

# **Organizational Culture and Organization Performance: A Critical Review of Literature**

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## **Abstract**

*Different culture orientations influence organization performance in diverse ways. For instance, group culture dimension enhances teamwork among the members in the organization, while developmental culture enhances creativity and innovation thereby pushing an organization towards achieving parity with external environment. Part of existing research holds that the prevailing OC provides the necessary environment for QMPs to thrive and ensure success. The other part posits that QMPs may lead to changes in the culture of an organization. This thinking is fueled by the view that the quality management principle of continuous improvement may provide a compelling reason for an organization to continuously seek and practice quality improvement. In addition, the quality aspect of doing it right the first time requires inculcation by all members of an organization thereby affecting the overall culture orientation of an organization*

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## **I. Introduction**

Organization culture (OC) is identified as one of the contextual variables that affects the implementation and success of quality management practices ((Nguyen & Watanabe, 2017; Stauffer & Maxwell, 2020; Toding & Madjid, 2017; Yusuf, 2020) Cultural values are deemed important because they shape the mindset of organization's members and unconsciously affect their routine work (Hashim et al., 2019; Lee et al., 2018; Nusari et al., 2018; Santti et al., 2018; Syaifullah, 2017). Different organizations possess particular cultures that make them distinctive (Kanyuira & Kibuthu, 2020). OC is an intangible resource that is difficult for competitors to imitate hence not easily transferable among organizations (Lehman, 2017). It is also recognized as an important internal resource that leads to customer satisfaction (Hashim et al., 2019).

Establishment of cultural values in an organization is propagated mostly by leadership styles and values held by managers and top leaders (Lehman, 2017). Leadership roles together with success definition are aspects of QMPs that play an important role in determining the extent to which organization members adopt the same practices and beliefs. Most failures relating to the implementation of a quality initiative cited in literature are attributable to disconnect between existing OC and a quality program being launched (Aziz et al., 2021; Imran et al., 2021; Jepkemboi et al., 2016; Stauffer & Maxwell, 2020). Consequently, it can be concluded that QMPs and OC are interdependent in that quality management practices may dictate the adoption of particular cultural values by organization members. But for QMPs to thrive and ensure success, then a supportive culture should prevail (Yusuf, 2020).

## **II. Organization Culture**

An organization according to (Tohirin, Hamdi , Buldan, Edy , Suandi Hamid, Jaka , Sriyana, 2021) is an arrangement of social groups created to serve some given objectives. Culture is a way of life and describes the behavioral characteristic of members of an organization distinct from others (Aziz et al., 2021; Imran et al., 2021). The foundations of culture are values and assumptions that manifest through practices of organization members (Hashim et al., 2019; Santti et al., 2018). Organizational culture (OC) refers to the mindset of an organization comprising of belief systems, values and attitudes expected to shape the conduct and interactions among the members (Iacob, 2020; Kanyuira & Kibuthu, 2020). OC is profiled in many ways such as through the domineering style of leadership, success definition, role models, language use, dress codes, hairstyles, flags, exchange of greetings and religious ceremonies.

Leadership plays a critical role in influencing the adaptive behavior and reactions of organization members through various ways such as recognition systems and upheld assumptions that eventually permeate the entire organization. Different types of organizational cultures and models are identifiable among extant literature and include competing values framework, Hofstede's cultural dimensions framework and organization culture profile. Competing values framework (CVF) is a model initially developed to study value differences among organization models (Cera & Kusaku, 2020; Kumar & Siva Kumar, 2018). The model focuses on the

conflicts intrinsic in any organization system. Primarily, it focuses on the conflict between the orientations of stability and flexibility of operations as well as internal and external environment.

Stability defines control and order within an organization whereas flexibility relates to creativity and dynamism in response to environmental changes. Internal focus is concerned with people, processes, plants and products within an organization while external defines orientations and interactions with the external environment. Out of the culture dimensions, (Rehmani et al., 2020) identified different types of organization cultures namely, group, developmental, hierarchical and rational cultures. Group or clan culture emphasizes on human collaboration within an internal environment while maintaining a focus on flexibility and change. This culture type seeks to develop a sense of belonging among organization members, encouraging participation and trust among them with an ultimate aim of achieving teamwork.

Development culture or adhocratic culture focuses on change and flexibility in tandem with external environment with an aim of achieving growth, creativity and resource acquisition. Under this type, organization leaders and top managers offer support by developing a unifying vision, providing entrepreneurship skills and engaging in risk taking activities. The emphasis of a rational culture is on productivity, performance and goal attainment through well defined objectives. Under this type, leaders offer sense of direction by developing goals, providing necessary structures as well as encouraging productivity of members. Hierarchical culture on the other hand, is oriented towards stability within an organization. This type is characterized by rules, regulations and standards with the aim of achieving efficiency, control and standardization.

Organization culture profile (OCP) is a framework developed by (Cera & Kusaku, 2020; Kumar & Siva Kumar, 2018) to assess interactions among persons and organizations. It contains statements of individuals and organizations attributes and cultures developed through extensive research (Quy, 2018). Such attributes include trust, flexibility, adaptability, predictability, risk-taking, attention to details, problem solving, teamwork, innovation and outcome orientation. Hofstede's culture dimension framework was developed by Greet Hofstede to explain observed differences among cross cultures and organizations (Kanyuira & Kibuthu, 2020; Menesha, 2020). At organization level, Hofstede enlisted six cultural dimensions related to variations in practices of organization.

Result versus process oriented cultures focus on the outcome of the results, methods and procedures used. Employee culture dimension emphasizes on organizational teamwork while job oriented culture focuses solely on individualistic performance. While parochial dimension is concerned with employees deriving their identities from their respective organizations, professional culture holds that employees' identities emanate from their own profession. Open system concerns the ease with which outsiders are admitted to the organization whereas closed system focuses on the internal communication. Normative versus pragmatic styles relate to the degree of flexibility or rigidity in carrying out organization activities. While, loose against tight culture orientation relate to the extent of relaxation or tightness of control measures instilled in an organization (Jacob, 2020).

### **III. Organization Performance**

The term performance in an organization context refers to a way operations are undertaken. Performance is a dependent variable that seeks to measure the value created by an organization so as to evaluate and compare itself with others in the market. According to (Cera & Kusaku, 2020), organization performance (OP) is a multi dimensional concept, which entails the use of different measures to represent the results of activities in an organization. The essence of organizational performance is to help an organization in managing its own resources as well as creating value that eventually will lead to customer satisfaction. Unique situational factors existing in an organization make it difficult to generalize performance of different organizations (Asih et al., 2021).

There is tendency among existing literature to classify aspects of organizational performance broadly as qualitative and quantitative measures. Quantitative measures use financial indicators such as return on investment, revenue on sales, profit measures, return on assets and net profits (Cera & Kusaku, 2020; Kumar & Siva Kumar, 2018). While, qualitative performance include the non financial measures indicated by quality performance, market performance, investment in R&D, customer satisfaction, innovation and human resource (Jacob, 2020; Kanyuira & Kibuthu, 2020; Menesha, 2020).

### **IV. Contingency Theory**

Contingency theory presents that organizations seeking competitiveness should maintain a balance between internal operations and external environment (Husin & Oktaresa, 2018). Environmental uncertainties and high competitive levels are external environmental factors that are likely to affect business activities. Internal operations of a firm result from resources and capabilities. Resources are inputs to the activities carried out by a firm while capability is the ability of an organization to utilize the resources to generate superior performance (Bantugan, 2021). Contingency theory advocates that situations outside the normal planning and

control of management are likely to affect the routine practices of an organization, therefore managers should incorporate such unanticipated occurrences in their plans (Naidu et al., 2021).

Existing literature is replete with studies on the correlation between quality improvement and external environment. For instance, (Lamprey & Singh, 2018) established that the developmental culture type is the most prominent culture type that supports the implementation of the soft quality management practices. In addition, firms that adopt developmental culture report an increase in organizational performance ((Husin & Oktaresa, 2018). Developmental culture dimension seeks to attain flexible operations within an organization while achieving parity with external environment. Contingency theory is useful in explaining the relationships among QMPs, OC and organization performance. This is because maintaining a balanced focus between internal factors such as organization culture and strategy formulation manifested through quality initiatives and the changes in the external environment enable organizations to realize their objectives (Cheng & Fisk, 2021).

## **V. Organizational Culture and Organization Performance**

Most of the existing researches on organizational culture (OC) generally focus on the content and strength as the key aspects of culture (Filho et al., 2021). Whereas, culture content is manifested through beliefs, attitudes and actions portrayed by members in an organization, the strength of culture is demonstrated by the extent to which culture content is entrenched among organization members (Stauffer & Maxwell, 2020). According to Sorensen (2002), both culture strength and content are paramount in the achievement of organization performance goals. (Hashim et al., 2019) posited that strong cultures are necessary for superior performance because they enhance consistency in organization. Commitment by organizations in creating unique, complex and strong cultures that drive members' behavior towards achieving higher performance is paramount in attainment of firm's goals (Quy, 2018).

Organizational culture is identified in extant literature as having positive associations with organizational performance (Jahya et al., 2020; Stauffer & Maxwell, 2020; Yusuf, 2020). These studies underscore the important role that OC plays in pursuing different competitive performance priorities. A study conducted by Odhiambo (2014) on performance of microfinance institutions in Kenya, revealed a positive association between OC and the non-financial measures of performance. Prajogo and McDermott (2011) conducted a study among Australian firms to examine the culture type that affect performance at the operational level. They found out that developmental culture ranked the highest in relating positively with higher performance.

A study conducted by Mathew (2007) on OC and productivity, reveals that artifacts of organizational culture like external ambience, gymnasium, food and basketball courts enhanced productivity in software organizations. The researchers explained that the artifacts provided members with refreshing atmosphere given nature of the intellectual work they were involved in. Apart from the direct impact of OC on OP, indirect relationship also exists through mediating variables. Naor et al. (2008) revealed that OC imparted on organization performance indirectly through QMPs. Hence, based on the existing literature it can be concluded that existing OC enhances performance of organizations.

## **VI. Summary and Research Gaps**

From the existing literature review, QMPs and OC are generally categorized as essential internal resources of an organization that independently can lead to increase in performance. When implemented, QMPs are expected to improve the quality of output by improving the efficiency of processes, reducing errors, enhancing timely operations and response. While, an existing culture of an organization is paramount in attainment of goals, implementation and sustainability of various strategies. The study therefore supports the RBV, which advocates that organizations can attain competitiveness by developing sustainable strategies from their own internal resources.

It is evident from the extant research that implementing QMPs lead to increase in performance despite a few exceptions. These exceptions stem from how each specific dimension of quality management practice relate with different types of performance. Some researchers posit that all QMPs have direct positive relationship with organization performance. While others put forth that some mediating variables exist to influence the relationship between QMPs and firm performance. Furthermore, part of the existing literature shows that only soft QMPs drive organization's performance while the hard components do not (Naor et al., 2008). A contrary opinion suggests that the hard factors also drive the performance of a firm. For instance, Zu (2009) concluded that the hard QMPs drove the performance of manufacturing firms while the soft QMPs only had an indirect effect through the hard factors.

Despite the arguments for positive association between hard QMPs and performance, more conflicting information can still be detected. According to Parvadavardini et al. (2016), the hard components used in the study were positively associated with quality performance of the organization. But according to Baird et al. (2011), the same hard components showed an indirect relationship with quality performance. Which begs the

question; how can the same dimensions of QMPs show differing relationship on the same performance measure? Many other researchers show that QMPs have a positive influence on the financial performance of a firm while others hold that only an indirect relationship can exist between financial performance and QMPs. To this end, existing literature on the relationship between QMPs and organization performance is palpably inconsistent. How do researchers on one hand claim that some of the QMPs influence firm performance, while on the other hand others hold that all dimensions of QMPs drive performance? Possible reasons for these inconsistencies stem from lack of consensus on the elements that comprise the soft and hard dimensions of QMPs and the diverse methods of data analysis used by researchers.

Two schools of thought emerge on the relationship between QMPs and OC. On one side, some studies support organization culture as an antecedent variable to the implementation and success of QMPs. In this case, the prevailing OC provides a conducive environment for QMPs to be effected. On the other side, some researchers argue that QMPs being routine practices undertaken by organization members may drive the changes in organization culture. Most organizations seek to do things right the first time so as to minimize process errors. This together with continuous improvement agenda may force an organization to espouse certain cultural values and practices thereby, affecting the existing cultural orientation. Leadership and top management support are also key pillars in sustaining the culture of an organization. Group culture orientation is cited among extant literature as dominant in offering the necessary impetus for the implementation and success of QMPs, while developmental culture is noted as supporting the improvement in firm performance. Thus, in line with the contingency theory, this study supports that a fit between external and internal environment should be ensured in order for a firm to realize its objectives and competitiveness.

A juxtapose of the forgoing discussions reveal many gaps and raise many questions. How do QMPs relate to different measures of performance? Which dimension of QMPs is critical in yielding superior organizational performance? In general, existing literature strongly agree that both QMPs and OC enhance performance of a firm but how each of these variables is related to performance is confusing. For instance, while some researchers put forth that QMPs affect firm's performance directly without the influence of organization culture, others hold a contrary opinion that OC constrains the implementation of QMPs. Thus, suggesting a mediating role of OC in the QMPs organizational performance relationship. A further study therefore, should suffice to answer above questions and fill the existing gaps.

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