ORGANIZATIONAL CULTURE AMONG EARLY-STAGE SILICON VALLEY TECHNOLOGY COMPANIES

By Alan S. Gutterman[1]

An interesting study of organizational culture among early-stage technology companies in the Silicon Valley was undertaken by the Stanford Project on Emerging Companies ("SPEC").[2] Based on extensive interviews of the founders and, where applicable, non-founder CEOs of the companies in their study group the researchers identified what they considered to be three crucial dimensions that could be used to categorize how companies created a blueprint for creating and maintaining a relationship with their employees that fostered reliability and accountability: the basis of attachment to and retention by the company; the organizational structure, as determined by the means selected to attempt to coordinate and control employee activities; and the criterion used for selecting persons to join the workforce. Information from the founders and non-founder CEOs was considered crucial because the choices made by companies with respect to definition and adoption of their relational blueprint is heavily influenced by the beliefs of these key leaders regarding how work flow within the company and the employment relationship should be structured..[3]

The first dimension, "attachment," refers to the basis for the bond, or relationship, formed between a company and its employees. The SPEC researchers described three different bases for attachment—love, work and money. Founders and CEOs wishing to rely on "love" did so by attempting to create and maintain a feeling of community and "family" within the workplace and thus forge strong emotional bonds within the workforce that would motivate employees and make them want to remain with the company. On the other hand, when attachment was based on "work" the focus was on appealing to the desire of knowledge workers to be part of an organization that provided opportunities for interesting and challenging work on cutting-edge technologies and for personal and professional development. In this type of environment, the primary loyalty of employees was to a specific project as opposed to the company, a supervisor or other co-workers. Finally, companies where the attachment was based on "money" tended to be those where both sides looked at the employment relationship simply as an exchange of labor

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[2] The discussion below is based on "Entrepreneurship: Lessons from the Stanford Project on Emerging Companies". Stanford Graduate School of Business (September 3, 2003) [hereinafter SPEC (2003)]. Further information on the SPEC is available on the SPEC website (http://www-gsb.standord.edu/SPEC).

[3] Id. at 3-4.

for money without the additional emotional connection and/or intellectual challenge associated with the other forms of attachment.[4]

The second dimension—organizational structure—is largely determined by the initial choices made by the founders and CEOs regarding the principal means used to coordinate and control the flow of work within the company. SPEC researchers found that the most commonly used method relied heavily on informal controls through peer pressure and, eventually, organizational culture; however, at least three other approaches were also identified. First, some companies relied on "professional control," which was grounded in the assumption that employees were professionally socialized to diligently perform outstanding work based on their formal education and training. Employees in these companies, which tended to have a recruiting preference for high-potential individuals from elite institutions, were given significant autonomy and independence. Second, some companies chose to implement formal procedures and systems to control employees. Finally, some founders preferred to directly oversee the activities of their employees to control and coordinate the work flow within the company.[5]

The third and final dimension is the method used by founders and CEOs to select employees and the underlying assumption is that these company leaders will have a relatively high involvement in recruitment and selection of managers and employees at least while the size of the company remains small and they are likely to have regular direct contact with most of the employees. Once again, several distinct alternatives were identified in the course of the research. Not surprisingly, one of the popular approaches was to staff the company based on the skills and experience required in order to complete one or more of the tasks or activities that might be of immediate importance to the success of the company. This alternative is noteworthy because of its emphasis on the immediate, or short-term, needs of the company. Because start-ups often have less time and money than they really want or need it is essential that limited resources be invested in employees who can contribute right away and get up to speed quickly and easily without slowing down the process of developing new products or technologies. Companies that looked to grow and develop through completion of a series of projects tended to be more interested in long-term potential of new employees and their apparent aptitude for easily transitioning to new and increasingly challenging projects over time. Finally, some companies, which obviously interested in the skills and experience of prospective employees, tended to place the greatest weight on how well the candidate would fit into the culture of the company and relate to co-workers.[6]

After the SPEC had researchers identified the three types of attachment and selection and the four types of control present within the companies in the study group they moved on to study the relationships among the three dimensions in order to construct various alternative models for employment relations, a strong proxy for organizational culture, which could then be evaluated and tested on other measures. Based on how the choices

[4] Id. at 4.
[5] Id. at 4-5.
[6] Id. at 5.

made by the various companies were clustered the researchers came up with five basic models of employment relations referred to as engineering, star, commitment, bureaucracy and autocracy, each of which are explained in more detail in the paragraphs that follow.[7]

The dominant types on the three key dimensions for the "engineering" model were challenging work, peer group control, and selection based on the ability to perform specific tasks. The engineering model conforms closely to the standard descriptions of the basic Silicon Valley model and was, in fact, the most common model among the SPEC study group. Companies formed on the "engineering" evidenced a strong commitment to the project-at-hand, if not the company itself as was the case with the "commitment" model. Employees were attracted to these types of companies by the need to work on closely-knit teams dedicated to resolution of difficult and challenging problems. Employees were performance driven and achievement oriented and able and willing to work on interdisciplinary teams that were formed for a particular project and then disbanded when work on the project was completed. These companies tended to have a high level of customer focus when selecting their projects. Accordingly, as customer preferences changed the selection criterion for employees had to be modified also in order to ensure that the available personnel were qualified for the current tasks.[8]

The dominant types on the three key dimensions for the "star" model were challenging work, professional control, and selection based on long-term potential. The star model aligns closely with the way in which research work is conducted in academia and it is not surprising that this model was by far the most popular with those companies that were engaged in medical technology and research, including biotechnology. Only a very small percentage of the companies that were active in other industrial sectors chose the star model. Recruiting policies and strategies at companies following the "star" model focused on identifying candidates with the highest level of talent and accomplishment, paying them top wages and providing them with the autonomy and resources that they needed in order to accomplish their immediate goals and continue to develop as experts in their fields. For founders and top managers the challenge was to establish and maintain an exciting environment.[9]

The dominant types on the three key dimensions for the "commitment" model were emotional and familial links between the company and its employees (i.e., "love"), peer group control, and selection based on cultural fit. Anecdotally, the most well-known and celebrated example of the commitment model within Silicon Valley has been Hewlett Packard. It was common for the founders of companies based on the "commitment" model to speak of their personal involvement in the simplest aspects of the company and its relations with employees including personal visits with employees on a regular basis and down-to-earth involvement in company events. For these founders the goal was to

[7] Id. at 5-6.
[8] Id. at 6.
[9] Id. at 6-7.

encourage lifetime employment and commitment to the company, its missions and the people who worked there.[10]

The dominant types on the three key dimensions for the "bureaucracy" model were challenging work, formalized control, and selection based on the ability to perform specific tasks. Not surprisingly, these "bureaucratic" companies based their operations on specific procedures, methodologies and systems and the founders and human resources managers invested a significant amount of time and effort in creating documentation including job and product descriptions. Formal and rigorous project management systems and tools were also a hallmark of companies using the "bureaucracy" model.[11]

The dominant types on the three key dimensions for the "autocracy" model were exchange of labor for money, control through personal oversight, and selection based on the ability to perform specific tasks. Not surprisingly, founders depending on the "autocracy" model tended to have little skill with, or patience for, slow and deliberative consensus management techniques. While founders believed that employees communicated well, there was little time for the warm and fuzzy interactions associated with the commitment model and there was little doubt in the minds of employees as to who would be making the final decisions on key issues.[12]

Several observations can be made regarding the five basic models. First, the "commitment" model is unique because it is the only that relies heavily on "love" and forging a sense of community among the employees as the basis for creating and maintaining a relationship between the employees and the company. Second, the "autocracy" model is unique for other reasons given that it is alone in its preferences with regard to attachment ("money") and coordination and control (i.e., direct monitoring). Third, quality of work and skills were the most popular choices for attachment and selection, respectively. Finally, the "engineering" and "bureaucracy" models were the closest of the five basic models differing only with respect to their approach to coordination and control (i.e., peer and/or cultural control for engineering-type companies and formal processes and procedures for bureaucracy-type companies).[13]

Obviously not all of the companies in the SPEC study conformed exactly to one of the basic models. The SPEC researchers identified a number of "near-model" types, which were cases where companies differed from one (and only one) of the basic models on only one dimension. For example, a founder might attempt to base attachment on love, exercise control through personal oversight, and select employees based on cultural fit. This combination was very close to the "commitment" model, with the only difference being the basis upon which control was exercised over employees. Also, while the researchers were confident about the value of identifying the various basic models they

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[10] Id.
[11] Id. at 6.
[12] Id. at 11.
[13] Id. at 42.

also acknowledged that some companies followed what was referred to as a "non-type" blueprint because they differed from two or more basic model types on one dimension or differed along two or more dimensions from every basic model type.[14]

One of the most striking features of the results of the SPEC study is the remarkable diversity among the companies in spite of their common roots within the mythical Silicon Valley culture and the related business and social network. A number of theories on organizational development argue against the high level of diversity found among the companies in the SPEC study group. For example, neo-institutionalists that have studied the development and growth of Silicon Valley have predicted that companies will adopt specific corporate structures and practices because of the profound influence of venture capitalists, human resource professionals, and the law and accounting firms that advise those companies.[15] While the SPEC researchers concede that companies receiving venture capital are more likely to bureaucratize more often and at an earlier stage[16], in general the companies that have been supported by venture capitalists in the study group evidenced substantial diversity in the organizational blueprints. This does not necessarily mean that venture capitalists did not have any influence upon the strategies and structures selected by their portfolio companies. In fact, many venture capitalists, in an attempt to differentiate themselves in what is often a very competitive marketplace where investors fight to get into promising new deals, are well known for their preferences for certain corporate cultures. One can identify venture capitalists that prefer to be associated with companies that are being built to survive based on long-term emotional ties, similar to the "commitment" model, while others are more interested in "Star" cultures or companies that value technological excellence and structure their organizations and selection processes accordingly.[17]

While the professional background of the founders of the companies in the SPEC study group did not appear to have a consistent correlation with the employment models that they chose there did appear to be a link between the organizational blueprint selected and the founder's initial business strategy. The companies in the SPEC study group generally chose one of five specific business strategies—radical innovation (49%); technology enhancement (20%); sales, marketing or service (14%); cost minimization (7%); or a hybrid (10%). Companies that selected radical innovation tended to select either the 'star' or "engineering" models. Companies that selected technology enhancement tended to select the "star", "engineering", or "bureaucracy" models. Companies that selected sales, marketing or service preferred the "commitment," "engineering," or "bureaucracy"

[14] Id. at 6-7.

[15] M. Suchman, "Dealmakers and Counselors: Law Firms as Intermediaries in the Development of Silicon Valley" in M. Kenney (Ed.) Understanding Silicon Valley: The Anatomy of an Entrepreneurial Region (Stanford, CA: Stanford University Press), 70-97, as cited in SPEC 2003, supra note 2, at 9.

[16] J. Baron, M. Burton and M. Hannan. "Engineering Bureaucracy: The Genesis of Formal Policies, Positions, and Structures in High-Technology Firms," Journal of Law, Economics, and Organization, 15:1, 41, as cited in SPEC 2003, supra note 2, at 9.

[17] SPEC 2003, supra note 2, at 9-10.

models. Finally, companies that selected cost preferred either the "engineering" or "autocracy" models. While one could find engineering companies that tried to compete through each of the four main business strategies, companies following the commitment model limited their business strategy to sales, marketing or service. Similarly, "autocratic" companies limited their business strategy to cost minimization.[18] This data is consistent with the view of many commentators that strategy is an important factor in organizational design generally and specifically in selecting the appropriate form of organizational culture.

The SPEC researchers claimed that the results of their study provided evidence that the choices made by the founders with respect to the initial employment blueprint did have a strong impact on the evolution of the company and that attempts to significantly alter the blueprint as the company mature would likely have a substantial destabilizing effect. A little over half of the companies in the SPEC study group made no changes in their organizational blueprint as they evolved while another 30% changed on just one dimension, usually to control coordination. About 15% of the companies attempted to change from one of the pure model types to another, although almost three-quarters of these changes were between the closely related "engineering" and "bureaucracy" models.[19] The researchers tested differences between the preferences of the founders and the non-founder CEO's who were more likely to come on board a significant amount of time after the founders have launched the company and the original employment blueprint was selected and applied. The key findings appear to be that the star and engineering models were more popular with founders than with the CEO group and that the CEO group was more likely than the founder group to prefer the bureaucracy model.[20] However, in general, the founder's views regarding the appropriate level of self-management were generally so well engrained during the start-up phase that later attempts by a new CEO to introduce more formal bureaucratic procedures were typically not very successful and were often dangerously destabilizing to the business.[21]

Companies that adopted the commitment model took on lower levels of administrative overhead as they developed and matured[22]; were more likely to go public, relative to comparable companies that selected different models; and were also the least likely to "fail," which included declaring bankruptcy, being acquiring on unfavorable terms or simply shutting the doors and disappearing without a formal closure.[23] Companies that

[18] Id. at 11-12.
[19] Id. at 12-13.
[20] Id. at 44.
[21] Id. at 13.
[22] J. Baron, M. Burton and M. Hannan. "Engineering Bureaucracy: The Genesis of Formal Policies, Positions, and Structures in High-Technology Firms," Journal of Law, Economics, and Organization, 15:1, 41, as cited in SPEC 2003, supra note 2, at 13.
[23] M. Hannan, J. Baron, G. Hsu and O. Kocak., "Staying the Course: Early Organization Building and the Success of High-Technology Firms." Unpublished Manuscript, Graduate School of Business, Stanford University, as cited in SPEC 2003, supra note 2, at 14-15.

selected the star model were least likely to go public; however, star model companies that did go public enjoyed the highest levels of stock market performance once the IPO was completed. Star model companies fared second best, behind the commitment model companies, in their ability to avoid failure.[24] Companies that selected the autocratic model were most likely to fail and if they were able to survive and complete an IPO they turned in the worst post-IPO stock market performance. The second worst performance came from those companies that had no clear model. It should be noted, however, that apart from the striking strengths of the commitment model with respect to completing an IPO and avoiding failure, the differences among the other models were not that significant.[25] In general, the two most unattractive models for Silicon Valley-based companies were the "bureaucratic" and "autocratic" blueprints.

[24] Id.
[25] Id. at 15.