EMPIRICAL RESEARCH IN BANKING AND CORPORATE FINANCE

Edited by Stephen P. Ferris, Kose John and Anil K. Makhija

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VOLUME 21

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THE VALUE OF CORPORATE CULTURE: RELATIONSHIPS AMONG VALUES, INDUSTRY, AND PERFORMANCE

Bradley Koch, Vijay Gondhalekar and Joerg Picard

ABSTRACT

Using corporate value statements of the top Fortune 300 firms for the year 2012, we examine relationships among the stated values of these companies, their industries, and their Corporate Social Responsibility (CSR) performance measures. We classify stated values into 21 broad categories. We find that corporate values exhibit strong industry affiliations. Correspondence analysis and regression models indicate that 19 out of 21 values are related to at least one performance measure and while some values are associated with improved performance (e.g., ethics), others (e.g., safety) have a negative impact. Further, while some values have the anticipated impact on performance (e.g., the shareholder value is positively associated with financial performance), some show no relationship (e.g., the environment value is not associated with environmental performance). Finally, our findings also suggest possible CSR washing in some cases. Overall, the study finds corporate values do affect their performance.

Keywords: Corporate values; corporate culture; CSR; ESG; correspondence analysis; CSR washing

1. INTRODUCTION

In the 1980s, Deal and Kennedy (1982) argued that "values are the bedrock of any corporate culture" (p. 21). Early researchers used two-by-two typologies to

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separate values into four distinct cultural types and used them to predict firm performance with varying degrees of success (e.g., Deal & Kennedy, 1982; Deshpandé, Farley, & Webster, 1993; Ogbonna & Harris, 2000). In the 1990s, corporate culture started being recognized as a resource that could be used for improving performance and since value statements are the bedrock of corporate culture, they could be used to increase performance (Khurana, 2002; Kunda, 1992; Schein, 1992). In a recent study, however, Guiso, Sapienza, and Zingales (2015) identify nine composite value categories and report that firms' published values are irrelevant to their performance. Such composite measures, however, have been critiqued on the grounds that they fail to do justice not only to the complex nature of culture, but also to its intricate links with performance (Saffold, 1988). In our study, we use a broader array of value categories and examine and illuminate their links with performance measures. We shed light on the following questions:

(1) Which values are associated with which particular industries?
(2) Which values are associated with which particular performance measures?
(3) Which industries are associated with which particular performance measures?
(4) Which performance measures are most influenced by values?

To find answers to the questions above, we hand collect and code the 2012 value statements of Fortune 300 companies and consolidate the stated values into 21 categories rather than limiting them to a few broad composite measures as has been done in prior studies. As corporate values are likely to have strong industry affiliation, we classify these companies according to their NAICS codes and gather information on their financial and Corporate Social Responsibility (CSR) performance measures. Since a firm's actual performance is likely to lag the adoption of a stated value, we examine change in the performance measures over the three years after the year in which the value statements were gathered. Given the complexity of our data, this is an exploratory study that examines the relationship among 21 value categories, 30 performance measures, and 11 industries.

In contrast to Guiso et al.'s (2015) study where only one out of nine values influence one of their four performance measures, we find that 19 out of 21 values impact at least one of our performance measures and that 29 out of 30 performance measures are impacted by at least one value. Thus, these more nuanced value categories provide a basis to identify which values are associated with positive CSR performance measures, which are associated with negative performance measures, and which are neutral. Having more detailed value measures also enable us to dichotomize them into positive versus negative value measures, i.e., those that typically have a positive impact on performance measures versus those that have an impact on negative measures. It similarly allows us to dichotomize values into general versus industry specific, i.e., those values that are broadly used across all industries versus only in few industries. In addition, we do find some evidence where firms in an industry adopt management practices that

improve their positive performance score but their negative performance score continues to worsen over time suggesting CSR washing.

Overall, our findings indicate that the relationship between values and performance is nuanced. For some values the relationship is intuitive and as expected. For example, companies that state their *shareholders* as one of their values are associated with better financial performance (than those that do not) and those that include *ethics* in the value statement is a predictor of better corporate governance performance. In some cases, however, the expected result is either absent or works other than expected. For example, the community value has no impact on the community performance measure as would be expected, but instead has a positive effect on financial performance and a negative effect on the product's social performance.

Our study is organized as follows. Section 2 provides discussion of relevant literature. Section 3 provides details about the data. Discussion of findings with a description of the underlying models are in Section 4. We wrap up with our conclusions and avenues for future research in Section 5.

2. LITERATURE REVIEW

2.1 Organizational Culture as Values

Drawing upon the Giorrgi et al. (2015) five conceptualizations of culture (values, stories, frames, toolkits, and categories), we utilize the value approach to organizational culture. This approach conceptualizes culture as being espoused values and values that are currently in use in an organization (Ott, 1989), ideologies and observable behaviors (Beyer, Hannah, & Milton, 2000), and beliefs prevailing in an organization (Schein, 1992). Most organizational cultural research focuses on experienced culture. This line of research prioritizes values experienced by members within the organization or the organizational practices that symbolically solidify values to create classifications of organizational cultures (e.g., Cameron & Quinn, 1999). In contrast, aspirational values of organizations are socially constructed artifacts of a hyperculture where a firm's emphasis on the presentations of reality becomes more real than the reality they represent (Alvesson & Sveningsson, 2016, p. 131). Aspirational culture is evaluative rather than factual and is contextualized within an organization's culture as "this is how we aspire or desire to behave" (Trompenaars & Hampden-Turner, 2012, p. 30) or the way things should be rather than the way things are (House, Hanges, Javidan, Dorfman, & Gupta, 2004, p. 125).

Since its early stages of development in the 1980s, organizational culture has been received with great interest because of the view that managers can harness it to improve organizational performance (Schein, 1992, p. xi). Nearly 40 years later, leaders are still the central actors for formulating organizational culture (Groysberg, Lee, Price, & Chung, 2018). One way in which leaders shape culture is through imprinting their values and practices into the culture from the inception especially in family and entrepreneurial firms (Eddleston, 2008; Kidwell, Eddleston, & Kellermanns, 2018; Leonard-Barton, 1992). In addition, leaders

engage in change management by establishing new strategies and by exerting their influence to realign corporate culture with new aspirational values (Alvesson & Sveningsson, 2016; Ott, 1989; Van Knippenberg & Hogg, 2003).

In the strategic management literature, aspirational culture is conceptualized as a resource that leaders manage to fit, support, and direct the organizations' strategy (Barney, 1986; Chatman & Cha, 2003). Schein and Schein (2017) describe the firm's published value statement as an artifact representing espoused values that determine appropriate attitudes and behaviors within the organization. These values are not always congruent with the actual assumptions that shape the daily practices of the organization, but instead are representative of the aspirational culture which is publicly communicated to internal and external stakeholders.

2.2 Industry and Organizational Culture

Beer and Eisenstat (1996) argue that corporate cultures emerge from micro subcultures within the organization, whereas Hofstede, Neuijen, Ohayv, and Sanders (1990) argues that they come from higher level societal values. Schein (1992), however, argues that organizational cultures form via adaptation to the external environments. Even in the 1980s before firms published value statements, Deal and Kennedy (1982) argue that "values are the bedrock of any corporate culture" (p. 21) and they realize that organizational cultures and values are shaped by the broader industry environment. Consequently, they conclude that the external business environment associated with a firm and its industry is much more influential than the firm's internal values, heroes, stories, and rituals. Similarly, Chatman and Jehn (1994) find that a firm's industry is a much stronger predictor of its organizational culture than the degree of technology it utilizes and its growth rate.

2.3 Organizational Culture, Industry, and Performance Relationships

Peters and Waterman (1982, p. 15) are some of the first to assert that strong organizational values improve organizational performance. A few years later, this was confirmed in Denison's (1984) empirical study that used survey response from 43,747 respondents across 34 companies in 25 different industries. This sparked research into impact of strong organizational cultures and particular cultural traits on organizational performance. Calori and Sarin's (1991) detailed study of five French firms pursuing a differentiation strategy found that strong cultures were associated with growth performance and that certain values and practices such as openness to the environment were not only correlated with growth performance but also ROI and return on sales. Similarly, Gordon, and Ditomaso's (1992) study of 11 insurance companies found that while a strong culture was important in predicting performance by itself, it was much stronger when paired with culture of adaptability. Sorensen (2002) found that strong culture is a better predictor of performance when firms are operating in stable environments, but not in volatile environments. Sorensen claims that although

strong culture can benefit firms in the short term, it can also constrain adaptability in the long term if the culture does not embrace flexibility and change. Thus, the content of the organization's culture may be more important than the strength.

One way to define the content of an organization's culture is to define categories of culture. Quinn (1988) used a model based on the values individuals hold about ways to achieve organizational performance. Denison and Spreitzer (1991) further developed this competing values model to consist of four types of organizational cultures: clan, adhocracy, hierarchical, and market. In their study of Japanese firms, Deshpandé et al. (1993) renamed these four categories to be community, innovative, bureaucratic, and competitive, respectively, and found business performance to be positively correlated with the competitive and innovative culture types. Ogbonna and Harris (2000) also used these categories and found that innovative and competitive cultural types were a much stronger predictor of performance than leadership.

The use of broad cultural profiles, however, has been criticized for producing bland generalizations (Safford, 1988, p. 548) and researchers now explore the links between particular cultural traits and particular performance measures (see Sugita & Takahashi, 2015; Jiang, Kim, Ma, Nofsinger, & Shi, 2019; Guiso et al., 2015, among others). All hypothesized links between cultural values and outcomes, however, don't materialize. For example, Audi, Loughran, and McDonald (2016) find that organizational cultures with more trust do not use fewer audits but more; and rather than having higher stability of share prices these firms have more volatility.

CSR has been at the forefront in examining the link between values and performance. Harris and Crane (2002) find that even superficial responses to environmental pressures are sufficient to eventually narrow the divide between the actual and espoused positions 15 years later. Porter, Gallagher, and Lawong (2016) replicated the research by Harris and Crane (2002) and find that indeed the old espoused values had taken root and produced actions. Likewise, Lee and Maxwell (2015) find that firms committed to CSR reporting improve their CSR ratings. In contrast, Kolk and Perego's (2014) examination of sustainability bonuses in four firms find that these bonuses have no impact unless they are tied to hard measures provided by third parties. Similarly, Mass (2018) finds that having hard quantitative targets improved CSR results, whereas having soft qualitative targets did not.

When firms move from merely valuing CSR to enacting CSR, it affects their financial performance. El Ghoul, Guedhami, Kwok, and Mishra (2011) found that CSR reduces the cost of capital. Lioui and Sharma (2012) found that CSR indirectly resulted in significant improvements in ROA and Tobin's q by fostering R&D that generates additional value. Harjoto (2017) found that CSR activities creates an ethical culture that reduces the likelihood of corporate fraud. Similarly, Jo and Na (2012) argue that CSR engagement benefits the firm by reducing risk in general, and Kim, Li, and Li (2014) assert that a firm's CSR performance has a negative association with stock price crashes especially when governance mechanisms are weak.

3. DATA

The data on companies' value statements are hand collected from company websites. We use the top 300 firms from the 2012 Fortune 500 companies and obtain their value statements by surveying information on the "About Us," "Our Company," "Job Opportunity," "Operating Principles," or similar links on the company website. Approximately 67 percent of the value statements were found via the "About Us/Our Company/Who We Are" tab, 18 percent were found via "Operating Principles/Code of Conduct" tab, and 15 percent were found via "Job Opportunity/Career" tab. We identified 241 value statements in our initial sample of 300 firms (80 percent success rate). We were unsuccessful in getting the value statements for the remaining 59 firms.

Value statements are typically lists of single word values (e.g., integrity, honesty, etc.) that are introduced with a heading such as "Our Core Values" or a sentence such as "The following values personify how we conduct ourselves." We used an open coding process to analyze these lists of values. 181 distinct values were identified and we checked our coding for accuracy by revisiting the original statements. The 181 distinct values were then consolidated such that same terms presented in different forms were grouped as one. For example, employee, great employees, and employees were merged into a single value. We then sorted values according to frequency of occurrence. Integrity appeared at the top of this list, occurring 149 times so we created an *Integrity* value category for these occurrences. We use italics for value categories to distinguish them from distinct values. Distinct high-frequency values received their own category unless they were explicitly synonymous with a value category that had already been created. Values that conceptually overlapped with an already existing value category were placed in the existing value category (for example, honesty was placed in the *Integrity* category).

These value categories along with the distinct values that were included in the category are presented in Table 1. The bold text in the table are value categories. The number in parentheses indicates the number of occurrences within the 241 firms that contained the value. For example, the authenticity value is in the *Integrity* value category and appears in two firms' value statements. The *Integrity* value category is present in 173 value statements of the firms. Note that the category quantity is not necessarily the sum of individual values as a firm's value statement with two values (e.g., responsibility and reliability) in the *Accountability* category is only counted once per firm.

Given that value statements of companies are likely to differ according to their industry affiliation, we group companies into 11 industries based on their two-digit NAICS codes (due to lack of representation across the 21 value categories, various service industries were collapsed into a single industry).

CSR performance measures of companies are generated based on the data reported by MSCI ESG KLD STATS. MSCI provides an annual dataset of positive and negative environmental, social, and governance (ESG) related performance indicators applied to a universe of publicly traded companies. Positive indicators are designed to capture "management best practices," whereas the

Table 1. Value Category Definitions and Composition.

Integrity (173) –	Authenticity (2), confidentiality (2), courage (2), do what's right (7), doing the right thing (8), fairness (7), honesty (31), honor (1), humility (3), integrity (149), justice (1), values (1)
Excellence (126) –	Achievement (3), be science based (1), building great brands (1), commercial focus (2), compete and win (2), create value for patients staff and stockholders (2), deliver on promises (2), deliver results (6), earn a fair return (1), economy (1), efficiency (3), excellence (52), execute superbly (4), expertise (3), financial strength (5), focus on cost (2), growth (6), high performance (1), high standards (2), knowledge (4), performance (22), profit (3), results (3), results oriented (4), results-driven (2), results-oriented (2), simplicity (6), use assets wisely (1), value creation (5), well-managed (1), winning (4)
Respect (125) –	Dignity (9), diversification (1), diversity (48), kindness (1), respect (88)
Customer (107) –	Client commitment (4), client focused (4), customer (35), customer center (5), customer commitment (4), customer experience (2), customer focus (18), customer oriented (2), customer responsiveness (6), customer satisfaction (5), customer service (6), customers (1), dedication to customer (1), passion for customers (6), patient focused (1), quality service (2), quality services (2), satisfied customers (1), service (12)
Innovation (99) –	Agility (2), continuous improvement (15), contrarian spirit (1), creativity (9), entrepreneurial (1), imagination (1), improvement (2), independent thinking (2), ingenuity (2), innovation (62), inspiration (2), invention (3), positive change (3), problem-solving (3), resourcefulness (1), risk taking (3), speed (4), technology (3)
Teamwork (92) –	Collaboration (22), global teamwork (3), partnership (12), team (12), teamwork (50)
Commitment (63) –	Above and beyond (1), aspiration (2), caregiver inspired (1), commitment (10), dedication (2), discipline (3), driven (3), enthusiasm (2), honor commitment (1), loyalty (3), passion (16), passion for success (7), passion for winning (3), passion to succeed (4), perseverance (3), positive attitude (2), positive difference (1), power of attitude (1), pride (3), professionalism (2), spirit of winning (1), winning spirit (1)
Accountability (62) –	Accountability (41), compliance (3), personal accountability (4), reliability (3), reliable (1), responsibility (13), responsible (1)
Community (60) –	Citizenship (2), community (35), community outreach (3), corporate citizenship (7), corporate responsibility (1), engagement (2), look externally (1), recognition of society needs (1), reputation (1), social responsibility (5), stakeholder value creation (2), stakeholders (5)
People (56) –	Care (1), caring (12), compassion (3), humanity (2), improving life (2), people (31), quality of life (2), relationships (4), wellness (4)
Safety (47) –	Safety (47)
Environment (40) –	Environment (25), environmental responsibility (2), environmental stewardship (4), planet (3), sustainability (5)
Empowering (38) –	Personal development (16), empowering (15), enabling lives (1), enriching workplace (7), faith-friendly (1), fun (2), make a difference (1)
Trust (37) –	Trust (35), trustworthiness (2)
Openness (36) –	Communication (13), openness (18), real (2), sharing (2), transparency (6)
Quality (31) –	Quality (31)
Ethics (25) –	Ethics (25)
Leadership (25) –	Decentralization (1), lead by example (3), leadership (9), ownership (11), servant leadership (2)

Table 1. *(Continued)*

Shareholders (19) –	Responsibility to shareholders (1), shareholders (17), stockholders (1)
Employees (16) –	Employee (3), employees (12), employment security (1)
Global Citizens (4) –	Global citizens (2), global involvement (1), global thinking (1),

Note: Distinct values stated in corporate value statements are grouped into broad categories (in bold). The numbers in parentheses following the distinct values indicate the number of times these values were indicated in the value statements of the Fortune 300 companies for the year 2012. The numbers following the broad categories do not add up to be the sum of distinct values because conceptually overlapping distinct values are counted as one.
Source: Authors' original work.

negative indicators are an assessment of controversies arising from alleged violations of national or international laws, regulations, or accepted norms. These variables are defined in Appendix A. We choose not to aggregate these two components because improvement (deterioration) in the positive measures may hide deterioration (improvement) in the negative measures. We also use financial data from Compustat for formulating relevant financial measures. Combined, this gives us 15 performance measures. Given that the impact of corporate values on their performance could take time, we track changes in the 15 performance measures from the year in which the value statements are gathered (2012) through the end of three years. In other words, we compute the change in the 15 performance measures from 2012 to 2015.

4. FINDINGS

4.1 Relationship Between Values and Industries

To determine the relationships among corporate values, industries, and performance measures, we calculate Pearson correlations and use a Correspondence Analysis (CA) model to map the relationships. Table 2 presents the correlations between the values and industries. We find that most industries show strong correlations with values. The wholesale industry is an exception because it does not correlate with any values. The consumer manufacturing, industrial manufacturing, and finance industries show the highest correlations with values (four values each). Another interesting finding in Table 2 is that consumer manufacturing firms exclude the *Customer* value, but tend to include *Quality*, *Leadership*, and *Trust* in their value statements. Similarly, the industrial manufacturing industry excludes the *People* value, but tends to include *Employee*, *Environment*, and *Innovation* values. Firms in the finance industry exclude *Safety* and *Environment*, but include *Customer* in their value statements.

Table 2 also facilitates distinction between general values and industry specific values. General values (*Accountability*, *Commitment*, *Community*, *Ethics*, *Integrity*, *Openness*, *Shareholders*, and *Teamwork*) are used broadly across all industries and hence are not correlated with industries. Industry specific values, on the