Organizational Culture and Business Performance: An Empirical Investigation in the Pakistani Context

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Abstract
This study investigates the postulated relationship between organizational culture and business performance in the banking sector in Pakistan. The necessity of the assessment of this relationship is driven on the basis of the past literature. For the present inquiry, using the survey method a total number of 265 questionnaires were received from middle managers in the big five banks in Pakistan. The population was drawn using stratified random sampling technique. The Smart-PLS 3.0 was used for data analysis due to its increasing popularity in presenting authentic calculations. The reporting of the results is based on Smart-PLS standards that is followed by two-step approach: first the assessment of reliability and validity is conducted using measurement model and secondly assessment of hypothesized relationship is done using structural model. This study underlines that organizational culture has significant relationship with business performance in the banking industry in Pakistan. In the last section the insights on future research are provided.

Keywords: Business Performance; Organizational Culture; Banks, Pakistan

1. Introduction
Organizations with unique culture constitute an organizational capability which is inimitable for its rivals and creates competitive advantage (Barney, 1986; Hall, 1993; Peteraf, 1993; Wernerfelt, 1984). Therefore, in the business environment today, which is turbulent and is constantly changing, the preeminent leaders know the ways for shaping culture of their organizations for achieving short and long-term objectives (Kuratko & Welsch, 2004). Further suggesting Kuratko & Welsch, (2004) stated that as the competitive advantage never exists forever therefore these preeminent leaders constantly encourage changes and establish innovative business environment. The business performance has been central to the attention of scholars as one of the most important construct (Combs, Crook, & Shook, 2005) particularly, during last few decades, the academic researchers have paid major concentration to this

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phenomena (Jing & Avery, 2008). The business performance has long been associated with organizational culture. As some cultures are more conducive for better business performance than others, considering the differences into the cultural and business practices. Therefore culture has the potential to influence the organizational processes and performance (Deresky, 1994; Lee, & Yu, 2004; Kessapidou, & Varsakelis, 2002).

The organizational culture is believed to be most important variable in the area of organizational behavior (Kilman, Saxton, & Serpa, 1985; Ouchi, 1981; Schein, 1990). The attention being paid to organizational culture is due to its huge impact on the business performance. In addition, the theorist also deem it fit to shape procedures for an organization (Deal & Kennedy, 1982; Jarnagin & Slocum, 2007), direct and coordinate organizational activities (Day, 1994) and as a solution provider for many problems which organizations face (Schein, 1984). Meanwhile, Denison, (1990) discussed how organizational culture hinders or facilities an organization in achieving its overall goals and objectives. Further, for the sustainability of competitive advantage OC is admitted as a valuable source (Barney, 1986; Hall, 1993; Peteraf, 1993). Since long researchers have paid much attention to organizational culture as a factor that affects performance of the firm by increasing employees commitment, making them productive, enhancing their self-confidence, coordinating group or team work, and reinforcing behaviors which are ethical (Deal & Kennedy, 1982; Ouchi & Wilkins, 1985). According to Holmes & Marsden, (1996) this will significantly affect the financial performance of the organization. The interest of early researchers and consultants was incited by (Deal and Kennedy, 1982) towards organizational culture concept and how organizational culture, on the basis of given values and philosophies, reinforces behavior of employees in the organizations for greater success. Thereupon, several researches have been conducted for identifying the nature and type of organizational culture in organizations with the objective of eliciting key values, beliefs, and norms which have provided instigation to better business performance. Adding to that (Kotter & Heskett, 1992) stated that there is a long term impact of organizational culture over organizational performance, similarly, (Van der Post et al., 1998) reported a positive relationship between the two. It can be inferred from the above literature that organizational culture is an integral component contributing effectively to the success of organizations by enhancing their performance.

Although a large stream of research over organizational culture and business performance is available but the present study basis it on the following rationale: first, Al-Swidi & Mehmood, 2011 suggested that the Denison-theory and instrument are effective in investigation of entrepreneurial activates within the bank’s settings. Second, present study aims at investigating the effectiveness of Denison-theory in the baking industry of Pakistan as our sample draws from big-five banks of Pakistan. Third, the cultural-performance assessment is being conducted on the managerial level including middle managers (branch and operations) in the sample; as the culture is created and or defined by the top-management and is implemented or executed with and through middle managers, hence investing the status-quo, perception of middle managers of big-five banks in Pakistan would enable this study to conclude and recommend potential solutions to both practicing managers and theorist. Therefore, present study aims to
determine the influence of organizational culture on business performance in the banking industry in Pakistan. A comprehensive review of the literature is provided in the subsequent section.

2. Literature Review

2.1 Organizational Culture and Business Performance

The construct Organizational Culture (OC) has been elucidated differently in literature of organizational behaviors by many researchers which indicate the non-existence of any of its universal definition (Lewis, 2002). For instance, the construct (OC) was defined by Uttal (1983) as a system of shared values & beliefs which is interacting with people, structure and control system in an organization to produce norms of behavior. Equally, the OC construct was defined as philosophies, assumptions, beliefs, attitudes, and norms binding organization together (Kilmann et al., 1985).

From the outcomes perspective OC is defined as a human-created philosophy enhancing the unity in people in an organization and inspiring them for the enhancement of productivity with increased commitment (Deal, 1985). The OC construct is also explained as method of shared beliefs & values helping individuals for understanding the organizational functions through providing a set of norms to determine the behaviors (Deshpande & Webster, 1989; Schein, 1990). Similarly, Simircich, (1983) defined OC as the common set of values, assumptions, and norms in senior employees to be taught to the junior employees, stating OC as a key factor which managers can use to direct their organizations.

These researchers beside many others have defined OC in several ways, according to Barney, (1986) no consensus is found in the literature about one definition of the construct. However, many scholars explained organizational culture (OC) as a system of shared values, norms, beliefs, attitudes and ways of thinking among all organizational members (Mckinnon et al., 2003; O"Reilly & Chatman, 1996). To put it simply, the organizational culture (OC) is demonstrated as the basic assumptions, values, attitudes and behaviors of all the organizational members (Yilmaz & Ergun, 2008).

Kilmann, Saxton, and Serpa, (1985) stated that culture is related to people and organization’s unique style and quality. Similarly, Deal and Kennedy, (1982) explained it as “the way we do things around here”. Whereas, Ahmad, Loh, and Zairi, (1999) elaborated organizational culture as the arrangement pattern for materials and behaviors in an organization which is then used as the accepted way for problem solving.

Anthropologically, culture refers to the values and beliefs which are shared amongst all the members of a society and it includes behavioral patterns, feelings and reactions, and all the other premises underlying behavior (Rao & Swaminathan, 1995).

No two people in the world are exactly alike; this is due to the nature (genetics) and nurture (environmental experiences – in which they are grown) due to these differences people come up with extremely different personalities than each other. Back in the organizational settings, when these people are pooled together, it gives birth to thousands of the practices, directions, and opinions commonly called the culture. Over the time, a dominating set of norms will
emerge from it, which guides the way to which work is accomplished with one organization. This phenomenon give rise to organizational culture concept (Sadri & Lees, 2001). Wilson (2001), argued the influence of four factors, originally developed by Schein (1990), over organizational culture, each including 1) the business environment, 2) leadership, 3) management practices or formal socialization process, and 4) the informal socialization process. According to Wilson, (2001) the business environment in which one organization operates is helpful in determining the culture. The development of organizational culture (OC) comes through the influence of these environmental and societal aspects. Leadership is also identified as a critical factor which influences the organizational culture, its leaders who embed their vision, beliefs and values by externalizing them in the organizations. The management practices and formal socialization processes are explained as the policies and procedures for managing an organization. Organizational goals, decision making process, quality management system, technology management, financials, and work improvement systems (such as continuous improvement) are those areas where organizational culture can affect people’s activities and perceptions in an organization. Lastly, Informal socialization processes affects organizational culture in which individuals working in an organization go through an informal socialization with primary goals and needs.

According to (Schein 1969; 1990) individuals in an organization have three primary needs, first of which is to feel part of the group, second is the need to feel powerful and third need is to feel accepted. With and through interactions in the organization, the individuals then gradually learn and adapt the practiced norms and standards in an organization for achieving these three primary goals. These consistent norms create a dominant norm broadly called organizational culture (OC).

Plankett and Attner, (1994) identified factors shaping organizational culture similar to the Schein’s (1991) factors. These factors included key business processes, employees and other tangible assets, formal-arrangements, dominant coalition, social system, technology, and the external environment.

2.2 The Relationships Organizational Culture and Business Performance
Huge evidence in the literature witnesses the culture-performance relationship. Researchers, while investigating organizational factors for better organization performance, found that variance explained in the profit rates can be doubled with organizational factors. Similarly, researchers found many factors including total quality management, business process re-engineering, organizational learning, knowledge management, leadership, ethics and organizational culture (Hansen and Wernerfelt, 1989; Detert et al., 2000; Lewis, 2002; Wallace, 1995; Jung & Avolio, 1999; Sinclair, 1993) influencing business performance.

According to Denison, (1984) the significant relationship between organization of work and decision-making exists. On the other hand, he found culture as a predictor of short term performance. Similarly, Denison’s (1984) work was replicated by Gordon and DiTomaso, (1992) reporting strong culture as a predictive of short term business performance. Similarly, Lee, Jean, and Yu (2004) in their study found that culture has profound impact on the business performance. Further to this, Lee et al., (2004) further reported greater correlation between
organizational culture and organizational performance in manufacturing firms as compared to service firms.

Ogbonna and Harris, (2000) stated that although most of the conclusions are anecdotal regarding the effect of organizational culture on the business performance but there has been an increase in attention paid to the empirical investigation of this relationship. According to Haris and Ogbanna (1999) the reason behind increased popularity of organizational culture is due to the assumption that it enhances financial performance, However, Scholz, (1987) stated the significant role of organizational culture as vital source of competitive advantage for an organization.

The association between organizational culture and business performance is positive (Denison, 1990; Sadri and Lees (2001). Similarly, in a study Van der Post et al. (1998) found that the relationship between organizational culture and organizational financial performance is positive. Relationship of organizational culture has also been supported with organizational strategy (Choe, 1993; Schwartz & Davis, 1981; and Scholtz, 1987) beside this, the said relationship has been under investigation with many other organizational factors, (Pool, 2000) for example, stated that there exists a positive relationship between organizational culture and job stressors.

These scientific evidences helps researchers to conclude that organizational culture has been playing fundamental role in promoting organizational success. There have been little research on culture-performance relationship (Reichers & Schneider, 1990). To address this gap (Chatman & Jehn, 1994, Denison & Mishra, 1995 and Kotter & Heskett, 1992) investigated the culture-performance relationship. From these studies, (Chatman & Jehn, 1994 and Gordon, 1985) concluded that firms develop different cultural patterns for addressing their business demands. Whereas, using a more rigorous approach (Denison & Mishra, 1995) reported that organizational culture improves the short term financial performance of the firm. On the other hand, (Kotter & Heskett, 1993) refined the framework for culture-performance relationship.

From the perspective of the resource-based view (RBV) theory, the organizational culture is a capability of an organization which is unique in nature and is also inimitable (Barney, 1986, 1991; Hall, 1993; Peteraf, 1993; Wernerfelt, 1984). Suggesting prominent leaders to be able to shape the cultures of their organizations for getting competitive edge (Kuratko and Welsch, 2004). The literature on strategic management widely acknowledges that organizational culture is a factor which is critical in explaining how organizations work and to develop effective strategies for making them more effective (Prajogo and Sohal, 2001).

The literature on organizational culture reports that for organizational performance implications the organizational culture is a critical tool but empirical research work carried out
to investigate this relationship is still limited. Further, the effect of organizational culture on the business performance is reported directly or indirectly significant. With the above findings in the literature, this study aims to examine the possible relationships between organizational culture and business performance among banking sector in Pakistan. Therefore, it is proposed as under:

H1: There is a positive relationship between organizational culture and business performance.

3. Methodology

3.1 Participants and Procedure
The researchers used the survey method for collecting data, where the respondents were from middle management of big five banks of Pakistan. Considering the total population of 1385 of big five banks in the four capital cities of the country, a total number of 300 questionnaires (Krejcie & Morgans, 1970) were required, however to improve the response rate a total number of 500 questionnaires were mailed to the bank branch managers selecting randomly from the branch list provided by (Pakistan Banks Association, 2014). This was followed up with reminders, as a result a total number 265 questionnaires were received.

3.2 Measures
To examine the performance implications of organizational culture the Denison theory of organizational culture has secured much popularity and has been employed commonly (Denison, 1990, 2000; Denison, Cho, and Young, 2000; Denison & Mishra, 1995). Recently, putting into practice Al-Swidi, & Mahmood, 2011 suggested the effectiveness of Denison theory and scale into the banking setting of Yemen. Therefore, for measuring organizational culture an 18-item scale has been used from the work of Denison (2000). Whereas, to measure business performance 4-items were adopted from Deshpandé et al., (1993) and 03-items were adopted from (Jaworski & Kohli, 1993).

4. Analysis and Results
Prior to the main analysis, several assumptions of linearity, normality, and multicollinearity were checked (Hair, Black, Babin, & Anderson, 2010; Tabachnick & Fidell, 2007). Once these assumptions were satisfied, we used partial least square (PLS) path modeling (Wold, 1974, 1985) using Smart PLS 3 (Ringle, Wende, & Becker, 2015).

4.1 Measurement Model Results
In order to assess the psychometric properties of the scales which have been adopted for this study, individual item reliability, internal consistency reliability, and discriminant validity were ensured. First, the individual item reliability was examined using the outer loadings of the measures of each construct (Hair, Hult, Ringle, & Sarstedt, 2014; Hulland, 1999).
Table 2: Correlation and discriminant validity

<table>
<thead>
<tr>
<th>Latent variables</th>
<th>Items</th>
<th>Loadings</th>
<th>$^{b}$AVE</th>
<th>$^{a}$CR</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance</td>
<td>BP2</td>
<td>0.722</td>
<td>0.526</td>
<td>0.869</td>
<td>0.820</td>
</tr>
<tr>
<td></td>
<td>BP3</td>
<td>0.700</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BP4</td>
<td>0.758</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BP5</td>
<td>0.765</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BP6</td>
<td>0.742</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BP7</td>
<td>0.661</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational Culture</td>
<td>OC1</td>
<td>0.704</td>
<td>0.507</td>
<td>0.837</td>
<td>0.756</td>
</tr>
<tr>
<td></td>
<td>OC11</td>
<td>0.667</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>OC3</td>
<td>0.766</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>OC4</td>
<td>0.773</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>OC5</td>
<td>0.644</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: bold diagonal figures are the square roots of AVE.

As a rule of thumb the items with loadings of .50 and above were retained (Barclay, Thompson, & Higgins, 1995; Chin, 1998). Second, for ascertaining the **internal consistency reliability** of the measures the **composite reliability coefficient** was used. The internal consistency reliability's interpretation was based on the rule of thumb that composite reliability coefficient should be at least .70 or above (Bagozzi & Yi, 1988; and Hair et al., 2011). The composite reliability coefficients of the latent constructs are reported in Table 1 which are 0.869 and 0.837 exceeding the minimum acceptable level of .70 (Bagozzi & Yi, 1988; and Hair et al., 2011) hence the internal consistency reliability of the measures for the present study deemed adequate. Third, on the basis of the recommendation of Fornell and Larcker, (1982) the Average Variance Extracted (AVE) was used to ascertain **discriminant validity**. This was executed by comparing the correlations among the latent constructs with square roots of average variance extracted (Fornell and Larcker, 1982) according to which the square root of AVE should be greater than
the correlations among the latent constructs. Table 2 reports the comparison of correlations among the latent constructs and the square root of AVE (values provided in bold face), which shows that all the square root of AVEs are greater than the correlations amongst latent constructs, indicating the adequate discriminant validity.

4.2 Structural Model Results

For assessing the significance of the path coefficients the standard bootstrapping procedure was applied with 5,000 bootstrap sample and 265 cases (Hair, Sarstedt, Ringle, & Mena, 2012; Henseler, Ringle, & Sinkovics, 2009) to generate standard errors and obtain t-statistics. As bootstraps technique produces more reasonable standard error estimates (Tenenhaus et al., 2005). The significant paths are presented in Table 3 and Figure 1.

Table 3: Path coefficients and hypothesis testing

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Relations</th>
<th>Beta</th>
<th>SE</th>
<th>t-statistics</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>OC&gt;BP</td>
<td>0.538</td>
<td>0.050</td>
<td>10.722</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Note: OC=Organizational culture and BP=Business performance

Figure 1: Assessment of structural model

Note: OC=Organizational culture and BP=Business performance

Table 3 tells us about the relationship between organizational culture and business performance. The path coefficient from organizational culture to business performance is 0.538 (t-value = 10.722, p <0.000). Thus, H1 is supported. This informs that the relationship between organizational culture and business performance is positive. Table 4 summarizes the $R^2$ value of the endogenous construct business performance which is 0.28. This suggests that the organizational culture can explain 28% of the variance in the business performance. Beside the assessment of $R^2$ the predictive relevance of the endogenous construct was performed using blindfolding approach in Smart-PLS. The predictive power was determined by means of cross-validated index (Chin, 1998; Tenenhaus et al., 2005; Wold, 1975) hence cross validated redundancy $Q^2$ was computed (Fornell & Cha, 1994). The $Q^2$ values for latent construct were greater than zero; which according to (Chin, 1998) suggests that the model has predictive relevance.
Table 4: Variance explained in the endogenous variable

<table>
<thead>
<tr>
<th>Latent variable</th>
<th>Variance explained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance</td>
<td>0.28</td>
</tr>
</tbody>
</table>

5. Discussion
The objective of this study was to examine the relationship between organizational culture and business performance. The results support relationship between organizational culture and business performance. This is consistent with the findings of the previous studies (Deshpandé, & Farley, 2004; Lee, & Yu, 2004; Marcoulides, & Heck, 1993). The results also suggests that organizational culture is important factor which influences business performance (Deshpandé, & Farley, 2004).

5.1 Implications for Theory and Practice
Notable theoretical and practical implications are addressed by this study. First, this study has provided a theoretical implication by providing additional empirical evidence in the domain of resource-based view (RBV) theory (Barney, 1986, 1991; Hall, 1993; Peteraf, 1993; Wernerfelt, 1984), which posits that organizational culture is unique and inimitable capability of an organization and it is also a critical factor in explaining how organizations work and how they can lead themselves for getting more effectiveness (Barney, 1986, 1991; Hall, 1993; Peteraf, 1993; Wernerfelt, 1984; Kuratko and Welsch, 2004; Prajogo and Sohal, 2001). Therefore, this study has extended the theory by examining the organization culture from a broader perspective. Finally, our results suggested that organizational culture is potential predictor of business performance. The results suggest that considering the cultivation of organizational culture contributes in a better way for the improvement of the performance at the organizational level. Hence, prominent leaders should shape the culture of their organizations for getting competitive edge.

5.2 Limitations and Future Research Direction
The relationship between organizational culture and business performance was examined in this study among the middle managers of big five banks in Pakistan. Drawing upon RBV theory, it was argued that with better organizational culture organizations head towards better business performance. The research results indicate positive relationship between organizational culture and business performance however, culture is a ‘broader’ term and have been operationalized and segmented into various features (Denison, 1990; Deal & Kennedy, 1982; Ouchi & Wilkins, 1985; Wilson, 2001; and Schein, 1991). Therefore, the further investigation of the relationship is required in the presence of the dimensions of organizational culture examining which element of organizational culture influences business performance more. Second, the replication of this study is also suggested into different context and settings for further validation of these findings.
Although the present research has provided insights about the role of organizational culture for promoting business performance, it is not without limitations. First, the cross-sectional design was adopted in the present study therefore causal inferences could not be made. Hence, a longitudinal design study is suggested in order to discover changes occurring over time. Second, the self-reported measures were applied in the present study, as these measures could influence the behaviors, feelings and attitudes of the randomly selected participants, therefore there are chances of social disability and or CMV (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003; Dodaj, 2012; Podsakoff & Organ, 1986; and Randall & Fernandes, 1991). Although the present study attempted to reduce these issues by ensuring anonymity and improving the items of the scale (Podsakoff et al., 2003; Podsakoff, MacKenzie, & Podsakoff, 2012) but still there are chances of the occurrence of these issues. Hence, future researchers may wish to use other strategies in order to assess organizational culture-business performance relationship.

Finally, as noted earlier, the organizational culture explained 28 percent variance in business performance, however, 72% remains unexplained suggesting that there are other variables not incorporated in the present study which can potentially influence the business performance. Hence, the organizational level variables such as absorptive capacity, leadership, and corporate entrepreneurship may be considered to further assess the significant contribution into the business performance.

6. Conclusion
Despite these limitations, the present study has found that the relationship between organizational culture and business performance is positive. Suggesting the importance of the culture-performance relationship. Thus, organizations which harvest produce cultures lead their employees to be highly motivated for bringing impressive business performance results.

7. References


