Organizational Culture: The Payoff is in the Blend
By John Boudreau
Appeared in CFO Magazine, July 2015

Culture, like wine, is shrouded in myth and mystery, but research suggests that with culture, like wine, a blend of different varieties, not simply a single vintage, often creates the best result.

Does your culture matter to your financial and operational performance, and if so, what's the relationship?

Leaders consider organizational culture a primary catalyst for their organization's effectiveness and growth. Erhart, Schneider and Macey, in "Organizational Climate and Culture" note that "culture is often the explanation for poor performance, whether expressed in poor financials or in specific events embarrassing to the firm. Such events are detailed daily in the popular press: Profit shortfalls at J. C. Penney are explained as a cultural issue (" It is all because of the legacy of Mr. Penney's ways"), legal difficulties regarding women at Wal-Mart are described as a result of the culture (" Wal-Mart is a male-dominated culture"), and ethical lapses at any number of firms that hit the pages of The Wall Street Journal and The New York Times are explained as a consequence of culture (" The winner-take-all culture is what led to these lapses")." Recently, I worked with a group of HR officers who interviewed current and former CEOs and Board members from Fortune 1000 companies. Those CEOs and Board members described a vital future organization role as the "Chief Operating Officer of Culture."

Is there evidence that culture relates to organizational performance? A study by Chad Hartnell, Amy Yi Ou and Angelo Kinicki examined this question by reviewing previous research published between 1980 and 2008. Their findings suggest there is a culture and effectiveness connection, but also that leaders must learn to think about culture more like a blend than a single variety.

There are many ways to measure culture, and past studies had most frequently measured culture along dimensions that correspond to the Competing Values Framework, that defines these culture types:

Clan: Goal is strong affiliation, through employee trust, loyalty, and membership in the organization, and indicated by teamwork, participation, employee involvement, and open communication.
Adhocracy: Goal is change readiness, through employee understanding of the importance and impact of the task, and indicated by risk-taking, creativity, and adaptability.
Market: Goal is achievement, through clear objectives and rewards based on achievements, and indicated by gathering customer and competitor information, goal-setting, planning, task focus, competitiveness, and aggressiveness.
Hierarchy: Goal is stability, through clear roles and procedures are formally defined by rules and regulations, and indicated by conformity and predictability.

The theory behind this framework is that each of these cultures is appropriate to achieve certain corresponding objectives: Clan cultures produce high employee satisfaction and commitment; Adhocracy cultures produce innovation; Market cultures produce market share, profit, quality and productivity; Hierarchy cultures produce efficiency, timeliness and smooth functioning. Organization leaders often reflect this idea when they aim for a culture driving specific outcomes such as "a culture of …" innovation, high-performance, customer-focus, etc.

The researchers studied how organization outcomes related to the Clan, Adhocracy and Market cultures (but not the Hierarchy culture, because their investigation didn't reveal enough studies that measured the Hierarchy culture). It turns out that the reality of culture and organization effectiveness is a lot more complex and interesting than simply one culture leading to one outcome. Different culture types were related to each other, sharing about 25 percent of their variation with the other culture types. In other words, these cultures often coexist.

Some culture types were indeed more highly related to some organization outcomes, but typically each culture type was related to more than one organization outcome, and organization outcomes related to more than one culture type. All three culture types were positively related to employee job satisfaction, innovation and product-service quality. The Clan culture was most strongly related to employee attitudes, the Market culture most strongly related to reported innovation and financial effectiveness, but all three cultures showed positive relationships with all of these outcomes.

Does culture matter to the bottom line? When predicting objective measures of profit and growth, both the Adhocracy and Market cultures showed positive and similar relationships, while the Clan culture was less strongly related.

The best approach to culture may not be to pursue one best culture to reach a particular organization outcome, but instead to nurture multiple culture types at the same time, so that they act in synergy to support your organization's goals. The study authors suggest, for example, that clan cultures' emphasis on collaboration, trust, communication, and support may provide the internal integration needed to strengthen market cultures' capacity to innovatively meet customers' needs.

What does this mean for your leadership and investment in organizational culture? It requires thinking "outside the lines." Culture does not pay off simply in a linear relationship where more of one thing creates more of another. Rather, the key lies in the configuration of culture types, and fitting that configuration to your unique goals and strategy. It's complex, but the good news is that research is emerging to guide you.

The complexity also has an upside, because if you get it right it's a lot harder for your competitors to duplicate.

John Boudreau is professor and research director at the University of Southern California's Marshall School of Business and Center for Effective Organizations, and author of the forthcoming books, "Lead the Work" with Ravin Jesuthasan and David Creelman and *"Global Trends in Human Resource Management"* with Edward E. Lawler III.

###