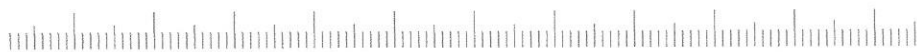


ORGANIZATIONAL
DECISION-MAKING

It's Time to Define Your Company's *Principles*

★
Mission, vision, and values
are not enough.

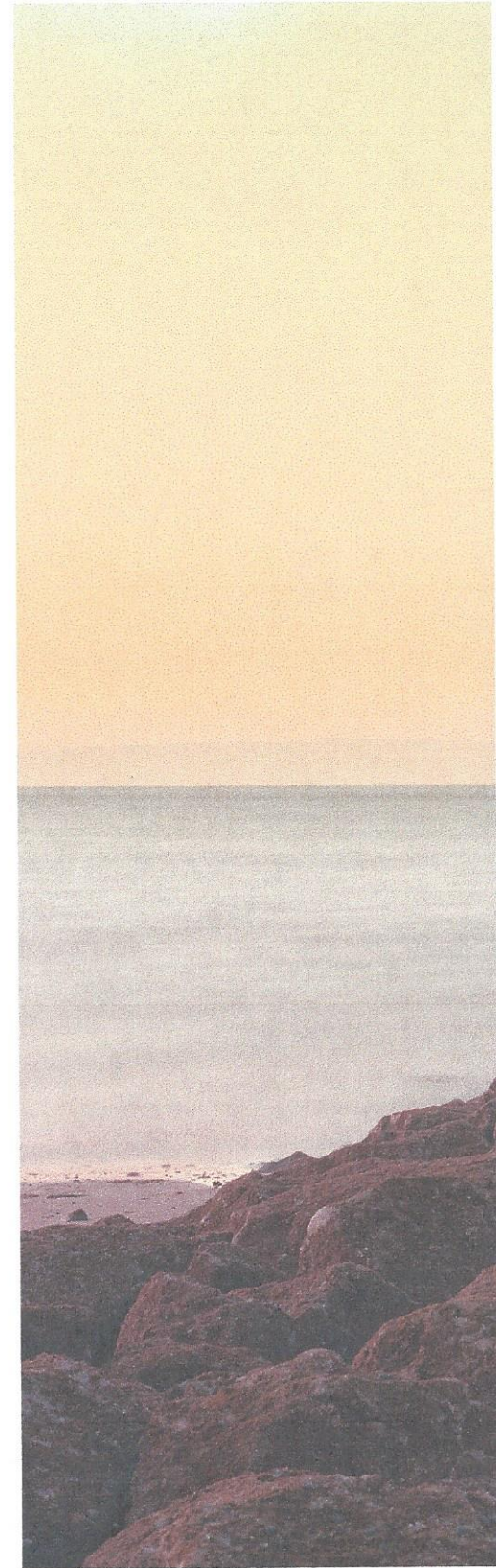


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IDEA IN BRIEF

THE DEFINITION

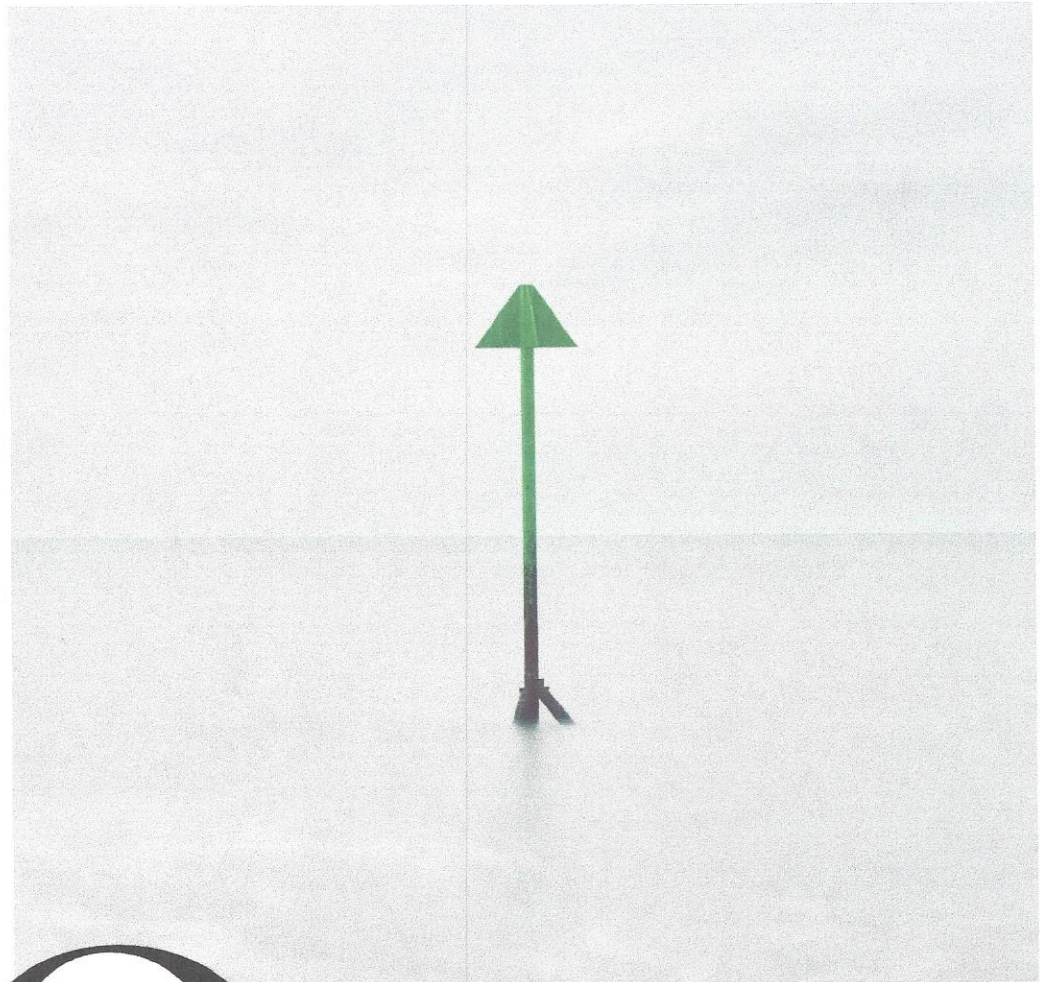
Corporate principles are distinct from mission, vision, and value statements. They guide decision-making, especially during crucible moments, and help companies explain their choices to key stakeholders.

THE DESIGN

To craft principles for your organization, identify its unique qualities. Draw insights from pivotal company decisions. Involve employees in drafting and refining principles, and align them with goals, key metrics, and budgets.

EXAMPLES

Box tells its employees to prioritize giving “access to all the files and information our users need to get work done from anywhere.” Tableau Software conveys its quality standards by declaring, “We won’t release a product until we would use it ourselves.” Patagonia adheres to its principle “Protect our home planet” by disallowing permanent third-party branding on its gear, which reduces reusability.



On

JANUARY 8, 2021, AN UNPRECEDENTED MOVE reverberated through the digital sphere. Under the stewardship of Jack Dorsey, then its CEO, Twitter banned a sitting U.S. president, Donald Trump, from its platform. The social media company explained this action by saying that Trump had violated its user policy by inciting violence. Nearly two years later Elon Musk, now at the platform’s helm, reinstated the former president’s account.

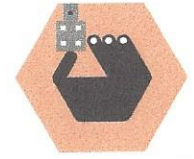
To close observers, neither decision was surprising. Under Dorsey, Twitter had evolved into a global forum with clear guardrails around acceptable discourse. When Musk assumed control, in October 2022, he fervently advocated for unbounded speech, defending only restrictions that were explicitly demanded by law.

Although those decisions may seem like the whims of two tech titans, they reflected corporate principles intricately linked to the two men’s business strategies. Dorsey and his successor, Parag Agrawal, were focused on advertising as Twitter’s primary source of revenue, and limits on certain kinds of speech protected advertisers from being associated with tweets that could harm their image. Musk, however, was focused on building subscription revenue through Twitter Blue; fewer limits on free speech—and thus



ABOUT THE ART

Paul Thompson photographs navigational aids on beaches across the United Kingdom, marveling at how they are often unseen by those on land, yet critical to those navigating the sea.



ORGANIZATIONAL
DECISION-MAKING

more-controversial content—could build overall engagement with the platform, thereby increasing its appeal.

When companies face difficult decisions, well-articulated principles can help them make better choices. Principles are distinct from corporate values or mission statements, though they are often inspired by them. They provide guideposts—and sometimes even memorable rules—for how an organization should pursue its strategy.

Well-written principles are clear and actionable. Box, a cloud-first file-sharing company, tells its employees to prioritize giving “access to all the files and information our users need to get work done from anywhere.” The data-visualization platform Tableau Software conveys its quality standards by declaring, “We won’t release a product until we would use it ourselves.” Facebook’s motto “Move fast and break things” spread throughout Silicon Valley to become an era-defining operational principle. Each of those principles is fundamental to the identity of the company and a core part of its strategy to succeed.

The power of principles is most evident during crucible moments, when employees are faced with tough choices without explicit direction from leadership. If principles conflict, employees can wrestle with and prioritize them in the context of a decision. We believe that much of the so-called techlash can be traced to the rapid scale-up of high-growth ventures that lacked nuanced principles for making decisions that considered a broad array of stakeholders. Facebook, for example, through its decision-making and communication, instilled a second, singularly dominant principle within its organization: “Maximize user engagement.” So when violence-inciting speech was posted on its platform in Myanmar, that principle dictated that local company leaders allow the content to proliferate: It was driving engagement, even as it spurred genocidal violence. To remove the content, they had to consult Facebook’s global senior leadership, causing a significant delay. If Facebook had had a broader set of principles dealing with free speech and hate speech as well as engagement, and if it had empowered its employees to make principle-based decisions, the local leaders could perhaps have responded in a more efficient and ethical way.

Our belief in principles is rooted in our combined 40 years of experience mentoring students and entrepreneurs, which led the Stanford School of Engineering’s

entrepreneurship center (STVP) to support us in developing a course, “Principled Entrepreneurial Decisions.” Our work also draws on Ray Dalio’s book *Principles*. But while Dalio’s book focuses on his personal principles and how they fueled Bridgewater Associates’ success, we have created a practical, general framework for any organization to use in developing principles and putting them into action.

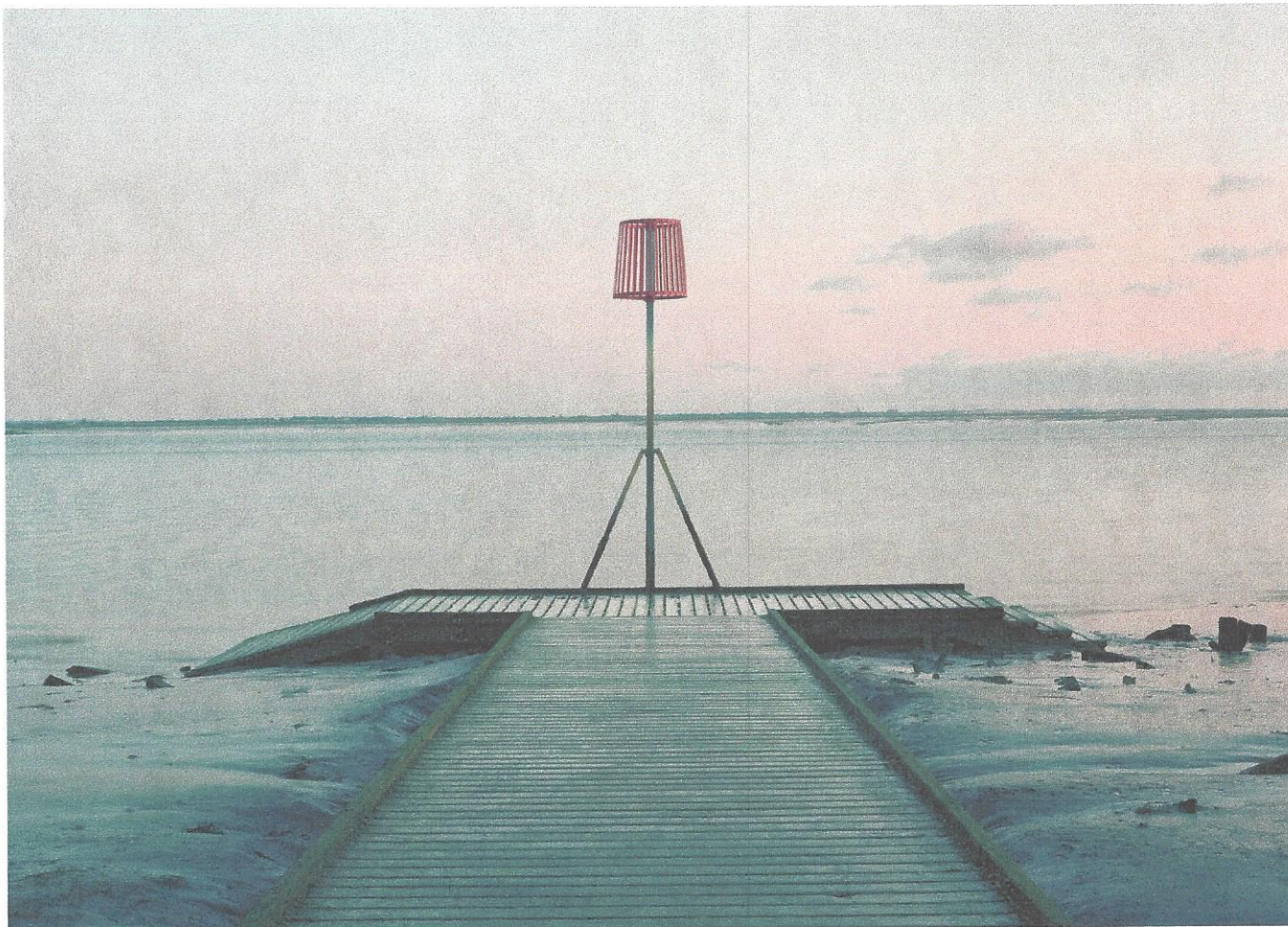
In the future the need for tough decisions will grow as organizations grapple with geopolitical realignments, climate change, and ever-accelerating technological advances. Principles are integral to building institutions capable of optimal decision-making in such an unstable environment. Here’s how companies can articulate their own.

★ *What Makes a Good Principle*

Many individuals and organizations use the terms “values” and “principles” interchangeably. Conflating them results in a missed opportunity. Values communicate a broad sense of what an organization considers worthwhile. Berkshire Hathaway’s ethical code, for example, promotes “honesty,” “integrity,” “a long-term orientation,” and “an emphasis on the customer.” Lyft’s core values are “Be yourself,” “Uplift others,” and “Make it happen.” Values are important starting points for creating a company culture and signaling commitments. But, unlike principles, they are not effective at guiding individual decisions within an organization, particularly when choices involve important trade-offs or competing priorities. Values communicate aspirations, not strategies. Principles are more instructive. “Product excellence” is a value. “We won’t release a product until we would use it ourselves” is a principle.

In our work we have found that strong principles share five critical attributes. They are:

Distinctive. Principles are often unique to a particular organization and usually quite different from those of competitors. Robinhood Markets, for example, aims to provide retail customers with easy, inexpensive access to public markets through its investing app. (Disclosure: Scott is a former member of Robinhood’s board.) Unlike many other brokerage firms, Robinhood prioritizes the customer



over pure profits, leading it to develop principles such as “Safety first,” “Participation is power,” and “Radical customer focus.” In December 2018 a software update caused a small number of options-trading orders to flip and thus be submitted incorrectly, which could have led to customer losses. Initially unsure which orders were affected, Robinhood faced a difficult choice between shutting down options trading entirely and allowing it to continue. Shutting down would reduce overall participation in the markets by preventing customers from entering any options trades. Some argued that it would be counter to Robinhood’s participation principle to stop unaffected trades from proceeding. But allowing trading to continue would both risk further revenue losses and negative publicity and fail to put customers’ safety first. After careful consideration, guided by the principles it had enshrined, the company decided to halt operations, ultimately causing a two-hour disruption and order cancellations. In making that decision, Robinhood honored “Safety first” over participation.

Principles help inform not only decisions but also how companies implement them. In this example Robinhood’s participation principle led it to be vigilant about making customers whole if they had a valid claim of harm from the outage. Once its safety principle was taken care of, its participation principle guided the company’s actions.

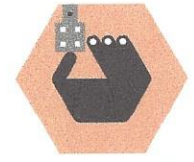
Debatable. Principles may reasonably, and in good conscience, be disagreed with. Tableau Software aims to redefine data analysis and visualization, shunning old-school features such as static PDF exports and 3D images. (Scott is a former member of Tableau’s board.) Its principles, including “The customer is not always right” and “Abandon sales leads that want a different product,” may seem counterintuitive to many, particularly start-ups eager to establish a foothold. But they came in handy when Tableau gained popularity and faced requests for features it had initially excluded. Despite the allure of large orders and easy growth, the company remained true to those principles. That’s because Christian Chabot, a cofounder, had initiated a substantial

grassroots education program for employees and customers alike, aligning the sales strategy with the principles. Those principles, effectively communicated, resulted in a cohesive sales team and a healthy customer base over time.

Transferable. Principles are articulated in such a way that they can be applied to multiple scenarios across business units and roles. Google is well-known as a pioneer of the internet, with the mission “to organize the world’s information and make it universally accessible and useful.” Less-known is a core principle it has disseminated to the company’s employees: “Focus on the user and all else will follow.” But the repeated application of that principle is evident in many important decisions the organization has made over time. For instance, Google’s strategy of providing free, top-quality web products such as Search, Gmail, and Maps and expecting advertising revenue to follow aligns with this user-centric principle, which has also guided decisions such as maintaining a simple home-page interface to build user trust and removing disruptive ads for a cleaner user experience.

Integral. Principles are core to what an organization does and necessary to meet the challenges it faces within its industry. Take Bloom Energy (where Scott was previously a member of the board), which strives to bring affordable, accessible, and clean energy to a world where more than a billion people live without power every day. One company principle describes how Bloom will achieve that mission: “We must control our technical innovation as our core competence.” When Bloom won a \$10 million Department of Energy grant to develop a technology for the government, it faced a dilemma. Compliance with DoE regulations would lead to a product tailored for DoE use only, contradicting the company’s mission of broad accessibility and, perhaps more important, risking control over its technology. Bloom had to decide whether to focus on the DoE product development or the worldwide market. Its CEO, K.R. Sridhar, and its investors decided to return the grant, staying true to Bloom’s principles. Their decision also served to reinforce its mission among employees and investors.

Company-defining. Principles establish norms that will come to the forefront in crucible moments. Apple, one of the world’s largest technology companies, touts its focus on privacy as a primary reason that consumers should choose its products over those of its competitors. The company expresses the stakeholder principle that “privacy is a fundamental human right.” In 2015, after the terrorist attack at the Inland Regional Center in San Bernardino, California, which killed 14 people and injured many more, the FBI obtained a court order requiring Apple to create a back door into the iPhone so that the agency could collect data from a suspect’s phone. Apple released a public letter announcing



ORGANIZATIONAL
DECISION-MAKING

its intent to fight the court order. The action made clear to its customers and employees the lengths to which it would go to adhere to that principle.

★ *How Principles Can Improve Communication*

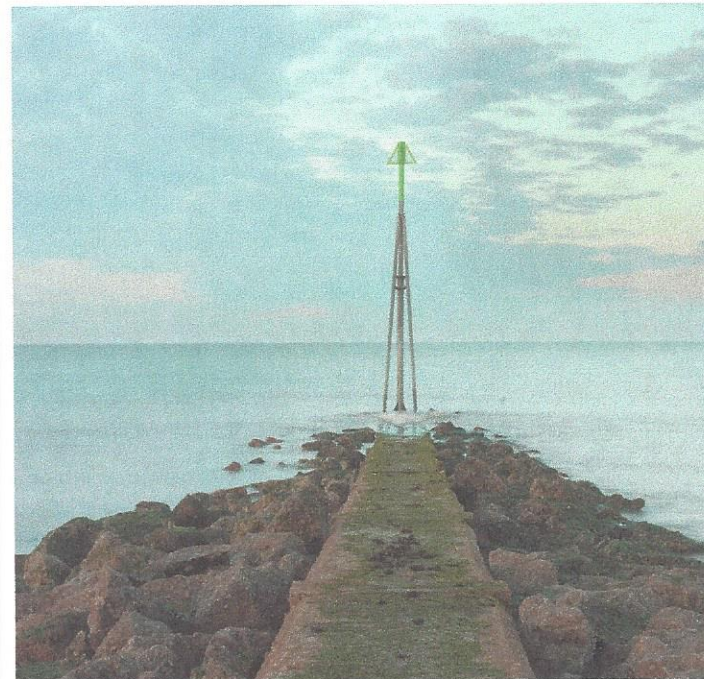
In addition to improving organizational decision-making by offering employees guideposts at crucial turning points, principles help management communicate the rationale behind difficult choices to customers, employees, investors, and other stakeholders.

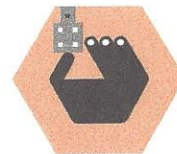
Poorly thought-out, narrowly defined principles can tie leaders’ hands. For instance, a solitary principle about the supremacy of freedom of speech on a social media platform can put the platform in a bind if hate speech starts proliferating. Such decisions have led to difficulty communicating with customers and employees alike.

As a counterexample, consider how more-nuanced principles might be deployed at a platform company that has just made a content-moderation decision that was potentially unpopular with some of its employees. It might use well-understood principles to articulate its decision, saying, “We are aware of and offended by much of the material that appears in this forum, but we have decided not to take that content down given its nonviolent nature. To make that decision, we wrestled with our principles about the importance of user safety, the value of free speech, and universal access to technology services. Under different circumstances, a different principle might win out.” Some employees might well decide that the company had chosen to prioritize the wrong principle. Nevertheless, understanding the framework would give them and other stakeholders a better sense of the company’s decision-making process and how to influence similar decisions in the future. It might even lead to an inclusive discussion of the principles themselves.

An example of how principles can help senior leaders communicate with investors and customers comes from Patagonia. When the company stopped allowing permanent third-party branding or logos on its gear, thus cutting off a

Operational principles often empower employees to make decisions independently while staying aligned with the organization's mission.





major source of revenue, the decision was consistent with its principle “Protect our home planet.” Its announcement clearly stated that “adding an additional non-removable logo reduces the lifespan of a garment, often by a lot, for trivial reasons.” The message addressed the impact the decision might have on Patagonia’s revenue; its shareholders, employees, and customers largely understood and supported the decision.

★ *Three Types of Principles*

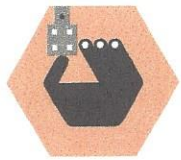
We have found it helpful in our work with a broad range of organizations, from start-ups to multibillion-dollar companies, to provide a general framework for categorizing principles. Under this framework principles come in three types: *stakeholder*, *operational*, and *organizational*.

Stakeholder principles convey best practices for relating to customers, employees, and investors, and can provide clarity about how to prioritize stakeholders when their interests are in conflict.

Alphabet clearly articulated the principle “We maintain a long-term focus” in its founder’s letter when it transitioned from Google to Alphabet. The message to investors was that Alphabet would continue to invest in projects with far-out payoffs even though they are risky and the market might not be able to value them correctly.

“When we set an expectation with a customer, we own it” is a principle that helps Aperia Technologies navigate decisions and communicate them to its stakeholders, including its board. Aperia (where Jack is a board member and an investor) manufactures and sells a tire-inflation product for the trucking industry. When the usable life of a component of the product was determined to be shorter than expected (yet still within contractual obligations), company leaders used this principle in deciding to execute a mass recall and replacement of the component.

Operational principles provide guidance on day-to-day activities across the business, from R&D to customer support. They often empower employees to make decisions independently while staying aligned with the organization’s mission.



Enlisting employees in working groups leads to more-realistic principles and creates more buy-in from those who will rely on them.

Underlying Box's product strategy is its principle of giving customers "access to all the files and information they need to get work done from anywhere." In any decision to launch a new offering or prioritize a customer request, engineers and salespeople first verify that the suggested solution aligns with this principle.

"A/B-test everything" was a principle used for many years at Playdom, a social network game developer. Before release, every change would be tested with a small group of users. The experiment would be mercilessly vetted to ensure increases in key metrics such as revenue and user engagement. That principle guided the company's incremental development process and differed notably from principles at Tableau and other tech organizations that prioritized product-mission alignment over revenue.

Organizational principles help shape the culture, processes, and structure of an organization, including how information flows and how decisions are made. Here "organization" is defined in its broadest sense.

"Disagree and commit" is a famous organizational principle first developed at Sun Microsystems and made popular at Amazon. It sets the expectation that intelligent and reasonable people can and will disagree, and even implies that they have a responsibility to do so. Then it promotes an action-oriented culture that rejects second-guessing and backpedaling. When a team leaves the room, all the leaders will support a decision made there whether or not they agreed with it during the discussion.

"Don't hire talent from old-school companies" was an organizational principle in the HR department of Tableau. The cultural effort to prevent the company from slowly drifting toward the competition it was trying to replace was a key element of its hiring practice. To reinforce this principle, Tableau established screening criteria and processes.

Creating and Instilling Principles

Formally creating principles can be a daunting task. We have helped dozens of organizations, large and small, develop, enhance, and implement their principles, and we can recommend these approaches.

Start with what distinguishes you from your competitors. Outlining the elements of an organization that differentiate it from its competitors, peers, and other industry members not only serves as a concrete starting point but also surfaces important elements of strategy. Remember, distinctiveness and openness to debate are among the five attributes of a strong principle; disagreement and refinement are a healthy part of the process. The differentiators can be crafted into principles that are transferable, company-defining, and insightful, codifying the organization's competitive advantage.

Reflect on company inflection points. Examining difficult decisions and inflection points from your organization's history can give you essential insights about the organization. For example, ask yourself, "When we chose to kill that R&D program, what principles were at play, what principles were deemed most important, and what principles were less so?" You may also consider questions such as "When our user base increased tenfold over the course of a month, how did we wrestle with principles about product, sales, marketing, and strategy?"

Principles may initially require explanation and examples to help team members appreciate their nuances. But as organizations ingrain their principles more deeply, employees will internalize their meaning for the company.

Bring employees together to formulate and revise principles. Enlisting employees in working groups can result in more-realistic and usable principles and create more buy-in from those who will rely on them. Some leaders choose to come up with an initial set of principles with a small group and then arrange a dedicated session or an off-site for further refinement and broader adoption. At larger gatherings we suggest crowdsourcing examples of decisions for which particular principles could be useful.

Give a written list of the company's values and principles to each employee and new hire. Onboarding presents a unique opportunity for instilling principles. We recommend providing examples of how principles were used to make key decisions in the organization's past. Stories are helpful; memorable ones can become the folklore of the organization. They give the principles validity as a real tool, not just words on the wall. Take the investment company whose principle is to be "universally endorsed"—in other



words, employees should strive to leave a positive impression on anyone with whom they interact. The value of this principle became clear when one CEO gave other CEOs good references for the firm—even though the firm had decided not to invest in him—because it had conducted itself so well during the vetting process.

Align goals, key metrics, and budgets with values and principles. This will help ensure that your company's strategic objectives are consistent with its actions and will focus employees' tactical decision-making. For example, each line item in Robinhood's budget is linked to one of its three main principles.

Refer to principles while making decisions. When a team is debating what to do in a difficult situation, articulating a principle can move the discussion forward.

Mention your company's principles when communicating decisions. Employees often emulate an organization's senior leaders, so leaders who articulate the *why* as well as the *what* effectively instill principles in their teams,

leading to more-consistent decision-making throughout the organization.

PRINCIPLES ARE MORE than an abstract organizational concept. They are practical beacons for decision-making, they aid in effective communication, and they help activate a company's strategy. As the world faces an array of challenges, from geopolitical shifts to digital disruptions, companies that articulate and adhere to robust principles will be better equipped to navigate the hard choices they will inevitably face. ☺

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