

# **Corporate Culture**

**Class #6**

**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.

# Well done!

Another very successful round with fantastic reflection papers!!



# Review of Class #5 Key Points

1. Google's big team analysis project revealed that the individuals that were part of a team did not matter for the success of the team, rather the team's norms had the most meaningful influence on success.
2. Top team norms include: psychological safety, dependable teammates, clear roles and goals, work with personal meaning, and work that matters.
3. Leaders vs. managers vs. authoritarians. The key is leaders are influential with voluntary followers. But there are many styles leaders can take on.
4. In an innovative setting, ambidexterity can be effective. In a retail setting, servant leadership can be effective.

# Linking Class #1 through #6

Last class we emphasized the importance of key people – teammates and leaders – in setting the pattern of behavior that employees follow to fit in and succeed at work.

Today, we will talk about cultural change. In doing so, we will examine various catalysts for change (e.g., law, technology, and society).

We will also talk through the process of facilitating cultural change dialogue within a firm as well as the challenges that frequently arise.

# Outline of Class #6

## Cultural change

1. *Technology*: How will artificial intelligence (AI) change culture and leadership?
2. *Lifecycle*: Do firms at different stages of the lifecycle need a different culture?
3. *Society*: When society changes must corporate culture change?
4. *Psychology*: What is the role of psychological safety in cultural change?
5. *Law*: What is the role of monitors and compliance in cultural change?
6. *Teams*: Can the audit, law, or finance team serve as a steward of integrity?



# Networking

Please take a minute to think and raise your hand

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

Small indulgences are wonderful. What's your favorite flavor of ice cream?

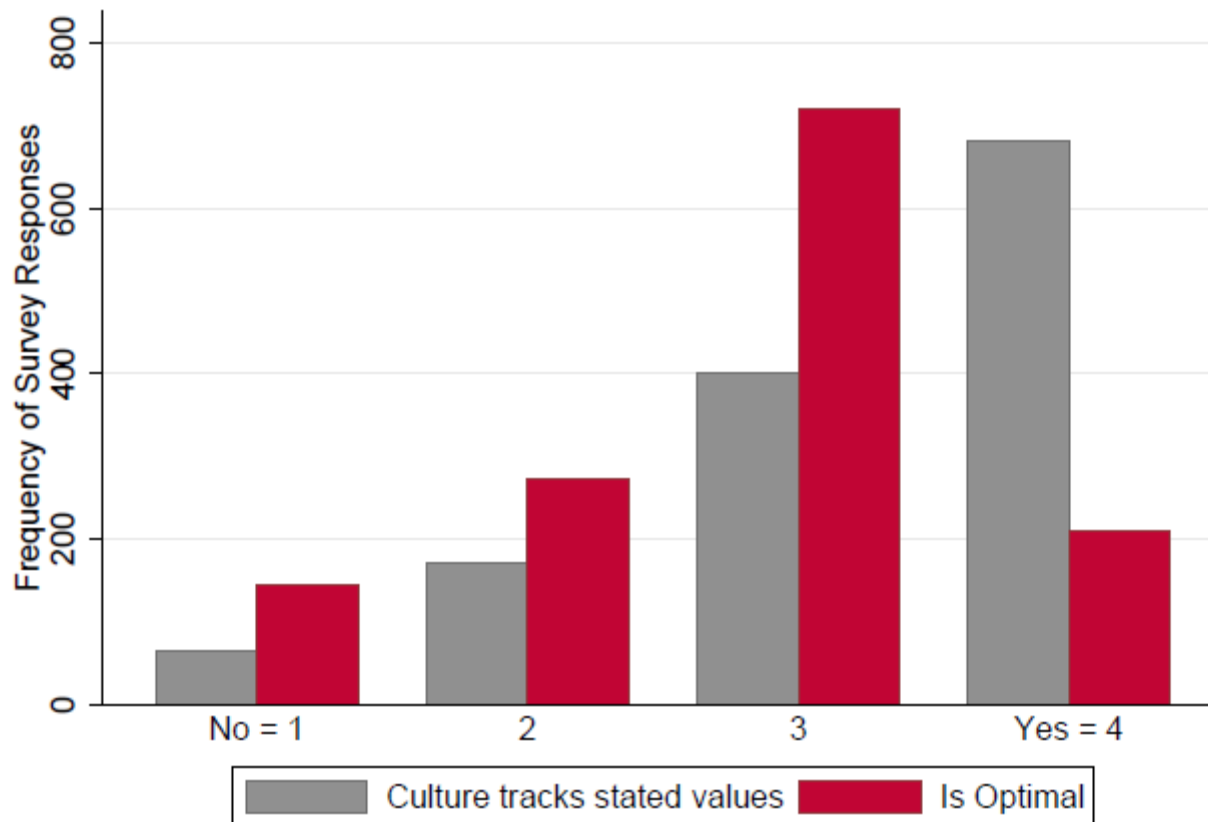


# Corporate Culture #6

## Challenges to Cultural Change



# Is Culture Where It Should Be? No.



Source: 1348 survey responses from executives at public and private North American firms.



# Does Cultural Change Increases Value?

**In survey of 1,348 corporate executives, we asked if improving the current culture would increase firm value?**

**Answer: Yes! 92% of executives believed improving culture will increase firm value.**

**We also asked executives, what is preventing your firm's culture from being exactly where it should be?**

**Answer: An astonishing 69% of executives blamed themselves for not investing enough time into the culture.**

# Why Don't Execs Invest More in Culture?

## 1. Impatient investors

- Fear of being fired leads to a preference for the status quo
- Investor want fast growth but that comes at expense of culture
- Activist funds who prefer to come in quickly and get a deal done that will offer short-term gains at the expense of the culture

## 2. Inadequate governance

- Board of directors has a check-the-box approach to governance and so would rather see that a compliance program is in place than real change.

# Why Don't Execs Invest More in Culture?

## 2. Inadequate governance (cont..)

- A fraudulent payment occurred at the firm. Rather than dealing with the culture that was at the root of the fraud, the Board of Directors preferred to fire the accountant for optic reasons and allow the problem to fester.

## 3. Disagreement on goals and objectives

- For example, “leadership is overly optimistic and overcommits which actually limits our growth through loss of focus.”

# Why Don't Execs Invest More in Culture?

## 4. Disagreement on goals and objectives

- For example, “leadership is overly optimistic and overcommits which actually limits our growth through loss of focus.”

## 5. Personal characteristics of the executive

- Execs acknowledged that culture could be a high-risk investment if it doesn't work on so prefer to take on low risk projects

## 6. Capacity constraints

- Not enough time to invest or inadequate personnel to support a change initiative

# Why Don't Execs Invest More in Culture?

## 7. Nobody else in industry does it

- Execs acknowledged that it could be better but nobody else in industry did it so there was no need to actually invest in culture.

## 8. Lack of a catalyst

- Cannot convince enough people to get on board for changing the culture unless there is a real crisis.

# Corporate Culture #6

## Cultural Change Overview

The background of the slide features a large, dark blue triangular shape on the left side. On the right side, there are several parallel diagonal stripes in shades of blue and a prominent yellow stripe, creating a dynamic, geometric pattern.



# The Challenge



You are working with the CEO of a startup that has grown from just 40 employees to 400 employees in the past three years via M&A. The CEO is concerned that the company now has multiple, autonomous divisions and no common culture. As the CEO explains, the company is mostly just a set of decentralized divisions. While individually each division could thrive, together they are becoming dysfunctional.

# Meeting Agenda: Cultural Change

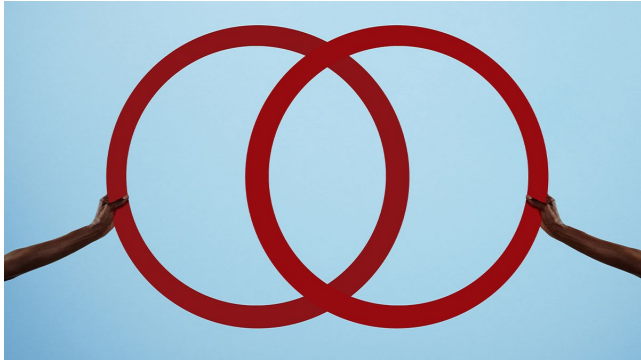
**Change leaders:** the CEO convenes a meeting with the head of HR, each division head, and some other key members of the startup and you, the “culture guru.”

**Guru:** You start by asking more recent hires, what it was like to start working at the firm. As they describe various norms and values, you write them down. You also ask for examples when they say vague things “teamwork.”

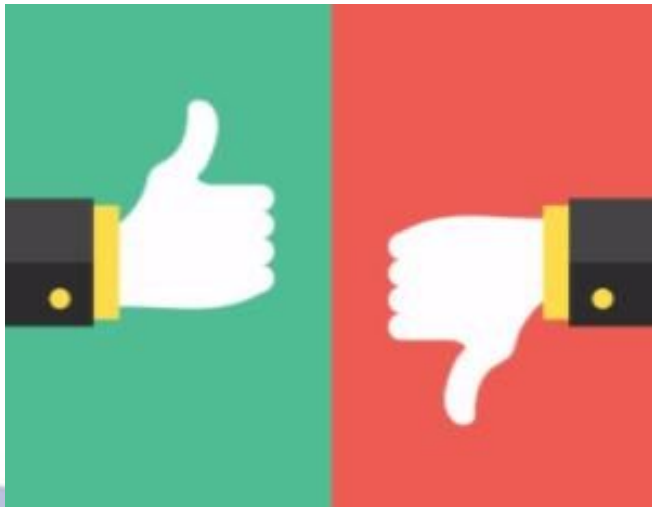
**Diagnosis:** there are effective cultures within divisions but fewer common elements across divisions.



# The Task: Divisional Reflection



**Shared desires:** the divisional leaders really liked the high degree of decentralization and thought it was the right strategy for the business. At the same time, they seemed to desire a strong centralized leadership and core values that they could rally around.



**Task:** Have those from each division reflect on aspects of their own subdivisions culture and determine which aspects would help or hinder a new common culture.

# Meeting #2: The Elements of Change



**Divisional leaders:** as each leader reported on what cultural elements should be shared, the same conflicts emerged.

**Guru:** But you notice that in a few divisions references were made to [strong founders](#).

**Elicit cultural history:** Upon discussion, you learn all divisions had originally been startups with their own founders. Granting autonomy had encouraged the founders to stay initially but almost all had exited. The new division heads didn't have the same charm or influence.

# The Switch: Culture vs. Leadership

## Diagnosis #2:

- The desire for a unified corporate culture was misplaced.
- The divisions longed for the unity and security that the strong founders had provided.
- They didn't in fact want a unified culture. What they really wanted was stronger leadership at the divisional level.

## How could they achieve this?

- By changing the formal systems in the firm such as those that are a part of HR to help develop better leaders internally now that they had grown to be more than just an early-stage startup.



# Cultural Change Plan



**Not cultural change but evolution of culture through changes in systems (e.g., leadership training) and people (e.g., hiring stronger leaders).**

In fact, the culture change process reaffirmed one of its key cultural assumptions: “strong autonomy.”

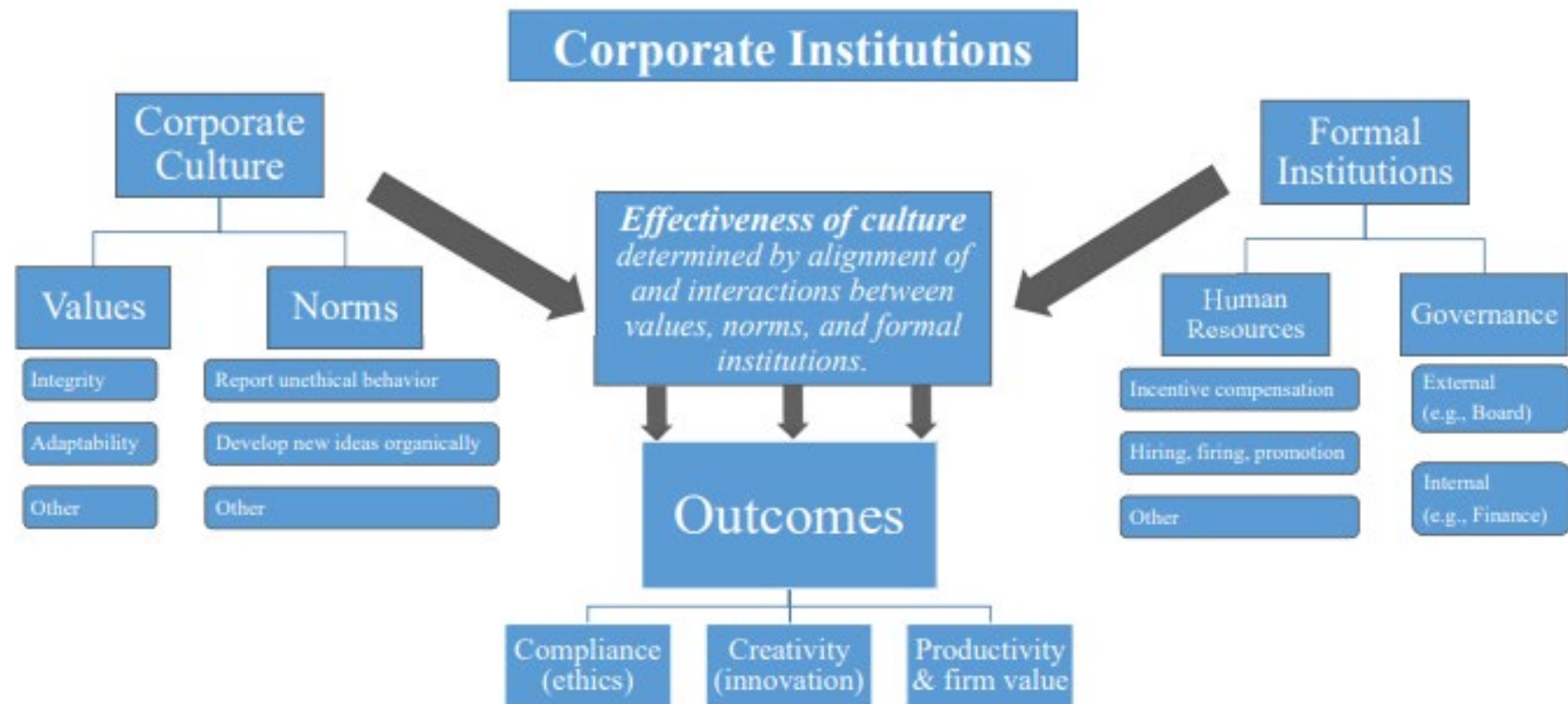
Instead, in this context, what needed to change to help make the culture effective (e.g., agreement and emotional intensity) was to bring in champions for intensity.



# **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.**

# Culture Is an Interdependent Process



# Take-aways About Cultural Change

**Goal:** The cultural change process is about identifying the elements of culture that need to be changed.

**Challenge:** Culture is an interdependent process. Cultural change, therefore, may not always be about redesigning it to focus on the most appropriate aspirational value and/or teaching employees new day-to-day actions to reflect those values. It may be something else entirely.

**Historical context:** The change process does not begin with a blank slate, the firm was built on a set of cultural values and norms that will remain part of its history. Understanding context is key.

**Isolate:** What elements of the existing culture should transition to the new culture? Do some elements help or hurt? If it is not the values, is it the norms, or what systems and people may need to change?

# Key Steps to Cultural Change

## 1. Get leadership on board

## 2. Organize a self-assessment team

- In consultation with the leader select a group (e.g., randomly, across functional units, across employee ranks, etc...)

## 3. Facilitate a dialogue to gather information about culture

- Briefly, what words or phrases best describe the current corporate culture at your firm?
- When there is reluctance to share, prompt for specifics. How is time and space used? How are people rewarded and punished/ how does someone succeed at this firm? How are conflicts handled? When and where do conflicts arise? Why do you do X this way around here?
- As a facilitator, note a consensus in the room on the element and if there appears to be emotional intensity behind the element.

# Key Steps to Cultural Change

## 4. Review the change goal

- To avoid an ambiguous goal, remind them that the goal of any firm is to create value. Through a lens of value-creation, then, re-evaluate the change goal, and how the present culture is helping or hurting the targeted change.

## 5. Teach the next step

- For example, if the group believes that a series of unfortunate events is leading to an erosion of the customer base and to maximize firm value you need to regain the trust of the customer. As a group, you may agree to refocus your aspirational values on integrity and customer-orientation. In doing so, you may want to initiate a norm of saying “no” to little things, so that employees start getting comfortable with realistic goals. You may also want to setup complementary programs (e.g., trainings or compensation changes) that reinforce and teach the value.

# Key Steps to Cultural Change

## 6. **Generate emotional intensity behind the change**

- When leadership is bought-in and you have had discussions with a key group. It generally becomes clear who could be your cheerleaders or ambassadors for the cultural change initiative. Make it a new responsibility for them. Motivate them to be the champion of this cause. Especially, if the person is intrinsically motivated and has an inherent desire to display this quality, the motivation of a shared vision for all can help.

## 7. **Be realistic. Remove other barriers.**

- Are there other people and systems that could prevent this new goal from being achieved? If so, what “ways of doing things” or barriers to change, can you and leadership work to remove?



# Key Steps to Cultural Change

## 8. Take-off the training wheels.

- As the leaders and cheerleaders help teach the culture and set the tone for the new system. Others will begin to imitate and identify with the role models. This should be praised and this internalization should be rewarded. If someone is showing initiative at the integrity initiative, allow them to pitch the next big client. Allow the new values and norms to become part of the workplace identity and the self-image others have for the firm.

# Reflection

Take a moment to think and share.

## Tips for Driving Cultural Change Through Recognition



Ensure the involvement of the top management



Let the employees have their say



Encourage managers to practice what they preach



Add an element of fun to the process

Having heard some of the best practices, are there tips that surprise you or that you didn't hear that you expected to hear? What experiences do you have that you can share?

# Common Challenges

## **Challenge = Anxiety or resistance to change**

- An employee tries the new approach but didn't succeed, so they revert to old ways.

## **Solution = Psychological safety**

- Provide a compelling positive vision
- Provide formal training
- Involve the learner in the process
- Train relevant teams to support the learner
- Provide resources
- Provide positive role models and cheerleaders
- Provide support groups in which problems can be aired and discussed among the group

# Common Challenges

## Challenge = The Solution is Unknown

- Consider cultural challenges where a clear “best practice” recipe is not available. (e.g., WFH, climate change)

## Solution = New standards of evaluation

- Emphasize patience to all in the process
- **Re-“frame”** the challenge. Rather than the big problem (save the planet), frame an achievable goal (low emissions)
- **Re-“frame”** the employee. Rather than Joe “the engineer’s” role, discuss Joe “the employee/team member of X’s” role in transformation and improvement.
- **Change measurement:** quality vs. quantity, or immediately vs. when there’s a possibility of danger, etc...

# Common Challenges

## Challenge = Disconfirming Information

- Consider a cultural change process meant to restore customer-focus yet you fail to win a new customer early on.

## Solution = Strong Leadership

- If there are still those who carry the bad cultural element, consider **sanctioning or firing** them.
- Help other employees see how the change process produced **small victories** (e.g., a better pitch).
- Model “**unlearning**” too. Explain where you as a leader may have messed up in the change process, and how an intermediary unlearning stage is an important part of the process.

# Corporate Culture #6

## What Cultural Elements to Consider



# The Leader's Guide to Corporate Culture

How to manage the eight critical elements of organizational life by  
Boris Groysberg, Jeremiah Lee, Jesse Price, and J. Yo-Jud Cheng

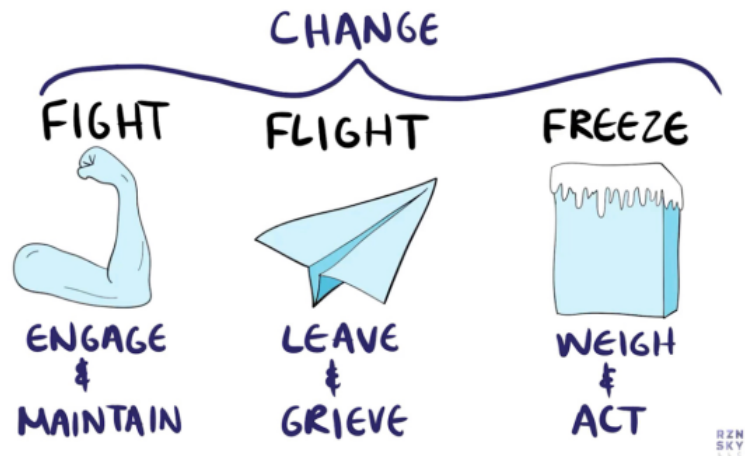
From the Magazine (January–February 2018)

Unfortunately, in our experience it is far more common for leaders seeking to build high-performing organizations to be confounded by culture. Indeed, many either let it go unmanaged or relegate it to the HR function, where it becomes a secondary concern for the business. They may lay out detailed, thoughtful plans for strategy and execution, but because they don't understand culture's power and dynamics, their plans go off the rails. As someone once said, culture eats strategy for breakfast.

It doesn't have to be that way. Our work suggests that culture can, in fact, be managed. The first and most important step leaders can take to maximize its value and minimize its risks is to become fully aware of how it works. By integrating findings from more than 100 of the most

# Reflection

Take a moment to think and raise hand to share.



The HBR reading suggests there are two fundamental elements of culture. (1) “people interactions” (i.e., collaborative vs. competitive) and (2) response to change (i.e., adaptable vs. stability). Do you agree? Why or why not? What makes these elements unique relative to other elements of culture?

# HBR 8 Cultural Recipes

1. **Caring** = relationships and mutual trust. Work environments are warm, collaborative, and welcoming places where people help and support one another. Employees are united by loyalty; leaders emphasize sincerity, teamwork, and positive relationships.
2. **Purpose** = idealism and altruism. Work environments are tolerant, compassionate places where people try to do good for the long-term future of the world. Employees are united by a focus on sustainability and global communities; leaders emphasize shared ideals and contributing to a greater cause.
3. **Learning** = exploration and creativity. Work environments are inventive and open-minded places where people spark new ideas and explore alternatives. Employees are united by curiosity; leaders emphasize innovation, knowledge, and adventure.

# HBR 8 Cultural Recipes

4. **Enjoyment** = fun and excitement. Work environments are lighthearted places where people tend to do what makes them happy. Employees are united by playfulness and stimulation; leaders emphasize spontaneity and a sense of humor.
5. **Results** = achievement and winning. Work environments are outcome-oriented and merit-based places where people aspire to achieve top performance. Employees are united by a drive for capability and success; leaders emphasize goal accomplishment.
6. **Authority** = strength, decisiveness, and boldness. Work environments are competitive places where people strive to gain personal advantage. Employees are united by strong control; leaders emphasize confidence and dominance.

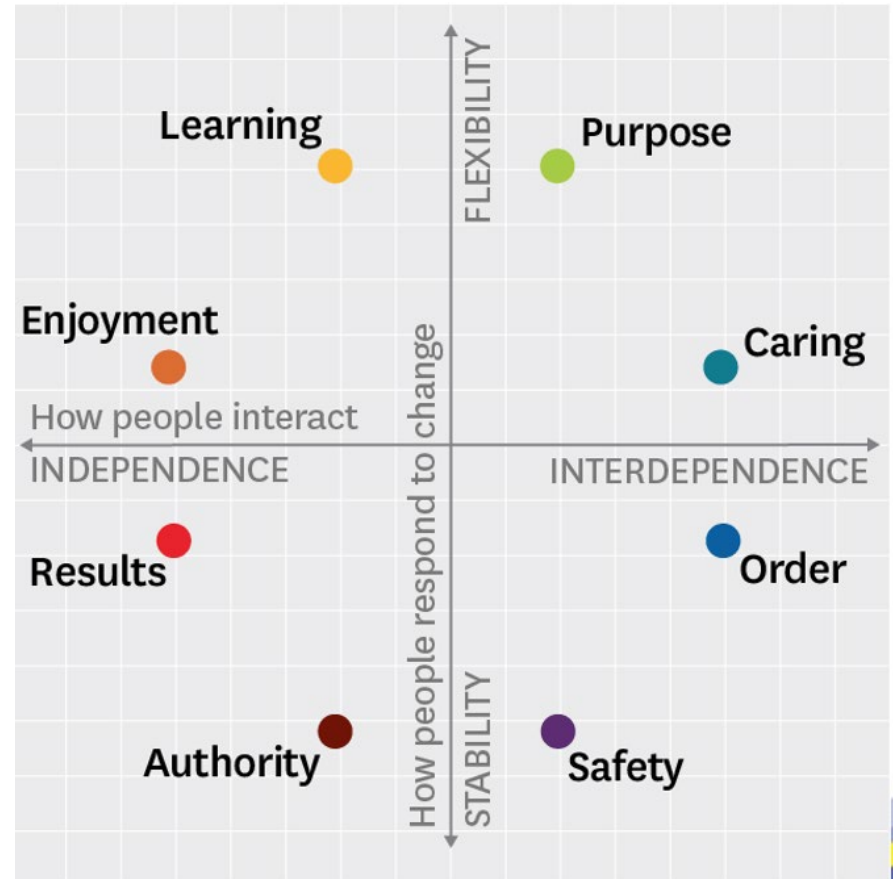
# HBR 8 Cultural Recipes

7. **Safety** = planning, caution, and preparedness. Work environments are predictable places where people are risk-conscious and think things through carefully. Employees are united by a desire to feel protected and anticipate change; leaders emphasize being realistic and planning ahead.
8. **Order** = respect, structure, and shared norms. Work environments are methodical places where people tend to play by the rules and want to fit in. Employees are united by cooperation; leaders emphasize shared procedures and time-honored customs.

# Reflection

Take a moment to think and raise your hand to share.

Consider a firm hoping to adopt a hybrid model moving forward. Which cultural recipe do you think will work best for this recipe? If this was not their original cultural recipe, what changes would you recommend?





# Corporate Culture #6

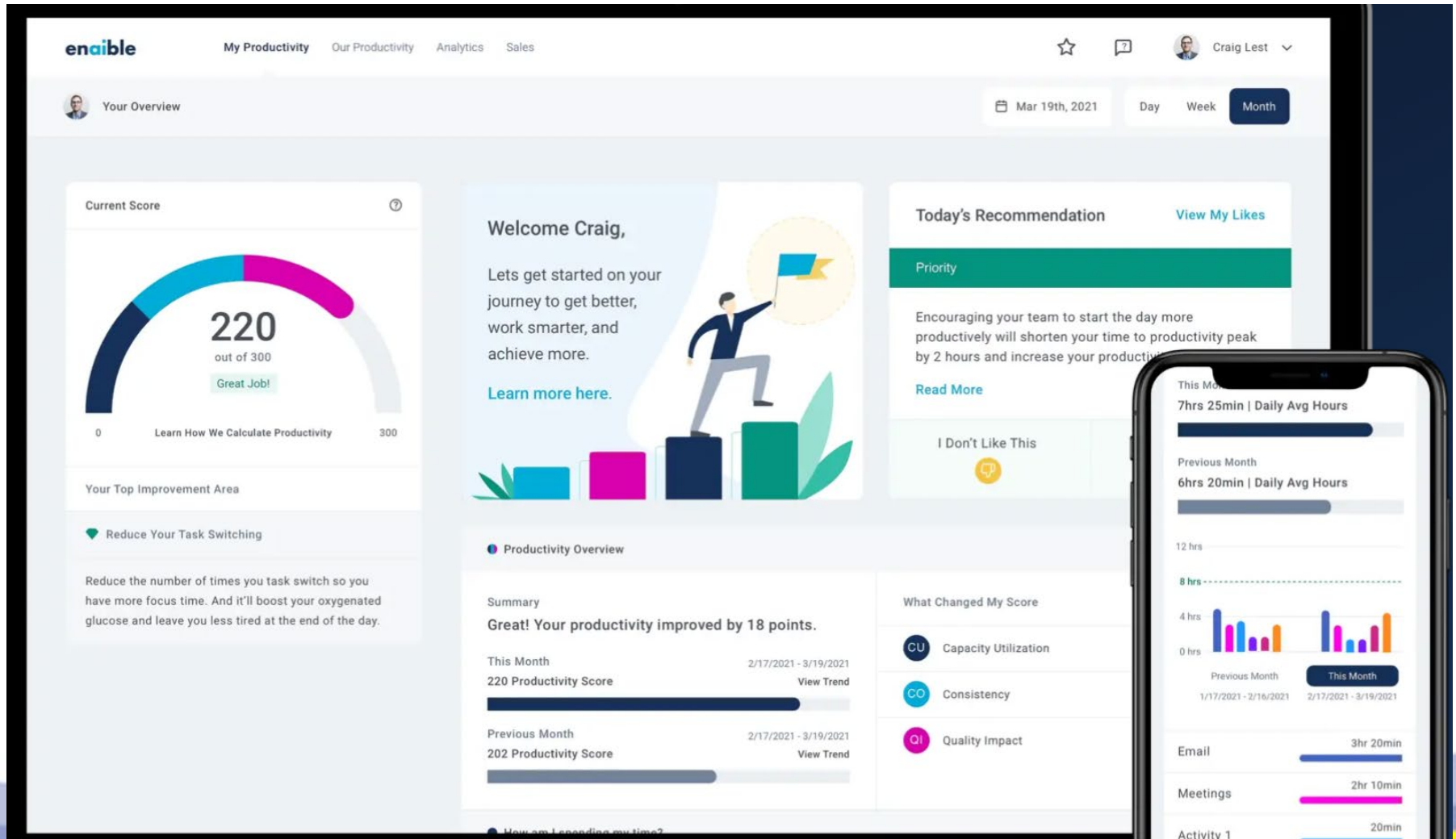
## Technology as a Catalyst

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.

# Technology as a Catalyst

- where technology wants to take the modern office: more nimble and more productive, but harsher and less forgiving.
- By instilling Amazon with his core principles, Bezos hoped to resist the forces he thought sapped businesses over time — bureaucracy, profligate spending, lack of rigor.

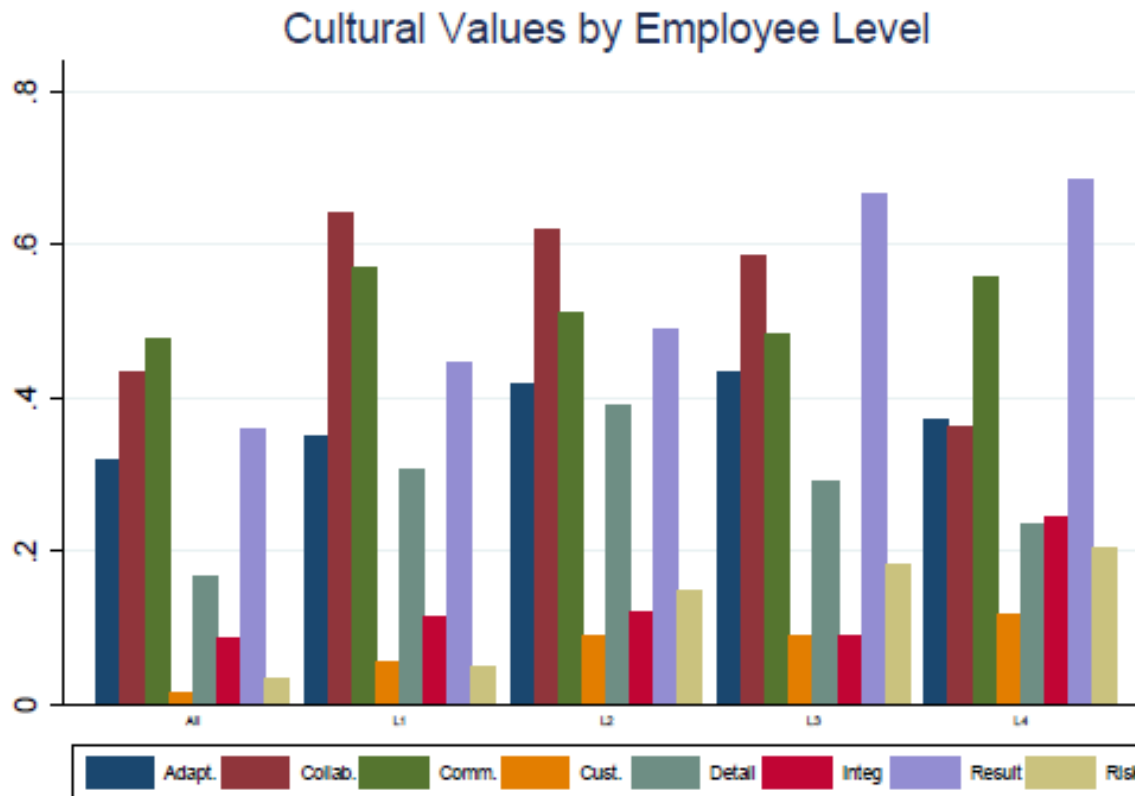
# AI-augmented Culture & Leadership



# Categorize “Smart” Suggestions

	(1)
Panel A. Type of smart suggestion	Mean
Action-oriented	0.37
Question-oriented	0.34
Educational	0.30
Panel B. Skill type	Mean
Hard skill	0.39
Soft skill	0.70
General human capital	0.44
Firm-specific human capital	0.56
Panel C. Leadership skill type	Mean
Thinking	0.29
Learning	0.37
Inspiration	0.27
Achievement	0.36
Panel D. Company system associated with skill	Mean
Formal (i.e., HR practices, strategic plan)	0.30
Informal (i.e., culture, employee well-being)	0.70

# Including Potential Influence on Culture



**Figure 1.** Frequency of cultural values by leadership level. The figure plots the frequency with which aspirational culture values are described in the content of the smart suggestion by level of leadership. The eight cultural values include adaptability, collaboration, community, customer-orientation, detail-orientation, integrity, results-orientation, and risk-orientation.

## Ex. Question-oriented

- Do you know the focus of your virtual team meeting? Does everyone else? What are the types of work which may be forgotten about?
- How might you best reap the benefits of a lack of hierarchy which often comes with virtual work?
- What is the right level of personal sharing with your virtual team, especially when working from home?
- Are you creating the right pressure environment when team members are working from home? How can you best cater for work and life?
- Do you allow your team to work in shorter bursts to cater for the potentially longer working days of virtual teams?
- Are you being reasonable with global team members and the local time they're being asked to work at?
- How might you best show an interest, and help, with the physical and mental health of your virtual team?



## Ex. Action-oriented

- Build networks across and outside the organization, with a clear business benefit to be gained from specific relationships.
- Spend time in unfamiliar areas of the business.
- Be seen as a role model for others and make people proud to work with you.
- Form diverse teams from different areas of the organization to tackle shared challenges.
- Generate a climate of collaboration, where perceived barriers are broken down to improve business performance.
- Strategically build networks and form relationships for the long-term benefit of the organization.
- Emphasize collective performance and related individual responsibility.

# Ex. Educational

- Steve Jobs was a big advocate of a walking meeting, which he used for his recruitment. A 'walk and talk' can help reduce the pressure around a sensitive topic and help develop a deeper relationship.
- Reducing top-down controls increases your senior leader's capacity to take discretionary action and will enable them to be empowered to address performance issues that they face as well as ensuring that they are accountable for their actions.
- Listening more to others, even when their view differs to your own, is a characteristic of a bold and curious leader.
- Challenging the existing norms and ways of working that your business unit has adopted will remove unnecessary red tape and obsolete processes and ensure that change is focused on the elements that will improve business performance.

# The Need to Randomize



# Recent Randomization Highlights

- Government workers in Washington D.C. were randomized into which days they should be in the office and which days they should work-from-home.
- The researchers then analyzed the email and phone communication patterns.
- Surprisingly, the workers patterns were more “equitable” in the office than from home. There was no evidence of a two-tier system.
- While the reason is not known – did they switch tasks those days? did the office simply remind them of the coworker? Are public servants just naturally more oriented toward fairness? – it does at least initially suggest there are a set of conditions leaders can pursue to achieve fairness with work-from-home.

# Corporate Culture #6

## Society as a Catalyst



# Society as a Catalyst





# 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.

# Society as a Catalyst in Theory

If one believes that culture emerges from different individuals and teams communicating their interpretations of management's desired culture, then theoretically it is possible for society to influence culture.

Why? Because it is possible to show mathematically that culture directly influences employee behavior.

A *behavior* is conduct that materially affects the production process (e.g., exerting meticulous effort, creating quality standards, or inspecting processes).

An employee's utility function is  $U_i =$

$$\underbrace{w}_{\text{wage}} - \underbrace{\lambda_1 (b_i - b(\eta_i))^2}_{\text{personal conflict}} - \underbrace{\lambda_2 (b_i - b(\eta_k))^2}_{\text{team culture conflict}} - \underbrace{\lambda_3 (b_v - b(\eta_c))^2}_{\text{corporate culture conflict}}$$

# Social Progress and Culture in Theory

## Social Progress and Corporate Culture\*

February 16, 2021

### Abstract

Social progress through improved treatment of minority groups (e.g., forbidding racial and sexual harassment) may or may not spread to corporate cultures through competition. We provide a theory of corporate culture, and we show that emergent, progressive corporate cultures can displace existing, regressive ones when the prevailing wage gap is large between majority and minority groups. A bias for the status quo makes corporate cultures *more* likely to progress; the stronger the bias, the more minority treatment improves. Wider cultural differences between groups make progress less likely. The model provides testable predictions on racial and gender wage gaps across firms.

# Social Progress and Investors

- Institutional investors focused on changing boards following the #metoo movement (governance → culture)
  - Beginning in 2017, State Street and BlackRock, began voting against all-male boards in their portfolio firms.
  - Proxy advisors, including ISS and Glass Lewis, also recommended voting for gender diversity.
  - In 2020, Goldman Sachs joined by announcing it would not underwrite IPOs in the U.S for firms with all-male boards.
- The governance changed! Between 2017 and 2020, the number of S&P 1500 firms having all-male boards dropped from 179 to 30.
- In 2020, of the top 25 U.S. IPOs, just one company, Dun & Bradstreet, went public with an all-male board, compared to 12 IPOs in 2018.

# Starting to See Some Evidence of Real Effects

## Does Socially Responsible Investing Change Firm Behavior?

Socially responsible investment (SRI) funds are increasing in popularity. Yet, it is unclear if these funds improve corporate behavior. Using novel micro-level data, we find that SRI funds select firms with higher environmental and social standards: the firms they hold exhibit lower pollution, greater board diversity, higher employee satisfaction, and higher workplace safety. Yet, using an exogenous shock to SRI capital, we find no evidence that SRI funds improve firm behavior. The results suggest SRI funds invest in a portfolio consistent with the fund's objective, but they do not significantly improve corporate conduct.



# Corporate Culture #6

## Other Aspects of Change

### Law, Lifecycle, Compliance



# Can The Law Change Norms?

## CAN THE LAW CHANGE PREFERENCES?

Jennifer Arlen and Lewis Kornhauser\*

“I would prefer not”<sup>1</sup>

### Abstract

*In this article, we analyze whether, as some have claimed, the criminal and civil law alters fundamental preferences and conclude that it does not. Scholars have recently challenged the claim in classical deterrence theory that law influences behavior only through the expected sanction imposed. Some go farther and argue that law may also “shape preferences,” changing people’s fundamental wants and values. We first clarify this preference-shaping claim by elaborating the structure of rational choice theory generally and “preference” in particular. We then investigate three mechanisms of legal influence suggested by the preference-shaping literature: (1) the “serious harm” mechanism; (2) the “social norm” mechanism; and (3) the “self-improvement” mechanism. We then argue that each of these mechanisms operates by changing the agent’s beliefs about the attributes or consequences of her choice options rather than by changing her preferences.*



# Why Care About Preference Distinction?

- Consider sugary foods.
  - Psychologists say people have present-biased preferences and as such they consume sugary foods because of temptation.
  - Social view suggests that engaging in a consumption activity is often more visible than refraining from doing so. But when you see all the posts on Instagram you infer others are consuming heavily but you don't adjust for this selection bias, as a result you choose to follow and overconsume sugary foods. It isn't about preferences.
- Yet very different policy implications.
  - Psychologists would tell policymakers to disclose the calories on the menu to avoid behavioral bias.
  - Social view would say get an influencer in a key position and you will see change.



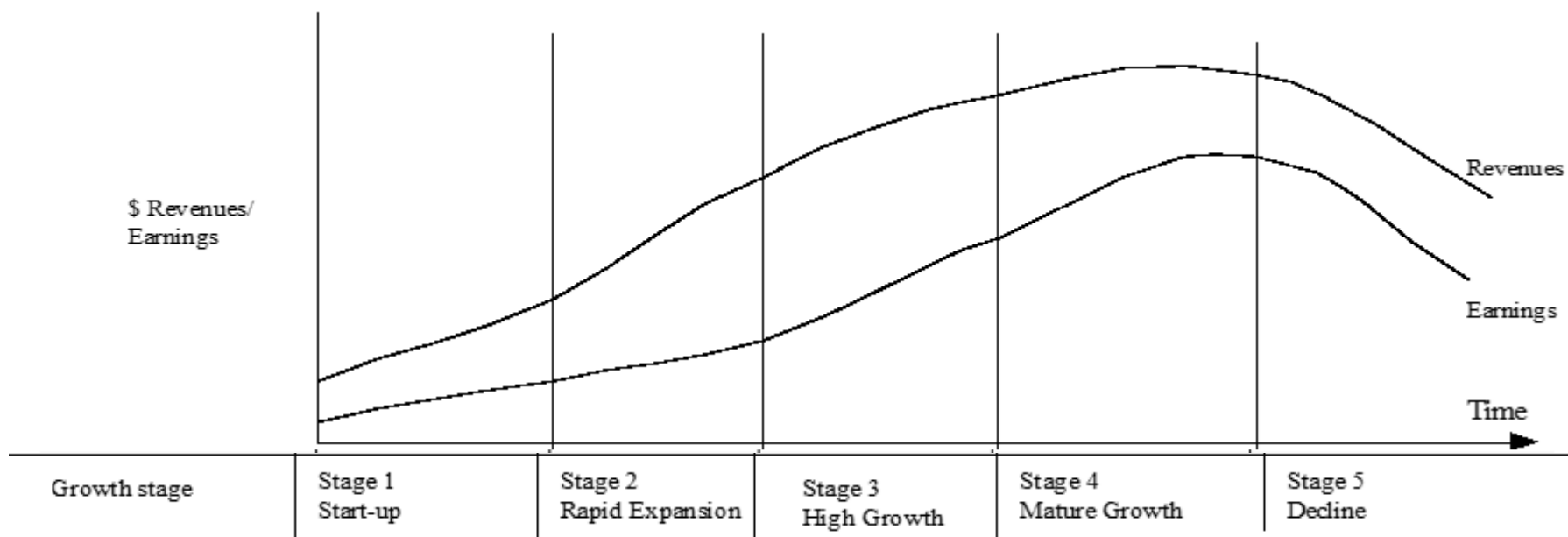
# Reflection

Please take a moment to think and respond.



**A common recommendation for cultural change is to have cultural cheerleaders to help spread the new culture. How important do you think this advice is in light of the law article and the sugary food example? How about in relation to “tone at the top”?**

# Life Cycle Theory of the Firm



# Life Cycle Theory of Culture

- As firms grow and mature, their risk exposures follow fairly predictable patterns and therefore, the optimal culture over time should adjust to accommodate these risk patterns.
  - In particular, the key insight is that the risk of the firm starts facing the average risk of all firms in that market space.
- To understand the cultural change, let us consider five stages in a firm's life cycle.
  - Not all firms make it through all 5 stages. In particular, many start-ups fail after a few years.
  - Even successful private firms like Haliburton don't transition to becoming public firms because they don't want to face the additional challenges associated with widespread ownership.



# Reflection: Lifecycle Stage

*What lifecycle stage are these firms in and what risks are they likely to face in terms of their culture?*



# Reflection

Take a moment to think and raise hand to share.



**In-house counsels may be stewards of integrity and help their clients to foster a specific culture. At what lifecycle stage do you think in-house counsels are most important and why? Is it possible that lawyers are too far from the “influencer” role to evoke real change?**

# Summary of Today's Class

## Cultural change

1. *Technology*: How will artificial intelligence (AI) change culture and leadership?
2. *Lifecycle*: Do firms at different stages of the lifecycle need a different culture?
3. *Society*: When society changes must corporate culture change?
4. *Psychology*: What is the role of psychological safety in cultural change?
5. *Law*: What is the role of monitors and compliance in cultural change?
6. *Teams*: Can the audit, law, or finance team serve as a steward of integrity?



# Final Class

For next class, please prepare your final reflections.

Options include: ESG, M&A, and/or an original idea.

Please be prepared with an 2-minute elevator pitch of your best ideas (i.e., no slides necessary).

We will work in groups next class to refine our ideas and present some to the whole group.