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# **CULTURE CREATION IN THE EARLY START-UP PHASE FROM THE FOUNDER'S PERSPECTIVE**

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**A case analysis of a Swedish start-up with a strong  
successful culture**

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## Abstract

The purpose of this study was to investigate the culture creation process in a start-up. Existing theories abound on culture creation in organizations but most are based on larger and more matured organizations. These firms thrive in very different environments from a start-up. Our aim is to explore the relevance of established theories of culture creation with respect to start-ups. The focus on culture creation was confined to the mechanisms, drivers and structural considerations of the process. More specifically, we examined the role of resource allocation, selection and recruitment, the founder and structure in the culture creation process. The study looked at the case of a pioneering Swedish high-tech firm four years into operation, Glocalnet, which started out in the VoIP industry in 1998. The results showed that a broader definition of existing theory needed to be undertaken during application and the differences between theory and reality are affected not only by the size and age of the firm but also by the founder, industry type and industry stage of maturity. We conclude that it is important for founders to involve employees in the resource allocation process and rely on employees as a secondary culture champion in the firm. Lastly, in place of bureaucracy, the founder should strive to be the structure in the culture creation process.

**Key words:** start-ups; founder; organizational culture; corporate culture; culture creation; culture management; resource allocation; recruitment and selection; culture driver; structure

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## Definitions and Key Terms

<b>Belief company</b>	Term used in Stefan Krook's thesis, which is similar to 'visionary companies', described by Jim Collins and Jerry I. Porras in their book 'Built to Last: Successful Habits of Visionary Companies'.
<b>Culture creation</b>	As per our definition, a part of the management of culture, which includes creating and embedding corporate culture in the firm.
<b>Management of organizational culture</b>	Involves creating a new culture, embedding, changing, maintaining and abandoning it (Metallinos & Harris, 2002).
<b>Start-up firm</b>	As per our definition, a young and small firm still in the developmental phase with around 4 years of operating history with an average size of 40 employees. It also usually has higher than average growth in revenues and limited access to capital.
<b>Voice over IP (VoIP, IP telephony)</b>	Delivery of voice communications over Internet Protocol (IP) networks, such as the Internet.

## Table of Contents

Abstract.....	2
Acknowledgements.....	3
Definitions and Key Terms .....	4
Table of Contents.....	5
1. Introduction .....	9
1.1. Background .....	9
1.2. Problem Discussion .....	11
1.3. Purpose and Research Question.....	12
1.4. Thesis Outline.....	13
2. Literature Review .....	15
2.1. The Definition of Organizational Culture .....	15
2.2. The Current Academic Approach on Culture Management .....	15
2.3. The Formation of Culture.....	16
2.4. Creating the Organizational Culture .....	17
2.4.1. Evaluation of Culture Creation Techniques .....	19
2.5. Conditions and Challenges in Culture Creation .....	21
2.5.1. Conditions .....	21
2.5.2. Challenges .....	22
3. Theoretical Framework.....	24
3.1. Culture Embedding Mechanisms .....	25
3.1.1. Resource Allocation Decisions .....	26
3.1.1.1. Resource Allocation in Start-ups and Established Organizations .....	26
3.1.2. Recruitment, Selection, Promotion and Excommunication.....	28
3.1.2.1. Internal and External Constraints for Entrepreneurs .....	29
3.2. The Driving Force behind Culture Creation .....	30
3.3. Structure in Culture Creation .....	34
3.4. Summary of Theoretical Framework .....	35
4. Methodology.....	37
4.1. Research Method.....	37
4.2. Single Case Study Approach.....	37
4.3. Selection of the Case.....	38
4.4. Data Sources .....	40
4.4.1. Documentary Analysis.....	40

4.4.2.	Interviews.....	41
4.5.	Research Quality .....	42
4.6.	Stage of Analysis .....	44
5.	Case Presentation .....	46
5.1.	Glocalnet .....	46
5.1.1.	From Idea to a Company.....	46
5.1.2.	Market Position.....	47
5.1.3.	Financial Results.....	47
5.1.4.	Organizational Culture .....	48
5.2.	GodEl.....	48
6.	Empirical Results and Analysis .....	50
6.1.	Culture Embedding Mechanisms .....	50
6.1.1.	Resource Allocation Decisions .....	50
6.1.1.1.	Empirical Results .....	50
6.1.1.2.	Analysis and Discussion.....	52
6.1.2.	Recruitment, Selection, Promotion and Excommunication.....	57
6.1.2.1.	Empirical Results .....	57
6.1.2.2.	Analysis and Discussion.....	61
6.2.	The Driving Force behind Culture Creation .....	64
6.2.1.	Empirical Results .....	64
6.2.2.	Analysis and Discussion.....	67
6.3.	Structure in Culture Creation .....	70
6.3.1.	Empirical Results .....	70
6.3.2.	Analysis and Discussion.....	71
7.	Conclusion.....	75
7.1.	Conclusions on Glocalnet.....	75
7.2.	Managerial Implications.....	76
7.2.1.	Involving employees in the firm's resource allocation process .....	76
7.2.2.	Increasing the odds of Recruitment and Selection as an effective mechanism .....	77
7.2.3.	Selecting other champions of culture in the Culture Creation process.....	78
7.2.4.	Leader being the frame in Culture Creation .....	78
7.3.	Limitations of application .....	79
7.4.	Short examples from established practices .....	80
7.5.	Further Research.....	81

Bibliography .....	82
Appendices.....	86
Appendix 1 – Usage of ‘Start-ups’ on Google Books.....	86
Appendix 2 – Usage of ‘Culture’ on Google Books .....	87
Appendix 3 – Interview Questionnaire .....	88

## List of figures and tables

Figure 1: Determinants for success of start-ups (OECD) .....	10
Figure 2. Model summarizing culture creation techniques .....	20
Figure 3. Theoretical framework.....	24
Figure 4. The adapted drivers of change model (based on Anderson and Anderson) .....	32
Figure 5. Theoretical model with incorporated presumptions.....	36
Figure 6. Normative systems model for organizational change (Silverzweig and Allen).....	44
Figure 7. Financial results of Glocalnet in its early years (company's Financial Statements).....	47
Figure 8. Results for 'startup' and 'startups' in Ngram Viewer, Google books, 1950-2008 .....	86
Figure 9. Results for 'organizational culture' and 'corporate culture' in Ngram Viewer, Google books, 1960-2000 .....	87
Table 1. Founder's perspective of Glocalnet's culture .....	48
Table 2. Comparison between Glocalnet and GodEl .....	61



## 1. Introduction

*This section aims to present an overview on the motivation behind our area of focus; on start-ups and corporate culture creation. This is done through a background presentation of start-ups in the economy, followed by the problem they face with regard to cultures and lastly, a focused definition of our area of research.*

### 1.1. Background

The increasing significance of entrepreneurship in the society and the acknowledged importance of culture in management studies combined set the background for our thesis study into examining the culture creation process in young start-ups.

Global economies are becoming more dynamic and integrated not within years or months, but within weeks and days. Vibrant business environments give birth to many new ventures that spread like mushrooms after the rain all trying to grasp the arising opportunities which appear fast but may die out even faster. According to the newest available data, the term 'start-up' experienced its bonanza around the 2000, just before the burst of the dot-com bubble, when many speculative IT stocks collapsed (see Appendix 1).

According to one study, in the United States, 6.2 per 100 adults over 18 years old are engaged in trying to start new firms (Reynolds, 2002). The upsurge in entrepreneurship around the world has been well documented by the Global Entrepreneurship Monitor (GEM) 2011 Global Report (Kelley, Singer, & Herrington, 2012) which found a staggering 400 million entrepreneurs in 54 countries with over 140 million entrepreneurs expecting to add at least five new jobs over the next five years. Total early-stage activity (TEA) increased from 2010-2011 in many economies across all levels of economic development. Developing economies witnessed a rise of 25 percent while mature economies experienced a nearly a 22 percent increase on average during the review period. These statistics prove a welcome relief affirming that entrepreneurial activity is flourishing across the globe and that entrepreneurship is one of the best hopes for reviving the world economy devastated by the financial and fiscal crises (Kelley, Singer, & Herrington, 2012).

These start-ups are usually established by entrepreneurial individuals; defined as 'persons (business owners) who seek to generate value through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets' (OECD Statistics Directorate, 2009).

On the value dimension, start-ups are believed to contribute to the economic growth and job creation, occupy business niches that are underestimated by large players, and proactively

experiment with the new technologies and innovations. Some scholars have found positive influence of start-ups on the regional economic development and growth (Audretsch & Fritsch, 2002) and most of them, according to Acs (Acs, 1999), agree that new firms contribute most to the employment growth and the old firms are losing their previous standing gradually.

It is distinctly clear that entrepreneurship is crucial for economic progress, productivity, innovation and employment. The emerging rising trend of entrepreneurship predicates the growth and importance of start-ups in the economy.

Despite the value created by start-ups, it is worth minding that the *survival rate* of young firms is rather low (Aldrich & Martinez, 2001). Numerous studies show that firms with limited operating history have a significantly *higher possibility of exit* (Haltiwanger, 2002). There are plenty of estimates on the average failure rates among the young firms, frequently reported as extremely high numbers. Haswell and Holmes (Haswell & Holmes, 1989) provide examples of a typical such study result: 50-70 percent of the small businesses fail within the first two years of operation, 80-90 percent disappear within the first five years.

The study on entrepreneurship by the OECD Statistics Directorate yielded up a model for understanding the paradigms of entrepreneurship and identifies the factors that affect the success of start-up firms (OECD Statistics Directorate, 2009). Among several of the more tangible factors identified, such as regulatory framework or access to finance, corporate culture appears as an important determinant of start-up survival.

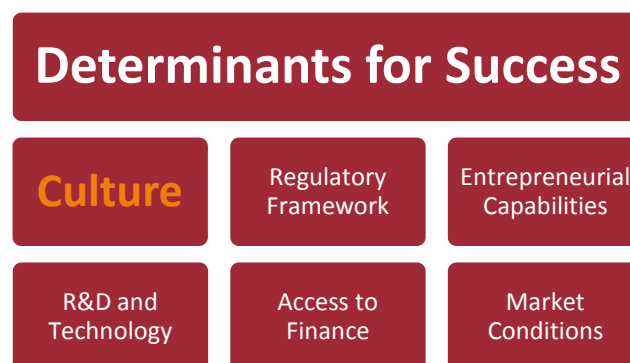


Figure 1: Determinants for success of start-ups (OECD)

Culture has long been thought to play an important role in a firm's economic performance. This explains the myriad of studies that have emerged over the years attempting to analyse the relationships between culture and firm performance (OECD Statistics Directorate, 2009). Most studies conclude that firms with sustained superior performance typically are characterized by a

strong set of core managerial values that define the way they conduct business and organizational culture has been examined to have an important influence on an organization's effectiveness (Deal & Kennedy, 1982) (Peters & Waterman, 1982) (Schein E. H., 1990) (Ouchi W. G., 1980). These values tend to influence their beliefs and assumptions that ultimately become a base for the corporate culture.

## **1.2. Problem Discussion**

Directing the discussion back to start-ups, some young companies seem to prosper largely due to their intentionally chosen or accidentally settled upon corporate culture. It is challenging to accurately measure the impact of corporate culture on firm's performance and some leaders choose to neglect it in favour of seemingly more important issues, such as finances, sales or marketing activities.

Naturally, some managers are not convinced about the benefits of investing substantial amounts of time and energy to shaping the corporate culture. The volatile environment leaves them with hardly enough time to consider structure and the intentional management of culture in their small firm. Hence, it is not uncommon that they support the idea of *laissez faire* and allow the culture to develop organically. In such cases, each new employee has greater liberty in shaping the existing culture in the firm to a smaller or larger extent based on his or her own value mix. The firm is more sustainable to contrary subcultures as each brings his own culture into the firm. Trice writes that successful 'translation' across sub-cultural boundaries can facilitate better communication among organizational members, while disparities in ideologies and practices among different organizational subcultures may cause friction as members of these subcultures interact to accomplish organizational missions (Trice & Beyer, 1993). Hence, such passive position includes high risks as allowing the culture to develop uncontrollably makes conflicts and crises in the firm more probable as shown by Trice.

The problem of managing culture emerges when culture becomes a deep seated assumption in the organization which is not easily observable to outsiders (Schein E. H., 1990). In accounting for the dangers in attempting to shape values and beliefs to fit the organizational strategy and culture, Morgan (Morgan, 1997) proposed that this could be met with resistance, resentment and mistrust and that employees may react to being 'manipulated in this way'. Hence, the best solution to this problem would be to create the corporate culture right at the onset, when the entrepreneur establishes his start-up since the interaction and dynamics of firm processes begin right at that stage instead of having it develop sporadically.

### 1.3. Purpose and Research Question

The rise of start-ups and the added value they bring to society is something to be encouraged. Yet, the discussion above throws spotlight on their low survival rates. Knowing the positive influence of strong cultures on firm performance and the added difficulties of managing culture once it becomes deep seated assumptions, the importance of creating a strong positive culture supporting strong business results early in the firm becomes a key priority.

Our interest lies in exploring the process of culture management, which is still largely applied only in the most progressive companies, namely large corporations. However, we believe that organizational culture is equally important to young start-ups which are highly vulnerable with most of them failing to survive their first years of operation. With a strong culture aligned with firm's goals and vision, entrepreneurs could aim to increase the chances of survival of their ventures as culture could be used as a form of normative control offering increased freedom, creativity and autonomy instead of conformity, tyranny and groupthink (Kunda, 2006).

While many research papers have been written on managing culture within an organization (see Appendix 2 for general popularity of 'corporate culture on Google Books), few have been focused on young start-ups. As there exist many differences between start-ups and established organizations, theories developed on culture management based on these larger organizations might not be applicable to start-ups. Our research seeks to **explore the relevance of interpreting existing theory on start-ups and highlight that existing culture management theories might need to be adapted for start-ups**. It also involves examining existing popular assumptions about embedding culture.

Our goal therefore will be to use the experience of a successful start-up with a strong culture and a founder who actively engages in intentionally shaping the organizational culture in his firm. While the goal is to look in-depth into culture creation in a single company, at times, we compare results with another company started by the same founder to provide a different perspective. We believe the findings will provide many useful insights to current and future entrepreneurs on understanding how current theory on culture management will relate to the circumstances of a start-up.

We will examine existing theories, in particular Schein's theory on the *Primary Mechanisms for embedding culture* (Schein E. H., 2004), on the tools on shaping culture as well as the environmental conditions such as structure and the role of a leader that affects the implementation of culture creation in an organization. A supporting theory is Anderson and Anderson's Drivers of Change Model (Anderson & Anderson, 2001), which analyzes the process of culture creation. Since these important theories on culture management have been based on research conducted on large

organizations, our aim is to explore their relevance for start-ups which vary from large organizations in many ways. Due to the especially strong role of the founder in all aspects of young firm's life, we have decided to focus on the founder's perspective in creating the firm's culture.

Our research focus has resulted in the following question posed that we aim to answer throughout the paper:

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***How might the theories for culture creation differ and be adapted for start-up firms taking into account the specific business conditions they operate in?***

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We have chosen to conduct a case study analysis because research on organizational culture is a complex topic and the added variability and non-conformity of start-ups motivate an in-depth qualitative investigation rather than a quantitative one. Culture, intangible and obscure, constituting of three different layers (Schein E. H., 1990) requires certain time to be understood. Thus, quantitative surveys might be more representative, but not deep and explanatory enough. Specifics on our motivation to conduct a case study approach will be elaborated on in the methodology.

#### **1.4. Thesis Outline**

Our thesis is structured in the below chapters.

**2) Literature Review** provides a broader overview of concepts on organizational culture that we are exploring, focusing on the specific aspects that we are researching.

**3) Theoretical Framework** includes the derivation of our presumptions that form the frame for our consequent research, together with key theoretical perspectives.

**4) Methodology** chapter explains the selection of the research method, the undertaken case study approach and the data sources used for the empirical study. Finally, research quality is critically evaluated.

**4) Case Presentation** introduces the reader to the major case study of the research, Glocalnet, as well as the supplementary case, GodEl.

**5) Empirical Results and Analysis** include the presentation of empirical findings and their analysis based on the presumptions raised in the Theoretical Framework chapter.

**6) Conclusion** summarizes thesis results and provides relevant implications for start-up leaders. Additionally, limitations of application and suggestions on further research are provided.



## 2. Literature Review

*As opposed to culture creation which is a narrower definition of culture management, this section highlights the broader existing background concepts of culture that we are exploring; from the definition of culture, the concept of culture management that we assume, to the process, mechanisms, drivers and challenges involved with culture management.*

### 2.1. The Definition of Organizational Culture

The definitions of organizational culture are far and plenty since culture is not a single variable concept. However, Schein, one of the most prominent researchers of organizational culture (Schein E. H., 2004), has chosen to define the culture of a group as ‘a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems’.

He went on to establish three levels of culture: *artefacts*, *espoused values* and *basic assumptions*, each of which has a different standard of visibility and tangibility. Artefacts are tangible and can be easily assessed, for example, office architecture or corporate dress code. Espoused values are stated or desired virtues, as well as common work practices and may be researched through observation, document analysis and employee interviews. The third level component, basic assumptions, are extremely difficult to notice and understand as they include unquestioned opinions and unconscious automatic behaviour responses.

The distinction must be made between strong firm cultures and weak firm cultures. In general, strong firm cultures are thought to benefit an organization from inciting strong dedication and motivation of employees to common firm goals (Kotter & Heskett, 1992). When managers speak of developing the ‘right kind of culture,’ a ‘culture of quality’ or a ‘culture of customer service,’ it suggests that culture is associated with certain values the managers attempt to embed in their organizations. Another implication of this usage is the assumption that there are better or worse cultures, stronger or weaker ones and there is a ‘right’ kind of culture that works best for the organization (Schein E. H., 2004).

### 2.2. The Current Academic Approach on Culture Management

We treat the management of organizational culture involves creating a new culture, embedding, changing, maintaining and abandoning it (Metallinos & Harris, 2002). Since a start-up is characterized by a relatively short operating history, limited in our scope to less than five years, one

would expect culture to be less entrenched. Hence, our case study **will focus on the aspects of creating and embedding culture.**

The main schools of thought contend over whether culture is a dependent or independent variable (Ouchi & Wilkins, 1985). Those who view it as a dependent variable see the culture of a firm as a natural outgrowth of its environment and not subject to human attempts at manipulation while the latter believe otherwise.

Smircich (Smircich, 1983) identifies two distinct approaches based on Burrell and Morgan's (Burrell & Morgan, 1979) paradigmatic framework culture which simply put, is the view of culture as a firm's identity or as a possession. Naturally, the view of culture as a firm's identity involves accepting that culture is less likely to be able to be manipulated by tools whereas accepting culture as a firm's possession implies that culture itself becomes a powerful organizational tool. This tool 'shapes behaviour, gives organisational members a sense of identity and establishes recognised and accepted premises for decision-making' (Burrell & Morgan, 1979). Accepting culture as part of a firm's identity means identifying the inseparability of culture from organisations and hence, attempting to control something which is embedded in the roots of the firm's existence is almost as futile as trying to shape the personality of a typical human. That culture is a learning process capable of being 'unlearned' is a view consistent with that of Schein (Schein E. H., Organizational Culture, 1990) who is probably the most widely cited writer on the concept.

Our belief is that of the same as Ouchi and Wilkins in that culture is an independent variable and can be shaped to a large extent by management (Ouchi & Wilkins, 1985).

### **2.3. The Formation of Culture**

In order to create culture, it is important to understand how culture is formed. The process of how a culture is created has been well documented by Schein (Schein E. H., 2004). The assumptions are that culture is both transmissible and adaptable. Since we hold a specific understanding of culture with us from our past experiences, it not an entirely rigid concept but changes as we continue to meet new people and experience new situations that reinforces or builds new elements of the pre-existing culture.

Schein elaborates that 'the strength and stability of culture derives from the fact that it is group based—that the individual will hold on to certain basic assumptions in order to ratify his or her membership in the group'. Cultures basically spring from three sources: (1) the beliefs, values, and assumptions of founders of organizations; (2) the learning experiences of group members as their



organization evolves; and (3) new beliefs, values, and assumptions brought in by new members and leaders (Schein E. H., 2010).

The key point in culture formation is that the process starts only when the individual assumptions held by different individuals lead to 'shared experiences that solve the group's problems of external survival and internal integration'. Culture is thus, an entity created by shared experiences of the group members, but shaped by the leader who initiates this process by 'imposing his or her beliefs, values, and assumptions at the outset.'

Pasquale (Pasquale, 1986) describes the four phases in the beginnings of organizational values and beliefs which eventually leads to the basis of the formation of culture. The first phase begins at the start of the creation of an organization. The leader uses a vision as 'a point of reference and criterion for evaluation when defining objectives and assigning tasks to members of the organization'. The second stage occurs when the vision becomes an accepted norm if and when it achieves its desired results and will likely be shared by all organization members and used as a future reference criterion for action.

The third stage is a continuation from the second but organizational members move away from 'effects ((i.e. evidence of the validity of its belief) and concentrate more on identifying itself with the 'cause'. This comes right after members have been reassured and gratified that the desired results will continue to be achieved.

The last stage marks the final phase of the formation of common values. The value is now shared and held by all members unerringly up till the point where it is held unconsciously and as defined by Schein (Schein E. H., 1990), becomes an assumption not easily observable to outsiders but is a value orienting the member's behaviour.

## **2.4. Creating the Organizational Culture**

Creation of the desired organizational culture involves knowing what tools are available for application. It is important to understand what mechanisms are available before we focus on a single theory in the following '*Theoretical Framework*' section, which presents a model summarizing the research written on the different culture management mechanisms throughout the years.

Chatman and Cha in their paper 'Leading by leveraging culture' (Chatman & Cha, 2003) identify three main tools of managing culture. The first tool involves the *recruitment and selection* of people for culture fit with the organization. This is a point of entry control to ensure that people who enter the firm already have cultures similar to the organization. Hence, the emphasis in this tool is the

existence of culturally consistent selection criteria. The second tool is *intensive socialization and training*. The authors define socialization as the process by which an individual understands the values and assumptions, and with it the expected behaviours and social knowledge, required to participate and be part of the organization. Socialization and training ensures that 'employees acquire cultural knowledge and bond with each other'. The last tool identified is the firm's *reward system*. The research acknowledges that because culture is the organization's informal reward system, it needs to be linked to formal rewards which ought to be clear and consistent to drive a strong focus on what the firm expects.

Kerr and Slocum (Kerr & Slocum, 2005) identify reward systems as the biggest driver of managing corporate culture. They see the reward system as a 'primary method of achieving control' just as their belief that much of culture is involved with the control of behaviours and attitudes of organization members. The reward system, hence, acts as a key for organization members to understand what the organization values by defining the 'relationship between the organization and the individual member by specifying the terms of exchange'.

A number of authors emphasize *management-driven rites and rituals* as important culture creation techniques as they allow initiating employees into the firm's culture. Turner (1995) explained that through rituals, an individual can forgo social differences in place of a sense of community and shared social membership. The author argues that rituals help to promote stability and change in order for individuals to 'transition between organizational roles, maintain organizational status or to build solidarity within the organization.' As most research is focused on specific methods for implementing rites and rituals, Trice and Beyer (Trice & Beyer, 1993) focus on the process itself, which is broken into six phases. These are identified as rites of passage, rites of degradation, rites of enhancement, rites of renewal, rites of conflict reduction and rites of integration.

Van Maanen (1973) addressed rites of passage in his study on the socialization of policemen. It includes the entry stage; tough selection processes, introductory stage, encounter stage and metamorphosis stage. Rites of degradation are linked to the reward system where the loss of rewards and process by which individuals are 'stripped of their social roles' and accorded a lower status; characterized by three stages of separation, discrediting and removal. It sends a message to members on what behaviours are unacceptable. Examples of this type of rite include ceremonies such as layoffs of managers or leaders (Trice & Beyer, 1993). Rites of enhancement correspond to the positive nature of an organization's reward system. They are elaborate shows that reward those who exemplify the organization's values and who perform well. Rites of renewal consist of symbolic actions staged to reassert the dominance of certain organizational values. Examples include annual

meetings or functions (Mechling & Wilson, 1988) (Rosen, 1985) which members socialize or discuss activities of the organization. Rites of conflict reduction consist of 'public attempts to resolve conflict or address issues of importance, in order to send the image that "something is being done"'. These include collective bargaining rituals, which send an impression of cooperative negotiation of interests (Bok & Dunlop, 1970) and committee formation, which sets up a symbolic group that meets to solve problems (Pfeffer, 1981). Rites of integration attempts to reduce the effect of subcultures in an organization by bringing different groups within the organization together 'that may not normally interact'.

#### **2.4.1. Evaluation of Culture Creation Techniques**

One common thread running through the theoretical frameworks listed by the various academics is the popularity of techniques such as *recruitment and selection* and a firm's *reward system* in shaping a firm's culture. Naturally, recruitment and selection is the gateway into the firm and controlling who enters the organization is a crucial way to reduce deviations from the existing culture. A reward system functions like Pavlov's conditioning experiment that reinforces good behaviour in employees and teaches them the correct cultural standards. Still, others chose to focus on a process-driven technique based on rites and rituals.

Even though the above mentioned techniques and processes at some points overlap, we have summarized them into a model that will form the basis of our theoretical framework.

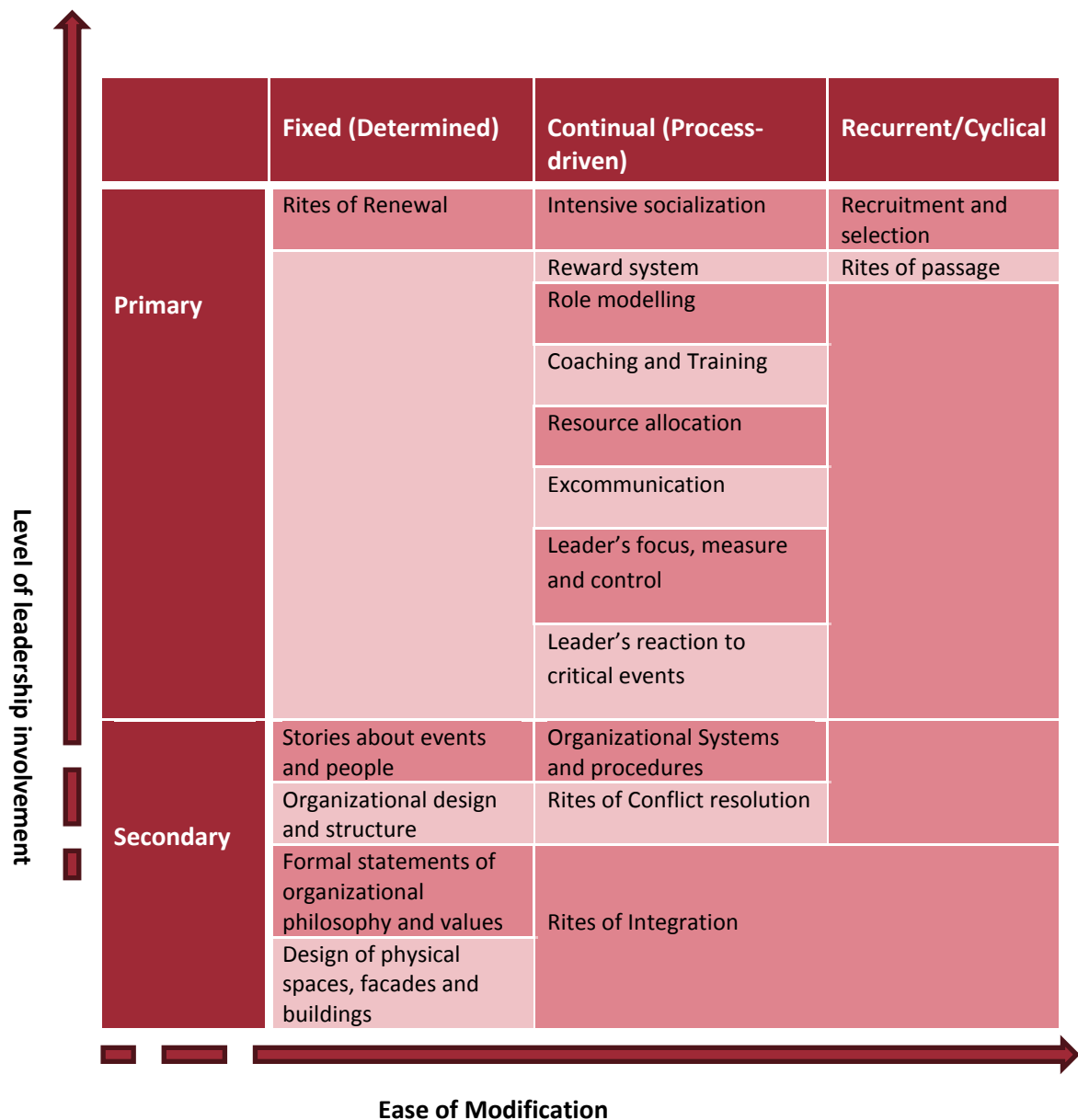


Figure 2. Model summarizing culture creation techniques

The above model summarizes the concepts relevant to the techniques employed in shaping the cultures based on the highlighted theories. In order to present a better overview on current research, we chose to categorise all these concepts into a matrix.

The first dimension of the matrix is the *Ease of Modification* and it is split based on the *fixed*, *continual* and the *recurrent* categories. What these categories denote is how these mechanisms vary in terms of their formation: some of the mechanisms are established early in firm's history, become ingrained and thus are difficult to change, whereas others are developing on a continual basis and therefore easier to modify.

The 'fixed' category implies a technique that was established in the past, considered to be fixed and hence, cannot be easily altered. This often has the least impact of affecting future cultural

evolvment in the firm. The 'continual' category implies a technique that can still be actively managed and thus, is process driven. Lastly, the 'recurrent' category implies a technique that can be altered and has the most impact on affecting the future cultural direction of the firm due to its cyclical appearance. These categories correspond to the impact it has on the cultural evolution of the firm and also with the ease of implementation. Hence, techniques in the 'fixed' category tend to have the least impact on the firm's cultural evolution and are hardest to change or be employed to shape culture while those in the 'recurrent' category represent the opposing end of the spectrum.

The second parameter involves the categories of *primary* and *secondary techniques*. We observed that some techniques require a more intensive involvement of leadership and distinguished these tools as primary. While all techniques can be employed with leadership involvement, what this parameter means is that the level of leadership involvement is more crucial to the success of techniques categorized as 'primary' as opposed to those in the 'secondary' categorization.

## 2.5. Conditions and Challenges in Culture Creation

### 2.5.1. Conditions

Other than identifying the factors that can be used in shaping a firm's culture, there exist internal and external conditions that affect the likelihood of success of the firm's attempts at shaping culture. We identified some of the main literature and summarized these below.

Anderson & Anderson (Anderson & Anderson, 2001) outline six conditions that determine success while performing a cultural change or, in our example, creating the culture of the newly established firm from the start.

1. **Culture change must be relevant to the business.** Employees should be explained that the change itself is not an objective, but is necessary for reaching business goals, such as stronger position in the market or better customer satisfaction.
2. **Culture change must be explicit and legitimate.** The desired culture should be included in the company's strategic goals and strongly supported by management with 'resources, time, and capacity allocated' until the goal is obtained.
3. **Culture change must include personal change.** Conversations, training and other activities should be held to allow identifying behaviours that represent and interfere with the desired culture.
4. **Culture change must include a champion and be modelled by leadership.** In order the desired culture to become a critical initiative, an important executive, in the best case the CEO, should become a champion of the change. As Kotter and Heskett (Kotter & Heskett,

1992) observed through their ten case study research, almost all leaders 'became living embodiments of the cultures they desired'. The leaders in the firm should model business practices according to the new culture, including reward systems and performance measurement.

5. **A critical mass of employees should be involved.** Culture change must be supported and nurtured 'within levels and across levels' in the organization, not solely among the top management.
6. **All aspects of the organization must be redesigned as per the desired culture.** Structures, systems, processes and procedures must be aligned with the new culture.

Summarizing the factors enabling successful changing of the corporate culture it can be concluded that first of all employees should see leadership's initiative as relevant and crucial, as demonstrated by anxiety that important corporate goals are not met. However, if communication is insufficient, the efforts can be seen as unnecessary and superficial. In addition, there should be a sense of urgency so that actions should not be postponed to the future. The role of leadership cannot be understated as well: key executives must act as *change agents* and *champions* being genuine examples of the desired culture and initiators of the supportive changes in the organization.

### 2.5.2. Challenges

One of the major challenges in culture creation lies in its very nature and goal to reach strong employee engagement with the desired corporate values. According to Chatman and Cha (Chatman & Cha, 2003), cultural values are powerful as they 'inspire people by appealing to high ideals' and ensure consistency through making one's behaviour salient in comparison with the internalized values. However, this way the deviations from the norm become highly visible, especially in others, particularly the leader.

The risk with the observed inconsistencies in leader's actions is the so called *actor behaviour bias* (Jones & Nisbett, 1971), when one's own behaviour is evaluated generously and failures attributed to situational reasons whereas others' behaviour is less favourably assessed and mistakes made accredited to their personal traits. The resulting conclusion then is that the leader is failing to 'walk the talk' and follow the commonly internalized set of values himself (Chatman & Cha, 2003). Consequently, the 'hard-won commitment' is replaced with 'performance-threatening cynicism'. Decreased morale and growing dissatisfaction can spread through informal networks and soon the newly shaped culture might experience a shake-up.

Anderson & Anderson (Anderson & Anderson, 2001) outline another important challenge in culture management, relevant to all transformational changes: people factor, the barely predictable human

dynamics. Transformation requires high commitment and personal change, both from leaders and employees, such a change resulting from inspiration and empowerment, the emotional triggers being difficult to instil in others.

Another difficulty can be the diversity of subcultures in the organization. As members of one subculture might find the new norms more or less aligned with their value system, other groups of employees can be seriously resistant. Willcoxson & Millett (Willcoxson & Millett, 2000) advise that management can address cultural differences through specially designed programs aimed at each sub-group.

### 3. Theoretical Framework

*This section presents a derivation of our presumptions from the three theoretical perspectives of culture creation we have undertaken. It aims to provide the reader with an understanding of the process which led to the authors' presumptions of culture creation in a start-up firm.*

We have chosen to base our theoretical framework on three perspectives of culture creation. The first looks at the **functional perspective of mechanisms** used in creating culture. The second looks at the **environmental perspective of structure** when creating culture. The third looks at the **motivational perspective of the drivers** of the culture creation process. The figure below provides a pictorial summary of how the three aspects we have identified in the culture creation process go hand-in-hand.

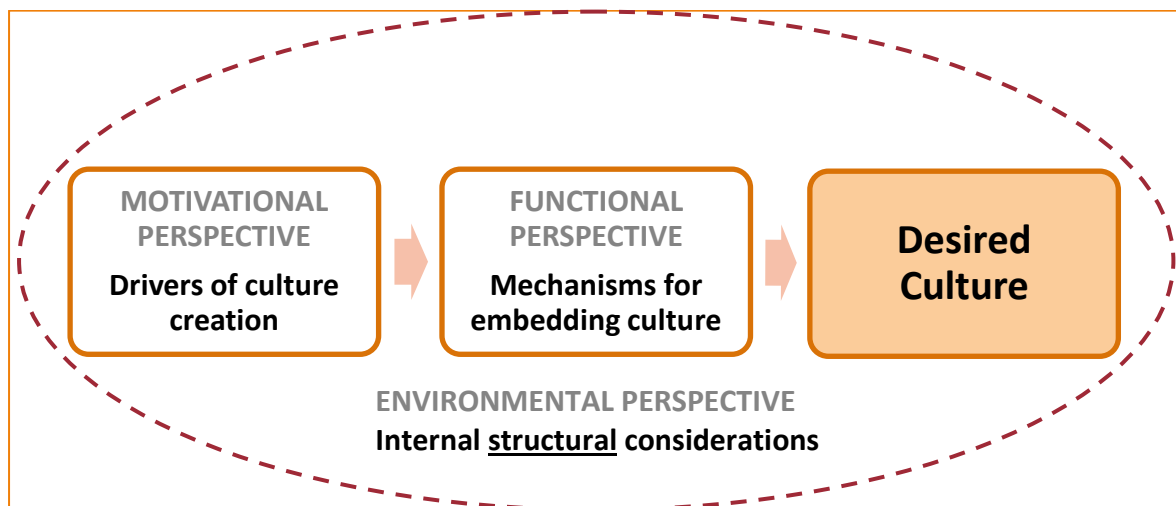


Figure 3. Theoretical framework

Throughout this section, we also cross-examine the differences between larger organizations and start-ups in order to develop our presumptions for testing.

It appears that no consensus exists regarding a uniform definition of a 'start-up' in academic literature, thus we developed our own definition in order to facilitate the research and clarify the scope of our study. In this research we define a 'start-up' as **young and small firms still in the developmental phase with around 4 years of operating history with an average size of 40 employees**. In literature, *start-up age and size* as definitions vary from study to study. It seems that age and size are only approximate criteria as the increasing variety of available business models allows for more differentiation. Only obscure definitions are mentioned: 'young', 'limited operating



history' for age and usually 'small' for size. We also hold that other features of start-up firms include **higher than average growth in revenues and limited access to capital.**

### **3.1. Culture Embedding Mechanisms**

Culture embedding mechanisms are the tools used by leaders during the process of either shaping the pre-existing culture in a larger organization or creating the desired culture in a new firm. These mechanisms are also synonymously referred to as the tools of embedding culture. We have based our analysis on Schein's framework of **Primary Embedding Mechanisms** (Schein E. H., 2004), him being the most cited author of the topic thus providing a reasonable basis for research. This framework examines the various mechanisms leaders have available to help them reinforce their beliefs, values and assumptions in their organizations.

The tools in this framework are broken into two categories; primary and secondary (Schein E. H., 2004). The primary tools are what are considered to have the greatest impact on embedding culture in the firm while the secondary tools help to reinforce them.

The six primary culture embedding mechanisms are identified as 1. the things leaders *pay attention* to or choose to *ignore* and what they *measure* and *control* regularly, 2) a leader's *reaction* to critical events; 3) a leader's decisions in the *allocation of resources*, 4) a leader's example in *role modelling, coaching and teaching*, 5) the leader's form of *reward and punishment* and lastly, 6) *recruitment, selection, promotion* and *excommunication* processes in the firm. The other secondary embedding mechanisms work only if they are consistent with the primary mechanisms and relate most to external observable artefacts that are difficult to interpret without insider knowledge. These include 1) organizational design and structure, 2) organizational systems and procedures, 3) rites and rituals of the organization, 4) design of physical spaces, facades and buildings, 5) stories about important events and people and 6) formal statements of organizational philosophy and values.

The trade-off between quantity and the desired level of depth of our analyses has led the focus of culture embedding mechanisms to be narrowed to the exploration of 1) resource allocation decisions and 2) recruitment, selection, promotion and excommunication processes in the start-up. As shown in the prepared model summarizing the culture creation mechanisms (refer to section 2.4.1. Evaluation of Culture Creation Techniques), these two techniques are assessed as having the largest potential effect on culture creation, thus motivating us to choose them as primary research objects.

### **3.1.1. Resource Allocation Decisions**

Resource allocation decisions are taken to be synonymous with the creation of budgets according to Schein's definition (Schein E. H., 2004, p. 278). He believes that the process in itself is telling of a leader's assumptions and beliefs. A leader who is against high leverage will steer the budget planning process by rejecting plans that involve too much leverage and be biased towards plans that favour cash retention, thus, undermining potentially good investments. His risk-averse values and beliefs have the potential to send signals to employees, thus, creating a risk-averse corporate culture as an example.

Schein's resource allocation mechanism is backed up with prior research undertaken by Donaldson and Lorsch (Donaldson & Lorsch, 1983) that show the importance of resource allocation in decision making. Their study of top-management decision making revealed that 'leader beliefs about the distinctive competence of their organization, acceptable levels of financial crisis and the degree to which the organization must be financially self-sufficient' are a strong influence in their choice of goals, means to attain them and the management processes used. Therefore, their beliefs which are reflected in the budget creation process not only places constraints on decision making but limit the perception of alternatives as well, thus sending ripple effects down the firm.

So the question arises: How relevant is the resource allocation decision as a culture embedding mechanism for the founder in the culture creation process of his start-up? To do so requires understanding the primal differences between start-ups and large organizations which have the potential to affect the relevance of this mechanism.

#### **3.1.1.1. Resource Allocation in Start-ups and Established Organizations**

While many other differences exist, the two main differences with the potential of affecting the relevance of this mechanism can be categorized as 1) access to resources and 2) decision making style.

Firstly, start-ups are characterized by their lack of resources and 'limited access to capital, material and labour markets' (Romanelli, 1989). In the early phases, this problem is frequently solved through 'bootstrapping' method by start-up owners (Ekanem, 2005). When formal investment appraisal and funding techniques are unavailable, owners-managers have to find creative financing options with no external support. Large firms on the other hand, tend to have larger amounts of capital to spend and sounder access to funds from financial institutions or investors.

Secondly, entrepreneurial leaders are also described as possessing a distinct *decision-making* style: they use more decision-making biases and heuristics than managers of large organizations (Barney &

Busenitz, 1997). The most probable reason is the environmental uncertainty and complexity that characterize the environment where start-ups operate. Thus, the use of more cautious and rational decision-making tools is not possible and they have to rely on simplified techniques and 'rules of thumb' synonymous with heuristics. According to Busenitz and Barney (1997), these heuristics are important as they are associated with innovativeness and speed, important criteria for success in a start-up.

Bearing in mind that costs are a major factor of concern at the early stage of a start-up, the entrepreneur would be focused on bringing his idea out to market with as low a cost as possible. Combined with scarce resources due to the volatility of earnings, the entrepreneur has little resources in his hands to invest in other culture embedding mechanisms employed by larger organizations such as large scale events and comprehensive training programs aimed at socialising and training employees into the ideal firm culture. Together with the reliance on mental heuristics in decision making, our initial presumption is that **resource allocation is an important tool used by the entrepreneur** but is not expected to be such a formal process as in the larger organizations.

If resource allocation is an inexpensive tool that can be employed by entrepreneurs, it still needs to be important to employees in order for it to be effective. The effectiveness of this tool will be called into question unless we examine the differences in employees in a start-up compared to those in large and stable organizations.

Compared to employees in a large and stable organization, employees in a start-up would tend to be concerned about the firm's survival since their continued employment depends on it. Hence, the process of resource allocation is more likely to affect the start-up employee more acutely than an employee in a larger organization. Adding to that, many researchers of power within organizations theorised that scarce resources result in competitive and intense conflicts as opposed to the case where plentiful resources induce slack and conflict reduction (Pfeffer, 1981). Pfeffer and Salancik (Pfeffer & Salancik, The bases and use of power in organizational decision making: The case of a university, 1974) details scarce resources as one of the causes of power play in firms. They suggest that without scarcity of resources, the problem of resource allocation does not exist but with increasing scarcity, resource allocation becomes problematic.

What is important to note is that from a social psychological standpoint, behaviour of employees is affected more directly by the perception and meaning of scarcity rather than scarcity itself and 'consistent with the power and politics perspective, managers reported many conflicts as they developed and adjusted their budgets' (Tjosvold & Poon, 1998).

From both perspectives of culture management and of power and politics, the combination of factors such as the firm's scarcity of resources and environmental uncertainty will make **leaders and employees in a start-up more privy to the use of resource allocation as a culture embedding mechanism**. Our presumption is thus, consistent with Schein (Schein E. H., 2010) that how the entrepreneur chooses to allocate the firm's budget sends an important signal to employees on what is important to the firm in order to obtain profitability.

The budget allocation process reflects the belief of the entrepreneur and shapes employee's perception on the areas that are important in the start-up. Furthermore, in a small firm such as the start-up, the **lack of resources and subsequently, the allocation of the budget are more likely to affect employees than in a large organization**.

*Presumption 1a: In the early stage of a start-up, resource allocation is an important and effective culture embedding mechanism.*

### **3.1.2. Recruitment, Selection, Promotion and Excommunication**

Schein (Schein E. H., 2004) reveals that one of the most effective ways in which a leader's assumptions and beliefs get embedded is through the process of selecting new employees. This is a subtle tool because 'founders and leaders tend to find attractive those candidates who resemble present members', and in the instance of a start-up; candidates who resemble the founder himself most, in assumptions, values and beliefs.

Selection decisions followed by the criteria applied in the promotion system are considered to be effective mechanisms for embedding and perpetuating the culture in the firm, and more so when used in combination with socialization tactics aimed to teach cultural assumptions. On the other hand, Schein's (Schein E. H., 2004) framework underscores that these basic assumptions will be reinforced through 'criteria of who does or does not get promoted, who is retired early, and who is, in effect, excommunicated by being actually fired or given a job that is clearly perceived to be less important, even if at a higher level.'

How viable would this mechanism be for the founder to employ in embedding culture in his start-up? In order to examine this question, it would involve looking at the constraints the entrepreneur faces. The choice of the appropriate tool available for entrepreneurs to shape culture depends on both internal and external constraints.

### 3.1.2.1. *Internal and External Constraints for Entrepreneurs*

A start-up is built on a volatile climate where its existence is in question, hence, its continuation depends on its ability to react fast to changes in the marketplace, adapt and deploy resources more efficiently than the resource rich large organizations. *Internal constraints* take shape in the form of time and resource limitations. Not all tools proposed by Schein are easily available for the entrepreneur to use due to resource constraints etc.

*External constraints* that limit entrepreneur's choice of culture shaping tool is the environment on which his business is based. In the case of recruitment and selection, an entrepreneur might find it harder than average in attracting employees to work for him for two reasons; unlike established organisations, due to the nature of a start-up where resources are scarce, he is usually unable to provide job security or competitive wage rates that are frequently the key factors enticing employees. Both these internal and external constraints force the entrepreneur to act differently given his restricted abilities for action.

Finding experienced personnel to assist in the firm's growth phase is expected to be difficult (Smollen, Dingee, & Timmons, 1985). For example, Mcevoy found that "finding competent workers, then motivating them to perform" was a particularly difficult problem for small businesses including start-ups (Mcevoy, 1984). Adding to that, Solomon mentions that while no business can afford to hire inadequate personnel, 'the small business is particularly burdened in this regard since each employee constitutes a large percentage of the work force' (Solomon, 1984).

The lack of structure and time is another factor that possibly results in limiting the application of recruitment and selection mechanisms in embedding culture. Since the entrepreneur is focused on efficiency and speed, he would have little time to invest in the recruitment process. Even if he does, the pool of suitable candidates is vastly limited to him for the aforementioned limitations. With the smaller pool of candidates to choose from, the lack of resources should force the entrepreneur to choose skill over cultural fit. Thus, we believe that at the early stage of the start-up, **skills are prized more than cultural fit**, which is one reason why entrepreneurs will be more motivated to employ the skilled personnel with a lesser cultural fit than one who fits exactly into the firm culture but is less skilful.

A project conducted by Stanford University on high-tech emerging companies based in Silicon Valley (Baron & Hannan, 2002) came up with confirming results. The authors noted that most Stanford Project Emerging Company (SPEC) firms, due to their position as being in the forefront of technological advancement, relied on the concept of their firms being able to provide 'interesting

and challenging work' as the basis of attracting, motivating and retaining employees. This is over other methods such as making the effort of retaining employees through a sense of attachment (love) or higher wages (money).

The second reason why recruitment and selection is less important at this stage is because of the lack of structure in a start-up. The entrepreneur would tend not to have defined the culture of the firm nor developed hiring policies in the early phase of a firm's operating history. The lack of a defined value system or hiring policy would make hiring more a flexible rather than defined and strict tool.

The lack of a structure makes recruitment especially difficult, especially if the founder is not always around to be involved in recruitment. Compared to large organizations in terms of organizational structures, the chaotic nature of start-up companies, which tend to have a *low level of bureaucracy*, flat hierarchy, and loosely described responsibilities, is a stark contrast to large corporations which cannot survive without a substantial level of bureaucracy. This basically can be traced back from the lack of resources which forces the young companies to be creative in organizing their work and processes. For instance, if they are not able to hire different specialists for a sales manager and a marketing manager, they need to find a multitalented individual who can do both functions.

The combination of factors such as being limited to a selected pool of candidates, being plagued with scarce resources such as time and money and the lower level of bureaucracy and structure in a start-up all serve to limit the application of recruitment and selection as an important tool for the entrepreneur in embedding culture. The short operating history characterizing the start-up would effectively rule out the mechanism of promotion and excommunication as employees tend not to have stayed long enough for these mechanisms to play a significant role. Hence, this leads us to our next presumption:

*Presumption 1b: In the early stage of a start-up, recruitment and selection is a less important mechanism in embedding culture.*

### **3.2. The Driving Force behind Culture Creation**

As we have looked into the culture creation mechanisms, it is crucial to explore what drivers stand behind them. According to Schein, culture creation can emerge from three sources: (1) the beliefs, values, and assumptions of founders of organizations; (2) the learning experiences of group members as their organization evolves; and (3) new beliefs, values, and assumptions brought in by new members and leaders (Schein E. H., 2004). Schein goes on to reveal that even though each of these sources are important in creating culture, it is the leader who initiates this process by imposing

his or her beliefs, values and assumptions at the outset'. He not only selects the mission and the environmental context in which the firm operates, but also participates in the selection of organization members and biases the responses of the group in their effort to succeed in the environment and integrate itself.

Anderson and Anderson (Anderson & Anderson, 2001) take a broader perspective of types of drivers by including external forces into consideration. *External drivers* according to them are the environment, marketplace, business and organization. They include the general environment, customers' needs, competition, organizational structures suitable for the market needs. Internal drivers – organizational culture, leader and employee behaviour and the mind-sets of both groups – are reported to be less well comprehended by the management and worse controlled.

Both external and internal drivers can be responsible for influencing the need for cultural management. Theoretically, the drivers happen in a linear sequence, one triggering the other. For example, business imperatives outline what the company should do strategically in order to be successful. It may require a rethinking of the firm's corporate strategy, mission, vision, goals, or the business model. In order to achieve the business imperatives, company must re-align its organizational imperatives as well, such as accommodating the organizational structures, systems, processes, or technology for the new strategic direction. Further down, new cultural norms must be developed to support the organization's new strategy, design and systems. All the change drivers must be addressed at the same time; otherwise, the change initiative will not be successful.

The drivers of change model proposed by Anderson and Anderson (Anderson & Anderson, 2001) propose that the drivers that ultimately change the leader and employee mindset (i.e. changes the culture) tend to start with the environment as the push factor as a result affecting the marketplace, organization and consequently the firm culture. Based on the previous analysis we see cultural implications as a stage where leader can execute his vision and beliefs in the company. We also presume that the chain of the drivers influencing the corporate culture will be shorter in start-ups compared to large organizations as the major driver is internal (leader). The illustrative model is below and the argumentation is presented further down.

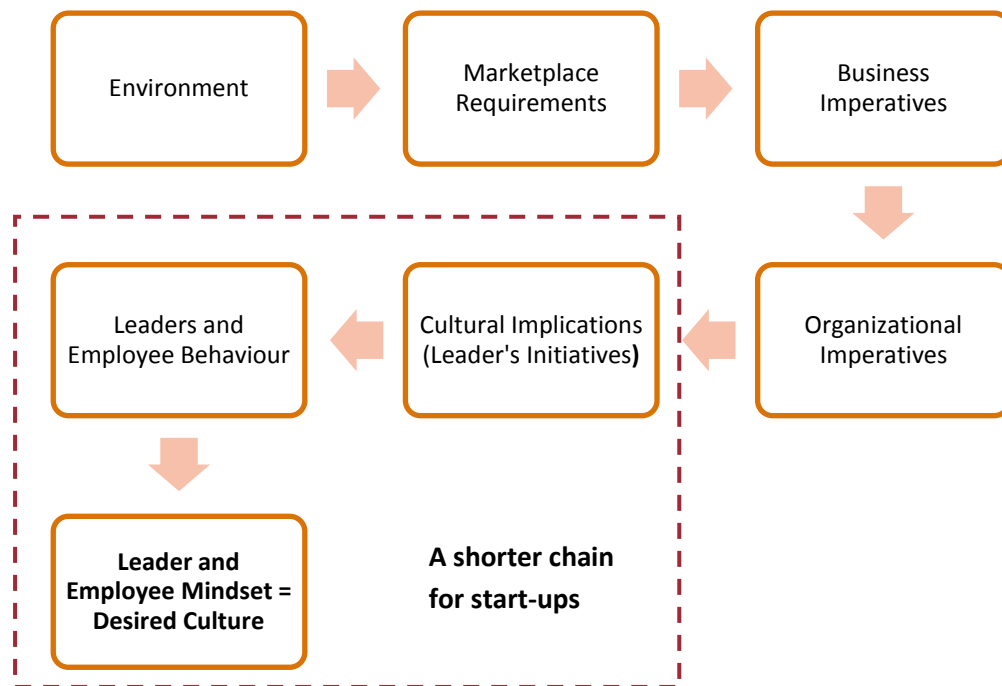


Figure 4. The adapted drivers of change model (based on Anderson and Anderson)

The smaller size of the start-up compared with large organizations also imply that the actions of the leader are more keenly scrutinized. Founders typically have a large role on how the group initially defines and solves its adaptation and integration problems. As the originator of the existing seed idea, they will typically have their own notion, based on their own cultural history and personality, of how to fulfil the idea. A high level of self-confidence and determination is not only part of their traits, but they usually also have 'strong assumptions about the nature of the world, the role that organizations play in that world, the nature of human nature and relationships, how truth is arrived at, and how to manage time and space' (Schein E. H., 2004) Founders will, therefore, be at ease in imposing their views on their partners and employees as their start-up struggles in the early stages, and they will cling to them until the situation at which they become infeasible or the group fails and disintegrates (Donaldson & Lorsch, 1983).

Comparing the impact of leaders in a large organization as opposed to a start-up will allow us measure the significance of the role of founders in the culture creation process. In large established organizations, strategy is built and change initiatives are frequently influenced by analyzing external forces, such as the environment (political, legal, economical etc.), competitors, or customers (Anderson & Anderson, 2001). Market analysts employed by such organizations spend sufficient amounts of time analyzing the trends and movements in the market, trying to predict, forecast or even guess the possible future outcomes. The whole business planning on the strategic level and the resulting change initiatives are repeatedly based on similar estimates and limited knowledge. In contrast, academia largely agrees that entrepreneurs typically tend to disregard the power of



external drivers (Anderson & Anderson, 2001). Instead of trying to predict the future movements in the market, entrepreneurial individuals aim to influence the future with existing and limited resources (Sarasvathy, 2001). Additionally, start-up firms may not possess the necessary resources to conduct a proper analysis of the external forces. Hence, most change has to be driven from within.

The second difference exists between the managers of large organizations and the entrepreneurs leaders of small start-ups regarding the level of freedom and personality expressed. The latter are much more often described as leaders empowering others with their powerful visions. This is probably due to the fact that many large companies have established structures and processes that stress management, control and administration leaving less space for leadership. Bennis (Bennis, 1988) found that entrepreneurial leaders tend to have a higher need for autonomy and were more creative and tolerant of higher calculated risk than corporate managers. The need to answer to fewer people and having the added freedom of taking higher risks places founders in a better position than managers or corporate leaders to drive culture creation in their organization.

Schein (Schein E. H., 2004) supports this conclusion with the saying that the decision to embed their own values by the entrepreneur is in most instances, unconscious. It is, rather, 'in the nature of (their) entrepreneurial thinking to have strong ideas about what to do and how to do it. Founders of groups tend to have well-articulated theories of their own about how groups should work, and they tend to select as colleagues and subordinates others who they sense will think like them. '

Further, the SPEC studies (Baron & Hannan, 2002) also lend support to the importance of the founder in culture creation, that the role of the founder had more lasting significance in the firm. They found that of those companies whose CEO had been part of the founding team, a significantly lesser proportion of firms changed the firm's HR blueprint (36 percent compared to more than double those companies whose CEO was not part of the founding team). Even among the 36 percent, less than 10 percent of the companies changed more than two or three of the blueprint dimensions.

With the power to influence the whole organizational culture of the firm, comes immense responsibility for the outcomes of the intervention. Transforming the culture includes interference with the norms and values of the employees, touching their root causes for inspiration and motivation in work. Newly communicated behavioural models ensure consistency through making one's actions salient (Chatman & Cha, 2003). Not only does personal behaviour become highly visible, but so do the actions of other members of the community which are scrupulously compared

against the recently enforced values. Leader's behaviour attracts special attention due to his being the key personality in the company. Due to strong psychological biases, every violation noticed in others is fiercely judged (Jones & Nisbett, 1971), and it can be presumed that violations in leader's behaviour attain even stricter judgement. The nature of entrepreneurs, the strong notions they hold of what they want and how to achieve it together with the freedom accorded them in their start-ups and the small size of their firms has led to our following presumption:

*Presumption 2: The founder plays the most important driving role in culture creation in a start-up.*

### **3.3. Structure in Culture Creation**

Half of Schein's (Schein E. H., 2004) six secondary articulation and reinforcement mechanisms lies the stark relationship with **structure in an organization as a key criteria for reinforcing culture in a firm**: organizational design and structure, organizational systems and procedures and formal statements of organizational philosophy, creeds and charters.

He argues that organizational systems and procedures are the most visible parts of life in the organization that are performed in an endless cycle of routines, procedures, reports and forms that their recurrent nature tend to lend structure and predictability to an otherwise vague and ambivalent corporate world. These systems and procedures help in making life predictable for employees, thereby, reinforcing their beliefs and reducing ambiguity and anxiety even though these routine procedures might lead to complains about bureaucracy. They thus, 'formalize the process of "paying attention"' and reinforce the message that the leader really cares about certain things' (Schein E. H., 2004). Further, leaders who do not design systems, procedures and reinforcement mechanisms would allow for historically evolved inconsistencies in the culture that emerged from the beginning of the firm or dilute their own cultural message from the beginning.

The importance of structure in the culture creation process is clearly supported by Schein. However, the dynamics within the start-up usually calls for a structureless environment as argued earlier. In the early stages of operation, the founder of a start-up does not necessarily possess a clear vision, a written mission statement or any other institutionalized strategic tool. In addition to that, entrepreneurial leaders tend to use more decision-making biases and heuristics (Busenitz & Barney, 1997), both of these contributing to the variability in decisions and ad-hoc approach in solving problems. Such a method is probably less sound and calculated, but has a few important advantages. Entrepreneurial decision-making is worse predictable by competitors allowing time for start-ups to make important moves until the large players are able to react. Fast decision-making

based on heuristics is also associated with innovativeness (Busenitz & Barney, 1997). We assume that the culture creation process is not an exclusion from this field. Decisions made on corporate culture would be made fast and with the avoidance of sophisticated techniques.

Another characteristic of start-ups that support this bias against structure is the feature of faster growth. A large number of academics insist there is a strong negative relationship between both the firm age and size and its growth as start-up companies grow more rapidly than their more mature counterparts ( (Evans, 1987), (Haltiwanger, 2002) among others).

With rapid growth comes *higher variability* in the growth patterns experienced by young firms compared to large corporations (Evans, 1987) as start-ups operate in uncertain and poorly predictable environments. They frequently offer innovative and untested products or services, which also makes the future operating results uncertain. Hence, the importance of flexibility is shown as flexibility allows start-ups to be faster than their large bureaucratic counterparts as well as to provide tailor-made solutions in contrast to the standardization preferred by the major players. According to Aldrich and Martinez (Aldrich & Martinez, 2001), due to their flexibility and the ability to change, start-ups can effortlessly outrun their 'slow and rigid 'big sisters'. Excessive structure would thus limit the scope of flexibility afforded to start-ups.

Despite the importance of structure to an organization in reinforcing culture beliefs and assumptions, our opinion is that the culture creation process will be unstructured in a start-up firm because of additional volatility and uncertainty in their environments. Since one of the core competencies of start-ups is their high level of adaptability to any changing situations, with the strictly fixed internal structures, they would lose this important advantage against large organizations (Aldrich & Martinez, 2001) and flexibility would actually be a positive phenomenon. Thus, leading to our next presumption:

### **3.4. Summary of Theoretical Framework**

Below is a summary of our developed theoretical framework with our presumptions incorporated

*Presumption 3: Cultural management tends to be an unstructured process in the start-up but this has a positive effect in the early stages*

for easier following of the empirical study. While Presumptions 1a and 1b focuses on culture embedding mechanisms, Presumption 2 looks into the drivers behind the culture management process and Presumption 3 explores the impact of internal structures on culture creation.

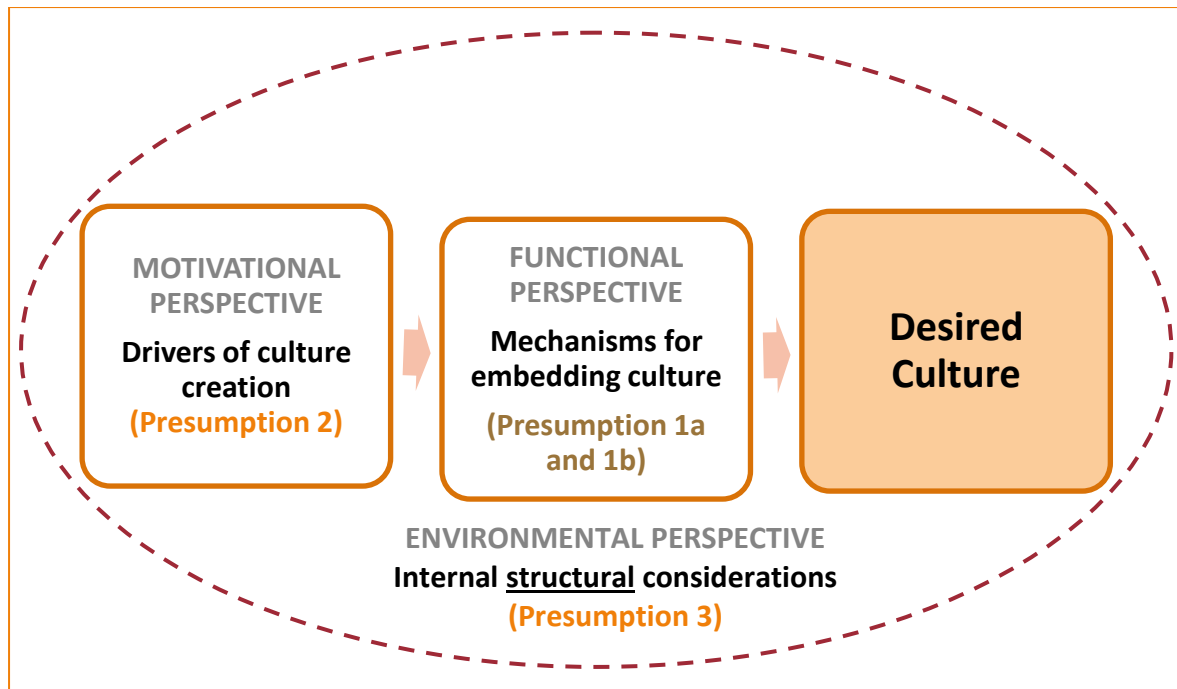


Figure 5. Theoretical model with incorporated presumptions

## 4. Methodology

*This section describes the selection of the research method, the single case study approach that we undertook, the sources for data collections and finally the explains the research quality of our research methodology.*

### 4.1. Research Method

The aim of this research is two-fold. The major focus is to **explore the relevance of existing theories** about the culture creation process in a start-up firm. The exploration of relevance will be accompanied with the **analysis of culture creation specifics in the selected case** taking into account start-up peculiarities with the presumption that adaptations in theory might need to be considered.

The nature of our research question determined our selection of the most applicable research method. Corporate culture being the centrepiece of the study, dictates that an open and exploratory research method can yield the required in-depth information about the culture creation processes in the firm. The goal is to start with an exploratory case study research while a further possible extension of this research would be to test the emerging findings in a wider survey-based quantitative research.

It is worth pointing out that our methodology follows a deductive process since we are interested more in theory testing than in building theory. That is to say, we aim to test and improve the existing chosen theory by exploring if the same relationships exist in our case study as in theory. In short, theory-testing (deductive) case studies follow the natural science model of following the hypothetic-deductive logic by starting with the hypotheses (presumptions) then proceeding to test those (Lee, 1989). By testing our presumptions, it allows for us to explore the differences between theory and reality and also allows for us to further specify the theory that defines the phenomena we study more precisely and examine the circumstances under which these relationships might hold (Vandenbrouke, 2008) (Greenhalgh, Russell, & Swinglehurst, 2005).

The practical value of following the deductive process of research is as Yin (Yin, 2003) states ‘Only if you are forced to state some propositions will you move in the right direction.’ **This encouraged us to formulate the presumptions to guide our empirical study** amidst the swamp of information we had collected.

### 4.2. Single Case Study Approach

Our research topic and the selected exploratory research method have enforced certain limitations on us regarding the breadth of the empirical study. We decided to focus on quality over quantity as

this is especially important in relation to the topic we're exploring; culture, which cannot be easily quantified and requires an in-depth analysis. This resulted in the selection of a single case study approach that we had undertaken.

Along with the limitations of a single case study (explained below under section 4.5. Research Quality), this approach will allow us to capture a particularly detailed understanding of the context in which the tools for culture management take place. According to Yin (Yin, 2003), 'the distinctive need for case studies arises out of the desire to understand complex social phenomena because 'the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events,' such as organizational and managerial processes, for example. He writes that 'case studies seem to be the preferred strategy when **"how or "why" questions are being posed**, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context'. **We have decided on the single case study methodology because of its ability to deal with the level of complexity accompanying culture creation in a firm.**

To be more precise, our initial goal was to have two different cases to compare and contrast against each other. Unfortunately, finding a young start-up with a strong culture and founder actively engaging in culture creation appeared to be a highly challenging task, thus limiting us to a single case, which on the other hand offered us plenty of valuable data sufficient for the in-depth analysis. However, we also managed to supplement one of our presumptions with the use of a case of another company by the same founder.

### **4.3. Selection of the Case**

The criteria for our choice of the case study organization depended on several factors. The organization had to 1) be a young start-up and a small firm; the length of operation had to be long enough for us to observe the effects the tools of culture management employed had on firm culture. It had also to be small enough to be representative of the typical start-up yet large enough for some form of structure and organization. Hence, our target length of operation was in the range of three to five years and average size of firm to be between 20 and 50.

The second criterion is that 2) organizational culture had to have a high profile in the organization. Since we were looking at the tools of culture management and the motivation of culture change, it was imperative to select an organization whose founder believed that culture can be shaped and is an independent variable, the same assumptions we discussed under 2.2. The Current Academic Approach on Culture Management.

Without the above criterion of assuming that culture can be changed, it would have been hard to examine the result of a successful culture creation process. Hence, the third criterion is 3) the record of a successfully implemented firm culture. Since this thesis looks at the tools used in shaping culture, we assume right from the start that the founder has shaped his firm culture to his desired principles and values.

We finally found out that Stefan Krook, a former SSE student and a serial entrepreneur in Sweden could be an ideal subject for our research due to his efforts and deep interest in the culture creation with its first company Glocalnet. Stefan also had his thesis, an authentic document, written on the corporate culture during the early development phase of Glocalnet, his first venture. We believe that the thesis as our source of documentary analysis served an important purpose. As we wanted to analyze a subject with a sufficient operating history in order to be sure that culture creation was successful, we believed that this length of time could erode any the accuracy of information the founder could hold. Even though Stefan's thesis was written close to 10 years ago, it was produced very close to the start-up date and was very well-documented, hence, reducing the risk of information being lost or calibrated over time. The time span between the implementation of the tools of managing culture and the process of documenting it was only a mere two to three years. It is important to note that the documentation took place during the process of culture creation, thus, aiding the recollection accuracy of the founder.

Glocalnet fulfilled all three criteria for case selection. First of all, it was as a start-up with four years of operation and average number of employees of 40. It is described as a 'belief' company in which employees are dedicated, are part of the strong collective confidence the firm embodies and display collective commitment which also results in the successful results of the firm, as demonstrated by their history of being a desirable target for investing and acquiring in the later years of operation. The success of culture creation efforts were also positively evaluated by the founder, stressing that the desired culture was obtained.

One other factor that propelled our choice for analysing Glocalnet was the fact that Stefan was a serial entrepreneur. This was invaluable as he was able to not only provide insights into the culture creation process at Glocalnet, but also detail his experiences with managing culture at other firms as a side comparison and provide interesting areas for further research. Broad experience allowed him to make comparisons and better explain the specifics of culture creation in Glocalnet from a wider perspective.

Glocalnet shares similarities with other start-ups that allow for our analysis to be easily understood and applicable in other companies. Glocalnet was the first start-up idea of Stefan, which meant that he had no prior experience with recruiting, selection, promotion and excommunication. The processes faced by him would be similar to other founders. Furthermore, the business idea of creating an entirely new industry to bypass the current telecommunication providers proved to be a volatile ride as there was plenty of resistance to go against. The volatility of the business meant that the leader has no idea what to expect months down the road and culture management tools are less likely to be structured than evolving.

However, some differences exist between Glocalnet and other start-ups that should be factored as well. For one, Glocalnet was a pioneer in its industry. It is not always the case that every start-up is a pioneer since there are different levels of innovation ranging from incremental to radical innovations. Naturally, Glocalnet is placed in the spectrum of radical and disruptive innovations which means that many of its culture management analysis are affected by its environment. Some of the differences Glocalnet faces compared to the average start-up are the amount of funds available to it by risk-taking investors betting on its innovation, the high amount of news coverage it received in its early years and the ease of attracting a wide pool of talents due to its position on the innovation curve.

#### **4.4. Data Sources**

Our empirical study is based on two sources: **documentary analysis and semi-structured interviews**. Supplementary sources include publicly available information such as news articles, published financial records and information from business databases and company websites.

##### **4.4.1. Documentary Analysis**

The main form of our documentary analysis comes from the thesis paper written by former SSE student Stefan Krook in 2002 on the corporate culture of Glocalnet, the start-up firm he founded in 1997. His thesis titled 'A war story from a Belief company. A story about Glocalnet' has two objectives; to provide a kind of therapy for himself as he writes about his experiences and to provide inspiration to a reader to contemplate about the interaction behind corporate cultures and successful companies. We found the authenticity of this document highly valuable as it captures the founder's observations, feelings, and reflections on the culture creation process in his newly established and rapidly growing start-up.

To be more precise, details about how he attempted to shape the firm's culture are included. These encompass his ideology, the history of the firm from the start of the seed idea to the operating



phase, events in the firm, human resource policies, troubles between personnel and his reflections on the culture of the firm and his role in building it. In writing this thesis, Stefan acknowledged the scope of biasness and attempted to minimize this limitation by meeting with both former and present Glocalnet employees in order to seek their opinions. Hence, this document is a diverse mix of opinions and perspectives from even former employees who are most likely to present honest opinions since they have no affiliation to the company already.

In addition to Stefan's thesis, external sources detailing significant events in the firm's history such as ventures, acquisitions or more were obtained from business databases. This information was incorporated into interview questions to Stefan to find out the impact these events might have had on culture management.

#### **4.4.2. Interviews**

In addition to the documentary analysis, we have used interviews to supplement the gaps in our knowledge of the documentary source, seek for discrepancies and observe the respondents in their natural environments. Our major goal was to interview Stefan Krook seeking his time-tested perspective into the events that occurred almost 10 years ago. He was accompanied by his employee Annika Westerberg who contributed with observations from the employee's perspective as well as corporate stories.

As mentioned earlier, our set of presumptions developed in the Theoretical framework is based on Scheins' *Primary and Secondary Culture Embedding Mechanisms* and *Anderson and Anderson's Drivers of Change Model*. These theories formed the direction and structure of the interviews as to guide the case study in an exploratory way. Nevertheless, we used a semi-structured format, allowing for deviation to the discussion of other topics thus enabling us to capture other relevant information as per interviewees' perspective. The questions were purposely phrased to be non-leading in nature to prevent the answers from being shaped by our presumption expectations.

The questionnaire had four major question groups based on our presumptions (refer to the full questionnaire in Appendix 3):

1. Questions on resource allocation
2. Questions on recruitment and selection
3. Questions on driving forces of culture
4. Questions on structure

The interview was recorded and was over two hours long. It took place in a cafe close to interviewees' office in Stockholm, which ensured a casual, relaxed environment and supported our exploratory research method. Apart from supplementing the information not provided from the thesis, it was aimed to provide a minor comparison with another company founded by Stefan - GodEl. This not only expanded the scope of our thesis by providing an interesting side comparison, but allowed for Stefan to contribute his opinions on cultural management tools based on his experience with starting up and managing many other companies from a serial entrepreneur perspective.

The unique circumstances of our thesis' requirements (see section 4.3. Selection of the Case) shaped our focus to be majorly dependent on documentary analysis. We argue for why no further interviews were collected other than the first interview each with the founder and an employee:

1. The documentary analysis consists of over 40 pages describing the culture of Glocalnet. Since there is already a vast amount of information available, our scope of the thesis requires us little need for additional primary data other than the initial one with Stefan to clarify and understand issues relevant to our presumptions on the culture creation process as well as to obtain his view on the culture creation process in his other start-up, GodEl.
2. Our thesis is focused on the **culture creation process from the founder's perspective**. Hence, any additional interviews with employees would only yield non-critical results. This is also because we have assumed the firm has a strong and positive culture before we choose to study it and the scope of our thesis does not allow for us to test if this assumption is true. (see last section 4.6. Stage of Analysis in the chapter)
3. Any additional interviews with the founder would not add value empirically since these events happened close to ten years ago.

#### 4.5. Research Quality

One of the major limitations of our case study is the **time factor**. We acknowledge that the time, a span of 10 years, between Stefan wrote his thesis and the interview we scheduled with him might have the effect of affecting his recollection of past events.

A second limitation would be the **relevance of the selected case study to existing start-ups**. Since the company was established in 1998 and the process of culture management was documented up till 2002, that sets the event back up to 10 years ago. A decade might have the effect of changing many factors, especially environmental ones. In the span of 10 years, we have had events like the increased threat of terrorism stemming from a post 9/11 world, the recent financial crisis and the

growth of emerging BRIC (Brazil, Russia, India and China) economies. All these have the potential to affect the economic and environmental impact for new start-ups and the way they operate. More importantly, the changing technology trend such as the rise of social media tools like Facebook and Twitter and online communities like Wikipedia can have a major impact on culture management tools in a start-up. Hence, new tools might have evolved, especially on the technological scale that we have ignored.

The third limitation of our case study research is the **lack of scope** since this is a single case study supplemented by the occasional comparisons with another Stefan's company GodEl, which is of similar size and age with Glocalnet in 2002. Hence, the observations and analysis from our thesis cannot be generalized and applied to all start-ups. We acknowledge that even among start-ups, differences exist as we will reveal in the latter part of our analysis. Our single case study research approach was undertaken not with the aim to develop a new theory and hence, it is naturally not within our scope to extrapolate our analysis and apply them to populations or universes. In this sense, our case study is limited because it does not represent a 'sample' and not generate statistical generalization (Yin, 2003).

The last limitation is the **lack of triangulation in data collection**. Triangulation is defined by Cohen and Manion (Cohen & Manion, 2000) as an 'attempt to map out, or explain more fully, the richness and complexity of human behaviour by studying it from more than one standpoint.' According to Denzin (Denzin, 2006), there are four main types of triangulation; data triangulation (across time, space and persons), investigator triangulation (involving multiple researchers in an investigation), theory triangulation (involving the use of multiple theories to interpret the phenomenon) and methodological triangulation (using more than one method to collect data). The explanations are provided below.

According to Yin (Yin, 2003), there are six possible sources of evidence for case studies: documents, archival records, interviews, direct observation, participant-observation, and physical artefacts (pp.83, 85-96). However, due to the length of time that lapsed between the early years of Glocalnet and the present, it was difficult to obtain interviews with employees who worked for a substantial period of time from 1998 to 2002 at Glocalnet. Furthermore, their reflection of events would have been watered down over time. The fact that Glocalnet no longer exists as the start-up envisioned by Stefan meant that other sources of evidence such as participant observation and, direct observation and physical artefacts were all ruled out. Our heavy reliance on Stefan Krook for the tools he employed to manage culture could result in biasness due to the limited source of evidence.

Even though Stefan himself tried to mitigate this problem in his own thesis by presenting the views of a diverse mix of opinions and perspectives from former employees who are most likely to present honest opinions since they have no affiliation to the company already, it is worth remembering that the account was still written by Stefan and any information is filtered through his ideas and perspective. Hence, any objectivity from the account itself could be compromised by Stefan's interpretation and not reflect the true opinions of others. However, this limitation should not pose a huge problem for the accuracy of the data because the scope of our thesis focuses on the perspective of the founder on firm's culture creation, as emphasised by Schein (2004), leader holds a key role in shaping the firm's culture. The evaluation is thus based on which tools founder actually employs, what he anticipates from it and the implementation of the desired culture. Hence, the role of employee's opinions on the success of each tool, though important, will not significantly affect the research conclusion.

#### 4.6. Stage of Analysis

Apart from understanding the reasons for the choice of company in our case analysis, it is crucial to look at the *stage of analysis (point of analysis)* not only as a subject but also as a process. To better understand the process along which our firm analysis in culture management was focused on, we have included a summary of the stage of culture management we were interested in examining.

The model below represents the work of Silverzweig and Allen (Silverzweig & Allan, 1976) whose 'normative systems' model represents the main views of writers focused on the process of managing culture.

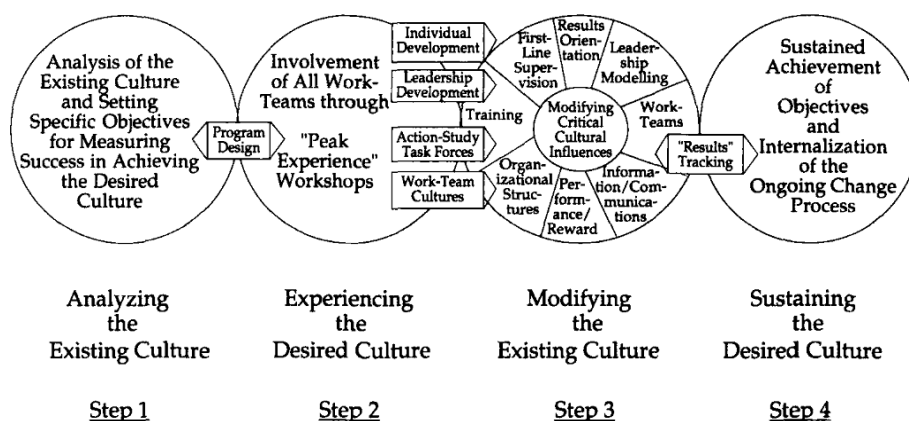


Figure 6. Normative systems model for organizational change (Silverzweig and Allen)

To elaborate further, the starting point of the entire process of managing culture typically begins from the initial step of understanding the firm's existing culture. Hence, it is the leader's imperative

to first understand the culture as it is hard to manage culture without first knowing what they are dealing with now or what they hope to achieve which leads to the second step of experiencing the desired culture. Naturally, the desired culture has to be defined before change can be implemented.

The third step, which is the key focus of our thesis, is the process of modifying the existing culture. This third step is also referred to as 'systems installation' for a purpose. Silverzweig and Allen (Silverzweig & Allan, 1976) identify this stage as most crucial to the change program. The success of this stage depends on a 'systematic approach to focusing on the prevailing norms to be changed' with emphasis on the 'role of leadership'.

Since we are only interested in the tools that the founder would use to embed culture in the firm, we assume that both the existing and desired state of culture at the firm is known by the founder. We are only interested in the step where the founder attempts to modify the existing culture. The lack of time dictates that we ignore the process and tools involved with sustaining the desired culture unless of course which the existing culture and desired culture are vastly similar which would imply the convergence of both step 3 and step 4. Hence, for the purpose of our thesis, we focus solely on step 3.

## 5. Case Presentation

*This section introduces the case study company - Glocalnet, including its history and industrial development at the time the culture creation process was taking place. It also defines the culture of Glocalnet and follows with a presentation of GodEI, a supplementary case for a broader perspective and comparison.*

### 5.1. Glocalnet

#### 5.1.1. From Idea to a Company

The time at which the culture creation process was documented was in 2002, close to five years from the founding of Glocalnet.

Glocalnet was founded by SSE student Stefan Krook and Andrin Bachmann in 1997 in Stockholm, Sweden. It became Sweden's 3<sup>rd</sup> largest consumer telecom service provider and was listed on Stockholm Stock Exchange before being acquired by Telenor in 2006 (Mint Global database, 2012).

The founders of Glocalnet met in 1996 in Switzerland during a student exchange programme and decided to combine their talents in launching a business venture. The company's initial aim was to introduce Voice-over-IP service, a business area that became later dominated by Skype. Struggling to raise funds in the early seed phase and dealing with the first strategic challenges, the founders of Glocalnet managed to launch the first telephone service based on IP technology in 1998.

Gaining speed, but changing the course Soon after that, Glocalnet appeared in the very epicentre of action, attracting attention from both the venture capital investors and the wider society, being referred as 'next-generation telco' (BusinessWire, 2000). In 1999, they became the world's first IP-based default service and launched fixed line *G-telefoni* service in 2000 (Glocalnet, 2012). The same year the company was listed on the Stockholm Stock Exchange.

However, soon after that the company faced a serious dilemma: their pioneered VoIP technology appeared to be 10 years ahead of its time (Picq, 2011). The company reorganized itself and even appointed a new CEO, Jan Edholm, in 2002.

After the reorganization Glocalnet quickly recaptured its success. Year 2002 was marked with large achievements for the firm: they launched a broadband service, started to collaborate with IKEA, and their customer base grew to 170,000 users. Just a year later, they expanded aggressively and acquired customer bases from Telenordia AB and Utfors AB reaching impressive 600,000 users. As a result, Glocalnet was identified as the 7<sup>th</sup> fastest growing high-tech firms by 2003 Deloitte European

Technology Fast 500 Ranking (PRNewswire, 2003). Its 5-year growth in revenue was estimated as 7,632 percent<sup>1</sup>.

### 5.1.2. Market Position

As described by Stefan, Glocalnet operated in a very dynamic and highly competitive environment in its early years. There were lively discussions in the industry whether the new generation technology is viable. Main competitors, usually telecommunication giants, were also investing in developing new technologies. The investors, allured by their high-risk, high-reward business model, were almost queuing in front of the company's doors wishing to invest their funds. Meanwhile, the organic growth in customer base stood at an impressive 70 percent annually.

Glocalnet's goal as stated in the Financial Statement of 1999 year was to become number three fixed line operator in Sweden and an important player in the Nordics. The major big competitors were Tele2 and Telia.

### 5.1.3. Financial Results

High investor expectations proved to be correct in terms of Glocalnet's revenue growth: the firm's operational income surged from SEK 8.5 million in 1998 to SEK 217.5 million in 2001. The joy for spectacular growth was however limited by uncontrollably rising expenditure: throughout 1998-2001 Glocalnet was generating losses.

Thousand SEK	1998	1999	2000	2001
Operational income	8,457	30,601	122,645	217,451
Operational expense	-23,110	-62,477	-295,634	-235,182
Financial profit	893	399	-4,113	1,653
<b>Net income</b>	<b>-22,217</b>	<b>-62,078</b>	<b>-118,017</b>	<b>-82,413</b>

Figure 7. Financial results of Glocalnet in its early years (company's Financial Statements)

Two major reasons for poor net result were high expenses in developing the VoIP technology and discount pricing of the fixed line service. Glocalnet's goal from the very start was to provide innovative telephony services at very competitive prices. Their first service plan *G-telefoni* charged a fixed monthly fee for unlimited calls in Sweden for 19 Swedish kronas, which was very low taking into account the high fixed costs of the firm (Glocalnet får ta räkning, 2001).

<sup>1</sup> For more details on firm's history, refer to Appendix 3.

#### 5.1.4. Organizational Culture

For the purpose of this thesis it is of relevance to illustrate that our case company has in fact a strong culture that is desired by its founder. Hence, we present the traits of the company from the founder's perspective. Stefan terms Glocalnet a 'belief' company, synonymous with visionary companies and feels that three aspects define 'belief' companies such as his. They are made of: 1) Dedicated employees, who 'feel' (in a nursing sense- it's their baby to take it to an extreme) for the company on all levels. 2) A strong 'collective confidence' which is a part of the atmosphere. Individuals in the team may or may not have good self-confidence but as a group they have and 3) 'Collective commitment', which is also 'demanded' from all members.

The table below describes the culture of Glocalnet from the founder's perspective.

<b>Individual Diversity – Joint Unity</b>	<b>Diversity in age, nationalities, education and sex but united as 'Glocies' at work; the world is split into Glocies and others.</b>
<b>Work-Life Balance</b>	<b>The concept of 'Everyday Heroes', combining a job they like with a rich social life; fun is also a part of work.</b>
<b>Professionalism</b>	<b>Eager to impress external parties as the face of Glocalnet, yet, retaining independence and taking pride in being and doing things differently.</b>
<b>Rational Insight, Emotional Commitment</b>	<b>Playing by the rules of small company but believing that belief, common sense and focus can take them anywhere.</b>
<b>Pride in Strong Corporate Culture</b>	<b>Involves pride in being a 'Glocie', with a 'take-it-or-leave-it' mentality to outsiders. It does not imply protecting and preserving but evolving with the rest of the company.</b>

Table 1. Founder's perspective of Glocalnet's culture

#### 5.2. GodEl

Godel is used as a side case to compare how two companies with the same founder can have different challenges in culture creation. It is only used to provide more insights into the culture creation process at Glocalnet.



GodEl is a Swedish electricity provider, a profit motivated social enterprise that gives all of its dividends to charity. The company was established in 2005 and belongs to the Foundation GoodCause launched by Stefan Krook.

GodEl is managed by the Foundation because its founders believe that there should be no private ownership in order to ensure the primary mission of the company. The goal of GoodCause foundation is to offer qualitative and reasonably priced services whereas corporate profits are donated to the charity. This allows consumers to support charities in an easy and effective way. In 2009, a sister company to GodEl was added to the Foundation – GodFond. It is an equity fund, investing in Sweden and beyond and donating all its profits to the charity (fund's profits, not its clients).

GodEl's customers can choose which charity organizations they want to support. This is done by voting and selecting the support receivers as well as the amounts to be split between the receivers. Currently GodEl is working with SOS Children's Villages, Stockholm City Mission, Save the Children, Doctors Without Borders, Nature Conservation and Hand in Hand organizations.

It is reported that in May 2011 GodEl had 98,000 customers, which equals to approximately 2 percent of the market. In 2011 almost SEK 15 million were donated to various charities since the start of operation of GodEl. Company's goal is to have SEK 500,000 customers and transfer 100 million each year to charity. For the last three years the donated amount averaged SEK 4 million per year.

Dagens Industri, the major business newspaper in Sweden, named GodEl among the fastest growing young companies in the country, called Gazelle. Company's revenues surged from just SEK 47.5 million in 2007 to SEK 584.9 million in 2010.

According to GodEl's founder Stefan Krook, the company is highly focused on its customers and providing them excellent service. Company's efforts in this field were already acknowledged: GodEl came second in the Swedish Quality Index's annual survey of customer satisfaction in the electricity industry in 2010.

## 6. Empirical Results and Analysis

*This chapter follows the structure of the Theoretical Framework and analyzes each presumption separately supplying relevant empirical findings and providing discussion based on the theoretical assumptions.*

A short presentation of our interviewees is below:

- **Stefan Krook** – Swedish serial entrepreneur, probably most known for being one of the founders of Glocalnet in 1997, a telecommunications company. In 2005 he launched the foundation GoodCause with his partners, the first company of which was GodEl, an electricity provider transferring its profits to charity (GodEl, 2012). Another venture, GodFond was launched in 2009, and is an equity fund with the same charity oriented profile (GodFond, 2012).
- **Annika Westerberg** works with business development in GodFond. Before her career in GodFond, Annika used to work at GodEl and Arthur D. Little.

### 6.1. Culture Embedding Mechanisms

#### 6.1.1. Resource Allocation Decisions

The guiding presumption for this section is presented below:

*Presumption 1a: In the early stage of a start-up, resource allocation is an important and effective culture embedding mechanism.*

##### 6.1.1.1. Empirical Results

Being the co-founder of Glocalnet, Stefan together with Andrin, were the main persons in charge of allocating the “budget”, monetary resources, of the firm. The “budget”, unlike other start-ups, was substantial as they managed to raise external venture funds from many investors. In the first round of financing, Glocalnet had close to 25 passive external investors and attracted 50 more passive owners barely half a year after the company’s foundation. The high-risk high-return model Glocalnet was based on ensured that funds were more easily obtained the moment Glocalnet attracted a lot of publicity. However, despite being able to attract funds, money was still scarce in the firm as most of it had to be pumped back into technological research and development. The firm was ultimately, still ‘cash flow negative’ like many other start-ups during whole review period of 1997-2002.

Money was the most important resource for Glocalnet as their vision of being a ‘leading next generation telco’ relied heavily on the investments in developing the right technology to create a whole new market of IP telephony and what Skype now dominates. Ironically, despite the ease of

which they could raise funds at the latter stage of their start-up, both Stefan and Andrin were used to working with tight situations as they faced huge problems raising funds right from the start of their enterprise. In trying to raise funds prior to their start-up, they faced resistance from leading companies like Ericsson who did not believe that their idea was feasible. Eventually, Stefan managed to raise US\$2500 from a company that he used to work in and that amount itself had to cover for all expenses including his salary. Hence, the value of money was something that was not taken easily and was an important issue that helped shape the cost-conscious culture at both Glocalnet and later at GodEl.

When interviewed, however, Stefan revealed that budgeting was not an important aspect he focused on at the firms. Unlike larger organizations, he did not like having to deal with budgets or allocating proper budgets to any division. He felt that the allocation of a proper budget meant that 'people would find ways to spend the money even if they had no use for it at the end of the year'. He went on further to say that "employees were expected to work with as little as possible, even getting things done with zero costs if that were possible". Instead of allocating an absolute figure for budget, Stefan expected his employees to motivate the costs involve with simple 'common sense'.

The cost-conscious culture was evident from the stories circulating in the both Stefan's firms. One such story was told by Annika Westerberg, who worked as a management trainee at GodEl. She told of a time Stefan instilled an entirely new act of borrowing travel cards in order to save costs. When people had to get to meetings, they often had to buy train slips which would cost about 50 Swedish kronas going both ways (employees were motivated not to take taxis). Even for the benefit of saving this amount, Stefan would ask around if anyone had travel cards to lend as one would often have no use for it during work time and could lend it to people who had to go for meetings at no cost, thus saving them 50 kronas each time. Soon after, this became a trend and everyone started doing it. Stefan himself set the precedent for what was to follow and no one was embarrassed to do the same after he did.

Unlike in large organizations, there was no formal budget created in meeting rooms and relayed to employees. The budgeting question did not exist for them figuratively because each employee was supposed to be cost-conscious. Stefan thought that allocating a budget seemed to be going against the grain of the firm's cost-consciousness culture. Hence, even having a large portion allocated to them meant nothing as they still had to motivate every cost they spent and the budget was flexible depending on the right motivation.

The irrelevance of the budgeting decision was reflected in the way most of the money was spent. Since Glocalnet was a firm in the high technology industry, it was natural that a large proportion of money was spent on engineering activities like research and development.

However, the lack of a proper budget created problems for Stefan. Because there was no formal budget, employees could not perceive what constituted necessary or unnecessary spending as in one case where Stefan had to deal with an upset accounts manager over what was perceived to be unnecessary spending on his part. Glocalnet itself often had ski trips and parties amongst employees. However, all these events were initiated by employees and Stefan always held the belief that for the company to sponsor such events there should always be a clear reason. They were after all, in his own words, a telecom operator and not a free bar.

One event, however, was the exception. Stefan institutionalized some initiatives like the 'open fridge' day which meant that different people get to organize a beer/wine evening with a theme to round off a working week once a month. The company would sponsor this event to the tune of US\$400. Considering this was a monthly event, the amount spent on it yearly would accumulate quickly and it was little wonder why the company's accounting manager was upset by Stefan's decision to support socialization activities. In the end, Stefan took time off to discuss the issue with her and explained that the costs involved were not purely entertainment costs. He saw it as a human resource cost as such an event would boost the employee's morale and ensure that people would get to mix together, regardless of which department they came from. From the point of view of human resources, this would be a relatively small cost if a ritual like that became vital in building, maintaining and developing Glocalnet's corporate culture.

#### **6.1.1.2. Analysis and Discussion**

How leaders allocate resources is the theme of this presumption and the setting of budgets fall into resource allocation. Schein (Schein E. H., 2010) believes that the budget setting process and outcome reveals the leader's assumptions and beliefs. As previously mentioned, an example is that a debt-averse leader will tend to bias the budget towards projects that require less use of debt. The way a leader conducts the budget allocation process also reveals the importance of the said mechanism in reflecting the leader's assumptions of the firm's operations and cultural values. Hence, an open and participative budgetary allocation process could reflect an open inclusive company where the leader advocates employee involvement in the firm's future. As Pfeffer (Pfeffer, 1981) puts it, 'power is inevitably organized around the most critical and scarce resources in the social system'. Hence, within the firm itself, resources have a role in the base and use of power while the external significance of resources is reflected in important theories in the field of management

such as the *resource dependency theory* (Pfeffer & Salancik, 1974) that places significant emphasis on the role of managing resources to ensure an organization's survival.

Upon examining the budgetary allocation process at Glocalnet, the initial results we obtained were contrary to all our expectations and our original presumption. There was no formal budget and neither was there a clear budgeting process. The implication of our presumption that resource allocation would be an important culture creation mechanism presupposes the existence of a budget. After all, it was in our concept that firms with tight resources had to have budgets in order to avoid overspending. We had expected at least an approximate budget to exist, even if it were informal and even if there was no formal budget planning process. Based on theory, which stipulated the importance of resources and hence, budget planning, we were initially faced with results that went contrary to our beliefs.

At Glocalnet, there was no defined budget planning process. In fact, most of the fund allocation was directed towards the engineering and technical aspects of the firm. Like most start-ups, funds are directed into their core value driver, be it production, client service or research and development.

From the thesis on Glocalnet and from how Stefan put it across that the focus of the firm culture was its people, its staff, one would have expected to see a large part of the budget dedicated towards human resources such as employee development. Yet, distinct to how Glocalnet's culture was described, *we could see no obvious connection between the process and outcome of budget allocation and the firm's culture.*

When probed further, Stefan mentioned that it was not so much what was budgeted, rather, the time he as a leader spends with his employees that shows what is important and what not. Does this mean that resource allocation is ineffective as a mechanism due to the fact that start-up's founder cannot spend on what he deems important for a culture? Or that the lack of a formal budget allocation process in Glocalnet show that Schein's theory about resource allocation in shaping culture might not be relevant to start-ups which often lack the formal structure larger organizations have?

*Despite the lack of a formal structure and fixed allocation of budget for Glocalnet, **we believe that this does not negate the importance of budgetary allocations in culture creation.** Due to the less bureaucratic nature of a start-up as well as the volatility in the environment in which it operates, modern theory such as Schein's might have to be interpreted differently in order to suit the*

*environment and characteristics of a start-up as opposed to whom these theories were based on; larger and more mature organizations.*

The current theory postulates structure in budget allocation, however, unlike the large organization, a start-up cannot determine the budget for the year ahead as its environment is subject to change. Hence, the budget allocation is highly flexible and more often than not, concentrated in specific areas like technology, the main driver of the company's operations in the case of Glocalnet. Most start-ups as we have defined earlier tend to be unstructured because flexibility is vital to their survival. Glocalnet described themselves as a 'fast and moving' target, consistent with this view. Hence, from this point of view, the lack of a formal budget allocation process and fixed allocation does not seem as strange as it first appeared.

In the case of Glocalnet, we had to expand our definition of 'budget' to not only look at the formal budget proportions but how the money outside of the other investments was spent. In other words, we had to look at the '**informal budget**'. This means not analyzing the budget allocations in terms of absolute amounts or proportions.

One example is Stefan's decision to sponsor the \$400 monthly 'open fridge' day as an anomaly. While US\$400 monthly might not be a large amount in absolute terms, from the perspective of employees who have been ingrained with the cost conscious culture of the firm, it would be a substantial amount. The significance of the cost involved in sponsoring the 'open fridge' day would thus, be effective in sending a message to employees about the importance of an inclusive culture. The aim of the 'open fridge' day was after all, to ensure that 'morale gets a boost and (ensure) that everybody (independent of departments) got to know each other', according to Stefan. The fact that he could motivate the costs for this event while saving single digit dollars on transportation by itself speaks volumes to employees.

Naturally for this signal to be effective, the firm would have to have a cost-conscious culture already. This leads us to the belief that resource allocation as a culture creation mechanism works simultaneously with other mechanisms. One other such mechanism is the founder's 'leading by example' which helped shape the cost-conscious culture at Glocalnet.

For example, the cost-conscious culture at Glocalnet has been extensively documented and commented on by its founder and employees. Hence, one would expect as the culture is, for every dollar to be documented. This is consistent with Stefan's views that parties or dinners by company staff without suitable motivations should not be sponsored by the company.

Extravagances like business class tickets or taxi rides have never been top of Stefan's priorities. He has never been able to motivate unnecessary expenditures and having a firm distaste of policies, where he claims that: 'The risk of detailed documented policies is that as they come in, common sense goes out'; he relies on the common sense of his employees when it comes to expenditures.

Stefan acknowledged the dilemma of budget expenditure with the question that each decision should be made for itself or for the sake of culture alone to shape what defines the Glocalnet 'common sense'. He believes that this balance is difficult to put a stand on but also has himself, based his decisions on pure logic alone. The factor supporting this style is the small size of Glocalnet. They have been 'small enough to ensure that the risks of misinterpretations (be) a lot smaller than in a large company'.

The absence of a formal budget, on the contrary, was also useful in instilling the 'rational insight' of employees, one of the cultural characteristics (refer to Table 1) of Glocalnet employees. Stefan did not want to rely on formal procedures to guide employee behaviours, rather, he believed in instilling 'common sense', and what better way than to show them trust than allowing managing firm's expenditures. Hence, in the absence of formal allocations or policies, culture is employed to a large extent in maintaining the similar 'common sense' across board on what dictates a necessity, what is extra and how the founder chooses to spend the firm's resources or how not to spend it does play a significant part in shaping the 'common sense' of Glocalnet's employees. Here we see interestingly that with the absence of formal budgets, both culture and budget allocations play a comingled role. The way money is spent sets the basis of expectations and shapes the company's cost-conscious culture. Eventually, this cost consciousness helps to ingrain the 'common sense' that guides employees in their justification of fund expenditure. With how money is spent having a role in shaping the culture, we now observe that the reinforced culture plays a role in fund spending; by ingraining the 'common sense' in employees important in dictating how they justify spending firm funds in the absence of a formal budget policy. Simply put, resource allocation plays both a culture creation and culture reinforcement role, working parallel with other culture creation mechanisms.

Thus, we see that in the small firm context like Glocalnet, the lack of formality in the budget allocation process does not negate the effectiveness or importance of this tool in shaping culture. Rather, it depends on the characteristics of the founder among other factors. Stefan describes himself as being more macro-oriented than detail-oriented and hating long meetings. Hence, it is not surprising to see that budgets in Glocalnet have no formal policies. The small size of the firm also allows for resource expenditure to make a greater impact to employees' beliefs and manage the

risks of misinterpretations as each decision is taken by itself in mind rather than for the sake of culture.

We had to tweak the assumptions and criteria for what defined the 'budget' for the small firm and observe if resource allocation is still an effective tool in start-ups. Unlike the large organization, budget is not the funds determined to each division in a formal board meeting but rather, what the entrepreneur decides to spend on with already scarce resources. However, the nature of start-ups does pose a problem for using Schein's theories which are developed for the context of larger organizations. The fact that larger absolute figures are spent on technology is insignificant for the start-up as compared to larger organizations that tend to have larger resources to spend on varying issues that could reflect on cultural priorities unlike in smaller firms.

The question arises, would the presence of a formal budget work well with a cost-conscious culture since a budget itself would be meaningless if the aim was to keep costs down. Would it also work well with a start-up whose needs change from day-to-day and what is relevant today might not be tomorrow?

The presence of a formal budget could not help in sending signals to employees on what was important in Glocalnet. Their motivation was to minimize costs wherever they could. But the absence of a budget did help to reinforce the cost-conscious culture of the firm since any limit of budget was irrelevant to employees whose main aim was to keep costs down. Barring that, any additional spending helped in sending a bigger signal to what the founder thought important; namely, investing in integration between departments to foster unity, one of the defining traits of Glocalnet.

In the case of Glocalnet, we believe that several factors make resource allocation especially effective in the firm. Firstly, the firm found it challenging to raise funds to expand the business. The founder faced much opposition from big name players and in the beginning, only had US\$2500 to start with. This story is common knowledge and the difficulty in the initial idea exploration stage helped stage the importance of money as a resource in the firm and motivate the cost-conscious culture in the firm. The scarcer the resource, the more highly valued it is and the stronger the signal it sends as to how it is appropriated. The cost conscious-culture of the firm, influenced by the first factor, is the second factor that helps increase the importance of this mechanism in shaping culture at Glocalnet. It is worth remembering that resource allocation in itself is not as effective if not combined with the founder leading by example. Both mechanisms work hand-in-hand to reinforce the cost-consciousness and common sense approach that Stefan wanted to instil in his employees.



### 6.1.2. Recruitment, Selection, Promotion and Excommunication

The presumption for this section is presented below:

*Presumption 1b: In the early stage of a start-up, recruitment and selection is a less important mechanism in embedding culture.*

#### 6.1.2.1. Empirical Results

In the span of four years, Glocalnet witnessed a close to 400 percent increase in employees, from 10 in the initial starting year to 40 employees. GodEl, on the other hand, had about 40 employees in 2012, representing a slightly slower growth in numbers.

When probed about the type of people employed in Glocalnet, Stefan revealed that he would place 90 percent of the employees to those who see their jobs as beyond a 'job', are passionate about it and put their hearts into their work. A job was not a simply a 9-to-5 event for them. More frequently, they often worked long hours into the evening and 'everyone worked nights' and had dinners together. He mentioned too that as passionate as they were into their jobs, he could not see the sustainability of the long hours with work life balance and later this norm was intentionally changed.

This 90-10 split between employees was reflected in the goal of recruitment at Glocalnet. Employees were employed based on their 'attitude and willingness to be part of- and win in a team (rather) than specific competencies'. The best case scenario was trying to find the combination of both the attitude and specific competences but if the choice had to be made between one, Stefan reflected in his thesis on Glocalnet that he would have been less willing to compromise on attitude than on competence. After all, he believed that with the right attitude, people can fix problems but competence coupled with the wrong attitude can create problems for the company. However, despite priding attitude over skill sets, they still had the best people who were attracted to the firm due to its high spotlight and big ambitions - 'We have had the best receptionist, the best IP telephony specialist, the best CFO etc you can imagine.'

Stefan mentioned that even though they had the best people in many categories at Glocalnet, they also had people that were not the best within their area of expertise. It was not a problem for the company as long as the employees 'believed' and had the right attitude. Stefan believed that placing people with the right attitude in a winning environment will allow them to deliver. There was no room for the personal ego. The company 'only wanted individual stars if they (the employees) could take more pride in the team than in themselves.'

At GodEl however, the reverse was true. Stefan mentioned that the split between people who viewed their job as a 9-to-5 job rather than as a passion involving voluntary late nights was a complete reverse, a 10-90 split. They hired for **skill sets** rather than attitude at GodEl. Since sales personnel were in high demand, they could hire the exact skill set they required. Stefan himself was not as involved in making the hiring decisions at GodEl as he was at Glocalnet.

At Glocalnet, they could not employ for competence or specific skill sets because they never knew what knowledge or which specialists they needed 6 months or 1 year in advance. The industry was constantly evolving, same as their corporate goals. What they needed were employees who had the right attitude and were flexible enough to cope with change. Hence, a typical recruitment advertisement could not define the precise roles and responsibilities that typically follow the job description. The result of this style in recruitment at Glocalnet was the variety of skills and backgrounds it introduced into the company. The environment was very international; with some 25 employees and 10 nationalities at one point. Apart from the international diversity, there was also a good balance of men and women, sexual preferences and age. The ages of employees ranged from 18 to over 60 but with a low average age of 32. This visible difference was remarked by Stefan to be appreciated and an important factor in creating a sense of unity and a special bond between employees. However, as the markets focus in Glocalnet became more centred on Sweden, employees gradually became less international and the working language in the office shifted from English to a combination of Swedish and English termed 'Swenglish'.

A typical Glocalnet recruitment advertisement would often contain characteristics they were looking for in individuals such as someone whom would be interested in looking for challenges or one whom could thrive and add structure to an otherwise flexible and unstructured environment rather than specific skill sets. In recruiting campaigns, they usually searched for 'everyday heroes' (*vardagshjältar*) and showed pictures of employees at work as well as in their leisure time, e.g. with their families.

Employees at Glocalnet split the world in two kinds of people: 'Glocies' and others. Stefan wrote, 'all of this was based on a 'general value' that said that the only difference in Glocies we do not accept at Glocalnet is Glocies that do not accept differences', which had to do with the diverse mix of employees in the company.

Since roles at Glocalnet were not defined, they were expected to do a range of activities. Glocies who fail to contribute and work hard when their colleagues were dependent on them were not accepted. There existed a belief that 'everybody can work with anything'. The general concept was

that 'We can all unite and carry things, lick stamps or whatever. Help out where it is needed. No person is too 'fine' to do anything.' The company was seen as 'ONE', which reflected their unity and as 'OUR', which reflected their commitment. Stefan believed that this helped create a culture with strengths that not one individual or management team can fully control but a dream team of team players with no individual stars. Any employee who refused to shoulder his work or help out in a reasonable way would not incur the wrath of his manager; rather, he would get the whole company behind his back, holding him accountable.

It is maybe then, not such a surprise to learn that there was more degree holders employed at Glocalnet than at GodEl. Since the revenue driver at GodEl was its client base, more roles for the sales function existed and hiring decisions were made on the level of sales experience. With an objective criterion in mind, the delegation of responsibility in recruitment could be more easily outsourced to the sales manager and Stefan does not himself take part in the hiring process as he believes his employees with sales experience can do the job better than he can. The situation differed from Glocalnet as the concept of what defined the 'right attitude' tended to be sketchier. Hence, Stefan was more involved in hiring decisions at Glocalnet compared to GodEl. However, a similar aspect to both firms is the tradition of Stefan meeting with all employees either before the commencement of work or in the first few weeks of employment and this applied even to the summer trainees.

Unlike the typical start-up, salaries at Glocalnet were competitive and Stefan was always able to offer at least market rates wages to his employees. However, even while they could afford to do so, the company still preferred to hire individuals who were not motivated by the salary. The key selling point of Glocalnet, in the words of Stefan, was the fun atmosphere it offered to employees. He admitted that while no single company could demand that an employee refuse a high salary, he wanted to be sure that money was not the main motivation to work at either Glocalnet or GodEl. In fact, if a 'top salary was the main objective for a potential employee, we have always been happy to give the names of some of our competitors in a recruitment process.' In GodEl however, salaries are often paid slightly below market rates even though the company can afford to pay higher. Since GodEl was founded on a social basis and profits are donated to social causes, Stefan believes it is important that employees work for the company for reasons other than money. He also believes that salaries are only a hygiene factor and an employee who demands a higher salary is probably dissatisfied with his job in some other way.

Despite the lower salaries at GodEl, there were never difficulties in recruiting people since people were attracted to the unique business model of the company. Most people were referred to them via word of mouth. As for Glocalnet, recruitment was also not a problem as it helped that they were highly publicized and famous due to them being on the edge of creating new technologies and being among the pioneers in their market. Executive recruitment in both companies is conducted through external recruitment consultancies as these agencies tend to have better networks. Majority of recruitment at Glocalnet took place over the web and they were considered to be the pioneers of web-based recruitment before it became mainstream. It was a good tool as it also self-selected applicants who were less traditional and more technologically savvy.

Recruitment at both companies is a flexible process. Stefan believes in talent over circumstance, thus formal headcounts do not matter. If the firm does not have a current need for anyone, yet, should they find a talent, a position can be created. One example is how Annika referred her friend to the company even though there was no specific vacancy. Annika herself was recruited after she sent an unsolicited mail expressing her interest in working at GodEl after learning about GodEl's social focus. The process of internal referral works fast and her friend is now slated to work in GodEl. Ambition is a key criterion Stefan looks for in nurturing the next generation of managers even for a social company like GodEl.

It is also worth noting that promotion at Glocalnet hardly exists as the company is small and non-hierarchical. The same is true for GodEl. However, despite the lackluster salaries and non-existent chances for promotion, both companies have done well in terms of employee retention. Stefan writes that 'during (their) five years of operation, (they) have been on the radar screens of head-hunters and competitors but (they) have only on two occasions, seen "Glocies" leave for competitors.' One of the cases was a very competent employee who left for a better salary and better development opportunities. The employee had tried to poach existing Glocies but none were willing to trade the atmosphere at Glocalnet for a better salary or position.

In terms of internal selection, Stefan believes in nurturing talents from within the company. At Glocalnet the management team consisted of seven people and the latest addition was Jan Edholm, newly recruited as the CEO, and one additional person that had been recruited directly into a management role. Thus, even with the inclusion of Jan, 'it is only two out of seven that are (were) not home grown. And this after only five full years as a company'. Stefan writes that even during the years, he could clearly see that it was 'always the home-grown managers that have performed the best. And even more clearly home-grown managers never become as weak as a bad outsider can

become. So the best managers have been home-grown and the worst have been external (please note that this is not the same as saying that no external (managers) have been good, which they definitely have). ”

To summarize, we see that even between start-ups by the same founder, recruitment patterns considerably differ. The composition of employees in terms of educational levels, motivation, role of the founder in recruitment and selection and recruitment criteria of the firm vastly differ.

<b>Factors</b>	<b>Glocalnet</b>	<b>GodEI</b>
<b>Composition</b>	Degree holders	Varied
<b>Motivation</b>	Work and Love	Work (Business Model)
<b>Role of Founder in Recruitment</b>	Highly Involved	Lower Involvement
<b>Selection Criteria</b>	Attitude over Skills	Skills over Attitude

**Table 2. Comparison between Glocalnet and GodEI**

#### **6.1.2.2. Analysis and Discussion**

In his book, Schein (Schein E. H., 2010) writes that the process of recruitment, selection, promotion and excommunication is one of the most powerful yet subtle ways in which leader’s assumptions would get embedded and spread through the organization. This tool embodies the direct results and observations as opposed to verbal assertions. Hence, compared to verbal reinstatements by a leader of what he appreciates, promoting someone else who embodies the total opposite on numerous basis send a strong contradictory message.

Just because large organizations have more resources and attract a wider pool of candidates, it might be logical to believe that recruitment and selection would be an important and obvious tool to manage the corporate culture for them. However, it can become ineffective for precisely the same reasons. Stefan mentioned that his mentor had said that if he were to apply to his current firm, of which he is the standing CEO, he might not have been hired because they prided technical knowledge more than anything else. To quote Stefan: ‘The reason I remember this, is that it sounded very odd to me. He was a great pioneer and entrepreneur. Were such people not needed anymore? The tremendous success had made the company so attractive that they could get anyone.’

Our interview yielded two main differences from our presumption. Firstly, we had believed that recruitment would be difficult for start-ups as the lack of promotion opportunities and uncompetitive salaries would hinder attracting the brightest minds. Secondly, we assumed that competencies and skill sets would be valued over attitudes and values since resources would be

scarce. Our presumption was that recruitment and selection will not be an important tool because a start-up with limited resources (money) internally to hire and an unattractive environment (inability to provide job security) will vastly reduce its pool of candidates of hire. We thus, believed that the combination of these factors would limit the use of this mechanism for a founder to create culture in his firm. However, the empirical results we obtained gave us contradictory results for both firms.

From our empirical results above, it can be surmised that recruitment and selection played a very important role in the culture creation process at Glocalnet which led to its high levels of loyalty and low turnover. The same, though, cannot be easily concluded for GodEl, which seems to run on a very different employment blueprint than Glocalnet. Both were start-ups at some point and both have the same founder but the importance of the said mechanism varies in importance.

We shall analyse this phenomenon based on the four factor differences; composition of employees, motivation, founder involvement and selection criteria.

Based on selection criteria, Glocalnet prided attitude more than skill sets to the exact opposite of GodEl. Even though at that point in time, Stefan would not have known why, on hindsight, he mentioned that this difference resulted from the differing levels of industry maturity the companies were based in. Glocalnet was situated in a developing industry or rather, an industry where the market for their products did not even exist whereas GodEl, being the provider of electricity, was based in the more mature energy industry. Thus said, the goals for Glocalnet were much sketchier. Changes in the industry were more rapid and volatile and it was hard to predict what was needed in order to advance. Hence, hiring for attitude solved the problem since the skill set that would be required was unknown and like Stefan said, an employee with the right attitude would make things work. Hiring for skills could mean that the employee be made redundant when his skill was no longer relevant due to changing industry needs.

The case at GodEl was different. As an electricity provider, they knew precisely what was needed and the changes that happened in the industry were slow. They needed people who would sell their company electricity subscriptions. Hence, because they knew which definite roles they needed, they could employ people based on specific skill sets. Attitude had less of a command of value at GodEl than at Glocalnet.

The second difference was the kind of motivation of employees in each company. The motivation of Glocalnet employees was consistent with those predicted by the SPEC studies of high-technology companies; work. They were intrigued about working at the forefront of technology developing an

entirely new market of their own. Glocalnet had no problems recruiting the best engineers because they were the pioneers in their field. Engineers were excited to be working within the forefront of the industry. Glocalnet had a story to tell and their story was a unique one. They captured the attention of the media symbolically representing David against the current industrial Goliaths such as Telia or Tele2. However, employees were also motivated to work because of a sense of attachment and 'love' to the company. At GodEl, it was usually a 9-5am job and their motivation to work was beyond the company. They were attracted to the company's social purpose of putting aside profits for charity. This was the overarching reason why they could accept a lower salary than what they could have. Here, we observe that two factors affect the effectiveness of recruitment and selection as a mechanism for culture creation, namely, the *type of industry* and the *organization's business model*. Compared to Glocalnet, GodEl did not and could not provide such an interesting and challenging work as a form of motivation to attract employees as Glocalnet, which was a pioneer in its field. On the other hand, its unique social business model did work in attracting employees eager to make a difference to society in their daily jobs.

The third difference in composition of employees between the companies was a greater number of degree holders at Glocalnet which was a natural evolution due to industry requirements. Having prided attitude over specific skill sets, Glocalnet had to have more degree holders without specific skill sets but bright enough to be flexible and adaptable with industry requirements.

Lastly, the founder's involvement also differed between both firms with heavier involvement of Stefan with recruitment processes at Glocalnet than at GodEl. This difference is not surprising considering that hiring for 'attitude' meant that a defined hiring policy is ineffective as the selection criteria itself is subjective. Hence, the founder himself would have to be more involved as he knows the selection criteria best and serves as the embodiment of the 'attitude' he is looking for. The selection criteria of being good sales personnel can be outsourced to sales managers at GodEl, thus, relieving the need for Stefan to be personally involved.

It is not directly conclusive whether recruitment and selection as a culture creation mechanism was more important or effective in Glocalnet or GodEl. Sure, Glocalnet had greater involvement of the founder with regard to the use of this mechanism but one could also argue that the presence of a defined recruitment hiring policy also signifies the importance of this mechanism in GodEl. It is thus, impossible in the end, to judge whether the mechanism in itself was important but to answer another question that arose as a result of comparing the results between two firms: What is the role of recruitment and selection as a culture creation mechanism most affected by?

A summary of the majority of our discussion above would have revealed that it is not the stage of the firm (start-up compared to matured organizations), or the size of the firm (small compared to large organizations) that have the most impact on the relevance of this mechanism. This case analysis revealed that resource constraints, both internally (financial) and externally (smaller pool of candidates attracted to work for start-ups) might not affect the importance or effectiveness of recruitment and selection to a start-up as much as we thought. Rather, we identified three factors as based on the previous argumentation; 1.The stage of industry maturity, 2.The type of industry the organization is involved in and 3.The business model of the organization.

## **6.2. The Driving Force behind Culture Creation**

The analysis in this section is based on the presumption below:

*Presumption 2: The founder plays the most important driving role in culture creation in a start-up.*

### **6.2.1. Empirical Results**

The establishment of Glocalnet could be a textbook example for entrepreneurial start-ups which began with some crazy and seemingly unrealistic idea. In spite of the primary challenges, Glocalnet managed to attract high publicity quite soon due to their innovative technological approach. There were none other similar companies in all Europe and only two other pioneers in the United States. Glocalnet, together with a few other ventures, were named the 'next generation Telco'. As such, due to the pioneering nature of the company, Stefan was often interviewed by the media, both locally in Sweden and overseas. Naturally, he became the face of Glocalnet and the effect of that was the extent of impact he had in the media.

The major values of Glocalnet's corporate culture were presented in the Introduction to the cases section. Most of them were initiated and later enforced by the founder himself, as explained below.

Part of Glocalnet's culture was the sense of collective unity despite individual differences - Individual Diversity and Joint Unity. This was not a standalone development; however, it was in part affected by Stefan's attitude towards the media spotlight. The media spotlight increased the amplitude of the role he had in culture creation since his every word and deed was scrutinized and reported through varying channels. Hence, what he did was not only observed by employees, but observed by outsiders who would then reconfirm the message he wished to send.

In Stefan's words, he mentioned that when both he and Andrin started Glocalnet, he often got to represent the company towards media or other external parties. The situation arose that whenever he was asked: 'what "I" (he) thought about different issues or if "I" (he) wanted Glocalnet to do this', he would answer with a "we" think, "we" believe or "we" will do this or that. He most often talked in



the “we” form when talking to people in the organisation as well. To him, it felt like the natural thing. His beliefs were that ‘Glocalnet was not Stefan and (his) ideas were in a sense irrelevant. The relevance was what Glocalnet thought.’ This deed was in contrast with what the many big industry leaders of his time did differently. CEOs of large telecom operators (“telcos”) were usually commenting on relevant industry or company developments in the “I” form. In the earlier years, Stefan’s impression was that ‘these CEOs were full of themselves and arrogant since they thought so highly of themselves that they talked in “I” form’. This showed that the “company-as-one” concept was important to him right from the beginning.

The diversity in the firm was also encouraged by Stefan himself. He revealed his hiring policy was influenced by his belief that diversity had to be accepted in the firm, including the differing sexual preferences. Since typically many people were involved in the hiring process, he felt that it was his duty to impose his beliefs in order to ensure that all ‘have a common view of what (they were) looking for and what not’. This resulted in the international diversity of the company’s culture as previously documented.

Despite the initial diversity whereby it necessitated the use of English as the corporate language in the firm, Glocalnet grew to be more of a Swedish firm rather than international company. At Glocalnet, they started with English both spoken and written. They were a small company in Sweden with many different nationalities in the crew and the world as working field and English was very natural for them. However, over the years, Glocalnet became more and more focused on Sweden’s market and the crew slowly became more and more Swedish. As a result, it started to feel artificial for some that worked most of the time with Swedes to speak English. In the end, the company financed Swedish courses for those that did not speak Swedish and English courses for those that did not speak English. With time however, the company eventually became more and more Swedish in praxis.

The second aspect of culture characteristic of Glocalnet was the ‘Work-Life Balance’ that Stefan advocated. One example of him driving that message through is through his extensive use of the slogan ‘Give Gas and Have Fun!’ (abbreviated as ‘GG&HF!’) internally. The phrase itself is a slogan from Kindergarten, a ‘direct translation from the Norwegian ‘Gi Gas!’’, what we in Sweden call ‘Kör så det ryker!’.’ It embodies the spirit and high energy Stefan hoped his firm would possess.

As the company grew, those words would be his final words at the weekly Monday morning meetings before they split up. Even in internal written communication with his employees, he would end the messages with ‘GG&HF’ instead of the typical ‘Best regards’ or similar. The importance of

this slogan was revealed at the time when Glocalnet's HR manager attempted to document the firm's culture for the first time between 1999 and 2000. The phrase was made the centrepiece around which all the internal values were listed. It had become an inseparable manifest of Glocalnet's culture and it all started from the founder's prolific use of the phrase during meetings and in internal communication. Stefan believed that this slogan embodied being able to enjoy one's job, to balance fun with working, not working too much nor of having too much fun that one neglects working. The essence of that expression was meant to promote the balance – working hard and having fun at the same time. In order to get the essence of balance clearly into Glocalnet's version 'GG&HF', Stefan, at some occasions, would reverse the phrase by saying 'Have Fun and Give Gas'. This is after everybody had worked hard and it was the time to celebrate the results. In such situations, it would have been because he believed 'the organization was nearly killing itself in order to succeed with something' and he would often emphasize his reasons for turning it around.

A third cultural trait of Glocalnet was the aspect of Rational Insight with Emotional Commitment. This involved acknowledging that Glocalnet was a small company with limited resources, knowing that they needed to play by the rules that apply to small companies yet believing that they could win any fight with the right belief. Playing by the rules of small companies was what Stefan best embodied in his cost-conscious behaviour. Much of Stefan's cost-conscious behaviour had been previously elaborated. He owned no company car, only a bicycle and took the train instead of taxis when he could among other examples. He himself set a precedent for borrowing train cards in order to save money in the firm. These actions oriented to saving company's funds helped drive through the concept that a small firm needed to have that added 'common sense' in reducing expenses.

Interesting points in Stefan's cultural creation process are the things he decides not to participate in. There are multiple examples when Glocalnet's culture was influenced internally by not only the founder, but also the employees. For example, Stefan recalls that colleagues frequently gathered for informal parties without any interference from the firm's management. There also was a habit to have late dinners together. Some of the unofficially started initiatives were later institutionalized in the company. The 'Open fridge' party was a monthly event where different people were supposed to throw a thematic beer/wine party.

While Stefan believed in employees having fun and being united, he was also confident that 'the best parties are typically not initiated from management.' If employees wanted to have a party, it had to be motivated by strong reasons such as the successful completion of a project for the company to sponsor the event financially. More importantly, he believed that a great party is one where employees take the initiative to plan and organize it. An example is the annual Glocalnet ski

trip that has taken place for several years. These trips have been very popular and each year a new person was made responsible for the organization. Stefan noticed that the best thing about such events is that 'they have never been either sponsored or initiated by management.' Thus, to him at least, it could not be better from a culture perspective.

Also, when asked about the role of employees in the hiring decisions, Stefan said that he believed that he would trust the rest of his employees to be able to make the hiring decisions on his behalf. For example, he would trust his employee, Annika, who was present during the interview, to make the hiring decision one year after working in the company since he believes the employee would have known enough of the culture and is part of that culture. He was that confident in their alignment with the firm culture that he trusted they would not make the wrong decision. This attitude stemmed from his belief that the leader should not be the only champion of culture in the firm. In fact, he believes that it is more effective in culture creation when the other employees champion culture instead of the founder himself.

Before the interview we assumed that leaders' behaviour would be closely monitored by the employees and the failures to follow the self-communicated guidelines would be noticed. It proved to be correct. Stefan recalled a situation when in contrast to his promotion of the cost-consciousness; he started to use expensive taxi services more often due to certain factors. Even though his choice was well-thought, such a discrepancy was not left unnoticed and soon many employees did not bother to use public transportation creating a big problem in the company. Thankfully, due to the relatively small size of the company, Glocalnet's management was able to ensure that any misunderstandings could be easily cleared up.

### **6.2.2. Analysis and Discussion**

The empirical results shown above confirm the presumption that the founder plays one of the most important roles in driving culture creation. In the introduction of the case, we had presented an overview of the cultural traits of Glocalnet as defined by Stefan. Later, we presented some of his actions that helped create and reinforce those traits identified in the Glocies community.

The diversity of the firm where people were not only diverse, but accepted this diversity as positive was created by Stefan's firm policy which he communicated to everyone about not discriminating based on race, nationality, age or sexual preferences. To maintain integration across the company, he even instituted the 'Open fridge' day. Apart from that, he often sent reinforcing signals by referring to 'we' instead of 'I' when under the media spotlight in order to portray the firm as a

united whole. These are all examples that point towards the importance of his role in creating the united but diverse culture in the firm.

However, it is important to note the limitations of the role of the founder. Glocalnet's business specifics made them highly dependent on the developments in the external environment, thus making the theory of Anderson and Anderson (Anderson & Anderson, 2001) more relevant to the case. The major transformation in Glocalnet's corporate culture was influenced by the outside factors, when their VoIP technology appeared to be too early for the market. Therefore, their culture was also predominantly driven by industry factors, requiring them to be quick and flexible as they were the first movers.

The company had started out as a diverse crew of 25 employees and 10 nationalities at one point. This was exactly at the time when Glocalnet was thick in the media frenzy on 'next generation telcos' and then, Stefan commented 'These were crazy days. We believed that the technology would drastically change an industry the size of some five percent of the world's GDP and we were with some 20 people in the centre of the events.'

However, less than three years later and Glocalnet has well passed a quarter billion SEK in yearly revenues consisting of landline and mobile telephony as well as dial-up and broadband Internet services in Sweden. From being international competitors, Glocalnet became the main challenger towards Telia and Tele2 in the consumer market. Glocalnet also outsourced most of its underlying telecom service production to Network operators (i.e. there is no voice over IP used) and was almost entirely (99 percent) characterized as a Service Provider. The most drastic change was that Glocalnet had no international operations. They had to leave their "IP years" and move into a "mass market challenger". The change in strategy itself is not interesting but rather, the effect of the change in strategy on the firm's culture.

The documentation of the change in Glocalnet, where they started with English both spoken and written to a company more and more focused on Sweden with a crew that slowly became more and more Swedish, resulted in the feeling of artificialness for some that worked most of the time with Swedes to speak English. Gradually, the official language changed from English to Swenglish and eventually, most spoke Swedish. Was this change a part of Stefan's culture creation plan? It appears that the development of this situation was out of his control. The reduction in diversity and change in corporate language of the firm was not a conscious decision of the leader. It was determined by the changing forces in the industry, the external environment.

The process was as described by Stefan *'the outcome so far does not resemble the original business plan very much. When comparing what Glocalnet is today to what it was during 1998 it is easy to believe there has been a neutron bomb detonation in between. I do not think that is how people felt it though (although personnel cut-downs and the final decision to abandon voice over IP were hard blows). But reality bit us. Voice over IP is changing the industry and the value chain is still moving ahead in the direction we foresaw. The technology did not however revolutionize the industry but rather became a strong force in an ongoing evolution.'*

The resulting layoffs and focus to the mass market operations showed that changes in the corporate culture may be driven by the leader but environmental situations affect both large and small organizations and constraints leaders in their concept of what their ideal organizational culture should be.

The second aspect is the role employees play in driving culture creation. Several instances showed Stefan's reliance on the employees to take over his role in creating the firm's corporate culture. Stefan did not believe in organizing parties to promote integration across the firm on his own initiative. He believed the best approach was based on employee's initiatives. However, this was something he could not influence. He also gave some the freedom to be able to make the hiring decision without the absolute need of his presence which showed that an employee can be the champion of the internal culture when suitably embodying the desired culture the leader seeks. The role of the leader thus loses its monopoly and while he can be the main culture champion, the employees play an important role in substituting or accompanying the leader as a culture champion.

One factor that led to the increased role of the leader in driving culture creation in the start-up is the small size of the firm. When Stefan did things contrary to the cost-conscious value that he was advocating such as taking taxis, it resulted in a miscommunication and more employees started taking taxis as well. In a small firm, a leader's actions are more visible and the effect more pronounced and quicker. This was made worse in the absence of detailed expenditure policy. However, the size of the firm also worked as a double edged sword. It was precisely because the firm was small that misconceptions can be easily rectified swiftly.

Our presumption that the founder plays the most important role in the culture creation process in a start-up proved true in the case of Glocalnet even though this may prove different depending on founder's characteristics or other factors. However, it also threw some light on the role of the environment and employees in the culture creation process as well. There seems to be no sole

driver, effectiveness is propelled or hindered by both external and internal forces, especially in industries with high dependence on other market players, such as high technology.

### 6.3. Structure in Culture Creation

The guiding presumption of the chapter:

*Presumption 3: Cultural creation tends to be an unstructured process in the start-up but this has a positive effect in the early stages*

#### 6.3.1. Empirical Results

Our third presumption focuses on the importance of structure in the culture creation process. We assumed that culture is created in an unstructured way in start-ups and such a process is far from disadvantageous in the early phases of company's development.

Stefan described the evolution of culture in Glocalnet as something that 'just happened' while the team was busy with other tasks, thus confirming our initial presumption. He recalls that their key priorities in the very beginning were to secure financial funds for the firm's operations and look for partnerships that would extend their development. As a result, there was no time to build the structure for the organizational culture, which was also seen as an intangible area and a not very well apprehended one. Stefan saw themselves as 'laymen' back then – still very new and profane in the business. Even the leaders in the organization did not have a clear understanding of how to manage this 'fluffy subject'.

In his exact words, *'Taking it to its extreme one could say that the culture we all built together was just the mirror of all the other things we did. It just happened. It was based on our dreams and values but there was no master plan for this. The culture was what happened, as we were busy doing other things.'*

Structure begins with a plan, either imagined or documented. If the vision of future steps is not clear, implementing routines becomes highly challenging. However, Glocalnet did not have a 'master plan' and their vision was blurry in the first years of operation. There was also no intentional focus for shaping the corporate culture proactively in the firm. The goal of Glocalnet itself was described as 'fluffy' (*'The fact that we had a fluffy statement of becoming 'a leading next generation telco' as a surrogate vision did not really disturb the picture that much.'*) There were no definite ways to attain that goal. What constituted being the 'next generation', Stefan was unable to provide such a definition to his employees as the term was an evolving definition.

For approximately three years of operation, Glocalnet's management did not document the elements of culture. Stefan explains that documentation did not fit into their business philosophy:

‘The risk of detailed documented policies is that as they come in, common sense goes out’. This illustrates that Glocalnet’s leader feared chaos much less than the lack of reason. They wanted to encourage the employees to think hard and invent better ways of doing things all the time. In his interview, Stefan said that if he was to implement policies for everything, even a single policy for being able to take a taxi could easily run up to a hundred pages. Policies were easy to create but they were not flexible. Instead, he preferred to use ‘common sense’ in place of policies and documentation by hiring ‘sensible people in the organization’ and then having an overall more generalized policy such as saying that: ‘you should be able to motivate every cost you create’.

The lack of structure was also observed in the short and infrequent meetings at Glocalnet. Frequent internal meetings could serve as a good tool to communicate culture and manage the deviations from the norm. However, Stefan insists that he wanted to minimize the number and the length of such meetings. He believes that most companies tend to meet too much, which gradually becomes inefficient. Therefore, meetings at Glocalnet had to be short and up to the point. The unstructured and unplanned communication form was also encouraged. Instead of meeting every week at the same time in a large group, two people working on the same project could meet together and discuss the most important problems. Stefan believes that as most organizations have a tendency to have too many meetings, it ought to be one of management’s ‘most important roles to counteract this natural pull.’

Even the hiring policies as described in the previous presumptions were unstructured in Glocalnet. Recruitment decisions could be made based on the person and not on the formal need for a specific employee. Even if there were no vacancies available, Glocalnet could easily create a new position in order to accommodate the talented person.

### **6.3.2. Analysis and Discussion**

Even though Schein’s theory on *Culture Embedding Mechanisms* (Schein E. H., 2004) stresses the importance of structure in creating and ingraining cultural norms in the firm, our case supported the initial presumption that culture creation process is most likely to be unstructured in a start-up firm. Nevertheless, it can still produce a strong culture as demonstrated by Glocalnet. However, that is not to say culture creation was an entirely structureless process. Structure was not preferred in their organizational processes as it could damage their sustainable competitive advantages – flexibility and speed.

The absence of formal structures in the culture creation process was due to its low relevance. It can be assumed that the relevance of having a structured vision to guide the culture creation process is dependent on the type and stage of industry the firm is in. Thus said, the absence of a defining vision

was not incompatible with the culture Stefan sought to create in his firm. He believed that even *Belief (visionary)* companies' vision statements and business ideas could become outdated but this would not affect the fact that the company remains a Belief company anyway. To him, a Belief company is more than a vision statement. While acknowledging that a fixed vision statement can be a great ingredient, he feels that it is not as relevant to a start-up as it might have been to a larger organization. Glocalnet had a clear vision statement when they were founded but in a few years time it appeared as not relevant anymore.

In this case, the relevance was largely determined by how fast the industry evolved. It is not possible to have structured hiring policies or policies pertaining to other issues if the firm is involved with rapid innovation in the industry. The positive aspect of having less fixed structure in culture creation is summed up in Glocalnet's principle that 'Seeking is part of being a start up'.

However, the lack of structure was accompanied by its own problems. At Glocalnet, some managers had had 'unnecessary feelings of unease about the fact that (the firm) had not always (had their) vision and mission statements sorted out.' Many managers were, just as Stefan was, inexperienced and did not feel comfortable in explaining that they were 'just seeking' and that this was normal. They all wanted to be able to communicate a clear strong vision with a nicely packaged slogan.

Another problem that arose was the increased frequency that employees started to take taxis after witnessing Stefan do the same. The lack of directives and policies and relying solely on personal examples and storytelling did not work effectively in this situation. As the organization expanded very rapidly, the 'common sense' rules and visible examples did not spread quickly enough and instead bad examples became prevalent. With the increasing company size, it became more difficult for the employees to see the larger picture. This led Stefan to rethink his behaviour of taking expensive taxi transportation too frequently. The issue for him was whether to make his decisions on the surface, just to try to look cost-efficient or make it for the sake of its true reason; not to turn up late for a client meeting. It was a tough decision for him since whatever he did would effectively take the place of the absent policies in the company. However, this did not turn out to be a huge problem at that time due to the size of Glocalnet as the company was small enough to ensure that the risk of misinterpretations was a lot lower than in a large company. Were the company bigger, the lack of a structured policy might have resulted in Stefan making decisions just for the 'face' of it and risk jeopardizing the 'common sense' he wished to have in the company.

The issue of using 'common sense' to replace structure also had its problems. With the diversified HR blueprint it had, Glocalnet faced the problem of differing perceptions of what the common sense



entailed. Stefan mentioned that it was not easy to manage, i.e. communicate and follow-up very broad common sense rules. Common sense was different to different people and in the end, Stefan had to find a balance – clear, detailed directives on some issues to help communicate the more overall common sense rule in place of example setting at times where storytelling and good examples from colleagues were unable to reach the employees effectively and on time.

Even in a small start-up with a founder who dislikes bureaucracy and in an industry where flexibility is crucial, we see the need for directives. Another instance is seen in the concept of the ‘we’ vs ‘I’ issue where Stefan opted for the use of ‘we’ when talking about Glocalnet in the media spotlight. He had some concerns initially when he first realised that he had not discussed most issues with all personnel. By using ‘we’, he felt that he borrowed on Glocalnet’s credibility without first knowing what others thought. However, he still kept to the use the ‘we’ pronoun as he felt that it was important that a company is able to have a collective agreement. (*‘What it boils down to is that if a CEO cannot say ‘we’ regarding issues because there are many different views the company will become confused and lose focus. I wonder what company can afford such a situation?’*)

In his opinion, he felt that he needed to be the frame of the company, providing the skeleton of the company without limiting the individual differences of employees (*‘In my view companies should make the most of the limited resources it has at hand and this is quite clearly not possible if different employees pull in different directions. No company can over time survive with many I’s – they need a big WE.’*) In the case of Glocalnet, Stefan is the big WE, daring to say ‘we’ even in situations when he has not discussed the topic with everyone in the organisation. Otherwise he would ‘not (be) a leader but a neutral spokesperson.’ Stefan’s role as clearly seen is as a frame within which culture is free to develop: *‘Actually I rather believe that, as long as I stayed as CEO, i.e. in the dual role as founder and CEO, I could create a frame to the jigsaw. I did not control exactly what picture the jigsaw would gather up to but I did have a kind of veto to stop developments of the culture in certain directions.’*

Despite the problems faced, one thing was clear throughout the interview: structure was not a part of their early strategy. As already mentioned, the key values in Glocalnet were agility and speed. Fixed and commonly-agreed upon structures would probably accelerate the processes, however, it would damage the flexibility vital to succeeding in this pioneering field. Stefan compared them as a ‘moving target’ back then – constantly seeking and changing. That worked as an advantage against the closely following competitors.

Also, the firm’s founders collected a team of stars, very brilliant and capable people. According to the management, these people should be given the freedom to make ad-hoc solutions depending on the situation. Using the common sense in every situation and not simply following the rules is a

competitive advantage for small firms whereas large corporations prefer standardized routines where even less skilled employees can make 'good enough' decisions. Therefore, Glocalnet's founders had no structure for cultural management as only an obscure vision was present. Naturally, this was a lengthy process as values and norms needed to be transmitted from the founder to all employees.

As observed, the decision for the level of structure is not solely dependent on the organization's size. A larger organization might have the propensity for more structure in the culture creation process simply because it is larger and thus, more complicated. However, within small firms and start-ups, this could be influenced also by the founder's personality and the type of industry the firm is operating in.

Throughout the process, we could see Stefan's personality shaping the level of structure in his firms as he considered himself a visionary leader with a 'lack of attention to details' and a dislike of long meetings and lengthy policies. Also, had Glocalnet been in a less innovative industry, it could have less demanding goals and required lesser flexibility, thus, increasing the relevance of structure to its operations and culture creation process.

## 7. Conclusion

*This chapter provides the conclusions of our research followed by managerial implications for current and future entrepreneurs, limitations of application and suggestions for further research.*

The goal of our research was to answer the below question:

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***How might the theories for culture creation differ and be adapted for start-up firms taking into account the specific business conditions they operate in?***

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As we have realized studying the available literature on culture creation, most theories do not account for the small and young firms. They ignore their small size and young age, limited resources and the vulnerable environment they operate in. Thus, we conclude that theories on culture creation need to be adapted. We start our conclusions by summarizing the empirical findings on Glocalnet case and then proceed to overall conclusions merged with managerial implications.

### 7.1. Conclusions on Glocalnet

One of the most interesting observations from our analysis was what we noticed beyond the presumptions that guided our research. Instead of being meant to develop different rules and structures in the firm, the corporate culture itself replaced the role of structure in the firm. At Glocalnet, its founder Stefan himself was the skeleton of the firm, representing the common identity 'WE' (both internally and in the media), setting his beliefs onto the firm but providing enough flexibility for individual diversity. Later on, when this 'skeleton' was established, he relied on this to implant the 'common sense' as he understood it into employees through leading by his own example. Occasionally, he supplemented this process with more binding and formal directives. Ultimately, despite the diversity of the firm, the employees had become forged with such a strong culture that these deep assumptions and values formed a common 'common sense' and their strong sense of belonging to the 'Glocies' community.

The described development is consistent with what Ouchi (Ouchi W. G., 1980) had theorized. In examining the variables used to govern the firm in order to achieve superior firm performance, he identified three approaches; the market approach, bureaucracy approach and lastly, the clan approach which is synonymous with the culture of a firm (Ouchi W. G., 1980).

Ouchi (Ouchi W. G., 1980) described the market form of control as a transactional approach with the price mechanism at the centre stage. It is more representative of larger firms whereby contracts are drawn out between parties; employees and employer, with a mutually agreed upon price. The bureaucracy approach which is inflexible and inefficient in the face of increased complexity is also

contract based but relates more to close monitoring through a complex system of rules and formality. The last governing mechanism identified by Ouchi is the **clan** which he describes as a form of socialization between self-interested parties who still see their objectives in exchange as being congruent. This approach would provide a 'general paradigm that can help to determine what is best for the relationship'.

In identifying the form of control in Glocalnet, it most closely resembles the clan form of governance which requires little form of employee monitoring and is most efficient in governing transactions that take place under an environment of high uncertainty and complexity, reflecting the conditions under which a start-up usually operates. However, the success of this governing mechanism depends on high levels of goal congruence and the shared understanding of some general paradigm that helps employees determine collective interest as it allows for more rapid processing of information as employees are more willing and able to coordinate without supervision.

In the contextual case of Glocalnet, Stefan successfully managed to shape this 'common sense' to replace the role of the 'general paradigm' that would help employees determine the collective interest necessary for coordination with minimal supervision.

## **7.2. Managerial Implications**

Seeing the rising interest in organizational culture and its proactive management, we primarily address this research to current and future entrepreneurs. We hope this study will bring awareness and understanding to those who desire to shape their company culture as opposed to allowing an unplanned development. Based on research findings, we have prepared key lessons that could be used by start-up founders.

### **7.2.1. Involving employees in the firm's resource allocation process**

Our empirical study showed that budget allocation can be an unstructured process in young start-ups due to their inability to plan long-term and attach their expenses to certain departments or projects as a result of the volatile environment they operate in. Nevertheless, it still this does not negate budget's importance as a culture creation mechanism. We found out that Scheins' definition of resource should also be expanded beyond a financial definition to include time as well.

Scheins' definition of a budget also had to be taken beyond its popular concept. In the case of Glocalnet, we had to expand our definition of 'budget' to not only look at the formal budget proportions but how the money outside of the other investments was spent, so called the 'informal budget'.

For instance, a decision to support company's socialization activities or the one to spend nothing on such events sends important message to employees on what corporate culture in the firm *should be*. However, this mechanism does not work as effectively on its own as when used simultaneously with other culture creation mechanisms.

The fact that financial resources are usually scarce in young firms and may lead to power plays additionally strengthens the role of resource allocation in creating culture. While the end result of what is budgeted is important in sending out signals to employees, the process by which the budget is created should not be neglected. Entrepreneurs can involve employees in this process to guide them through their budget allocation decision making process, thereby, increasing the effect of this mechanism. Thus, start-up leaders have to be selective in allocating scarce resources in the firm as all allocations will most likely have an effect on the forming firm's culture.

#### **7.2.2. Increasing the odds of Recruitment and Selection as an effective mechanism**

Our initial presumption that recruitment and selection will be of lesser importance in shaping the culture in start-up firms compared to larger organizations with easier access to finance and talent, proved to be incorrect. It appeared that young firms can capitalize on their advantages in attracting brightest talent, such as pioneering industry, the attraction of industry itself and company's business model (especially obvious in GodEI's case).

Young ambitious start-ups that cannot settle with 'average' employees can utilize some strategies to improve the situation with attracting talent and start building a competent and passionate team.

Besides the stage of the industry and its profile which cannot be easily affected, we found that having a unique business model served as an interesting appeal of attraction to potential employees. Entrepreneurs should find the purpose and advantages of working in their firm and communicate them effectively to potential candidates. Despite the lower than market salaries, young start-ups can frequently offer more freedom and responsibility than established firms, such as opportunities to develop innovative ideas and create totally new markets, or actively participate in firm's management in its early operation.

Naturally, some possible recruits will not be thrilled with the above mentioned benefit, but, as shown by our research, people increasingly seek for 'something extra' to their salaries and that 'extra' can be provided by start-up firms. By appealing to employees' emotions and their need for higher purpose, entrepreneur can start to shape the corporate culture effectively by building a strong culture based on passion for work.

### **7.2.3. Selecting other champions of culture in the Culture Creation process**

According to Anderson and Anderson (Anderson & Anderson, 2001), employees and the leader's mindset or in other words the desired culture is shaped through a long chain of events starting with the environmental factors. However, we argued that young start-ups tend to ignore the majority of these external factors as the founder (internal force) occupies the role of the major driver of the culture creation process.

Our empirical study confirmed the central role of the founder in setting the direction and managing the process of firm's culture creation in a start-up firm, occasionally accompanied by employee initiatives. Nevertheless, we had to conclude that some young companies have to be especially careful in relying on solely internal drivers that shape firm's beliefs, values and norms. Firms, operating in rapidly changing or developing industries have to monitor and evaluate the effect of outside factors (for instance, the industry requires fast delivery, thus firm's culture needs to be shaped to promote speed).

Due to the small size of a start-up, the founder is the central figure in the firm and has a substantial impact on the firm's development and the direction it takes. Here lies an important difference from large corporations, the strategy for culture in which is commonly decided by the executive board and key shareholders. Being consistent with what is intentionally or accidentally communicated to the employees is thus critical. As the CEO of a large company might be barely visible to all employees personally, leaders of small firms can boast a high level of visibility. As the leader is the key responsible person for most of the cultural initiatives, he is closely followed for any deviations from the norm as well. Thus, consistency is required not only in communicating a uniform set of values, but also in holding the chosen position.

As a founder holds the primary position in the firm he established and develops, he supposedly should be the major champion of changes in the organizational culture as well. However, our cases suggest that it is not necessarily true. Leader, wishing to accelerate the transformation process and make it more effective, should select several champions of culture. This way, employees will become aware of the newly communicated direction faster and will feel the pressure to conform to the new norm. As the leadership's directives might be welcomed with resistance due to the 'us-them' mentality, new behaviour observed in colleagues is more likely to evoke conformity (peer pressure).

### **7.2.4. Leader being the frame in Culture Creation**

As our research shows, the decision of structure depends on firm's strategy: whether it prefers flexibility over stability or vice versa. Glocalnet's case demonstrates that their lack of clear strategy allowed them to be highly agile and adapt immediately to any kind of change. However, in their case

they did not manage to find a vision they could stick to and had to considerably adapt their whole business in order to survive and sustain the firm, even if they had to completely refocus their strategy. Thus, if a start-up can sacrifice some of the flexibility, implementing at least the most basic structures, such as crystallizing the vision and strategy, can help in limiting the uncertainty over the firm's future. Vision over start-up's corporate culture is among those structural units.

The entrepreneur who avoids bureaucracy in his start-up should look for other ways to instil structure in his firm. Our case analysis has thrown up some of the problems faced by the founder when structure is lacking. While culture can ultimately be used as a structure, the entrepreneur has first to be sure his firm has a consistent and strong culture. This involves being the structure himself in the firm, defining his values succinctly and broadly to all employees. The entrepreneur thus needs to be the solid frame in a volatile climate.

### **7.3. Limitations of application**

As both of our case studies are Swedish companies, an important limitation of applying the research findings could be cross-country differences.

Langovic-Milicevic (Langovic-Milicevic, 2007) analyses Sweden's case in terms of culture and management. An important distinction of Swedish business is its ability to "innovate, restructure, increase efficiency", especially in the information technology (Ericsson) and pharmaceutical sectors (Astra, after the merger AstraZeneca). Among much other received recognition, Sweden was awarded by the European Commission as the most innovative EU country in 2011 (EC, 2012). Other typical Swedish features – 'modern functionality' and design – are most outstandingly represented by IKEA and H&M.

The distinctive innovation and the long-term success of local businesses are highly attributed to the Protestant work ethics, which strongly supported the rise of wealth and economic development since 16<sup>th</sup> century. Sweden is also characterized by one of the strongest labour unions in the world which protect the employees and make the workforce reductions difficult to achieve. Femininity and equality are two other inherent values that contribute to Swedish culture promoting diversity and participation.

As Swedish national and business cultures influence corporate cultures within individual firms, it could be presumed that our study results could be more effectively replicated in other Germanic culture countries with similar value mix. Cultures preferring stability and conservatism over innovation could not so willingly support the idea of active cultural management, which requires constant change, both for the founder and employees. However, this factor could be minimal for

innovative high-tech start-ups similar to Glocalnet in its early operation irrespective of geography and national culture.

Protestant work ethics and high level of secularisation in Sweden undoubtedly supports the progress of corporate world. In contrast, highly religious countries could be relatively less motivated by the profit motive, which is also a common condition for progress. Weak labour unions could also limit the attention for organizational culture: if employees can be dismissed easily, there is less motivation to shape the existing culture with sophisticated tools as new culture can be adjusted easily through recruitment. This may be not as effective in the long term though.

Organizational culture is focused on firm's employees: understanding their beliefs, stories, rituals. Sweden's egalitarian and feminine culture perfectly supports high focus on culture in the firms, tolerating disparate individualities and at the same time encouraging collectivism. On the contrary, elitist and masculine cultures would most probably be not as focused on exploring and fine-tuning the intangible element of culture for optimizing firm's long-term results.

#### **7.4. Short examples from established practices**

In his thesis, Stefan mentions that he was inspired by two prominent Swedish companies, IKEA and H&M. He characterizes both of them as 'Belief companies' with very strong and specific corporate cultures. We believe it is valuable to look into these outstanding examples of success, understand their key competences and learn from them.

Both companies had strong founders from the very beginning. Ingvar Kamprad from IKEA is still among the top global business magnates and named as one of the wealthiest by business magazine Forbes (The World's Billionaires. #4 Ingvar Kamprad & family, 2007). Despite that, leaders of both organizations managed to lower their influence as their companies moved on, allowing space for new leaders to develop and take command. This means, that strong culture should not become too much attached and associated with the founder. He has to engage in the process of identifying other 'champions', future leaders who can gradually become more and more important in the firm. Otherwise, when the founder decides to leave, the corporate culture can lose its whole foundation. Thus, according to Stefan, the company should stand on the culture and not on the founder.

Belief companies, such as IKEA and H&M tend to extend their focus from pure profit maximization to serving a higher purpose, which works as advantage against the competition. Having a higher goal also ensures stronger commitment from employees who wish to build meaning through their work. For instance, IKEA's mission is to offer functional and affordable furniture to as many households as



possible thus increasing the life quality of many families around the globe. For H&M it is serving the latest fashion must-haves at unbeatable prices.

Corporate culture of 'belief' firms is founded on purpose, but it is strengthened with a less seriously sounding element – fun. As such companies want their employees not only to do their jobs well, but also to love the job, they aim to make the work an important and inseparable part of life – and in life people like to have fun. People truly enjoying themselves in the workplace are more satisfied and thus more willing to contribute to organization's success working to the best of their abilities. Through playing employees can also be more innovative, which is a crucial advantage for start-ups.

Stefan also observes that successful 'belief' companies as the aforementioned IKEA and H&M do not accept compromises easily: they can be large and fast, stable and innovative at the same time. This reach for the impossible is rooted in their organizational cultures. For instance, H&M, managing more than 2000 shops world-wide is able to move a product from a design phase to a shelf within 2-3 weeks (Tiplady, 2006).

### **7.5. Further Research**

As our study is exploratory and aims to identify the specifics of culture creation in young start-ups, the logical direction of further research would be to perform a quantitative study to check the strength of the findings in a larger sample. An interesting focus could be comparing the cross-country differences. For instance, our research was based on Nordic and European business culture in the broader sense, but there could be significant differences with American or Asian cultures, for example. Also, we were particularly interested in high-tech start-ups due to the complexity and uncertainty unavoidably accompanying their existence. Start-ups in other business sectors might demonstrate varying results, even in the same Nordic region.

We also feel it would be beneficial to capture the culture creation efforts in non-surviving firms and contrast them against the successful ventures by serial entrepreneurs (as chosen for our study). It might be that certain approaches to the creation of organizational culture could be among the factors determining the young firm's survival.

Moreover, it would be interesting to view the study in the light of psychological factors, such as how the culture creation process in the firm is affected by different founder personalities or their leadership styles.

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## Appendices

### Appendix 1 – Usage of ‘Start-ups’ on Google Books

The term ‘startup’ experienced its bonanza around the 2000, just before the burst of the dot-com bubble, when many speculative IT stocks collapsed. The history of the popularity of the term is demonstrated by *Ngram Viewer*, a tool developed by Google and Harvard University to analyze the usage of certain linguistic terms in millions of books over a certain period of time (Google Books collection of around 15 million books is used (Crawford, 2010)). As shown in the below picture, the interest in start-ups declined after 2000, however, as the data ends in 2008, it cannot be proven that there is no revival in the recent years which may be realistic due to the enthusiasm for Facebook, Zynga, Twitter, FarmVille, Groupon, Rovio and other rather new climbers to the top global hopes (Rushne, 2011). Their success stories encourage the spur of start-ups, especially in the rapidly developing social media and online commerce sectors.

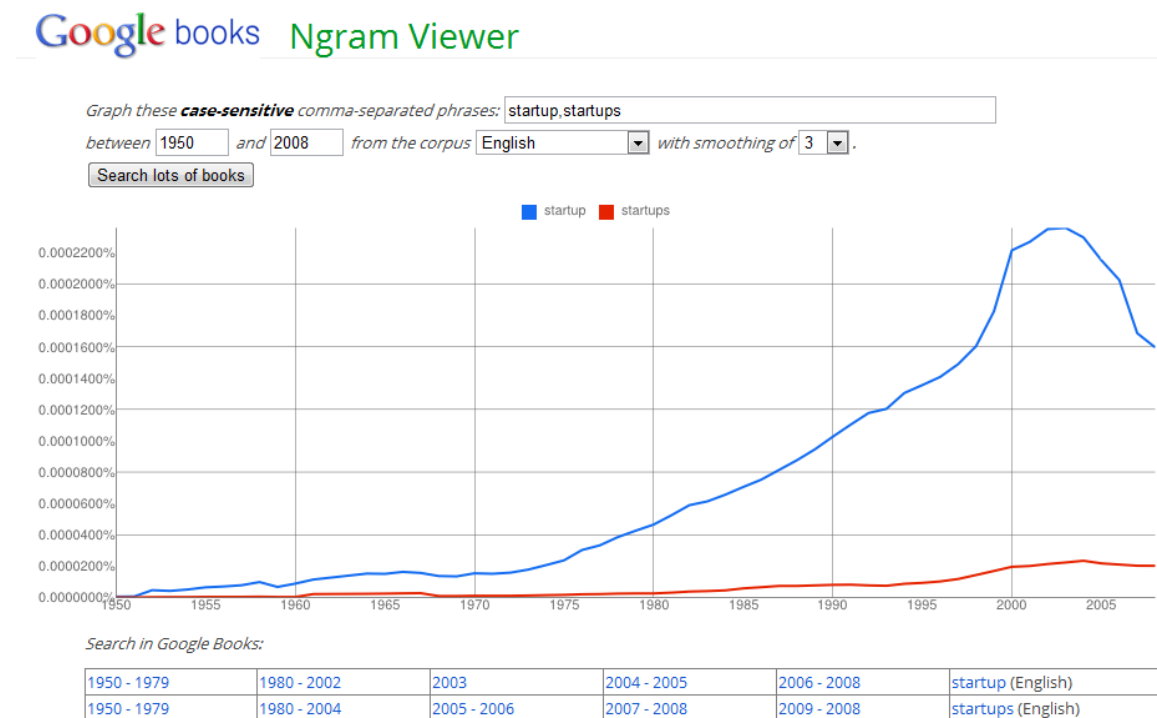


Figure 8. Results for ‘startup’ and ‘startups’ in Ngram Viewer, Google books, 1950-2008

## Appendix 2 – Usage of ‘Culture’ on Google Books

The usage of terms ‘organizational culture’ and ‘corporate culture’ took speed in 1980 and continued to increase in 2000 as shown by Google Books Ngram Viewer data. Recent data is unavailable, but as shown by business press, interest in culture is undoubtedly high.

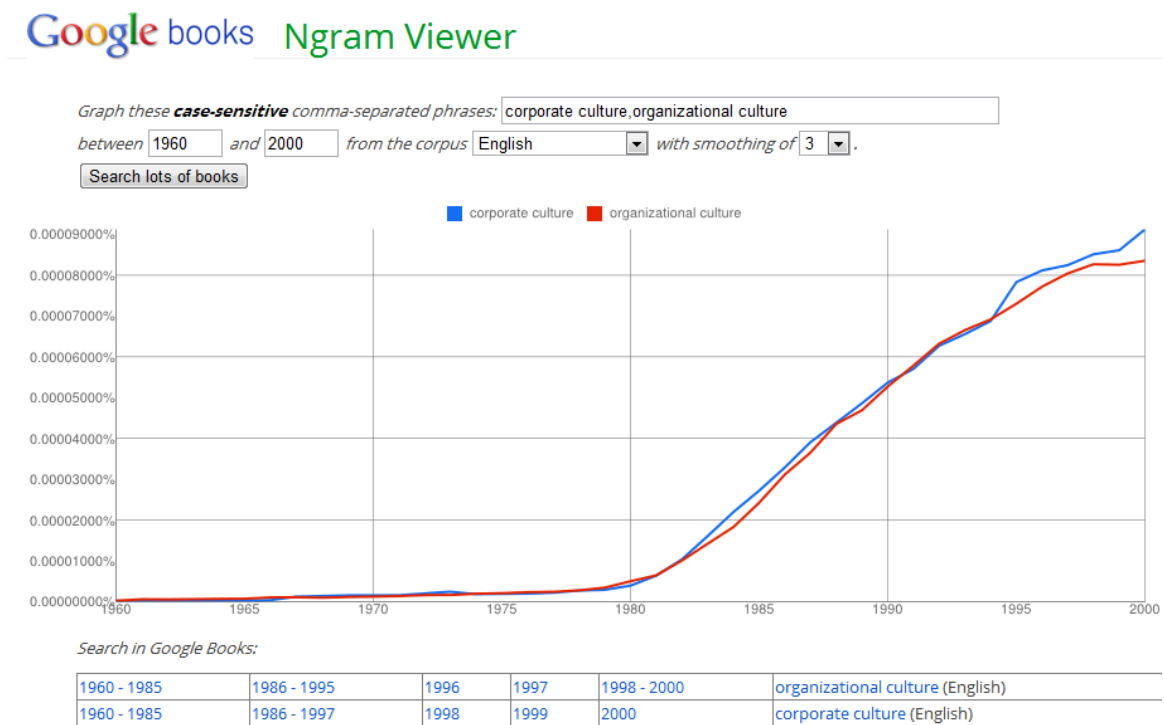


Figure 9. Results for ‘organizational culture’ and ‘corporate culture’ in Ngram Viewer, Google books, 1960-2000

## Appendix 3 – Interview Questionnaire

All questions are designed for Glocalnet back in 2002, allowing for comparisons with later practices and GodEI.

### Company Profile (partly completed in advance of the interview)

1. Company size, employee make up and turnover rates
2. Organizational structure (and model)
3. Values and business goals
4. Company's sustainable competitive advantages
5. Milestones in the company's history
6. Have there been any acts of insubordination?
7. What would you define as the crisis point in the firm's early history?
8. What is the most cultural impactful event in the firm history?
  - a. Need not be a crisis event, could be entry of venture capital etc.
9. How would you describe your firm's early culture?
  - a. What were the existing key values and norms?
  - b. What was the desired model?
  - c. What would you have liked to change?

### Presumption 1a: In the early stage of a start-up, resource allocation is an important and effective culture embedding mechanism

- What do you think was most scarce in the beginning; was it money?
- How is the budget decided?
  - Was it an open communication?
  - Do you need to justify how the budget was allocated?
  - Did you face resistance when deciding on the budget?
- How was the budget actually allocated?
  - Was it an absolute amount or in %?
  - What were the factors considered?
  - How do you rank the items on your budget list? Are there things that you would never allocate money to?
- Was the decision of budget allocation made public? How was it communicated?
- Do you think the way the budget was allocated and how it was communicated affected the way you managed the company?
  - i.e. paying more attention to certain departments etc.
  - Did it create any divisions between employees?
- How did the budget allocation decision change over time?
  - As external money came in?
  - As you employed more people?
  - As the firm ventured overseas?
  - As the firm had more ventures with established organizations?
- Has the importance of budget allocation changed over time; has the impact on the firm changed?
  - Are employees more concerned or less so about the budget as the firm expands?



- Note to self: Decipher what message Stefan intends to drive across in his firm (from the thesis he wrote) and see if the budget is consistent with his message

**Presumption 1b: In the early stage of a start-up, recruitment and selection is a less important mechanism in embedding culture.**

- Where do you recruit your employees from?
  - From a certain school?
  - Through outside agencies?
  - Through word of mouth?
  - Friends?
- If you use search firms, what is the motivation behind your choice?
  - If not, why not?
- Did you have problems recruiting people?
- What would have been your ideal recruitment process if resources were not scarce?
- How have the people recruited differed in the beginning as opposed to as the firm developed?
  - Did this have any impact on your ideal firm culture?
- What kind of recruitment policies do you have?
- How would you describe a typical recruitment advertisement your firm put up?
- Who interviews candidates?
- How did your recruitment policy evolve and when did it start to change and become more structured?
- When recruiting, what kind of qualities do you look for in the candidate?
  - Are these qualities communicated to the hiring division as well?
  - Do you trust others to make the hiring decisions?
  - At which stage did you let go of this decision?
- In the early stage of the start-up, what did you value most in the employee; skills, cultural fit or personal fit with you?
- Do you think the entry point method of selection changed the firm's dynamics in any way?
  - As the firm became more Swedish speaking, did you observe any changes in dynamics?
- What do you think are the employee's basis of attachment? (based on money, work or love?)

**Presumption 2: The founder plays the most important driving role in culture creation in a start-up.**

- When do you realise the need to change something in your organization that you feel needs change? It could be anything from employee's attitudes to mentality.
  - Were you motivated by how the industry was changing?
  - Or by how competitors react?
  - What helped you to reach the realization? (*note: the goal is to realize what role the external factors play*)
    - Have you performed any kind of analysis (SWOT, PEST, competitor actions etc)?

- Have you followed what trends and market forces are affecting your organization?
  - How well were you adapted to the market situation?
  - Did you consult with any experts (outside and inside the organization)?
    - If yes, how important and useful were their opinions?
- How did you decide what culture was appropriate?
  - Was the decision to proactively influence the firm's organizational culture any different from the typical strategic decisions?
- How important was your personal strategy/vision on firm's future when making key decisions? (for determining the existence of effectual reasoning)
  - How did you plan to surprise and influence the market?
  - Were your resources sufficient to reach the goal?
  - If no, did you increase them or adapted the goal as per existing resources?
- When you decided to proactively manage the organizational culture, how did you communicate the new desired culture?
  - Did you hold a company meeting, issue a memo, speak to everyone individually or did anything else?
- Did you have a champion for this initiative?
  - If yes, was it the founder/leader himself?
  - Were any other employees included or become champions naturally?
  - Who was the key champion and role model of the new direction?
- How do you evaluate the outcomes of the champion's actions?
  - What did the champion(s) do in order to get the personnel's buy-in for the new culture?
  - Were their efforts successful and why/why not?
  - Were there any violations of the new values noticed in champion's behaviour?
    - How did the employees react?

**Presumption 3: Cultural management tends to be an unstructured process in the start-up but this has a positive effect in the early stages**

- Did you have a formal idea on what values you wanted your firm to embody?
  - Even if not, would you think your employees would think Glocalnet had a clear culture?
  - Do you think they would have been able to describe the firm as you would?
  - If so, why do you think so?
- What do you think was the most important tool you used in shaping their concept of the firm culture?
  - Through informal or formal ways? E.g. emails, parties, conversations etc.
- Have you had any formal statements of how you would like the firm culture to be?
  - What kind of formality did this involve and did this have any sustainable change effect?
- After institutionalising a formal statement or process of managing culture, do you think this process would have been suitable in the early stages?

- What criteria do you think is necessary for a formal process to kick in?
- Was there confusion amongst employees on how they were supposed to act in a situation because there was no formal guidelines?
  - Any inconsistencies in interpretation of actions?
- Are there any stories, legends or myths in Glocalnet?