

# Corporate Culture Matters For Firm Policies, Study Finds

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Corporate culture involves more than just dress codes and the atmosphere in the office – it helps define a company's most important economic decisions, according to new research. Researchers examined corporate culture in an inventive way – by seeing if spinoff firms “inherit” the culture of their parent firms.

The results showed that spinoff firms do indeed adopt many of the values, beliefs and practices of their parent companies, even when these practices don't match other firms in their industry.

“Our behavior as individuals is to some extent explained by what our parents did. That's a good analogy for what happens to corporations as well,” said Henrik Cronqvist, co-author of the study and assistant professor of finance at Ohio State University 's Fisher College of Business.

While other studies have looked at corporate culture in terms of management issues, this is the first to examine how culture affects investment and financing policies, Cronqvist said.

The researchers used data on 286 spinoff-parent firm pairs from 1980 to 2005. They compared the pairs on 10 different policies related to investments and finances, such as how much they spent on research and development, how much debt they took on, their amount of corporate investment, and the likelihood they participated in mergers and acquisitions.

They also compared the spinoff firms to similar peer firms in their own industry, to see if spinoffs were more like their parents or their peers.

The findings showed that in all 10 different policy areas, more than half of the spinoff firms were more like their parents than their peer firms. For example, 67 percent of the spinoff firms had an investment policy that was more similar to their parent firm than to industry peers.

Attitudes toward debt is another example.

“If the parent firm was very conservative in its financial policies, and held very little debt, their spinoff firm tended to have a similar policy – even if they were in a completely different industry in which their peers tended to have higher than average debt,” Cronqvist said.

“That's hard to explain unless you accept that this is a cultural belief that the spinoff adopted from its parent.”

The corporate culture hypothesis stood up to a variety of tests, Cronqvist said.

For one, it was long-lasting. Even longer than five years after the firms split, spinoffs mirrored their parents in terms of economic policies.

And it wasn't just a matter of corporate inertia, where firms simply continued to do what they always did. Findings showed that when spinoff firms did change one of the 10 policies to be different from their parent firm, they tended to return to the old combined policy some time later.

The results also showed that spinoff firms that were “home grown” – in other words, developed within the parent firm – tended to be more like their parents when they were spun off than were firms acquired by the

parent firm and then later spun off.

In addition, older firms tended to have spinoffs that were more like them than did younger firms.

“If you think about corporate culture as these ingrained beliefs about the right things to do, you would expect those beliefs to be stronger in an older firm and more likely to be transmitted to their spinoffs,” he said. “That's what we found.”

The researchers also found that the similarities between parents and spinoffs persisted regardless of whether or not there remained any economic linkages, whether or not they were in the same industry, whether or not they had remaining ownership linkages or whether or not they had continuing product market relationships or other shared business agreements.

Moreover, these similarities remained even if the spinoff firm had a CEO or top management with no relationship to the old parent firm.

“A firm's culture is a characteristic that evolves slowly over time and does not come and go with a particular CEO or management team,” Cronqvist said.

Overall, Cronqvist said the results provide new insights into how firms choose investment and financing policies. These findings suggest that a firm's early leaders probably play a central role in determining firm policies that will last a long time, long after the original management is gone.

“Many corporate policies remain fixed for a long time, and are even passed along to any spinoff firms,” he said. “Good or bad, corporate culture tends to last.”

Cronqvist conducted the study with Angie Low of Nanyang Technological University in Singapore and Mattias Nilsson of the University of Colorado at Boulder .

The results are available as a working paper at the Social Science Research Network:

[papers.ssrn.com/sol3/papers.cfm?abstract\\_id=954791](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=954791) .

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