Culture Amp

The culture crunch

The challenges technology companies face through growth

Introduction

In 2016, effective organizations are those who have created a strong "culture by design". Increasingly, focusing on engaging employees with intention and insight is a competitive advantage. Working with over 700 companies across a number of industries has given Culture Amp a unique view on trends in employee engagement, organizational design, company culture, leadership and management. For the purposes of this report we looked at the differences across these trends for companies at varying maturation phases, specifically in the tech industry.

What are the key areas that companies need to focus on as they grow? What can mature companies learn from early stage startups, and vice versa?

We divided the data according to these company phases:

Seed/Angel funded and Series A - companies that are early stage

Series B - companies that are about setting up their growth and scaling

Series C - mature companies, looking to expand their markets in various ways

Late - established companies that are post Series C

IPO - companies that have successfully IPOed

Acquired - companies that have been acquired by larger ones

With data in hand, we can look at how these organizations change and evolve between funding rounds.

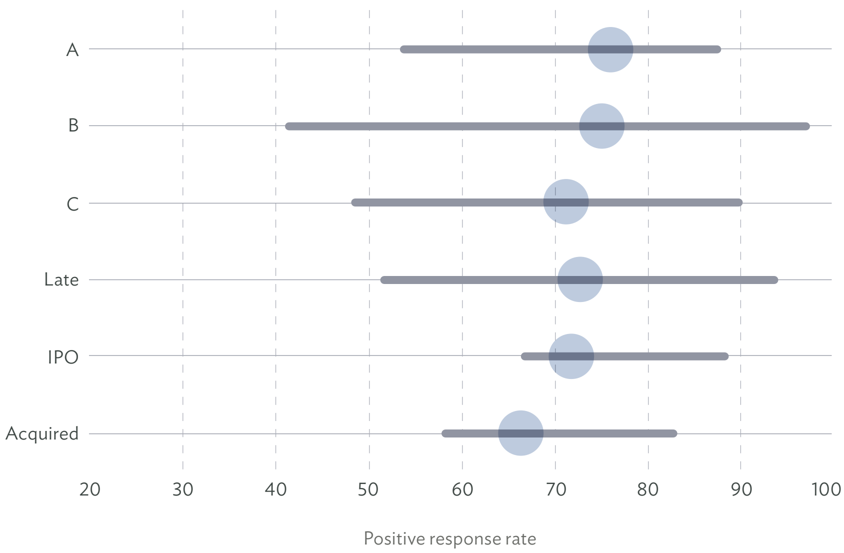
We looked at over 71,000 respondents from 187 companies in different funding stages from seed to exit and IPO, tracking their engagement and their aggregated responses to questions.

Engagement

Let's start with overall Engagement, a measurement of the level of connection, motivation, and commitment a person feels for the place they work.

Pre Series A companies have been categorized under Series A, due to similar overall organizational goals.

Engagement scores



A score of ~72 is considered a well-engaged company according to our New Tech Benchmark (an aggregated report of all the companies that work in tech innovation).

Looking at the data for this report, there is a wide variance between how companies at different stages are engaging their employees. However, a clear pattern emerges, with earlier stage companies generally having more engaged people than later stage companies. We also found some surprising reasons as to why.

ABOUT SCORES

Throughout this report we refer to 'scores' for both individual questions as well as broader facets of employee experience such as 'Engagement'. These scores represent the percentage of people who agreed or strongly agreed to the statements used in individual questions or the average of such agreement across a range of questions representing a facet (e.g. Engagement is measured using five questions). Where we present differences between a particular stage group and all other groups, we are simply referring to the percentage point difference between the level of agreement for the groups. For each stage group we summarise the overall agreement level across companies using the median agreement level. The median is simply the score where there is an equal number of companies above and below that point.

ABOUT THE GRAPHS

The band indicates where 95% of scores fall. The large dot represents the median score of all companies within each funding series.

Early stage companies

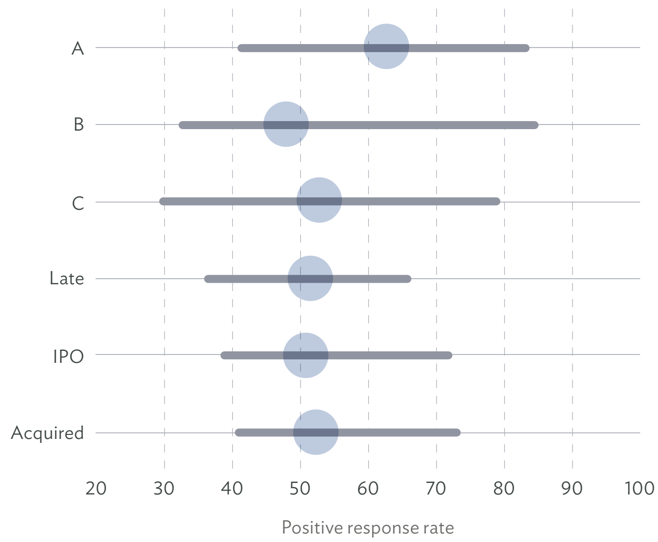
Let's look at where Series A and earlier companies excel.

Looking at the difference between these companies (early to stage A) and all other stages combined:

+11.0	I believe my total compensation (base salary+any bonuses+benefits+equity) is fair, relative to similar roles at other companies
+8.9	Hooli effectively directs resources (funding, people and effort) towards company goals
+8.5	Day-to-day decisions demonstrate that quality and improvement are top priorities
+6.7	At Hooli, we act on promising new or innovative ideas

There's a common belief that startup compensation is lower in early stage startups than in more established companies, so it's surprising that early stage people seem to be more content with their pay than at any other stage, including post-IPO and post-acquisition. Being in an early stage startup is often seen as an awesome career opportunity and people are prepared to wear a lower salary level for a period of time, though it's worth noting they usually reap more equity.

Total compensation (base salary + any bonuses + benefits + equity) is fair relative to similar roles at other companies.



Early stage companies are also marked by an interest in efficacy (+8.9) and day-to-day quality and improvement (+8.5). Innovation is also a highly-prized asset in early stage companies (+6.7).

Early stage companies also score significantly over the median in these responses:

+7.7	Other departments collaborate well with us to get the job done
+7.4	Most of the systems and processes here support us getting our work done effectively
+7.1	When it is clear that someone is not delivering in their role we do something about it
+6.4	We hold ourselves and our team members accountable for results
+6.1	I have access to the learning and development I need to do my job well
+5.8	I am given opportunities to develop skills relevant to my interests

Early stage companies seem to be typified by teams working shoulder to shoulder with company founders and sharing an exciting vision. As early stage companies generally tend to be smaller, we hypothesize that the processes within them allow people to get things done, meaning people are more engaged in their work, with a unified goal, and with fewer blockers.

Colloquially speaking, Series A companies may be better for Type A personalities. People who work at these early stage companies are highly engaged and value efficiency, constant improvement, and innovation. These factors seemingly counterbalance the personal risks innate to working at early stage startups. Confidence in leadership also remains high at early stage companies, with the second highest overall rating. Self-determination combined with confidence in leadership are the hallmarks of early stage companies, and something that later stage companies should try and emulate.

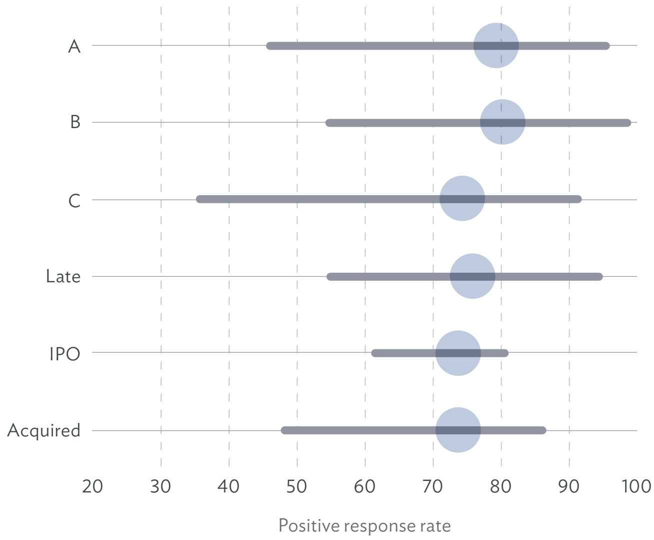
Series B companies

Series B companies have proven their mettle and have secured another, typically larger, round of funding.

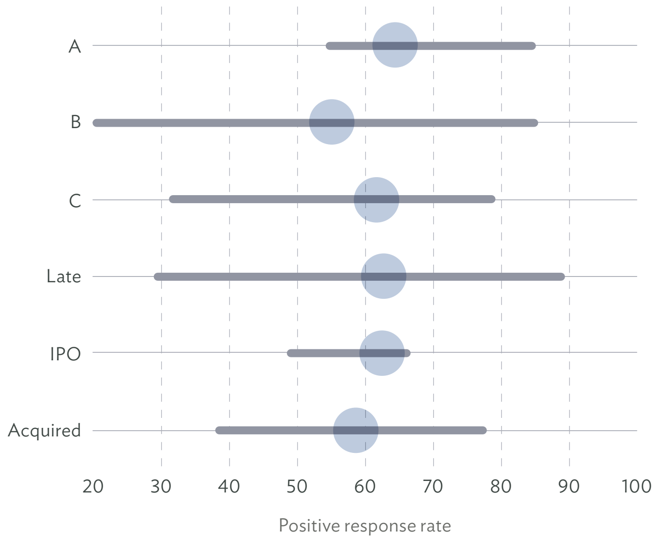
This stage is marked by confidence amongst employees — the highest in all the funding rounds.

Series B is typically about scaling: hiring more focused roles including sales and developer teams. The tighter focus undoubtedly contributes to the sentiment of being able to make a positive difference (+9.3). However, Series B also sees the lowest median scores for “I see myself working at Hooli in two years’ time” (-7.2).

I have confidence in the leaders at Hooli



I see myself working at Hooli in two years’ time



+9.3	Hooli really allows us to make a positive difference
+5.5	I have confidence in the leaders at Hooli
+5.3	When it is clear that someone is not delivering in their role we do something about it

While the two scores may seem contrary to the overall sentiment, Series B companies also generally score lower on questions about understanding their role and duties during a transitional growth stage:

-5.4	My job performance is evaluated fairly
-4.7	My manager gives me useful feedback on how well I am performing
-4.5	The information I need to do my job effectively is readily available
-4.2	Workloads are divided fairly among people where I work
-3.6	My manager keeps me informed about what is happening

The introduction of focused, dedicated roles in a growth stage may be a significant factor in the polarized scores, explaining why so many feel they can make a difference (new hires with focused roles) while simultaneously not fully understanding the roles they play (multi-tasking employees from earlier stages).

Series B funding is often when people transition from generalist roles into more defined roles. In addition, new hires are being increasingly brought on for specific functions. During this transition, new hires with focused, smaller ranges of tasks may feel more able to achieve the specific goals they are set.

However, those who like to wear many hats (as many at early stage startups do) may feel constrained or limited during this transition, reflecting in higher confusion about job performance, workloads, and roles.

Series B companies also have a large gap on "I believe my total compensation is fair, relative to similar roles at other companies" -15.4 point difference between early stage companies and lowest overall.

We hypothesize this may be due to market perceptions. As Series B is typically a confirmation of market-viability via increase in capital, people may be expecting increased salaries. Series B hires are also likely getting less, and more diluted equity.

In Series B companies, it's important for leaders to smooth the transition of the existing workforce into more focused roles. This may not sit well with early-stage employees who may thrive in more opportunity and learning-driven environments. Series B can be generalized as an inflection point, where everything is given more structure and form. Series B might be the first stage where you see many people leave the company.

Managers are often given the tough job of easing and navigating this transition where communication and careful planning are keys to keeping the workforce engaged. It may be helpful to spend time managing perceptions and expectations, rather than treating symptoms here, as many of these factors are a natural consequence of growth.

Series C companies

Series C companies don't excel in too many categories, with only two drivers exceeding more than +4 points over the median. You could say that they are the group of companies for which employee engagement is the biggest challenge.

+4.3	We have enough autonomy to perform our jobs effectively
+4.2	I have access to the learning and development I need to do my job well

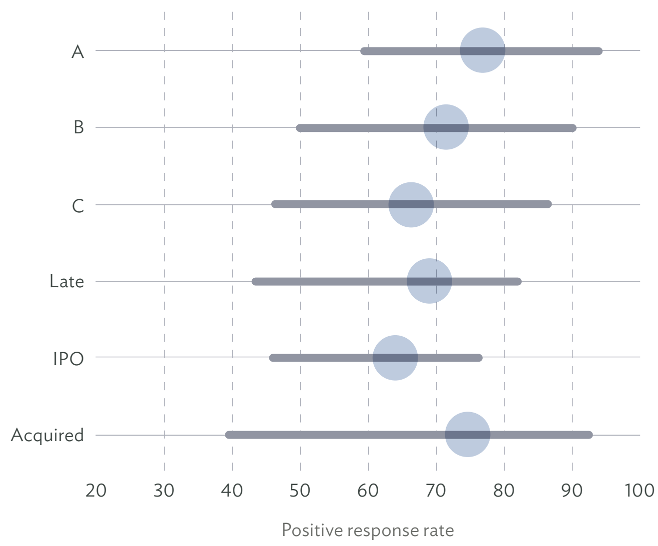
The suggestion is that Series C companies have started to correct some of the issues stemming from developing more focused roles and people have become more comfortable in their responsibilities.

Series C companies are rife with efficiency and confidence issues carrying over from more rigid structure:

-6.1	When it is clear that someone is not delivering in their role we do something about it
-5.9	Hooli is in a position to really succeed over the next three years
-5.2	Day-to-day decisions demonstrate that quality and improvement are top priorities
-3.2	The leaders at Hooli have communicated a vision that motivates me
-3.1	Hooli effectively directs resources (funding, people and effort) towards company goals

Innovation is also a key concern at Series C companies, only slightly ahead of post-IPO companies, who by nature have a very mature product and organization.

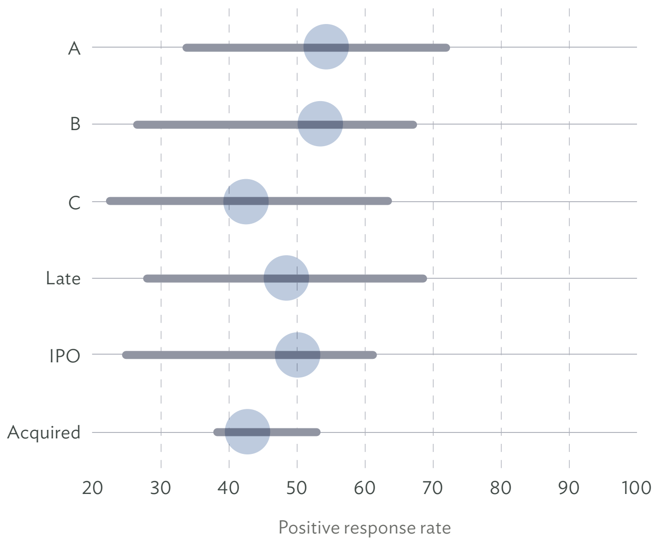
At Hooli we act on promising new or innovative ideas



Series C companies seem to have workforces that seek stability and maturity — the same things the organization seeks in this period. Ultimately, while bureaucracy helps keep things in order organizationally for a growing company, it may be the killer here for employee engagement, as measured engagement stays relatively flat.

Seemingly, companies at this stage seem to be suffering from the internal perception of losing innovative practices of earlier stages. Additional hiring also appears to create redundancies - as the perception of people fulfilling their roles drops considerably.

When it is clear that someone is not delivering in their role we do something about it

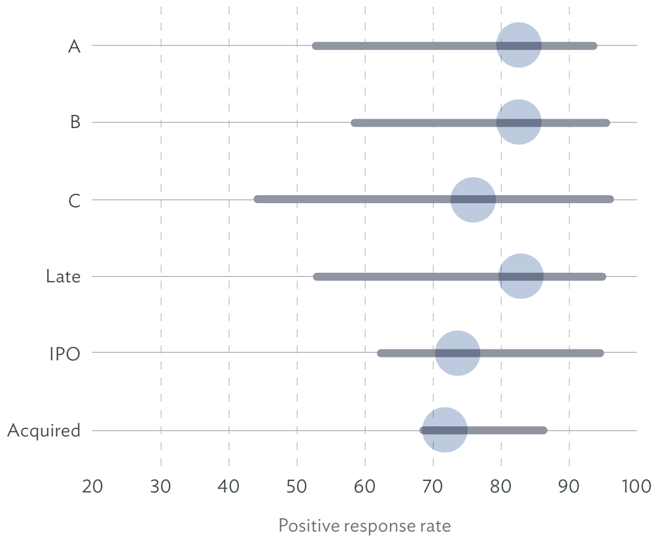


Series C could be a difficult period. There are very few areas where Series C companies excel, yet many areas where they fall behind. Because this stage is typically a period where companies look to massively scale, be acquired, or discover new markets, it might be the case that leadership often struggles to keep their people in the loop about what's going on with the company. Transparency and communication, though important at all forms of an organization, might be the most important things to stay on top of at this stage.

Late stages

The later stages (Post Series C) are a time of confirmation and redemption for companies. The product is mature, as is the market. It has the highest median in terms of people believing their efforts will be really successful over the next three years—particularly in contrast to Series C.

Hooli is in a position to really succeed over the next three years



+4.9	Day-to-day decisions demonstrate that quality and improvement are top priorities
+4.6	Hooli is in a position to really succeed over the next three years
+4.3	Hooli effectively directs resources (funding, people and effort) towards company goals

Late stage companies are committed to keeping the machine well-oiled. The median responses for late stage companies generally stay within ±4 points of the overall median, suggesting later stage companies are running well.

The lowest scoring responses tend to show dissatisfaction about organizational structure and general operations:

-8.0	Hooli really allows us to make a positive difference
-4.0	Other departments at Hooli collaborate well with us to get the job done
-3.3	Generally, I believe my workload is reasonable for my role
-3.2	We are encouraged to be innovative even though some of our initiatives may not succeed

Late stages are starting to really prove that they have a strong place in a market. However, as time goes on and as future events such as IPOs become imminent this can cause significant disruption and distractions for employees. Companies approaching IPOs may double down on sales, user numbers, or other hard KPI type metrics that are deemed crucial for valuations for example. This can lead to employees in functions less related to these metrics feeling neglected or disillusioned. Companies need to communicate and balance these needs and look to alleviate things for their valued people because sometimes the wheels can come off the company or the market.

Focus on communicating some of the realities of the situation, what may alleviate some of this, and a vision for the future that clearly articulates how those potentially neglected employees will benefit (not just monetarily).

Exited companies

This is where it gets interesting. Companies that have gone public or have been acquired have the most polarized scores.

Both companies that have IPOed and those that have exited appear to have social responsibility initiatives that people support and believe in:

+12.4	IPO Companies' commitment to social responsibility (e.g. community support, sustainability, etc.) is genuine
+10.3	Acquired Companies' commitment to social responsibility (e.g. community support, sustainability, etc.) is genuine

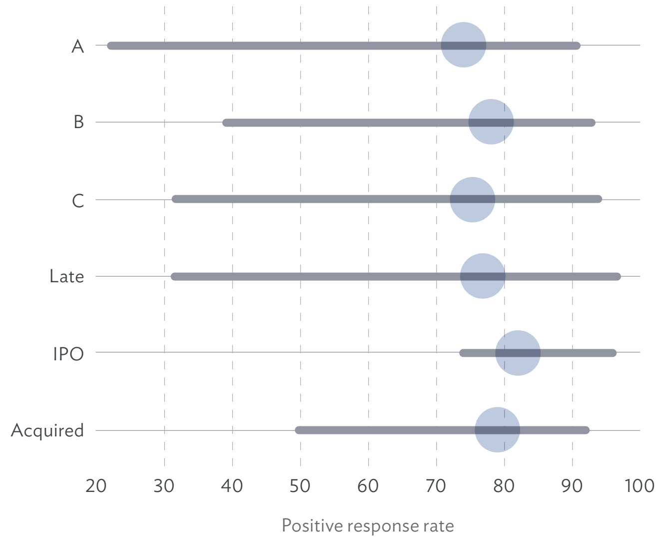
But that's where the similarities end.

IPO companies

+5.8	The products and services Hooli provides are as good as, or better than, our main competitors

Congratulations! You've made it through all funding rounds and there's enough confidence in your company to put it up for trade on the stock exchange. Your company is ready for prime time and ready to provide an ROI to the public. The people that know your product best think it's at least as good as the competition.

The products and services Hooli provides are as good as, or better than, our main competitors



Just DON'T MOVE OR TOUCH ANYTHING:

-11.6	Hooli really allows us to make a positive difference
-9.5	We are encouraged to be innovative even though some of our initiatives may not succeed
-7.6	At Hooli, we act on promising new or innovative ideas
-7.5	Hooli effectively directs resources (funding, people and effort) towards company goals
-7.4	Hooli is in a position to really succeed over the next three years

Going IPO has its share of downsides: it owes fiduciary duties to shareholders, it can limit the amount of freedom the C-suite has, and the organization must answer to public opinion for the business decisions it makes.

Companies that have gone IPO are among the largest organizations. So perhaps that's why people at these companies feel unable to make a difference, innovate, or be effective — key driving factors at early stage companies. Post-IPO, the product's locked in place and organizational design appears to be set and a key metric for performance is invariably tied to stock prices. This makes for a tricky situation.

For IPOs in this situation, it's better to play to your strengths. A major driver at IPO companies is having an industry-leading product or service. If people are clamoring to make a positive difference or be innovative, IPOs can look to play to their strengths and find ways people can contribute more often to the company. The goals of improving the company and the product or service are common to individual contributors and the overall organization.

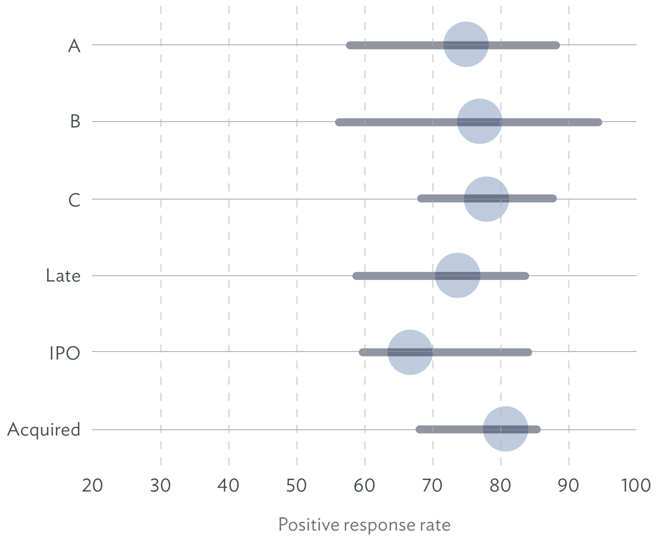
> “If you can keep your employees from refreshing every 10 minutes to see what the stock price is, your company is going to be more geared towards the future and move faster
>
> - Travis Kalanick on why Uber will delay their IPO for as long as possible.

Acquired startups

Being acquired by a larger company can be an uncertain exit for employees. As we saw under Engagment, acquired companies had the lowest levels of Engagement across all stage groups. However, it is not necessarily bad news for these companies. Here's how they stand out:

+9.3	Hooli really allows us to make a positive difference
+5.6	We are encouraged to be innovative even though some of our initiatives may not succeed

We are encouraged to be innovative even though some of our initiatives may not succeed



While it may seem strange at first that acquired organizations are more encouraging of innovation than even early stage companies, it is often the case that larger organizations often acquire other organizations to fill a gap in technology or acquihire new staff. The acquiring organization has even more resources to support innovative practices.

But of course, throwing money around and adding a new layer of management doesn't always work out as many expect:

-9.7	Hooli is in a position to really succeed over the next three years
-8.6	I believe there are good career opportunities for me at Hooli
-6.9	Hooli motivates me to go beyond what I would in a similar role elsewhere

While it may be beneficial to be acquired and become part of a larger organization, there are important areas where uncertainty results from being suddenly transplanted into a new work world. As part of a new company it can be difficult to assess what one's career opportunities might be in the future. For senior managers, being absorbed into a larger organization can feel like a step back down the organizational structure. For other employees, their previous conversations with their managers and leaders may now be rendered obsolete or at least of uncertain value.

Acquiring companies can direct attention to these issues through open communication. Knowing that career perceptions are crucial for retaining people, these companies should ensure that career conversations occur as soon as possible with all individuals in the acquired company. Clear guidelines for managers to have these discussions should be in place. Sufficient time should also be provided for leaders to spend direct time with these new employees.

Conclusion

Technology companies have historically been more focused on their people than other industries, in part because of the intense competition for talent, but also because they understood that to be a key driver of innovation. Engaged employees are likely to be more committed, productive and innovative. This is true for any company.

We're hoping this report flags things all companies can be proactive about as they grow and scale. There are lessons for both small and large companies, at all stages of growth, across any industry.

Of course, looking at aggregated data across companies can help us identify trends, but ultimately every company has a unique culture and set of challenges that can only be revealed through its own data and analysis.

About the authors

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Hyon S Chu studies and writes about people, data, and culture. Combining a background in design and data science with a masters in business (Babson M'11), he uses applied methodologies to impact and improve businesses through the use of data.

At Culture Amp, Hyon is focusing his efforts on articulating and defining the value of organizational culture using Python, statistics, and data visualization.

Read more of his work at **culturexnumbers.com**

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Jason has been using, designing and analyzing surveys for over 15 years, and his research has been published in the American Psychological Association's key methodology journals.
Previously a founding member of the workplace survey team of Kenexa Australia and APAC Research Consultant for Towers Watson, Jason has a PhD in Psychology and has experience in cognitive assessments as well as survey statistics and methodologies.

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