



Research Summary Number 6

Organizational Culture and Bottom-Line Performance

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Abstract:

Together these studies examine the existence of cultural traits that affect organizational effectiveness. These studies also examine the actual impact of these cultural traits on performance measures such as return-on-assets, return-on-investment, quality, sales growth, employee satisfaction and profits.

Organizational Culture and Bottom-Line Performance

Question # 1: Do organizations manifest traits that relate to performance effectiveness?

Results: Four organizational traits emerged from the five case studies. (See Figure 1.) The identification of Involvement confirmed an earlier research project (Denison, 1984) which established a clear link between level of employee involvement/participation and return-on-sales and return-on-investment. A second trait, Consistency, related to the level of integration and coordination among an organization's systems, processes, and structures. A third trait, Adaptability, represented an organization's capacity for internal changes in response to changing external conditions. Mission, the fourth identified trait, related to an organization's capacity for long-term vision, direction and strategy as well as for short-term objectives and goals.

Conclusions: Culture traits within organizations do affect organizational effectiveness and can be organized into an integrated theoretical model. Figure 1 presents the model and focuses on two significant organizational contrasts. The first is the capacity for an external/market focus vs. an internal focus. The second is flexibility, the ability respond to a changing business environment versus providing stable/predictable business systems.

Strength in the culture traits of Adaptability and Involvement reflects a capacity for change and flexibility. Strength in Mission and Consistency reflects an orientation toward organizational stability and direction. Looking at other pairings,

when Adaptability and Mission are strong, the organization has an external/market orientation, while high scores in Involvement and Consistency represent an internal focus within the organization.

Figure 1. Theoretical Model of Cultural Traits

External Focus	Adaptability	Mission
Internal Focus	Involvement	Consistency
	Change & Flexibility	Stability & Direction

The Analytical Process

The data for this research summary came from two related studies. The first was a qualitative case study involving five companies: Medtronic, People Express Airline, Detroit Edison Utility Company, Procter & Gamble and Texas Commerce Bancshares. The second study involved a quantitative analysis of data collected by surveys completed in 764 organizations. The organization sample was drawn from five industry groups: manufacturing, business services, finance/insurance/real estate, retail and wholesale.

A qualitative case study of five organizations looked for cultural dynamics that might relate to organizational effectiveness. This study built on earlier research that showed a clear link between employee involvement and organizational

performance (Denison, 1984). Preliminary analysis included a review of annual reports, popular press, business histories and 40 interviews with knowledgeable company outsiders, including researchers, journalists, consultants and former employees. To gather primary data, interviews were conducted with 40 to 100 employees in each company. The second study looked for a link between the culture dynamics identified in the first study and organizational effectiveness. Effectiveness was defined by subjective measures that included sales growth, profits, product or service quality, employee satisfaction and overall performance as well as by objective measures of sales growth and return-on-assets. A correlation matrix between the culture traits and the subjective and objective measures of effectiveness was created.

Question # 2: What is the actual link between these four organizational culture traits and organizational effectiveness?

Results: Table 1 presents the coefficients measuring the correlation between the four culture traits and both subjective and objective measures of organizational effectiveness. The subjective measures came from employee interviews. The objective measures were derived from organizational materials including annual reports. These correlation coefficients are all positive primarily in the low to moderate range. Involvement correlates most strongly with Employee Satisfaction, Quality and Sales Growth. Consistency correlates with Quality, Employee Satisfaction, Overall Performance, and ROA. Adaptability has its strongest correlation with Sales Growth. Of the four traits, Mission has the strongest correlation with the effectiveness measures. Mission correlates moderately with Overall Performance and more strongly with ROA.

Conclusions: Referring to Figures 1 and 2, it appears that culture traits with an internal focus (Involvement and Consistency) correlate more strongly with Quality and Employee Satisfaction than do culture traits with an external focus. The externally-focused traits (Adaptability and Mission) correlate most strongly with Sales Growth. The traits driven by stability and direction (Consistency and Mission) have strong correlation with Overall Performance and ROA.

Table 1. Correlation of Culture Traits and Effectiveness Measures

Culture Traits	Subjective Measures			Objective Measures	
	Quality	Employee Satisfaction	Overall Performance	ROA 3-Year Average	Sales Growth 3-Year Average
Involvement	0.26	0.32	0.16	0.23	0.25
Consistency	0.29	0.33	0.29	0.31	0.18
Adaptability	0.20	0.21	0.18	0.22	0.24
Mission	0.18	0.27	0.35	0.55	0.22

Figure 2. Relationship Between Cultural Traits and Business Performance Indicators

Sales Growth (External Focus)	Adaptability	Mission
	Involvement	Consistency
Employee Satisfaction and Quality		ROA and Overall Performance (Stability & Direction)

In summary, it appears that the internally-focused traits (Involvement and Consistency) are the strongest predictors of Quality and Employee Satisfaction. The cultural traits driven by stability and direction (Mission and Consistency) are the strongest predictors of financial and overall performance. The Mission trait is the single strongest indicator of financial effectiveness.

Resources:

Denison, D. R. (1984), "Bringing Corporate Culture to the Bottom Line," *Organization Dynamics*, 13, 2, pp. 2-22.

Denison, D. R. & Mishra, A. K. (1995), "Toward a Theory of Organizational Culture and Effectiveness," *Organization Science*, 6, 2, pp. 204-223.

Questions Raised by the Analysis:

- Can the four culture traits be identified more specifically?
- Do the connections between culture and performance vary between industries?
- What is the link between the four culture traits and the actual culture of an organization?
- Why are the cultural traits stronger predictors of performance in larger organizations?

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