

BUILDING THE RIGHT CULTURE FOR GROWTH

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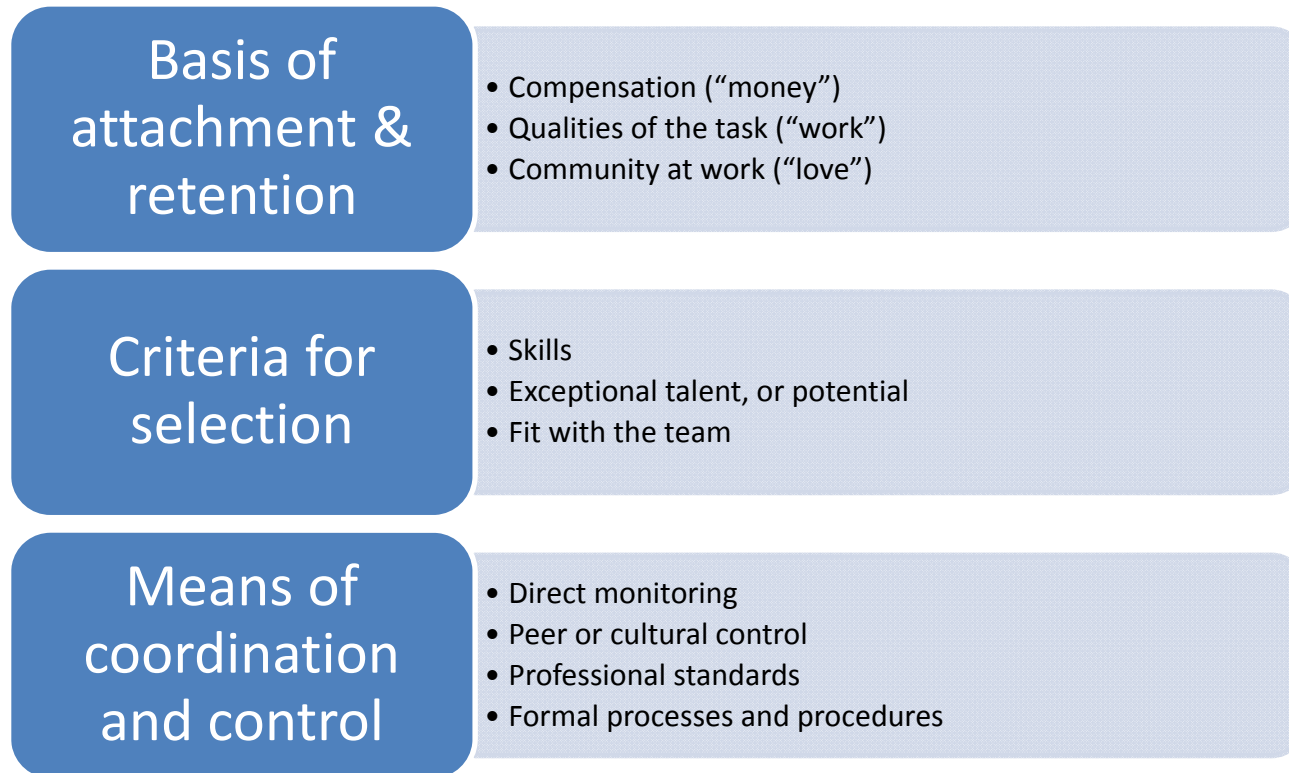


The Study

- Stanford Project on Emerging Companies
 - Some leading organizational scholars: Baron, Burton, Hannan
- Data on 175 Silicon Valley start-ups
 - Industries in descending level of representation: computer, telecom, medical, semiconductor, manufacturing & research
- Investigate human resource models
- Investigate outcomes

- Reference: J.N. Baron and M.T. Hannan, "Organizational Blueprints for Success in High-Tech Start-ups: Lessons from the Stanford Project on Emerging Companies," California Management Review, Spring 2002.

Culture in action: Employment Models



Star Model

- Attachment to **work**
- Selection is **stars**
- Control is **professional**
 - “We recruit only top talent, pay them top wages, and give them the resources and autonomy they need to do their job.”
 - “Scientists like autonomy and independence. I value it myself and it’s important to make sure that they have that. They feel the environment is exciting and that the leadership is there to provide the kind of place where their career is constantly renewing and growing. This essentially is most of my work--to see that they reach their maximum potential to grow.”

Commitment Model

- Attachment to **people and culture**
- Selection is **for cultural fit**
- Control is **cultural/peer**
 - “I wanted to build the kind of company where people would only leave when they retire.”
 - “I think people should be treated as human beings, as real people. And really care for them. We are still pretty much like family. We try to keep as much of that as possible even as the company is bigger. That’s one thing I learned from HP [Hewlett-Packard]. Bill Hewlett still flipped hamburgers for us at the company picnic.”

Engineering Model

- Attachment to **challenging work**
- Selection is **competence for the current tasks**
- Control is **peer**
 - “We were very committed. It was a skunk-works mentality and the binding energy was very high.”
 - “We wanted to assemble teams of people who are turned on by difficult problems. The emphasis was to build an environment of individuals who are performance driven, achievement oriented, customer focused, feel relatively at ease to join and disband from specific teams, skilled at interdisciplinary problem solving irrespective of culture or discipline.”

Bureaucracy Model

- Attachment to **work**
- Selection is **competence for the current tasks**
- Control is **formal procedures**
 - “We’re not hierarchical as much as we are procedures, methodologies, and systems. I really try to see that everybody in the company maintains procedures rather than just handwave and do things any way. We don’t want to be so hierarchical as to be startling, nor do we want to be so flat as to have everybody poking into everybody else’s business.”
 - “We make sure things are documented, have job descriptions for people, project descriptions, and pretty rigorous project management techniques.”

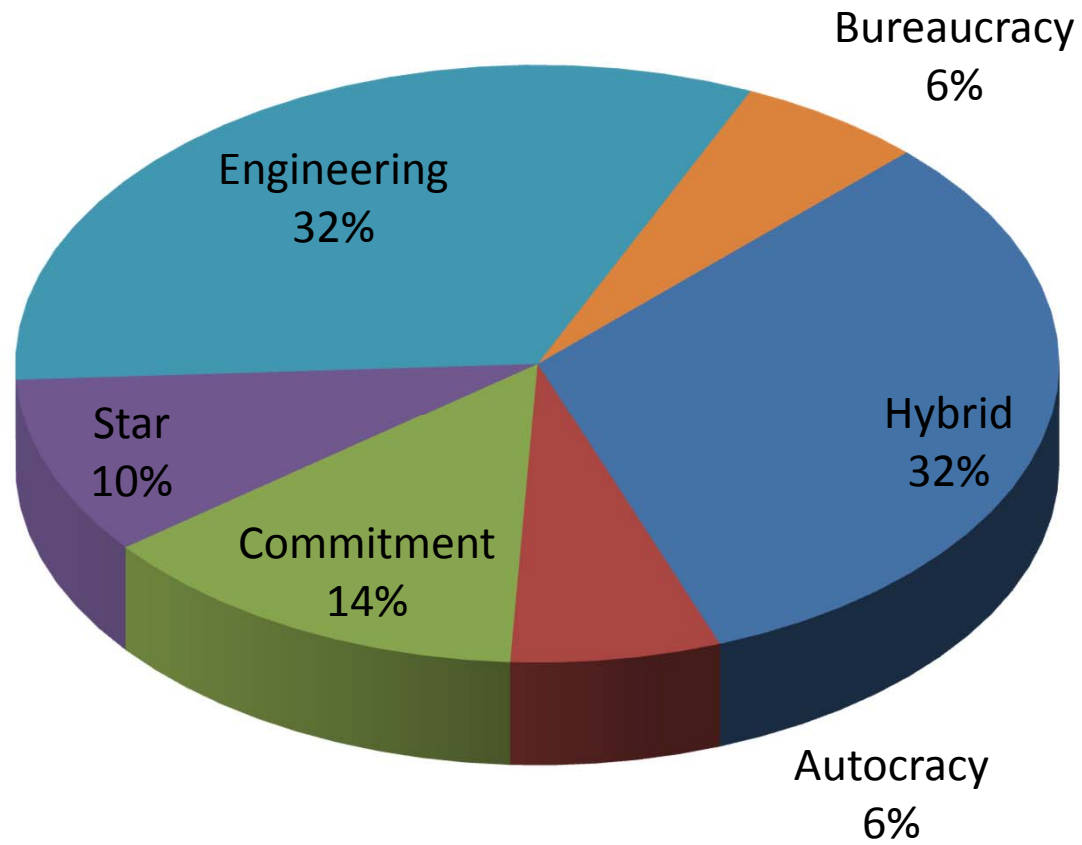
Autocracy Model

- Attachment to **compensation**
- Selection is **competence for the current tasks**
- Control is **direct monitoring**
 - “One thing we wanted to avoid was consensus management. I think it lends itself to major slow-downs in development schedules. We have good communication around a core group, but we certainly know who makes the call on things... We don’t have the resources available to spend a lot of time getting everyone warm and fuzzy rather than to a decision.”
 - “You work, you get paid.”

The models

Dimensions			Employment Model
Attachment	Selection	Control	
<i>Work</i>	<i>Potential</i>	<i>Professional</i>	Star
<i>Work</i>	<i>Skill</i>	<i>Cultural</i>	Engineering
<i>Love</i>	<i>Fit</i>	<i>Cultural</i>	Commitment
<i>Work</i>	<i>Skill</i>	<i>Formal</i>	Bureaucracy
<i>Money</i>	<i>Skill</i>	<i>Direct</i>	Autocracy

Founders' HR models



Strategy and Models

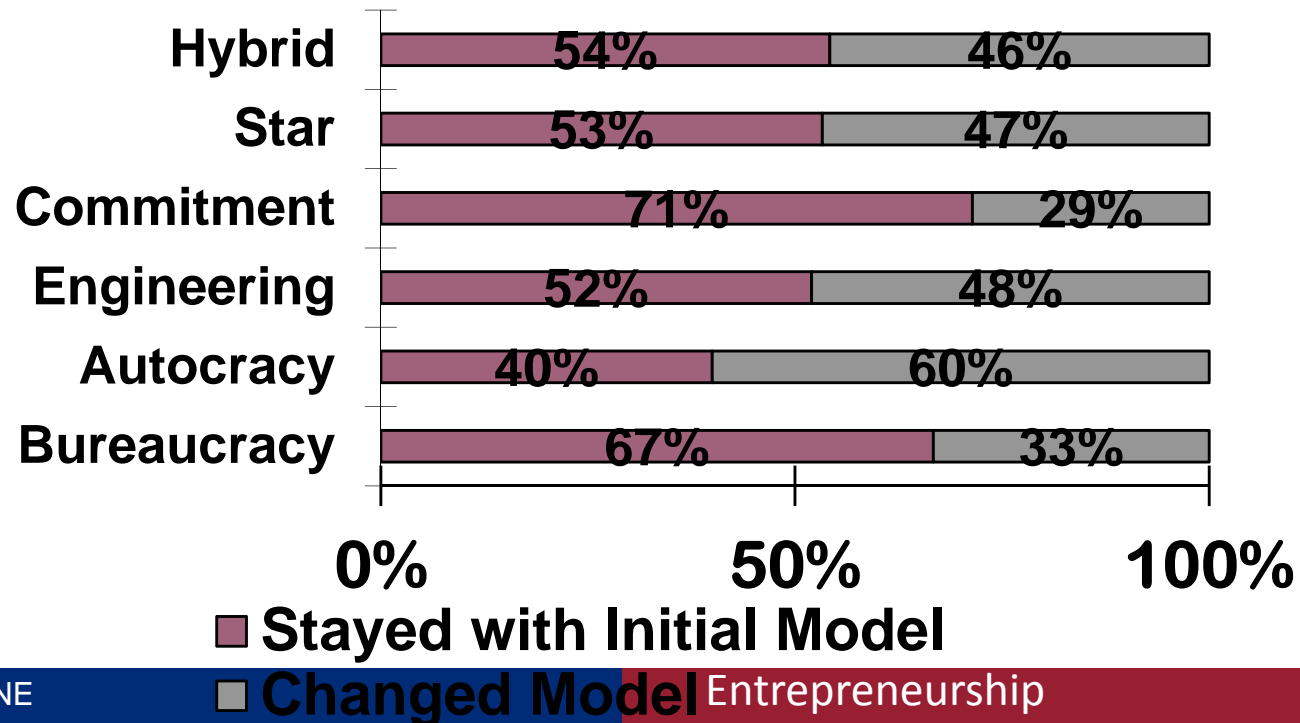
	Innovation	Enhancement	Sales, Marketing or Service	Cost
STAR	✓	✓		
COMMITMENT			✓	
ENGINEERING	✓	✓	✓	✓
AUTOCRACY				✓
BUREAUCRACY		✓	✓	

Effects of the models

- Time to IPO
 - Commitment is the fastest, and most likely to IPO (followed by star)
 - Hybrid models are the slowest and least likely
- Failure
 - All else being equal, commitment firms are much less likely to fail
- Following IPO
 - Star firms have the largest post-IPO increases in market cap, followed by commitment
 - Autocracy firms perform the worst, followed by engineering

Effects of the models

- Changing models increases failure and turnover
- Shifting to bureaucracy or hybrid is bad, engineering OK



Thoughts on models and culture

- Implementing Star and Commitment models are hard.
- Commitment issues
 - Commitment means spending time and money on culture early on, when you don't have time or money to spend
 - Requires serious leadership
- Star issues
 - Recruiting the best takes lots of money, and rigorous hiring
 - Keeping the best occupied takes careful planning

Thoughts on models and culture

- Models are based on culture, and tie together who you hire, how you reward them, and how you control the organization
- Consistent employment models are important – a bad model, consistently applied, is better than switching a lot
- Entrepreneurs need to think about
 - The implications of the model
 - That models get “locked in”
 - Not deluding themselves
 - Strategic advantage from models