

251.53 Section 001, Berkeley Law Corporate Culture – Fall 2021

Syllabus

Professor Grennan



Berkeley Law

Administrative Matters

Instructor name: Jillian Grennan

Email address: jillian.grennan@berkeley.edu

Office hours: Wednesday 12:30-2:30 p.m. and by appointment, please email me to setup either a Zoom chat or in-person meeting.

Course Description and Learning Outcomes

Corporate culture is an important driver of business value, and policymakers often blame dysfunctional cultures for egregious actions at firms like Wells Fargo, VW, Toshiba, Uber, and Pinterest. Building on a broader literature on corporate institutions, this course examines antecedents and consequences of corporate culture through the lens of an informal institution. We will learn how differences in espoused and lived cultural values are associated with various business outcomes. Then, we will study specific cases to recognize when, how, and why aspirational ideals may not be met. Finally, we will examine how leaders can foster a culture that meets the evolving regulatory and stakeholder expectations surrounding ethics and compliance.

By exploring the legal and practical aspects of corporate culture, you will begin to understand a key factor in motivating employees and executives in situations where contracts are incomplete. Understanding how and when culture may be complement to or substitute for formal rules and contracts is therefore a critical component to understanding the motivations of your future corporate clients. And understanding the motivations of your client is, of course, critical to rendering capable legal advice. At the end of this course, you will have supplemented your legal training by introducing you to corporate culture and by providing you insights into the practical environment in which business decisions are made. As an example of a specific skill you can acquire in this class, you will be able to identify specific actions corporate executives can take to help change their culture. At the end of the course, I expect you to achieve the following Berkeley Law Learning Outcomes in this course: “Other professional skills needed for competent and ethical participation as a member of the legal profession.”

Required Materials

There is no required textbook but there will be reading materials on bCourses (see next).

Assignments and Grading

The course is offered on a credit/no-credit basis. This is a deliberate decisions to make the class accessible to law students who may not have previous exposure to corporate environment. Moreover, this is an informal seminar, so I do not want to deny credit to anyone. If you make a

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good effort and follow the requirements below you will get credit. Formally, in deciding whether or not to give credit, I will take into account the following areas:

- Reflective writing on corporate culture (50%)
- Class participation (50%)

Initial Reflection Paper

Submit a 1-2 page (double-spaced) reflection with your initial thoughts about the course. You may choose your topic but here are some ideas to help prompt you:

- Why did you decide to sign up for this course? What are you hoping to gain from the course?
- To what extent have you experienced corporate culture(s)? How does this compare with other organizational cultures you have experienced (whether it be at a university or another firm)? What do you think are the bases of cultural similarities or differences? How much is attributable to history, size, location, technology, and/or age? What does this variation teach you?
- As a potential employee, what kind of questions would you want to ask your employer to better understand the culture? Who would you want to ask? Would these questions vary by the size of the firm? By reputation? By industry? How do you know whether or not you can trust a potential co-worker?

Second Reflection Paper

Submit a 1-2 page (double-spaced) paper reflecting on the course so far. While you may choose your own topic, following are some ideas to help prompt you:

- What have you learned about corporate culture and/or formal institutions so far that has surprised you, confirmed your existing views, and/or challenged your existing views?
- What role might lawyers play in developing and championing the culture of the firm? How does your role shift depending on your position in relation to the firm (in-house counsel, outside counsel, employee, and/or in a regulatory/supervisory role)?
- How has what you've learned about the interaction between culture and markets, regulation, corporate governance, management practices, and/or other policies (e.g., speak up training) changed your perspective on the need for leaders to invest in and champion the culture?

Final Paper

Submit a 2-4 page (double-spaced) final paper. There are two options for this final paper. For both options, please be prepared to share your work during the final class. For sharing purposes think of it as 2-3 minute opportunity, to concisely and clearly explain your big idea (i.e., an elevator pitch).

Option #1: The first option is to work on developing an original idea of your own about corporate culture. The goal is to be as original as possible. In seeking to generate a new idea, don't be afraid to take a risk. What have you learned about culture that doesn't seem right to

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you? Or what aspect of culture did we not discuss that you think is very important? For this option, the focus is on the quality of your idea, so please don't feel that you have to fill all four pages. What I seek is expositional clarity in relation to your idea. Summarize your idea, then explain how it fits into the prior literature and what your unique contribution is, and finally provide, any additional evidence you have for its importance such as an anecdote, a case study, an interview you did with an alum, etc...

Option #2: The second option is to do a case study of a firm and develop a plan for implementing change at the firm. Specifically, you will need to look up the organization that you select on the internet and explore their history. If there are biographies of founders or leaders, consider skimming those to deepen your understanding of the factors influencing the culture. Describe what appears to be the aspirational culture at the firm. Next, look up stories from people that work at the firm via Glassdoor, Twitter, or other resources. Experiences involving interactions with teammates or authority can be particularly helpful. Describe how the culture is lived out in practice. E.g., you could compare and contrast the review from engineers vs. sales employees to potentially identify if there is a lack of alignment between the cultures of the groups. Then, consider how the culture is perceived by customers and/or how it is conveyed to investors. Does there appear to be code-switching among different stakeholders or not? Finally, once you have describe both the aspirational, lived culture, and degree of code-switching in the write-up, you will need to write-up your recommendations for change based on one of the following two scenarios.

1. **M&A:** You are tasked with doing due diligence on this firm as part of a merger deal. Does the firm have an effective culture prior to the merger? Next, suppose cost savings from the merger deal cannot justify the proposed price, instead synergies need to be achieved. For the synergies to be achieved, employees will need to learn new skills and take more risk than they are used to. What mix of informal, formal, and compliance-related initiatives would you recommend to achieve this goal?
2. **ESG:** You have been hired to help this firm improve its ESG and sustainability metrics to attract new investors. Does the firm have an effective culture prior to you being hired? For the initiative to be successful and result in actual change rather than greenwashing, employees will need to change. What mix of informal, formal, and compliance-related initiatives would you recommend to achieve this goal?

Course Schedule and Reading List

Below you will find an outline of the major topics covered in the course as well as the specific topics within each major topic.

Class 1

Topic: Introduction

- Course Overview
- Culture and the Work-from-home (WFH) debate

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- The direct and indirect effects of WFH on culture
- Defining 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](#)
- Schein, E. Chapter 2. "The Levels of Culture" from Organizational Culture and Leadership.

Class 2

Topic: Conceptions and measures of culture

- The importance of defining cultural values
 - Comparison of Uber and Amazon's cultural values
 - Do the values selected matter? If so, why and how?
 - How does corporate culture spread? Is it possible to copy a culture?
- Why outsiders might undervalue culture
 - Espoused vs. lived culture and the role of norms
 - How technology can help outsiders to better measure culture

Reading:

- (Read intro) Guiso, Sapienza, and Zingales, 2015, "The Value of Corporate Culture" *Journal of Financial Economics* 117, pg. 60-76. [Link](#)
- New York Times. Aug 15, 2015 "Inside Amazon: Wrestling Big Ideas in a Bruising Workplace," by Jodi Kantor and David Streitfeld [Link](#)
- New York Times, Feb. 22, 2017, "Inside Uber's Aggressive, Unrestrained Workplace Culture" by Mike Isaac [Link](#)
- Note: alternatively, if you prefer listening over reading the NYT articles, the Prologue and Ch. 1 of "Super Pumped" by Mike Isaac is entertaining and covers similar material.

Class 3

Topic: Culture as an informal institution

- Defining formal and informal institutions
- What is the relationship between formal and informal institutions?
 - Shareholder governance and culture
 - Intrinsic vs. extrinsic motivation and the role of incentive pay
 - Corporate law and nonlegally enforceable rules and standards

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- Markets and morals
- Promotion and the Peter Principle

Reading:

- (Read intro) Grennan, J., 2013, “A Corporate Culture Channel: How Increased Shareholder Governance Reduces Firm Value”
- (Read intro) Benabou, R., and J. Tirole, 2003, “Intrinsic and Extrinsic Motivation” *The Review of Economic Studies*, Vol. 70, No. 3 (Jul., 2003), pp. 489-520. [Link](#).
- (Read intro) Rock, E. and M. Wachter (2001) “Islands of Conscious Power: Laws, Norms, and the Self-Governing Corporation” *University of Pennsylvania Law Review*, Vol. 149, No. 6 (Jun., 2001), pp. 1619-1700. [Link](#)
- New York Times, Sept. 6, 2015, “Rising to Your Level of Misery” by Arthur Brooks [Link](#)

Class 4

Topic: *Culture and business outcomes*

- What is the value of corporate culture?
- What business outcomes are associated with corporate culture?
- What is an effective culture?
- How firm growth (success) can undermine the effectiveness of corporate culture?
 - Enron
 - Theranos

Reading:

- (Read intro, look at tables) Graham, J., Grennan, J., Harvey, C., and Rajgopal, 2021, “Corporate Culture: Evidence from the Field” [Link](#)
- Harvard Business Review. Jul-Aug. 2021, “Entrepreneurs and the Truth” by Kyle Jensen, Tom Byers, Laura Dunham, and Jon Fjeld [Link](#)
- Washington Post, Jan. 27, 2002, “Enron's Culture Fed Its Demise” by Joe Stephens and Peter Behr [Link](#)
- Note: alternatively, if you prefer watching over reading, the documentary "Enron: The Smartest Guys in the Room" is entertaining and covers the Enron story well.

Class 5

Topic: *Culture and people (teams, leaders)*

- Culture and team performance
 - Google’s Project Aristotle
- Culture and leadership
 - Leaders as teachers
 - Leaders as judges

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- Leaders as trustworthy role models
- Selecting the best leaders

Reading:

- New York Times. Feb. 25, 2016, “What Google Learned From Its Quest to Build the Perfect Team” by Charles Duhigg [Link](#)
- (Read intro) Contreras, A. A. Dey, and C. Hill, 2020, "Tone at the Top" and the Communication of Corporate Values: Lost in Translation?" Seattle University Law Review 43, pg. 4974. [Link](#)
- (Read intro) O'Reilly, C., B. Doerr, and J. Chatman, 2018, "See you in court": How CEO narcissism increases firms' vulnerability to lawsuits. The Leadership Quarterly 28, pg. 365-378. [Link](#)

Class 6

Topic: Cultural change

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

Reading:

- Schein Ch. 15-16 “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. [Link](#)
- 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 [Link](#)

Class 7

Topic: Conclusion

- Student-led reflections based on final project
- My final thoughts on corporate culture

Reading:

- No reading. Please work on your final paper.