Organizational culture and organizational performance: a brief review

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Abstract: Organizational culture has ever been an intangible but critical factor that has an impact on organizational performance, especially in this new era when organizational innovativeness determines its success or sustainability. Innovation capabilities usually stem from the individuals, and can be magnified or hindered by the organizations where individuals belong to. Organizational culture provides an environment or context where innovation or other business activities are conducted by organizational members, thus having effects on organizational performance although these effects may be indirect and usually mediated by other closely performance-related activities or factors such as knowledge management, job satisfaction, etc. This paper attempts to give a brief review on organization culture and its effects on organizational performance.

Key words: organizational culture; organizational performance; knowledge management; employee satisfaction

INTRODUCTION

Organizational culture has raised extraordinary attention ever since this concept was proposed by American scholars in 1980’s. Pettigrew (1979) is considered as the first one to introduce culture in organization theory. The comparative study between American and Japanese management is the impetus to organizational culture research (e.g., Ouchi, 1981; Pascale & Athos, 1981).

Organizational culture has ever been an intangible but critical factor that has an impact on organizational performance. Schein (1996) 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.

Barney (1986) pointed out that organizational culture can become a source of sustainable competitive advantage. It can create value for an organization since it can simplify information processing, decrease the supervision cost and smooth the bargaining between employees (Besanko et al., 1996).

Innovativeness has become the determinants of successfulness or sustainability for businesses in this new era of knowledge-based economy. A firm’s innovation capabilities are its core competency and usually stem from its individual employee, which can also be magnified or hindered by organizational factors. Organizational culture is just such an organizational factor that provides an environment or context where innovative activities are conducted. Obviously, a culture friendly to knowledge sharing can lead to innovation and thus improve firm performance (Cardoso et al., 2012).

Besides, organizational culture can also play important roles in improving psychological states of employees such as job satisfaction, organizational commitment, etc., thus leading to better organizational performance (eg., Denison & Mishra, 1995; Lund, 2003; Lim, 2010). Specifically, with the changes of behaviors, styles and office environment (physical or virtual) in modern businesses, employees as humans should be paid much more attention to. As Pirson & Lawrence (2010) contended, the paradigm is shifting to humanism in business and psychological insights should become the basis for management.
Therefore, this paper attempts to review organizational culture and its relationship with organizational performance. The rest parts are organized as follows: Section 2 reviews the concepts of organizational culture, including its definition, function and measurement; Section 3 explains the relationship between organizational culture and organizational performance; Section 4 makes an open discussion about new features and future work.

ORGANIZATIONAL CULTURE

Definition:

Pettigrew (1979) pointed out some elements of organization culture such as symbol, language, ideology, belief, ritual, and myth. Barney (1986) defined organizational culture as a complex set of values, beliefs, assumptions, and symbols that define the way in which a firm conduct its business.

Schein gave several definitions about organizational culture. Organizational culture was “the pattern 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” (Schein, 1984). Organizational culture referred to the values and beliefs that provide norms of expected behaviors that employees might follow (Schein, 1992). Schein (1996) 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”.

Function:

Organizational culture can become a source of sustainable competitive advantage if that culture is valuable, rare, and imperfectly imitable (Barney, 1986). Schein (1992) considered organizational culture as a social force that is largely invisible yet very powerful.

Organizational culture can work as the normative glue that allows for coordination and stability (Martin, 1992; Mueller, 2012). It can create value for an organization since it can simplify information processing, decrease the supervision cost and smooth the bargaining between employees (Besanko et al., 1996).

Therefore, organizational culture is strategically important for an organization and it can have an effect on organizational performance since it is a critical resource and can reduce transaction cost if properly matching to the organization where it is rooted or matching to the tasks that are carried out.

Although organizational culture can have direct impacts on organizational performance by reducing costs such transaction, monitoring as well as information processing, it is more prone to influence organizational performance indirectly by affecting other business activities or organizational factors such as previously mentioned innovation and psychological states of employees.

Measurement:

Schein (1984) analyzed organizational culture from three different levels: the visible artifacts – the constructed environment of the organization, its architecture, technology, office layout, and etc., the values that govern behavior and the underlying assumptions.

Hofstede’s national culture values framework has been extended to six dimensions: Power Distance, Uncertainty Avoidance, Individualism versus Collectivism, Masculinity versus Femininity, Long Term versus Short Term Orientation, and Indulgence versus Restraint (Hofstede, 1980; Hofstede et al., 1990; Hofstede et al., 2010). This framework has been broadly used in management and psychology (Osland & Bird, 2000; Kirkman et al., 2006; Sasaki & Yoshikawa, 2014; Ahammad et al., 2015).

Denison Organizational Culture Survey (DOCS) enclosed four cultural traits – involvement, consistency, adaptability and mission – and these culture traits were found to be related to organizational effectiveness (Denison, 1990; Denison & Mishra, 1995; Fey & Denison, 2003).

Organizational Culture Assessment Instrument (OCAI)
is based on the competing values framework (CVF), which was developed initially from research conducted on the major indicators of effective organizations (Quinn & Cameron, 1983; Cameron & Quinn, 2006). In this framework, organizational culture is divided into four typical culture types by vertical and horizontal axes. According to the distinguished characteristics of each cultural type, they are labeled as clan, adhocracy, market, and hierarchy.

These frameworks or measuring dimensions are most widely used by scholars from different countries or organizations.

ORGANIZATIONAL CULTURE AND ORGANIZATIONAL PERFORMANCE

Based on the above frameworks or measuring dimensions, many researchers empirically investigate the relationship between organizational culture and organizational performance.

What is the mechanism that organizational culture can have an impact on organizational performance? As the functions explained above, organization culture can play a role in simplifying the information processing and reducing the transaction cost, which directly lead to better performance.

In the culture that is friendly to information sharing and transferring, the cost of processing information is decreased. Besides, with the increase in available information, the uncertainty or asymmetry can be decreased, which also helps to improve performance.

With the shared norms and trust, the behaviors in the organization will be easily predicted and monitored, which reduces the supervision cost. Organizational culture can also maintain the stability and solidarity of the organization, which can reduce the cost for recruitment and coordination.

Organizational culture functions in these ways and has a direct effect on organizational performance. Furthermore, organizational culture can also give indirect impacts on organizational performance by directly influencing other business activities or organizational factors.

Impact on knowledge management & innovation:

Knowledge management is one of the prominent business activities (or processes) that organizational culture can have a great influence on its effectiveness.

Knowledge is at center stage of knowledge management practices and involves human participation (Davenport et al., 1998). Drucker (1999) stated that the most valuable asset of a 21st-century institution will be its knowledge workers and their productivity.

Knowledge sharing and transfer are the main activities in knowledge management. Knowledge-centered or knowledge- friendly culture is a critical factor for successful knowledge management practices (Cardoso et al., 2012). Obviously organizational culture influences knowledge management practices since knowledge management encompasses human interaction (Armistead, 1999; Pinho et al., 2012; Li et al., 2013).

Knowledge management encompasses the managerial efforts in facilitating activities of acquiring, creating, sharing, transferring and applying knowledge by individuals and groups (Rowley, 2001; Zheng et al., 2010).

Knowledge can be categorized into different types, such as tacit or explicit. The conversion process between tacit knowledge and explicit knowledge can be classified into four modes – Socialization, Externalization, Combination, and Internalization, briefly mentioned as SECI process (Nonaka, 1994; Nonaka et al., 2000). The different cultural traits in Denison’s framework can have different effects on the four SECI modes (Li et al., 2013).

Knowledge management can work as a mediator between organizational culture and organizational effectiveness, that is, organizational culture can indirectly influence organizational effectiveness by its direct impact on knowledge management (Zheng et al., 2010).

Innovation is the key to organizational survival and there are links between the distinct layers of organizational culture and innovative behaviors (Hogan & Coote, 2014). Organizational culture can give an impact on organizational
innovativeness through its effect on knowledge sharing and transfer.

Meanwhile, the innovation capabilities usually stem from its individual member, which can easily be influenced by organizational culture. For example, the morale of organizational members can be influenced by organizational culture, thus leading to influences on their behaviors such as changing their motivation to innovate.

Furthermore, national cultural distance can prompt learning because differences in beliefs, values, and practices have the potential to promote learning and innovation (Vermeulen & Barkema, 2001; Ahammad et al., 2015).

**Impact on psychological states of individuals:**

Organizational culture is the environment or context where organizational activities are conducted by individual members or their groups. The psychological states of these members will unavoidably be influenced by organizational culture. The scholars have proposed many psychological measures such as employee (job) satisfaction (Weiss et al., 1967), organizational commitment (Meyer and Allen, 1991; Meyer et al., 2002; Meyer et al., 2012), and psychological empowerment (Spreitzer, 1995).

Employee satisfaction has been widely examined for its obvious relationship with organizational culture. Denison and Mishra (1995) found the relationship between culture traits and employee satisfaction and this relationship is further investigated in Russian cases (Fey & Denison, 2003). Lund (2003) made an empirical study of the impact of organizational culture types on job satisfaction in a survey of marketing professionals in the American firms. Organizational culture was a predictor of employee satisfaction (Bellou, 2010). Lim (2010) found that there was a positive relationship between learning organization culture and job satisfaction and furthermore they were also related to organizational commitment. Empowerment can be influenced by organizational culture (Foster-Fishman, & Keys, 1997; Appelbaum et al., 1999) and can have an effect on job satisfaction (Pelit, 2013).

**DISCUSSION**

Organizational culture has an impact on organizational performance, directly by reducing information processing and transaction cost, or indirectly by influencing other organizational factors or activities which can have direct or indirect effects on organizational performance. Business paradigm is shifting more to humanism. Considered as software of the mind, organizational culture really complies with this shift that focuses more on human beings.

New features have emerged in organizations. The work environment is getting more and more flexible and the border line between life and work is getting more ambiguous, thus leading to a more flexible or virtual organization. Organizational culture needs to change and to adapt to this trend. More human involvement should be considered.

Some great impacts are also from internet penetration. Everyone can easily get on line and express his/her own opinions. Social media applications and big data techniques provide a new way to probe the psychological states of individuals. Not only can we measure organizational culture by using big data analysis, but also the underlying concepts or assumptions at the individual level can possibly be gauged with more precision.

**REFERENCES**


ORIGINAL ARTICLE


