

Set in Stone: The Persistence and Origins of Corporate Culture

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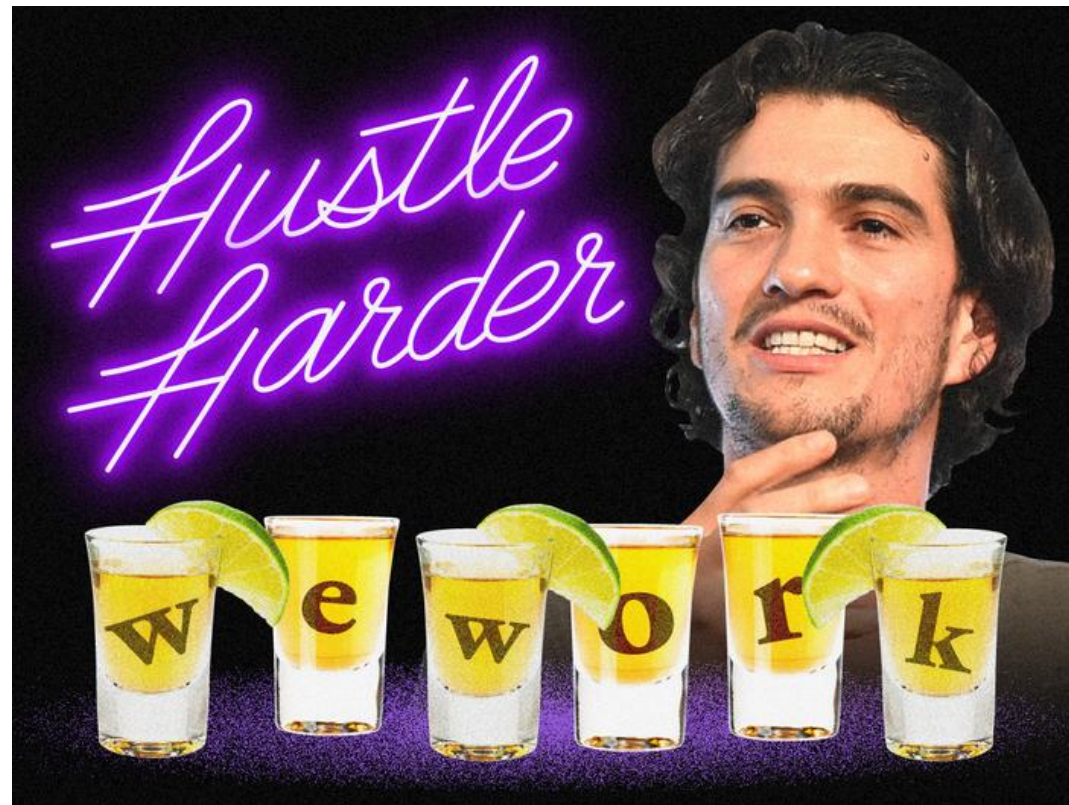
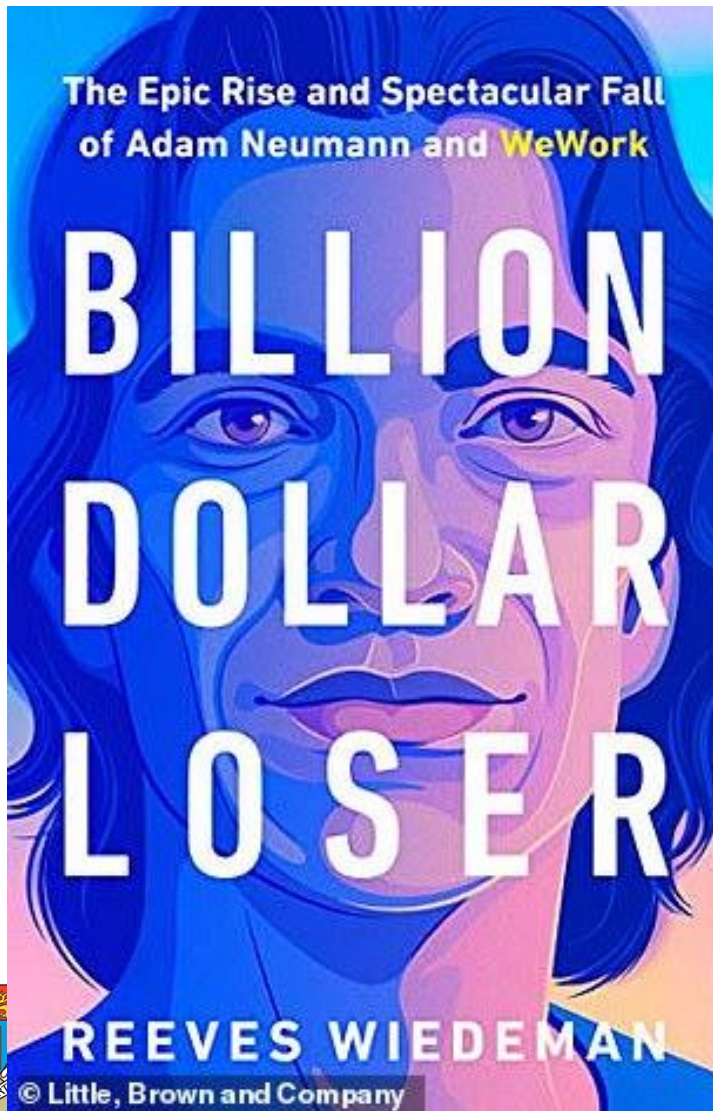
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2026 ABFER

WeWork and Adam Neumann



The corporate culture of WeWork

* Work Hard, Play Hard:

- * Extreme work hours (expecting employees in the office at 9 PM)
- * Mandatory **alcohol-fueled events**
- * Allegations of **sexual assault** and **harassment**.

* Cult-like Leadership:

- * Dissent was not tolerated
- * Leadership operated with charismatic authority rather than **accountability**.

Cultural persistence after Neumann's departure

- * **Embedded norms:** Even after Neumann was ousted in 2019, former employees noted the “wacko dysfunctional culture won't be easily erased.” The high turnover and bro-centric sales teams persisted.
- * **Structural inertia:** The company's operational DNA, overexpansion, poor governance, and cult-like devotion to mission over metrics, remained intact under new leadership.

Cambridge Dictionary

- * **Culture:** The way of life, especially the general **customs** and **beliefs**, of a particular group of people at a particular time.
- * **Corporate culture:** The **beliefs** and **ideas** that a company has and the way in which they affect how it does business and how its employees behave.

Determinants of a firm's beliefs and ideas (culture)?

- * **People** (who are involved and have power)
 - * The **founder** and co-founders
 - * Early investors, i.e., angels and VCs
 - * Peter Thiel influenced Mark Zuckerberg during Facebook's early days through funding, mentorship, and board involvement.
 - * **CEOs** and other middle managers
- * **Place** (the firm was born and operates)
- * **Product** (the firm produces and competes)

Corporate culture is persistent (Old habits die hard)

- * Founder imprinting (Stinchcombe, 1965).
- * Even when new leaders want to change culture, they face inertia from entrenched **middle management, labor unions**, established routines, and sunk costs in legacy systems.
- * Self-reinforcing via hiring, onboarding, and promotion practices that favor people who fit the existing norms, so “like-attracts-like” and dissent gets filtered out.



Why does one want to change the culture?

- * If things go well, no one wants to change the way things are being done.
- * If things do not go well, someone with strong incentives might want to change. But the rest stay at the status quo.
- * Only when a crisis hits, there might be more incentives and less resistance to adopt new thinking, business practices, which slowly change the culture.

What may change the culture?

- * Most likely external forces that push firms to adapt norms, work practices, and priorities toward flexibility, inclusion, or digitization, etc.
 - * Technological change
 - * Globalization
 - * Regulation shocks
 - * Crises (e.g., financial or pandemics)
 - * Metoo, BLM, ESG, and DEI

What I like about the paper

- * Synthesizing rich data on corporate culture, founder characteristics, earnings calls, and employee reviews, etc.
- * **Quantifying** the persistence of corporate culture via variance decompositions.
- * Identifying some determinants
- * Matching between CEOs/employees and the firm from the perspective of corporate culture.

What I like about the paper

Panel B: Corporate Culture Subscores for The Full Sample

	Operations-oriented culture (1)	People-oriented culture (2)	Innovation (3)	Quality (4)	Integrity (5)	Teamwork (6)	Respect (7)
Firm FE	0.86	0.86	0.86	0.88	0.80	0.84	0.88
CEO FE	0.13	0.12	0.12	0.10	0.19	0.15	0.11
Year FE	0.01	0.01	0.02	0.01	0.01	0.01	0.01

- * Teaching business ethics in MBA programs might still be relevant if we believe
 - * Our students are future founders/CEOs.
 - * Business ethics can be instilled through MBA teaching.

Comments

- * Potential measurement issue in corporate culture:
 - * Earnings calls are public relations events:
 - * What they say == what they do?
 - * Firm disclosure is affected by AI readership (Cao, Jiang, Yang, and Zhang, 2023, RFS)
 - * Employee reviews often suffer from extreme response bias:
 - * Disgruntled departures
 - * Incentivized HR campaigns

Comments

- * Measuring culture or capturing persistent **business models** and **industry constraints**?
 - * A firm operating in a heavily regulated sector might exhibit a “cautious” culture due to rigid compliance constraints.
 - * Reporting variance decomposition (Table 2) for industry fixed effects sheds light on the issue.

Panel D: Firm Policies for The Full Sample

	Sales (1)	Capex (2)	ROA (3)	Book Leverage (4)	Market Leverage (5)	Cash (6)	R&D (7)
Firm FE	0.63	0.54	0.62	0.89	0.88	0.61	0.66
CEO FE	0.35	0.45	0.33	0.10	0.11	0.37	0.33
Year FE	0.02	0.01	0.05	0.01	0.01	0.02	0.01
Adj. R ²	0.91	0.84	0.73	0.79	0.81	0.74	0.93



Table 3 – Continued

Panel B: Firms Going Public within Ten Years of Founding

	Culture (1)	Culture (2)	Culture (3)
Culture IPO	0.743*** (0.093)	0.569*** (0.094)	0.389*** (0.089)
Culture IPO × Ln(Firm age)	-0.035 (0.074)	-0.022 (0.069)	0.001 (0.059)
Culture first IPO3y			
Culture first IPO3y × Ln(Firm age)			
Culture ave IPO3y			
Culture ave IPO3y × Ln(Firm age)			
Ln(Firm age)	2.288** (1.006)	1.653* (0.931)	0.834 (0.914)
Firm size			0.461* (0.240)
Sales growth			0.091 (0.261)
Leverage			-3.727*** (1.205)
M/B			0.613*** (0.162)
ROA			-2.170 (1.473)
Tangibility			-4.478*** (1.630)
Institutional ownership			-1.639** (0.723)
Num M&As			0.042 (0.316)
Num SEOs			-0.263** (0.121)
Industry FE	No	Yes	Yes
Year FE	No	No	Yes
No. of firms	427	427	427
Obs.	2,220	2,220	2,220
Adj. R ²	0.428	0.532	0.594

Comments

- * Stronger culture when funders
 - * with cultural heritage from countries with **high levels of uncertainty avoidance (UAI)**
 - * grew up in **racially diverse communities**
 - * raised in communities with **weaker exposure to the frontier** experience
- * An individual with a high level of uncertainty avoidance is probably less likely to become an entrepreneur, i.e., a selection bias.

* UAI is thus a bit too coarse in this context.



Comments

- * A racially diverse community may provide a diverse culture, but does it mean a strong and persistent one?
- * “Founders raised in communities with greater exposure to the frontier experience are more likely to prioritize self-reliance and individual achievement.”
 - * Yes, but isn't it more likely to lead to rugged individualism and a distinct culture (e.g., WeWork)?

Suggestions

- * More analysis on the founders' **direct** traits and their impact on culture and the cultural change:
 - * Education background
 - * Gender and ethnicity
 - * Social network
 - * Potential influences from **prominent early investors**
 - * Social capital (e.g., Jha and Chen, 2015 JAR)
- * Eponymous firms (Belenzon, Chatterji, and Daley, 2017 AER) and family firms

Suggestions

- * Firm fixed effects account for 86% of the variation in corporate culture score.
- * A further decomposition into industry and headquarters location, rather than just controls
 - * High tech vs. manufacturing
 - * Highly regulated vs. non-regulated
 - * Exporting vs. domestic
 - * Silicon Valley vs. Detroit
 - * Red states vs. Blue states

* Etc.



Suggestions

- * Permanent Heterogeneity versus Dynamic Persistence:

$$Culture_{i,t} = \mu_i + \varepsilon_{i,t},$$

- * Consider adding a jump term that reflects the discussion in Section 9 (When Does Corporate Culture Change?)
 - * CEO turnovers, acquisitions, or financial distress
 - * Shifts in a firm's organizational structure, operating conditions, or regulatory environments

Further analysis on firm characteristics and culture change

* Firm size

- * Bigger firms may be more rigid and bureaucratic
- * Smaller firms are more influenced by the leader

* Shareholders

- * Green investors
- * Activism/proposals related to corporate culture

* Stakeholders

- * Labor unions

Impact

- * Consider setting up a website that provides the corporate culture for stakeholders:
 - * Job search and matching ex ante
 - * Supply chain formation
 - * New financiers
 - * Communities
 - * Regulators

Overall

- * Documenting organizational culture is fascinating.
- * More on how the founder and firm characteristics shape the culture.
- * Applying it to the matching between firms and stakeholders shows the relevance.
- * Recommend it to everyone!

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