

# **Corporate Culture**

**Class #5**

**UC Berkeley School of  
Law**

**Professor Grennan**

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# Review of Class #4 Key Points

1. Groupthink happens when people are under stress, bullied, fearful but also when excessive optimism and strong internal identities. Groupthink can play a role unethical decisions.
2. High-growth entrepreneurs need to be very enthusiastic but this can escalate into distortions and even fraud.
3. To prevent these negative business outcomes, practice putting yourself in someone else's shoes, play devil's advocate, create an environment of emotional safety, surrounding yourself with ethical and diverse circle of people, and seek to understand.
4. Taking these actions will help create a culture where there is both agreement about the values and emotional intensity behind them, an effective culture.

# Linking Class #1 through #5

Last class we emphasized how culture relates to business outcomes. We saw that culture affects nearly every aspect of business from innovation to productivity and ethics.

Today, we will do a deep dive on the people that make all of this happen: the teams of workers and their leaders.

Much of the work in many firms is done collaboratively by teams and interacting with leaders and bosses. It where the production happens, where innovation occurs, and where employees interact and learn. Sadly, it is also where interpersonal issues arise, inconsistent and ambiguous goals can be set, and other frictions can arise. Can these be avoided, if so how, and what does culture have to do with it?

# Outline of Class #5

- Culture and team performance
  - Google
- Culture and leadership
  - Leaders as teachers
  - Leaders as judges
  - Leaders as trustworthy role models
  - Other conceptions of leadership
  - Selecting the best leaders

# Networking

Please take a minute to think and respond in the chat



Networking with your classmates is half the fun of being a student! Please share something about you.

What is a food that everyone seems to love but you dislike?

# Corporate Culture: Teamwork

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# **Class #1: Textbook Culture Definition**

**Culture is the pattern of behavior that is reinforced by systems and people. It is manifest in the norms or expectations that people have for how they need to behave to fit in and succeed in the organization.**



# Class #5: Culture and People

We have a culture of humility, of collaboration and determination. It's very much that we work together to achieve great things.

**“The culture is that we don't show up at work to hit home runs, we show up at work to help advance the runner.”**

So there's that sense of working together to help the company rather than a culture of individual stars.



# Collaborative Overload? The Facts

- The time spent by managers and employees in collaborative activities has ballooned by 50% over the last 20 years.
- The average worker (based on sample of 300 firms) spends 80% of their time in meetings or collaborative settings.
- Yet collaboration is lop-sided: a single “extra miler”—an employee who frequently contributes beyond the scope of his or her role—can drive team performance more than all other members combined.
- 35% of team performance comes from just 4% of employees.
- Those regarded as most desirable collaborators score the lowest on employee engagement and career satisfaction.
- Firms are bad at assessing performance. A study of GE showed only half the time did leaders deem the top performer in the group the same as the one that individually contributed the most.

# Reflection

Take a moment to think and raise hand to share.

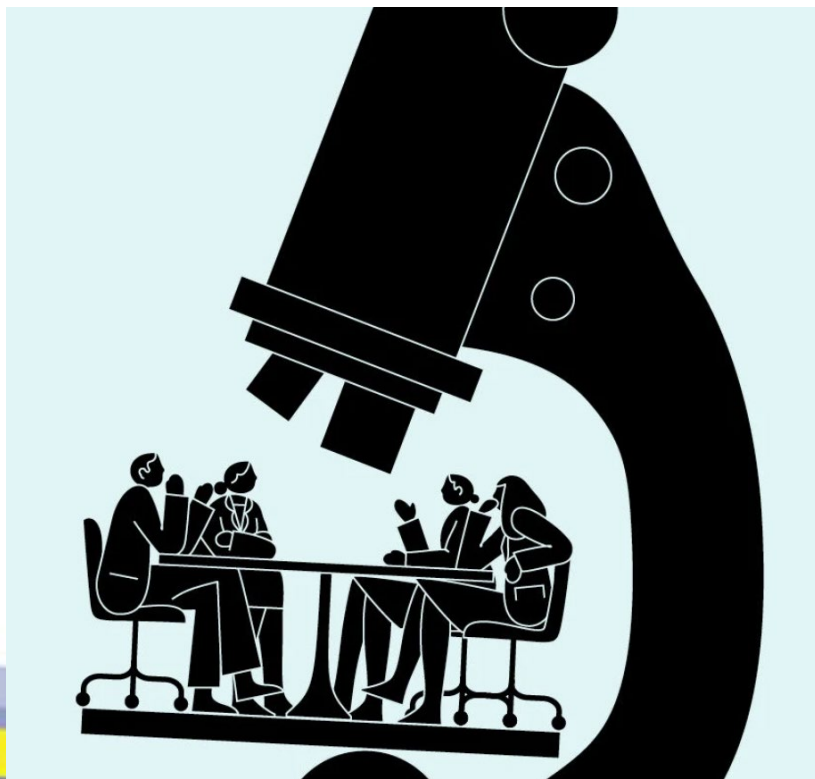


**Question: In your experience, is there are relationship between culture and teamwork? If so, what is the relationship? Knowing what you know about culture now, how might you modify culture to improve teamwork?**

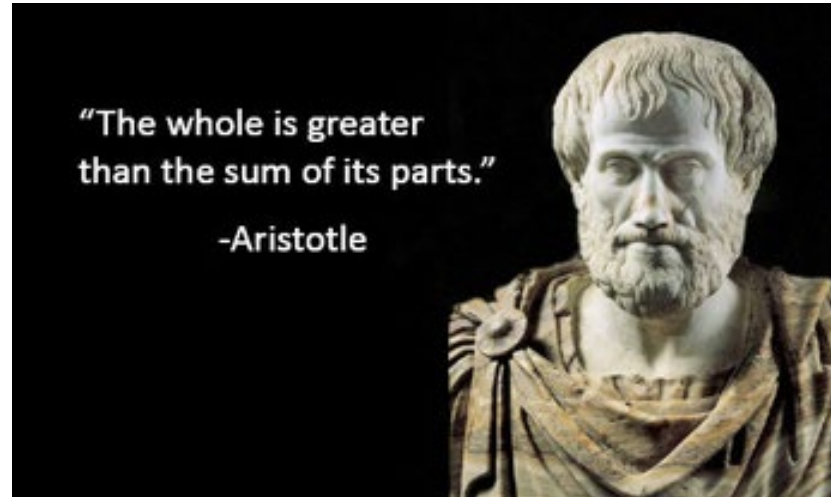
THE WORK ISSUE

# What Google Learned From Its Quest to Build the Perfect Team

New research reveals surprising truths about why some work groups thrive and others falter.



# Google's Project Aristotle



“The whole is greater than the sum of its parts” – an idea attributed to the philosopher Aristotle, the phrase commonly comes up in workplace setting because it embodies the notion of synergies.

Also, for anyone who has played team sports, it echoes the T.E.A.M. acronym—together, everyone achieves more.

# What Defines a “Team”

The term team can take on a wide array of meanings

- **Work groups** are characterized by the least amount of interdependence. They are based on organizational or managerial hierarchy. Work groups may meet periodically to hear and share information.
- **Teams** are highly interdependent - they plan work, solve problems, make decisions, and review progress in service of a specific project. Team members need one another to get work done.

# What Defines “Effectiveness”

Used both qualitative and quantitative measures (helps to avoid the quantity vs. quality trade-off)

Measured team effectiveness in four different ways:

1. Executive evaluation of the team
2. Team leader evaluation of the team
3. Team member evaluation of the team
4. Sales performance against quarterly quota

The evaluations used a quantitative scale but they also asked them to explain their ratings.

# Seniority Relates to “Effectiveness”

Every level of the hierarchy defined effectiveness differently.

1. **Executives** cared about **results** (e.g., sales numbers or product launches).
2. **Team members** said that team **culture** mattered most.
3. The **team leads**’ concept of effectiveness spanned both the big picture and the individuals’ concerns saying that **ownership, vision, and goals** were the most important measures.



# What Else to Account For?

They wanted to account for team composition and dynamics and did so using agree/disagree questions anonymized for workers.

## Team composition

1. Personality traits (Big 5 personality assessment)
2. Skills both general (getting stuff done) and job specific (sales)
3. Demographics of the team: tenure, level, location of office, race, gender, etc..
4. Emotional intelligence (Toronto Empathy Test)

## Team dynamics

1. What it is like to work with teammates

# Big 5 Personality Traits

## The Big 5 Personality Traits

1. **Openness** - How open a person is to new ideas and experiences?
2. **Conscientiousness** - How goal-directed, persistent, and organized a person is?
3. **Extraversion** - How much a person is energized by the outside world?
4. **Agreeableness** - How much a person puts others' interests and needs ahead of their own?
5. **Neuroticism** - How sensitive a person is to stress and negative emotional triggers?

# Empathy Test

Empathy refers to the consequences of perceiving the feeling state of another as well as the capacity to do so accurately.

Empathy has cognitive and emotional components.

- Emotional because it is thought of as an emotional reaction (e.g., compassion) to another's emotional response (e.g., sadness).
- Cognitive because it requires intellectual or imaginative apprehension of another's emotional state.

16 questions total. Examples include:

- When someone else is feeling excited, I tend to get excited too.
- Other people's misfortunes do not disturb me a great deal.
- It upsets me to see someone being treated disrespectfully
- I enjoy making other people feel better
- I find it silly for people to cry out of happiness

# Google's Team Analysis

Studied 180 teams at Google (115 project teams in engineering and 65 in sales) which included a mix of high- and low-performing teams.

Used statistical models to understand which of the many inputs collected actually impacted team effectiveness. Using over 35 different statistical models on hundreds of variables, they sought to identify factors that:

- impacted multiple outcome metrics, both qualitative and quantitative
- surfaced for different kinds of teams across the organization
- showed consistent, robust statistical significance

# What Determines Effectiveness?

Some groups that were ranked among Google's most effective teams, for instance, were composed of friends who socialized outside work. Others were made up of people who were basically strangers away from the conference room. Some groups sought strong managers. Others preferred a less hierarchical structure. Most confounding of all, **two teams might have nearly identical makeups, with overlapping memberships, but radically different levels of effectiveness.** "At Google, we're good at finding patterns," Dubey said. "There weren't strong patterns here."

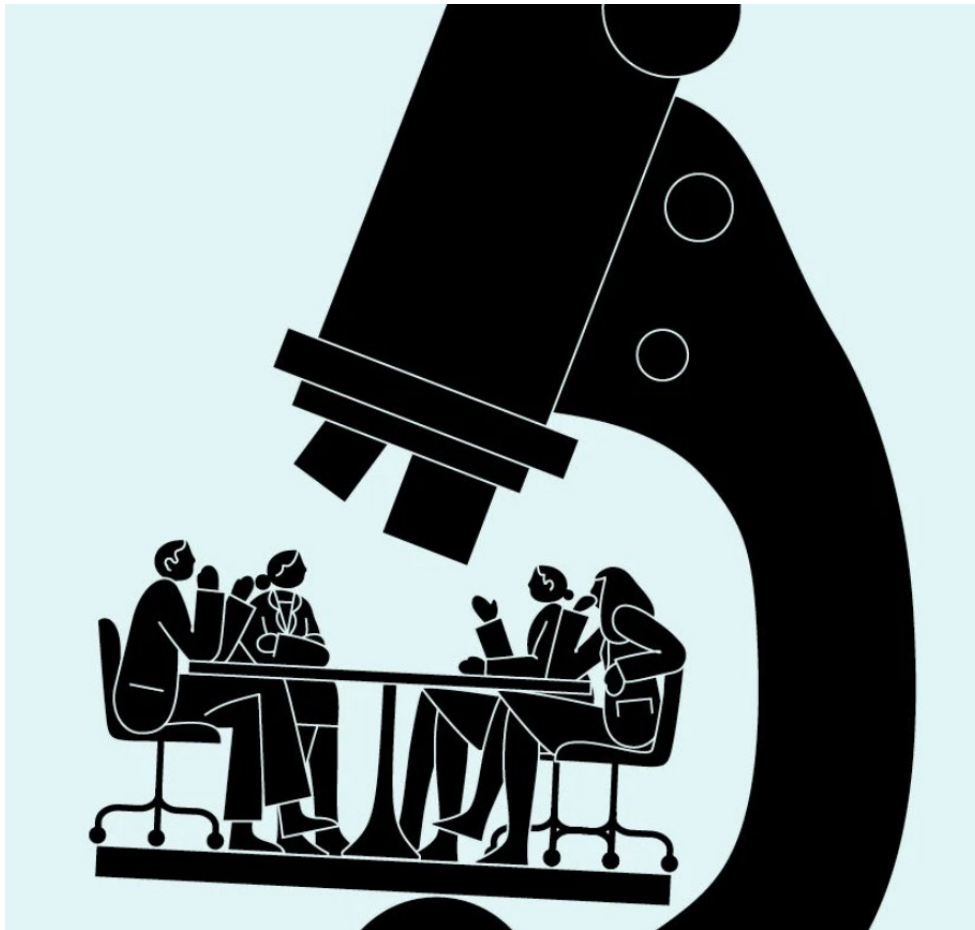
As they struggled to figure out what made a team successful, Rozovsky and her colleagues kept coming across research by psychologists and sociologists that focused on what are known as **"group norms."** Norms are the traditions, behavioral standards and unwritten rules that govern how we function when we gather: One team may come to a consensus that avoiding disagreement is more valuable than debate; another team might develop a culture that encourages vigorous arguments and spurns groupthink. Norms can be unspoken or openly acknowledged, but their influence is often profound. Team members may behave in certain ways as **individuals** — they may chafe against authority or prefer working independently — but **when they gather, the group's norms typically override individual proclivities and encourage deference to the team.**

# Top Determinants of Effectiveness



# Reflection

Take a moment to think and raise hand to share.



- Are there any other team attributes that surprised you that they didn't seem to matter or the opposite that really surprised you how much they mattered?
- Do you think this generalizes outside of Google to a legal setting?



# How To Build Team Safety

**Key finding:** individuals on teams with higher psychological safety are

1. Less likely to quit,
2. More likely to harness the power of diverse ideas from their teammates,
3. Generate more revenue, and
4. Receive twice as high ratings from the executives above them.

## What exactly is team safety?

- “A shared belief held by members of a team that the team is safe for interpersonal risk taking.”
- Research by Edmondson found that asking a basic question like “what’s the goal of this project?” could intimidate some employees’ as they fear being perceived as “out of the loop” and so would rather continue without getting clarification in order to avoid being perceived as ignorant.

# Build Team Safety: Empower Voice



1. Frame the work as a learning problem, not an execution problem.
2. Acknowledge your own fallibility.
3. Model curiosity and ask lots of questions.

# For All Five Team Drivers, This Helps

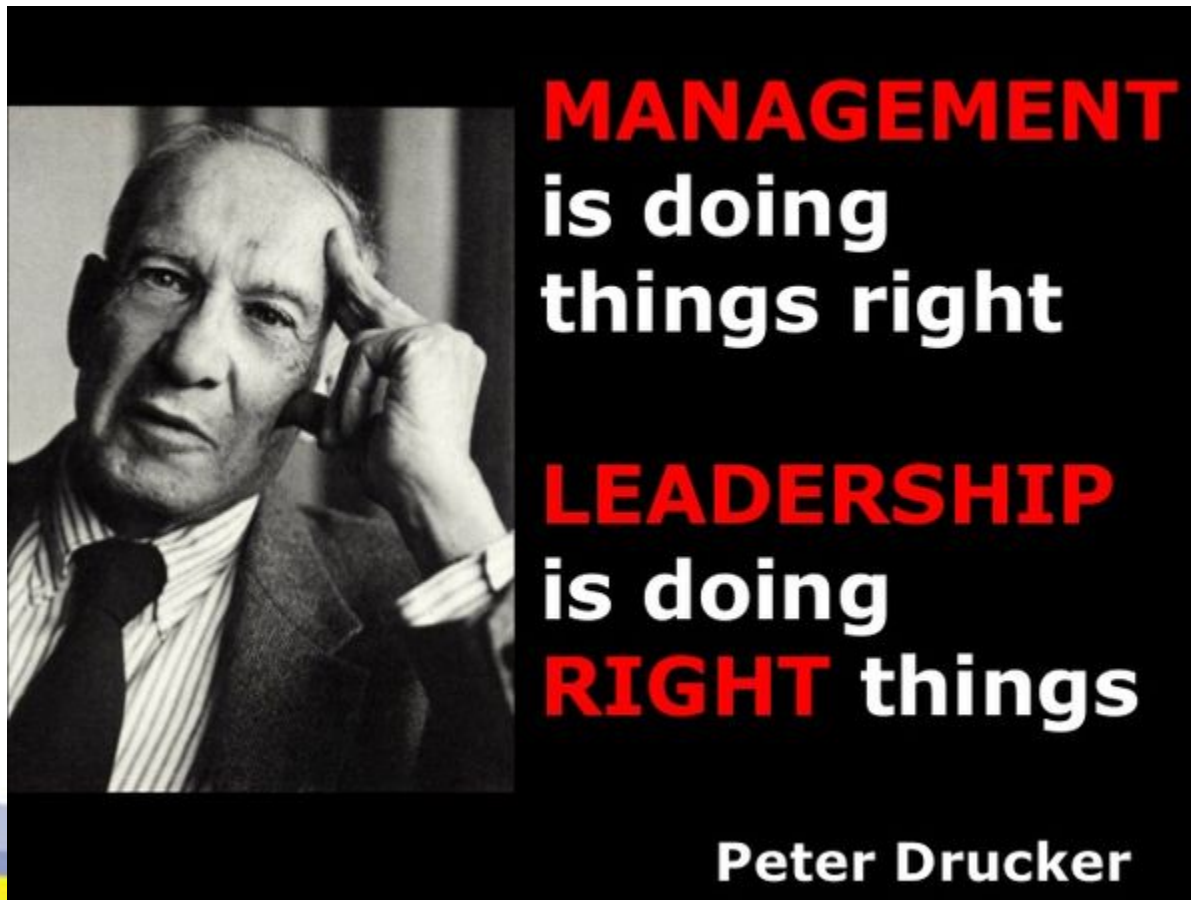
- 1. Establish a common vocabulary** - Define the team behaviors and norms you want to foster in your organization.
- 2. Create a forum to discuss team dynamics** - Allow for teams to talk about subtle issues in safe, constructive ways. An HR Business Partner or trained facilitator may help.
- 3. Commit leaders to reinforcing and improving** - Get leadership onboard to model and seek continuous improvement can help put into practice your vocabulary.

# Corporate Culture: Leaders

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# Leaders vs. Managers

Standard leadership mantra: **“You don’t manage people – you lead people, and you manage things.”**



# Illustrating Leadership Distinction

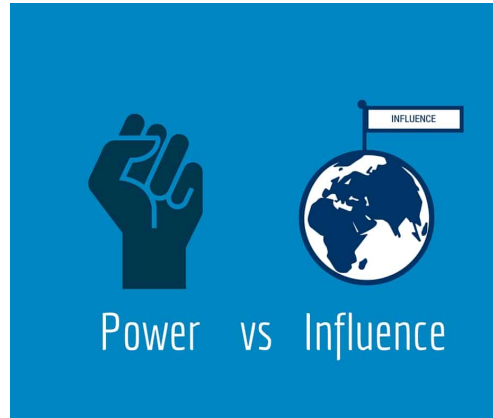
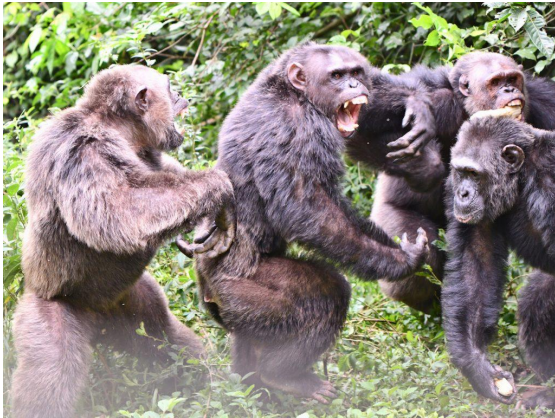
A corporate leader was spending a huge percentage of his time managing day-to-day operations. He worked closely with managers to help ensure production was optimal.

But after he read Drucker, the leader took his hands off the day-to-day operations and began spending time looking at the direction of the company. He spent considerably more time examining trends and data, discovering what his company should be doing to stay competitive down the road.

Then, armed with that information, he set strategic objectives for growth. The result? After years of stagnant growth, corporate profits rose more than 50% within a year.



# Leaders vs. Authority



The second defining aspect of leadership is that a leader is someone with **voluntary followers.**

This then helps to clarify central questions of culture and leadership: **Why do followers follow? What makes followers want to follow?**



# Culture and Leadership

We will consider several links between culture and leadership.

1. **Leader as “tone at the top”** Leaders are the people who disseminate, embed and transmit culture within an organization.
2. **Leader as judges.** Leaders are the people who determine whether behavior adheres to the organization’s norms and sets sanctions on who violates the norms.
3. **Leaders as experts.** Culture makes leaders trustworthy. Being part of the corporate culture can serve to make leaders trustworthy. Followers then follow because they trust the leader to share their concerns and interests.

# Culture and Leadership (2)

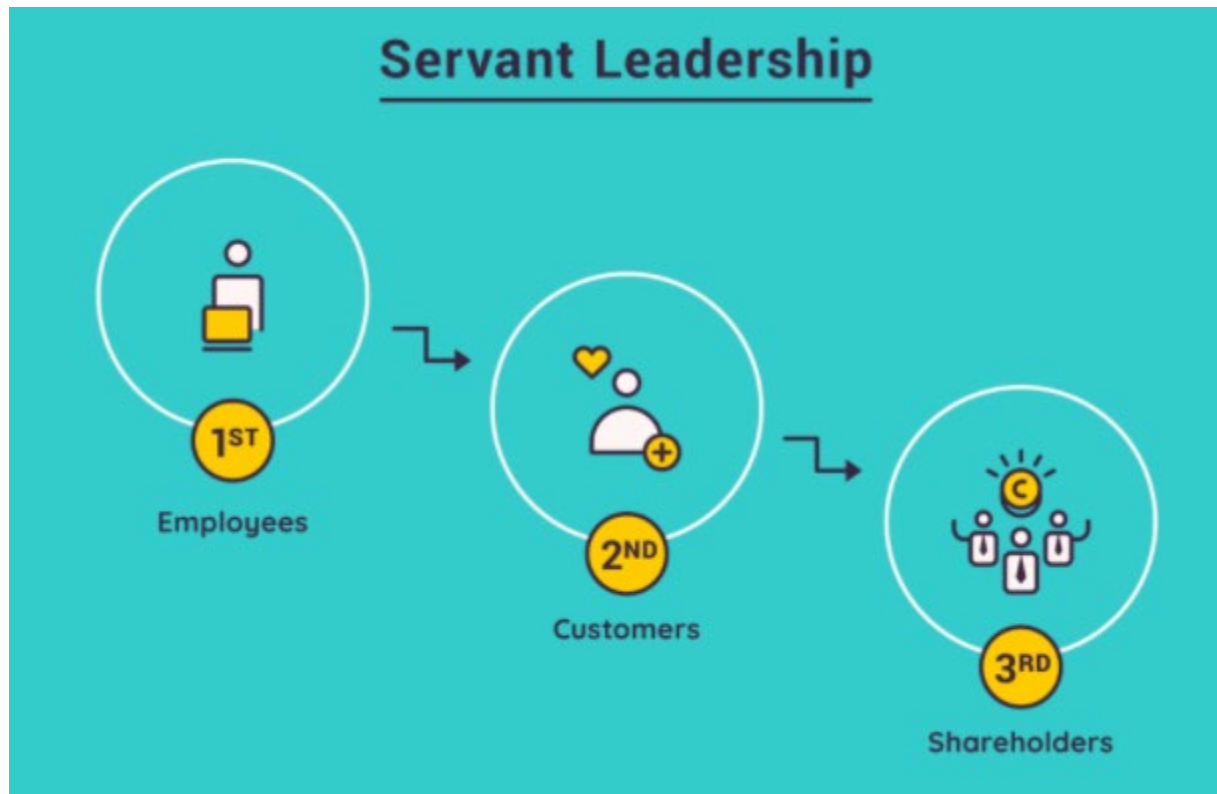
We will consider several links between culture and leadership.

4. **Leader as change agents.** Leaders are those who can break from an existing culture lead an organization to a new way of doing things.
5. **Leaders as coordinators.** Issues that arise in the firm can often be dealt with different ways, leaders job therefore is to incentivize followers to voluntarily follow their direction.
6. **Leaders as group “feeling”** – a group’s success depends on its group feeling and the leader who can best harness a group’s feeling will be most successful.

# Leaders as “Tone at the Top”



# Southwest Airlines Example Of Servant Leadership = Virtuous Cycle



# Southwest's Culture (Website)

## All Employees

### Live the Southwest Way

#### Warrior Spirit

Strive to be the best  
Display a sense of urgency  
Never give up

#### Servant's Heart

Follow The Golden Rule  
Treat others with respect  
Embrace our Southwest Family

#### Fun-LUVing Attitude

Be a passionate Team Player  
Don't take yourself too seriously  
Celebrate successes

### Work the Southwest Way

#### Work Safely

Follow standard operating procedures  
Identify and report hazards  
Respect and comply with regulations

#### Wow Our Customers

Deliver world-class Hospitality  
Create memorable connections  
Be famous for friendly service

#### Keep Costs Low

Show up and work hard  
Protect our ProfitSharing  
Find a better way

# Is Tone at the Top Lost in Translation?

## “Tone at the Top” and the Communication of Corporate Values: Lost in Translation?

*Alfredo Contreras, Aiysha Dey & Claire Hill\**

### ABSTRACT

Many firms that were involved in large-scale corporate frauds had strong corporate codes of ethics and values statements. These firms were also subject to considerable social pressures to be mindful of their reputations; frauds are “negative reputational events.” Notably, the frauds not infrequently involved possible, or even outright, illegality.

Why didn’t these strong forces—strong codes of ethics and firms’ clear interest in maintaining a good reputation, as well as the fear of legal liability—do more to prevent the frauds? It seems hard to imagine that serious misdeeds could occur if the top management was committed to preventing them. But top management, especially the CEOs, are sending messages declaring precisely such a commitment. Might they be sending, verbally or nonverbally, other, countermanding or dilutive, messages? Our aim here is to raise this issue and consider how it might be explored.



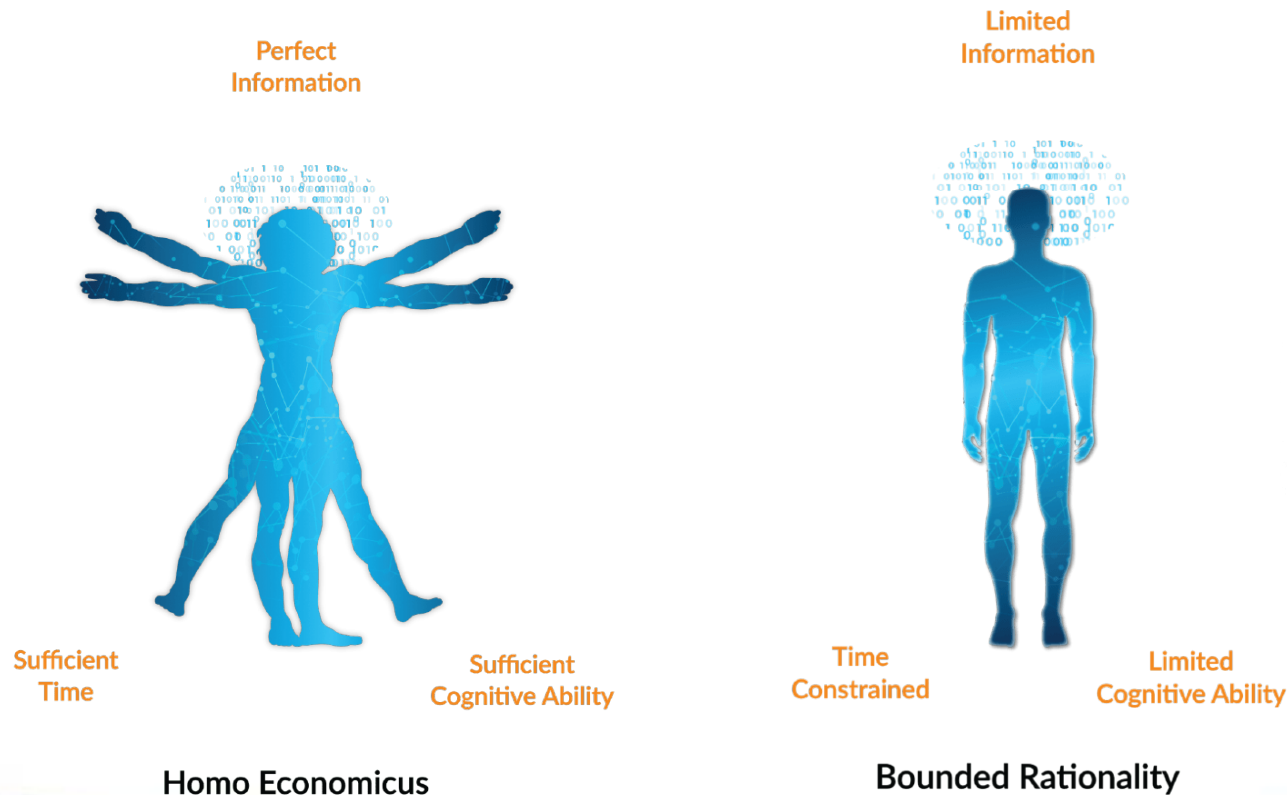
# Why Might Tone at the Top Be Off: Evidence from Leaders Actions

The idea that “actions speak louder than words” is something economists refer to as revealed preferences. Many have examined leaders actions and found strong evidence for a link to culture.

- **Military leaders** – exploit exogenous variation in the propensity to serve in the military and then find military service is causally associated with conservative corporate policies and ethical behavior (lower-risk investments, survival in downturns, no accounting restatements)
- **Personal characteristics** – motivated by criminology, examine executive's prior legal infractions, including driving under the influence of alcohol, other drug-related charges, domestic violence, reckless behavior, disturbing the peace, and traffic violations, as symptoms of a relatively high disregard for laws and lack of self-control. Find this is associated with fraudulent corporate reporting.



# CEOs Subject to Same Bias As Others, Yet Image Deeply Rooted in Self-Confidence



# Psychological and Social Factors

Systematic deviations from the standard model of rational decision-making from two perspectives:

- **View #1: Investor biases**

- Non-standard investor behavior (“investor sentiment”)
- Executives response is rational but leads to changes in corporate policies that make them sub-optimal relative to standard models in finance

- **View #2: Executive biases**

- Executives are behavioral and thereby exhibit non-standard behavior and select non-standard financial policies
- Market response is rational to the executives’ nonstandard behavior

# CEO Overconfidence Big Part of M&A Failure



70% of mergers do not achieve “deal announcement targets”. Overconfident CEOs take on riskier M&A investments and simultaneously underestimate the difficulties of post-merger integration of two companies.

# Are Narcissistic Leaders Bad? Why or Why Not?



**Narcissistic leaders have personalities that are profoundly grandiose, overconfident, and dishonest. They steal credit and throw blame. They are mean to their subordinates, think they are superior, don't listen to experts, create conflict, and believe the rules simply don't apply to them. They can explode in rage at any sign of disagreement or disloyalty.**

# Linking Narcissism to Performance

## “See You in Court”: How CEO narcissism increases firms' vulnerability to lawsuits

Charles A. O'Reilly III<sup>a,\*</sup>, Bernadette Doerr<sup>b</sup>, Jennifer A. Chatman<sup>b</sup>

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Although some researchers have suggested that narcissistic CEOs may have a positive influence on organizational performance (e.g., Maccoby, 2007; Patel & Cooper, 2014), a growing body of evidence suggests that organizations led by narcissistic CEOs experience considerable downsides, including evidence of increased risk taking, overpaying for acquisitions, manipulating accounting data, and even fraud. In the current study we show that narcissistic CEO's subject their organizations to undue legal risk because they are overconfident about their ability to win and less sensitive to the costs to their organizations of such litigation. Using a sample of 32 firms, we find that those led by narcissistic CEOs are more likely to be involved in litigation and that these lawsuits are more protracted. In two follow-up experimental studies, we examine the mechanism underlying the relationship between narcissism and lawsuits and find that narcissists are less sensitive to objective assessments of risk when making decisions about whether to settle a lawsuit and less willing to take advice from experts. We discuss the implications of our research for advancing theories of narcissism and CEO influence on organizational performance.



# Leaders as Judges

Leaders can be viewed as judges if they serve as arbiters of disputes and the determinant of sanctions.

What is the rationale behind having a single person (leader) be the group's judge?

- **Predictability:** When the judge is known ex ante, there is less uncertainty and risk about how cases will be resolved than if the judge was selected at random
- **Reputation building:** group's want a judge who is impartial.
- **Economies of scale:** It's a skill that needs investment, only one should do it.
- **No free lunch:** If no one were monitoring behavior and passing judgment, then it would be the group's responsibility, which inevitably unravels as most would choose to free-ride off of someone else doing it (e.g., as in group assignments).



# Corporate Culture: Selecting the Right Leader

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# Reflection

Take a moment to think and raise hand to share.



Your recently took on a leadership role at your law firm that requires you to be more visible in the public eye and serve as a mentor to many junior lawyers. Another partner advised you to be your authentic self in this new role, but you are an introvert. When your authentic self is in conflict with what is being asked of you, what should you do? What is authenticity really about?

## What Is Authenticity?

A too-rigid definition of authenticity can get in the way of effective leadership. Here are three examples and the problems they pose.

### Being true to yourself.

Which self? We have many selves, depending on the different roles that we play in life. We evolve and even transform ourselves with experience in new roles. How can you be true to a future self that is still uncertain and unformed?

### Maintaining strict coherence between what you feel and what you say or do.

You lose credibility and effectiveness as a leader if you disclose everything you think and feel, especially when you are unproven.

### Making values-based choices.

When we move into bigger roles, values that were shaped by past experiences can lead us astray. For instance, “tight control over operating details” might produce authentic but wrong-headed behavior in the face of new challenges.

# Authenticity vs. Unrealistic Standards

- The leadership industry often glamorizes and exaggerates traits like authenticity making it seem like it is about being completely vulnerable, open at all times, and true to your own wants and needs.
- But a more realistic definition of authenticity – one that involves evaluating what the group needs from you as a leader and checking that you are not violating fundamental values in yourself before continuing on is critical.
- **What are the consequences of the authenticity push?**
  - When industries define leadership in an unrealistic or idealistic way (e.g., Silicon Valley), it can set up a standard that is unrealistically high and that leads to an even more exaggerated gap in expectations than already exists. This in turn, can sap employee productivity, and make even talented leaders completely ineffective.

# General Leadership Dilemma

**U.S. News Survey Question:** Would you rather be able to have a substantial raise or fire your boss?

*Answer: 35% of people said that they would fire their boss.*

**Why would so many fire their boss?**

*Answer: leadership dilemma -- what leads to the best outcomes for an individual is not aligned with what produces the best team, division, or firm outcomes.*

- Those selecting leaders say that they want modesty, honesty, transparency, care for others, but this is not what is/has traditionally been rewarded.
- Likewise, most leaders don't follow servant leadership rather they do what's best for their career, then the firm, and lastly for the employees.



# Reflection

Take a moment to think and raise hand to share.

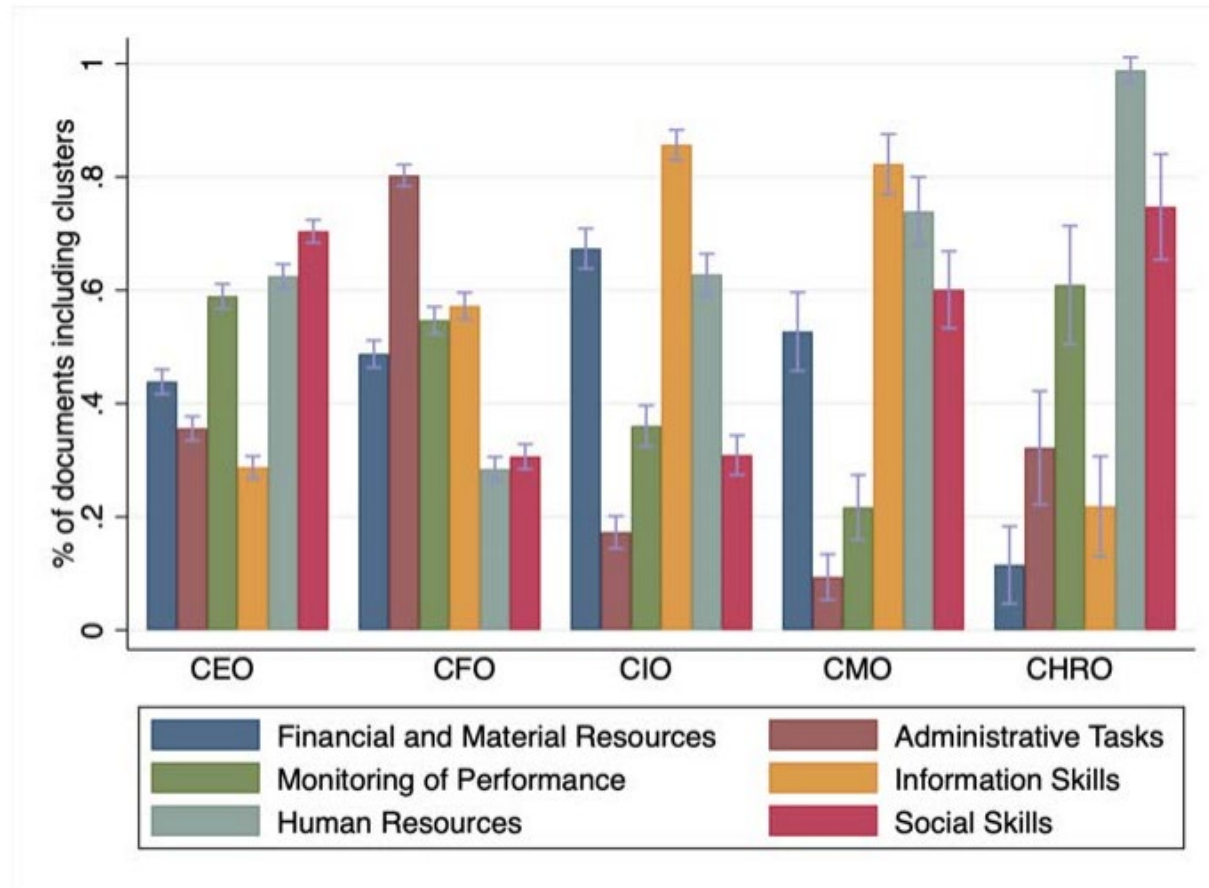


## INTERVIEW QUESTIONS

**If you are member of the Board of Directors and responsible for selecting a new leader, what questions might you want to ask that leader? What answers will weigh the most in your decision?**



# Selecting the Right Leaders: Evidence from C-Suite Hiring



**Figure 2:** Skills across C-suite Job Titles

# Selecting the Right Leaders: Evidence from C-Suite Hiring

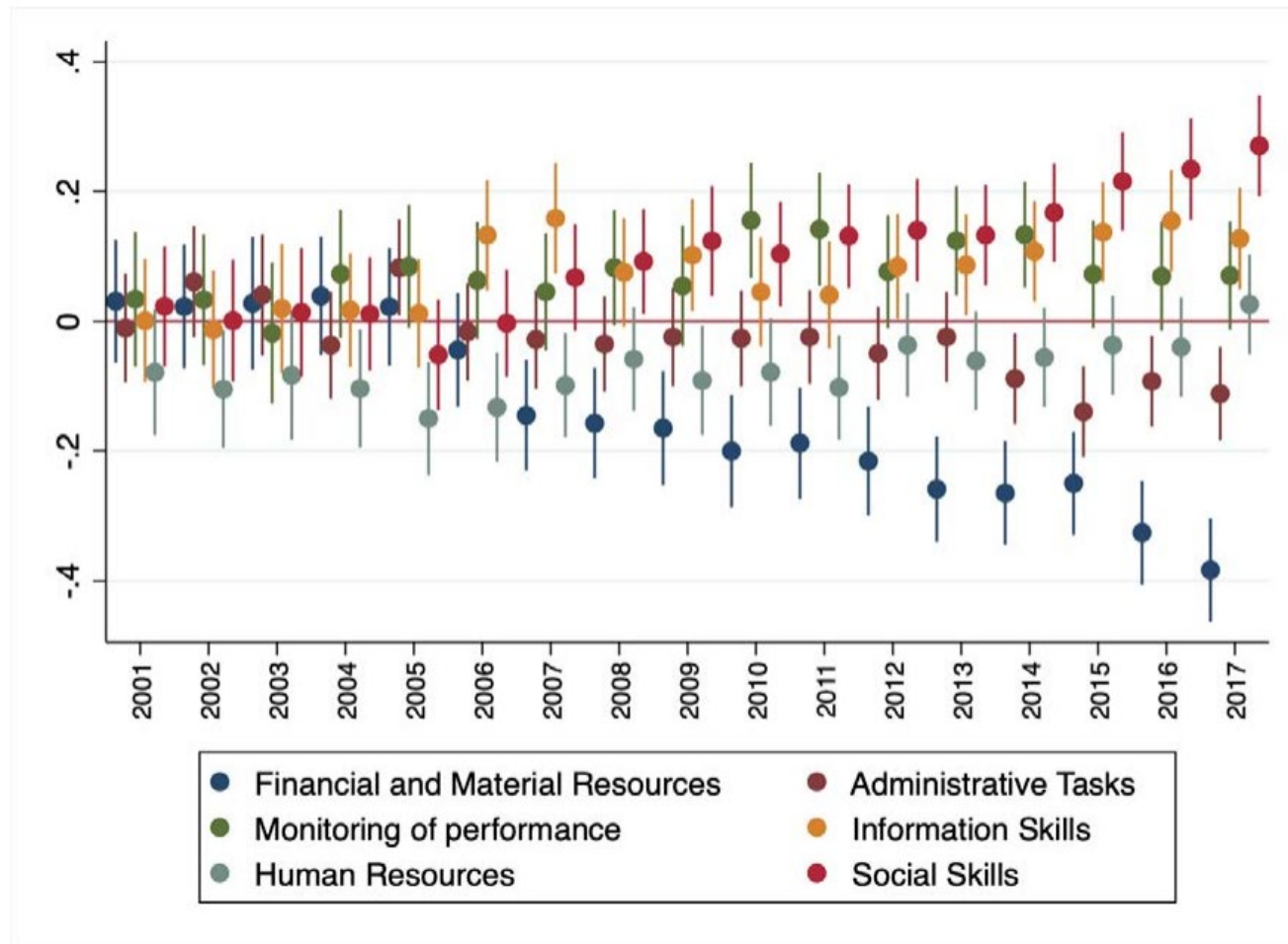
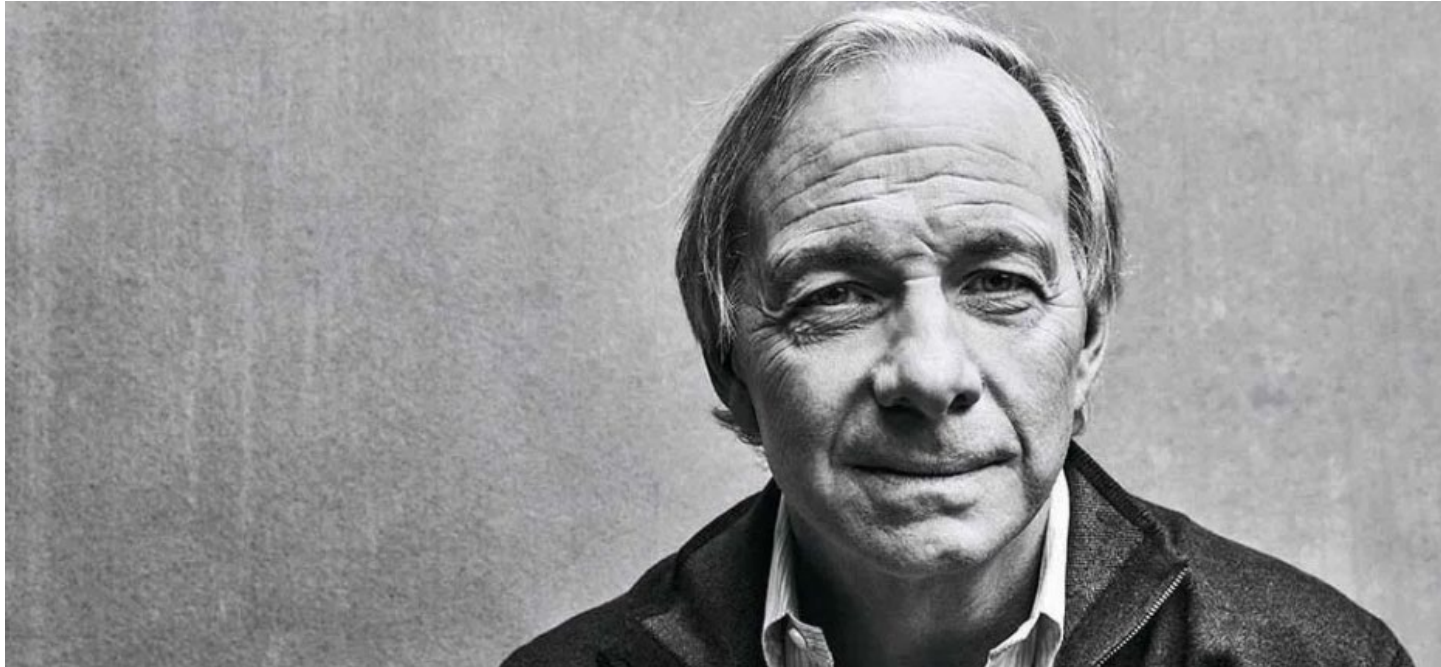


Figure 4: Executive Skills over Time

# Ray Dalio's Data Says "Shapers"



Dalio is the founder of Bridgewater Associates, one of largest hedge funds in the world with a “cult-like” following as he built it from his apartment in the 1970s based on a culture of radical truth and transparency. In his quest for knowledge, he collected survey data on some of the greatest leaders of our times.

# What is a “Shaper”?

- Independent and visionary thinkers
- Have strong mental maps of how things should be done, yet a willingness to test those mental maps in the world of reality and change the way they do things to make them work better.
- Are extremely resilient, because their need to achieve what they envision is stronger than the pain they experience as they struggle to achieve it.
- Have a wider range of vision than most people, either because they have that vision themselves or because they know how to get it from others.
- Are able to see both big pictures and granular details by synthesizing the perspectives they gain at those levels.
- Are simultaneously creative, systematic, and practical.
- Are assertive and open-minded at the same time.
- Are passionate, intolerant of people who work for them not striving for excellence, and want to have a big beneficial impact on the world.

# Corporate Culture: The Ambidexterous Leader

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# Many of These Businesses Failed, But Why? Culture, Leadership, Strategy, or Something Else?





# The Innovation Puzzle

**Question:** Why do successful firms find it so difficult to adapt in the face of change – to innovate?

Popular answers include strategy, technology, arrogance, short-term thinking, and even luck.

Yet the evidence suggests that it is **leadership and culture**.



# How Fragile Are Firms?

McKinsey/Harvard study:

- Of firms founded in 1976, only 10% survived 10 years later.
- This just isn't small, entrepreneurial firms, but big, public firms too!
- A comprehensive study of U.S. public firms over the last 100 years found:
  - In 1935, the average public firm survived to 90.
  - In 2005, this average public firm survived to 15.
  - In 2020, the projection is only 10 years!
- Why can't public firms with clear advantages (financial reserves, loyal customers, etc...) survive longer?

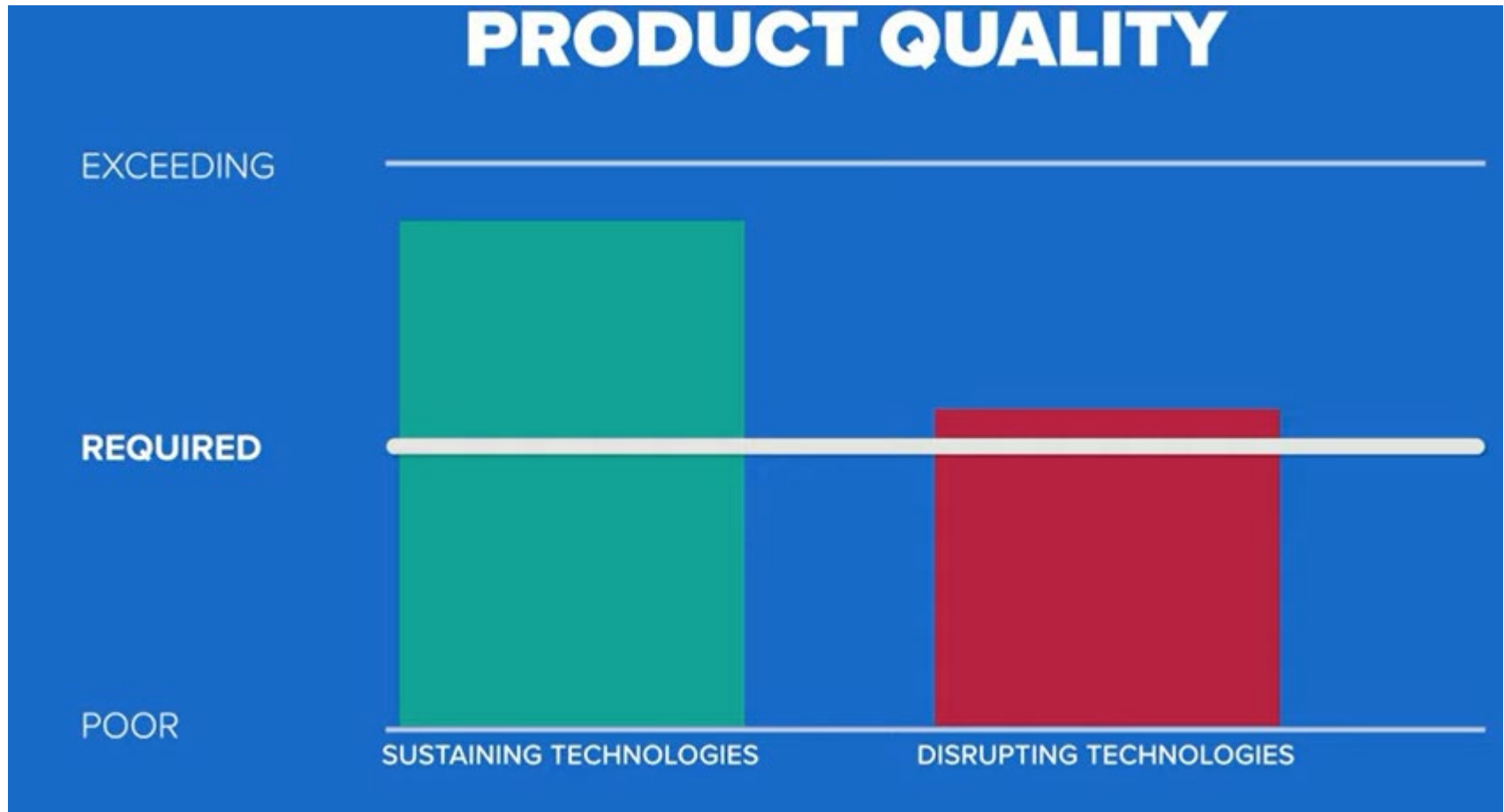
# Innovator's Dilemma

- Clay Christensen, a famous CEO, VC, and former Harvard professor, described the **innovator's dilemma** as the reason why businesses fall prey to changes in technology.
- He explains there are two types of innovations:
  - **Sustaining**: builds on a known product in known market (e.g., better lens on the iPhone)
  - **Disruptive**: revolutionary but often ignored as niche as have lower quality early on (e.g., Linux, or early digital cameras) but have other unique features that appeal to emerging customer (e.g., open-source, convenience).

# Innovator's Dilemma (2)

- Why don't companies just invest in both?!
  - Leaders should just invest in sustaining and disruptive innovation.
  - Yet most leaders see the product quality as low or niche and continue to produce products with a quality that far exceeds consumer demand (e.g., think about the camera quality on phones). Digital camera makers didn't think they would get replaced. Yet once niche product becomes of high enough quality, consumers switch and leaders (e.g., Nikon) act blind-sided by fickle customers.

# Surprised When Disruptive Switch



# How Does Culture Play a Role in Innovator's Dilemma?

- Leaders don't want to invest in disruptive technologies.
- Leaders believe others will perceive them as desperate if they do.
- When faced with the choice of sustaining, disruptive or both types of investments, leaders tend to spend their time on what they know best – the sustaining business.
- Even in cases when leaders choose both. Culture makes it hard.



# How Does Culture Play a Role in Innovator's Dilemma? (2)

- The Corporate Venture Capital (CVC) model: have the disruptors work separately from sustaining business and once through early stages, then hand business over.
- This requires an “**adaptable**” culture to integrate the two.
- Referred to as “**killer acquisitions**” by DoJ. Lots of evidence the initially successful projects once inside traditional firm fails.



# Solution: Adaptable Culture + Ambidextrous Leader

- Companies won't live long unless they transform themselves. For a firm, transformation is the ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments.
- Such transformations require leaders who can help teach employees the right patterns in the face of change.
- Ambidextrous leaders balance **exploitation** and **exploration**

# Summary of Today's Class

- Culture and team performance
  - Google
- Culture and leadership
  - Leaders as teachers
  - Leaders as judges
  - Leaders as trustworthy role models
  - Other conceptions of leadership
  - Selecting the best leaders

# Reading

- Schein Ch. 16 “What Leaders Need to Know About Culture Change” and “A Conceptual Model for Managed Culture Change” from Organizational Culture and Leadership
- (Read intro) Arlen, J., and L. Kornhauser, 2021, “Can the Law Change Preferences?” Theoretical Inquiries in Law 22, pg. 175.
- Harvard Business Review. Jan.-Feb. 2018, “The Leader’s Guide to Corporate Culture.” by Boris Groysberg, Jeremiah Lee, Jesse Price, and J. Yo-Jud Cheng