Title: The Culture of the Firm

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ABSTRACT

This paper views corporate culture as shorthand for institutionalised social behaviour within the firm. Following the business and organisation literature, this is presented as deep-seated customs and norms that are non-homogenous, at least in large organisations. Within economics three views on corporate culture are presented:

1   Casson suggests a leader-follower analysis in which the cultural setting within a firm is determined by the leader as an efficient response to issues of follower motivation.
2   Kreps suggests a prisoners' dilemma based analysis in which corporate culture takes on the role of reputation and hence a solution to the potential suboptimality involved.
3   Hodgson suggests a perspective more grounded in old institutional economics in which culture endogenises aspirations and creates shared habits of thought.

The arguments presented in this paper show that 1, 2 and 3 are special cases of a more general perspective that manages the potential conflict between individual autonomy and social good in the context of the firm. The issues involved are developed using the idea that corporate culture is necessary for organisational coherence in a context of non-centralised decision making. Use is made of the Sen paradox, i.e. that no social choice rule can guarantee efficient and coherent decision making for all preferences given three characteristics: unrestricted preferences, Pareto optimality, minimal delegation. Corporate culture allows manageable decision making by controlling at least one of these factors.

It follows that potentially three separate, but non-mutually exclusive, cultural types exist, based on: (i) preference restriction; (ii) inefficient practices; (iii) constrained delegation. Casson's logic uses (iii), Kreps' (i), and Hodgson's (i). This perspective is developed using a dual preference framework in which private preferences govern private behaviour, and social preferences govern social behaviour. Different perspectives on culture (i.e. social behaviour) use different implicit links between private and social behaviour. The general framework is illustrated using a corporate culture of overwork. A more general analysis is presented in terms of the interactions between private and social preferences in the context of work intensity decisions and intra-firm information flows. It is shown that the interactions between these factors generate multi-cultural organisations that are subject to high degrees of, but not absolute, inertia.