



ECGI 2002

Corporate Culture, Market Categories,  
and Corporate Governance

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THANKS

# Outline

1 ] Why this question?

2] Definitions:

old: culture & categories

new: *duacy* and *multivocality*

3] The 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

1]

Why this question?

# The ending of a period

- 1) Divorce between society and business
- 2) Profit is an incomplete or even misleading (performance) metrics
- 3) Shareholder Value Maximization mantra is contested
  - policy, efficiency, academic backing
  - wrong premises, externalities, ....
- 4) Boards start feeling the heat

BUT

ESG=CCP



2]

# Definitions

old: culture & categories

new: *duacy* and *multivocality*

# Defining Corporate Culture

As institutionalized logics of action which consists of several dimensions (basis of authority, focus of attention, source of identity, ...)

Durand R. (2014) *Organizations, Strategy, and Society : The Orgology of Disorganized Worlds*,  
Routledge Oxford : UK

Corporate Culture stems from what shareholders entrust BoD and related governance bodies to do and maximize



# Managers (should) act for the preservation and expansion of the firm

Firms do not just belong to shareholders; firm purpose may or may not be profit, may or may not be prosocial

Robé, J. P. (2020). *Property, Power and Politics: Why We Need to Rethink the World Power System*. Policy Press.

Managers should obey boards and shareholders

-from shareholder primacy to shareholder **duacy**

-**duacy** is both property and propriety

Manifesto : Shareholder *duacy* & 21st century corporate governance (on ssrn)

Hence, by being purpose-driven, managers act in the interest of the firm *and* of its shareholders

# Defining Categories

Categories represent a meaningful consensus about some entities' features as shared by actors grouped together as an audience.

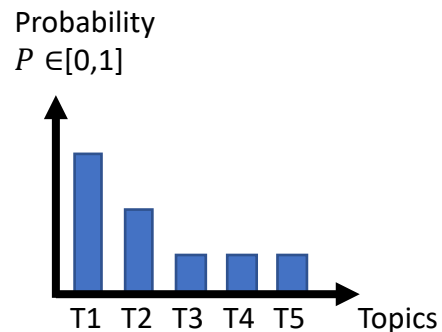
Acting as lenses, categories enable actors to restrict their consideration sets to a smaller number of identifiable entities.

Different categories of producers will carry unequal obligations, expectations, and rewards, which will affect the range of strategic opportunities they face in the market.

From: Durand, R., & Paoella, L. (2013). Category stretching: Reorienting research on categories in strategy, entrepreneurship, and organization theory. *Journal of Management Studies*, 50(6), 1100-1123.

# Defining Categories

**Industry category**  
topic distribution



Distance from prototype: lower valuation

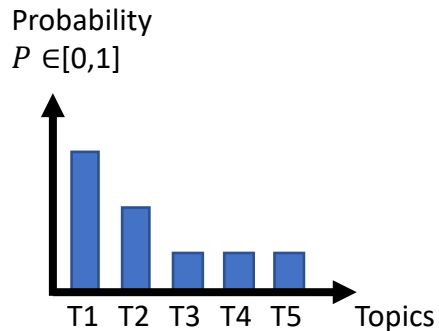
e.g. movie or ebay (Hannan, Hsu, Leung, Negro...)

Unless having some topic/feature that characterizes a goal that is expected by an audience

e.g. SRI, ESG, or VC (Arjaliès and Durand, 2019; Boulongne and Durand, 2022; Cudennec and Durand, 2022; Pontikes, 2012; ...)

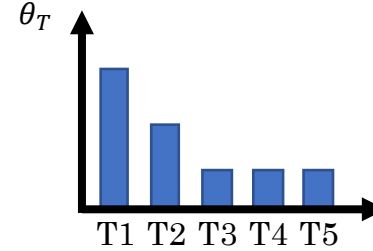
Hence:

**Industry category**  
topic distribution

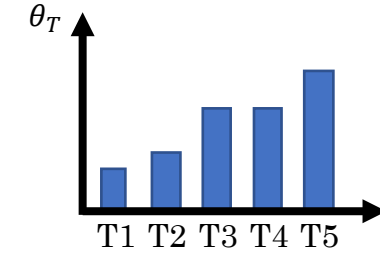


## Venture

topic distributions



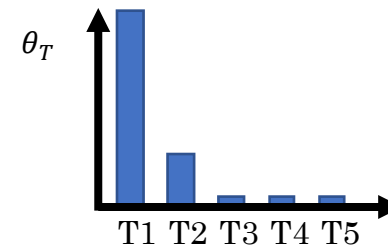
Low misalignment



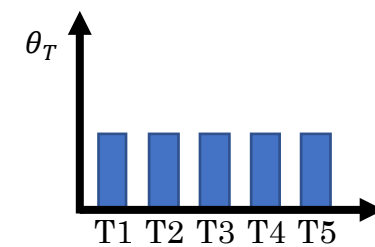
High misalignment

$$Dist(i) = \sum_{T=1}^{100} abs[(\theta_{T,i} - \overline{\theta_{T,I}})]$$

Euclidian distance (Haans 2019, Tauscher et al. 2021)



Low **multivocality**

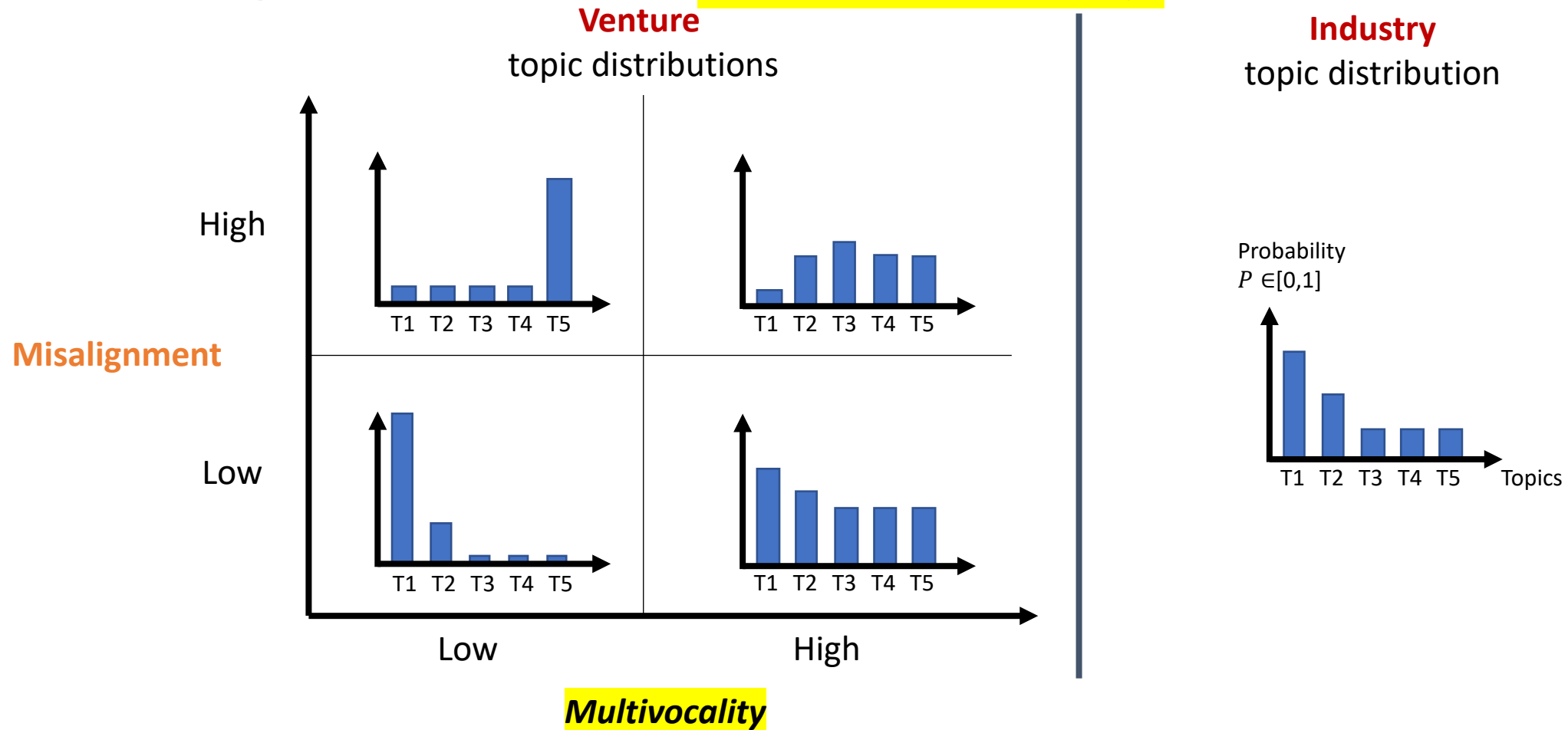


High **multivocality**

$$Plur(i) = - \sum_{T=1}^{100} (\theta_{T,i} \cdot \log(\theta_{T,i}))$$

Entropy (Corritore et al. 2020, Hall, Jurasky and Manning, 2008)

# Misalignment and *Multivocality*



From: Cudennec A. & Durand R. (2022). Nonconforming, but how?  
The impact of misalignment and multivocality on ventures' valuations, *Working Paper*

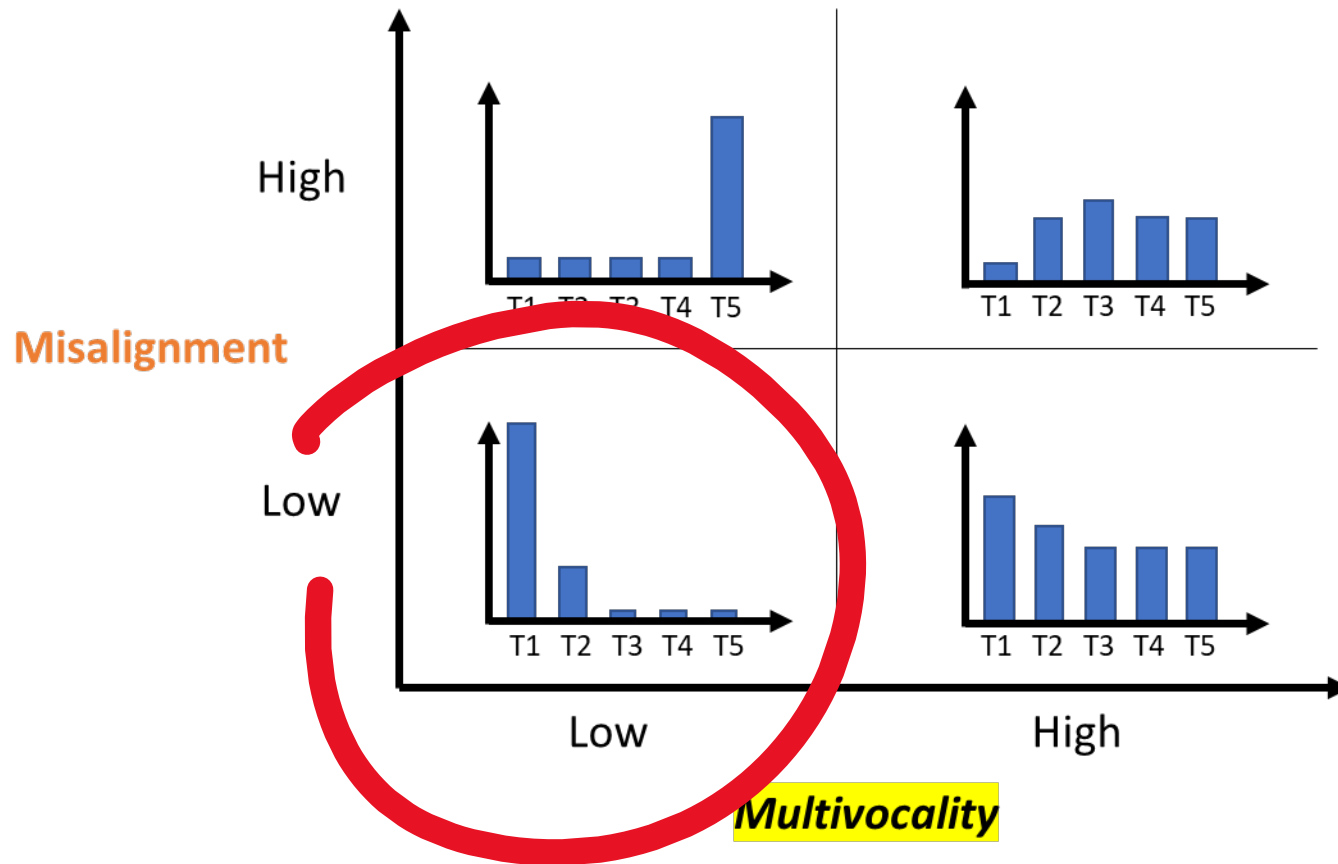
# The argument

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

it?

new version of capitalism

# Shareholder Value Maximization





Pieces of evidence...

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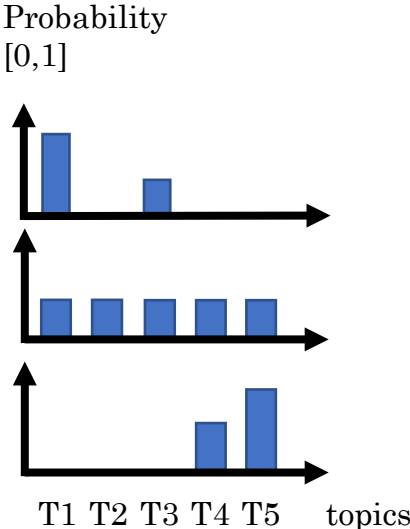
new version of capitalism

**Corpus:** USA, 2000-2017, early-stage 1st-round deals  
 5,534 companies / deals, 1,625 lead investors  
 all the investees' business descriptions from all rounds and stages (1994-2017)

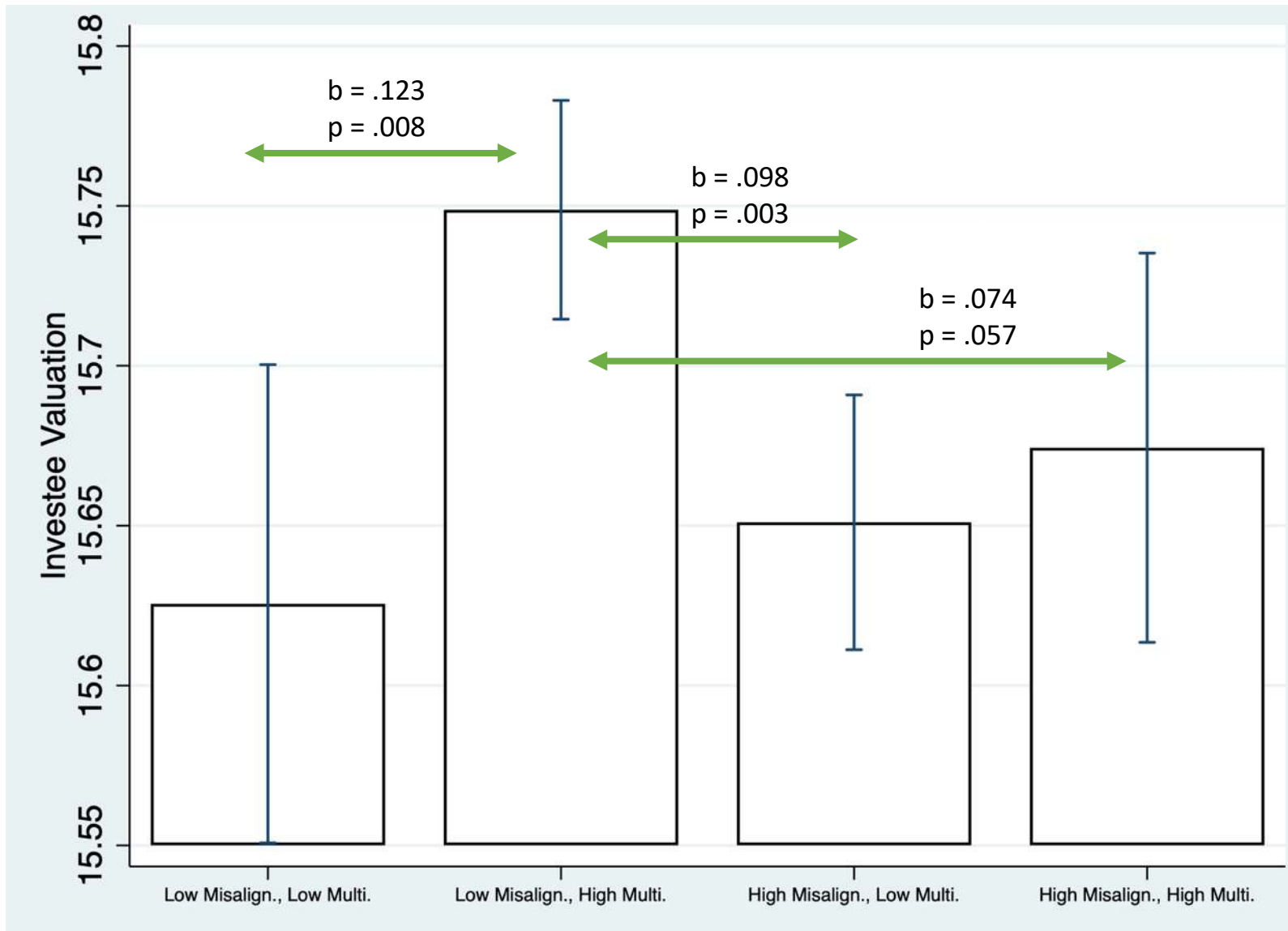
115,063 documents with 11,024 unique words analyzed with Biterm Topic Model

**Example:** 3 companies that display 8 different words  $w(i)$  split into 5 topics  $T(n)$

Companies	Business descriptions	Latent topics (N = 5)					
		T1	T2	T3	T4	T5	
c1	w1, w3, w6, w8	0.8	0.0	0.2	0.0	0.0	$\sum = 1$
c2	w4, w5, w6, w7	0.2	0.2	0.2	0.2	0.2	$\sum = 1$
c3	w2, w5, w7, w8	0.0	0.0	0.0	0.3	0.7	$\sum = 1$

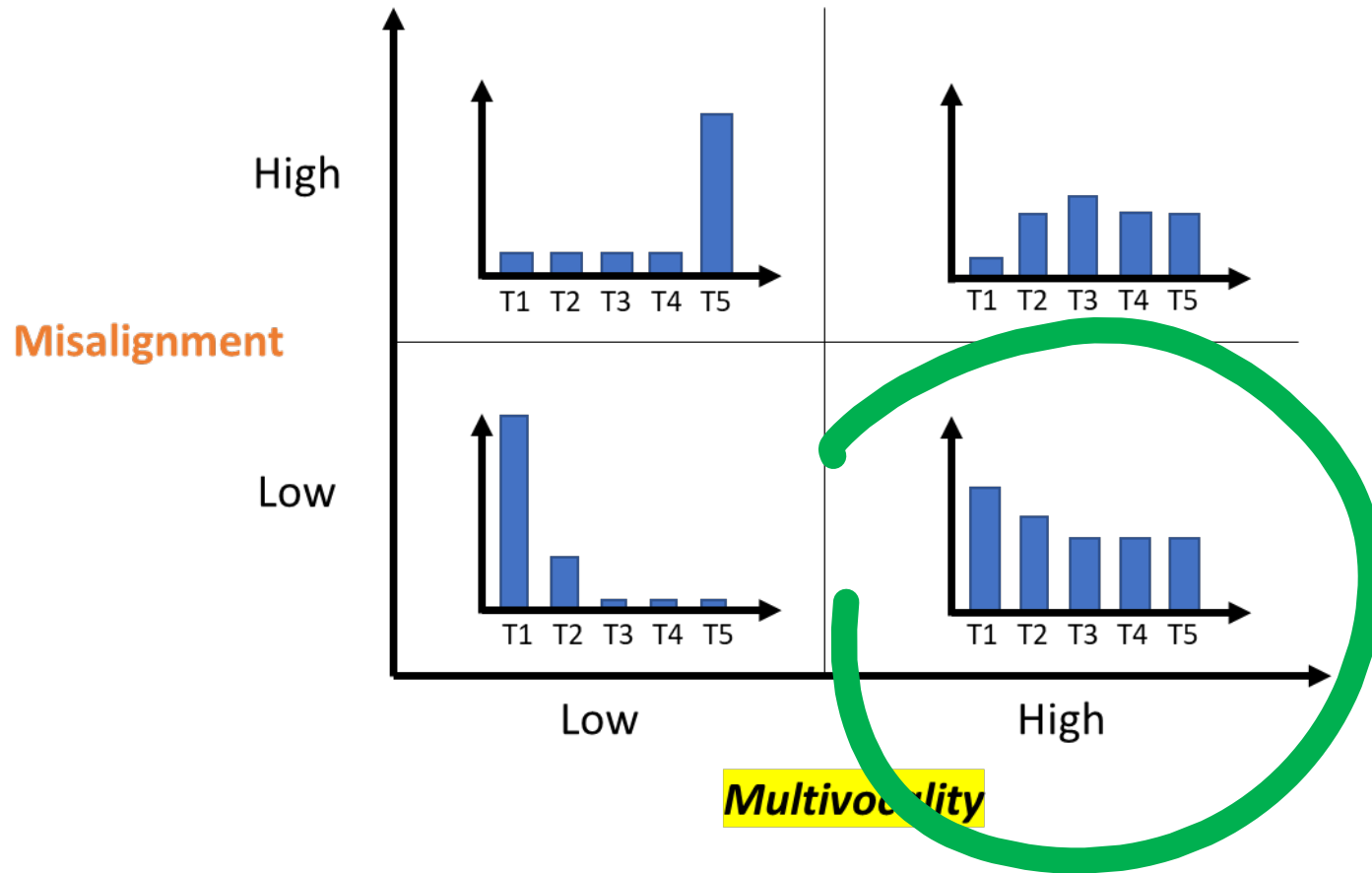


From: Cudennec A. & Durand R. (2022). Nonconforming, but how?  
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Ventures receive the **highest valuation** when they display a **multivocal** but **aligned** identity

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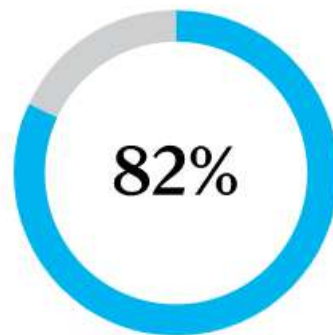
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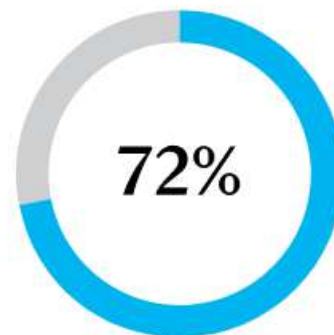
# Purpose matters for employee

**Employees feel that purpose is important—but many say their companies don't have one, let alone one that makes a difference.**

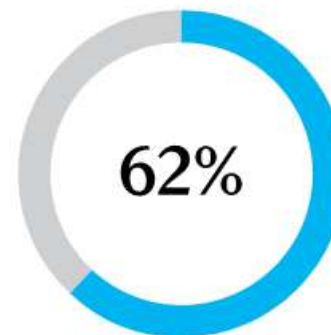
Respondents reporting that ...



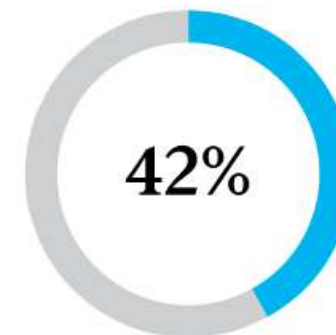
... it is important to have a purpose



... purpose should receive more weight than profit



... their organizations have a purpose statement



... their organizations' purpose statements drive impact<sup>1</sup>

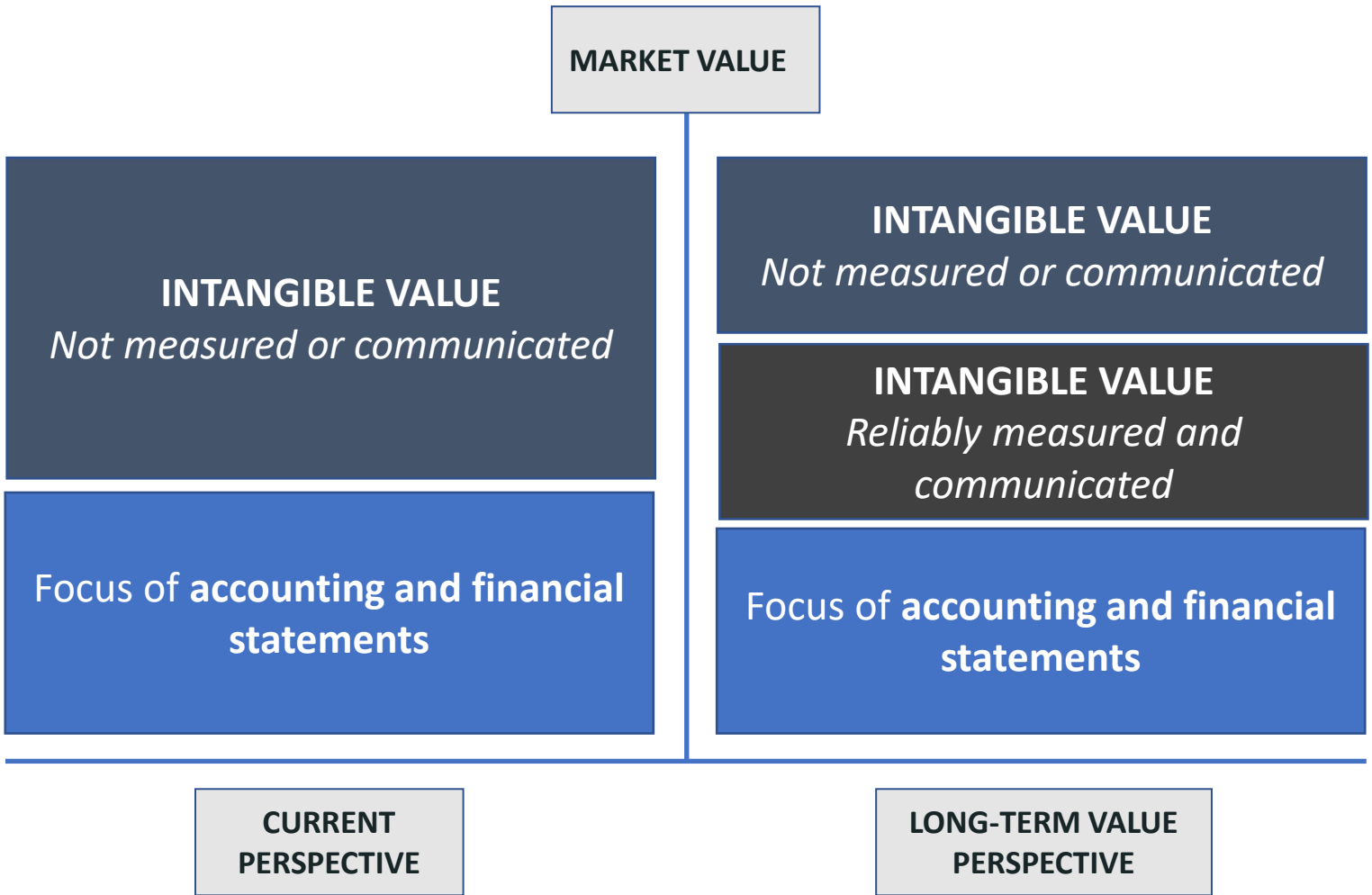
Note: segments displayed in gray reflect respondents who were neutral, disagreed, or strongly disagreed.

<sup>1</sup>Impact score, which is based on subset of respondents reporting presence of organizational purpose, derived on basis of responses to questions about achievements of purpose and positive change associated with purpose.

Source: McKinsey Organizational Purpose Survey of 1,214 managers and frontline employees at US companies, October 2019



# Change in value perspective: valuing multivocality through intangibles



# Multivocal strategy (proxied by ESG) is conducive to better performance

From research on ESG and performance, we learn that ESG policies:

1 Favor unit and operational efficiency: +10%

King, A., & Lenox, M. (2002). Exploring the locus of profitable pollution reduction. *Management Science*, 48(2), 289-299

2 Enhance innovativeness +10% (patents)

Flammer, C., & Kacperczyk, A. (2016). The impact of stakeholder orientation on innovation: Evidence from a natural experiment. *Management Science*, 62(7), 1982-2001

3 Help sustain competitiveness during crises insurance effect

Godfrey, P. C., Merrill, C. B., & Hansen, J. M. (2009). The relationship between corporate social responsibility and shareholder value: An empirical test of the risk management hypothesis. *Strategic Management Journal*, 30(4), 425-445

4 Have minimal effect on share value but affect long-term shareholding +0,4% of market cap. acquired by LT owners

Durand, R., Paugam, L., & Stolowy, H. (2019). Do investors actually value sustainability indices? Replication, development, and new evidence on CSR visibility. *Strategic Management Journal*, 40(9), 1471-1490

5 Favor balance-sheet terms (e.g. cost of debt) reduction of 20% of capital constraints

Cheng, B., Ioannou, I., & Serafeim, G. (2014). Corporate social responsibility and access to finance. *Strategic Management Journal*, 35(1), 1-23

# Shareholders recognize the value of multivocal (purpose-driven) management

## Long-term investors tilt their investments toward CSR-active firms

Durand R, Paugam L, Stolowy H. (2019). Do investors actually value sustainability indices? Replication, development, and new evidence on CSR visibility. *Strategic Management Journal* 40(9): 1471-1490

## Asset managers develop new market and investment categories

Arjaliès, D. L., & Durand, R. (2019). Product categories as judgment devices: The moral awakening of the investment industry. *Organization Science*, 30(5), 885-911

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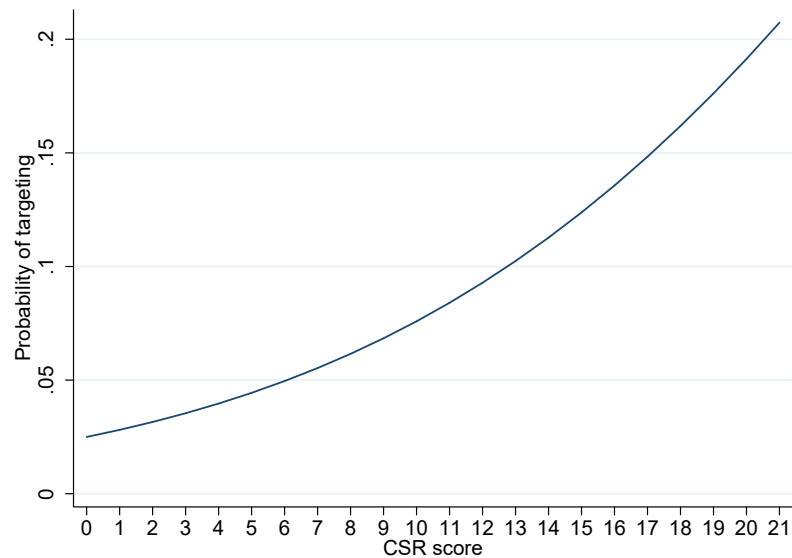
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# CSR and shareholder activism: activists smell greenwashing

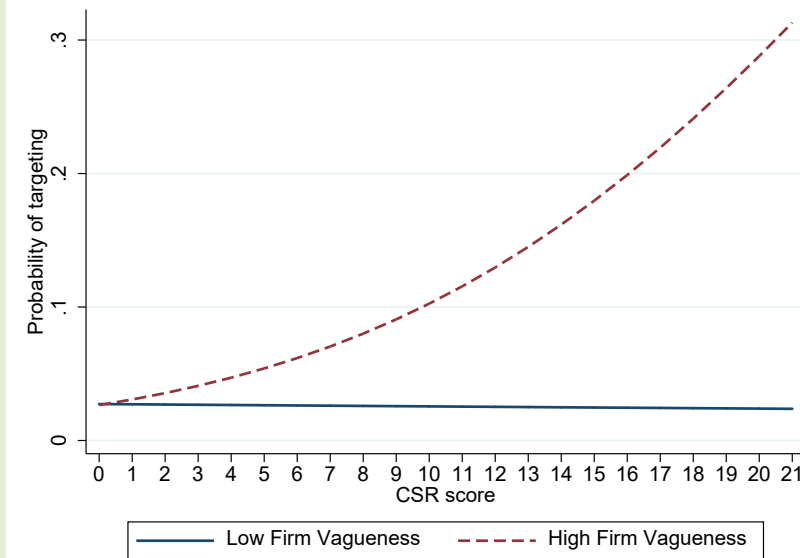
Shareholder activism reveals the impact of CSR policies on market valuation

PROBABILITY OF BEING TARGETED BY ACTIVISTS  
OVER RANGE OF CSR



BUT

EFFECT OF CSR ON THE PROBABILITY OF BEING TARGETED  
DEPENDING ON FIRM VAGUENESS IN EXPLAINING  
CONNECTION BETWEEN CSR AND BOTTOM LINE



Source: DesJardine, M. R., Marti, E., & Durand, R. (2021). Why activist hedge funds target socially responsible firms: The reaction costs of signaling corporate social responsibility. *Academy of Management Journal*, p851-872.

# Hence:

Most aggressive shareholders separate undue managerial value appropriation (purpose-washing) from business-related embedded CSR

DesJardine, M. R., Marti, E., & Durand, R. (2021). Why Activist Hedge Funds Target Socially Responsible Firms: The Reaction Costs of Signaling Corporate Social Responsibility. *Academy of Management Journal*, 64(3): 851-872

New regulations: European taxonomy (hard), ISSB (soft) ...

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*En guise de*  
Conclusion

# A new narrative? A new model...

Introducing new concepts to apprehend new reality: *duacy; multivocality; ...*

ESG should be written as **G**ES, and **G** depends on shareholders, who influence corporate governance structures, objectives, and corporate culture

Corporate culture determines how firms are categorized and valued by markets

# Our role

Educating shareholders, investors, and managers (and policy makers) to embrace this new reality and how to value multivocal firms

Researching the conditions of superior performance of multivocal firms

to make *it* happen...

THANKS!

again

# Q&A