

The Effect of Organizational Culture on Organizational Economic Performance

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ABSTRACT

The main objective of this paper was to look at the effect of Organizational Culture on Organization's Economic Performance. The discussion was based on series of empirical studies of Organizational culture and Organization's Economic performance. The research findings no doubt have validated the synergistic relationship between Organizational culture and Organization's Economic performance especially, the long-term financial performance was highest for organizations with an adaptive culture while strength and fit perspectives were partially supported. They also recommended that there can still be more room for improvement and consequently better economic performance if proactive adaptability is enhanced, which requires senior leaders to cooperate and collaborate among themselves, leaders must create and implement a business vision and associated strategies that fit the organizational context(a vision represents a long-term goal that describes" what an organization wants to become") , if adaptive culture is promoted over time by a combination of organizational success and specific leadership ,leaders must get employees to buy into a timeless philosophy or set of values that emphasizes service to the organization's key constituents-customers, stockholders, and employees-and also emphasizes the improvement of leadership, and creating infrastructure to preserve the organization's adaptiveness by consistently reinforcing and supporting the organization's core philosophy or values of satisfying constituency needs and improving leadership by management.

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1.0 Introduction

An organization's culture may be strong or weak, depending on variables such as cohesiveness, value consensus, and individual commitment to collective goals. Contrary to what one might suspect, a strong culture is not necessarily a good thing. For example, a strong but change-resistant culture may be worse, from the standpoint of profitability and competitiveness, than a weak but innovative culture.

Literature on organizational culture constantly reinforces the notion that organizational culture is necessary for effective functioning and performance of the organizations. Although numerous studies have been conducted to explore the relationship between organizational culture and performance, empirical findings seem to be mixed and inconclusive "In essence, the organizational culture of any company can be understood as the manner in which things get done. It refers to the way procedures are structured, the nature of leadership and the unspoken rules that each team member abides by. For an employee, an understanding of this culture can mean the difference between remaining at the bottom of their career ladder and enjoying the benefits of a promotion". (Anderson, 2013).

An organizational culture can be an asset as the company is formed and grew. Over time, the culture can become liability because it can foster a bureaucratic environment in which senior management may fail to delegate and empower employees. This underscores that an organization's culture

originates from the values and beliefs of its founders and it can be very difficult, if not impossible to change.

Much has been written and said about organizational culture in recent years. This interest grew from the acknowledgement that an organization's culture could significantly influence an organization's short and long term success.

Literature Review

2.1 Conceptual Framework

2.1.1 Definitions of Organizational Culture

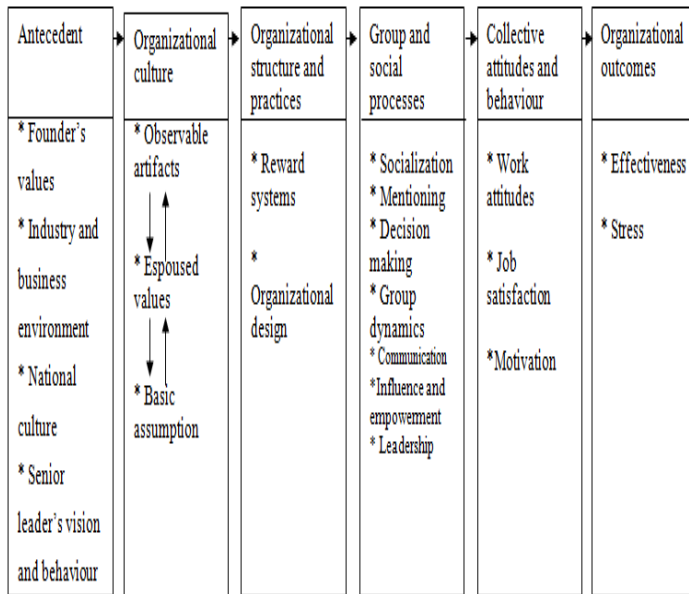
Various definitions were given by many authorities on the subject matter. The following were the few ones considered in this paper:

Kreitner and Kinicki (2004) defined organizational culture as "the set of shared, taken for granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments."

Needle (2004); organizational culture represents the collective values, beliefs and principles of organizational members and is a product of such factors as history, product, market, technology, and strategy, type of employees, management style, and national culture.

Ravasi and Schuitz (2006) wrote that organizational culture is a set of shared assumptions that guide what happens in organizations by defining appropriate behaviour for various situations.

2.1.2 A conceptual framework for understanding organizational culture



Source: Adapted in part from C Ostroft, A Kinicki, and M Tamkins, "Organizational culture and climate" in comprehensive Handbook of psychology, vol 12 eds INC Burman, DR Ilgen, and RJ Klimoski (New York: Wiley and Sons, in press) as cited in

2.1.3 Characteristics of organizational culture.

Organizational culture is composed of seven characteristics that range in priority from high to low. Every organization has a distinct value for each of these characteristics, which when combined, defines the organization's unique culture. Members of organizations make judgments on the value their organization places on these characteristics, and then adjust their behaviour to match this perceived set of values.

• Innovation (Risk Orientation)

Companies with cultures that place a high value on innovation encourage their employees to take risks and innovate in the performance of their jobs while companies with cultures that place a low value on innovation expect their employees to do their jobs the same way that they have trained to do them, without looking for ways to improve their performance.

• Attention to detail (precision orientation)

This characteristic of organizational culture dictates the degree to which employees are expected to be accurate in their work. A culture that places a low value on this characteristic does not.

• Emphasis on outcome (Achievement orientation)

Companies that focus on results, but not on how the results are achieved, place a high emphasis on this value of organizational culture and vice-versa.

• Emphasis on people (fairness orientation)

Companies that place a high value on this characteristic of organizational culture place a great deal of importance on how their decisions will affect the people in their organizations. For these companies, it is important to treat their employees with respect and dignity.

• Team work (collaboration Orientation)

Companies that organize work activities around teams instead of individual place a high value on this characteristic of organizational culture. People who work for these types of

companies tend to have a positive relationship with their co-workers and managers.

• Aggressiveness (Competitive Orientation)

This characteristic of organizational culture dictates whether group members are expected to be assertive or easy going when dealing with companies they compete with in the marketplace.

Companies with an aggressive culture place a high value on competitiveness and outperforming the competition at all costs.

• Stability (Rule Orientation)

A company whose culture places a high value on stability are rule-oriented, predictable, and bureaucratic in nature. These types of companies typically provide consistent and predictable levels of output and operate best in non-changing market conditions.

Source: (www.education-portal.com/academy/lesson).

2.1.4 Types of organizational culture

Charles Handy (1976), popularized Roger Harrison (1972) with linking organizational structure to organizational culture. The described four types of culture are:

a) Power culture

This concentrates power among a small group or a central figure and its control is radiating from its centre like a web. Power culture needs only a few rules and little bureaucracy but swift in decision can ensue.

b) Role culture

These organizations form hierarchical bureaucracies, where power derives from the personal position and rarely from an expert power. Control is made by procedures (which are highly valued), strict roles descriptions and authority definitions. These organizations have consistent systems and are very predictable. This culture is often represented by a "Roman building" having pillars.

These pillars represent the functional departments.

c) Task culture

This culture uses small team approach, where people are highly skilled and specialized in their own area of expertise. Power is derived from the team with the expertise to execute against a task. Additionally, these cultures often feature the multiple reporting lines seen in a matrix structure.

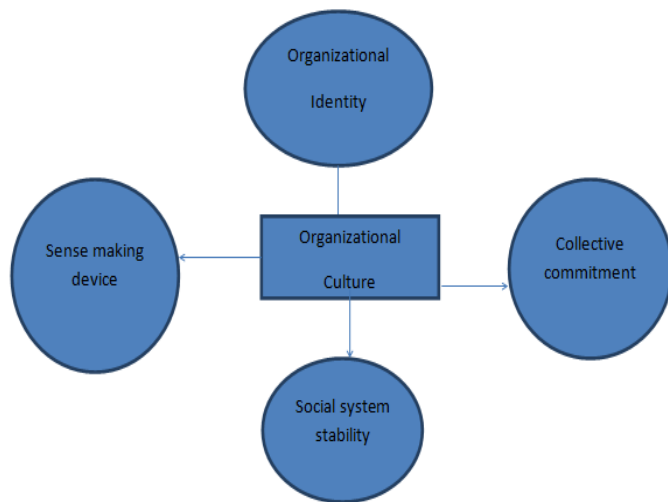
d) Person culture

This is formed where all individuals believe themselves superior to the organization it can become difficult for such organizations to continue to operate, since the concept of an organizations suggests that a group of like -minded individuals pursue organizational goals. However, some professional partnerships operate well as person cultures, because each partner brings a particular expertise and clientele to the firm.

2.1.5 Functions of organizational culture

Smircich (1983) submitted that an organization's culture fulfills four functions as thus:

- Give members an organizational identity:
- Facilitate collective commitment
- Promote social system stability (social system stability reflects the extent to which the work environment is perceived as positive and reinforcing, and conflict and change are managed effectively):
- Shape behaviour by helping members makes sense of their surroundings: This function of culture helps employees understand why the organization does what it does and how it intends to accomplish its long-term goals.



Source: Adapted from discussion in L Smircich, "Concepts of Culture and Organizational Analysis", *Administrative Science Quarterly*, September 1983, pp339-58. As cited in Kreitner, R and Kinicki, A;(2004). *Organizational Behaviour*, 6th edition, New York; McGraw Hill Irwin.

2.1.6 Layers of organizational culture

Kreitner & Kinicki (2004) identified three layers of organizational culture as: observable artifacts, espoused values and basic assumptions. Each level varies in terms of outward visibility and resistance to change and each level influences another level.

2.1.7 Manifestation of Organizational Culture

Vijay Sathe, a Harvard researcher as cited by Kreitner and Kinicki (2004), identified four general manifestation or evidence of organizational culture. They are shared things (objects), shared saying (talk), shared doings (behaviour), and shared feelings (emotion). One can begin collecting culture information within an organization by asking, observing, reading, and feeling.

2.1.8 How culture are embedded in organizations

An organization's initial culture is an outgrowth of the founder's values and business philosophy. For example, an achievement culture is likely to develop if the founder is an achievement oriented individual driven by success. Over time, the original culture is either embedded as is or modified to fit the current environmental situation. Edgar Schein, a well-known OB scholar, as cited by Kreitner and Kinicki (2004), notes that embedding a culture involves a teaching process. That is, organizational members teach each other about the organization's preferred values, beliefs, expectations, and behaviours. This is accomplished by using one or more of the following mechanisms:

- The design of physical space, work environments and buildings.
- Slogans, language, acronyms, and sayings e.g. A cold coke, is a sold coke.
- Deliberate role modelling, training programs, teaching, and coaching by managers and supervisors.
- Explicit rewards, status symbols (e.g. titles), and promotion criteria.
- Stories, legends, or myths about key people and events.
- The organizational activities, processes, or outcomes that leaders pay attention to, measure, and control.
- Leader reactions to critical incidents and organizational crises.
- The workflow and organizational structure.
- Organizational systems and procedures.

- Organizational goals and the associated criteria used for recruitment, selection, development, production, layoffs, and retirement of people.

2.2 Theoretical Framework

The notion that organization may have specific culture is found sprinkled in a vast away of publications on strategy and business policy, on organizational behaviour and theory. Although the absence of a solid theoretical grounding for the concept of organizational culture has been frequently lamented, little effort has been exerted to bring within the perimeter of the management and organizational field the relevant concepts found in cultural anthropology (Allaire and Firsirotu, 1984).

The following theories are the organizational culture theories as propounded by various scholars:

The Organization Communication Theory

Modaff, Dewine and Butler (2011) submitted that the organizational communication perspective on culture views culture in three different ways:

- **Traditionalism:** views culture through objective things such as stories, ritual and symbols
- **Interpretivism:** views culture through a network of shared meaning (organizational sharing subjective meanings).
- **Critical- interpretivism:** views culture through a network of shared meanings as well as the power struggles created by a similar network of competing types.

Hofstede's cultural dimensions theory

Hofstede theory (1980) looked for differences between over 160,000 IBM employees in 50 different countries and three regions of the world, in an attempt to find aspects of culture that might influence business behaviour. He suggested things about cultural differences existing in regions and nations, and the importance of international awareness and multiculturalism for the own cultural introspection. He demonstrated that there are national and regional cultural groupings that affect the behaviour of organization and identified four dimension (later five) in his study of national cultures.

• Power distance

Although invisible, inside organizations power inequality of the "boss-subordinates relationships" is functional and according to Hofstede, reflects the way inequality is addressed in the society.

• Uncertainty avoidance

This is the coping with uncertainty about the future. Society cope with it with technology, law and religion. He opined that organizations deal with it with technology, law and rituals or in two ways- rational and non-rational. He listed some of the ritual as the memos and reports, some parts of the accounting system, large part of the planning and control systems, and the nomination of experts.

• Individualism v collectivism

Disharmony of interests on personal and collective goals. Hofstede brings about the idea that society's expectations of individualism/collectivism will be reflected by the employee inside the organization. Collectivist societies will have more emotional dependence on members in their organizations. Extreme individualism is seen in the US. In fact, collectivism in the US is seen as "bad". Hofstede says that a capitalist market economy fosters individualism and competition and depends on it but individualism is also related to the development of the middle class.

- **Masculinity v Feminity**

This reflects whether a certain society in predominantly male or female in the terms of cultural values, gender roles and power relations.

- **Long- v Short- term orientation**

In societies with a long- term orientation, people believe that truth depends very much on situation, context and time. They show an ability to adapt traditions to changed conditions, a strong propensity to save and invest, thriftiness, and perseverance in achieving results while a short term orientation exhibit great respect for traditions, a relatively small propensity to save for the future, and focus on achieving quick results.

These dimensions refer to the impact of national cultures on management and can be used to adapt polices to local needs.

2.2.3 O'reilly, Chatman and Caldwell Theory

O'reilly et al (1991) developed a model based on the belief that culture can be distinguished by values that are reinforced within organization. Their organizational cultural profile (OCP) in a self-reporting tool which makes distinctions according to seven categories: innovation, stability, respect for people, outcome orientation, attention to details, team orientation, and aggressiveness. The model is also suited to measure how organizational culture effects organizational performance, as it measures most efficient persons suited in an organization and as such organizations can be termed as good organizational culture. Employee values are measured against organizational value to predict employee's intentions to stay and predict turnover. This is done through instrument like organizational culture profile (OCP) to measure employee commitment.

2.2.4 Daniel Denilson's Model (1990):

This asserts that organizational culture can be described by four general dimensions: mission, adaptability, involvement and consistency. Each of these general dimensions is further described by the following three sub-dimensions.

- **Mission:** Strategic direction and intent, goals and objectives and vision.
- **Adaptability:** Creating change, customer focus and organizational learning.
- **Involvement:** Empowerment, team orientation and capability development.
- **Consistency:** Core values, agreement, coordination/integration

Danielson's model also allow cultures to be described broadly as externally or internally focused as well as flexible versus stable. The model has been typically used to diagnose cultural problem in organizations.

2.2.5 Deal and Kennedy Model (1982)

They defined organizational culture as the way things get done around here.

Deal and Kennedy created a model of culture that is based on four different types of organizations. They each focus on how quickly the organization receives feedback, the way members are rewarded, and the level of risk taken:

a. **Work hard, play hard culture**

This has rapid feedback/reward and low risk resulting in: stress coming from quantity of work rather than uncertainty. High- speed action leading to high- speed recreation. Examples: Restaurant, software companies.

b. **Tough-guy, macho culture**

This has rapid feedback/reward and high risk resulting in the following: stress coming from high risk and potential

loss/gain of reward. Focus on the present rather than the longer-term future. Example: Police, Surgeons, sports.

c. **Process culture**

This has slow feedback/reward and low risk; resulting in the following, low stress, plodding work, comfort and security. Stress that comes from internal politics and stupidity of the system. Development of bureaucracies and other ways of maintaining the status quo. Focus and security of the past and of the future. Example: banks, insurance companies.

d. **Bet- the- company culture**

This has slow feedback/ reward and high risk, resulting in the following: stress coming from high risk and delay before knowing if actions have paid off. The long view is taken, but then much work is put into making sure things happen as planned. Examples: aircraft manufacturers, oil companies.

2.2.6 Edger Schein Model (1992)

According to Schein, culture is the most difficult organizational attribute to change, outlasting organizational products, services, founders and leadership and all other physical attributes of the organization. His organizational model illuminates culture from the standpoint of the observer, described at three levels: artifacts, espoused values and basic underlying assumptions.

a. Artifacts comprise the physical components of the organization that relay cultural meaning. These attributes can be seen, felt and heard by uninitiated observer. Example are: facilities, offices, furnishings, visible awards and recognition, the way that its member dress, how each person visibly interacts with each other and with outsiders, and even company slogans, mission statements and other operational creeds.

b. Espoused values respect the explicitly stated values and norms that are preferred by an organization. They are generally established by the founder of a new or small company and by the top management team in a larger organization. Examples are: loyalty, customer service.

c. Basic underlying assumptions: These are unobservable and represent the core of organizational culture. They constitute organizational values that have become so taken for granted over time that they become assumptions that guide organizational behaviour. They thus are highly resistant to change.

2.3 Empirical Framework

Organizational Culture and Organization's Economic Performance

Three perspectives have been proposed to explain the type of cultures that enhance an organization's economic performance. They referred to as the strength, fit, and adaptive perspectives, respectively:

- **The strength perspective**

Assumes that the strength of corporate culture is related to a firm's financial performance. This idea is that strong cultures create goal alignment, employee motivation, and needed structure and controls to improve organizational performance.

- **The fit perspective**

Assumes that culture must align with its business or strategic context. For example, a culture that promotes standardization and planning might work well in slow-growing industry but be totally inappropriate for internet companies that work in highly volatile changing environment.

- **The adaptive perspective**

Assumes that the most effective cultures help organizations anticipate and adapt to environmental changes

which in turn enhance a firm's financial performance.

John Kotter and James Heskett tested the three perspectives on a sample of 207 companies from 22 industries for the period 1977 to 1988. After correlating results from a cultural survey and three different measures of financial performance, results partially supported the strength and fit perspectives. However, findings were completely consistent with the adaptive culture perspective. Long-term financial performance was highest for organizations with an adaptive culture.

Yusoff (2011) investigated the relationship between organizational culture and financial performance of top Malaysian companies, using structured questionnaire administered to 145 CEOs and senior managers of top 100 Malaysian Listed Companies in 2009. The findings indicated that all the four dimensions of culture, that is, power distance, uncertainty avoidance, individualism and masculinity had influence on ROA and EPS, but only one component (i.e uncertainty avoidance) positively influenced the ROA and EPS of these companies.

Another research on the direct relationship between organizational culture and corporate performance was conducted by Kotter and James (1992). The study by Kotter and Heskett seem to be the most typical and paradigmatic study worthy to be discussed carefully. In their study, as suggested by Bluedorn, their finding can be grouped into two categories: a contingency model and a universal model. The contingency model can be summarized as (1) better performing organizations have strong cultures, but (2) only if the culture fits the organization's environment; furthermore (3) the better performance is sustained over the long-run only if the organization's culture contains change values leading the organization to continually re-adapt, culturally and otherwise, to its environment. And on the other hand, the universal perspective model indicated that for an organization to perform well in the long-term, it must have a culture whose values emphasize care and concern for three constituencies: (1) customers, (2) employees, and (3) stockholders. Their study would have far-reaching effects both for its idea and methods (linear regression and comparison between the healthy culture companies and unhealthy ones).

2.4 Gaps in the literature

In spite of all empirical studies carried out on the effect of organizational culture on organizational economic performance, the following gaps are identified by some authors.

Wan Fauziah & Wan Yusoff (2011) in their paper titled "Organizational Culture and its impact on firm performance: A case study of Malaysian Public listed Companies" in International Conference on Management (ICM) proceeding opined that there is a need for research to demonstrate the impact of culture on firm performance.

Cu Xiaomnig, Hu Junchen (2012) argued in a review of Organizational culture and Corporate in International Journal of Business Administration that there is more ambiguous about the measurement Corporate Performance.

Muafi (2012) in the International Journal of Organizational Innovation on his paper titled "the effects of alignment competitive strategy, culture, and role of behaviour on organizational performance in service firms" submitted that there is considerable controversy in the conceptualization and measurement of performance (Performance Complexity).

2.5 Conclusion and Recommendations

The study hereby recommends that there can still be more room for improvement and consequently better economic performance if proactive adaptability is enhanced, which requires senior leaders to cooperate and collaborate among themselves, leaders must create and implement a business vision and associated strategies that fit the organizational context(a vision represents a long-term goal that describes "what an organization wants to become") , if adaptive culture is promoted over time by a combination of organizational success and specific leadership ,leaders must get employees to buy into a timeless philosophy or set of values that emphasizes service to the organization's key constituents-customers, stockholders, and employees-and also emphasizes the improvement of leadership, and creating infrastructure to preserve the organization's adaptiveness by consistently reinforcing and supporting the organization's core philosophy or values of satisfying constituency needs and improving leadership by management.

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