

The Role of Organizational Culture in Business Performance

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Abstract

Organizational culture is important in determining the performance of business, how the employees behave, innovation and how well the organization functions. The research presents a literature review on the organizational culture and business performance. This research will aim at examining theoretical voices and empirical evidence on organizational culture and business performance. Companies that have strong and adaptive cultures enjoy better performance, innovativeness is enhanced, and employees are more satisfied. The organization culture is also relevant to the digital transformation and technological change whereby the organizations need the ability to be flexible, and cultures that are innovative so as to be competitive. The literature, however, also demonstrates that according to the literature, an organizational culture is not a sole determinant of the business performance since the leadership style, organizational structure, and external environmental factors also influence the performance of the organization. The research emphasizes that organizational culture is a significant strategic tool, which the organization can utilize in enhancing performance, innovation, and competitiveness.

Keywords

corporate culture, businesses performance, innovation, leadership, corporate performance.

1. Introduction

Organizational culture is one of the key concepts in business management, as it determines the manner in which employees act, the way in which the organization functions and eventually the manner in which performance results are realized. It is a term used to describe the common values, beliefs, norms, and practices through which people relate and carry out their work in an organization. Organizational culture has increasingly emerged as a key determinant of success in the modern dynamic business world, which is marked by globalization, quick technological evolution and aggressive competition. Financial results are no longer considered the only criterion of organizational analysis, but also the capacity of organizations to respond to the external requirements and internal culture in accordance with the strategic requirements.

Organizational culture is the study that is of special relevance due to the high impact on the major performance drivers. An aligned and positive culture boosts the motivation of employees by feeling that employees belong, have a purpose and be committed. The employees who associate with organizational values will prove to be more engaged, productive, and would want to perform more than the minimum requirements. Moreover, organizational culture is an important factor that encourages innovation and creativity. Open, risk-taking, and failure-driven cultures are likely to produce new ideas and endorse entrepreneurial behavior, which is needed to maintain competitive advantage in highly dynamic markets.

Moreover, organizational culture enhances teamwork and collaboration. Similar norms and values will promote communication, trust and coordination between employees and lower the chances of conflicts and enhance efficiency. Organizational culture is also directly related to leadership effectiveness because leaders are as well as shape the cultural environment. Good leaders strengthen good cultural attributes and integrate the culture with organizational strategies, hence, promoting better performance. Organizational culture is a major determinant of the success of the business because it dictates the output of the employees and the way strategies are effectively implemented [1]. Equally, such theories hold that a good culture drives innovation and entrepreneurial orientation, which positively enhances business performance [2].

This paper aims at investigating how organizational culture affects business performance with a special focus on the processes by which this relation is realized. In particular, it tries to detect the mediating variables, including the leadership style, employee engagement, and organizational structure, that determine the connection between culture and performance outcomes. The study will also aim to identify the gaps that may exist between the organizational culture and the performance of businesses and reveal the areas where the organizational culture may be misaligned, leading to the inhibition of performance and effectiveness.

2. Theoretical Background

2.1 Cross-area Oriented Direction

Organizational behavior studies and management science have focused largely on analyzing organizational culture as one of the major factors contributing to the effective operations and performance of the institution. The organizational culture is defined as the values and behavioral patterns accepted and used by the organization members. It determines numerous elements ranging from decision making, information exchange processes, innovation policies, and the leadership style used in the organizational structure. Thus, organizational culture creates a basis for understanding differences in performance results achieved by organizations.

2.2 Commitment and Job Satisfaction Theory

Several approaches help explain the impact of organizational culture on business performance in terms of theories and models. The main perspective includes commitment and job satisfaction theories that assume that the culture of an organization positively affects employee satisfaction because it builds up strong organizational identification of workers and promotes better productivity. The positive connection occurs when people feel that their values and goals coincide with those of the organization, and employees feel appreciated and rewarded by the cultural environment [3].

2.3 Innovation Mediation Approach

In addition, an important theoretical framework is the innovation mediation approach, which highlights that the relationship between organizational culture and performance is mediated by the role in fostering innovation. Innovative cultures are characterized by their capacity to foster creativity, openness to new things, and risk-taking activities, allowing organizations to remain competitive through innovation. In other words, innovation is an important mediator for the effect of culture on performance, such that organizations with innovative cultures are better equipped to deliver outstanding performance in today's fast-moving world [4].

2.4 Leadership Theory

Further, organizational culture is tightly connected to leadership theory, more precisely, the theory of transformational leadership [4]. The point is that transformational leaders are key stakeholders who have an influence on the formation of organizational culture and help foster an atmosphere of trust and cooperation among employees. In such a way, particular leadership types lead to a culture creation that has a beneficial impact on people's performance and the overall success of organizations. Moreover, according to the theory of digital transformation, an adaptable organizational culture is a must for businesses operating under constantly changing conditions.

3. Literature Review

There are several researches on the connection between organizational culture and performance in various industry sectors and countries. Researchers emphasize repeatedly that organizational culture plays a vital role in shaping organizational functioning and success in general. Culture affects the behaviors of people within the organization, the way managers work, and the effectiveness of strategy implementation [4]. The literature especially emphasizes specific aspects through which organizational culture has an impact on business performance, such as innovation, leadership, employee involvement and organizational commitment. To ensure a more scientific understanding of the topic, it is crucial not only to review some studies but also to describe theoretical perspectives on this issue.

3.1 Organizational Culture

Organizational culture theory elaborated on by several researchers including Schein, is one of the most popular theoretical approaches in discussing the topic in question. According to this perspective, organizational culture exists at three levels: artifacts (structures and processes), espoused values (strategies and goals), and basic assumptions (beliefs). All three levels influence the perception that employees have of their jobs [5]. However, when there is no consistency among these levels, people may experience confusion and low productivity.

Another useful conceptual framework that helps in analyzing the concept of organizational culture from a management perspective is the resource-based view of the firm. The resource-based approach defines organizational culture as a valuable, rare and difficult-to-imitate resource. In the context of the resource-based approach, organizations are able to gain sustainable competitive advantages due to the presence of unique internal capabilities that make it hard for competitors to copy the game changers. Organizational culture is an appropriate example of such capabilities, because culture is an inherent component of the organization that develops throughout the theory's history. Moreover, there is empirical research indicates that organizational culture promotes entrepreneurship and innovation in small and medium-sized enterprises (SMEs) [6].

3.2 Knowledge and Innovation

The issue of the mediating role played by innovation in the relationship between organizational culture and performance is another topic frequently discussed in the literature. This phenomenon can be explained using the theory of innovation, which focuses on the significance of creativity, knowledge exchange and adaptability in the context of business [7]. Thus, organizational culture may facilitate or inhibit innovation depending on such culture's characteristics. Specifically, cultural norms related to experiment, learning and taking risks are associated with higher levels of innovation.

In this context, knowledge-based theory, which stresses the importance of knowledge sharing and collaboration as means of ensuring successful business operations, is closely linked to innovation theory. As noted in this theory, knowledge constitutes the most valuable asset of any business entity, and proper management of knowledge leads to better performance. Knowledge management practices in organizations are heavily influenced by organizational culture. When the culture promotes collaboration and information exchange among employees, better innovations are likely to be generated. This connection between innovation, organizational culture, and knowledge management was also formed [8]. The researchers found that

organizational culture impacts on innovation performance via processes such as knowledge sharing, collaboration, and creativity. Innovation-friendly organizational cultures increase competitiveness and organizational performance.

The importance of leadership theory in analyzing the connection between organizational culture and performance cannot be underestimated, as well as transformational leadership theory in particular. Specifically, the transformational leadership style involves motivating employees, developing the vision of the company, and creating an atmosphere of cooperation and trust. In other words, transformational leadership is vital for the formation and development of organizational culture. Transformational leaders encourage such values as innovativeness, continuous improvement, and empowerment of the employees, which consequently results in improved performance. Indeed, it was reported that organizational culture has an essential influence on the financial and sustainable performance of an organization due to transformational leadership [9].

3.3 Technology Advanced Theories

Apart from conventional theories, recent literatures have placed increasing emphasis on the significance of organizational culture within the framework of digital transformation theory. In this theory, organizations need to transform in response to rapid technological development through adoption of digital technologies within their organization. In other words, digital transformation is both a technological transformation and an organizational culture transformation. That means organizations need to possess cultures that become more adaptive to change and more innovative and learning-oriented cultures. In this context, the argument suggests that organizations with adaptive cultures are more effective in embracing change and utilizing it to improve performance. The validity of the above-mentioned argument has been confirmed by who pointed out that organizational culture is critically important for achieving digital transformation and technological innovation [10]. Specifically, AI-friendly cultures have been found to increase employee engagement and productivity through better decision-making processes.

In addition, the literature stresses that employee engagement and commitment should serve as mediating variables in the link between culture and performance. One effective model to consider is the social exchange theory. According to the social exchange theory, the employees would pay the organization back for favorable treatment. When the organizations create an environment where the organizations foster an inclusive and supportive culture, it creates an atmosphere in which employees feel valued and appreciated, thus making employees more committed and engaged in their work. This aligns well with previous studies, like who stressed the influence of culture on the employee attitude and behaviors [11].

However, even though there is a consensus about the beneficial connection between organizational culture and business performance, some researchers have emphasized the possible difficulties when working with organizational culture. As an example, one can mention the problems that may occur due to strong culture and rigidity, which may hinder innovative efforts and prevent changes in case of fast changes in the external environment [12].

3.4 Literature Summary

To conclude, there is ample literature confirming the significance of organizational culture in the formation of organizational performance. The connection is explained via the lenses of several theoretical models, such as organizational culture theory, resource-based view, innovation theory, knowledge-based theory, transformational leadership theory, digital transformation theory, and social exchange theory [13]. All of these theoretical approaches are capable of elucidating the connection between organizational culture and performance by identifying how culture influences organizational results through certain mechanisms (e.g., innovation capacity, effective leadership, knowledge sharing, and technology adaptation). In addition, empirical evidence confirms the importance of having adaptable cultures conducive to innovation as an essential component of high performance.

This literature overview illustrates the complexity of the subject under discussion and shows the extent to which organizational culture affects organizational life. It also helps understand the significance of culture alignment with the organization's goals and environment. Integrating theoretical models with empirical

evidence helps provide a foundation for exploring the link between organizational culture and performance in this study.

4. Key Findings

It should be noted that the reviewed literature provides strong evidence of organizational culture being one of the main determinants of the success of businesses. The studies discussed show that organizational culture has an effect on the behavior of employees and affects all organizational processes, as well as determines the performance of organizations.

Among the findings of the literature analysis related to organizational culture, there is a mediation effect of innovation. For instance, according to [14], innovation-oriented cultures are associated with increased competitiveness and productivity. Such organizations create an environment in which the creation of new ideas, knowledge exchange, and readiness to adapt to changes become possible. Therefore, innovation becomes a tool for transferring organizational culture into performance. This finding corresponds to the proposed research problem since the issue addressed concerns the factors mediating the relationship between organizational culture and performance.

The other important observation is the connection between leadership and organizational culture. The literature clearly establishes the importance of transformational leadership in contributing to the creation of a positive organizational culture. Transformational leaders motivate people, share their values, and create collaborative work conditions [15]. This contributes to attaining high performance because it is facilitated by such organizational culture. Thus, the research purpose will be met in the course of identifying the influence of internal organizational factors on the relationship between culture and performance. Leadership helps to maintain the alignment of culture values and organization's goals.

Moreover, employee engagement and commitment become important aspects of a positive organizational culture. Supportive, appreciative, and inclusive culture increases employees' satisfaction and motivation; as a result, performance is improved. This is explained by theoretical concepts, like the social exchange theory according to which employees return something in response to the positive actions taken by organizations.

5. Discussion

Apart from the above-mentioned conclusions, several other implications of the review of scholarly literature can be drawn. First, although the connection between organizational culture and performance is quite obvious, it is necessary to bear in mind that not all organizational cultures are equally successful in different situations [16]. For instance, a rigid culture might be useful in situations when an organization requires stability and predictability. But, at the same time, such cultures are not conducive to innovation and change in dynamic technological environments.

Secondly, the growing role of digital transformation necessitates flexibility on behalf of organizations' cultures. It becomes clear that organizations working in technologically developed environments have to build up certain characteristics of organizational culture that would facilitate innovations and improvements [17]. Otherwise, their initiatives related to the development of new digital technologies will not affect their success.

Thirdly, the research findings have some practical implications for management practices. First of all, leaders in organizations need to deliberately influence the organizational culture and develop such culture based on values that promote innovation, cooperation and adaptability. The ways to do it are varied and include leadership development, open communication policy, rewarding performance and encouraging creativity among others.

Fourthly, the critical analysis of literature shows that there are certain weaknesses in previous research in terms of industry and geographical specificity and the complexity of organizational culture and different dimensions [18]. The issue could be addressed in future studies through broader analysis and comparison of diverse cultures in various industries and regions of the world.

To conclude, the present discussion proves that there are several interconnected ways by which organizational culture affects business performance and that these ways are innovation, leadership, and performance [19]. At the same time, answering the research questions, the discussion shows that organizational culture is a rather important issue from different perspectives.

6. Conclusion

The research examined the literature on the importance of culture within organizational settings on such performance. It was revealed that organizational culture has a significant role in determining organizational performance, innovation, employee engagement, leadership effectiveness, and technological adaptation.

The literature suggests that organizations that have good and flexible cultures perform better as compared to organizations that have weak cultures. This is because the way organizational culture affects performance is directly and indirectly based on the aspects of innovation and leadership and commitment of employees.

The next research should be devoted to organizational culture in online transformation, artificial intelligence, and distance workplaces. Generally, organizational culture is a valuable strategic resource that the organizations could leverage to enhance performance and competitiveness.

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Conflicts of Interest

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