The Impacts of Corporate Culture on Organizational Performance

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Abstract: - In the global economy, enterprises are facing a changing environment. An enterprise has to create its own unique culture in order to succeed and be sustainable in a multi-culture age. It is important for an enterprise to create its own culture which can be fitted into its industry, corporate strategies and objectives. A leader can build an organization with high performance through the creation of the corporate culture. The corporate culture can not only explain the quality of operation in a company, but also the tool for a leader to manage. Through the shaping and the change of corporate cultures, an organization can become more effective. The culture plays an important role in the performance of an organization. In this research, we investigated the impacts of the corporate culture on organizational performance based on questionnaires. Our participants were from Southern Science Park, Taiwan. The results showed that the bureaucratic culture, which requires standardized operations and procedures, can have positive impacts on all the indices of organizational performance. By contrast, the innovative, supportive and effective cultures only have positive impacts on part of indices of organizational performance.

Key-Words: Corporate Culture, Organizational Performance, Human Resources, Performance Appraisal

1 Introduction

The corporate culture will influence the performance of the organization [3]. Top enterprises have their own unique cultures, which will shape employees’ behavior, thereby raising the performance of organizations [11]. Because of the effects of corporate culture on the performance of the organization, it is expected that, when the corporate strategies are in line with the corporate culture, it will be easier for the organization to be successful. It has been shown that the corporate culture can help an organization achieve the following: guiding employees’ activities and assist newcomers’ training so as to achieve the target of the company [6]. It has also been shown that the corporate culture which encourages learning, participation of employees, shared power and cooperation will encourage creativity and improve performance of the company [9].

Regarding the correlations of the corporate culture and the corporate strategies with the development of human resources and the corporate performance, it has been found that the creative culture produced the best corporate performance, and the bureaucratic culture produced the lowest corporate performance [10]. In a study of five small and medium enterprises regarding leadership, learning organization, corporate culture and corporate performance, the results showed that the culture which encourages creativity, allows employees to make mistakes, emphasizes self-discipline and independence had positive impacts on the performance [7]. Another study also showed that, when the corporate culture tended to be flexible and open-minded, the performance of human resources were better [8]. If the company encourages employees to be active in being creative and independent, employees will have higher job satisfaction, higher productivity and higher morale, therefore higher performance.

In sum, it can be noticed that the corporate culture can influence the behavior, attitudes, performance and values of employees, thereby affecting the corporate performance. Since the corporate culture is an abstract concept which is not easy to be grasped, it may be understood through the
categorization of different corporate cultures. However, it is rare that a company only has one type of culture; it is more often that an organization is the composite of different culture. Different types of culture will influence the composition of employees and the policy and management of an organization; therefore, there is a correlation between different types of culture and the corporate performance. Based on the above discussion, the purpose of this research is to explore the impacts of different corporate cultures on the corporate performance.

2 Literature Review

2.1 The Performance of an Organization

The index of organizational performance is a measure of the achievement of an organization in terms of the action towards the target. Before 1980, the financial performance is the main concern of the performance appraisal. Therefore, the focus is on the improvement of profit, effectiveness and efficiency. In order to avoid the incompleteness of the financial indices, we also added other types of indices in our research.

There have been two perspectives of performance appraisal of concern: (1) financial indices: the overall performance of a company, the growth rate of the profit, return on investment, the growth rate of turnover, and sales profits; (2) performance of human resources: morale, employee turnover, employees’ productivity.

In the research on human-resources management and organizational performance, the following indices have been applied: share price, profit, sales volume, customers’ satisfaction, productivity and quality of products. It has been pointed out that the selection of those indices depends on the level of units under analysis. For example, on the business level, it is more appropriate to use the capital market approach than to apply the accounting approach [1].

Another set of indices has been used as follows: (1) outputs of human resources: the rate of absence, turnover, the performance of an individual and the performance of a group; (2) outputs of an organization: productivity, quality and services; (3) outputs of finance and accounting: return on assets and return on investment, etc. [5].

Based on the above review, the following indices were applied in our research: (1) the business objectives, (2) productivity, (3) profit and (4) competitive advantage.

2.2 The Corporate Culture

Each individual has his or her own unique characteristics and styles of handling business. Different companies have their own unique cultures as well, which shape their operations. The corporate culture is a set of values, beliefs and behavioral patterns, which forms the core of an organization [3]. A corporate culture can also be treated as a system of shared activities, values and beliefs developed by the members of an organization, which guides the interaction between the members of the organization [2].

We used the following categorization of corporate cultures in our research [12]:

(1) Bureaucratic culture: the duties of each post have been defined clearly and the jobs have been standardized. This culture is usually built upon the basis of control and power. Usually, this type of enterprise is more mature, stable and conservative.

(2) Innovative culture: the organization usually faces a complex, competitive and dynamic environment. In this environment, it is easier for a person who has an entrepreneurial spirit and ambition to be successful. People who are in this culture will be encouraged to be more creative and adventurous. It is a culture allowing employees to take risks.

(3) Supportive culture: the working environment is more open and in harmony. There exist high degree of support, fairness, encouragement, openness and trust. It is an environment emphasizing the interpersonal relationships.

(4) Effective culture: in this environment, effectiveness, control of costs and achieving targets are the main emphasis.

3 Methods

3.1 Research Hypothesis

The structure of our research is shown in Fig 1:

Fig 1. The structure of research.

Our research hypothesis is that there is a positive correlation between the corporate culture and the performance of an organization.
3.2 Design

3.2.1 Participants
Our data collection was based on questionnaires. The participants were from the enterprises in the Southern Science Park, Taiwan. They are mainly the owners, higher rank managers and expatriates. The total number of questionnaires sent was 300 and the number of companies participating this research was about 20. The industries included integrated circuit industry, computer and its accessory industry, telecommunications industry, optical industry, precision machinery industry.

We sent out the questionnaires in January, 2008 and received 159 copies of returned questionnaires in April. There were 8 copies of invalid questionnaires and 151 copies of valid questionnaires. The return rate was 50.3%.

3.2.2 Questionnaires
The independent variables were the corporate cultures; the dependent variables were the indices of the organization performance. We used Likert scale (5 points) as measurement. The analysis of the reliability of questionnaires was shown in the following tables.

(1) The Scale of Corporate Cultures
Derived from literatures, we used 12 questions to distill 4 factors regarding the types of corporate cultures. For each category, the Cronbach’s α is as follows: (1) bureaucratic culture (0.872), (2) innovative culture (0.809), (3) supportive culture (0.817) and (4) efficient culture (0.715). We applied principal component analysis (PCA) with oblique rotation. The explained variance was 74.41%. The result is shown in Table 1:

<table>
<thead>
<tr>
<th>Items</th>
<th>Average</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete policy</td>
<td>3.75</td>
<td>0.039</td>
</tr>
<tr>
<td>Clear hierarchy</td>
<td>2.78</td>
<td>0.711</td>
</tr>
<tr>
<td>Orientation of power</td>
<td>3.65</td>
<td>0.655</td>
</tr>
<tr>
<td>Enthusiastic environment</td>
<td>3.70</td>
<td>0.516</td>
</tr>
<tr>
<td>Employees’ spirit of adventure</td>
<td>3.72</td>
<td>0.521</td>
</tr>
<tr>
<td>Accepting new ideas</td>
<td>3.74</td>
<td>0.585</td>
</tr>
<tr>
<td>Being innovative</td>
<td>3.86</td>
<td>0.684</td>
</tr>
<tr>
<td>Encouragement and rewards to employees</td>
<td>3.67</td>
<td>0.650</td>
</tr>
<tr>
<td>Giving autonomy and freedom</td>
<td>3.57</td>
<td>0.593</td>
</tr>
<tr>
<td>Emphasis of in-time</td>
<td>3.42</td>
<td>0.724</td>
</tr>
<tr>
<td>Emphasis of performance</td>
<td>3.62</td>
<td>0.719</td>
</tr>
<tr>
<td>Emphasis of completeness</td>
<td>3.73</td>
<td>0.730</td>
</tr>
</tbody>
</table>

Eigenvalue 1.207 2.253 2.689 2.549
Explained variance 33.847 18.977 11.372 10.217
Cumulative variance 33.847 52.824 64.196 74.413
Cronbach’s α 0.872 0.809 0.817 0.715

(2) The Scale of Organizational Performance
We created 12 questions for the scale of organization performance. We distilled four factors after factor analysis. The value of Cronbach’s α for each factor is as follows: (1) targets of business (0.873), (2) productivity (0.824) and (3) profit (0.811) and competitive advantage (0.737). PCA with oblique rotation showed that the explained variance was 75.30%. The results of analysis is shown in Table 2.

<table>
<thead>
<tr>
<th>Items</th>
<th>Average</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Being able to achieve the targets of business</td>
<td>3.76</td>
<td>0.706</td>
</tr>
<tr>
<td>The performance in recent 3 years due to correct strategies</td>
<td>3.79</td>
<td>0.733</td>
</tr>
<tr>
<td>Being able to achieve the targets of performance</td>
<td>3.65</td>
<td>0.655 0.770</td>
</tr>
<tr>
<td>Speed of developing new products</td>
<td>3.68</td>
<td>0.508 0.887</td>
</tr>
<tr>
<td>Productivity above competitors</td>
<td>3.75</td>
<td>0.532 0.867</td>
</tr>
<tr>
<td>Ability to improve the process of operation</td>
<td>3.71</td>
<td>0.537 0.823</td>
</tr>
<tr>
<td>Growth rate of profit</td>
<td>3.86</td>
<td>0.695 0.853</td>
</tr>
<tr>
<td>Increase in gross profit</td>
<td>3.68</td>
<td>0.647 0.850</td>
</tr>
<tr>
<td>Return on investment</td>
<td>3.57</td>
<td>0.595 0.793</td>
</tr>
<tr>
<td>Responds to competition</td>
<td>3.41</td>
<td>0.742 0.878</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>3.59</td>
<td>0.705 0.868 0.645</td>
</tr>
</tbody>
</table>

Eigenvalue 1.113 2.274 2.757 2.884
Explained variance 33.930 19.215 15.382 8.775
Cumulative variance 33.930 55.145 70.527 75.302
Cronbach’s α 0.873 0.824 0.811 0.737

3.2.3 Method of Data Analysis
We used SPSS 12.0 to analyze 151 copies of valid questionnaires. The statistics we used included factor analysis, the analysis of reliability, basic descriptive statistics, correlation and regression.

(1) Factor Analysis: We use principal component analysis with oblique rotation to distilled factors based on Kaiser’s criteria, that is, the eigenvalue is larger than 1 [4]. The absolute...
value of the loading of each factor should be larger than 0.5.

(2) Reliability: we used Chrobach’s α as the index of the reliability of questionnaires. The reliability is not acceptable if the value of Chrobach’s α is lower than 0.6; it is not appropriate when the value is between 0.6 and 0.65; it is merely acceptable when the value is between 0.65 and 0.7; the value between 0.7 and 0.8 is acceptable; the value between 0.8 and 0.9 is excellent. The questionnaire may need to be shortened if the value is over 0.9.

(3) Basic Descriptive Statistics: we use average and variance of each item and the overall score to show the general features of the data.

(4) Correlation and Regression: we analyzed the correlation between each item use the results as the basis for the future regression analysis.

4 Results
Our analysis showed that there is correlation between the corporate culture and the organizational performance. The bureaucratic culture had a positive correlation with targets of business, productivity, profit and competitive advantage (coefficients were 0.994, 0.033, 0.447 and 0.513 respectively).

On the innovative culture, the coefficients of correlation with targets of business, productivity, profit and competitive advantage were 0.024, 0.970, -0.104 and 0.022 respectively. As shown by the results, only the profit showed the negative correlation, otherwise positive correlation.

About the supportive culture, the coefficients of correlation with targets of business, productivity, profit and competitive advantage were 0.445, -0.116, 0.998 and 0.420. The productivity had the negative correlation with the supportive culture; other indices had positive correlations.

Regarding the effective culture, the correlation coefficients with targets of business, productivity, profit and competitive advantage were 0.433, -0.034, 0.351 and 0.915 respectively. Only productivity showed the negative correlation; other indices showed positive correlations.

4 Conclusions
Our research shows that different cultures indeed affect the performance of organizations. Our results showed that the bureaucratic culture had positive correlation with all indices of performance. Based on this, it may be suggested that the bureaucratic culture can help stabilize the development of companies and the improvement of the overall performance.

References:


