

# Relationship between Organizational Culture and Performance Management Practices: A Case of University in Pakistan

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## Abstract

The aim of this study is to expand the base of knowledge and empirically test the relationship between the components of organizational culture and performance management practices. The study adopted the exploratory research approach to explore the impact. In this study, primary data was collected through questionnaires from 140 employees at the COMSATS Institute of Information Technology. The sample consists of both male and female faculty members. The regression and correlation statistical analysis were used. The results from the statistical analysis show that, involvement is highly correlated with consistency and adaptability. Similarly, the other dimensions of organizational culture have a positive significant relationship with the performance management practices.

*Key words: Performance Management Practices, Organizational Culture*

## 1. INTRODUCTION

Recent literature proved that management of human resource in company has become an increasingly important for firm performance and business vision achievement. Employees are considered as valuable assets to an organization, which require effective management of these employees in firms. A lot of research in organizational theory has focused on developed countries; 95 percent and whereas only 5 percent of the studies testing organizational theories are found to be done in developing countries (Farashahi et al., 2005) inspite of the highly dynamic environment. A number of scholars have questioned the applicability of western management practices in developing countries and since long time it has also been recognized that culture is a main source of difference in performance management practices (Daniels et al., 2004; Piercy et al., 2004). Many researchers (e.g., Denison, Haaland, & Goelzer in Yilmaz, 2008) have called to investigate the phenomenon of organizational culture in different cultural context particularly in non-western nations.

Organizational culture and performance relation has been examined by many researchers (Ogbonna & Harris, 2000; Rousseau, 1990; Kotter & Heskett, 1992; Marcoulides & Heck, 1993), not much research has been done on organizational culture as a contextual factor of performance management (Magee, 2002). Therefore the second purpose of this paper is to determine the relationship between components of organizational culture and performance management practices, a pervasive human resource development and management practice. This study is indented to fill these gaps.

Dension theory of organizational culture implicitly explain the cultural traits of organizational performace, while performance management practices as fundamental human resource management practice support the view that employees and managers benefit from the understand-

ing of organizational culture as a contextual factor. For the present empirical analysis Denison theory of organizational culture is employed which focuses on four cultural traits involvement, consistency, adaptability, and mission as key determinants of business performance.

## **2. LITERATURE REVIEW**

### **2.1 Organizational Culture**

Having established that organizational culture comprises a range of complex social phenomena, it is not surprising that scholars have identified corporate culture as a multi-layered construct which can be divided into layers according to these phenomena's observability and accessibility. Organizational culture has been defined as patterns of shared values and beliefs over time which produces behavioral norms that are adopted in solving problems (Owens 1987; Schein, 1990). The organization's internal environment is represented by its culture and is construed by the assumptions and beliefs of the managers and employees (Aycan et al., 1999). Organizational Culture manifested in beliefs and assumptions, values, attitudes and behaviors of its members is a valuable source of firm's competitive advantage (Hall, 1993; Peteraf, 1993) since it shapes organizational procedures, unifies organizational capabilities into a cohesive whole, provides solutions to the problems faced by the organization, and, thereby, hindering or facilitating the organization's achievement of its goals (Yilmaz, 2008).

### **2.2 Performance Management**

According to Armstrong and Baron (1998), performance management is a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors. It supports the rationale that people and not capital provide organizations with a competitive advantage (Reynolds & Ablett, 1998). The purpose of performance management is to transform the raw potential of human resource into performance by removing intermediate barriers as well as motivating and rejuvenating the human resource (Kandula, 2006). Competitive capacity of organization can be increased by building strong people and effectively managing and developing people (Cabrera & Banache, 1999) which is in essence performance management.

### **2.3 The relationship between organizational culture and Performance Management**

According to Kandula (2006) the key to good performance is a strong culture. He further maintains that due to difference in organizational culture, same strategies do not yield same results for two organizations in the same industry and in the same location. A positive and strong culture can make an average individual perform and achieve brilliantly whereas a negative and weak culture may demotivate an outstanding employee to underperform and end up with no achievement. Therefore organizational culture has an active and direct role in performance management. Murphy and Cleveland (1995) believe that research on culture will contribute to the understanding of performance management. Magee (2002) contends that without considering the impact of organizational culture, organizational practices such as performance management could be counterproductive because the two are interdependent and change in one will impact the other.

## 2.4 Denison's framework of organizational culture:

Yilmaz (2008) states that: Following Schien (1984) at the core of Denison's model are the underlying beliefs and assumptions that represent the deepest levels of organizational culture. These fundamental assumptions provide the foundation from which (1) more surface-level cultural components such as values and observable artifacts – symbols, heroes, rituals, etc. – are derived, and (2) behavior and action spring (Denison, 2000). (p. 292)

In Denison's model comparisons of organizations based on relatively more "surface-level" values and their manifest practices are made. Such values are deemed both more accessible than the assumptions and more reliable than the artifacts (Denison, 2000 in Yilmaz, 2008). Denison's organizational culture model is based on four cultural traits involvement, consistency, adaptability, and mission that have been shown in the literature to have an influence on organizational performance (Denison, 1990; Denison & Mishra, 1995).

The four traits of organizational culture in Denison's framework are as follows:

**Involvement:** Effective organizations empower their people, build their organizations around teams, and develop human capability at all levels (Lawler, 1996). Executives, managers, and employees are committed to their work and feel that they own a piece of the organization. People at all levels feel that they have at least some input into decisions that will affect their work and that their work is directly connected to the goals of the organization.

**Consistency:** Organizations also tend to be effective because they have "strong" cultures that are highly consistent, well coordinated, and well integrated. Behavior is rooted in a set of core values, and leaders and followers are skilled at reaching agreement even when there are diverse points of view (Block, 1991). This type of consistency is a powerful source of stability and internal integration that results from a common mindset and a high degree of conformity.

**Adaptability:** Ironically, organizations that are well integrated are often the most difficult ones to change. Internal integration and external adaptation can often be at odds. Adaptable organizations are driven by their customers, take risks and learn from their mistakes, and have capability and experience at creating change (Nadler, 1998). They are continuously changing the system so that they are improving the organizations' collective abilities to provide value for their customers (Stalk, 1988).

**Mission:** Successful organizations have a clear sense of purpose and direction that defines organizational goals and strategic objectives and expresses a vision of how the organization will look in the future (Ohmae, 1982; Hamel & Prahalad, 1994). When an organization's underlying mission changes, changes also occur in other aspects of the organization's culture.

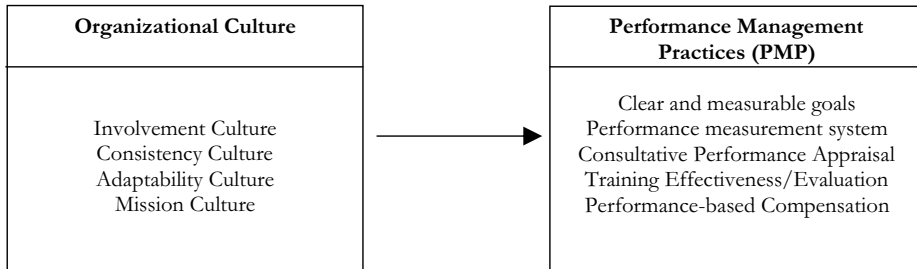
## 3. CONCEPTUAL MODEL AND HYPOTHESES

The research is mainly aimed to investigate the relationship between organizational culture and the practices of performance management. Denison's model proposes that organizations with a higher combined measure of the four culture traits show higher levels of performance which itself is the result of performance management. Therefore the first hypothesis is

**H1: Organizational Culture has a significantly positive relationship with performance management practices.**

Denison's theory states that each of the four major cultural traits promotes superior firm performance. Since performance management also results in superior performance, therefore we posit that

**H2: Cultural traits of involvement, consistency, adaptability, and mission in organizations exert a significantly positive influence on performance management practices.**



*Fig. 1 - A conceptual model of organization culture and performance management practices. Source: Denison & Mishra (1995) and authors own.*

## 4. RESEARCH METHODOLOGY

The study consists of exploratory research designed to determine if organizational culture is associated with performance management. Primary data was collected with the help of questionnaire distributed to 60 employees in COMSATS Institute of Information Technology which included a mix of faculty members, staff members, section heads, and heads of departments. 42 usable responses were received back.

### 4.1 Measures

Two summated scales were created for hypothesis testing using the mean of each grouping of variables. For the purpose of measuring organizational culture Denison (2000) Organizational Culture Survey instrument which uses 60 items on a five point Likert scale with anchors strongly disagree (=1) to strongly agree (=5) was used. This framework focuses on cultural traits of involvement, consistency, adaptability, and mission. Some of the items included are for example: Most employees are highly involved in their work, People work like they are part of a team, Ignoring core values will get you in trouble, People from different parts of the organization share a common perspective, New and improved ways to do work are continually adopted, We encourage direct contact with customers by our people, There is widespread agreement about goals.

Performance Management practices include specifying which goals to achieve, allocating decision rights, and measuring and evaluating performance. An aggregate measure of PM practices is developed which uses a 5-point Likert scale with anchors strongly disagree (=1) to strongly agree (=5) by combining the following components.

- a) Clear and measurable goals based on scale CLRMSG by Verbeeten, (2008). Goal setting theory asserts that people with specific and challenging goals perform better than those with vague goals, such as “do your best”, specific easy goals or no goals at all. Thus, goal

setting theory assumes that there is a direct relation between the definition of specific and measurable goals and performance. Items include for example: the mission of my organization is formulated unambiguously, the goals of my organization have been documented very specifically detailed;

- b) The performance measurement system instrument (labelled BROADPMS) is based upon the instrument by Cavalluzzo and Ittner (2004) captures the extent to which different types of results-oriented performance measures have been developed for the activities of the organization apart from financial measures. Some of the items are for example: My organization has performance measures that indicate the operating efficiency, My organization has performance measures that indicate the customer satisfaction, My organization has performance measures that indicate the outcome effects. Other activities included in performance management practices are adapted from Khatri (2000)
- c) Consultative Performance Appraisal which included items (1) The superior will normally discuss the performance of his/her subordinates with them, and (2) performance appraisal includes the supervisor setting objectives and goals of subordinates for the period ahead in consultation with them.
- d) Training Effectiveness/Evaluation included items (1) My company conducts systematic analysis to determine the needs for training programs, (2) we conduct cost-benefit analysis to assess the effectiveness of our training programs, and (3) we evaluate our training programs to determine whether the training objectives are met.
- e) Performance-based Compensation included items (1) Job performance of an individual is very important in determining the earnings of employees in my company, and (2) promotion is based primarily on seniority (reverse-coded).

## 5. ANALYSIS OF THE DATA

Data was analyzed using SPSS version 16 and Microsoft Excel. Scores of all dimension was averaged in one main construct for both Organizational Culture and Performance Management Practices. The Pearson correlation was used to reflect the degree of linear relationship between two variables and determines the strength of the linear relationship between the variables; whilst, One-Way ANOVA was employed to determine the significance of the relationship. Based on the confirmation of directionality shown in Table 1, sufficient evidence exists to accept hypothesis H1 that organizational culture is positively and strongly associated with performance management practices at a confidence level of 0.99. Table 2 also confirms that each of the four organizational cultural traits of involvement, consistency adaptability and mission are positively and strongly associated with performance management practices at a confidence level of 0.99. Based on this there is sufficient evidence to accept hypothesis H2.

Tab. 1 - Correlation Analysis Organizational Culture to Performance Management Practices. Source: authors own.

		Organizational Culture	Performance Management Practices (PMP)
Organizational Culture	Pearson Correlation	1	.839**
	Sig. (2-tailed)		.000
	N	42	42
Performance Management Practices (PMP)	Pearson Correlation	.839**	1
	Sig. (2-tailed)	.000	
	N	42	42

\*\* Correlation is significant at the 0.01 level (2-tailed).

Table 2 describes the correlation analysis of organizational culture traits to performance management practices. All the variables including involvement, consistency, adaptability and mission has significantly positive impact on Performance Management Practices (PMP). The value of involvement for PMP is 0.736 significant at  $r= 0.01\%$ . The value for consistency is 0.837 ( $r= 0.01\%$ ) which shows the high significance of relations. While values for adaptability and mission are 0.767 and 0.815 both with  $r=0.01\%$ . As all the values of organizational culture have significant positive impact of PMP so hypothesis H2 is acceptable that organizational culture has positive impact on PM Practices.

Tab. 2 - Correlation Analysis Organizational Culture Traits to Performance Management Practices(PMP). Source: authors own.

		Involvement	Consistency	Adaptability	Mission	PMP
Involvement	Pearson Correlation	1	.812**	.910**	.773**	.736**
	Sig. (2-tailed)		.000	.000	.000	.000
Consistency	Pearson Correlation	.812**	1	.829**	.841**	.837**
	Sig. (2-tailed)	.000		.000	.000	.000
Adaptability	Pearson Correlation	.910**	.829**	1	.861**	.767**
	Sig. (2-tailed)	.000	.000		.000	.000
Mission	Pearson Correlation	.773**	.841**	.861**	1	.815**
	Sig. (2-tailed)	.000	.000	.000		.000
PMP	Pearson Correlation	.736**	.837**	.767**	.815**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
N		42	42	42	42	42

\*\* Correlation is significant at the 0.01 level (2-tailed).

Table 3 shows that the value of R square is .744 which is the explained variance in the dependent variable performance management practices by organizational culture traits. As value of  $R= .83$  which show the model fit and quite acceptable value for acceptance of model.

Tab. 3 - Model Summary. Source: authors own.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.863a	.744	.695	8.80383

a. Predictors: (Constant), Mission, Involvement, Consistency, Adaptability

Table 4 shows that the F statistic is significant at .000 which shows the fitness of the model. Therefore organizational culture is a strong predictor of performance management practices.

Tab. 4 - ANOVAb. Source: authors own.

Model	Sum of Squares	df	Mean Square	F	Sig.
1   Regression	4729.247	4	1182.312	15.254	.000a
Residual	1627.657	21	77.507		
Total	6356.904	42			

a. Predictors: (Constant), Mission, Involvement, Consistency, Adaptability

b. Dependent Variable: Performance Management Practice (PMP)

## 6. CONCLUSION

The research is mainly aimed to investigate the relationship between organizational culture and the practices of performance management. Results show that adaptability and mission has significant positive values in correlation for PMP. All the variables must be positive to get better results from PM Practices. Traditionally organizational culture and design of human resource management practices such as performance management have been studied independently for organizational success. The results of this study indicate that they are strongly associated with each other and should be complimentary (Magee, 2002). Moreover the western management models were also validated in the context of a developing country.

Overall, there is a strong view in the literature that organizational culture lead to increased organizational performance. However, studies on this relationship often differ as to the extent a practice is likely to be positively or negatively related to performance. Human resource management practices has been argued to affect organizational culture, and in turn lead to firm performance we need to be wary of arguing that current evidence proves this relationship. There could, and probably are, a number of other organizational elements that provide a link between HRM and firm performance. More studies regarding the organizational culture and performance link need to be conducted before we can deduce this causality relationship. In saying this, organizational culture has been shown to be an important aspect of a firm, as it can, and does affect employee's behaviours, motivation and values.

Organizational performance management system create career paths for employees as well as groupings of people who remain in the firm for a long enough time for a company culture to form. This outlook suggests that firms can implement such management practices that foster job security and internal career development in order to keep turnover low, and maintain those social phenomena that comprise organizational culture (values, beliefs, norms, assumptions) within the organization, and therefore forming a strong organizational culture.

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