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A Study on Organizational Culture and Organizational Performance

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ABSTRACT
This review paper focuses on the definition and measurement of organizational culture and sheds the light on the important studies on the topic. It also sheds the light on the culture-performance literature. This review paper also sheds the light on the definition, conceptualization, and measurement of organizational performance. This review paper has also showed a number of studies that linked the relationship between organizational culture and the organizational performance. Although there is no consensus on the definition of organizational culture, most authors agreed that organizational/corporate culture referred to something that is holistic, historically 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.

Keyword
Financial Performance, Organizational Culture, Organizational Performance, Performance orientation.

1. INTRODUCTION
Culture is the ideas, customs, skills, arts, etc. of a given people in a given period. Astute managers have realized that any organization also has its own corporate culture. Moreover, social anthropologists are now as fascinated by corporate cultures as they once were by headhunting tribes in Borneo. This indicates the important role of corporate culture. Many researchers have found a positive relationship between the corporate culture and performance. Profitability is any organizational goal. One of the best places to start improvements is with an examination of the organization's work culture. He states that the strongest component of the work culture is the beliefs and attitudes of the employees. It is the people who make up the culture, he stated. For example, if these cultural norms contain beliefs such as, "Around here, nobody dares make waves" or, "Do just enough to get by and people will leave you alone," the organization's performance will reflect those beliefs. Moreover, if the cultural belief system contains positive approaches, such as, "Winners are rewarded here" or, "People really care if you do a good job in this outfit," that also will be reflected in the organization's performance[1]. An organization's cultural norms strongly affect all who are involved in the organization. Those norms are almost invisible, but if we would like to improve performance and profitability, norms are one of the first places to look. He is wondering what employee beliefs or attitudes; relate to the question, "How are things done in the organization?" He further tries to answer such a question by stating that knowing these attitudes and norms will make it possible to understand the corporate culture and its relationship to organizational performance. He further explains that the successful manager cannot leave the development of a high-performance work culture to chance if the business is not to risk its very future. Although many studies have found that different companies in different countries tend to emphasize on different objectives, the literature suggests financial profitability and growth to be the most common measures of organizational performance. Profitability is the best indicator to identify whether an organization is doing things right or not and hence profitability can be used as the primary measure of organizational success[2].

Profitability as the most common measure of performance in western companies. Profit margin, return on assets return on equity, and return on sales are considered to be the common measures of financial profitability. Sales, sales growth, net profit and gross profit were among the financial measures preferred by the Malaysian manufacturing firms. Profitability is any organizational goal. One of the best places to start improvements is with an examination of the organization's work culture. The strongest component of the work culture is the beliefs and attitudes of the employees. It is the people who make up the culture. For example, if these cultural norms contain beliefs such as, "Around here, nobody dares make waves" or, "Do just enough to get by and people will leave you alone," the organization's performance will reflect those beliefs. Moreover, if the cultural belief system contains positive approaches, such as, "Winners are rewarded here" or, "People really care if you do a good job in this outfit," that also will be reflected in the organization's performance[3]. Much of the meaning of organizational culture was well expressed, back in 1983, by a steelworker, who said "and that's the way things are around here". An organization's cultural norms strongly affect all who are involved in the organization. Those norms are almost invisible, but if we would like to improve performance and profitability, norms are one of the first places to look into.

As for the relationship between innovation and performance, such a relationship has been uncertain. Moreover, firms vary in the amount of inputs they devote to the innovation process. However, the dedication of more inputs to the innovation process does not guarantee innovation outcomes, since the process of developing innovation is complex and characterized by high risks. Moreover, if firms devote substantial resources to the innovation process, but are unable to turn them into innovative offerings, resources are squandered and firm performance suffers. Thus, is it necessary for housing developers in Malaysia to be innovative in order for them to sustain profitability and growth? Is it necessary to be innovative if innovation can experience failure, which will make innovators incur losses and hurt their image in the market? There is inconsistency in the literature regarding whether innovation leads to better performance or not.

This research will try to bridge such a gap. In fact, the literature on the impact of organizational culture on the performance seems inconsistent. For example, linked management practices in his studies with the underlying assumptions and beliefs that it was an important but often neglected step in the study of organization. He found that performance was a function of values and beliefs held by the members of the organization. He postulated that an organization that had a strong ‘culture’ was defined to be of widely ‘strong shared values among its employees’. The strength with which the cultural values were held among its employees was then taken to be the predictor of future organizational performance. This was usually measured financially. In a similar vein, a supporting evidence that a strong culture was predictive of short-term company performance[4].

1.1 Organizational Performance

One of the important questions in business has been why some organizations succeeded while others failed. Organization performance has been the most important issue for every organization be it profit or non-profit one. It has been very important for managers to know which factors influence an organization’s performance in order for them to take appropriate steps to initiate them. However, defining, conceptualizing, and measuring performance have not been an easy task. Researchers among themselves have different opinions and definitions of performance, which remains to be a contentious issue among organizational researchers. The central issue concerns with the appropriateness of various approaches to the concept utilization and measurement of organizational performance[5].

1.2 Definition of Organizational Performance

Researchers among themselves have different opinions of performance. Performance, in fact, continues to be a contentious issue among organizational researchers. For example, performance is equivalent to the famous 3Es (economy, efficiency, and effectiveness) of a certain program or activity. However, organizational performance is the organization’s ability to attain its goals by using resources in an efficient and effective manner. Organizational performance as the ability of the organization to achieve its goals and objectives. Organizational performance has suffered from not only a definition problem, but also from a conceptual problem[6]. A concept in modern management, organizational performance suffered from problems of conceptual clarity in a number of areas. The first was the area of definition while the second was that of measurement. The term performance was sometimes confused with productivity. There was a difference between performance and productivity. Productivity was a ratio depicting the volume of work completed in a given amount of time. Performance was a broader indicator that could include productivity as well as quality, consistency and other factors. In result oriented evaluation, productivity measures were typically considered[7].

1.3 Measurement of Organizational Performance

Previous research had used many variables to measure organizational performance. These variables include profitability, gross profit, return on asset (ROA), return on investment (ROI), return on equity (ROE), return on sale (ROS), revenue growth, market share, stock price, sales growth, export growth, liquidity and operational efficiency. Although the importance of organizational performance is widely recognized, there has been considerable debate about both issues of terminology and conceptual bases for performance measurement. No single measure of performance may fully explicate all aspects of the term financial measures enable researchers to construct trend analyses and benchmarking analyses. Perceptual sources include employee evaluations of organizational effectiveness or financial health and their overall level of satisfaction. These subjective assessments of performance frequently have been used in organizational theory to evaluate organizational effectiveness and overall employee satisfaction. Given the increasing pressure of organizations to satisfy multiple stakeholder groups, there is a need for more complex measures of organizational effectiveness in which overly simplistic single variable models are inadequate expressions of the real world, multi-goal existence of organizations. The success category comprises measures such as the manger’s belief that export contributes to a firm’s overall profitability and reputation. Satisfaction with the company’s export performance while the goal achievement refers to the manager’s assessment of performance compared to objectives. Finally, composite scales refer to measures that are based on overall scores of a variety of performance measures. Organizational performance is described as the extent to which the organization is able to meet the needs of its stakeholders and its own needs for survival. Hence, performance should not be wholly equated with certain profit margin, high market share, or having the best products, although they may be the result from fully achieving the description of performance. Organizational performance is influenced by multitude factors that are combined in unique ways to both enhance and detract performance[8].

1.4 Financial Performance

Firms’ performance is widely measured through the financial success of the organization. Financial stress for most profit-oriented firms can be assessed both in terms of “top-line” (e.g., sales) as well as “bottom-line” (e.g., profitability) measures. The profitability of an organization is an important financial indicator to reflect the efficiency of the organization and the owners/managers ability to increase sales while keeping the variable costs down. Profit margin, return on assets, return on equity, return on investment, and return on sales are considered to be the common measures of financial profitability[9].

The three consecutive years’ financial ratios (ROS, ROI and ROA) are averaged out and incorporated into a Business Performance Composite Index (BPCI) similar to the measurement used in the study. The BPCI is a common index used by researchers to measure profitability since it provides the complete measurement of firm’s profitability (i.e., combination of ROS, ROA and ROI). Hence, the use of BPCI could be the best measurement of profitability. Furthermore, the inclusion of the three financial ratios as components of BPCI provides a comprehensive and fair view of the firm’s financial performance as compared to using only one measurement alone such as ROS or ROA or ROI. ROS is derived by dividing net income of the fiscal year with total sales. ROA is derived by dividing net income of the fiscal year with debt and equity. ROA is derived by dividing net income of the fiscal year with total assets.

1.5 Non-Financial Performance

Besides financial indicators as an evaluation of firm’s performance in any industry, other industry-specific measures of effectiveness may also reflect the success of the organization. These measures include job satisfaction, organizational commitment, and employee turnover. Job satisfaction is defined as a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experiences. Similarly, job satisfaction as a general attitude toward one’s job; the amount of rewards received should at least be equal to the expected. However, job satisfaction is associated with five core dimensions: skill variety, task identity, task significance, autonomy, and feedback from the job itself in which leading to satisfaction with supervision, satisfaction with co-workers, satisfaction with work, satisfaction with pay, and satisfaction with promotion. Job satisfaction represents an attitude rather than a behavior, thus it has important implications on employees' physical and mental health that can affect firm's performance.

Hence, job satisfaction is a key determinant to demonstrate relationship to performance factors and value preferences in most of the organizational behavior researches. On the other hand, organizational commitment has been defined in many ways. Organizational commitment refers to the willingness to exert effort in order to accomplish the organizational goals and values, and a desire to maintain membership in that organization. The affective dimension of organizational commitment reflects the nature and quality of the linkage between an employee and management. Organizational commitment can thus be influenced through intrinsic incentives. Increased affective organizational commitment is essential to the retention of quality employees. Both job satisfaction and organizational commitment are in fact related to employees' turnover. Employees who are low in job satisfaction and organizational commitment tend to have low morale and less motivated. These employees will have the tendency to leave their employment, thereby increasing the turnover rate.

The purpose of the present study was to investigate the mediating role of employee's organizational commitment on the relationship between organizational culture and organizational performance. This study was descriptive and correlational research that was conducted through the survey method. The study population consisted of all employees in education office of Kerman province and 190 persons were selected as volume of sample by using Cochran's formula. The data gathering tools were organizational culture, organizational commitment, and organizational performance questionnaires. Descriptive and inferential statistics (structural equation modeling through path analysis) were used to analyze the data. The data was analyzed using SPSS and AMOS softwares. The findings of the research indicated that suggested model had appropriate fit and organizational culture beyond its direct impact exerted indirect impact on organizational performance through the mediation of employee's organizational commitment that the extent of indirect impact was significantly higher than direct impact[10].

2. DISCUSSION

Performance orientation dimension reflected the extent to which an organization encouraged and rewarded innovation, high standards and performance improvement. The dimension was rooted in the works of weber in the Protestant Ethic and the Spirit of Capitalism (where Weber tried to find the fundamental difference between the Catholics and Protestants and their approach to work and performance in the work place. Performance orientation is an important dimension of culture because it relates to the issue of external adaptation and internal integration. It is an internally consistent set of practices and values that had an impact on the way a society defined success in adapting to external challenges, and the way society managed interrelationships among its people. The concept of assertiveness originated (in part) from Hofstede's culture dimension of masculinity versus feminity. In masculine societies, men were supposed to be assertive and tough and women were expected to be modest and tender. In contrast, feminity pertained to societies in which social gender roles overlap. Assertiveness was an important culture dimension that was related both to issues of external adoption and especially to internal integration. It was an internal set of practices and values regarding the way in which people were seen to and ought to behave in relationships in group or community

3. CONCLUSION

In today's economy, firms are challenged to continuously offer a portfolio of innovative products and services. Despite the key role of portfolio innovativeness for corporate performance, firms differ in their focus on building innovation capabilities and generating innovation outcomes. Research of the link between organizational culture and performance had increased substantially during the past two decades. In the 1980s, there were 'obsessions' by researchers to focus on the Strong Theory- a search for strong shared values in organization which were supposed to result in performance for the organization. High performance firms could be distinguished from low performance firms because they possessed certain cultural traits and 'strong culture'. Similarly, organizational performance can be enhanced by strong shared values. 'A simple model' relating organizational culture to performance no longer fits- a more sophisticated understanding of the tie between culture and performance must be developed. In the 1990s, the "obsession" in testing the Theory of Adaptability however, found inconsistent results on the link between culture strengths and organizational performance.

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