LEADERSHIP

Corporate Culture Matters A Lot, Says New Study

What defines corporate culture? Is it the time we put in, whether an investment banker’s 80-hour workweek or the 40 hours logged by a staffer at the Department of Motor Vehicles? Is it the workplace atmosphere, be it a quiet, light, open plan office, cramped cubicles with fluorescent lights, or private offices with great views? Is it the camaraderie of birthday celebrations, free snacks and frequent, informal chats with the boss?

Do companies with rotten corporate cultures spawn scandals, like the one this year at Volkswagen where engineers apparently felt at liberty to rig diesel engines to fool pollution-monitoring devices? Or the unconscionable accounting lies at Toshiba, where executives reportedly overstated profits by a stunning $2 billion over seven years?

What about Amazon, where The New York Times exposed an intense, often cutthroat workplace culture, with senior managers encouraging their reports to attack one another’s ideas in meetings, workers suffering from cancer or miscarriages pushed out and many employees resorting to crying at their desks? Unlike VW and Toshiba, Amazon’s stock performance this year has been outstanding, with a share price that has more than doubled in the last year. (Amazon founder Jeff Bezos has disputed the notion that the company’s culture is as bruising as the Times claims.)

According to Shiva Rajgopal, an accounting professor at Columbia Business School, many studies have looked at corporate culture but few
have attempted to quantify how executives view its effect on companies’ productivity, creativity, value and growth rates. “Previous studies don’t look at corporate culture from an accounting and statistics perspective,” he says. “They are less concerned about whether culture affects investments, earnings and management.”

Rajgopal teamed up with three co-authors from Duke’s Fuqua School of Business and surveyed more than 1,400 North American CEOs and CFOs over 13 months, ending in October 2015. Overwhelmingly, the executives said that healthy corporate culture is essential for a company to thrive.

To come up with their results, Rajgopal and his team tried their best to ask questions that would quantify what he admits is a vague concept. If you ask about culture, how do you know that all respondents are zeroing in on the same idea? “Culture is like a black box,” he concedes. To try to crack the box open, the 17-point survey asked things like, “How closely does your current corporate culture track with your stated firm values?” and “Do you think having a poorly implemented/ineffective culture at a company increases the chances that an employee would do something unethical (or even illegal)?”

Almost all respondents agreed that corporate culture, however it is defined, makes a difference in companies’ performance and value. Among the findings:

- More than 90% said that culture was important at their firms.
- 92% said they believed improving their firm’s corporate culture would improve the value of the company.
- More than 50% said corporate culture influences productivity, creativity, profitability, firm value and growth rates.
- Only 15% said their firm’s corporate culture was where it needed to be.

Who is responsible for shifting a firm’s corporate culture? Seventy percent of respondents agreed with the statement, “Leadership needs to spend more time to develop the culture.”

The survey also asked whether, if negotiating an acquisition of another company, corporate culture would make a difference. Some 46% said
they wouldn’t go through with a deal if they found that an acquisition target had a corporate culture that was not aligned with their own firms’ culture.

While Rajgopal told me he thinks that fractured corporate culture played a role in the VW and Toshiba scandals, he noted that what may appear to be a punishing culture at Amazon, plays to the company’s strengths. His wife used to work there, he said, and for her, as he suggests for all employees, an intense, hard-charging culture matches with the company’s stated ambitions. “Amazon’s whole positioning has been that they’re a 20-year-old startup,” he said. “We have to be hungry, we have to be nimble, we have to be desperate.” Amazon doesn’t attract the kind of employee who would apply for a job at the DMV. “When my wife worked at Amazon, I would barely see her,” he said. “But looking back, she would say it was the best time she had at that phase of her life.”

The paper’s bottom line finding reinforces something that we all know: Corporate culture is an essential element of success. The researchers hope that their survey will open more discussion about how to get culture right. That dialogue should start at the top. “CEOs and CFOs are very clear that getting culture right enhances value,” says Duke’s Campbell Harvey, one of the co-authors. “But it is a puzzle that if culture is so important to value, why do we hear very few CEOs talking about it?” Let’s hope this study opens a new discussion.

RECOMMENDED BY FORBES

25 Best Places To Retire In 2015

HP Inc. Takes Innovation Risks With New Line Of Commercial PCs