

Corporate Culture

Class #1

**UC Berkeley School of
Law**

Professor Grennan

A decorative graphic in the bottom right corner consisting of several overlapping, parallel lines that create a sense of depth and movement. The lines are primarily in shades of blue, with a prominent yellow line running diagonally across the bottom right corner.

Outline of Class #1

- COURSE OVERVIEW
- CULTURE AND WFH DEBATE
 - The direct and indirect effects on the corporate culture form WFH
- DEFINING CORPORATE CULTURE
 - The importance of perspective
 - Schein's framework
 - Textbook definition

Course Overview #1

- 1) What are our classroom norms?
- 2) Who is this instructor?
- 3) What is this course about?
- 4) What do I have to do to succeed?
- 5) Why should I study corporate culture?

Classroom Norms

Norms of promptness, courtesy and preparedness are important whether in-person or in the online environment.

1. Please raise your hand to participate.
2. Please refrain from browsing the internet during class.
3. If you have a question or comment, please ask it. You are likely not alone and we will all benefit from your bravery.
4. Please try to listen carefully and to be respectful and kind of others' comments and ideas.
5. Please refrain from eating in the classroom given the ongoing public health situation.

About Me: Professor Grennan (she/her)

- PhD (Wharton), MS (Georgetown), BA (Wellesley)
- Visiting Berkeley Law and Haas this year, on the faculty in the finance department at Duke's Fuqua School of Business since 2014.
- Prior experience: Tech startup; U.S. Federal Reserve Board; World Trade Organization; KPMG.
- My research: lies at the intersection of law, finance, and innovation, with a special focus on corporate culture.

Networking

Please take a minute to think and share

Networking and learning from your classmates is part of the experience. Please share something about you with the class.

- What is your most recent job?
- What is your dream job after graduation?
- What are you hoping to gain from the course?



Top Questions on Day #1

1) What are our classroom/online norms?

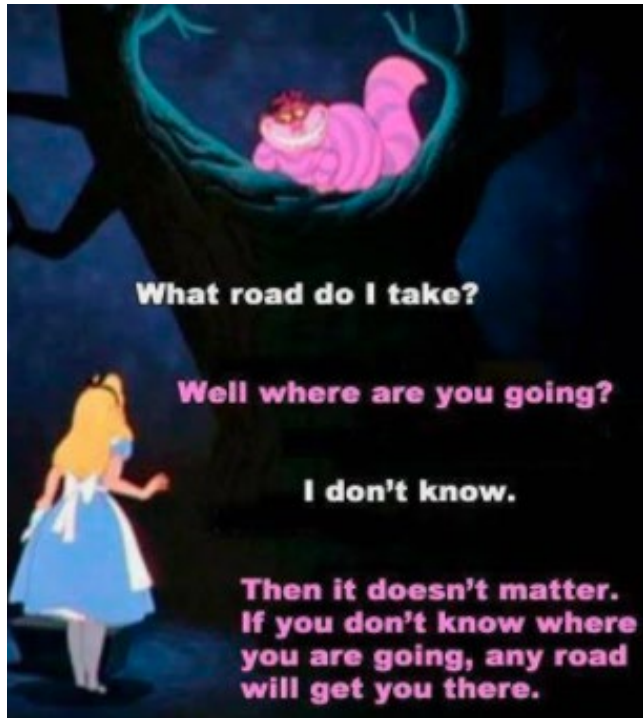
2) Who is this instructor?

3) What is this course about?

4) What do I have to do to succeed?

5) Why should I study corporate culture?

Culture Is a Road to Business Outcomes



**Corporate leaders have
one objective – to
maximize firm value.**

Corporate culture. As a concept, corporate culture became popular in the early 1980s. Today, it is discussed, diagnosed, shaped, “changed, blamed, and so on.

The intern test. Can interns experience and describe culture? Yes, with little hesitation, most interns can articulate the firm’s culture, its espoused values, and what they need to do to thrive in it.

Culture and business outcomes. As we will learn, culture drives long-term firm value, provides a competitive edge, and is associated with employee productivity, innovation, risk-taking, ethics, etc...

Yet Not All Roads Are Paved in Gold



So we will also study cases where decisions were made that ultimately fostered a culture that was not in the best interest of shareholders.



Top Questions on Day #1

1) What are our classroom/online norms?

2) Who is this instructor?

3) What is this course about?

4) What do I have to do to succeed?

5) Why should I study corporate culture?

How to Succeed in This Course

Show up, have fun, share your thoughts.

- Writing reflections (50%)
- Participation (50%)

Participation. Attendance is required and being an active engaged participant is an important part of the course.

Writing reflections. Three brief write-ups to allow you to reflect more deeply on the material in the course.

Writing Reflections

- (10%) Initial reflection paper: 1-2 pages (double-spaced) due September 1, 2021
- (10%) Second reflection paper: 1-2 pages (double-spaced) due September 15, 2021
- (30%) Final reflection paper: 2-4 pages (double-spaced) due September 29, 2021

Participation for those watching later

- For those unable to attend at the same time, we'd still like to get to know you and have you share.



- I ask that those who regularly cannot attend to please send me at least one email related to the material covered in class this term.

Participation for Those Watching Later



Covid-19 Threatens to Blow Up Law Firms' Intense Office Culture

By [Te-Ping Chen](#)

Aug. 6, 2021 9:00 am ET

This WSJ article discusses WFH and why law firms are reluctant to embrace it. Sending me (jillian.grennan@berkeley.edu) an email with a link to this article and a 1-2 paragraph write-up with your thoughts makes up for missed class participation.

Overview of Our Time Together

Date	Class	Topic
8/18/2021	1	Introduction to culture/current debates
8/25/2021	2	Conceptions and measures of culture
9/1/2021	3	Culture as an informal institution
9/8/2021	4	Culture and business outcomes
9/15/2021	5	Culture and people (teams, leaders)
9/22/2021	6	Cultural change
9/29/2021	7	Conclusion

Top Questions on Day #1

1) What are our classroom/online norms?

2) Who is this instructor?

3) What is this course about?

4) What do I have to do to succeed?

5) Why should I study corporate culture?

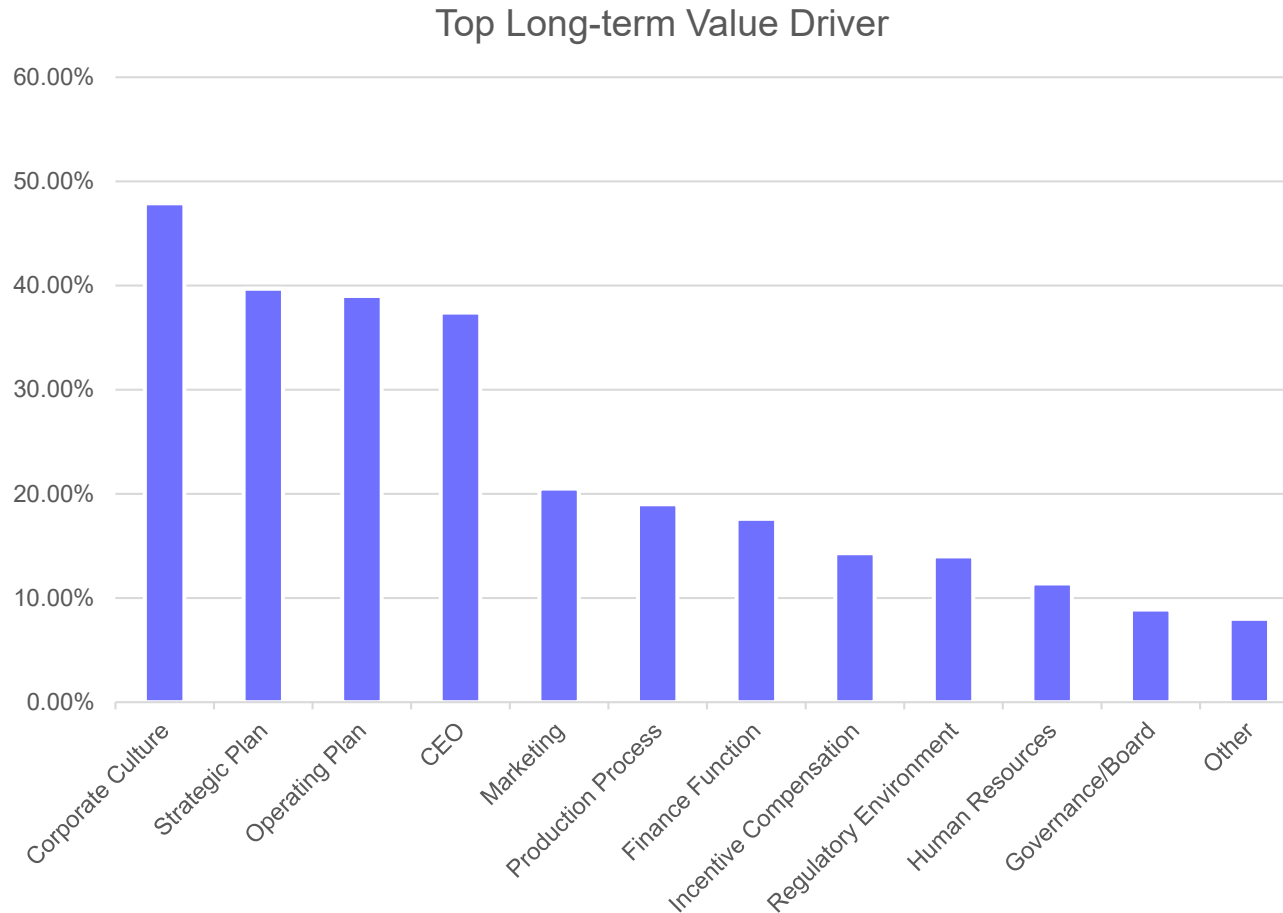
Class Poll: Top Value Driver

Of all the things that contribute to long-term firm value, I rank the following item as a top value driver.

- ☐ CEO
- ☐ Corporate Culture
- ☐ Finance Function
- ☐ Human Resources
- ☐ Governance/Board
- ☐ Incentive Compensation
- ☐ Marketing
- ☐ Operating Plan
- ☐ Production Process
- ☐ Strategic Plan
- ☐ Other



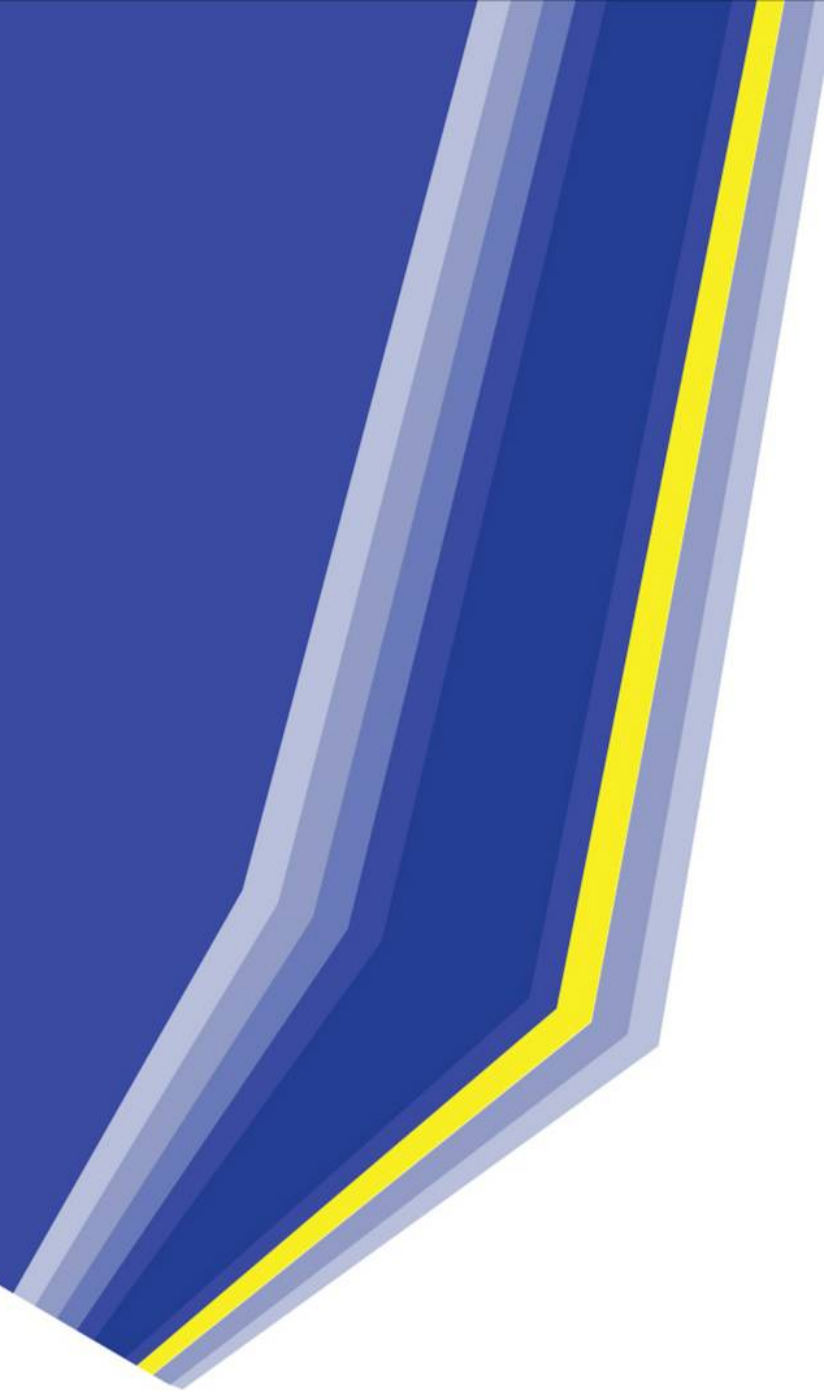
Culture Is #1 Long-term Value Driver!



What I See as a Big Benefit to Studying Corporate Culture as a Law Student

- Lawyers practicing in business-related areas need an understanding of their client's motivations.
- This should help you tremendously to understand how your future clients think.
- The course is offered C/NC to make the class accessible.
- Let's make progress by speaking our minds even when it challenges convention so we all can learn in a fun, collaborative environment.

Corporate Culture: The WFH Debate





“We have adapted to work-from-home incredibly well... We’ve learned that we can work remote, and we can now hire and manage a company remotely.”

-- Heyward Donigan, CEO of Rite Aid



“I don’t see any positives. Not being able to get together in person, particularly internationally, is a pure negative.”
-- Reed Hastings, CEO of Netflix



“Work-from-home does not work for young people. It doesn't work for those who want to hustle.”

– Jamie Dimon, CEO of JPMorgan Chase

Reflection

Take a minute to think independently before sharing

<https://www.wsj.com/articles/covid-19-law-firm-work-from-home-11628254526>



Covid-19 Threatens to Blow Up Law Firms' Intense Office Culture

Between 100-hour workweeks and all-nighters at the office, young lawyers climbing the partner track have long been expected to put in copious amounts of face time.

But the Covid-19 pandemic is changing that, in ways that may be permanent, many in the industry say.

The legal sector has been among the fastest to race back to the office this year. Amid a rise in vaccinations, occupancy rates for law firms are back up to 56%, compared with 34% of sectors nationwide, according to data from Kastle Systems.

Yet the industry is facing an unlikely revolt. Many associates have grown accustomed to working from home. They say they've been just as productive, if not more so, claimed back time for themselves and their families, and want to choose how they work.

"It's just kind of making the dinosaur evolve," says Ernessa McKie, an Atlanta-based associate at Baker & Hostetler LLP.

Question: Is working in an office critical to building culture? What direct and indirect effects might WFH have on culture? Are all of your arguments consistent with leaders' objectives?

Reflection

Take a minute to think independently before sharing

<https://www.wsj.com/articles/covid-19-law-firm-work-from-home-11628254526>

Why an office is critical for culture?

Why an office is not critical for culture?

Ex. Effect of WFH

Culture-fraud link: If you don't see your colleagues everyday and feel the culture, it can be easier to do good.

The work-from-home phenomenon has triggered a fresh frustration for U.S. corporations: Americans are **blowing the whistle** on their employers like never before.

The proof is in the data, with the U.S. Securities and Exchange Commission receiving **6,900 tips alleging white-collar malfeasance** in the fiscal year that ended Sept. 30, **a 31% jump** from the previous 12-month record. Officials at the agency, which pays whistle-blowers for information that leads to successful investigations, say the surge really started gaining traction in March when Covid-19 forced millions to relocate to their sofas from office cubicles.

The isolation that comes with **being separated from a communal workplace** has made many employees question how dedicated they are to their employers, according to lawyers for whistle-blowers and academics. What's more, people feel emboldened to speak out when managers and co-workers aren't peering over their shoulders.

Other Culture Considerations

Diverse collaborators: WFH has the potential to enhance accessibility and allow for broader talent pool and increased diversity.

Communication and organic idea creation: Meetings are planned rather than impromptu. Everyone's face is the same size on zoom. This has the potential to help everyone's voice be heard rather than just those close with the boss, with a loud voice, or some other strong physical presence.

Stereotypes and two tiers of employees: Despite the potential upsides, it is possible that employee biases may create a two tier system where those that seek status go the office to be part of the in-crowd and leaders whether intentionally or not favor those employees.

A key question is what cultural values will leaders use to inspire and focus their employees' in a post-pandemic world. Will it be collaboration, fairness, results above all else, etc...?

What We Knew Pre-COVID: Experiment

DOES WORKING FROM HOME WORK? EVIDENCE FROM A CHINESE EXPERIMENT*

NICHOLAS BLOOM
JAMES LIANG
JOHN ROBERTS
ZHICHUN JENNY YING

A rising share of employees now regularly engage in working from home (WFH), but there are concerns this can lead to “shirking from home.” We report the results of a WFH experiment at Ctrip, a 16,000-employee, NASDAQ-listed Chinese travel agency. Call center employees who volunteered to WFH were randomly assigned either to work from home or in the office for nine months. Home working led to a 13% performance increase, of which 9% was from working more minutes per shift (fewer breaks and sick days) and 4% from more calls per minute (attributed to a quieter and more convenient working environment). Home workers also reported improved work satisfaction, and their attrition rate halved, but their promotion rate conditional on performance fell. Due to the success of the experiment, Ctrip rolled out the option to WFH to the whole firm and allowed the experimental employees to reselect between the home and office. Interestingly, over half of them switched, which led to the gains from WFH almost doubling to 22%. This highlights the benefits of learning and selection effects when adopting modern management practices like WFH. *JEL* Codes: D24, L23, L84, M11, M54, O31.

COVID: An Accelerator or Jump?



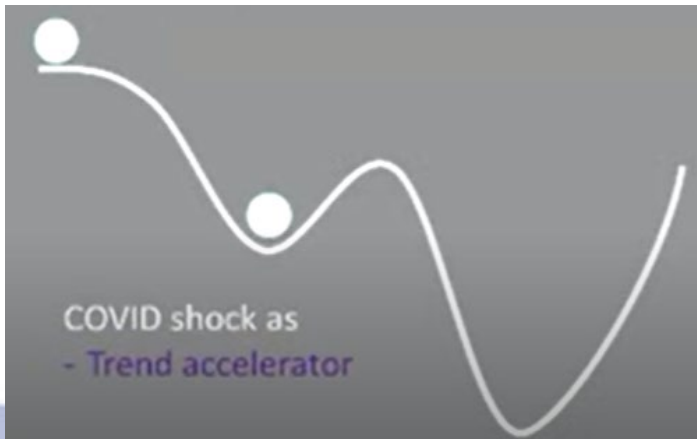
“When the coronavirus pandemic forced employees to work from home, it simply accelerated a trend.”

Fact check: WFH had been growing at about 5% per year since the early 2000s, yet the pre-pandemic levels were still low:

- Only 15% of the labor force were WFH.
- Only 2% were full-time WFH.

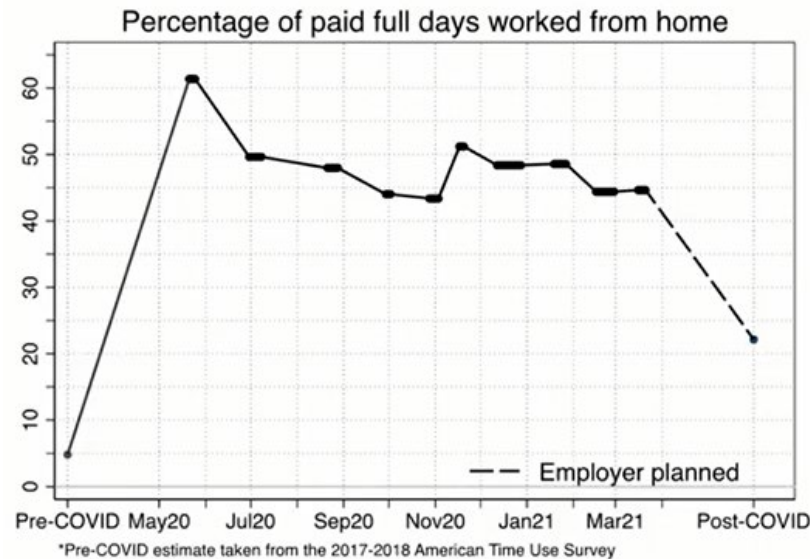
COVID: An Accelerator or Jump?

- The economy and business environment are dynamic but certainly have local basins of attraction.
- Only in rare events, do we see “jumps” and a change in the path dependency.



- Examples when we jumped from the local basin to a new point on the graph include: industrial revolution, women working during WWII, etc...

Latest Research: Why WFH Will Stick

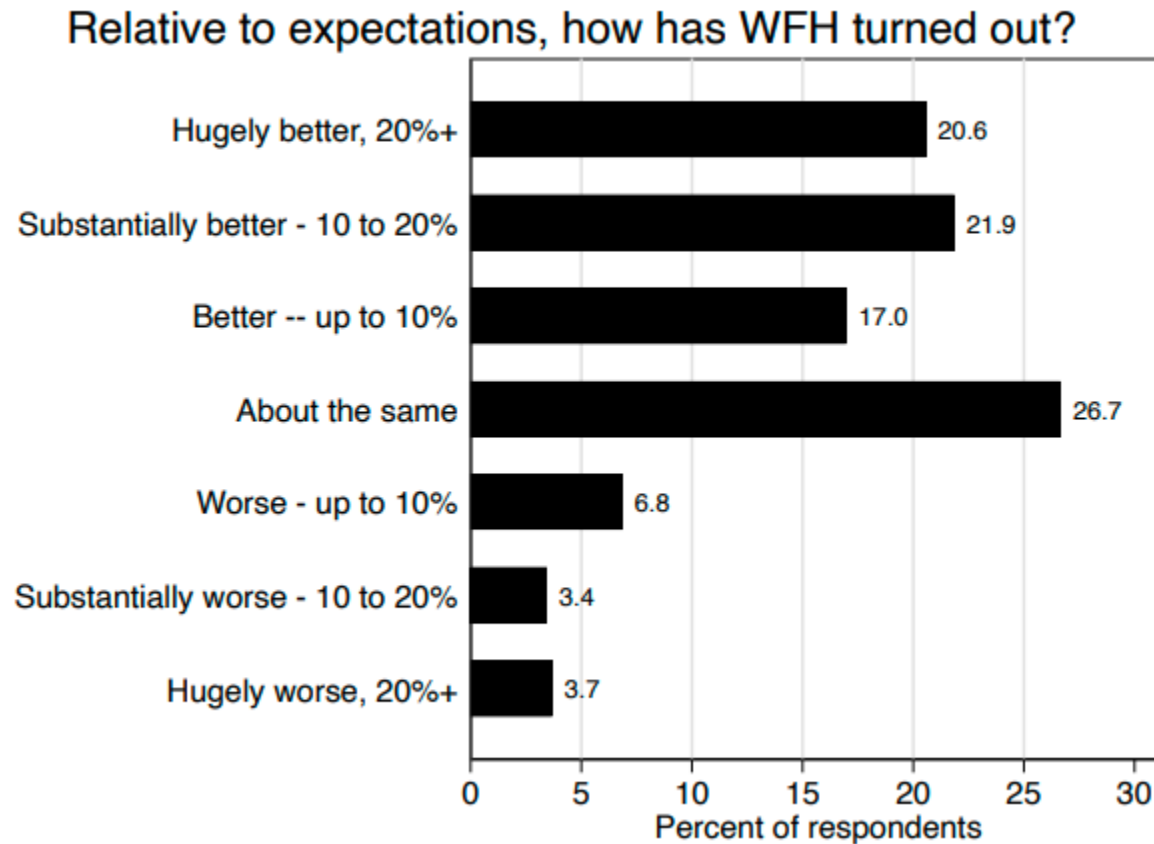


Barrero, Bloom, and Davis (2021) WFH survey and interview results.

- WFH rose from 5% to 50% in pandemic and is expected to settle around 20%.
- Roughly $\frac{1}{2}$ of American labor force is essential and cannot WFH.
- The other $\frac{1}{2}$ of the labor force (college grads, managers, professionals) can WFH.
- Interviews with 100s of execs suggest 2 days at home and 3 days in office.

Latest Research: Why WFH Will Stick

1. WFH Exceed Expectations



Latest Research: Why WFH Will Stick
2. Investments (time and money) to learn how to effectively WFH. These investments are sunk costs (i.e., they cannot be recouped).



Latest Research: Why WFH Will Stick

3. WFH stigma fell sharply



Pre-COVID, WFH had a negative stigma and was associated with slacking off and part-time work at full-time pay.

Post-COVID, 65% report their perceptions of WFH improved, 28% say perceptions didn't change, and only 5% say it worsened.



Latest Research: Why WFH Will Stick

4. Residual fear of people may stick



Among those who have protection from the vaccine:

- 28% report returning to pre-COVID routines
- 36% still avoid elevators and public transit
- 24% avoid eating and shopping in public
- 13% are still quarantining and avoiding people

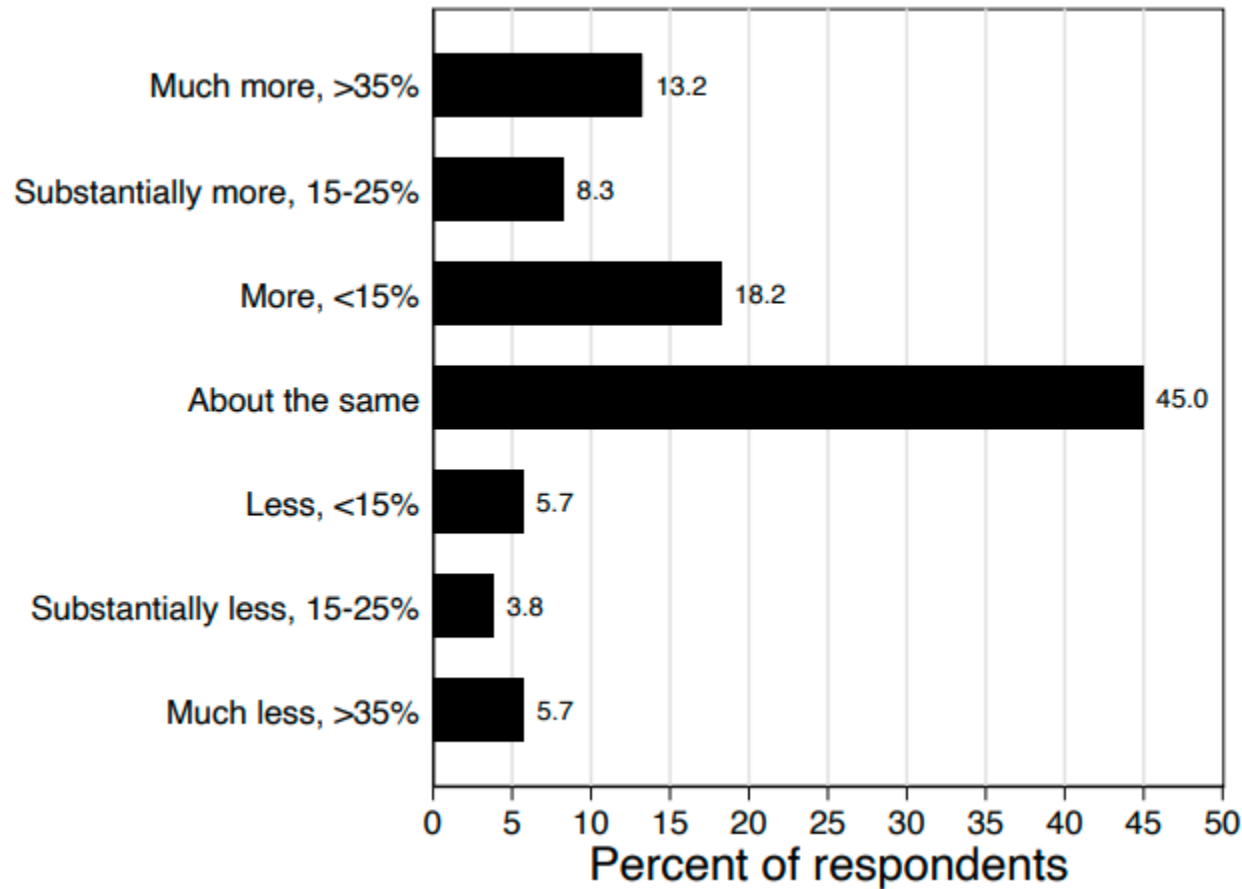
Latest Research: Why WFH Will Stick

5. Re-directed technological change

- Pandemic has tilted technological innovation toward WFH
- The share of patent applications mentioning remote work has massively taken off since March 2020
- VCs, incumbent firms, etc... are all throwing money at it, suggesting that this will be much easier in 5-10 years

Good News! WFH Increases Productivity

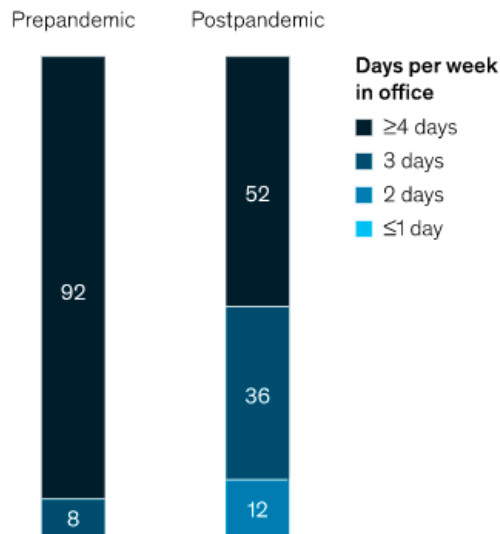
- Magnitude similar to early C-trip experiment, about 5% more productive



Bad News! Equity Concerns...

Most C-suite executives report believing that the primary center for work will be the office.

Average share of workdays in office reported before and expected after COVID-19 pandemic, % of C-suite respondents (n = 504)¹



¹Based on responses from 504 C-suite executives.
Source: McKinsey CxO Survey on Return to Workplace, May 2021

- Executives want significant in-person presence.
- Employees do not.
- The disconnect suggests equity concerns: an increase in attrition, job dissatisfaction, and disengagement.

Most employees report preferring a more flexible working model in the future.

Working model before COVID-19 pandemic and desired working model after COVID-19 pandemic, % of employee respondents (n = 5,043)



McKinsey Study on Hybrid Work, Culture Advice

- A hybrid model is more complicated than a fully remote one. At scale, using it will be an unprecedented event in which all kinds of **norms** will be put to the test.
- Embracing **a test-and-learn culture** will entail a real mindset shift for some **leaders**. The big answers about work-from-home may not emerge for years.
- Be **sincere** about experimenting and learning from the outcomes of your experiments

McKinsey's advice is consistent with what academics refer to as an "effective" culture, which is something we will learn more about this term.

Defining Corporate Culture

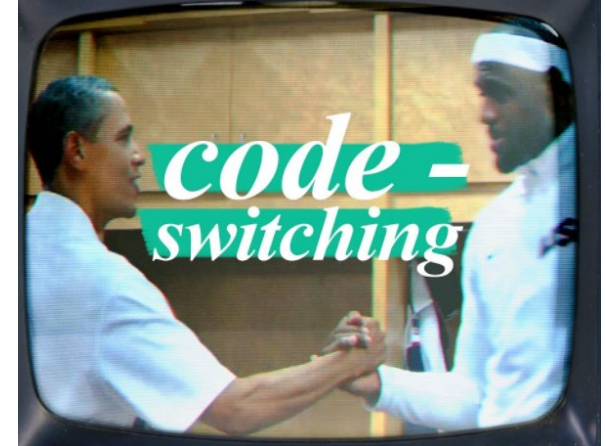
The background of the slide features a series of parallel diagonal stripes in various shades of blue and a single bright yellow stripe, creating a dynamic, modern aesthetic.

Who's Perspective? Culture Content



- Different people have different assumptions and biases about what is important. Across generations and within generation, some will lament a particular value or behavior while others will praise it.
- In practice, the **content** of culture, especially the values that people care about and day-to-day actions that they take are all over the map.

Code-switching



In 2012 video that went viral. President Obama “switches” how he greets people, depending on whether they’re white or black.

Code-switching occurs when one adjusts their style of speech, appearance, behavior, and/or the idea that they express across audiences.



The diagram illustrates four stakeholder groups, each represented by a red dot at the top, connected by dashed lines to a central point. Below each dot is an icon and a label:

- INVESTORS**: Represented by a red icon of a person standing next to a money bag with a dollar sign.
- CUSTOMERS**: Represented by a black icon of a person with a red smiley face.
- EMPLOYEES**: Represented by a red icon of a person standing next to a black icon of a person holding a document.
- COMMUNITY**: Represented by a black icon of a hand holding a coin above a black icon of a government building.

The Problem with Defining Culture

- Culture is hard to observe and complex
 - Some aspects of culture are readily observable to everyone
 - Other aspects can only be explained once you've work at the firm for awhile
 - In other cases, two employees who have worked at the same firm for years may have different perspective on the culture because of differences in how they perceive it or because of difference in how it is explained to them
- Sometimes the culture isn't well-defined, or it is changing
 - Sometimes there is disagreement about what should define the culture, so sub-cultures emerge
 - Sometimes, there may be agreement about what the culture should be but there is little emotional intensity underlying day-to-day actions. This can lead to big differences between the actual and espoused culture (e.g., paying lip service to the culture), which once again makes the culture hard to observe

Edgar Schein's Culture Framework

Observing Culture = Iceberg



What We See

- People interacting
 - The language they use, the politeness, patterns of conversation evident in all groups in a variety of situations.
- The artefacts and office space
 - What feeling is conveyed by the physical layout and by the way employees interact with each other, with customers, and with other stakeholders.
- Rituals and celebrations
 - How are key events celebrated? Promotions, completion of important projects, quarterly earnings, parental leave, retirements?
- Espoused values
 - The well-defined, publicly announced values that leadership claims to aspire to

What We Say and Do

- Norms
 - The day-to-day actions that employees take to live out the values (e.g., the firm values integrity, but a norms would be the acceptability of an employee calling out another employee for doing something unethical)
- Team or group norms
 - The implicit standards and day-to-day actions that evolve among working groups (e.g., is it okay to be late to meetings, do you need to circulate an agenda ahead of time, who gets the coffee or pizza?)
- The unofficial rules of the game
 - These are other day-to-day actions that are more about what needs to be done to be an accepted member of the firm (e.g., the ropes that the newcomer must learn to fit in).
- Embedded skills
 - The special competencies displayed by group members in accomplishing certain tasks, the ability to get things done without necessarily articulating the rules of how to get them done in writing

What We Believe

- Reputation and self-image
 - How employees think about themselves as part of the firm (e.g., What is our purpose? How do we do things? Who are we?)
- Expectations / habits of thinking
 - Not all situations can be contracted on and there is always uncertainty, these are the shared set of expectations that guide decision-making in those situations
- Shared meanings
 - The office jokes that emerge from interactions that when heard by someone else would have very different meaning.



Reflection

Please take a minute to think independently before raising your hand to share.



Question: How and where does leadership come in with respect to the culture?

Textbook 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.

Leaders View on Corporate Culture

Responses from “Corporate Culture: Evidence from the Field” where we surveyed 1,348 North American executives about culture.

What is corporate culture?

- A belief system
- A coordination mechanism
- An invisible hand
- How employees interact with one another
- A Standard of behavior
- Norms around how people treat people
- Part work ethic, part ambiance of the work environment
- How the company really works, the operating style
- The tone for what type of company this is

Leaders View on Corporate Culture

Responses from “Corporate Culture: Evidence from the Field” where we surveyed 1,348 North American executives about culture.

Describe the current corporate culture at your firm

- 93% of respondents described cultural values

Cultural values from Q1 “Briefly, what words or phrases best describe the current corporate culture at your firm?”

-1 = Described value is opposite, 0 = No mention of value, 1 = Indicated this value

Panel A. Cultural values	Obs.	Percent of respondents			Mean	Std. dev.	Median
		-1	0	1			
Adaptability	1348	8%	62%	30%	0.21	0.58	0
Collaboration	1348	7%	61%	32%	0.25	0.57	0
Community	1348	10%	51%	39%	0.29	0.63	0
Customer-oriented	1348	1%	80%	19%	0.19	0.41	0
Detail-oriented	1348	4%	80%	16%	0.13	0.43	0
Integrity	1348	2%	75%	24%	0.22	0.45	0
Results-oriented	1348	7%	45%	48%	0.41	0.62	0
Agg. cultural values	1348				0.24	0.30	0.29

Culture Is Reinforced by Systems. What Systems?

- Markets
- Regulation
- Corporate governance
- Human resources practices
- Management practices
- Finance team
- Lawyers and compliance team
- Outside stakeholders: community, customers, investors
- Etc...

#1 *True or False?*

Culture is easy to observe.



#2 *True or False?*

A concern about a hybrid work future is that it may exacerbate inequity.



#3 *True or False?*

One way to think about the relationship between leadership and culture is through learning. Culture is what the group has learned in its efforts to survive and leaders help them learn this.

Summary of Today's Class

COURSE OVERVIEW

CULTURE AND WFH DEBATE

- The direct and indirect effects on the corporate culture from WFH

DEFINING CORPORATE CULTURE

- The importance of perspective
- Schein's framework
- Textbook definition

Reading

Barrero, J.M., N. Bloom and S. J. Davis, 2021, “Why Working from Home Will Stick,” NBER Working Paper No. 28731 [Link](#) (also on bCourses)

Schein, E. Chapter 2. “The Levels of Culture” from Organizational Culture and Leadership. (on bCourses)