story must first display his own open heart."<sup>17</sup>

Second, the practice of remembering your humanity will also help managers be considerate and affectionate toward employees. Ogilvy writes, "The executive is inevitably a father figure. To be a good father, whether it is to his children or to his associates, requires that he be understanding, that he be considerate, and that he be human enough to be affectionate."

Zappos employee Robin P. contributed a personal story to Hsieh's book about affection in the Zappos workplace. When her husband suddenly passed in 2007, the first person Robin

called was her employer. She says, “When my senior manager received my hysterical call, she showed great compassion and gave sound advice to calm me. She assured that I shouldn’t be concerned with anything else but to take care of myself and my family, and that – day or night – I should call if I needed anything. After she gave me every single one of her phone numbers, I knew she meant it.”<sup>20</sup> The compassion Robin’s manager displayed was directly reflective of a certain Zappos core value: Build a Positive Team and Family Spirit.<sup>20</sup> Creating this strong corporate culture can only be done if managers remember their own humanity, starting with the CEO.

### Conclusion

In conclusion, there are four core management practices that create a strong corporate culture in businesses:

1. Ask, “What is right for the enterprise?”
2. Require an internal market orientation.
3. Practice two-way communication.
4. Remember your humanity.

These practices will deliberately create a strong corporate culture in which employees can excel – the most common characteristic of success in businesses.<sup>1</sup> This point was proven numerous times during my examination of David Ogilvy’s management practices at Ogilvy & Mather and Tony Hsieh’s management practices at Zappos. Each executive deliberately created a strong corporate culture in their successful businesses by following these four management practices. The power of asking, “What is right for the enterprise?”; requiring an IMO; practicing two-way communication; and remembering your humanity is undeniable in creating a strong corporate culture.

## Notes

1. David Ogilvy, *Confessions of an Advertising Man* (Harpenden: Southbank Publishing, 1987), 15-16.
2. "Corporate Culture," Entrepreneur Magazine, accessed December 2, 2012, <http://www.entrepreneur.com/encyclopedia/term/82104.html>.
3. Peter F. Drucker, "What Makes an Effective Executive," *Harvard Business Review* 82(6) (2004): 60.
4. Tony Hsieh, *Delivering Happiness: A Path to Profits, Passion, and Purpose* (New York: Hachette Book Group, 2010), 123.
5. Hsieh, *Delivering Happiness*, 128.
6. John P. Kotter and James L. Heskett, *Corporate Culture and Performance* (New York: Simon & Schuster Inc., 1992), 71-72.
7. Ceridwyn King and Debra Grace, "Internal Branding: Exploring the employee's perspective," *Journal of Brand Management* 15(5) (2008): 359-361, accessed December 5, 2012, doi:10.1057/palgrave.bm.2007.48.
8. Ian N. Lings, "Internal Market Orientation: Construct and consequences," *Journal of Business Research* 57(4) (2004): 410.
9. Hsieh, *Delivering Happiness*, 153-155.
10. Krishnamurthy Sriramesh, "The Relationship Between Culture and Public Relations," in *The Future of Excellence in Public Relations and Communication Management*, edited by Elizabeth L. Toth (New York: Taylor and Francis Group, 2008), 515-516.
11. Drucker, "What Makes an Effective Executive," 61-62.

12. Daniel R. Denison, "Bringing Corporate Culture to the Bottom Line," *American Management Associations* (1984): 18-19.
13. Hsieh, *Delivering Happiness*, 93-95.
14. Hsieh, *Delivering Happiness*, 135-138.
15. Hsieh, *Delivering Happiness*, 176.
16. Robert McKee, "Storytelling That Moves People," *Harvard Business Review* 81(6) (2003): 54-55.
17. Peter Guber, "The Four Truths of the Storyteller," *Harvard Business Review* 85(12) (2007): 56.
18. Hsieh, *Delivering Happiness*, 205.
19. Ogilvy, *Confessions of an Advertising Man*, 35.
20. Hsieh, *Delivering Happiness*, 178.

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