



Evidence-based Consulting Essay

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# Shaping Organisational Culture

To Generate Competitive Advantage

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## ***1. Introduction***

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Organisational culture (OC) forms a central aspect of the field of organisational behaviour (Barney and Zajac, 1994). Moreover, culture in an organisational context maintains several varying definitions (Schein, 1984, 2017; Verbeke, Volgering and Hessels, 1998). However, the most broadly accepted definition (Hartnell, Ou and Kinicki, 2011; Wang and Rafiq, 2014; Schneider *et al.*, 2017) refers to the concept as ‘the values, beliefs, and assumptions that are held by the members of an organization and the way in which they guide behaviour and facilitate shared meaning’ (Denison, Nieminen and Kotrba, 2014, p. 146). Thus, due to its broad scope and denotation, OC maintains a high degree of pertinence for firms.

Extant literature indicates that OC can provide a source of competitive advantage (Barney, 1986; Boyce *et al.*, 2015). Therefore, its importance cannot be overstated. To that end, this paper seeks to outline the process by which an organisation’s culture may contribute to organisational effectiveness and subsequently be shaped to produce competitive advantage. Furthermore, this literature review will pursue an evidence-based approach to enable the provision of empirically supported recommendations to organisations regarding the management of OC (Barends and Rousseau, 2018).

## ***2. Literature Review***

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### ***2.1. Contribution of Culture to Organisational Effectiveness***

The capacity of OC to contribute to competitive advantage is rooted in the resource-based view of the firm (Barney, 1991). Thus, OCs that are valuable, rare and inimitable provide superior competitive performance (Barney, 1986, 1991). These assertions were supported by empirical findings by Boyce *et al.* (2015). In a meso-level analysis of the effect of OC on organisational effectiveness, they identified a causal relationship between OC and firm performance. However, their findings contradicted those of Kotter and Heskett (1992), who merely found a moderate relationship between the two variables.

Furthermore, Chatman and O'Reilly (2016) raise concern that the link between OC and competitive advantage was led by management consultants before academics fully understood their relationship, referring to the concept as 'under-theorised'. Despite this, further empirical evidence from Hartnell, Ou and Kinicki's (2011) and Hartnell *et al.*'s (2019) meta-analyses of the relationship between OC and organisational outcomes support the validity of Boyce *et al.*'s (2015) research findings. Nonetheless, the core issue remains of the limitations of the varying research methods employed in the empirical studies of OC (Denison, Nieminen and Kotrba, 2014). Therefore, complexity exists when attempting to identify unambiguous patterns across studies. Despite this difficulty, Denison, Nieminen and Kotrba (2014) note the increasing pervasiveness of the demonstrable link between OC and firm performance.

The primary focus of the academic literature has pertained to the strength of OC and its subsequent impact on performance (Chatman *et al.*, 2014; Schneider *et al.*, 2017; Abuzarqa, 2019). Cultural strength relates to the degree of 'consensus about a system of norms and intensity around the most valued norms' (Chatman *et al.*, 2014, p. 786). However, several studies indicate that OC strength does not directly correlate with superior performance (Kotter and Heskett, 1992; Sørensen, 2002; Chatman *et al.*, 2014).

Moreover, the perceived benefits of cultural strength are moderated by the degree of stability in a firm's macroenvironment (Wang and Rafiq, 2014). In addition, as strong cultures maintain high levels of conformity; they are characterised by their inability to respond to change (Sørensen, 2002). Thus, such cultures simply provide superior performance in stable operating environments (Kontoghiorghes, 2016). In spite of this evidence, Chatman *et al.* (2014) propose that harmony and intensity around prevailing norms provides enhanced performance even in dynamic environments. This view is furthered by Wang and Rafiq (2014) who contend that strong OCs can achieve competitive advantage in changeable environments by pursuing

ambidexterity. Consequently, it appears that performance-oriented OCs may be distinguished by their strength.

Further, the findings of academic literature concur with those of management consultancy firms. Bain & Company and Deloitte propose that culture is the most powerful source of competitive advantage presented to organisations (Rogers and Meehan, 2007; Kambil, 2016). Additionally, Bain & Company identify the salience of a culture supported by ambidexterity to achieve organisational effectiveness (Meehan, Gadiesh and Hori, 2006). Therefore, discernible congruency exists between the academic and consulting literature.

### *2.2. Shaping Organisational Culture*

Denison, Haaland and Goelzer (2004) contend that the core determinants of competitive advantage from OC relate to the degree of internal integration and external adaptation. Consequently, organisations must focus on the shaping of a strong OC to develop internal integration, while simultaneously promoting ambidexterity to foster external adaptation (Denison, Nieminen and Kotrba, 2014; Wang and Rafiq, 2014). The prerequisite of ambidexterity can be attributed to the propensity of a strong OC to lead to the manifestation of inertia, immoderation, inattention and insularity (Miller, 1994). This rhetoric indicates the tendency for strong cultures to cultivate a myopic view within organisations, generating insensitivity to the external environment.

Despite the undoubted benefits of strong OCs, difficulty exists in the modification of the phenomenon. Furthermore, the literature extensively contests the concept of OC and its ability to be altered (Chatman *et al.*, 2014). This is evidenced by Boyce *et al.* (2015) who contend that attribution theory provides insight into the complexity of instigating cultural change. This may be ascribed to the self-serving bias, wherein individuals tend to attribute failures to external factors (Bradley, 1978). Consequently, to achieve cultural change, it remains paramount for leadership to identify OC as symptomatic of encountered challenges. However, despite these

obstacles, OC can indeed be successfully transformed (Berson, Oreg and Dvir, 2008; Madhani, 2014; O'Reilly *et al.*, 2014).

Pertinently, it appears that no single best culture exists, as is supported by contingency theory (Hartnell *et al.*, 2016). In addition, the central cause of cultural change initiative failure can be attributed to the modification of employee behaviour in the absence of a shift in values (Gover, Halinski and Duxbury, 2016). Consequently, organisations must identify the values and norms that are environmentally appropriate. Significantly, Hogan and Coote (2014) empirically validate the mediating effect of norms and artefacts on the values supporting organisational effectiveness. Additionally, intensity surrounding a norm of adaptability in a strong OC enables firms to attain competitive advantage regardless of dynamism in the operating environment (Chatman *et al.*, 2014). Thus, organisations must emphasise consensus and intensity of their norms to develop a strong OC.

The strength of an organisation's culture is predicated upon an organisation's leadership (Chatman and O'Reilly, 2016). Therefore, leaders play a paramount role in OC development, and consequently adaptation. Moreover, Hartnell *et al.* (2016) find that OC reflects an organisation's leader. Berson, Oreg and Dvir (2008, p. 616) provide support for this proposition as 'CEO values are indicated as having important implications for organizational processes and outcomes'. This may be ascribed to the role of leaders to espouse the assumptions, values and beliefs of an organisation (Schein, 2017). Furthermore, Schneider *et al.*'s (2017) literature review demonstrates that leadership is an antecedent of cultural strength. Groysberg *et al.* (2018) support this contention as congruency between a strong OC, strategy and leadership drives firm performance. Thus, alignment between an organisation's leadership and the intended culture is critical to attain the seminal benefits of strong OCs.

Employee reward systems present a central aspect of sustaining and shaping OC (Hofstetter and Harpaz, 2015). Madhani (2014) reinforces the paramount nature of reward systems, asserting

their synchronisation with OC enables culture to generate competitive advantage. The success of these reward systems in shaping OC has been empirically demonstrated in Home Depot's successful cultural change initiative (Charan, 2006). Therefore, extrinsic and intrinsic rewards pose a powerful tool for supporting the implementation of cultural change. However, limitations exist to the application of rewards as all employee behaviours cannot be accurately predicted and hence, measured by organisations (O'Reilly, 1989; Hogan and Coote, 2014).

Deloitte support the perceived importance of leadership in the implementation of cultural change (Kaplan *et al.*, 2016). The firm indicates that organisational leaders withhold overall responsibility for shaping OC and maintain significant influence in the reinforcement of culture via their behaviours. Furthermore, McKinsey & Company similarly note the centrality of reward systems in cultural change (Dewar *et al.*, 2011). However, they also warn of the potential negative connotations of failure to align reward systems with the desired OC. Overall, the consulting literature reinforces the rhetoric of academics.

### ***3. Recommendations***

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#### ***3.1. Reinforcing Reward System***

The employment of reward systems to cultivate a strong OC maintains empirical validity (Charan, 2006). Hence, it is proposed that organisations exercise a reward system that reinforces OC by rewarding employee values and norms consistent with the desired OC. Further, Lawson and Price (2003) confirm the necessity of reward systems to support the desired behaviour of employees. Moreover, once a strong OC is established, reward systems enable its sustainability by reinforcing employee behaviour consistent with the organisation's norms and values (Bowen and Ostroff, 2004). Consequently, employee behaviours are treated in harmony, which develops the consensus and intensity of an organisation's norms and values. Furthermore, Wang and Rafiq (2014) assert that rewarding employees' varying knowledge, skills and perspectives enables exploration and exploitation while pursuing a strong OC. Therefore, reward systems maintain a vital link to achieving simultaneous ambidexterity and strong OC.

### *3.2. Dynamic Leadership*

A pertinent finding from Hartnell *et al.* (2016) suggests that when organisations maintain leadership that reinforces OC over an extended period, redundant resources may ensue that degrade performance. Therefore, it is suggested that leaders regularly adjust their leadership style to support ambidexterity and the concurrent maintenance of an organisation's strong culture (Berson, Oreg and Dvir, 2008). This is a significant contention as once organisations develop a strong culture, it remains more accessible for leaders to modify their behaviour than to instigate further cultural change (Hartnell *et al.*, 2016). Furthermore, the importance of leadership in the shaping of OC is extended by Berson, Oreg and Dvir's (2008) empirical validation of Hambrick and Mason's (1984) upper echelons theory. This suggests that organisations tend to become reflections of their leader's values, norms and behaviours. Thus, a dynamic style of leadership remains vital to achieve ambidexterity to respond to changing macroenvironmental conditions.

### *3.3. Person-organisation Fit*

To attain a strong OC, firms must focus on the person-organisation fit between those individuals they hire. Attraction-selection-attrition theory proposes that potential employees will not apply to an organisation with which value incongruity exists (Schneider, Goldstein and Smith, 1995). Further, organisations exhibit a propensity to select candidates that maintain consistent values with their OC (O'Reilly, Chatman and Caldwell, 1991; Lee *et al.*, 2018). Finally, individuals display a tendency to leave organisations should a lack of congruence exist between their values and those of the organisation (Cable and Edwards, 2004). Therefore, organisations must maintain a paramount focus on the recruitment process to ensure consensus exists between employee values and norms. Consequently, organisations may develop a strong OC (Chatman *et al.*, 2014). This recommendation is further supported by Chapman *et al.*'s (2005) meta-analysis, which identified person-organisation fit as a core determinant of a candidate's attraction and selection by an organisation.



#### *4. Conclusions*

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Conclusively, OC offers a superlative source of competitive advantage for firms. This can be attributed to the difficulty accompanying the imitation of culture. Furthermore, this paper has provided value to the literature in terms of its identification of the importance of strong OC to achieving sustained organisational effectiveness. Moreover, the rhetoric of both academics and consultancy firms supports the aforesaid, due to the congruency between both areas of thought.

Secondly, this writing has ascertained the process through which organisations must shape their cultures, and the associated importance of leadership. Additionally, this paper provided unambiguous recommendations from which organisations can generate strong OCs and sustain the associated competitive advantage via ambidexterity through an evidence-based approach. Finally, organisations must actively manage OC due to its pertinence as a strategic asset.

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