

Organizational culture and firm effectiveness: An examination of relative effects of culture traits and the balanced culture hypothesis in an emerging economy

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Abstract

Efforts to delineate the performance implications of organizational culture elements continue. The study examines the effects of four major organizational culture traits, involvement, consistency, adaptability, and mission, on measures of firm effectiveness, using data collected from manufacturing firms in Turkey. It is hypothesized that each cultural trait will exert positive effects on overall firm performance and a wide variety of effectiveness measures, independently from the effects of others. In addition, the view that a balanced combination of the four traits yields superior firm performance than an imbalanced combination is subjected to empirical testing. The results indicate that the mission trait is the most prominent of the four traits in terms of fostering overall firm performance, sales growth, market share growth, and ROA. In addition, a firm's ability to develop successful new products is influenced primarily by the adaptability and consistency traits. Employee satisfaction is determined for the most part by the involvement trait. Finally, while imbalanced combinations of certain pairs of cultural traits exert the expected negative effects on performance indicators, others seem to have positive effects.

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1. Introduction

A growing research stream in organizational sciences views organizational culture as a principal aspect of an organization's functioning and a critical driver of effectiveness (e.g., Schein, 1983, 1984, 1985, 1992). Manifested in the shared fundamental beliefs and assumptions, values, attitudes, and behaviors of the organization's members, culture is theorized to be the prime factor (1) shaping organizational procedures

(Deal & Kennedy, 1982; Jarnagin & Slocum, 2007), (2) unifying organizational capabilities into a cohesive whole (Day, 1994), (3) providing solutions to the problems faced by the organization (Schein, 1984), and, thereby, (4) hindering or facilitating the organization's achievement of its goals (Denison, 1990). Furthermore, given its inherently "socially complex" and "causally ambiguous" nature, a comparative advantage gained through a culture-driven organizational capability is usually difficult to imitate, thus constituting a valuable source of sustained competitive advantage and superior performance (Barney, 1986; Hall, 1993; Peteraf, 1993; Wernerfelt, 1984).

Accordingly, researchers have presented empirical studies to characterize the organizational culture phenomenon and its impacts on organizational pro-

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cesses and outcomes, particularly on effectiveness (e.g., Carmeli & Tishler, 2004; Cooke & Rousseau, 1988; Denison & Mishra, 1995; Hofstede, Neuijen, Ohayr, & Sanders, 1990; Jermier, Slocum, Fry, & Gaines, 1991; O'Reilly, 1991; Powell & Dent-Micallef, 1997).¹ From a managerial standpoint, these efforts have produced valuable insights pertaining to the roles of specific cultural traits as predictors of effectiveness, drivers of organizational change, and bases of comparison between highly productive firms and less productive ones. The present study aims to extend and expand the state of knowledge in this emerging paradigm that links *organizational culture* elements with *effectiveness*. Specifically, we present evidence with regard to the following relatively under-researched areas.

First, note that, given the broad conceptualization of the construct of organizational culture, researchers have generally focused on a selected (and inevitably limited) set of cultural traits and examined their effects on (another, restricted set of) selected performance indicators. As Denison and Mishra (1995) assert, however, culture influences a wide variety of performance indicators through a multitude of mechanisms. In addition, each culture trait relate to specific measures of performance in its own unique way. Accordingly, to facilitate the development of a more general theory of organizational culture and effectiveness, we employ a *broader* set of culture traits in our research and examine their effects on *multiple* dimensions of effectiveness.

Second, in addition to the direct effects of specific culture traits, we investigate the impacts of putting excessive focus on some cultural traits and relatively less emphasis on others, that is, an imbalanced combination of critical culture traits, on organizational effectiveness. Culture theoreticians have repeatedly noted the paradoxical nature of organizational functioning and relevant cultural orientations (e.g., Cameron, 1986; Denison, 1990; Fisher, 1997; Quinn, 1988). This view suggests that, to compete effectively, all organizations face a number of contradictory challenges. Most notably, organizations need to simultaneously complement internal integration and coordination with external adaptability, attain a balanced composition of stability and flexibility, and blend top-down control with bottom-up involvement. Unless such paradoxical pressures are

managed with a *balanced* composition of pertinent cultural traits, the organization may easily become ineffective by attending “to one challenge or need exclusively to the point of dysfunction” (Denison, 1990; Cameron, 1986: p. 12). We investigate the viability of this “balanced culture” hypothesis.

And third, our research also responds to calls by many researchers (e.g., Denison, Haaland, & Goelzer, 2003a, 2003b) to investigate the organizational culture phenomenon in different cultural contexts, particularly in non-western nations. Research examining the extant theoretical postulates in a multitude of industries and different cultural contexts, and most importantly in emerging economies, is likely to improve our understanding of the global dimensions of the link between organizational culture and effectiveness. Our study presents evidence with regard to the organizational culture → effectiveness link using (multiple informant) data from 100 firms representing 18 major manufacturing industries in Turkey. Note that firms in Turkey operate in a volatile economy with highly unstable growth and inflation rates, and therefore different effectiveness outcomes from those reported previously can be expected in this particular empirical context.

Our empirical analyses are based on Denison's theory of organizational culture and effectiveness (Denison, 1990, 2000; Denison, Cho, and Young, 2000; Denison & Mishra, 1995; Denison & Neale, 1996). This framework focuses on four broadly defined cultural traits – involvement, consistency, adaptability, and mission – as key determinants of business performance. Using data from 1176 informants from the 100 sampled firms, we test the individual and combined effects of these four broad cultural traits on several dimensions of firm performance, i.e., financial performance indicators, market-based performance indicators, quality improvements, innovativeness, and employee satisfaction. Denison (2000) contends that the four major cultural traits of involvement, consistency, adaptability, and mission highlight major tensions or contradictions faced by modern organizations to perform effectively—most specifically, the trade-offs between stability and flexibility and between internal focus and external focus. We therefore turn our attention to the dynamic contradictions between the four traits next and examine the extent to which an imbalanced combination of these traits affects firm-level performance indicators. To these ends, we first provide a brief overview of Denison's model and develop rationales for our hypotheses. Next, we present the sampling, data collection, and analyses procedures employed in the study. Finally, we discuss the implications of our findings.

¹ These researchers have (either explicitly or implicitly) contended that the culture phenomenon is a measurable aspect of organizations that can be studied as a *variable with outcomes*, through both quantitative methods (e.g., surveys) and qualitative methods (e.g., in-depth interviews).

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