

ORGANIZATIONAL
CULTURE

Build a Corporate Culture That Works

Start by thinking
about the dilemmas your
people will face.



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ABOUT THE ART

Using digital processes, Paul Eis gives architecture a makeover by altering the color palettes and backdrops of buildings, showing how facades can be made more interesting with the use of color.

At

THE BEGINNING OF MY CAREER, I worked for the health-care-software specialist HBOC. One day, a woman from human resources

came into the cafeteria with a roll of tape and began sticking posters on the walls. They proclaimed in royal blue the company's values: "Transparency, Respect, Integrity, Honesty." The next day we received wallet-sized plastic cards with the same words and were asked to memorize them so that we could incorporate them into our actions. The following year, when management was indicted on 17 counts of conspiracy and fraud, we learned what the company's values really were.

Ever since Peter Drucker famously declared that "culture eats strategy for breakfast," there has been a widespread understanding that managing corporate culture is key to business success. Yet few companies articulate their corporate culture in such a way that the words become an organizational reality that guides employee behavior. Which raises the question: If culture eats strategy for breakfast, how should you be cooking it?

I have been studying culture in organizations in my roles as a professor and as an adviser to businesses for the past 20 years. I have looked at companies that have struggled to build

cultures that shape the behavior of their employees—and at a few that seem to have cracked the code. In this article I draw on that experience to offer six simple guidelines to help managers who are confronting the challenges of culture building.

1

BUILD YOUR CULTURE BASED ON REAL-WORLD DILEMMAS

One of the biggest mistakes companies make when articulating their desired organizational culture is to focus on abstract absolute positives (integrity, respect, trust, and so on). Take integrity. Virtually all leaders want their employees to behave with it. Indeed, there is really no credible alternative to integrity as an articulated value. Never have I come across an organization that said, "In this company, we are all about corruption."

When you articulate your culture using absolute positives, it makes a statement, but it's unlikely to drive the day-to-day decision-making (and therefore the behavior) of your workforce. The trick to making a desired culture come alive is to debate and articulate it using dilemmas. If you identify the tough dilemmas your employees routinely face and clearly state how they should be resolved—"In this company, when we come across this dilemma, we turn left"—then your desired culture will take root and influence the behavior of the team.

Here is one example that I have used in my own work.

Dilemma: You manage a small team of eight marketing specialists. The team is hardworking and collaborative. Yet you have been in discussions with your boss about a possible organizational change that might take place in four months, which would have a significant impact on your department. Employees would be shuffled around with new bosses and



IDEA IN BRIEF

THE PROBLEM

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WHAT USUALLY HAPPENS

All too often a culture is described as a set of anodyne norms, principles, or values, which do not offer decision-makers guidance on how to make difficult choices when faced with conflicting but equally defensible courses of action.

HOW TO FIX IT

Follow six rules: Ground your culture in the dilemmas you are likely to confront, dilemma-test your values, communicate your values in colorful terms, hire people who fit, let culture drive strategy, and know when to pull back from a value.

 The trick to making a desired culture come alive is to identify the tough dilemmas your employees routinely face and clearly state how they should resolve them.





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teammates. Some might be asked to move to new locations. This is about 60% likely to happen. Will you share this information with your team now?

→ **Option A:** Lean toward team stability. Keep quiet for now. Your team is in a groove. You don't know if the changes will happen. If you tell your employees, they are likely to panic and become distracted, leading to stress and wasted time. Some team members might decide to leave the group in search of stability. Why cause worry and distraction when so much is unknown?

→ **Option B:** Lean toward transparency. Tell them what you know. When you are up-front with your employees, it breeds trust. If you were in their shoes, you would want to know. You seek to treat employees like adults, leading them to behave like adults. Adults can handle (and deserve) the truth. Why wait and allow rumors or whispered half-truths to circulate?

Both options are credible and defensible responses to the dilemma. I've presented it to hundreds of managers in dozens of organizations, and I've found that about 45% choose to share the information, and just over half lean toward keeping the information quiet for now.

In which direction would you like your managers to lean? If your goal is stability, you want managers to choose the first option. Tell them, "In this company, our goal is to keep all employees sheltered from distraction. We have a lot to get done, and everyone should be laser-focused on the task at hand." If your organization wants to foster a culture that's all about transparency, tell your workforce, "In this company, our leaders share information like crazy. Even when the cost is inefficiency or distraught feelings, we tell you what we know."

When employees face situations with various credible responses, they can either make a choice based on personal preference or be guided by the culture of the company. When developing your culture, consider those moments when your employees face critical decision-making dilemmas, vigorously debate potential responses, and create value statements that will clearly guide employees' actions.

2

MOVE YOUR CULTURE FROM ABSTRACTION TO ACTION

If you are building your culture from scratch, debate it using dilemmas from the beginning. But if you

already have a stated culture consisting of abstract principles in place, "dilemma-test" them to determine whether they are actionable enough to be useful in real decision-making situations.

I recently advised an online marketplace for tutors and students while it was developing its company culture. I'll call it TutorX. We began by looking at how other companies described their organizational cultures on their websites. The majority defined their culture by listing abstract principles. We put some of them through a "stress test," imagining real-life dilemmas that they could help solve. For example, an international health-care conglomerate stated two of its values—care and meaning—on its website:

It's simple. We care. How we work is just as important as the work we do. We help and respect each other.

What you do matters. We set out every day to do purposeful work. Our mission is a reminder of why we foster a culture where you can grow, make an impact, and are empowered to bring new ideas.

The words were not overly broad clichés (such as integrity or respect). The description resonated. Yet we had trouble imagining the on-the-ground dilemmas they could help resolve. Well-intentioned employees asking themselves whether to do meaningless or meaningful work didn't make sense. And surely very few managers were struggling with the question "Should I show my team that I care or that I don't care?" The principles were clear, but they didn't address real-world choices that employees would routinely face.

Other companies aced the dilemma test. Consider Amazon's value statement: "Have a backbone: Disagree and commit." The second part was coined by a cofounder of Sun Microsystems, Scott McNealy, in the 1980s, and together the six words help Amazon employees resolve actual dilemmas. For example: Your boss is considering three designs for a new ad campaign. You hate the design that she is leaning toward. Should you tell her and make your case against it? Option A: Yes! State your position as clearly and persuasively as possible. Option B: No! You don't want to risk irritating your supervisor or ruining your relationship with her. Which should you choose? The value "Have a backbone" clearly guides your response: Speak up and make your case.



If you hire people whose personalities don't align with your culture, no matter what else you get right, you are unlikely to get the desired behaviors.

Another example is Pixar's value "Regularly share unfinished work." It's easy to imagine a scenario employees would face.

Dilemma: You are a film cartoonist in the storm of creation. Some of what you've done is good, but not all of it is fleshed out. Should you keep working until you reach perfection before you share?

→ **Option A:** Yes! Why waste others' time and show flaws when you haven't completed what you can do yourself?

→ **Option B:** No! You need feedback early to consider multiple perspectives and avoid going down a path that you might later find wasn't the best.

Pixar's stated value resolves the dilemma. Share your work now!

When TutorX put its own culture statements through the dilemma test, there were some for which no one could identify actual dilemmas they would resolve. Those were discarded. With other statements, the dilemma was evident. For example, TutorX had borrowed one of its values from Airbnb: "Make space for introverts." We could easily imagine dilemmas that this would address, such as "If my two smart, outspoken colleagues are dominating the conversation while others are sitting quietly, should I interrupt to ask the quieter colleagues to contribute, or let them remain silent since they might have nothing to say?" Because the statement was useful in guiding employee behavior in such a situation, TutorX kept it. In some cases, small wording changes yielded credible dilemmas. For instance, TutorX changed "We do it for the students" to "We put the needs of the students before the needs of the tutor," turning an abstract statement into a practical resolution for real-life dilemmas.

3

PAINT YOUR CULTURE IN FULL COLOR

Once you have identified a clear set of values and dilemma-tested them, articulate your desired culture using concrete, colorful images to get the values to stick. Research on the picture superiority effect (PSE) shows that images lodge themselves in our memories in a way abstract words don't. If I ask you to remember the words "justice" and "pineapple," you are more likely to remember "pineapple." If I tell you that the pineapple is the size and texture of a groundhog covered in icicles, it lodges indelibly in your memory.

Consider Amazon's "two-pizza rule," which states that teams should not be made up of more people than two pizzas can feed. The image of 24 teammates fighting for a slice of pepperoni is hard to forget. More colorful still is Airbnb's "Elephants, dead fish, and vomit," which states that leaders should transparently address the things everyone is aware of but no one dares mention, the unpleasant events that are starting to stink, and the frustrating feelings people need to get out of their system. Amazon could have said "We value small teams" and Airbnb "We practice transparency," but neither would have the same behavioral impact.

Another way to put color into your organizational culture is to articulate it in an edgy, counterintuitive way. Be provocative, and your employees will remember. Netflix describes its culture in unforgettable statements like "Adequate performance gets a generous severance" and "Don't seek to please your boss, seek to do what's right for the company." With the latter, Netflix could have just said, "Do what's right for the business," but no one would have taken notice. The counterintuitive "Don't seek to please your boss" stops employees in their tracks and forces them to make each decision with the good of the company foremost in mind.

4

HIRE THE RIGHT PEOPLE, AND THEY WILL BUILD THE RIGHT CULTURE

"Garbage in, garbage out" is a computer science concept that states that if you don't have the right input data, the output will be rubbish no matter how good the programming. The concept also applies to your workforce. This is not to say that employees who are a bad fit are trash, of course. But if you hire people whose personalities don't align with your culture, no matter what else you get right, you are unlikely to get the desired behavior.

When defining company culture, first tackle whom you will hire. One company that has done this well is Patagonia. This paragraph, clipped from its culture page (edited for length), demonstrates how to steer managers toward right-fit hiring decisions:

Patagonia doesn't advertise in the Wall Street Journal or hire corporate headhunters to find employees. We tap an informal network of friends and business associates—people who love to spend as much time as possible in the mountains



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or the wild. We are, after all, an outdoor company. We would not staff our trade show booth with a bunch of out-of-shape guys wearing white shirts and ties any more than doctors would let their receptionists smoke in the office. We seek out “dirtbags” who feel more at home in a base camp or on the river than they do in the office. All the better if they have excellent qualifications, but we’ll take a risk on an itinerant rock climber over a run-of-the-mill MBA.

Those sentences are jam-packed with resolutions to hiring dilemmas. Should I hire someone with technical expertise who doesn’t like to sleep in a tent? No. Should I take a chance on a mountain biker who may not have the right technical experience? Yes. Should I pay a headhunter to find job candidates or go through employee referrals? The latter.

Next look at whom you will fire. In an ideal world, once you find your right-fit candidates, each will blossom into the employee of your dreams. Reality is more complicated. Some of your hires will exceed your expectations; others will disappoint. How your culture deals with those situations is as important as whom you hire in the first place.

Would you like your company to have a family ethos where people are confident in their job security? As one CEO said to me, “Any kind, hardworking person will be nurtured here and rewarded with company loyalty.” Or would you prefer to be more like an Olympic team? The founder and CEO of Shopify, Tobias Lütke, wrote in a letter to employees (edited for length): “Shopify is not a family. You are born into a family. They can’t un-family you. The danger of ‘family thinking’ is that it becomes incredibly hard to let poor performers go. Shopify is a team.”

If Shopify doesn’t sound like the most comfortable place to work, consider a second part of its culture—typified by what I call the Bernard dilemma. Bernard is an extremely talented employee with a rare skill set that is essential to the business. He’s innovative and gets things done. He is also arrogant, sarcastic, and a poor listener. You’ve provided him feedback and coaching. No change. Will you fire Bernard?

For companies like Spotify, the biggest risk is not that Bernard will upset his teammates. It is that one Bernard will turn into a company of Bernards. On a biological level, humans are programmed to mimic one another’s behavior. We have neurons that fire when we watch another person, encouraging

us to empathize and identify with that person. That’s what makes bad behavior so contagious. For example, research by Will Felps of the University of New South Wales showed that when one team member behaves like a jerk, saying things like “You’ve got to be kidding me” or “Clearly, you’ve never taken a business class before,” others become abrasive or obnoxious. The individual’s personality becomes the group’s culture.

Of course, some companies prize skill and talent above all other qualities and will take the antagonistic superstar over the kind, average worker every time. But Lütke makes it crystal clear what he wants his managers to remember when facing the Bernard dilemma: “Slack trolling, victimhood thinking, us-versus-them divisiveness, and zero-sum thinking must be seen for the threat they are.” Netflix resolves the dilemma more simply, stating “No brilliant jerks; the cost to teamwork is just too high.”

5

MAKE SURE THAT CULTURE DRIVES STRATEGY

Many companies define their culture by focusing on employee attitudes. Witness the previously mentioned “We care” and “What you do matters” statements. Attitude is critical, and you should address it. But what’s most important is to identify your strategic objective—whether it is to reduce costs, minimize business complexity, or scale up through mergers—and use dilemmas to ensure that your employees understand what decisions they should be making to move the business in the right direction.

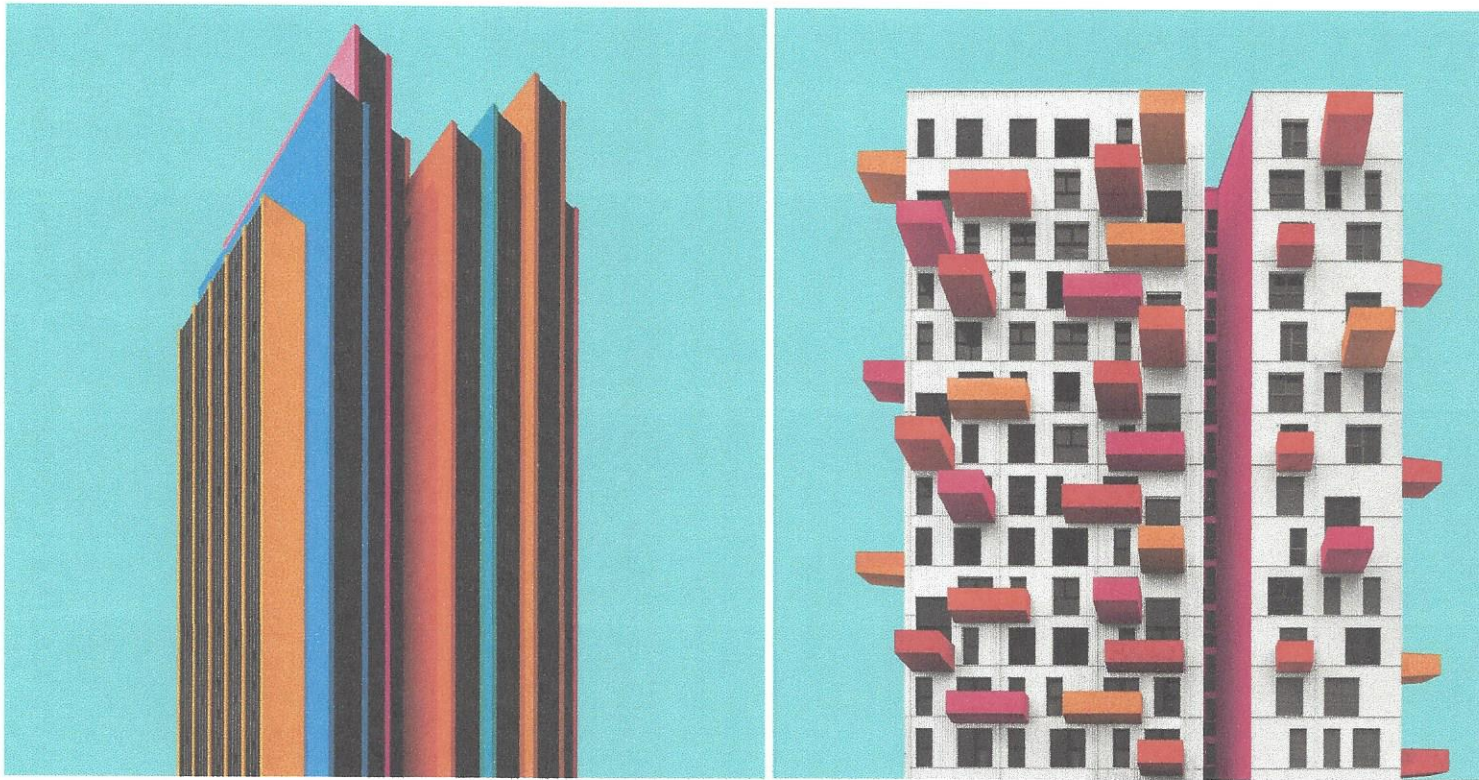
If, for example, you seek to move from a culture of error elimination, consistency, and replicability (popular during the industrial era) to a culture of adaptability, innovation, and empowerment (increasingly necessary in the digital age), you will need dilemmas that encourage your managers to change direction quickly, remove bureaucratic processes, and take risks in the pursuit of fresh ideas.

Take the marketing software company HubSpot. It’s culture brief states: “We are adaptable, constantly changing, lifelong learners.” It then presents a hiring scenario that brings the value to life.

What about good people who just want stability and predictability? They may do good work, but they most likely won’t be happy here.

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- ● Identify which dilemmas will drive decision-making throughout the company, but also consider the situations in which your culture as articulated would *not* apply.
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Any employee faced with the decision “Should I hire a highly talented employee who’s seeking stability and predictability?” knows which way to lean: Don’t make the hire.

Here’s another example I’ve tested in my own research.

Dilemma: A member of your marketing team, Sheila, comes to you with a proposal she is passionate about. She’s got a fresh (and expensive) idea for how to move the business forward. She has done her homework and thought through the risks and costs carefully. But you (Sheila’s boss) think this project will fail. What will you do?

→ **Option A:** Reject the proposal and lean toward error prevention. As a manager your job is to use company resources wisely. Letting your employees invest in projects you think will flop would put those resources at risk. If Sheila can’t convince you, it’s not a good enough idea. You tell her (as kindly as possible), “Not this time.”

→ **Option B:** Give the green light and lean toward innovation. You know that innovation involves trial and error. You want your talented employees to be empowered to try creative ideas they believe in. You’ve been wrong before. If the initiative fails, you will learn. You finance the project and shuffle work around. Sheila can get started.

About 68% of the managers I’ve questioned choose A. The industrial era powered the world’s most successful economies for some 200 years, so it’s no surprise that most

of us are obsessed with eliminating error. And if you’re running a nuclear reactor or manufacturing pharmaceutical drugs, you very well should be: A mistake may lead to loss of life. But in other realms, innovation is more important than efficiency or avoiding mistakes. The HubSpot and Sheila dilemmas provide managers with useful guidance in hiring the right people and then giving them the freedom to invest in fresh ideas. Sometimes ideas you are skeptical of will fail, and everyone will learn. But other times those ideas will pan out, and innovation will happen.

6

DON’T BE A PURIST

Of course, there will be times when the culture you’ve articulated should not (or cannot) be followed. When you debate your organizational culture, also identify dilemmas in which your stated values do *not* apply. Be bold and push the culture to the limit, but also define which situations are over the limit.

Imagine, for example, that “transparency” is a driving element of your culture. You’ve been sharing all kinds of information, telling your employees things leaders usually keep under wraps, and you’ve articulated a set of dilemmas that ensure that your managers know they should do the same. Yet you just fired your COO and feel that the



circumstances should be kept private: Your lovable, hard-working second-in-command is an alcoholic, and his addiction was hurting the company. You seek to be transparent but feel it would be unfair to the COO to share this information. Transparency has come into tension with individual privacy, and privacy has won.

I came across a similar tension during my research at Netflix. Reed Hastings told me, “For our employees, transparency has become the biggest symbol of how much we trust them to act responsibly.” Netflix took transparency so far that it shared quarterly financials with managers before the numbers were reported to Wall Street—something that almost no other publicly traded company was doing and that many onlookers saw as reckless.

Yet, even for this startlingly transparent company there was a limit. For Hastings the ultimate step was to allow employees to see everyone’s compensation packages. He believed that salary transparency would encourage managers to think deeply about what they paid each employee while stamping out pay discrimination. By 2012 all vice presidents and above could see one another’s pay, and in 2017 this was extended to directors and above (about 12% of the company). Hastings wanted the rule to apply to all employees.

But managers pushed back. As one director put it: “I look at people, and I see their salary flashing over their head.




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Olivia Kruger, \$350,000; Howard Conner, \$195,000.” (These are not real names.) Another explained, “This is my private information. It’s not OK for my manager to show my medical records to the team, nor is it OK to tell my colleagues how much money I’m making.” A vote in the spring of 2018 showed that more than 80% of Netflix managers opposed sharing compensation information with all employees. Again, transparency came into tension with individual privacy, and privacy won.

While your culture should drive decision-making throughout the organization, consider it a North Star, not a straitjacket. As you identify which dilemmas will drive decision-making throughout the company, also consider the situations in which your culture as articulated would not apply. Clarify those limits explicitly. For the alcoholic ex-COO, you could tell your staff, “I feel Gerald’s individual privacy trumps transparency. Gerald has left. We all love him. I don’t feel comfortable saying more.”

IN THE SIMPLEST terms, culture is the personality of a group. In the same way that you can describe an individual’s personality (“Sandra is energetic, optimistic, and prone to errors and has a thousand fresh ideas”) you can also describe a group’s culture (“In this company, people are formal, quiet, and incredibly efficient and speak very directly to one another”). Although each individual in every group is different, the group culture influences the behavior of the individuals.

After you’ve taken pains to articulate your culture using colorful and actionable dilemmas, make sure that your top people are leading by example. If you tell your workforce, “No brilliant jerks,” but have three Bernards on your executive team, your employees will see that the culture statements mean little, and no one will follow them. If you want your culture to take root, leadership must be the first to model it. In this case, there is no dilemma. ☺ **HBR Reprint R2404C**

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