Company philosophy:
'The way we do things around here'

Marvin Bower

Basic principles should be the underlying and overriding component of a company’s system of management.

Editors’ note: The article that follows comes from the second chapter of Marvin Bower’s 1966 book, The Will to Manage. Bower, who passed away on January 22 at age 99, was a legendary business figure who served as McKinsey and Company’s managing director from 1950 to 1967 and as its guiding influence for more than 60 years. This excerpt features his insights into building a corporate philosophy based on ethical behavior, objectivity, and competitive drive.

I have an abstract painting in my office that I bought in London off the Piccadilly fence. In that open-air mart, which operates on weekends, the artists sell their own works. Judged by the $43 price, my painting is not great art. But it has delightful swirls, angles, and other abstract forms, all in bright colors. And when Mr. Eves, the artist, told me the title—Forces at Work—I bought it immediately.

With a little metal plate bearing the title and the artist’s name, the painting is a constant reminder to me that any successful organization must give continuing attention to keeping adjusted to the forces affecting it—that is, to the forces-at-work element of its philosophy. But before discussing that element, let us examine the whole concept of company philosophy as a system component and identify other important elements of a successful philosophy.
Meaning and elements of company philosophy

Over the years, I have noticed that some executives—particularly top-management executives in the most successful companies—often refer to "our philosophy." They may speak of something that "our philosophy calls for" or of some action taken in the business that is "not in accordance with our philosophy." In mentioning "our philosophy," they assume that everyone knows what "our philosophy" is.

As the term is most commonly used, it seems to stand for the basic beliefs that people in the business are expected to hold and be guided by—informal, unwritten guidelines on how people should perform and conduct themselves. Once such a philosophy crystallizes, it becomes a powerful force indeed. When one person tells another "That’s not the way we do things around here," the advice had better be heeded.

The literature on company philosophy is neither very extensive nor very satisfactory. But one dictionary definition of philosophy does apply: "general laws that furnish the rational explanation of anything." In this sense, a company philosophy evolves as a set of laws or guidelines that gradually become established, through trial and error or through leadership, as expected patterns of behavior.

Some typical examples of basic beliefs that serve as guidelines to action will clarify the concept. Although such basic beliefs inevitably vary from company to company, here are five that I find recurring frequently in the most successful corporations:

1. Maintenance of high ethical standards in external and internal relationships is essential to maximum success.
2. Decisions should be based on facts, objectively considered—what I call the fact-founded, thought-through approach to decision making.
3. The business should be kept in adjustment with the forces at work in its environment.
4. People should be judged on the basis of their performance, not on personality, education, or personal traits and skills.
5. The business should be administered with a sense of competitive urgency.
High ethical standards

The business with high ethical standards has three primary advantages over competitors whose standards are lower:

• A business of high principle generates greater drive and effectiveness because people know that they can do the right thing decisively and with confidence. When there is any doubt about what action to take, they can rely on the guidance of ethical principles. Inner administrative drive emanates largely from the fact that everyone feels confident that he can safely do the right thing immediately. And they also know that any action that is even slightly unprincipled will be generally condemned.

• A business of high principle attracts high-caliber people more easily, thereby gaining a basic competitive and profit edge. A high-caliber person favors the business of principle and avoids the employer whose practices are questionable. For this reason, companies that do not adhere to high ethical standards must actually maintain a higher level of compensation to attract and hold people of ability.

• A business of high principle develops better and more profitable relations with customers, competitors, and the general public because it can be counted on to do the right thing at all times. By the consistently ethical character of its actions, it builds a favorable image. In choosing among suppliers, customers resolve their doubts in favor of such a company. Competitors are less likely to comment unfavorably on it. And the general public is more likely to be open-minded toward its actions.

Too often, these values tend to be taken for granted. My point in mentioning them is to urge executives to actively seek ways of making high principle a more explicit element in their company philosophy. No one likes to declaim about his honesty and trustworthiness, but the leaders of a company can profitably articulate, within the organization, their determination that everyone shall adhere to high standards of ethics. That is the best foundation for a profit-making company philosophy and a profitable system of management.

Fact-founded decision making

In the television mystery series *Dragnet*, the hero who always solved the mystery was Friday, a detective of the Los Angeles police force. In working on each case, Friday and his partner called at the homes or apartments of a number of witnesses. Often, if a woman answered the door, she would be frightened when they showed her their credentials. Friday would always assure her: “All we want are the facts, ma’am.”
Every decision maker should try to get the facts. Obvious though it may seem, the key importance of a fact-founded approach to decision making as an element in company philosophy cannot be overstressed.

Like so many other management concepts, however, the value of the fact-founded approach depends on the degree and effectiveness of its use. My observations convince me that only the most successful companies really use facts adequately and with full effectiveness in developing strategic plans and making decisions. Too many executives get fixed attitudes on common issues, typifying the cliché, “My mind is made up—don’t bother me with the facts.” Too many executives—even some successful ones—come to value their own opinions and judgments so highly that they ignore or underesti-mate facts.

Ideally, the job of building in the fact-founded approach starts at the top. In large-scale organizations, the factual approach must be constantly nurtured by high-level executives. The more layers of authority through which facts must pass before they reach the decision maker, the greater the danger that they will be suppressed, modified, or softened so as not to displease the “brass.” For this reason, high-level executives must keep reaching for facts or soon they won’t know what is going on. Unless they make visible efforts to seek and act on facts, major problems will not be brought to their attention, the quality of their decisions will decline, and the business will gradually get out of touch with its environment.

When fully developed and actively applied at all levels, however, the fact-founded approach is a management instrument of great power. Here are some of the values it produces:

- **Better decisions.** When facts are overlooked, ignored, or undervalued, they have a way of inexorably reasserting themselves. By keeping minds open and alert, a factual atmosphere stimulates better thinking and thus causes a cumulative buildup in better decision making.

- **Greater flexibility.** When the fact-founded approach has been established, plans and decisions change with new facts. This provides automatic justification for the executive who must change his prior decision; in truth, he is acting consistently because, in both decisions, he is simply being guided by the facts. In such an atmosphere, readjustment to reality is continuous, and that is certainly an essential ingredient of successful management.

- **Higher morale.** Inevitably, company-wide respect for facts and their objective evaluation lowers the barriers between levels of authority. When everyone feels that “we’re in this together, to find and face the facts and to do...
whatever the facts dictate," the upward flow of facts is stimulated, and subordinates are encouraged to speak up. *Esprit de corps* is quickly evident in a company where the fact-founded approach is fully practiced.

**Forces at work**

One element of a successful company philosophy is a sensitivity to the external forces affecting the business and to the need for adjustment to the environment in which the company operates. This is really part of the fact-founded approach because the forces affecting a business are facts—and important ones.

The most successful executives make constant efforts to keep the operations of their companies adjusted to the external forces affecting the objectives, strategy, products, people, and plants of the business. The external forces at work may be economic, competitive, technological, social, or political. When laws, market conditions, customer values, competitive thrust, or public attitudes change, the business must change its strategic plans, products, policies, facilities, structure, and/or people. When costs rise, changes must be made in prices, production methods, plants, wage rates, overhead expenses, or organization. And if the external changes are substantial, the adjustment must be strategic, not tactical.

Classic extremes of the need for adjustment are found in the ice company and the carriage manufacturer. As the electric refrigerator replaced the icebox, some ice companies managed to shift to selling coal and later oil, but most went out of business. And only a few carriage manufacturers were able to survive the onslaught of the automobile.

One of the great things about our competitive profit-and-loss system, of course, is the way its thrust fosters change, benefiting people through the new and/or improved product, process, or service and/or lower prices. But success requires that a company not only furnish its own thrust but keep alert to outside forces, capitalize on new opportunities, and make the necessary strategic and tactical adjustments in its products, services, facilities, operations, finances, people, and prices. The most successful businesses are sensitive to external forces at work and make such adjustments quickly. An alert and flexible business models itself on the chameleon, not the dinosaur.

**Judging people on performance**

Successful companies judge people on the basis of their actions and achievements, not their personal qualities and skills. Performance evaluation is a
powerful element in a company philosophy because it is more factual and less subjective than quality and skill evaluation. Thus, this element is closely related to the fact-founded approach.

I believe that what a person has done in the past is the most reliable indicator of what he is likely to do in the future. If he was an effective thinker, performer, or leader as a child, in college, or in his previous jobs, he is likely to bring the same qualities to the position for which he is being evaluated. (A person’s success pattern is usually a more reliable basis for prediction than the success pattern of a business because even an effective management may fail to provide the business with an equally effective successor management.)

And once a person has been employed, what he does is clearly the most reliable guide for approval or disapproval and for decisions on compensation and advancement. A “good” personality or a “good” education, for example, means little if it is not reflected in superior on-the-job performance.

Sense of competitive urgency

Based on my own comparisons of the administration of leading American and British companies, I believe that the greater management effectiveness achieved by leading American companies is due chiefly to the greater sense of competitive urgency that pervades our most successful businesses. Certainly, management technique is less important than competitive urgency. Even the most advanced management methods will not be fully effective unless these techniques are adopted and administered with a real sense of competitive urgency:

1. The competitive executive seizes and exploits opportunities. He is more interested in building on strength than in shoring up weaknesses. He devotes more time to building his own company’s position than to countering competitive moves.

2. The competitive executive seeks out and faces up to problems. He knows that the passage of time usually makes a tough problem even harder to solve. But when it cannot be solved immediately, he turns to developing company strengths and works around the problem while waiting for a better time to solve it.

3. The competitive executive does not shrink from difficult personnel decisions. He knows that unless poor performance can be overcome (as it
often can), it is fairer to the company and the individual to remove him sooner rather than later. But the competitive executive is fair and not ruthless.

4. The competitive executive focuses on increasing the company’s share of market at a profit. His every action is directed toward building a stronger competitive position for the long term, but he takes the action now.

Developing a company philosophy

In discussing the need for developing a company philosophy rather than just letting it happen, I have selected from successful company experience just five common elements that make a good philosophical foundation for any business. To them, the management of any company or division can add other beliefs that should guide the organization. If they are to be a real part of the philosophy, however, these beliefs should be basic enough to become overriding guidelines to action.

Even without planning or specific effort, any company will gradually develop a philosophy as people observe and learn through trial and error “the way we do things around here.” However, it is my conviction that a positive program by top management to build or reshape a sound fundamental philosophy should be the underlying and overriding component of the company’s system of management.

Whatever beliefs top management wants to build into its philosophy must, of course, be demonstrated in practice if they are to take firm root in the minds of people throughout the organization. But to make the guidelines really operative, something more is needed than the power of example. Executives and supervisors at all levels should articulate the company philosophy, relate it to actual situations and problems at hand, and point out to subordinates where their actions square, or fail to square, with the beliefs of the organization. It is through this kind of leadership that a company philosophy for success can be most soundly and securely built.

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