NOTE ON ORGANIZATIONAL CULTURE

Many people are skeptical of the idea that organizational cultures exert any real effects on individual and organizational behavior. One reason for this suspicion is that when people use the word culture to explain why a firm behaves the way it does, they often use it as a catch-all category for "the way things are done" in that firm. But "the way things are done" can often be discussed in much more concrete terms by focusing on specific aspects of the formal organization, such as the structure of the incentive plans in place, the formal grouping and linking principles encoded in the formal organizational structure, and the established routines and operating procedures in the firm. If the organizational culture concept merely summarizes these elements, it does seem fair to ask whether the concept adds any value.

An important first step in discussing organizational culture is therefore to define it. Following Schein (1992), an organizational culture consists of a set of basic assumptions that have developed as a consequence of the organization's attempts to adapt to internal and external problems. This definition suggests that organizational culture may be shaped by senior management to align with strategic goals, but it may also evolve in an emergent fashion, without direct influence from management. Organizational culture operates at the level of basic beliefs and values that have been internalized (to a greater or lesser extent) by the organization's members.

To better understand why organizational cultures might play an important role in shaping organizational behavior, consider two generic problems that firms face. The first is the problem of exercising control while at the same time delegating decision-making authority. Managers commonly need to make decisions under conditions of uncertainty, and therefore need to assess what kinds of actions are optimal, from the firm's perspective, and implement them. If different managers within the same firm react differently to similar situations, the organization may have difficulty executing its basic strategy; in short, a lack of consensus can be a source of strategic change, both good and bad. A second, somewhat related problem faced by firms is how to ensure consistent behavior over time, particularly in the face of turnover among its employees. If we have devised a complex yet efficient means of producing our widgets, it would be nice if we

Professor Jesper B. Sørensen prepared this note as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

could do this day in and day out, even if the particular people doing the job on Day 1 are not the same as the people doing the job on Day 100.

Both of these problems can be thought of as problems of persistence: how does a certain way of doing things get maintained, either across people or across time, or both? Organizational cultures play a central role in these situations by defining both cognitive and normative bases for decisions. An organizational culture defines a *normative order* consisting of basic assumptions about what are the "right" and "wrong" kinds of behavior. By virtue of this set of normative assumptions, organizational cultures are social control mechanisms, much like formal reporting relationships, auditing systems and incentive systems (O'Reilly and Chatman, 1996). An organizational culture also defines a *cognitive order* consisting of basic assumption about how the world works; these assumptions frame people's interpretations of organizational events and understanding of organizational processes. Schein (1991: 15) emphasizes that organizational cultures "provide group members with a way of giving meaning to their daily lives, setting guidelines and rules for how to behave, and, most important, reducing and containing the anxiety of dealing with an unpredictable and uncertain environment."

STRONG CULTURES AND PERFORMANCE

Extensive empirical research suggests that organizational cultures play a crucial role in shaping the capabilities of organizations and guiding the behavior of individuals within organizations. The most compelling evidence comes from studies of the effects of strong corporate cultures on firm performance. An organizational culture is said to be strong when the basic assumptions of the culture are widely shared and deeply held by members of the organizations. Studies show that firms with strong corporate cultures — such as Johnson & Johnson and Wal-Mart — have higher average levels of performance than firms in the same industry with weaker cultures, and that this competitive advantage is enhanced in highly competitive markets (Burt et al. 1994). More recent research shows that in most cases, firms with strong cultures not only perform at a higher level, they also do so more consistently (Sørensen 2002). The fact that their performance is generally less volatile gives strong culture firms an added competitive advantage; for example, studies in corporate finance show that firms with high cash flow volatility suffer from under-investment.

Researchers have pointed to three interrelated reasons why strong culture firms outperform weak culture firms. First, widespread consensus and endorsement of organizational values and norms facilitates social control within the firm. When everyone agrees that certain behaviors are more appropriate than others, violations of behavioral norms may be detected and corrected faster. Corrective actions are more likely to come from other employees, regardless of their place in the formal hierarchy. Informal social control is therefore likely more effective and lower cost than formal control structures (O'Reilly and Chatman, 1996). Second, strong corporate cultures enhance goal alignment. With clarity about corporate goals and practices, employees face less uncertainty about the proper course of action when faced with unexpected situations, and can react appropriately. Goal alignment also facilitates coordination, as there is less room for debate between different parties about the firm's best interests (Kreps, 1990). Finally, strong cultures can enhance employee motivation and performance due to the perception that behavior is more freely chosen (O'Reilly, 1989).

The social control and goal alignment aspects of strong organizational cultures suggest a tradeoff associated with culture strength. One simple way to think about this tradeoff is in terms of the implications of strong cultures for organizational learning, and in particular for the balance between exploration and exploitation (March, 1991). Sørensen (2002) argues that, in general, strong corporate cultures encourage exploitation, at the expense of exploratory learning. One consequence of this is that the value of a strong corporate culture is contingent on the degree of change and volatility in a firm's competitive environment. Sørensen (2002) shows that while strong corporate cultures encourage performance reliability in stable environments, strong cultures may be a liability in volatile, rapidly changing environments. In this sense, strong organizational cultures may be a liability, particularly when the basic assumptions encoded in the culture conflict with evolving strategic realities.

CREATING AND MAINTAINING STRONG CORPORATE CULTURES

The evidence of performance benefits linked to strong cultures might leave you wondering: If strong cultures are so good, why doesn't every firm have a strong culture? What are the factors that encourage the persistence of a set of basic assumptions? In general, strong corporate cultures can be arrived at through two routes: selection and socialization. In general, an exclusive reliance on selecting new employees based on cultural fit is a difficult (i.e., expensive and time-consuming) means of creating a strong culture, and is difficult to sustain with even moderate levels of employee turnover or growth. This points to the importance of socialization processes, which may vary dramatically in their level of intensity. The hazing rituals of college fraternities, in response to high, yearly turnover, are an extreme example.

It is useful to think of socialization pressures in an organization as coming from two sources: the firm's leadership and an individual's co-workers. To the extent that the leaders in a firm forcefully and consistently articulate and enact the firm's core values, socialization pressures will be higher. At the same time, such efforts by leaders may be counteracted to the extent that co-workers in the firm hold and espouse beliefs that differ from those of the leaders. Countervailing beliefs among the majority of employees can easily neutralize the best efforts of leadership; this fact points to the central importance of demographic processes (i.e., growth, turnover) in establishing and maintaining corporate culture (for an extended, sophisticated treatment of these issues, see Harrison and Carroll 2006).

A full discussion of the determinants of cultural persistence is beyond the scope of this note. Here, we will limit our attention to a factor that is particularly important when considering the relationship between organizational culture and other elements of organizational design. This factor is the importance of objective, external representations of the culture.

Consider the following insights from social psychology. In a classic experiment, Sherif (1935) exposed individuals to a so-called "autokinetic" situation. If an individual is placed in a darkened room and a stationary pinpoint of light is projected on the wall, the light will appear to move, even though it is perfectly stationary. Sherif found that people's assessments of the amount of movement were totally subjective (i.e., each person developed their own peculiar assessment) but were also very stable over repeated tests. Sherif also found that if several people were in the room at the same time, they arrived at a common assessment of the amount of movement. In fact,

the experimenters could shape the group's assessment by having a confederate (someone working for them) make the first verbal assessment. This suggests that people's perceptions of objective reality are shaped through interpersonal influence processes.

But this result is not so surprising. We know from our own lives that the people around us can shape how we see the world. What is less clear is to what extent they shape our perceptions once they leave the room. In other words, is there persistence in these influence effects? One way to test this question is to run the autokinetic experiment over several "generations" of a group, where people enter and exit the group at different times. Zucker (1977) modified the Sherif experiment in this way in order to study the persistence problem. The first generation consisted of two people, one of whom worked for Zucker, who were exposed to the autokinetic situation. The confederate made the first assessment, and the second person's assessments was very close to the confederate's. The confederate then left the group and was replaced by a new person. The experiment was repeated with the new person and the veteran, with veteran making the first assessment. The veteran then left and was replaced by a new person, and so on.

Zucker varied what she told people before they entered the room. In the "personal influence condition," people were simply told that the study involved problem solving in groups, and that the person already in the room had already done the "work" before. For this group, there was little persistence: the assessments in the early generations were very weakly correlated with the assessments in the later generations. In the "organizational context condition," people were told that the study was about problem solving in *organizations*, and that they would be working with a member of the organization. In this case, the assessments of movement persisted very strongly across subsequent generations, such that the assessment of the person in the first generation was very similar to the assessment of a person from several generations later.

There are two important lessons to draw from these experiments. First, social influence processes can shape the way in which people interpret seemingly objective phenomena. This means that organizations can "define the situation" for their members, in part simply through the transmission of beliefs from existing employees to new hires. The second lesson, however, is that you cannot depend on interpersonal transmission of beliefs alone, unless turnover rates are very low. A set of cultural beliefs and perceptions are much more likely to persist if they appear objective and external to any particular individual. The simple fact the newcomer was told that the other person in the room was an organizational representative was enough to dramatically increase levels of persistence. The "organizational" assessment was treated as being much more authoritative than another person's. In a more sociological language, cultures are more likely to persist if they are *institutionalized.*

This has important implications for the relationship between strategy, culture and organizational design. Organizational cultures are much more likely to persist if the basic assumptions are expressed concretely in organizational practices, espoused values and cultural artifacts. The culture has much greater force if it is tied to visible symbols, and these symbols are used to remind people of the organizations core beliefs and values. Similarly, leaders can increase their socialization influence on subordinates through the use of signals, where signals are understood as costly actions or investments that are undertaken to be consistent with the espoused beliefs and values. This in turn means that if organizations want to foster and maintain a strong culture,

they need to invest resources and awareness in symbols and signals that are consistent with the basic assumptions of the culture.

This gives us another way of thinking about the decisions involved in choosing formal elements of organizational design, like incentive systems and formal structures, as well as explicit statements of strategic intent. These formal elements are often the most visible symbols of what the organization "really means." They must therefore be carefully chosen with an eye toward whether they are consistent with the desired or established basic assumptions of the culture.

The fact that strong cultures are typically "built in" to the other elements of organization design suggests a downside of having a strong culture. In cases where the organizational culture is reinforced by such things as incentive plans, formal structure and resource allocation patterns, change can be difficult, because change in one element of the organization has implications for other parts. Strong culture organizations in particular have greater difficulty changing their basic assumptions about the world around them, even when the world has changed. One important consequence of this is that strong culture firms have difficulty adjusting to periods of fundamental change in the structure and dynamics of their environments, to the extent that the performance benefits of strong cultures disappear in volatile environments (Sørensen 2002).

References

Burt, Ronald S., Shaul M. Gabbay, Gerhard Holt, and Peter Moran. 1994. "Contingent organization as a network theory: The culture performance contingency function." *Acta Sociologica* 37: 345-370.

Harrison, J. Richard, and Glenn R. Carroll.   2006. Culture and Demography in Organizations. Princeton: Princeton University Press.

Kreps, David M. 1990. "Corporate culture and economic theory." Pp. 90-143 in J.E. Alt and K.A. Shepsle (eds.), *Perspectives on Positive Political Economy* Cambridge, England: Cambridge University Press.

O'Reilly, Charles A. 1989 "Corporations, culture and commitment: Motivation and social control in organizations." *California Management Review* 31: 9-25.

O'Reilly, Charles A. and Jennifer A. Chatman. 1996. "Culture as social control: corporations, culture and commitment." *Research in Organizational Behavior* 18: 157-200.

Schein, Edgar H. 1991. "The role of the founder in the creation of organizational culture." Pp. 14-25 in Peter J. Frost et al. (eds), *Organizational Cultures*. Beverly Hills, CA: Sage. Schein, Edgrar H. 1992 *Organizational Culture and Leadership* (2nd edition). San Francisco: Jossey-Bass.

Sherif, M. 1935. "A study of some social factors in perception." *Archives of Psychology*, No 187.

Sørensen, Jesper B. 2002. "The strength of corporate culture and the reliability of firm performance." *Administrative Science Quarterly* 47: 70-91.

Zucker, Lynne G. 1977. "The role of institutionalization in cultural persistence." *American Sociological Review* 42: 726-743.