THE LINK BETWEEN ORGANIZATIONAL CULTURE AND CORPORATE PERFORMANCE – AN OVERVIEW

Liviu Ilieş

Babeş Bolyai University, Faculty of Economics and Business Administration, 58-60 Teodor Mihali Street, Cluj-Napoca, Romania, liviu.ilies@econ.ubbcluj.ro, 0264-41.86.52/3/4/5

Corina Gavrea

Babeş Bolyai University, Faculty of Economics and Business Administration, 58-60 Teodor Mihali Street, Cluj-Napoca, Romania, corina.gavrea@econ.ubbcluj.ro, 0264-41.86.52/3/4/5

The object of this paper is to examine organizational culture and organizational performance through an analysis of the existent culture models and the empirical studies conducted to examine the corporate culture and organizational performance link. Even though a wide literature has focused on this relationship, the link between these two variables remains unclear because of the mixing results of the empirical studies.

Key words: organizational culture, organizational performance, competitive advantage.

Introduction

The term *culture* refers to a relatively stable set of beliefs, values and behaviors commonly held by a society, being derived from social anthropology as a framework for understanding "primitive" societies (Kotter and Heskett, 1992). The term *organizational culture* was used for the first time in the academic literature by Pettigrew in 1979 in the journal "Administrative Science Quarterly". Organizational culture was used to explain the economic successes of Japanese firms over American firms by motivating workers who were committed to a common set of core values, beliefs and assumptions (Denison, 1984). One of the most important reasons that explain the interest in organizational culture is the assumption that certain organizational cultures lead to an increase in organizational financial performance. According to Peters and Waterman (1982) successful organizations possess certain cultural traits of excellence. Ouchi (1981) showed a positive relationship between organizational culture and productivity.

Even though the literature on organizational culture and its relationship with corporate performance is rich and diverse, there are only a few empirical studies that actually examined the nature of this relationship. For this reason, this article will examine, based on existent empirical research, the link between culture and performance.

Conceptualizations of organizational culture

Lim (1995) suggested that the conceptualizations of organizational culture exist along a continuum which has two extremes: the process oriented and the classification approaches.

The process/qualitative approaches to organizational culture

This approach is usually represented by Schein's model (1990) who describes organizational culture as a pattern of basic assumptions invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration, and that has worked well enough to be considered valid, and therefore, is to be taught to new members as the correct way to perceive, think and feel in relation to those problems. In Schein's opinion, culture has three levels:

- behaviors and artifacts, which is the most clear level of culture consisting of the physical and social environment of an organization;
- values, which is less visible than the previous level of culture, being composed of those elements that provide the underlying meanings by which the patterns of behaviors may be deciphered;
- basic assumptions, which represent an unconscious level of culture being the most difficult to relearn and change.

According to Sackman (1991), the qualitative approaches may have limitations in testing hypotheses and building theory because of the large number of case studies that have to be completed in order to draw some general principles from such approaches. Because qualitative approaches are time and money consuming, the classification approaches were proved to be more useful in the study of organizational culture.

The classification/quantitative approaches to organizational culture

According to the classification approach, organizational cultures correspond to a range of ideal types that can be reflected by two or more variables. One of the best known studies based on this approach belongs to Hofstede (1980) who used data gathered from IBM employees from over 40 countries. The author identified four dimensions of organizational culture: power distance, uncertainty avoidance, individualism/collectivism and masculinity/femininity. Later, Hofstede (1998:238) defined organizational culture as a concept that has the following features:

- "holistic (describing a whole which is more than the sum of its parts);
- historically determined (reflecting the history of the organization);
- related to the things anthropologists study (like rituals and symbols);
- socially constructed (created and preserved by the group of people who togheter form the organization);
- soft, and;
- difficult to change".

Compared to the qualitative approach, the quantitative approach generates a number of quantitative methods that can be used to measure the corporate culture. There were many questionnaires developed based on the classification approach that have the advantage compared to the qualitative approach of covering large samples at lower cost. (Sackman, 1991)

Organizational culture: assumptions

From the literature on organizational culture we can identify a number of assumptions about organizational culture. We will present and discuss four of the most important assumptions found in literature:

1. The first assumption refers to the process of organizational culture change, more specifically even though culture may be resistant to change, they are to some extent flexible and manageable (Scott et al., 2003). According to Ogbonna and Harris (2002) who analyzed the existent literature on culture change, the process of organizational culture change can be influenced and a number of contemporary organizational culture researchers are adopting this perspective.
2. The second assumption relates business performance with distinct cultures of organizations.
3. The third assumption refers to the possibility of identifying particular cultural attributes that facilitate or inhibit good performance, thus helping managers in designing appropriate strategies for cultural change.
4. The fourth assumption states that the benefits resulted from change will outweigh any negative or undesirable consequences. (Scott et al., 2003).

Organizational culture and sustained competitive advantage

As mentioned previously, the interest in organizational culture can be explained by the assumption that certain organizational cultures lead to an increase in corporate financial performance. This assumption is founded on the perceived role of culture in generating competitive advantage (Scholz, 1987). According to Krefting and Frost (1985) organizational culture may create competitive advantage if the boundaries of the organization are designed in a manner which facilitates individual interactions and if the scope of information processes is limited to appropriate levels. Theorists also argue that the values that are widely shared and strongly held enable managers to predict employee reactions to certain strategic options and in this way minimizing the scope for undesired consequences (Ogbonna and Harris, 20000

In 1986, Barney specified three conditions that have to be met in order for a company's culture to achieve sustained competitive advantage. First, the culture has to be valuable, which means that it must allow the company to behave in a manner that will lead to higher profits, lower costs and other results that improve the financial performance of the firm. Second, the culture has to be rare, which means that it must have distinctive characteristics that differentiate the firm from the cultures of a large number of other firms from the same industry. Third, a culture must be imperfectly imitable, which means that even if potential imitators can understand valuable and rare organizational cultures, it still may not be possible to imitate those cultures.

The impact of organizational culture on corporate performance

The literature on organizational culture is rich and diverse. Much of its richness is founded on the claim that culture is linked to organizational performance. Even though there are some theorists that questioned the culture-performance link, sufficient evidence exists to suggest that organizational culture is associated with organizational performance. (Ogbonna and Harris, 2000)

One of the earliest quantitative studies on the culture-performance link was conducted by Denison (1984) who used data from 34 American firms over a five year period. The author examined characteristics of organizational culture in these firms and tracked their performance over time. To measure performance the author used data on returns on investment and sales. For organizational performance responses on a one time survey regarding the perceptions of work organization and participation in decision making were gathered. Although, the author found that organizational culture is correlated with financial performance, some of his measurement indicators differ in the strength of the relationship between culture and performance. Decision making and work design were associated with long term financial performance while supervisory leadership was associated with short term financial performance. Even though it has encouraging results, this study is not without limitations. The most important criticisms refer to the use of employee perceptions which suggest that the study had obtained a measure of organizational climate rather than a measure of organizational culture (Lim, 1995).

Rousseau (1990) tried in his study to overcome some of the limitations in measuring organizational culture. He gathered data from 32 voluntary service organizations using as a performance measure the amount of money raised from a recently completed found-raising campaign and the Organizational Culture Inventory promoted by Cooke and Lafferty (1983) to measure organizational culture. The results of this study showed no significant positive correlations between performance and culture.

One of the most extensive studies on the culture-performance link was conducted by Kotter and Heskett (1992). They used data gathered from 207 firms over a five year period. In this study they used various measures of culture and long term economic performance data. Their initial objective was to examine the relationship between *strong* cultures and long term performance. Even though they found only a minor correlation between strong culture and long term performance, subsequent investigations showed that firms with cultures suited to their market environment have better performance than those that are less fitted to their environment.

Marcoulides and Heck (1993) analyzed the relationship between organizational culture and performance using data collected from 26 organizations. The authors proposed a model in which organizational culture was measured using several latent variables (organizational structure, organizational values, task organization, climate, and individual values and beliefs) and organizational performance was measured using capital, market and financial indicators. The results of this study showed that all of the latent variables used to measure organizational culture had some effect on performance with workers attitudes and task organization activities being the most significant variables.

More recently, Ogbonna and Harris analyzed the relationship between organizational culture and performance by including the leadership style as a third variable in the model. They used a sample of 1000 units from the Financial Analysis Made easy database of registered British companies. To measure performance they used variables such as: customer satisfaction, sales growth, market share, competitive advantage and sales volume. For organizational culture they used measures such as: competitive culture, innovative culture, bureaucratic culture and community culture. The results showed that all four measures of organizational culture were associated in some way with corporate performance. More specifically, innovative and competitive cultures had a direct effect on performance and accounted for approximately 25 percent of the variance in organizational performance. Both competitive and innovative cultures were externally oriented in line with the assumption that organizational culture must be adaptable to external environment for a sustained competitive advantage. The bureaucratic and community cultures, which were internally oriented, were not directly related to performance.

This study was extended in 2002 when the authors analyzed the link between market orientation, organizational culture, strategic human resource management and organizational performance. The authors used the same measures as in the previous study for organizational culture and performance. As in the previous study, competitive and innovative cultures were found to have a significant effect on performance while community and bureaucratic cultures were not related to performance.

Concluding remarks

In this paper we examined and reviewed some of the research concentrated on the link between organizational culture and corporate performance. Even though we presented a wide variety of studies, the results are mixed or inconclusive.

First of all it is assumed that organizational culture is directly related to performance but the study conducted by Ogbinna and Harris (2000, 2002) shows the opposite: the only variable that had a purely direct effect on performance was innovative culture while the competitive culture had both a direct and indirect effect. Moreover measures of bureaucratic and community culture had a purely indirect effect on performance. Also, except for a few studies (Marcoulides and Heck, 1993; Ogbinna and Harris 2000, 2002), all the other studies that examined the culture-performance link failed to discuss the influence of other variables such as organizational structure or leadership. For this reason the future investigations of this relationship have to take into consideration and remove the effect of other factors (Scott et al., 2003).

Bibliography

1. Denison, D. (1984). Bringing corporate culture to the bottom line. Organizational Dynamics, 13(2), 5-22.
2. Hofstede, G. (1980). Culture's Consequences. Sage, Beverly Hills, CA.
3. Kotter, P. and Heskett, L. (1992). Corporate Culture and Performance, Macmillan, New York, NY.
4. Lim, B. (1995). Examining the organizational culture and organizational performance link. Leadership and Organizational Development Journal, 16(5), 16-21.
5. Marcoulides, G. and Heck, R. (1993). Organizational culture and performance: Proposing and testing a model. Organization Science, 4(2), 209-225.
6. Ogbonna, E and Harris, L. (2000). Leadership style, organizational culture and performance: Empirical evidence from UK companies. International Journal of Human Resources Management, 11(4), 766-788.
7. Ogbonna, E and Harris, L. (2002). Managing organizational culture: Insights from the hospitality industry. Human Resource Management Journal, 12(1), 22-53.
8. Pettigrew, A. (1979). On studying organizational culture. Administrative Science Quarterly, 24, 570-581.
9. Rousseau, D. (1991). Quantitative assessment of organizational culture. Group and Organizations Studies, 15(4), 448-460.
10. Sackman, S. (1991). Uncovering culture in organizations. Journal of Applied Behavioral Science,27(3), 295-317.
11. Schein, E (1990). Organizational culture. American Psychologist, 45(2), 109-119.
12. Scott, T., Mannion, R., Davis, H., and Marshall, M. (2003). The quantitative measurement of organizational culture in health care: A review of the available instruments. Health Services Research, 38(3), 923-945.