

# Corporate Governance, Corporate Culture and the Board's Culture

Discussant on Professor Durand, HEC Paris

Ruth V. Aguilera, Northeastern University

IESE October 3, 2022

# Prof. Durand's main arguments



## 1. End of a period ...

- Strong Path dependence: institutional infrastructure and formal rules still mostly short-term oriented (e.g., compensation)
- Transition Period:
  - *eBay v Craigslist*, where shareholder value maximization prevailed
  - On August 4<sup>th</sup> 2022 letter from 19 state attorneys general claiming that BlackRock's CEO is using "the hard-earned money of our states' citizens to circumvent the best possible return on investment."
  - May 2022: California's landmark requirement that corporate boards include women was ruled unconstitutional.
    - ➔ Role of regulation and government (i.e., SEC, EU, IFRS, etc.)
- Sharp fault lines: Well-organized shareholder value max ... and lately "anti-woke" social movement

# Prof. Durand's main arguments

## 2. Shareholder duacy [Deffains, Durand, & Hurstel, 2021]

- *Property* capacity: to receive a fair share of the extra value generated by the firm's operations commensurate to their share ownership.
- *Propriety* capacity: the responsibility for preserving the firm as a legal and moral entity endowed with its own purpose and interest.

→ Strong and eternal legal scholarly debate on the “purpose of the firm” [i.e., shareholder vs stakeholder] (Bratton & Wachter 2013, Gordon & Ringe 2018, Williams, 2020).

→ Purpose research: most effective ways to articulate and legitimize proprietary capacity

→ Diffusion mechanism has to be corporate culture.

# Prof. Durand's main arguments

## 3. Research on Categories

- Cognitive tool to process information
- “Legitimate” prototype... measuring “deviance” (distance from prototype)
- Asset managers develop new markets and investment categories

- **Multivocal:** signifying many things; of manifold meanings; equivocal
  - Entropy measure: how wide-encompassing is the category
- **Alignment:** usually thought at fit
  - Curious why positioned as misalignment

→ SH value maximization paradigm: Is it multivocal? are we including all the voices? Could it be viewed as a misalignment btw employees and managers or boards and owners.

# Prof. Durand's main arguments

**4. Argument:** corporate culture oriented toward prosocial corporate purpose generates a **multivocal market category** valued and sought by **owners/investors** who will press on corporate governance to make *it* happen

- Multivocal strategies – persuasive when: highly aligned: as in the venture valuations; aggressive SH [aligned] separating purpose washing from business-related embedded CSR

➔ how about when these multiple voices are **MISSALIGNED?**  
Substantive vs symbolic CSR and heterogeneous owners

# Final Takeaway: GES

## Corporate Governance comes first

- Corporate governance sets the formal and informal rules of the game, including supporting the corporate culture
- **Where does corporate culture come from?**

“Corporate culture stems from what shareholders entrust BoD and related governance bodies to do and maximize” (Durand)

  - Yet often managers are the ones setting the tone of the corporate culture and enacting it as legitimate, not necessarily aligned with shareholders. i.e. introducing a toxic corporate culture
- Who else should be involved?

# Switching Gears: What is corporate culture?

- Culture is an important piece of the puzzle, at times underestimated\*\*
- **[Corporate] Culture** includes “the values and norms widely shared and strongly held throughout the firm that help employees understand which behaviors are and are not appropriate.” (O’Reilly & Chatman, 1996)
  - “Values are ideals that employees strive to fulfill, and norms reflect whether employees walk the talk by actually living out those values,” (Graham et al. 2022, p.553)

\*\* Caution: “[corporate] culture is only one of many factors influencing individual and team performance in organizations” (Corritore, Goldberg, Srivastava & Sameer, 2022)

# What best describes your corporate culture?

## North American Executives

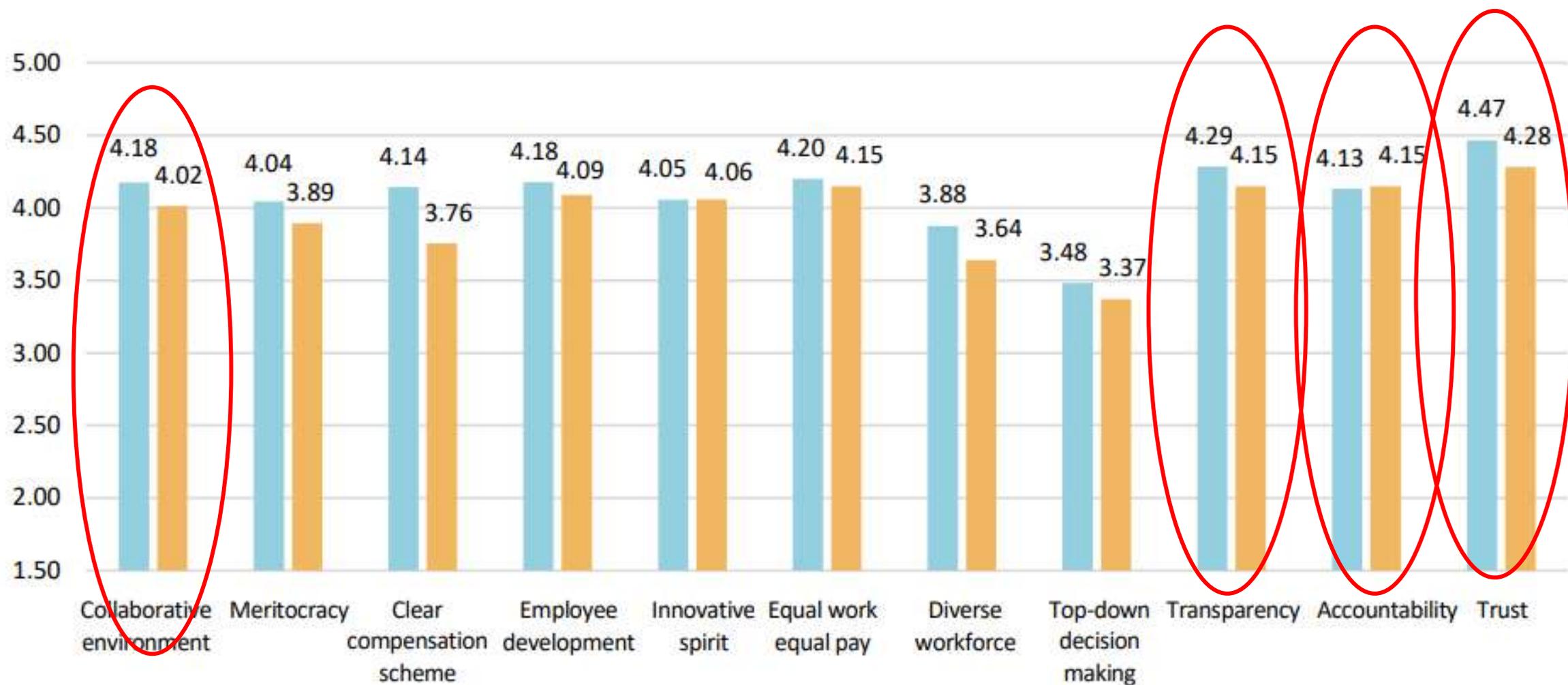
- Results orientation (55%)
- Community orientation (49%)
- Collaboration (39%)
- Adaptability (38%)

Source: Graham, Grennan, Harvey, & Rajgopal  
2022, JFE

## Directors

Source: 2022 IESE Survey of Boards of Directors

**Figure 6. Values and Features That Represent the Firm's Culture**



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- Results orientation (55%)
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## Directors

- Collaboration
- Trust
- Transparency
- Accountability
- Employee development

Source: 2022 IESE Survey of Boards of Directors

- There is a realization that corporate culture is important YET
  - not a priority in board discussions, i.e., digital transformation
- It means different things to different interests groups—recall Durand’s example of employee survey. Maybe different audiences are creating their own categories, is it multivocality?
- Corporate Culture is intangible ... it needs to be anchored in articulated corporate purpose and enacted through corporate norms and practices

## To close: What is the role of the board?

→ **Deliberative governance:** deliberative democratic process to find the right balance between stakeholders' interests and concerns (Scherer & Voegtlin, 2020).

- Understand shareholders' corporate culture – via corporate purpose.
- Activate governance: Safeguard, foster, evaluate and revise corporate culture
- Entrust and monitor executive team
- Manage stakeholders understanding of corporate culture => might be captured into prototype categories

# Thank You

r.aguilera@northeastern.edu