Set in Stone: The Persistence and Origins of Corporate Culture

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What is Corporate Culture?

Corporate culture is "a set of principles and values that should inform the behavior of all the firms' employees."

—Guiso, Sapienza, and Zingales (2015b)

Motivation

- Corporate culture explains firm policies and is a key value driver.
  - Hilary and Hui (2009), Fahlenbrach, Prilmeier, and Stulz (2012), Ahern, Daminelli, and Fracassi (2015), Biggerstaff, Cicero, and Puckett (2015), Guiso, Sapienza, and Zingales (2015b), Liu (2016), Pan, Siegel, and Wang (2017), Pan, Siegel, and Wang (2020), Li et al. (2021a), Li et al. (2021b), Graham et al. (2022a), Graham et al. (2022b), Li et al. (2026).

"Culture is not the most important thing in the world. It's the only thing. It is the thing that drives the business."

—Jim Sinegal, Cofounder & Former CEO, Costco

This paper

- In this paper, we address the following questions:
  - Is corporate culture persistent, or is it subject to change?
  - If culture is persistent, what mechanisms sustain it over time?
  - Who is responsible for a firm's culture?
- Answers to these questions have direct implications for firm value and corporate risk management.

Conceptual framework

- Culture as a stock of organizational knowledge that is widely held among employees but not by outsiders. Crémer (1993)
  - Cultural change is costly because much of this knowledge is tacit and embedded in routines throughout the firm.
- Culture as a firm's reputation, built over time through repeated behaviors Kreps (1990) and Hermalin (2013)
  - Culture persists because reputation is path dependent.
- Culture as shared beliefs about "the best way of doing things." Van den Steen (2010)
  - Culture changes slowly, as shifts in beliefs require substantial changes in organizational membership or experiences.

The null: Corporate culture is persistent over time.

Conceptual framework

- Founders embody the initial vision, values, and beliefs upon which a company is built.
  - Cultural heritage significantly influences an individual's values and preferences. Guiso, Sapienza, and Zingales (2006), Ahern et al. (2015), Liu (2016)
  - Founder birthplace environment: racial diversity and exposure to the frontier experience. Alesina and La Ferrara (2005), Bazzi et al. (2020)
  - Early-career exposure to recessions. Schoar and Zuo (2017), Schoar et al. (2024)
- In contrast to top executives, firms' founders are not selected, founders' effects on their firm's culture are likely to be causal.

Measuring corporate culture

- Culture scores from Li et al. (2021a), 2002-2025
  - Quantify a firm's culture in five dimensions following Guiso, Sapienza, and Zingales (2015): innovation, integrity, quality, respect, and teamwork.
    - Develop a semi-supervised machine learning technique to construct a culture dictionary and apply it to **the Q&A section** of earnings calls.
    - Cross-validated.
  - We use the sum of these five values at the firm-year level.
  - We also use subscores and individual cultural values:
    - **Operations-oriented** culture: innovation and quality.
    - **People-oriented** culture: integrity, respect, and teamwork.
- We also employ an alternative culture measure based on Glassdoor employee reviews Li et al. (2024), Li et al. (2026).

The Persistence in Corporate Culture

Variance Decomposition Using Culture Scores

Panel A: Corporate Culture and Glassdoor Culture for The Full Sample

	Culture	Culture	Culture	Glassdoor CC	Glassdoor CC	Glassdoor CC
	(1)	(2)	(3)	(4)	(5)	(6)
Firm FE	0.87		0.86	0.79		0.78
CEO FE	0.11		0.13	0.20		0.21
Year FE	0.02	0.26	0.01	0.01	0.17	0.01
Industry FE		0.49			0.60	
Firm characteristics	No	Yes	Yes	No	Yes	Yes
Adj. R^2	0.76	0.34	0.77	0.45	0.11	0.45

- Firm fixed effects account for the vast majority of the explained variation in culture.

Delisted firms and Non-S&P 1500 firms

Variance Decomposition Using Subscores and Indiv. Values

Panel B: Corporate Culture Subscores for The Full Sample

	Operations-oriented culture	People-oriented culture	Innovation	Quality	Integrity	Teamwork	Respect
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Firm FE	0.87	0.88	0.87	0.88	0.81	0.85	0.89
CEO FE	0.12	0.11	0.12	0.11	0.18	0.14	0.10
Year FE	0.01	0.01	0.01	0.00	0.00	0.00	0.01
Firm characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.78	0.75	0.77	0.71	0.58	0.68	0.73

Variance Decomposition Using Mover CEOs

Panel C: Firms with CEOs Who Have Worked at Two or More Firms

	Culture	Glassdoor CC	Operations-oriented culture	People-oriented culture	Innovation	Quality	Integrity	Teamwork	Respect
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Firm FE	0.95	0.87	0.95	0.96	0.95	0.97	0.96	0.94	0.97
CEO FE	0.02	0.02	0.03	0.02	0.02	0.01	0.02	0.03	0.01
Year FE	0.02	0.08	0.01	0.01	0.02	0.01	0.02	0.02	0.01
Firm characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.78	0.21	0.8	0.76	0.81	0.72	0.54	0.66	0.78

- Using mover CEOs to better separate firm and CEO effects, we show that firm fixed effects account for the vast majority of the explained variation in culture.

The role of a firm's initial culture

- Motivated by seminal work on the origins of corporate culture Schein (1983), Schneider (1987), Van den Steen (2010b), Guiso et al. (2015a) and by the empirical evidence Pan et al. (2017), we hypothesize that a firm's culture is shaped in important ways by its founding principles and values.
  - Measure a firm's initial culture using the culture score around its IPO, *Culture IPO*.

- We run the following panel data regression:

$$Culture_{i,t} = \alpha + \beta_1 CultureIPO_i + \beta_2 CultureIPO_i \times Ln(Firm\ age) + \gamma X_{i,t-1} + \lambda_j + v_t + \varepsilon_{i,t}, \quad (1)$$

The role of a firm's initial culture

The Full Sample

	Culture (1)	Culture (2)	Culture (3)
Culture IPO	0.750***	0.625***	0.496***
	(0.041)	(0.042)	(0.043)
Culture IPO × Ln(Firm age)	-0.062**	-0.056*	-0.035
	(0.030)	(0.029)	(0.028)
Firm controls	No	No	Yes
Industry FE	No	Yes	Yes
Year FE	No	No	Yes
No. of firms	1,838	1,838	1,838
Obs.	11,262	11,262	11,262
Adj. R^2	0.422	0.481	0.519

- A firm's initial culture is positively correlated with its subsequent culture.

Glassdoor culture measure

The role of a firm's initial culture: Founders having no active involvement

	Culture (1)	Culture (2)	Culture (3)
Culture IPO	0.767***	0.643***	0.511***
	(0.038)	(0.038)	(0.039)
Culture IPO × Ln(Firm age)	-0.075***	-0.067**	-0.047*
	(0.027)	(0.026)	(0.025)
Firm controls	No	No	Yes
Industry FE	No	Yes	Yes
Year FE	No	No	Yes
No. of firms	1,782	1,782	1,782
Obs.	10,384	10,384	10,384
Adj. R^2	0.439	0.493	0.533

- In the absence of active founder involvement, the association between initial and subsequent culture weakens somewhat over time.

The Determinants of Early Culture: Founder Char.

	Culture first obs (1)	Culture first obs (2)	Culture first obs (3)	Culture first obs (4)	Culture first obs (5)
Founder UAI	0.081***	0.068***	0.078***	0.065***	0.063***
	(0.012)	(0.011)	(0.013)	(0.013)	(0.014)
Founder birthplace racial diversity	0.063***	0.061***	0.065***	0.060***	0.063***
	(0.010)	(0.009)	(0.008)	(0.009)	(0.006)
Founder birthplace TFE	-0.011	-0.010	-0.012	-0.010	-0.012
	(0.011)	(0.010)	(0.011)	(0.011)	(0.011)
Founder work recession	-0.176***	-0.141***	-0.168***	-0.135***	-0.135***
	(0.019)	(0.019)	(0.019)	(0.016)	(0.017)
Firm controls	Yes	Yes	Yes	Yes	Yes
Fixed effects	No	FF5	Founding corhort	FF5 and Founding corhort	FF5 × Founding cohort
No. of firms	831	831	831	831	831
Obs.	1,023	1,023	1,023	1,023	1,023
Adj. R2	0.133	0.174	0.131	0.170	0.159

- Founder cultural heritage, early-life exposure to racial diversity, and early-career exposure to recessions all positively correlated with their firm's initial culture.

Subscores and cultural values | Founders vs. insiders | Excluding CA-founded | Including founding location diversity

The mechanisms underlying persistent culture

Assortative matching

- Assortative matching: Firms and individuals are more likely to form and maintain employment relationships when their values are aligned Hackman (1992), Van den Steen (2010b), Liu (2016).
  - New CEOs possess cultural traits aligned with those of the firms they join.

$$\begin{aligned} \textit{Incoming CEO UAI}_{i,t} = \alpha + \beta_1 \textit{Culture before turnover}_{i,t-1} \\ + \beta_2 \textit{Departing CEO UAI}_{i,t-1} + \gamma X_{i,t-1} + \lambda_j + \nu_t + \varepsilon_{i,t} \end{aligned} \tag{2}$$

  - New CEOs whose values are incongruent with those of the firms they join, are more likely to depart.

$$\begin{aligned} \textit{CEO departure}_{i,t} = \alpha + \beta_1 \textit{Abs diff in UAI quartile}_{i,t} + \beta_2 \textit{Culture before turnover}_{i,t-1} \\ + \gamma X_{i,t-1} + \eta_i + \nu_t + \varepsilon_{i,t} \end{aligned} \tag{3}$$

Assortative Matching Between Firms and CEOs on Values

	Incoming CEO UAI (1)	Incoming CEO UAI (2)	Incoming CEO UAI (3)	Incoming CEO UAI (4)	Incoming CEO UAI (5)	Incoming CEO UAI (6)
Culture before turnover	0.137**	0.126**	0.150**	0.136**	0.126**	0.150**
	(0.055)	(0.058)	(0.073)	(0.055)	(0.058)	(0.073)
Departing CEO UAI				0.019	0.016	0.010
				(0.018)	(0.018)	(0.019)
Fixed effects	No	No	FF38 Ind + Year	No	No	FF38 Ind + Year
No. of firms	1,687	1,687	1,687	1,687	1,687	1,687
Obs.	3,217	3,217	3,217	3,217	3,217	3,217
Adj. R^2	0.002	0.001	0.004	0.002	0.001	0.003

- There is a positive association between a firm's culture score and its new CEO's UAI score.

Departure of Potentially Mismatched CEOs

	CEO departure in 1yr (1)	CEO departure in 1yr (2)	CEO departure in 2yr (3)	CEO departure in 2yr (4)
Abs diff in UAI quartile	0.018**	0.018**	0.034***	0.034***
	(0.009)	(0.009)	(0.011)	(0.011)
Culture before turnover	-0.005**	-0.005**	-0.007**	-0.008**
	(0.002)	(0.002)	(0.003)	(0.003)
Fixed effects	Firm + Year	Firm + Year	Firm + Year	Firm + Year
No. of firms	448	448	448	448
Obs.	1,010	1,010	1,010	1,010
Adj. R^2	0.046	0.057	0.166	0.169

- Using a sample of *exogenous* CEO turnover events, there is a positive association between the degree of cultural mismatch and the likelihood of a new CEO's departure.

Endogenous CEO turnovers

Cultural imprinting

- Cultural imprinting: Individuals internalize the values and norms of the organizations in which they work, potentially shaping their subsequent behavior Kreps (1990), Hackman (1992), Van den Steen (2010b), Liu (2016)

$$Y_{i,j,t} = \alpha + \beta_1 \textit{Former employer culture}_{j,pre} \times \textit{Post}_{i,t} + \beta_2 \textit{Culture}_{i,t-1} + \gamma X_{i,t-1} + \eta_i + v_t + \varepsilon_{i,j,t}, \quad (4)$$

- Identification comes from within-firm policy changes around CEO appointments combined with cross-sectional variation in the culture of incoming CEOs' former employers.

Cultural imprinting on CEOs

	R&D	Quality score	Discretionary accrual	Team patents%	Respect score
	(1)	(2)	(3)	(4)	(5)
Former employer Culture sub-score × Post	0.029	0.001	-0.180	0.004	0.002
	(0.019)	(0.004)	(0.129)	(0.006)	(0.002)
Culture sub-score	0.006	0.001	-0.065	-0.002	-0.005
	(0.032)	(0.006)	(0.256)	(0.009)	(0.003)
CEO/Exec UAI	Yes	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes
No. of events	294	325	344	204	250
No. of firms	241	269	287	166	214
Obs.	1,379	1,435	1,623	861	1,034
Adj. R^2	0.893	0.794	0.287	0.341	0.668

- Using a new CEO's former employer culture as a proxy for culture's imprinting on her, these is limited evidence of such imprinting on firm policies at her new firm.

When does corporate culture change?

- We identify such episodes using a conservative approach:
  - We focus on large shifts in a firm's position in the cross-sectional culture distribution (at least 5 of 20 quantiles).
  - We require the shift to persist with no reversion for at least five years.

- Two findings emerge:
  - Large and sustained cultural shifts are rare. There are only 44 upward and 33 downward episodes for S&P 1500 firms from 2002 to 2025.
  - Case evidence and LASSO Probit results: Large cultural shifts tend to coincide with broader changes in firms' organizational or operating environments.

Conclusion

- Firm fixed effects explain the most variation in corporate culture.
- A substantial portion of the persistence traces back to a firm's initial culture.
- Firms' initial cultures are systematically associated with: founder cultural heritage, racial diversity in their birthplaces, and early-career exposure to recessions.
- Firm-CEO assortative matching on values is the key mechanism underlying culture persistence.