SET IN STONE: THE PERSISTENCE AND ORIGINS OF CORPORATE CULTURE

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Summary

Research Question: Is corporate culture persistent, what sustains it over time, and whose culture is it — founders' or CEOs'?

Data:

- Earnings-call culture scores (Li et al. 2021b): 37,535 firm-years, 2,950 S&P 1500 firms, 2002–2025
- Hand-collected founder data: 3,897 founders at 2,398 firms, with heritage (Hofstede UAI), birthplace, and career timing
- 3,217 CEO turnovers (2002–2024); 1.84M immigrant employees via Revelio Labs + World Values Survey

Methodology:

- Variance decomposition of culture into firm / CEO / year effects, incl. a CEO-"mover" sample
- Culture-at-IPO predicting subsequent culture; founder-characteristic regressions
- CEO and employee matching/departure models; a mover-CEO test for cultural imprinting

Key findings

- “Corporate Culture” is overwhelmingly firm-specific and persistent: firm fixed effects explain 86–95% of the explained variation, vs. 11–13% for CEO fixed effects
  - A 1 s.d. increase in a firm’s culture at IPO predicts a 0.762 s.d. increase in its culture decades later, with little decay

- Founders’ cultural heritage (UAI), birthplace racial diversity, and a recession-era career start all predict a firm’s initial culture
- Assortative matching — not cultural imprinting — sustains it: firms match with CEOs and employees on values, misalignment predicts departure, and a mover-CEO imprinting test comes back null

I could tell you this is a great paper because

1. **Novel Data**
   - 3,897 hand-collected founders linked to heritage, birthplace, and career timing — a genuinely new resource

2. **Clean Separation of Constructs**
   - Culture (from earnings calls) is measured apart from insiders' own values — this lets the paper test matching vs. imprinting directly, which prior work (Liu 2016; Pan et al. 2017) could not

3. **Multiple Corroborating Designs**
   - Mover CEOs, an alternative Glassdoor measure, private firms, and event studies around turnover / M&A / distress / IPO all point the same way

4. **Real Stakes**
   - Culture predicts CEO and employee departure — persistence that is consequential, not just descriptive

But I think it is a great paper because it made me think

- It addresses a very important conceptual issue about the role of culture
- Economists tend to adopt a functionalist approach to culture (e.g. David Kreps (1990), Greif (1994))
  - culture is merely a focal point to solve for equilibrium
  - Economic conditions drive culture and norms (as in Becker but also Marx) Intuition: economics affects everything, including culture. In this context the CEO/founder chooses a culture of success.
- Sociologists ignore markets and incentives
- A more interest perspective is that culture is “embedded” in the market and the experience
  - Granovetter (1985): redefines embeddness vis a vis Polanyi (1944): “economic rationality is "embedded" in a dynamic system of social relationships;
- **Here culture seem to derive from a “cultural endowment“ not a strategic decision:** This is a persistent cultural trait that can become sources of advantage or disadvantage in different economic environments (in firms they observe only survivors).

Suggestions 1

What is really corporate culture?

We can learn concentually a lot from this paper about what corporate culture means by linking to the literature

Reframe the literature and your contribution and rethink about the role of culture in a firm in light of your results

- David Kreps is great but when it came to culture, it was a lot of relabeling of standard economic concepts. If culture is merely a coordination device or a focal point, it is old news. And how different it is from other tools? If culture is embedded, it becomes an asset and a constraint. Big implications.
- For example, in one interpretation, your recession-CEO have a constrain: they grew up with a scar that they cannot get rid of. This is not functional culture. If true, it negates a large part of the literature that you cite as motivating your work!

Suggestion 2:

The Recession-Founders: Scarring or Scarcity?

1. Your story

- Founders who started their careers in a recession build weaker initial cultures — read as risk-averse caution carried forward from a hard start (reminds me of Shafir Mullainathan (2013) Scarcity: Why Having Too Little Means So Much”

2. An alternative

- Recession-era firms may simply have had less capital to invest in culture-building (onboarding, communications, HR systems) in the early years — a budget story, not a mindset story

3. The test

- Interact the recession indicator with initial funding / VC-backing
  - Scarring: the effect persists even among well-funded recession-era firms
  - Scarcity: the effect is concentrated among poorly-funded firms and fades among the well-funded ones

Suggestion 3

The Frontier-Exposure Null seems more interesting than you suggest

1. **What you say**
   - Frontier exposure has no significant relationship with the aggregate culture score

2. **Opposing effects**
   - It raises ‘quality’ but lowers ‘integrity’ and ‘teamwork’ — two real, offsetting effects that cancel out in the aggregate
   - Can it be that self-efficacy (Guiso et al. 2016; Rustagi 2024) and individualism builds personal achievement drive (quality), at some cost to collective, cooperative norms?

Conclusions

- Great paper!

Key strengths:

- Make us think about what corporate culture is and how it should operate
- Founders are not selected by the firm, so their characteristics offer a plausibly exogenous handle on culture's origins, maybe it frames Granovetter well?
- Culture is an endowment, it could be good or bad
- Compelling evidence that culture is an embedded, founder-set endowment — not just a functional tool current management deploys
- This is a serious breakthrough in this literature