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REALIZING A CORPORATE PHILOSOPHY

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GERALD E. LEDFORD, JR.
SENIOR RESEARCH SCIENTIST
UNIVERSITY OF SOUTHERN CALIFORNIA

Jon R. Wendenhof
Director, Industrial Relations
Eaton Corporation

James T. Strahley
Vice President, Human Resources
Simpson Industries

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Please address correspondence to the first author at:

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Most large firms have a corporate philosophy statement. Potential benefits of corporate philosophies include guiding behavior and decisions, expressing organizational culture, and inspiring commitment. However, most philosophy statements probably have no positive effect because of flaws in the statements or the ways the are used. The authors explore several ways to make corporate philosophies a reality, not empty words. They focus on an innovative process that the Eaton Corporation has used for several years. The firm's plant visit process involves employees throughout the corporation in an annual affirmation and renewal of the Eaton Philosophy: Excellence through People.

REALIZING A CORPORATE PHILOSOPHY

Management scholars and practicing managers have long viewed organizations as manifestations of the underlying values of their founders, managers, or members. Many also have argued that corporate values are related to organizational success, and that an important task of executives is to express and help realize these values in everyday organizational life. Decades ago, for example, sociologist Philip Selznick argued that a mere <u>organization</u> becomes an enduring <u>institution</u> when it becomes infused with values that go beyond efficient performance. He suggested that value-laden institutions gain advantages over other organizations, including employee loyalty, adaptability to a changing environment, and enhanced prospects for survival. Selznick indicated that the most important roles of leaders are to determine key organizational values and to embody them in the organization's structure.

Some companies have attempted to express and reinforce their values by stating them publicly. Companies such as IBM, Johnson & Johnson, and Hewlett Packard have promoted a specific statement of values for decades. Such statements have become so prevalent that six out of ten large U.S. firms have one.

The statement of values might be termed a corporate philosophy, credo, vision, aspirations, mission, or principles. Some of these terms are more likely to be used in certain contexts than others. For example, those writing from an organizational culture perspective are more likely to use the term "philosophy," while strategists are more likely to think in terms of a "mission." In corporate practice, however, these terms are used almost interchangeably. In this article we will speak of corporate philosophy, but draw from literatures that use related terms as well.

We first consider why corporate philosophy statements have emerged as a common management practice. We take the position that corporate philosophy statements can be beneficial, but that most do not have any evident positive effects because of flaws in the statements or in the ways they are used. Next, we explore why it is possible for a firm to derive benefits from adopting a philosophy statement. We then turn to the issue of what corporations can do to develop and implement a corporate philosophy in ways that might result in benefits to the organization.

Finally, we examine the experience of Eaton Corporation, a company that is attempting to turn the ideals expressed in its philosophy into everyday reality.

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The Corporate Philosophy Statement

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The Emergence of the Corporate Philosophy Statement

The corporate philosophy statement did not become a popular expression of corporate values until the early 1980s. The turning point was two bestsellers, Peters and Waterman's <u>In Search of Excellence</u> and Ouchi's <u>Theory Z</u>. Peters and Waterman indicated:

> "Every excellent company we studied is clear on what it stands for, and takes the process of value shaping seriously. In fact, we wonder whether it is possible to be an excellent company without clarity on values and without having the right sorts of values. . . . Clarifying the value system and breathing life into it are the greatest contributions a leader can make."

Ouchi viewed an explicit corporate philosophy as a key attribute of a clan-like "Theory Z" organization. He devoted a chapter to corporate philosophies and included the text of several exemplars in an appendix. Ouchi argued that a philosophy is critical because it enables employees to coordinate their activities for common purposes even in the absence of hierarchical direction.

These books heralded a tremendous increase in interest among both practitioners and researchers in the broad topic of organizational culture. Culture is typically defined as a system of shared meaning. Values--often tacit or even unconscious--define organizational culture at a deep, possibly unconscious level. Culture is expressed symbolically through rituals, stories, and myths, and is reinforced by many aspects of organizational structure and functioning.

Authors who write primarily for a practitioner audience have argued that a "strong" or "appropriate" organizational culture leads to improved organizational performance. They also have claimed that proactive management can help create the right kind of culture.

The academic community has been more skeptical. A recent review of the literature found limited support for a link between organizational culture and performance in the little research that is available, and cast doubt on whether it is even possible to demonstrate a convincing linkage. A number of scholars believe that a strong organizational culture is deeply rooted in employees' views of reality, as well as a wide range of organizational practices, and is thus highly resistant to

change. Some contend that an organization's culture can be traced to the beliefs of its founders, and thus resembles a "genetic code" that is very difficult to rearrange. Others argue that all sizable organizations have multiple cultures, not just one, thus vastly increasing the difficulty of managing culture.

Nevertheless, academic doubts have not dampened the enthusiasm of practitioners for attempts to manage organizational culture. A characteristic early step in managing culture is the creation of a high-level task team charged with codifying the firm's values in a formal statement. The logic is straightforward. If organizational values are basic to organizational culture, then the organization's values need to be understood and actively shaped if necessary. Although many observers (even Peters and Waterman) are skeptical of formal written statements of organizational values, as opposed to the expression of values through myths, stories, and executive behavior, formalizing values in an official philosophy statement comes naturally to formal organizations. So too does rolling out the statement throughout the organization with a fair amount of hoopla. A consulting mini-industry has arisen to support all of this activity, with the typical charge running $50,000 to $100,000 to develop a philosophy and associated communications strategy. As a result, the corporate philosophy statement has become almost as commonplace in modern firms as the employee handbook and the company newsletter.

Why Create a Corporate Philosophy?

One would hope that all of this executive and employee attention and resources to corporate philosophies have generated some benefit to organizations, employees, and shareholders. However, we see no reason to believe that this happens very often. In our experience, the typical corporate philosophy statement has, at best, a negligible impact on the attitudes, beliefs, and behavior of organizational members. If employees are even aware of the philosophy statement, they tend to regard it with indifference or cynicism. Managers do not use it. Executives forget that it exists when it is convenient to do so.

This assessment is widely shared by those concerned with organizational values. James Collins and Jerry Porras, who have conducted the most in-depth research that is currently available on the corporate philosophies, found in their study:

> "[M]ost mission statements are terribly ineffective as a compelling, building force. In fact, most corporate statements we've encountered--be they called mission, vision, purpose, philosophy, credo, or the company way--are of little value. They don't have the intended effect. They don't grab people in the gut and motivate them to work toward a common end. They don't focus attention. They don't galvanize people to put forth their best efforts toward a compelling goal. They don't mean something to people all up and down the organization. In fact, they are usually nothing more than a boring stream of words."

Lee Ginsburg and Neil Miller, who have conducted research and consulted on organizational values, conclude:

> ". . . for many firms, corporate values, if addressed at all, were only cited in advertisements, press releases, and company newsletters. Are corporate values taken seriously or not? Our findings indicated that they are not. Our interviews and surveys have repeatedly shown that statements and beliefs of CEOs are not being adhered to--the 'stated values' are not a part of the daily life of the organization."

Russell Ackoff, a noted observer of management practice, has further observed:

> "Most corporate mission statements are worthless. They consist largely of pious platitudes such as: 'We will hold ourselves to the highest standards of professionalism and ethical behavior.' They often formulate necessities as objectives; for example, 'to achieve sufficient profit.' This is like a person saying his mission is to breathe sufficiently."

These comments raise troubling questions. If philosophy statements do not make a difference, why do so many companies go to the trouble of developing them? Even if corporate philosophies do not make a difference in most cases, what are the potential advantages of developing a corporate philosophy? Is it possible to develop and implement a corporate philosophy in such a way that it increases the frequency with which managers and employees live up to the ideals it embodies? We turn next to one of these questions.

Potential Advantages of A Corporate Philosophy

Although the corporate philosophy statement has become extremely popular, the merits of developing such a statement have not received careful scrutiny. There have been scores of articles

about philosophy statements, but there has been very little research on the topic. This makes any conclusions speculative. Three broad purposes of corporate philosophy statements appear in the literature. These include guiding behavior and decision making; offering meaning to employees through the expression or enhancement of organizational culture; and inspiring commitment to the organization, leading to higher performance.

A corporate philosophy statement can be used to guide behavior and decisions. Values, which a philosophy statement expresses, by their nature define what courses of action and outcomes "should be." Thus, the philosophy statement can help direct employee attention in some directions and not others. Johnson & Johnson provides a frequently cited example of the use of a corporate philosophy statement in decision making. Based partly on a review if its Corporate Credo, the company responded to the infamous poisonings of Extra Strength Tylenol by withdrawing the product from stores throughout the country, not just in the region where the poisonings occurred. Ouchi provides examples of specific employees who made use of their company's written philosophy in deciding what action to take. For example, a marketing manager used the philosophy to help set a fair pricing strategy for a new product. At Levi Strauss, managers have used the firm's Aspirations Statement to help make decisions about work design and the use of information technology that links the company and suppliers. It has also led management to avoid promises of secure employment that might later have to be broken.

Many people are skeptical about whether something so broad as a corporate philosophy could serve as a real guide to behavior and decision making. This skepticism is justified if we expect the philosophy to play too specific a role. The values of a philosophy tend to be general rather than specific. Indeed, an extremely detailed statement of values would not be any more memorable or emotionally compelling than a book of standard operating procedures. Nevertheless, a philosophy can offer broad guidance.

A second potential advantage of a corporate philosophy is in expressing organizational culture, thus helping employees to interpret ambiguous stimuli in ways that make sense. Ambiguity is everywhere in organizations. There often are no obvious answers to such basic questions as, is

my unit performing well? Am I paid fairly for my contribution to the organization? Are different employee groups in the organization treated fairly by management? Is the company pursuing the right strategy? Research on organizational culture has consistently emphasized that culture helps employees interpret their social reality in ways that permit them to answer such questions. Sense making is perhaps the most important attribute of organizational cultures. Organizational cultures help employees to arrive at shared goals and expectations, to understand how their individual roles fit within a larger picture, to maintain norms of acceptable conduct, and to derive consistent interpretations of the acts of managers, peers, and customers.

We should not expect that a corporate philosophy is powerful enough, by itself, to fully express an organizational culture or to replace other expressions of the culture. However, a philosophy statement can offer one clear, compelling statement of the corporate vision. It tells employees and prospective employees what the organization stands for, and it can help set an emotional tone for the culture. This use of philosophy statements is consistent with the purposes of philosophies found in a survey of large British firms.

It is interesting that corporate philosophy statements manifest not only organizational culture, but national cultures as well. This is one reason for considerable overlap in the content of the philosophies of different companies from the same society. A recent study indicates that European, American, and Japanese companies tend to produce different types of philosophy statements that reflect national cultures. Western philosophy statements, for example, tend to be much more explicit and informative and tend to emphasize the role of the corporation in relation to external stakeholders, such as customers and the general public. Japanese philosophy statements tend to be internally focused and more emotional in tone, and tend to emphasize internal cooperation and harmony.

Even a relatively specific statement of corporate philosophy can evolve in meaning as the organization changes over time and as the national culture evolves. Consultant and author Michael Maccoby once compared a value statement that he helped develop to the Declaration of Independence. This is an intriguing comparison. For example, the Declaration's famous statement

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that "all men are created equal" captured the ideal of a society that, at the time, allowed only white, male property holders to vote. Each generation has redefined equality, and struggles over its meaning have been fierce and sometimes bloody. The phrase haunted the conscience of the nation as the franchise was extended first to those who did not own property, then to former slaves, and finally to women. Contemporary extensions of the concept of equality and equal protection go well beyond the vision of the nation's Founding Fathers, as some form of equal protection has been extended to such groups such as children, illegal aliens, and the disabled. Similarly, interpretations of the values expressed in a corporate philosophy statement can be expected to evolve over time.

A third potential advantage of a philosophy statement is that it may <u>contribute to organizational performance</u> by inspiring employee motivation or feelings of commitment to the organization. If the lofty ideals expressed in the philosophy statement resonate with the private values of employees, then employees may be more willing to view the meeting of organizational ends as consistent with their own desires. Thus, Collins and Porras argue that the statement should "be able to grab the 'soul' of each organizational member". The philosophy statement can be visionary. That is, it can express what the organization wishes to be rather than what it presently is. Ackoff indicates that "A mission should play the same role in a company that the Holy Grail did in the Crusades. It does not have to appear feasible: it only has to appear desirable." The philosophy statement does not necessarily have to move mountains to make a cumulative difference in corporate performance. If individual employees become just a little more dedicated to serving their customers, exert just a bit more effort to meeting important performance goals, and care just a little more about their work, the statement may offer a positive return on the investment needed to produce it. Some authorities claim that high performance, high commitment work systems derive in part from clear values, and that a philosophy statement is a key step in designing such systems.

Perhaps the most eloquent executive on the subject of corporate philosophies is Robert Haas, Chairman and CEO of Levi Strauss. In a <u>Harvard Business Review</u> interview, he said:

What we've learned is that the soft stuff and the hard stuff are becoming increasingly intertwined. A company's values--what it stands for, what its people believe in--are crucial to its competitive success. Indeed, values drive the business. . . In a more volatile and dynamic business environment, the controls have to be more conceptual. They can't be human any more: Bob Haas telling people what to do. It's the ideas of a business that are controlling, not some manager with authority.

It is interesting in this regard that one study found that the firms that specified a philosophy in the corporate mission statement were more profitable than those that did not. Results such as these need to be interpreted cautiously, because there are many possible causes of such an association. For example, more profitable firms have available to them more resources for developing polished philosophy statements. Nevertheless, the results are provocative, and consistent with the arguments made by proponents of philosophy statements.

Is There a Downside to a Corporate Philosophy?

With such advantages to adopting a corporate philosophy, should every company have one? We believe that a philosophy may not be a positive or even a neutral force in all cases. A poorly enacted philosophy is likely to breed cynicism or apathy. The more beautiful the prose and the more desirable the vision, the more apparent will be any discrepancy between the dream and reality. As a result, a philosophy statement by itself is not likely to have any positive effect, and may even demoralize employees rather than inspire them if they see it as empty words. In addition, a philosophy that becomes too rigid may become a justification for failing to grapple with new corporate challenges. This is the obverse side of the culture coin. A strong culture, fostered in part by a compelling organizational philosophy, may channel perceptions in ways that encourage common understanding--or may make employees blind to changing realities. It is interesting that IBM, a company that has performed poorly because it failed to adapt to a changing environment, once was frequently and favorably cited as a company with a strong corporate philosophy. Its philosophy, penned by founder Thomas Watson Sr., became a justification for stagnation in recent years. Its emphasis on the individual encouraged IBM to ignore the importance of teams to a high technology firm, and the emphasis on "excellence" in everything became an excuse for bureaucratic excess at every turn.

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Means of Realizing a Corporate Philosophy

Clearly, not every corporation that adopts a formal philosophy realizes benefits. But if we assume that it is possible to gain value in the expression and use of a corporate philosophy, we are left with another important question. How is it possible to make the corporate philosophy real--that is, something more than a set of empty platitudes? How is it possible to develop the "right" philosophy--that is, one that reflects the values, business strategy, core competencies, and practices the firm needs to succeed? There are a number of possible answers, which are summarized in Figure 2.

First, the _wording of the statement_ may affect how it is used and whether employees and managers take it seriously. Most writing on the topic of corporate philosophies has focused on this issue. Some of the resulting advice is useful. We find it hard to argue with the commonplace call for compelling, vivid prose. Returning to our example of the Declaration of Independence, the statement that "We hold these truths to be self-evident, that all men are created equal . . ." is simply more powerful and memorable than "we believe in fairness." In addition, if no one can disagree with the statement, it probably is too bland to be of value. If the statement is too long and complex, it will not be remembered. Stan Davis argues for a statement that includes no more than four guiding beliefs. He makes the arresting argument that the Ten Commandments are better known than any corporate values, yet few people can recite many of them.

Although the statement itself probably matters, we believe that most observers overestimate the importance of the prose. Few employees or managers make a hobby of literary criticism. They are unlikely to scrutinize the text. More important, there are more important factors governing their behavior other than the specific words in a philosophy statement.

A second means of realizing a philosophy is use of an effective _process for the development and communication_ of the philosophy throughout the company. Companies are devoting extensive attention to this step. Much has been written about it. As a result, communication plans are becoming increasingly sophisticated. Media used to communicate the philosophy statement range from professional videos to small group discussion meetings to wallet-

sized cards emblazoned with the statement. It is common to assign this step to a special cross-level task force, possibly with the assistance of a consulting firm that specializes in corporate philosophies. Such groups are useful for collecting a variety of perspectives on corporate values and for developing ideas about communication strategies. However, it may be that inoffensive and unexciting philosophy statements are one outgrowth of the use of such task forces. It is interesting to note here that company founders (such as IBM's Watson) rather than quasi-participative task teams penned many of the best-known and most memorable corporate philosophies.

The development process may help determine how seriously the philosophy statement is viewed in the organization. A good development process may raise employee awareness of the philosophy and may increase feelings of ownership for it. However, we see development and communication processes as important but insufficient for the realization of a corporate philosophy. The key problems rarely lie in employee understanding and agreement with the philosophy. Rather, the key problems lie in aligning behavior, policies and practices with the fine sentiments expressed in the philosophy. If a public relations campaign heightens employee awareness of the gap between corporate rhetoric and reality, it may actually weaken the impact of the philosophy. Thus, the benefits of a good development and communication process may be short term only unless the organization itself changes in ways that are consistent with the philosophy.

This suggests a third means of realizing a corporate philosophy: <u>wed it to every major human resource system</u> that governs the behavior of organizational members. This weaves philosophical principles into the fabric of daily organizational life. It requires translating general value statements into specific policies. In our view, this is the most important strategy for realizing a corporate philosophy.

Some examples illustrate how companies realize values through a focus on systems. Reward systems are probably the most powerful means of influencing the realization of a philosophy. Over the long term, employees tend to do what they are rewarded for doing and stop doing what they are not rewarded for doing. For example, 3M and Rubbermaid place a high value

on innovation and are among the most innovative organizations in the U.S. This is expressed in a reward system that requires managers to meet high targets for the percentage of their sales that are derived from products introduced within the last five years. Similarly, firms that place a value on entrepreneurial behavior need to place pay at risk and provide high rewards for successful risk-taking. Conversely, organizations that value stability and long-term effort (such as universities and R&D labs) tend to offer more job security than most.

Performance appraisal also can be based on behaviors that are relevant to the corporate philosophy. AlliedSignal, for example, currently assesses the performance of every manager on behaviors that are associated with a statement of corporate values. Levi Strauss bases one-third of the performance appraisal rating on behavior that is consistent with the corporate "Aspirations Statement." Performance appraisals also can be used to recognize more specific elements of a corporate philosophy or value statement. General Mills values community involvement, and volunteer activities are explicitly recognized in performance appraisals. Ultimately, career success must be based on corporate values if those values are to be taken seriously.

Training practices also need to reflect the philosophy. Training about the philosophy itself and how it relates to the behavior of employees may be needed. The overall amount of training provided by the firm and whether the firm rewards employee development provide important cues about how seriously employees should take value statements about the development of employees skills and abilities. This is especially true of firms that have a philosophy espousing a value on employee development. For example, the Sun Company's lofty statement that "We believe human development to be the worthiest of goals of civilization . . ." commits the company to a high investment in training and development.

Special training may need to be provided to managers to help them learn about the philosophy and how to manage in a way that is consistent with it. The Minneapolis Star Tribune is attempting to become a "principles-driven, not a policy-driven, business." The newspaper has developed an innovative management training effort called "More Power to Us." It is intended to show managers how relying on core values will help the paper realize its strategy, and in turn to

meet its purpose. Its purpose is "to enrich the shared life of the community by being the area's leading provider of information that people value." The document and training help managers understand how the paper's restructuring into work teams that have substantial decision making power has increased performance. They also help managers understand the implications of these changes for their own roles and behavior.

The hiring process also can reflect the philosophy. The nature of the process should reflect any values concerning openness, trust, and fairness. Whether employees are given a realistic picture of the plusses and minuses of the job and working for the organization will govern early employee impressions of whether the organization trusts them and is trustworthy. An explicit role can be given to the corporate philosophy as well. Johnson & Johnson tells all job applicants about its Credo, and all new employees receive a copy and an explanation of the document. This appears to be a common practice among Japanese companies. The philosophy can also be used to determine what traits should be sought in potential employees. Southwest Airlines believes "work should be fun . . . it can be play . . . enjoy it." As a result, the company attempts to hire employees who have a sense of humor--as Southwest passengers long ago discovered.

The corporate philosophy should be reflected in other systems as well. Examples include the design of work (for example, the role given to teams reflects values around teamwork), organization structure (for example, the number of management layers reflects values around employee empowerment), and labor relations (for example, the corporate stance toward unions reflects various values).

A final means of realizing a corporate philosophy is a <u>process of ongoing affirmation and renewal</u> of the philosophy. All of the other means can be used, and yet not be enough. The statement may be well written, the philosophy may be communicated well, and various organizational systems may reinforce it. Yet, a process is still needed to continually nuture interest in and use of the philosophy. In some explicit way, the firm actively engage employees in an explicit reconsideration of the meaning of the philosophy and whether it is being lived in the firm. This approach has received virtually no attention in the prior literature. One company's attempt to

use this approach will be the focus of the remainder of this paper. We will discuss an innovative plant visit process used by the Eaton Corporation for affirmation and renewal of its philosophy.

The Eaton Corporation Philosophy Plant Visit Process

Eaton Corporation is a Cleveland-based manufacturer of motor vehicle components (such as valves, brakes, and axles) and controls for appliances, vehicles, and industrial equipment. With over $4.4 billion in sales, the company ranked as the 115st largest firm in the 1994 <u>Fortune</u> 500 listings. After recent acquisitions, it now has 50,000 employees and 146 manufacturing plants. Eaton is a global firm, with over 50 plants in Europe, Asia, Australia, and Latin America. Despite its size, the company is largely unknown to the general public because it sells few products for the mass market. However, the company is well known to investors and others in the business community due to its long track record of growth and profitability.   For example, Eaton ranked 128th among <u>Fortune</u> 500 firms in total return to investors during the previous year. For a number of years, Eaton has ranked first, second, or third among motor vehicle industry firms in <u>Fortune</u>'s annual rankings of most admired companies.

Origins of The Eaton Philosophy

The Eaton Philosophy: Excellence Through People arose from the company's experiences with innovative employee relations efforts. The beginning was in the valve business in 1969. At the time, Eaton built valves at a large plant in Battle Creek, Michigan that had a history of contentious union-management relations. Eaton had the opportunity to obtain new valve business from Ford if it would build a second plant, insuring a stable supply of valves. Eaton built a "greenfield" plant in Kearney, Nebraska.

The Kearney plant was designated as a "new philosophy" plant. This meant that the plant was managed in a way that increased mutual respect and trust between factory and management employees. Status differences between management and non-management were minimal; there were no time clocks, buzzers, or whistles. Management encouraged employees to contribute ideas for improvement. The company paid for casual absences of all employees, yet the absenteeism rate was only 1%. By current standards, the human resource practices of the plant were not

revolutionary. The plant did not use self-managed work teams, skill based pay, gainsharing, or other innovations that are common today in new high involvement plants. Nevertheless, the changes were radical in Eaton, and the differences in employee morale and plant performance between the Battle Creek and Kearney plants were stunning. The Kearney plant achieved 25 to 30 percent greater productivity using the same production technology. Human resource practices at the plant have continued to evolve, and the plant remains to this day one of the most efficient in its industry. Eaton managers recognized and appreciated the success at Kearney. As Eaton grew and built new plants, every new plant was built on the Kearney "new philosophy" model.

The early 1980s brought hard economic times and fierce domestic and international competition to Eaton's core businesses. Eaton, like other companies, began looking for every possible source of competitive advantage as it faced a tougher and more uncertain environment. In 1983, as the national economy began to emerge from recession, Eaton's then-CEO E. M. de Windt asked the human resource function to review the new philosophy plants. The Director of Industrial Relations, who subsequently led or organized all major corporate initiatives related to the Eaton Philosophy, led the review team. The purpose of the review was to learn whether the plants' management style survived during the recession and how that management style was related to performance. The investigators concluded that although some new plants had struggled, on they whole they had continued to maintain their innovative management style. The level of employee involvement, communication, and reward innovation had deepened over the years in most of the plants. Most important, those plants that maintained their innovative management style showed better operating performance than those that did not.

The Human Resources group presented their report and suggested a course of action to Mr. de Windt. They proposed capturing the central themes in the new philosophy plants and diffusing the new management philosophy throughout the company. The executive group took these findings seriously, and the Chief Executive Officer resolved to spread the new philosophy throughout Eaton. In 1984, senior management commissioned a task force that included representatives of the corporate headquarters, each of the four main business groups, and international operations. The

task force was charged with drafting the "Eaton Philosophy: Excellence through People," which would capture the best principles of the new plants and articulate them in a formal statement. Figure 3 displays the philosophy statement. The philosophy was introduced to virtually every U.S. employee of Eaton in 1985, and to employees of international operations in succeeding years. Selected management representatives received two and a half days of training and orientation, which equipped them to perform management orientations in their own organizations. All employees participated in meetings that included a videotape about the philosophy, and all received a brochure detailing the philosophy. To assess the company's progress toward practicing the philosophy, the human resource function commissioned a survey of Eaton employees that provided data about topics relevant to the philosophy.

Until this point, the process by which the Eaton Philosophy was developed and rolled out resembled that used by many American firms. Most U.S. companies would be comfortable with the Eaton philosophy statement. While Eaton was an early adopter, it was not the first to develop a corporate philosophy. The main difference between the Eaton Philosophy and the statements of many other firms was its direct origins in the internal experiences of the company. The financial success of the "new philosophy" plants was critical. The company's experience showed that new ways of managing people contributed to business performance. The Eaton philosophy was not adopted because corporate philosophies were in fashion, and it was not the product of a consulting or public relations firm.

Eaton Philosophy Plant Visit Process

In 1988, Eaton made a significant departure from conventional practice. The company adopted an innovative process for monitoring the implementation of the philosophy throughout the firm. This process, termed the Eaton Philosophy Plant Visit Process, now has been used with great success for six years. The process is interesting in part because it engages employees at all levels in an active inquiry into progress in realizing the Eaton Philosophy. The process has involved scores of visits to Eaton plants in the U.S. and foreign countries, and has directly

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involved thousands of employees. The remainder of this article will explore the nature of this process and how it has evolved over time.

The company's senior executive group was concerned that the Eaton philosophy might become a one-time event, not a way of life. They charged the human resource function with developing some means of making the realization of the philosophy an ongoing process. The initial design called for corporate teams to visit a set of plants to examine use of the philosophy. This was done in 1988, but the process proved unsatisfying. The principles of the philosophy, by their nature, were difficult for employees at any level to disagree with, and questions about the philosophy and its use tended to produce "motherhood and apple pie" statements. With consulting help from the Center for Effective Organizations of the University of Southern California, the Director of Industrial Relations devised a new approach for 1989. The same approach has been used each year since then, and it is a ritual that is becoming rooted in the culture of the company.

The Annual Plant Visit Cycle

The cycle of activity begins early in the year with the identification of visit sites and visit team members. In 1993, for example, 30 team members visited 18 plants, or about one-fifth of the Eaton plants then located in North America. Executives of the company's major business groups and the corporate Human Resources staff nominate most of the visit sites, although in some cases plant managers request that their location be included. Visit team members come from every level of management, every function, and every geographic area. They represent relatively young, high potential managers and some more senior executives who hold critical positions.

The extensive use of high potential managers is a key to the success of the process. The use of high potential managers in the visit teams demonstrates in a tangible way the seriousness with which senior executives view the Eaton Philosophy and the visit process. More subtly, inclusion in the visit teams offers public confirmation that the manager is considered to have high potential, so members of the visit teams tend see their assignment more as a reward than a burden. Over 150 managers have been included in the visit teams so far. Participation in the program is becoming an accepted rite of passage for managers on the way up the corporate ladder. Visit team

members have included some who are now among the most senior executives in the corporation, and it is likely that one day the Chairman of the company will have been a visit team member. The visit process serves as an excellent management development tool. Managers develop important contacts and friendships through their involvement in the visit teams. Since they only visit sites that are in business groups other than their own, team members gain broader first-hand exposure to the company. They usually find ideas for changes that they can take back to their home plant. Finally, the activity serves as an opportunity for team members to reflect on the values of the company and how the values are expressed in daily practice.

Early in the year, human resource managers lead two days of training for visit team members. A top executive of the company (Vice President or above) typically stops in to express support for the process and compliment the attendees for their selection to the visit teams. The human resource managers summarize the history of the Eaton Philosophy and the plant visit process, and describe the role of visit team members. Most of the session is devoted to training in active listening and conducting effective interviews. The training helps them identify their strengths and weaknesses as interviewers, and avoid possible pitfalls of the visit team process.

Plant visits are scheduled throughout the year. The visit team for any given plant typically includes four members from the interviewer pool and two corporate human resource managers experienced in the visit process. The visit process begins with a dinner hosted by the local top management group. This social event tends to reduce the threat that local managers might otherwise feel from having outsiders conduct confidential interviews with their employees. The next day is spent receiving a brief tour of the site and conducting interviews. The visit team divides into two subgroups, each of which conducts a series of group interviews. Employees are randomly selected from the plant population and asked to participate. The visit team interviews the top management team and small groups of randomly chosen factory employees, supervisors, and office employees. Employees are interviewed on all shifts. Different hierarchical levels are not mixed in the interview groups. Interviewees are assured of confidentiality. The visit team interviews a total of about 70 employees and managers.

The interview questions do not ask employees for their opinion of the Eaton Philosophy, and do not ask directly for a rating of how well the plant is doing on specific provisions of the philosophy. Rather, the questions ask employees to describe real situations within the plant that might represent illustrations of each of the eight principles of the philosophy in action. For example, rather than asking how much employees are involved in decision making, they might be asked to describe the last manufacturing process change. The visit team infers the level of employee involvement in organizational changes from the discussion.

On the final day, the entire visit team organizes a presentation, spending a half-day summarizing what they have heard and discussing their findings with the plant management team. The session captures the diversity of experiences the team has heard about, and indicates issues that were especially salient. The feedback is intended to be fair but not sugar-coated. The feedback sometimes surprises or unnerves the plant manager or top management team, and on occasion the feedback session is an emotionally wrenching experience. In one plant, for example, there was a stark difference in the climate of two parts of the plant, which employees called "America" and "Russia." This was a traumatic discovery for the top management team, which had greatly underestimated the differences in management style between the two areas. Throughout the feedback process, the visit team avoids action recommendations. The focus is on understanding and problem discovery. This forces local management to assume responsibility for a final interpretation of the feedback data and for making any changes, and avoids asking the visit team to do more than is realistic in a short visit. The visit team follows up with a written report to plant management that summarizes their findings.

The plant management team is required to provide feedback to employees about the interview results, and is asked to determine whether any problem areas require further attention. However, no one follows up to insure that local management develops or carries out action plans. Confidentiality of feedback from those above the plant level is absolute. Thus, action depends on local management initiative. This is a striking departure from standard procedure in Eaton.

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After the visit team completes the entire round of plant visits, a wrap-up meeting is held for all the visit team members and a representative of each visited plant. In the spirit of continuous improvement, the session reviews highlights, shortcomings, accomplishments, and problems experienced during the plant visits. The group then fashions a set of conclusions about the status of the Eaton Philosophy and issues that senior executives may need to address to further realize the philosophy in daily life. The corporate human resource department then captures these findings in a formal report to the senior executive team. This is the only reporting that is made to higher-level management, and it maintains confidentiality for specific sites. The year-end meeting is the only formal follow-up to discuss the impact of the plant visit process. Plants are revisited after a few years, which affords the visit team a general perspective on whether the plant has made changes over the years. However, there obviously is no tight top-down control over whether the plants take the process seriously. It remains the responsibility of the plant management team to act on the visit team's findings.

One very clear finding from the wrap-up meetings is that the self-help approach to addressing problems related to the Eaton Philosophy does in fact lead to change at the plant level. On average, the visited plants adopt two to three significant changes as a result of the visit process. Typical changes include new training programs, new mechanisms for communicating business information, and enhancements to employee involvement efforts. One of the most dramatic changes was at an Eaton location in a deteriorating urban neighborhood. The most salient issue in the minds of employees was personal safety, an issue that came up repeatedly in the interviews even though there was no question that specifically addressed this topic. A number of crimes had taken place in the parking lot and near the facility. Local management had not understood the depth of employee fear about crime before the interview feedback. As a direct result of the feedback, management formed employee task forces and committes to define the issues and develop action plans. This led to a number of steps that included revamping its security systems, improving parking lot security, and creating a hot line to respond to rumors and provide information about crimes. Management also worked with the local community, establishing a

neighborhood block watch program that equipped members with two-way radios that permitted them to contact Eaton security personnel, who could immediately contact police. Crime in the neighborhood dropped significantly, and block watch members even helped close four drug houses.

Visit Processes in Corporate Subunits

One sign of the vitality of the visit process is that several different Eaton subunits have adopted their own version of the process. Eaton's European plants participate in a visit process under the direction of the European Human Resource Director. Because Eaton has plants in several European countries, this process has the additional complexities associated with managing all activities in the cycle in several different languages. In other respects, however, the European process is a clone of the North American process. Three North American Operations, which in Eaton are units that include two or more Divisions, also have created their own processes. These are Truck Components Operations--North America (TCONA), Automotive and Appliance Controls Operations (AACO), and Engine Components Operations (ECO). Managers consider these additional visit processes to be very successful, and all will be continuing in the future.

AACO, which includes 16 plants located in several countries, began a visit process in North American locations in 1992. This process began largely at the instigation of a senior line manager, who had been part of the corporate-wide visit process and found it valuable. The ECO process began in 1993. It was initiated by the Operations Manager, who also had been inspired by his participation in the corporate process. Both the AACO and ECO plant processes mirror the corporate process in purposes and activities. Managers in these operations began their own processes to insure that their plants were visited more frequently than would be possible with the corporate process alone. Every plant in an operation can be visited every year or two in an Operations-level process. This also increases the frequency with which revisits occur in all plants in the company. Prior to the development of the operations processes, each plant could be revisited only once every five to six years in a corporate-wide process. Coordinating the

corporate and operations processes makes it possible for each plant in the company to be visited by a visit team every three to four years.

Key managers in these operations view practices that are consistent with the Eaton Philosophy as critical to business success, and thus want a process that more closely monitors use of philosophy-related practices within the unit. The AACO and ECO processes explicitly emphasize management development as a goal, whereas managers realized the management development benefits of the corporate process after the visit process had begun. Furthermore, confidentiality has a different meaning in Operations-level processes. The visit teams are made up of peers of the plant manager and others who may be intimately familiar with the production technology and business issues facing the plant. Individual interviews remain confidential, but the plant automatically surrenders anonymity at least to some degree in these processes. On the other hand, plant managers feel more urgency to take action on problems that are identified in the visit process. They know that their peers will return within a year or two, and any failure to address old problems will be obvious. Finally, the process makes it easier for Operations managers to identify key problem areas that face multiple locations within the Operation.

The TCONA process, begun in 1991, also evolved from the positive experience of a key line manager with the corporate site visit process. However, this is the subunit visit process that is most different from the original corporate site visit process. The visit team is a set of ten managers who have key roles in the Operation, including plant managers, key line managers, and TCONA human resource managers. A key goal of the TCONA process is to give employees an ongoing, direct channel for communicating their concerns to managers above the plant level. Another goal is problem solving, not just problem finding as in the corporate visit process. The members of the visit team become very familiar with each plant as a result of the visit process, and members of the team have the authority to solve problems on the spot and expect to do so. Thus, individuals are offered confidentiality, but site confidentiality is not a part of this process. This process is more threatening to plant managers than the corporate process, especially if the visit team uncovers many problems. The process is similar to the corporate process in that small

groups of employees receive a structured interview conducted by visit team members, feedback is provided to the management team, and local management has the primary responsibility for further investigating and solving problems. However, the interviews cover two to three times as many employees as the corporate process.

An internal study of the TCONA process by the Corporate Human Resource Practices Manager found that the management participants were enthusiastic about the process and wanted it to continue. They believed that the process was an important communication channel between employees and management, and that employees were very candid in the interviews. They saw benefits for the plant receiving feedback, but also for the management visit team as a group and for the plants they represented. They viewed the process as doing "more to bring them closer together than anything else they have ever done." A number of changes appeared to be taking place because of the process. For example, the Operation as a whole was moving faster to implement employee involvement activities and was addressing problems between the plants and central support services such as engineering.

Conclusion

The Eaton Philosophy expresses the ideals of the company. Like any expression of ideals, it does not describe current reality but rather a desired future state. The journey toward realizing the Eaton Philosophy, however, has support at every level of the organization. The Eaton Philosophy appears to describe the "right thing" to do in the minds of employees and managers alike. Managers at all levels have repeatedly told us that they believe the philosophy is a key to business success. In their mind, there is no conflict between "doing right" and "doing well." Bill Butler, the Chairman of Eaton, expressed this sentiment in a 1992 speech:

> "We believe that Eaton can continue to be a very competitive company because of the management style we are pursuing. Most companies--Eaton included--have for years proclaimed the importance of committed employees to success. In the Eaton Philosophy, and through the process of site visits, we are managing to insure that employees will make the needed contribution to our success."

There is no doubt that support from the very top has been critical to the acceptance of the philosophy by managers and employees alike. Perhaps equally important, however, is the plant visit process.

The key lesson from the Eaton case is that some process for the ongoing affirmation and renewal of the corporate philosophy is critical to its vitality. Such a process provides an ongoing means of reflection on the meaning of the philosophy and its degree of penetration into the daily lives of employees and managers. Whereas the corporate philosophy has come and been forgotten in many companies, it appears to be alive and well at Eaton.

ACKNOWLEDGEMENTS

Gerald E. Ledford, Jr. is Senior Research Scientist at the Center for Effective Organizations, School of Business Administration, the University of Southern California. He received his B.A. in Psychology from the George Washington University and his M.A. and Ph.D. in Psychology from the University of Michigan.

He consulted on the development of the Eaton Philosophy plant visit process. He has conducted research, published, and consulted on a wide variety of approaches to improving organizational effectiveness and employee well-being, including employee involvement, innovative reward systems, organization design, job design, and union-management cooperation.

He has published 40 articles and book chapters and is co-author of four books, including Employee Involvement and Total Quality Management: Practices and Results in Fortune 1000 Companies (1992) and Large-Scale Organizational Change (1989). He is an active member of the American Psychological Association, the Academy of Management, and American Compensation Association.

Jon R. Wendenhof is Corporate Director of Industrial Relations for Eaton Corporation. He received a B.S. in Sociology from Michigan State University. He is a 30-year Eaton employee, and has held a variety of operations and staff Human Resources assignments during his career. His work in the early 1980's led to the development of the Eaton Philosophy. Among his current responsibilities is the development and oversight of programs and processes that support the corporation's continuing pursuit of the ideals of the Eaton Philosophy.

James T. Strahley is Vice President of Human Resources, Simpson Industries, Inc. He earned his Bachelors in Industrial Administration from the General Motors Institute and his M.S. in Business Administration from Central Michigan University.

Prior to joining Simpson Industries in 1993, he spent 17 years at Eaton Corporation in a variety of plant, division, and corporate Human Resources assignments. He actively participated in the development and realization of the Eaton Philosophy.

Jim is a member of the Human Resources Council of the Manufacturers Alliance for Productivity & Innovation.

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FIGURE 1

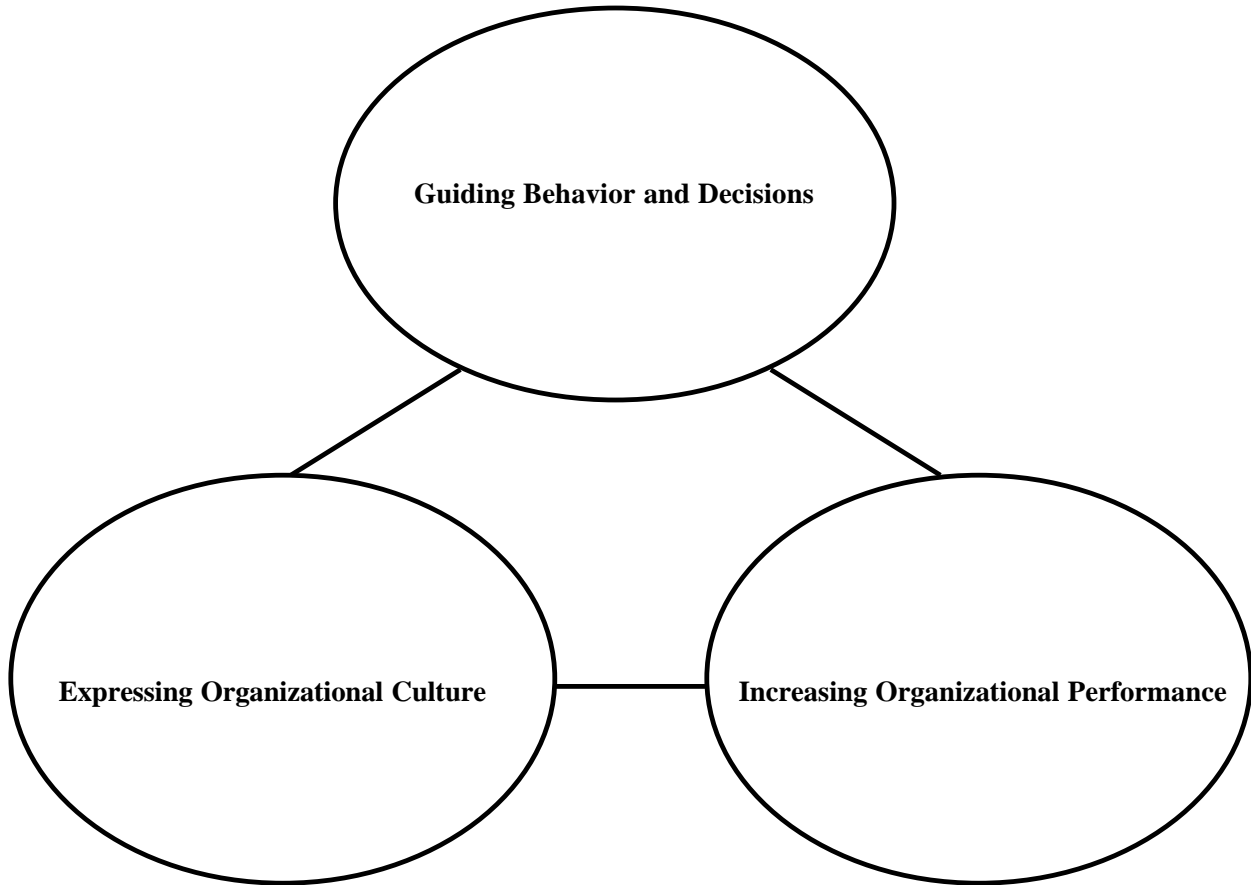**Potential Advantages of a Corporate Philosophy**

FIGURE 2

Means of Realizing a Corporate Philosophy

1. A compelling philosophy statement

2. An effective communication and implementation process

3. Strong linkages between the philosophy and systems governing behavior

4. A process for ongoing affirmation and renewal

FIGURE 3

The Eaton Philosophy: Excellence through People

- Focus on the positive behavior of employees.

- Encourage employee involvement in decisions.

- Communicate with employees in a timely and candid way, with emphasis on face-to-face communications.

- Compensation employees competitively, under systems which reward excellence.

- Provide training for organization/individual success.

- Maintain effective performance appraisal systems.

- Emphasize promotion-from-within throughout the Company.

- Select managers and supervisors who demonstrate an appropriate blend of human relations skills and technical competence.