

## PUBLICATIONS

*New UBS Center Public Paper, condensed and distilled.*

# Behavioral foundations of corporate culture

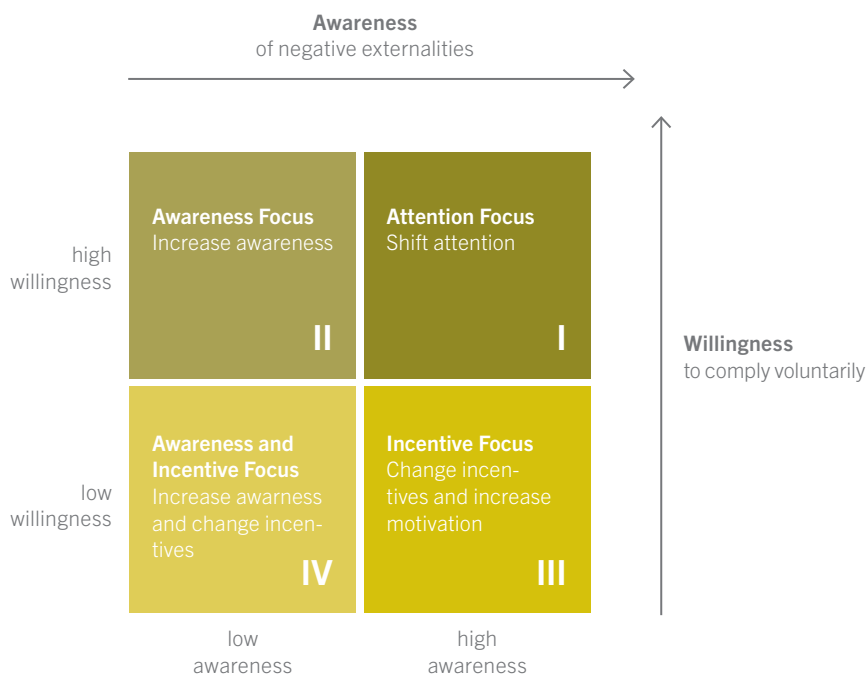
A sound corporate culture drives a company's overall performance sustainably – this is not only common sense, but also evidenced in research. Why is culture so important for economic success, and what are the characteristics of a successful corporate culture? A new paper by Ernst Fehr puts cooperation and feedback center stage. *Maura Wyler*

In the seventh edition of the UBS Center Public Paper series, Ernst Fehr steps into the corporate world. He argues that corporate culture strongly drives employees' behavior, thus designing the right corporate culture is in every company's best interest. But what does it take to achieve a successful corporate culture? Dipping into the fascinating field of behavioral and experimental economics, Fehr explains how the right behavioral rules and incentives can foster productive cooperation among employees and at the same time limit free-rider effects or similar unwanted behavior.

### Corporate culture, trust, and success

Among the many different aspects of a corporate culture, cooperation is one of the core elements for performance and success. A cooperative culture helps to build trust in an organization: employees trust that their colleagues will also behave in line with the organization's values, and this trust itself reinforces obedience to the cooperative culture and strengthens it. Research shows that firms in which the employees perceive their top managers as trustworthy and ethical in their business practices are more productive. Another study shows that coun-

### Matrix to assess and address corporate culture problems



**Note:** In the actual paper you will find several examples illustrating the four fields of the matrix.  
Source: FehrAdvice AG

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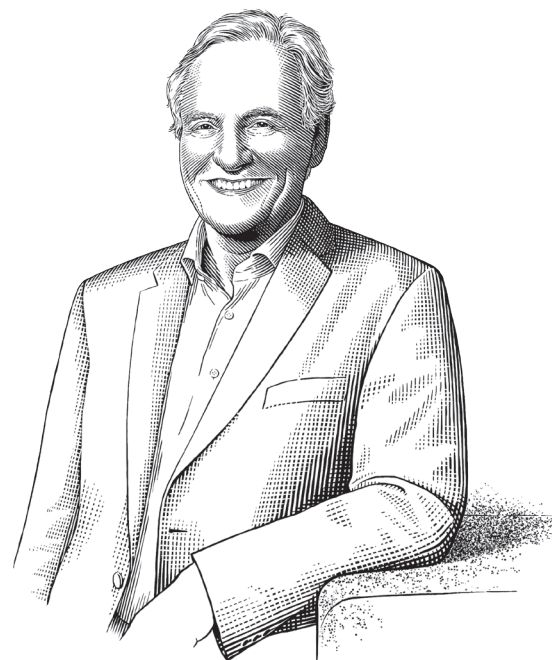
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putting cooperation and feedback center stage.*

tries, which uphold values that lead to a high level of cooperation and trustworthiness – and thus trust – flourish significantly better. This is the case in most northern European countries, such as Norway, Sweden, and Finland – in sharp contrast to countries like Liberia or Rwanda.

### How to make it work

While every company has some sort of corporate culture, there is a big variance in their design. Unsurprisingly, they also face different corporate culture problems – like free-riding or the lack of cooperation among coworkers. Some problems are easily solved with simple nudges and awareness campaigns, such as providing feedback opportunities to identify free riders. However, others require implementing a new set of strong social norms with associated enforcement rules. Fehr introduces a matrix to assess and address corporate culture problems. He classifies problems along two dimensions: the employees' average willingness to comply voluntarily with the cooperative social norms, and the employees' awareness of the negative effects that result from non-compliance. Depending on the category in which a problem falls, Fehr proposes different measures, such as changing norm-driven and financial incentives or raising awareness for the needs of other business units within a firm.

A final important takeout from Fehr's paper is that the mere proclamation of abstract values – such as integrity, loyalty, or commitment – does not suffice for achieving a cooperative culture. Values need to be translated into concrete behaviors, they need to be widely shared, lived, integrated into everyday actions, and enforced by both top management and the employees. Moreover, to make it work, the behavioral rules must be clear and simple.



### ABOUT THE AUTHOR

Ernst Fehr has been Professor of Microeconomics and Experimental Economics at the University of Zurich since 1994. He currently serves as director of the UBS International Center of Economics in Society. His research focuses on the proximate patterns and the evolutionary origins of human altruism and the interplay between social preferences, social norms and strategic interactions. He has conducted extensive research on the impact of social preferences on competition, cooperation and on the psychological foundations of incentives.

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