Corporate Culture and Organisational Performance: A Review of Literature

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ABSTRACT

The relationship between corporate culture and organizational performance is intricate and influential. Corporate culture encompasses shared values, beliefs and behaviours within a company, shaping its identity. A positive and aligned culture can enhance employee engagement, teamwork, and innovation, ultimately driving organizational success. Effective leadership plays a pivotal role in cultivating a healthy corporate culture, fostering employee satisfaction and commitment. Organisations that prioritize a cohesive and positive culture often experience improved productivity, adaptability, and long-term viability in the competitive business landscape. Understanding and nurturing the interplay between corporate culture and organisational performance is crucial for sustained success. However, the study discovered that research on the subject matter remains inconclusive as there are various variables of culture that are yet to be fully explored in research. Therefore, the study recommended that management of organisations should endeavour to establish an acceptable and well-appreciated culture by members in order to enhance continuous success and development.

Keywords: Culture, Corporate Culture, Organisational Performance, Value, Beliefs, Commitment.

1. Introduction

In modern business environment, organisations strive to survive in the face of business competitiveness and therefore, tend towards being more innovative, creative and competitive. Business will have to be made customer oriented, small domestic markets have to be created and new niche will have to be carved out. A global attitude, ability to think, react and behave globally has to be given a priority. Cultures of organizations will have to be changed, because without that, changes in formal structures, strategies, new technology, new personnel, new plants would not produce needed changes in the behavior or practices of people. Hence the business mission may not be successful. Considering the importance of corporate culture Kitson Alan and Campbell Robert (1996) wrote the notion of corporate or organizational culture is well established in the field of organizational theory and behaviour. Although there are some significant divergences of view about the feature and origins of corporate culture, there is widespread agreement amongst analysts that organizational culture significantly affects behaviour in organizations.

Similarly, Thompkin Jim (1995) wrote Culture is the foundation upon which organizations are built. Culture permeates all organizational activities and events, and allows one to interpret all that occurs. All organizations have a unique culture that plays an important role in their organizations success. Though quite important, culture change is not easy to attain, and requires a long and patient ‘Organizational Development’ efforts. However realizing its importance, organizations in Nepal have far behind giving attention on the same.

Culture has been characterized by many authors as “something to do with the people and unique quality and style of organization” (Kilman et al., 1985), “the way we do things around here” (Deal and Kennedy, 1982), or the “expressive non-rational qualities of an organization”. 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. The beginnings of formal writing on the concept of organizational culture started with Petrock (1990). He introduced the anthropological concept of culture and showed how related concepts like “symbolism”, “myth” and “rituals” can be used in organizational analysis. Dandridge et al. (1980) showed how the study of these myths and symbols aid in revealing the “deep structure” of an organization. More recent researchers include Denison and Mishra (1995), Schein (1985a, b), Siehl and Martin (1988, 1990) and Wallach (1983), who have introduced various definitions of the culture concept. This plethora of research definitions is due to the different research framework adopted by the various authors. Schuwer (1981) identified four scientific lenses through which the body of culture research can be viewed. This includes the view of culture first as an external variable, led by proponents like Ouchi (1981) and Pascale and Anthony (1981). Culture can also be viewed as an internal variable of an organization, which is the most common definition used by researchers like Collins and Porras (1994) and Peters and Waterman (1982).

Until recently, culture has been examined with performance and effectiveness. According to Rollins (1993), while culture researchers have devoted numerous articles to the nature and definitions of culture, relatively fewer articles have been contributed towards culture and performance research. One reason for this was the difficulty in operationalizing the culture construct.

Denison (1996) argued that many researchers were limited by the artificial paradigm separation between climate and culture research. For instance, he described that climate research was associated with surveys and statistical analysis while culture research was usually done through qualitative field studies. He argued persuasively that climate and culture research studies are frequent investigations of different manifestations of the same construct. More recent research by Chatman and Jehn (1994), Denison and Mishra (1995) and Kotter and Heskett (1992), have, therefore, contributed to the field of culture-performance studies by explicitly acknowledging that culture is being treated as variable for a specific research purpose. For instance, Denison and Mishra (1995), utilizing a more rigorous methodology, discovered that cultural strength was significantly associated with short-term financial performance while Kotter and Heskett (1992) refined the culture-performance framework.

2. **Theoretical Framework**

The theoretical framework of this study is shown in Figure No. 1. In this study, the corporate culture was based on the work of Deshpande and Farley (1999), while the organizational performance concept was based on the work of Allen and Meyer (1990). There are three types of corporate cultures:

- Values
- Beliefs
- Practices

There are two types of organizations:

1. Well Performing Organization;
2. Sick Organization.
From Figure 1, it can be discerned that there is a relationship between corporate culture and the organizational performance. The financial performance indicators used in the study are the profitability and leverage measures: return on assets (ROA), profit margin, return on Owners’ Fund, and the debt-equity ratio. The conceptual model also suggested that each type of corporate culture could be related to the performance of the organization.

3. Review of Literatures

3.1 Culture Defined

Culture is a man-made part of environment. It includes all the elements that man has acquired from his group by conscious learning or by conditioning process techniques of various kinds, social and other institutions, beliefs and patterned modes of conduct. This concept of culture is derived from Anthropology and is defined by Edward Taylor in Encyclopaedia of Social sciences (1968) as ..........a complex whole which includes knowledge, beliefs, arts, morals, law, customs and any other capabilities and habits acquired by man and any other member of the society. Thus, it can be referred to as a pattern of behaviour, knowledge, sanctions, values, goals that make the way of life of people transmitted to members of a group from the previous generations of the group. Corporate culture has been defined by scholars in varied ways and numerous definitions of culture are proposed. Kroeber and Kluckholn (1963) identified 164 meanings of the term culture. R.H. Kilmann and M.J. Saxton (1983) stated that unwritten often unconscious message that fills in the gaps between what is formally decreed and what actually takes place, it involves shared philosophies, ideologies, values, beliefs, expectation and norms.

Edgar H. Schein (1984) also stated that Organization culture is the set of basic assumptions that a given group has invented, discovered or developed in learning to cope with its problems of external adaptation and internal integration and that have worked well enough to be considered valid, and therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems. Thus all the members of an organization come to adapt shared values, beliefs, norms, attitudes, ways of doing things or practices which are unique to an organization. This is called the culture of the organization or corporate culture.

According to Millman (2007) culture is the sum of beliefs, knowledge, experiences and values obtained by a set
of groups of people over a specified period of time through interaction, living or working together. Dasanayaka and Mahakalanda (2008) opined that culture involves maximising employee’s value that can be regarded as rational assets beneficial to both the individual and the organisation for learning and readiness to share values. Tricky (1982) stated that organisational culture means a normative glue that holds the overall organisation together. Gordon (1992) opined that corporate culture begins with the CEO communicating the desired culture to members of the organisation. Babelova & Vanova (2014) stated that organizational culture is established from the inception phase in the life of any organization. It develops over time to reach a level of pervasiveness and deployment, making it one of the most challenging factors to change at a later point. Mgbere (2009) opined that corporate culture is the set of values, beliefs and way of doing things in an organization and defines the ambience in which an employee of the working place.

Hofstede (2011) also stated that awareness of what is occurring in the organizational environment also has impact on decision making and level of authority. Childe et al. (2016) stated that this aspect of the organization has become widely important and interesting in order to measure its abilities to innovate, adapt to the changes and how it affects performance. Deloitte Insights (2018), stated that with the increase of millennia’s being in the workforce, there are range of programs aimed at not only protecting employee health, but actively boosting performance as well as social and emotional well-being. These now include innovative programs and tools for financial wellness, mental health, healthy diet and exercise, mindfulness, sleep, and stress management, as well as changes to culture and leadership behaviours to support these efforts.

3.2 Organisational Performance

Performance includes sales growth, return on investment, market share gain, and overall competitive position. It can be conceptualized as the relative performance against competitors. The assessment of performance measures would ultimately reflect whether indeed a purported customer orientation is realized in higher performance for the organization. Examples of using self-reported performance measures to analyze the effect of organizational variables on performance are found in King and Teo (2000), Tracey et al. (1999), and Ward and Duray (2000).

‘Performance’ or ‘Effectiveness’ is an indication of how well an organization is performing. The organizational performance can be reflected in overall effectiveness in business. This effectiveness can be seen in terms of:

- Efficient attainment of organizational goals/productivity
- Return on Investment (ROI)
- Quality of Work Life which is reflected in:
  (a) Exciting and Creative Environment
  (b) Concern for people
  (c) Democratization of work process
  (d) Growth Opportunities
  (e) Job Satisfaction
- Client Satisfaction
- Organisational Growth
- Adaptability to Change
- Ability for Innovation
- Industrial peace
- Community Service

The above yardsticks are illustrative only. They may be financial or physical. They will relate to time, cost, quality, and delivery systems. In a fairly well accepted sense organizational performance is considered as relating to financial results of an organization.

Hansen & Wernerfelt (1989) explained two major factors that have been used by researchers in appraising company’s performance. They considered the economy of culture, importance of market to firm performance and behavioral and psychological factors in concurrence with environment in establishing how a company will flourish. However, this discussion will lead to consideration of two performance measurements metrics as discussed above. Financial Measurement and Non-Financial Measurement are discussed below:
a) Financial Performance
According to Marshal and Shaima (2014), performance is a broad measure that can include quality, profitability, consistency, training and development which include the performance indicators that include behaviour and normative measures, management training for developing performance attitude. Davis et al., (2000) stated that company’s performance is generally appraised by using financial indicators to measure how they doing over a period of time. Since most profit-oriented companies are concern with maximization of shareholders wealth by way of growing both the top and bottom-line items while all items of cost centres are consistently monitored with various control mechanism against escalation. Some of the organisational financial performance includes ratios, shareholders’ return, economic value added, profits, return on assets, return on investment (Richard et al, 2009).

b) Non-Financial Performance Measurement
Mayer & Schoorman (1992) stated that apart from financial metrics in the evaluation of a firm’s appraisal in all industry. There are other essential variables like corporate culture, leadership culture, innovation and employee’s satisfaction that organizations cannot do without if they are to meet all key performance indices.
Thus, it is not easy to determine the criteria of performance or effectiveness of an organization. Nevertheless, mostly the trend has been to take up economic factors to study performance of organization. For example Kotter (1993) chose following performance indicators to be measured.

- average yearly increase in net income
- average yearly return on investment and
- average yearly increase in stock prices

George G. Gordon (1992) explained while studying relationship between organizational culture and performances in Life Insurance Industry, took asset and premium growth rate as the performance indicators. Denison (1990) selected return on investment (ROI) and return on sales as measures of effective performance of organization.
Attempts have also been made where mixed performance criteria are adopted to measure the effective performance of organizations. Eminent Management Guru Peter Drucker (1970) has propagated the study of following eight performance areas for any organizations. These are:

- Market standing.
- Innovation.
- Productivity.
- Physical / Financial resource.
- Profitability.
- Managerial performance and development.
- Workers performance and attitudes.
- Public responsibility.

Similarly, Richard Steers (1977) not only gives emphasis on organizational requirements like resources, acquisition, efficiency, production, output, renewal, consistency and satisfaction but also on behavioral requirements for organizational members like stable memberships, dependable role performance and innovative behaviour for the study of organizational effectiveness. Amarchand D and Jayaraj B.J. (1992) assumed that for internally effective organizations the outcome in terms of financial returns would automatically follow. To test this assumption they identified 8 criteria of effectiveness -

- Efficiency in the use of available resources
- Adaptability
- Co-ordination within an organization
- Customer satisfaction
- Effectiveness of communication within the company
- Company’s ability for innovation
- The extent of team work at the top
- Public image about company’s product/service
Denison (1990) on the basis of the review of literature brought into light five models related to effectiveness -

- Natural systems model
- Goal Attainment model
- Decision process model
- Stakeholder’s model
- Reactive theories of effectiveness

1. **Natural Systems Model**: This model similar to an organization is considered internally differentiated and structurally integrated and is dependent on environment for energy and information. According to this model the performance / effectiveness of an organization should be evaluated on the basis of equilibrium and elaboration of the system. Thus, here the factors to be studied are growth, stability or decline of organizations system.

2. **Goal Attainment Model**: Here the attainment of goals is considered as a measure of effectiveness. These goals can be any type - economic or noneconomic, broad or narrow. These goals are defined either by top management or other constituents of the organization. Though this perspective is appreciated because it gives attention to purpose, it is also criticized because goals do not remain the same and change quickly. Sometime they are internally inconsistent which poses difficulties in measuring effectiveness.

3. **Decision Process Model**: According to this model prime activity of any organization is decision making. Hence, the characteristic of decision making/models are considered as the determinants of effectiveness. Works of Liken (1961, 1967), Vroom and Yetton (1973) comes under this category.

4. **The Stakeholders Model**: This model refers to all the internal and external stakeholders in the organization’s performance. Here stakeholders’ assessment of organization serves as a measure of organizational performance. Seven important stakeholders are -
   - Employees - Satisfaction with pay, supervision and work
   - Owners - Return on owners funds
   - Customers - Best quality product/service at reasonable prices (value for money)
   - Suppliers/Creditors - Satisfactory fulfillment of growing business transactions
   - Bankers - Fulfillment of all Covenants
   - Government - Binding with laws rules and regulations
   - Community - Social responsibility

   This model provides a broad view to study factors in internal and external environment It tries to evaluate criteria relating to input, transformation and output. But at the same time this criteria gives emphasis on the values of the different stakeholders and thus there is sense of direction to the organization.

5. **Reactive Theories of Effectiveness**: Authors of this perspective feel that earlier models overemphasize the proactive efforts of the members of organization and the characteristics of organizations in studying effectiveness of organizations. According to reactive theorists (Pfeffer and Salanick, 1982) the capacity and reactive ability of organizations towards their environment be rather considered as determinant of effectiveness. The two theories that adopt this perspective are -
   - Resource dependence
   - Population ecology

According to resource dependence theory organizations try to control their external environment to get the resources which are necessary for its growth and survival. Though members only enact the behaviour but the motivation comes from organization’s reactions to the external environment. Thus, the behaviour (reaction) of organizations which attempts to control the external environment be considered as determinant of effective performance. But this approach also has limitation as without utilizing the resources effectively an organization cannot be considered effective.

1.3 **Corporate Culture and Organisational Performance**

3.3.1 **Operational Definition of Corporate Culture**

Similar to the authors like Denison, Hofstede and Kotter, corporate culture in the present study is conceptualized as made up of core organizational values and beliefs in the center, manifestation of which is seen in the policies and practices of the organizational members. Also taking the logic from the earlier studies, Denison (1990), Ev-
ans (1968), Udai Pareek (1989) in the present research the terms culture and climate are considered as synonyms and used interchangeably. Further added Corporate Culture refers to prevalent values and beliefs in an organisation which represent the basic ideas of top leaders and provide the foundation for manifest practices and polices within the organization. Where the values are latent and difficult to change, practices and policies form manifest part of the culture and are easier to mold according to the need of internal and external environment.

Thus, following three components are incorporated in the study of corporate culture.-

- values
- beliefs and
- practices

3.3.2 Operational Definition of Organizational Performance

For the purpose of this study performance of an organization is judged on the basis of financial indicators. After carefully scanning of the financial yardsticks the following five ratios have been used:

- Return on Total Assets (%)
- Profit Margin (%)
- Return on Total Assets (% Cash Basis)
- Return on Owners’ Funds (% Cash Basis)
- Debt / Equity Ratio (Times)

3.3.3 Links between Culture and Performance

Almost without exception, authors believe that culture (imperfectly understood as it is) has a significant effect on organizational performance. Peters and Waterman (1982) and Deal and Kennedy (1982) built their whole arguments on the cultural traits necessary for success and the importance of a ‘strong culture’ and other researchers and consultants took up the idea. The argument is that if culture has no effect, then interest in it would be minimal and arguments about its nature would become purely academic. However, most authors treat ‘culture’ as a single entity in assessing its effect on performance, whereas only behaviour can affect performance. As argued earlier, while patterned behaviour may be one embodiment of culture, culture is not the only determinant of patterned behaviour. Even those authors who see behaviour as part of culture rather than as an embodiment of it are claiming too much in saying that culture affects performance. Authors who have questioned the value of the ‘strong culture’ hypothesis are Saffold (1988), who sees five weaknesses in it; and Schein (1989), who argues that ‘strong’ cultures do not necessarily lead to organizational effectiveness. In agreement with Schlesinger and Balzer (1985), no direct link is seen between culture and performance. As long as organizations are composed of people, outcomes will never be totally predictable. The culture±performance link is therefore a tenuous one at best.

Corporate culture is an important construct in management research which has led to the conduction of several so as to unravel and establish the association existing between the corporate culture and organisational performance. However, the outcome seems mixed and inconclusive. The study of Yesil and Kaya (2013) investigated the consequences of corporate culture on financial performance of firms in Turkey and the outcome was that organisational culture has no impact on financial performance of firms under consideration. Pathirana, (2019) conducted a wide review of literatures and observed that organisational culture deeply influences various dimensions of organisational processes, organisational performance, employees and other relevant areas of the organisation. However, the study also revealed that lack of cultural integration among members can lead to a major cause of organisational failure. The study of Quy, (2018) investigated the association existing between the organisational culture, job satisfaction and firm performance in organisations located in Minh City. The study adopted firm performance index, job satisfaction survey and multifactor culture questionnaire to gather data. The study revealed that innovative and supportive culture in the organizations had positive and significant effects on job satisfaction and firms’ performance.

The study of Denison et al (2006) considering the four traits of organisational effectiveness indicated that the culture of an organization is closely related to organizations’ performance. The study of Maleka et al (2015) focusing on Denison organisational culture model revealed that there is a relationship between organisational culture and firm performance. The study emphasized that organizational culture and organization’s performance are perceived to be closely aligned. The study of Wahyuningsih et al (2019), reveal the importance of consistency both internal and external for international business competitiveness which was also established in the study of
Gyebi (2016). Leithy (2017) tested a theoretical framework that combines organisational culture related to work attitude with organisational performance. The study revealed that work attitude and work behaviour are related with organisational performance. The study of Umrani et al (2017) determines the effect of organisational culture on the business performance on the Pakistan context. The study revealed that organisational culture had significant effect on the business performance of banking sector in Pakistan. The study of Motilewa et al (2015) to determine the effect of share values of staff members of Covenant University Ota, Ogun State Nigeria on the success of the University. The study indicated that the share core values has led to the tremendous success and development of the University best both in Nigeria and West Africa in the 2015 webometrics ranking.

1.4 Conclusion
The concept of organisational culture helps in explaining some incomprehensive aspects of organization, groups and occupations. The study on corporate culture also showed that it has a relationship with financial performance. Corporate culture has a significant impact on a firm’s long-term economic performance. They found that firms with cultures that emphasized all the key managerial constituencies (customers, stockholders, and employees) and leadership from managers at all levels, outperformed firms that did not have those cultural traits by a huge margin. They also believed that corporate culture was becoming more important in determining the success or failure of firms in the next decade. According to Sadri and Lees (2001), a positive corporate culture could provide immense benefits to the organization, and thereby a leading competitive edge over other firms in the industry. However, a negative culture could have a negative impact on the organizational performance as it could deter firms from adopting the required strategic or tactical changes. Such type of culture could inhibit future changes in an organization. Corporate culture was based on the perceptions of organizational practices and conditions, to characterize the organizational culture. He found that the organization with participative culture performed better than other cultural types. However, for successful implementation it needs the concerted effort of both the management and that of the employees. The management has the responsibility of establishing shared values, beliefs and assumptions that are acceptable and appreciated by organisational members for continuous success and development.

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