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COMPANY CULTURE

Why Your Company's Culture Is Crucial to Its Value

A new study finds that executives overwhelmingly believe culture is vital to how their business performs, but few are fully satisfied with the current state of their company culture.



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IMAGE: Getty Images

Your company culture differentiates your business from that of your competitors and influences the behavior and performance of your employees. But while you're immersed in it every day, you may not be fully aware of just how important it is.

A recent study of nearly a thousand CEOs and CFOs from U.S. companies casts new light on this subject. In the study, "Corporate Culture: Evidence from the Field," 91 percent of the executives surveyed said they believe improving their company culture would increase their company's value. John Graham and Campbell Harvey from Duke University and Shiva Rajgopal from Columbia University conducted the research.

More than 50 percent of the executives said corporate culture is one of the top-three drivers of company value, while an additional 27 percent said it is in the top five. Culture is so important, in fact, that 48 percent of survey respondents said they would walk away from a merger or acquisition if the company they were bidding on had an unappealing culture. Others said a unsatisfactory culture would cause them to lower an offer by up to 30 percent.

Culture also sets the tone for how ethically your employees behave: 84 percent of executives surveyed said that a poorly implemented culture increases the risk of employees breaking the law and/or committing unethical acts.

The researchers say their survey shows that it's essential for businesses to pay close attention to their culture if they want to cultivate a productive and innovative workforce.

"An effective culture improves firm value and profitability by fostering creativity and encouraging productivity; promoting more risk tolerance; mitigating myopic behavior; creating a climate for suggesting critiques and for allowing ideas to germinate organically; and by compensating for mistakes in ways that the firm's assets cannot," Graham, Harvey, and Rajgopal write.

With all that said, there also was one rather unfortunate revelation from the study: Only 15 percent of executives said their culture is exactly where it needs to be.

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