

Your Company's Culture is Who You Hire, Fire, & Promote



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"The actual company values, as opposed to the nice-sounding values, are shown by who gets rewarded, promoted, or let go."

- [Netflix Culture: Freedom & Responsibility](#)

Every time I walk into a new company I am advising, I invariably encounter a set of noble values that are prominently displayed on the walls. So the first thing I do is look past them by carefully observing how people really behave, which tells me what I actually need to know.

It's not that most companies are disingenuous about the values they espouse. One of Enron's "aspirational values" was integrity, which may have genuinely expressed who they wanted to be at the beginning. But over time, this did not reflect their "practiced values" of who they actually became when they committed fraud.

The gap between aspirational and practiced values is diagnostic of how much your company's culture needs to improve. The actions you are taking to bridge the gap is prognostic of whether it will.

So why does a gap usually exist between a company's aspirational and practiced values? You would think that to alleviate cognitive dissonance, most employees would

feel an inherent need to practice what they preach (or are preached to do). The issue is that aspirational values almost always come from the top.

Though most employees care what leadership thinks of them, they are actually quite rational in paying attention to what leadership does, not what they say.

According to the theory of [behaviorism](#), no behavior will persist long-term unless it is being perpetuated by either a positive reinforcer (providing a reward, such as a promotion or praise) or a negative reinforcer (taking away a punishment, such as a probationary period or undesirable work). Thus, when companies start, leaders set the company's values—not by what they write on the wall, but how they actually act. For example, do they stay late and burn the midnight oil, or do they leave in the evening to be with their families? According to [social learning theory](#), these behaviors become socialized, and rank-and-file employees take their cues from leaders act accordingly (what I call 'trickle-down behaviors').

As the company grows and the leaders are not always observable, employees begin to act according to what their managers either actively reinforce through praise and promotion or passively reinforce by allowing. Over time, employees become aware of which colleagues are getting hired, fired, or promoted, and why. Did Joe get hired because his references praised his incredible work ethic? Did Jill get fired because she wasn't considered a team player? Did Jamie get promoted because he spent a lot of social time with company leadership? Hence, employees quickly learn the "rules of the game" to survive and thrive at the company, and act accordingly, which may have nothing to do with what values are plastered all over the walls.

Your company's employees practice the behaviors that are valued, not the values you believe.

Instead of letting your company become a corporate version of "The Hunger Games," leadership should do the responsible thing: actively prioritize behavior that's congruent with company values.

First, you must ensure that all final candidates live up to your company's values. For example, I've created an [interview template](#) to evaluate candidates on [7 traits](#): grit, rigor, impact, teamwork, ownership, curiosity, polish (I recommend you replace these with your company's aspirational values).

Another key trait (or the lack thereof) has been popularized by Professor Bob Sutton of Stanford. The "[No Asshole Rule](#)" dictates that no matter how great a candidate may be, being an asshole is an automatic deal breaker. The way this can be implemented is through what I call the "One Red Flag Rule." This is based on the observation that pathological traits are sporadically, not continually, expressed (except for severe cases).

For example, a narcissistic candidate may not act arrogant all the time, but may express ten times more arrogant comments on average than someone who doesn't have this issue (e.g. a few times a day versus a few times a month). Thus, if a candidate can't suppress making an arrogant comment during a 30–60 minute interview, they are likely to do this even more often when employed full-time.

Nevertheless, evaluating these traits during a brief interview can be challenging and inaccurate. That's why I recommend doing incredibly thorough reference checks, based on the research finding that the best predictor of future behavior is past behavior. Drawing on a best practice of a leading investor, Andreessen Horowitz, I conduct up to 6 reference checks to evaluate "values fit".

A 300-employee San Francisco startup, [Weebly](#), goes so far as to invite job candidates to work on site during a 'trial week', paid at fair market value. Why? Simple: it's very hard to suppress values-incongruent behaviors when working closely with others for that long. As their CEO says:

"Assholes can hide it in interviews, but for whatever reason, they cannot hide it for a whole week. I don't know why, but it all comes out within a week."

No matter how good your interviewers are, any screener will result in false positives (people who you thought fit your values, but don't once they're hired) and false negatives (people who you thought would not fit your values, but would have if you had hired them). Companies that prioritize culture are willing to accept some false negatives in order to avoid false positives. If you get some false positives anyway, the solution, as Sam Altman said, is to "[fire quickly](#)." Few people have the psychological insight to resign of their own accord when they still want the job but aren't the right fit. That's why baseball coaches have to pull starting pitchers out of the game when performance declines and substitute a relief pitcher. In the same way, it's a manager's job to be a compassionate coach and pull people out to ensure they find a better fit in another role or another company.

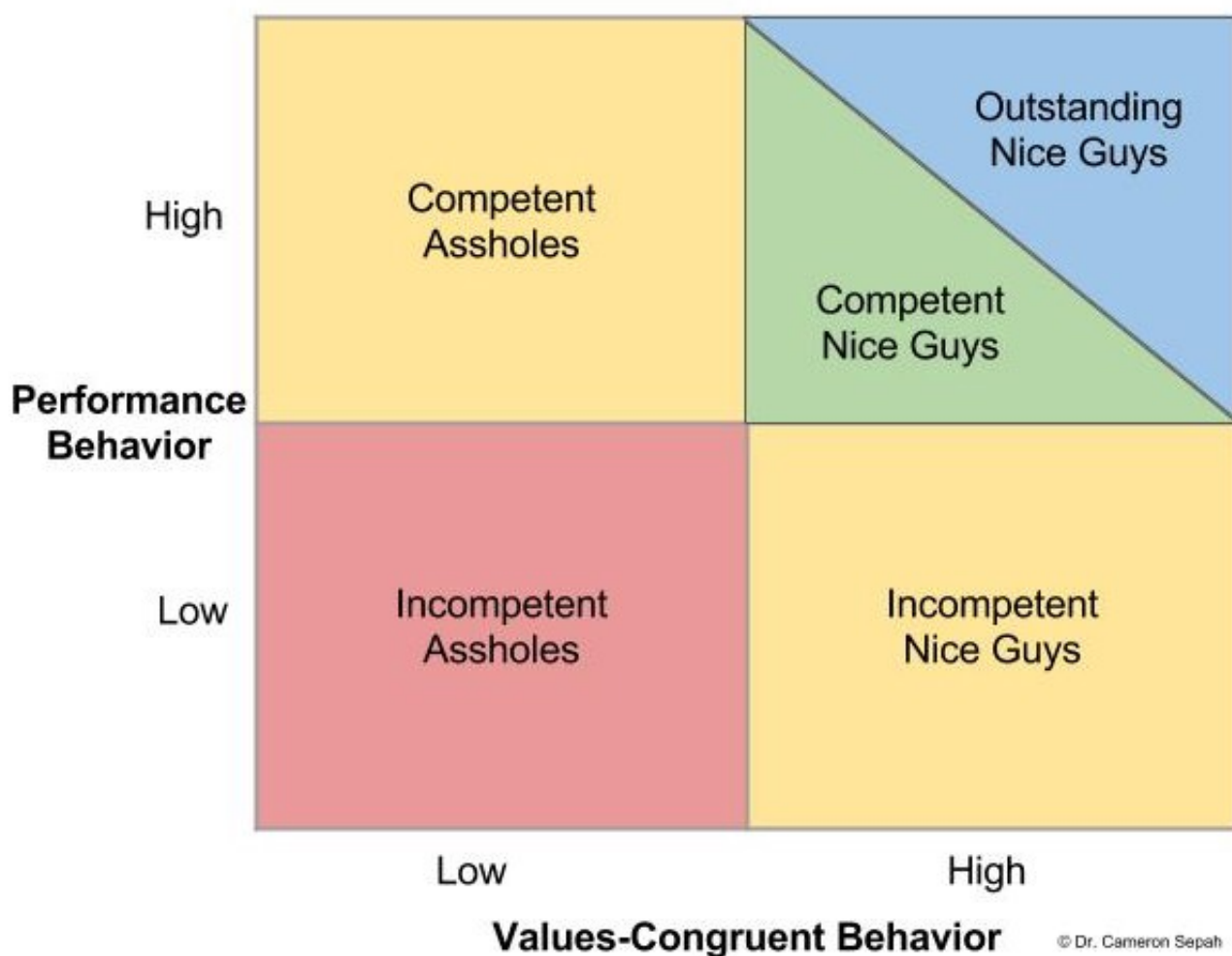
The major issue that I've seen in startups is that even if they claim that they have a "No Asshole Rule," they hardly ever practice it. Rationales I've heard include: "We've decided that we're not going to fire him because he's a high performer"; "for that one bad trait, he has four good traits going for him"; and "[data scientists/engineers/product managers] are hard to replace, so we'll make do".

The moment that leaders start weighing values-congruent against values-incongruent behavior, as if they balance out, is the moment when they have compromised their values.

The best way to avoid this pitfall is to make values-congruent behavior a formal and prioritized part of your company's performance management process. Here's the

system that I designed and helped implement at my company. It starts with evaluating each employee on the Performance-Values Matrix. Through whatever employee evaluation system you use—whether it’s a formal annual review or regular 1-on-1s—employees should be evaluated on their performance-based behavior AND values-based behavior. Both of these should be quantified on a spectrum (e.g. 1–10 point scale), but I’ve simplified into a 2x2 matrix for illustration purposes. Note that I use gender-neutral language (“guys and gals”) throughout this piece, but use “guys” in the illustration due to space constraints. I also usually use more PC terms, but the colorful language makes for a cheeky point here:

The Performance-Values Matrix



Incompetent assholes are not only low-performers at your company, but their behavior is incongruent with your company values. In this matrix, they are in the lower-left quadrant and thus can only earn 25 percent of the maximum employee evaluation score. Hopefully, there should be very few of these folks at your company, but occasionally a few will slip through the hiring cracks, or something may have happened that caused performance and values-congruent behavior to permanently degrade over time. Nevertheless, they sap employee motivation by not contributing equally to the workload and are toxic to employee morale. Needless to say, incompetent assholes should be identified and fired as fast as possible.

Competent assholes are high-performers, but exhibit behavioral tendencies that are incongruent with your company values. Given that “asshole” is not a clinical term, I will define it here as someone who lacks empathic behavior to the point that it causes interpersonal issues (I will explain the three types in Part 2, [Anatomy of an Asshole](#) and share three stories in Part 3, [Breaking Bad: Why Good People Become Evil Bosses](#)). The biggest mistake that I see companies make is that they will retain competent assholes because they are seen as critical to the company or difficult to replace. However, by doing so, they not only passively reinforce the competent asshole’s behavior by tolerating and promoting them, but they implicitly send the message to the rest of the company that you can basically get away with murder so long as leadership believes you to be indispensable. You can imagine what kind of culture this creates over time. In contrast, using the Performance-Values Matrix, an employee who’s competent but a complete asshole can only earn 50 percent of the maximum employee evaluation score, given that the other 50 percent of their evaluation is based on their values-congruent behavior.

There’s a reason that Professor Sutton called it the “No Asshole Rule,” and that is because exceptions shouldn’t be made, otherwise it shows your values are merely aspirational. The solution for competent assholes is what I call “remediate or separate”. Despite the fact that these folks are strong performers, it should be made clear that value-incongruent behavior is not tolerated and they will need to remediate their behavior in a measurable way within a limited time.

Thus, competent assholes should be put on what I call a “Values Improvement Plan” (VIP). 360° reviews, from an employee’s manager, peers and direct reports, are a great way to assess improvement, or else be separated from the company. The reason I like giving these folks a chance is that sometimes employees that are not too inflexible (or pathological) to change can improve when they realize that their job depends on it. Often times, this requires entering therapy or executive coaching with a skilled psychologist, which is worth its weight in gold if the employee is willing to change.

Incompetent nice guys and gals are the exemplars of your culture and are well-liked by almost everyone, but unfortunately are not high-performers. Like competent assholes, completely incompetent nice guys and gals also can only earn a 50 percent maximum possible employee rating. That’s because it is nearly as much of a sin to tolerate incompetent people as it is to tolerate assholes. Giving free license for someone to underperform just because they are kind or likeable sends the message that your company is not a meritocracy, and that it’s more important just to be socially skilled (or at worst, be a brown noser). However, the solution here is different than with competent assholes, in that the best solution is to manage or move them.

Incompetent nice guys and gals should be put on a traditional performance improvement plan (PIP), and skillfully managed in order to give them the training and

feedback to improve their abilities. One solution I've seen work is to move them into a different role when their incompetence stems from a fundamental disconnect between their strengths and their current role's demands (e.g. mediocre social skills in a client-facing role, though the person may be an analytical whiz if moved to a more technical role). Of course, if that is not possible or does not work out, they should also be separated from the company. Helping incompetent nice guys and gals to find a position that is a better fit for their strengths, is ironically, the nicest thing you can do for them.

Hopefully most of the employees at your company are both competent and nice, and it is important to note that in the Performance-Values Matrix, you must exhibit both behaviors in order to be in the top-right quadrant. Competent nice guys and gals earn up to 75 percent of the maximum employee evaluation score, and should be praised and given the opportunity for advancement. But in order to set the bar high, employees should only earn the full 100 percent score if they exhibit both outstanding performance and value-congruent behavior. They are what Sarah Tavel of Greylock calls [the "mitochondria" of startups](#), because they are the company's power plants—adding value beyond their job description and responsibilities by asking and doing what is best for the company.

Given how rare these individuals are, founders should go out of their way to attract and retain them. By building this designation directly into the evaluation matrix, outstanding nice guys and gals should be formally recognized and rewarded with raises and promotions. These are the current or future leaders of your company, and need to be nurtured and cherished given they are the foundation for your company's performance and morale.

Of note, while I distinguish between competent and outstanding nice guys [gals] in the matrix, I do not do so for assholes. That's because I believe it is nearly impossible to be an outstanding asshole. For example, there is a myth of the "10x engineer" in Silicon Valley where a truly talented engineer is as valuable as 10 average ones. Even if one engineer could possibly do the work of 10, if they are an asshole (especially in a management position), they will decrease the performance of the people around them to such an extent that their team's net productivity will break even or be at a loss long-term.

When leaders become Machiavellian and hire and retain mercenary employees, they resemble a Hermann Hesse novel reaching "[the place on the journey where everything falls apart](#)" and the company's culture degrades. While company engagement scores typically decline as they scale—given they have to hire quickly from a limited talent pool and are too overworked to fire quickly—this does not have to be an inevitability.

Culture can only improve with a baseline culture of openness, where people feel they

can come forward and share concerns or opportunities for people and teams to do better. If people don't trust what happens when they give feedback, then reviews will be "positive" and not provide any useful information. This requires both anonymous surveys and the promise that aggregate feedback is valued and will be acted upon.

So if you want your company's culture to be congruent with those noble aspirations written on your company's wall, you must continually assess how well your employees are behaving compared to those aspirational values, and develop ways to bridge the gap between aspiration and practice. I believe the best way to do this is to directly reinforce value-driven behavior, including making it an integral part of employee's reviews and weighting it as highly as performance.

As the old saying goes, you reap what you sow. As leaders, you get the behavior that you reward.

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