Linking organizational culture with firm financial performance: A literature review

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ABSTRACT

Organizational culture and firm performance are some of the most researched topics in management because of their importance to organizations. Many studies have explored the relationship between organizational culture and firm performance. The aim of the study is to link organizational culture and firm financial performance and this link was explained by conducting a literature review. The paper investigated the linking organizational culture and financial performance and found that there are different types of organizational cultures and all of them affect the performance of organizations.

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Introduction

In 21st century, business organizations are facing a lot of competition both at home and global level. This competition has an impact on the performance of the organizations. One of the ways companies can survive in this competition is through creativity and innovativeness. However, the creativity and innovativeness of the organization depends on the organizational culture of the company. Organizational culture has been defined as “set of values, norms, guiding beliefs, and understandings that is shared by members of an organization and taught to new members as the correct way to think, feel, and behave” (Daft R. L., 2010).

Organizational culture has been categorized into observable and underlying. The observable culture includes symbols, slogans, dress, behaviors while on the other hand, the underlying culture includes beliefs, attitudes and feelings. Besides these two levels there are four types of organizational culture and each affects the performance of the organization. The first one is mission culture which focuses on specific goals such as market share, profitability (Daft R. L., 2010). This type of organizational culture is suitable when the company is not operating in dynamic environment. A company with such type of culture cannot operate in dynamic environment where changes are rapid as its sales and profit will go down.

There is also a clan culture which focuses on employee satisfaction and focuses on rapid external environment. This culture enables employees to be creative and serve the customers well hence better financial performance of the organization. The other culture is bureaucratic culture which focuses on procedures to do work. This type of culture is rigid and not suitable for dynamic environment. It also discourages innovation and creativity and can impact the financial performance of the firm. The other type of culture visible in organizations is adaptability culture which focuses on external environment and risk-taking measures while meeting customer needs (Daft R. L., 2010). Firm performance has also been described as the achievement of organizational goals such financial, market share, and workforce satisfaction etc. The aim of the study was to explain the link between organizational culture and firm financial performance and in order to explain the link between organizational culture and firm financial performance a literature review was conducted.

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Literature Review

Pro Many studies have established the link between organizational culture and financial performance of firms. A study consisting of CEOs and CFOs of firms in north America found that more 90% of the firm executives consider culture as an important factor (Zhao, Teng, & Wu, 2018). Studies such as (Ahmed, 1998) and (Abu-Jarad, 2010) have suggested that organizational culture has link with organizational performance and effectiveness of the organization. Organization culture can be competitive advantage when utilized well and it is very hard to imitate (Barney, 1986). Organizational culture takes different forms depending on the country of origin and the nature of the company. For example, Google is considered as innovative company and that has a lot to do with the company's culture. Although there are different cultures in organizations and countries one cannot conclude that a certain culture is superior than the other. However, different organizational cultures may financially impact on organizational performance. There are many ways organizational culture impacts firms such as efficiency, coordination and control (Jacobs, et al. 2013).

Organizational culture is very important for effective functioning and performance of organizations (Yesil & Kaya, 2012). Many studies have demonstrated the link between organizational culture and performance. This study looks at both theoretical and empirical evidence linking organizational culture and firm financial performance.

Organizational culture

The concept of organizational culture dates back to history and it became popular in Japanese management style (Cui Xiaoming, 2012). There is no agreed definition of organizational culture among researchers but this study will adopt (Daft R. L., 2010) definition of organization culture which defined organizational culture as "set of values, norms, guiding beliefs, and understandings that is shared by members of an organization and taught to new members as the correct way to think, feel, and behave" (Daft R. L., 2010). Others have defined organizational culture as " a system of shared norms and values and a set of common practices in an organization" (Reichers, 1990). Also (Armstrong, 2006) defined organizational culture as "the pattern of values, norms, beliefs, attitudes and assumptions that may not have been articulated but shape the ways in which people in organizations behave and things get done". Organizational culture was also defined as "something that is holistic, holistically determined by (founders or leaders) related to things anthropologists study (like rituals and symbols), socially constructed (created and preserved by the group of people who together form the organization), soft, and difficult to change" (Cui Xiaoming, 2012) noted that there are some basic constructs agreed upon in defining organizational culture such as assumptions, shared values, beliefs and norms.

Organizational culture affect both the employees and the organizations (Abu-Jarad, 2010). organizational culture affects employees through various ways such as behavior, learning and development (Bollinger, 2001). organizational culture also affects the creativity, innovation and knowledge in the organization (Martins, 2003) and (Tseng, 2010). As illustrated in figure 1 below different organizational culture is fit for different situation and environment.

Fig. 1: Types of organizational culture; *Source:* Daft (2012)

Organizational performance

The most important factor in organizational operation is how to perform well in any given environment. There is no clear-cut definition of organizational performance agreed among researchers (Abu-Jarad, 2010). according to Javier (2002) the performance of the organizations is the efficiency and effectiveness of the organizational activities of the firm (Abu-Jarad, 2010). On the other hand, (Daft R. , 2002) defined organizational performance as the ability of the organization to efficiently and effectively use its resources to reach it goals. (Ricardo, 2001) defined organizational performance as the ability of the organization to achieve its goals and objectives.

Table 1: Reviews on selected papers

Author	Subject	Components	Approach/Method	Major Findings
Zhao, Hailin; Teng, Haimeng; Wu, Qiang(2018)	The effect of corporate on firm performance:Evidence from China	Corporate culture, firm performance	Secondary data collection from companies listed on shanghai stock exchange	Innovation and integrity do not have significant impact on firm performance but overall corporate culture has significant impact on firm performance
Abu-Jarad, et al .(2010)	A Review Paper on Organizational Culture and Organizational Performance	organizational culture, organizational performance	Theoretical approach	The definition of organizational culture and performance are not agreed among researchers. Organizational culture affects firm performance .
Rowena Jacob, et al.(2013)	Relationship between organizational culture and firm performance in acute hospitals	Organizational culture, hospital performance	Multinomial logit model	Efficiency tend to be higher in developmental culture and clan culture
Yesil, S. & Kaya, A.(2012)	The Effect of Organizational Culture on Firm Financial Performance: Evidence from a Developing Country	Organizational Culture, Firm Performance, Firm Financial Performance	Survey question was given to fifty-four managers in Gaziantep	Organizational culture affects firm's performance as a mediator factor through knowledge conversion and knowledge management
Martins, E. &Terblanche, F(2003)	Building organizational culture that stimulates creativity and innovation	Organizational culture, innovation, creativity, attitude	Literature review study	Factors such as strategy, organizational structure, support mechanism and behavior determine the innovation and creativity of the organization
Shu-Mei Tseng (2010)	The correlation between organizational culture and knowledge conversion on corporate performance	Organizational culture, Knowledge management, Business performance	survey method	In terms of knowledge conversion advocacy culture has the best development of knowledge and corporate performance. hierarchy culture is not suitable for knowledge conversion.
Samad, S., Alghafis, R., & Al-Zuman, A. (2018)	The Impact of Organizational Culture on Organizational Performance	Organizational culture and organizational performance	Survey method	Components of organizational culture such as involvement, consistency, adaptation and mission are very important in order to improve organizational performance
Winfred O. Goromonzi(2016)	Organizational Culture, Strategy Implementation and Commercial Bank Performance in Zimbabwe	Organizational Culture, Strategy Implementation, Organizational Performance	Focus group	Organizational culture and strategy implementation have impact on performance of commercial banks
Aketch E. Ng'ong'a, Margaret Oloko, Charles M. Rambo, George Orwa(2018)	Effect of Organizational Culture on Performance of Companies Listed in Nairobi Securities Exchange in Kenya	Organizational culture, Nairobi Securities Exchange	Cross sectional survey research	There is significant relationship between organizational culture and performance. Organizational culture affects the performance of companies list NSE

Organizational performance is divided into financial performance and non-financial performance. financial performance of an organization is measured by looking into variables such as return on asset(ROA), profitability, gross profit, return on investment (ROI), return on equity (ROE), market share, liquidity etc (Abu-Jarad, 2010). some studies found that organizational culture has no impact on firm performance while others found some relationship. (Yesil,S. & Kaya, A., 2012) found that organizational culture has no impact on firm performance. While (Samad, et al. 2013) concluded that organizational dimensions such as involvement, consistency, adaptation and mission are important to improve the performance of an organization. Corporate culture improves the efficiency by enabling control and coordination. (Barney, 1986) stated that corporate culture leads to sustainable comparative advantage. (Kotter J.P, 1992) noted that firms with strong corporate culture outperform.

Organizational culture and firm financial performance

The organization culture is from the major variables that affecting the organization performance, (Hansen, G.S. and Wernerfelt, 1989) concluded that there are two major factors playing the main role with the organization performance, these two factors are the external market factors which includes characteristics of the industry that the organization competing, the organization position relative to its competitors and the quality of the company resources. The second major factor is the internal organizational factors which includes human resources policies, organizational culture, and leadership styles. (Hansen, G.S. and Wernerfelt, 1989). This leads us to pay attention to the importance of the organizational culture as a major factor affecting the performance, in this section several types of organization culture and their effects on the financial performance will be discussed. Organizations culture can be assessed through many dimensions in this study the focus will be on two dimensions as: 1- The extent of the organization needs for flexibility or stability in the competition environment. 2- The extent of the organization's focus on external or internal factors and strengths (Mishra, 1995). Depending on these two factors the organizations culture can be classified to four categories as below:

Adaptability Culture and Financial Performance

Adaptability culture is where the organization allows the flexibility inside the work environment between the employees in order to encourage creativity and innovation for the benefit of the customer. The adaptability culture was defined by Hannan and Freeman as an organization's ability to stay active and intact through its life cycle (Hannan, M. T., & Freeman, J. H., 1977). The organization should promote flexibility, risk-taking, and trying new solutions and processes, to consider that the culture of this organization is adaptive culture. The effect of the adaptability culture on the firm financial performance can be studied by investigating the 'Google' case. Google is innovating new solutions, new services, new products all the time. This cannot happen without taking risk, adapting new ideas from the employees, ruling flexible rules and regulations internally. Engineers in Google spend 20% of their times working on their own ideas which means that the internal environment of the company provides a space for creativity within the organization, in the same time this will encourage the employees to feel like a partners with the organization, by this method the financial performance of the organization will be affected positively (Sara Kehaulani Goo, 2006). Google is applying this method as an adaptive culture inside the organization to provide the most useful experience and services for the customer, which is one of the methods to enhance the financial performance of the firm, in the market the customer is the core role player nowadays. So, if the company built an innovative culture that allows attracting new ideas and services from anyone in the company, mostly the financial performance will be affected positively as per several studies proving this method such as Google, Facebook and Microsoft etc.

Mission, Culture and Financial Performance

The mission culture means that all the operations within the organization are aligned with the mission of the organization, so all the employees' attitude and tasks should be toward achieving the mission of this organization even if this mission is related to the production, sales, financial performance or customer service, etc. Organizations driven by mission culture can be investigated through 'Zappos' case which is an online shoe and clothing retailer based in Las Vegas. This organization is enhancing its performance financially and operationally by aligning the entire organization around one mission which is "to provide the best customer service possible" and they call this as their "WOW philosophy". By this organization culture which is driven by the organization mission, they believe that this is the key driver of their growth financially (Kotter, 2011). In the mission culture organizations, the managers encouraging the employees by aligning them with the mission statement, and because of the stability of the environment they can convert the mission to measurable goals and targets, in return they are rewarding the employees with the bonuses and promotions based on performance not on the seniority. One study done on 83 large Canadian and American organizations found that the mission statements can affect financial performance, this done by studying two factors 1- commitment to the mission 2- the degree to which an organization aligns its internal structure, policies and procedures with its mission, these two factors were positively associated with the employee behavior (Bart et al., 2001).

Clan Culture and Financial Performance

Clan culture is different from other types of organization cultures by it focusing on meeting the needs of the employees as a method for high performance. By this way the employees feel more commitment to the organization, and they consider themselves as partners with the organization not employees. Companies in the fashion and retail industries mostly embrace this culture because it releases the creativity an. In a clan culture, employees trust each other and share knowledge with each other, because they believe that transferring knowledge between the organization members will improve the innovation environment within the organization (De Marchi, V., & Grandinetti, R, 2013). This type of culture can be investigated by Wegmans chain of supermarkets which adopting

this type of culture in their organization, they considered employee commitment and satisfaction is the key to success by investing heavily in employee development and training programs (Boyle, 2005)

Bureaucratic Culture and Financial Performance

Bureaucratic culture focuses on the methodical way to do the business, processes and internal transactions depend on a known steps and regulations, management nowadays prefer to shift from this type of organization culture because of a need for more flexibility and creativity within the organization. As an investigation for the relation between the financial performance and bureaucratic culture, Pacific Edge Software can be as a case study, they successfully adopted the bureaucratic culture to ensure that all the projects are aligned with the specified budget and timeline (Balu, R. 2000). The negative aspect of this type of organizational culture, that the processes and decision making taking a long process as the decision should pass through the management cascade from top senior executives to regional and departmental managers all the way down to supervisors who work alongside with the front-line employees.

Conclusions

In this theoretical research, four main types of organizational culture was studied; Adaptability culture, mission culture, clan culture and bureaucratic culture as well as their effects on the financial performance of the organization. Each type is different than the other by the management tools, work environment, and the processes within the organization. These types of cultures was classified as per the degree of flexibility and stability within the organization and as per the strategic focus and strength of the organization if it focuses internally or externally. The most flexible culture is the adaptability culture and the clan culture as they providing the most comfort work environment for the employees and they give great attention to employees through training and development and providing everything the employee needs. On the other hand, we have the mission culture and bureaucratic culture, which is considered as more stable cultures and their strategic focus is on the external which can be called as a customer driven organization. As a preliminary result, each type of these cultures can affect the financial performance in a different way, so at the end there is no preferred type more than the other, but each organization should choose the most suitable culture that aligns with the mission of this organization and the work environment. All of these types of cultures can affect the financial performance positively if they applied in the right way.

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