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## Does organizational culture cheer organizational profitability? A case study on a Bangalore based Software Company

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### Abstract

In today's competitive world, every organization wants to improve their performance in one or other way to hold the market. Profit is the blood of the business. When a group of people working together for a common goal, the culture emerges out of the organization plays a very important role to achieve the goal. This research aimed at finding various cultural orientations prevailing in the selected software company and in that the role of dominant culture in improving the profitability of the organisation. The competing value framework was used as a tool to explore the different cultural orientations prevailing in the organization and through multiple regression analysis, the impact of various cultural orientations on profitability of the organisation was found. Through this research it was identified that development culture is the dominant culture in the selected organization. Also development culture and hierarchical culture both are having positive impact on the profitability of the organization.

**Keywords: Organisation Culture, Competing values framework, Profitability, Organisation performance, Software company**

### Introduction

In this globally competitive environment, Organizations are striving to increase employees' commitment to improve their productivity. For that the employees should understand the culture. Awareness about organizational culture helps to examine the organization behavior which helps to assist managers in major decision making. Culture of the organization should be a stimulator of employee productivity and quality of performance. Organizational culture is one of the critical factors in enhancing performance of the organization. As everybody aware that businesses are happening by and for profit. Ultimately employee productivity leads to profitability of the business.

There were lot many studies happened in manufacturing sectors but in few service sectors as well. In knowledge intensive organizations like software organizations, organizational culture plays a critical role in enhancing performance because their success depends on people. Organization culture may encourage or discourage creativity and innovation, quality of the process or product which in terms affects the business. Business performance is ultimately measured with respect to the profits. So the main objective of this study is to explore organizational culture and its impact on organization performance in terms of the indicator profitability in an Indian software organization.



## Literature review

In the words of Ravasi and Schultz (2006), organizational culture is a set of shared mental assumptions that guide interpretation and action in organizations by defining appropriate behavior for various situations. Although a company may have its "own unique culture", in larger organizations there are sometimes conflicting cultures that co-exist owing to the characteristics of different management teams

**Organizational performance** comprises the actual output or results of an organizations measured against its intended outputs (or goals and objectives). Specialists in many fields are concerned with organizational performance including strategic planners, operations, finance, legal, and organizational development. In recent years, many organizations have attempted to manage organizational performance using the balanced score card methodology where performance is tracked and measured in multiple dimensions such as: Financial performance (e.g. shareholder return, profitability), customer service, social responsibility (e.g. corporate citizenship, community outreach), employee stewardship. (Source: www.ask.com). In this research financial performance alone was considered and it was measured using profitability indicator.

### **Competing Value Framework:**

The Competing Values Framework (CVF) is one of the important models in the history of business. This model is used for more than twenty five years by many leaders. This model can apply to all the levels and aspects of the organization. This model serves as a primary map for organizing mechanism, for sense making device, for generating new ideas and for learning systems. The CVF gives a theory about how the various aspects of the organization function simultaneously. This framework helps the leaders to work more consistently in improving their organizations culture as well as performance.

In this research work this model formed the basis. From the research of **Goodman et.al (2001)** on competing value framework, "...Quinn and Rohrbaugh (1983) examined the relationship between culture and organizational effectiveness and showed that differences among the many effectiveness criteria in the literature could be better understood when they were organized along two axes. The CVF's two dimensional typology yields four cultural orientations. Hierarchical culture, values stability and control and emphasizes formal coordination, centralized decision making and vertical communications. Not surprisingly, employees' roles are defined and enforced through formal rules and regulations. Group culture has a primary concern with human relations and morale. Structurally, there is less emphasis on formal coordination and control systems, and a greater emphasis on participation, decentralized decision making, horizontal communications and teamwork. Rational culture values productivity and efficiency. With a focus on achievement, this culture emphasizes centralized decision making and more formal coordination and control systems. Developmental culture emphasizes growth and adaptability. Similar to the group culture, there is an emphasis on informal coordination, control systems and horizontal communications."

**Julia & Valencia (2010)** focused on the link between organizational culture and product Innovation and findings also supported for this relation. They found that organizational culture can enhance product innovation but it can also inhibit it depending on the values that culture fosters. In particular, their study revealed that product innovation is positively associated to adhocracy cultures and has a negative relation with hierarchical cultures.

**Mathew.J (2007)** explored the relationship of organisation culture with productivity and quality in the context of software organizations. In their study they also showed that the various aspects of organizational culture have a significant influence on productivity. The study captured a range of cultural processes which have a bearing on productivity in. Also the study showed that organizational culture has an impact on the conception, planning, implementation and effectiveness of quality initiatives.



**Jabnoun & Sedrani (2005)** revealed that the presence of either the TQM dimensions of customer focus and continuous improvement, and the culture dimension of people oriented in addition to the combined effects contributed to reduced customer complaints, increased product reliability and profitability this encourages managers to accompany TQM practices of customer focus and continuous improvement.

Through the literature review it was well understood that, the culture prevailing in the organization has a major impact on quality of the product and creativity and innovativeness in the product which in terms affect the customer satisfaction and productivity leads to increase or decrease in profitability. An organization which understood their culture well can improve their profitability by concentrating on the dominant culture and try to improve the required culture orientation. This made the author to conduct the study on a software company, which is well known for its innovation and creativity products, thereby identifying the impact of that organization culture on the profitability.

### **Research Problem**

Using the Competing Values Framework, identifying the dominant dimension of organization culture and its impact on organization's profitability in a well-known Bangalore based Software Company to make inference about software industry.

### **Objectives of the study**

- To explore the various cultural orientations prevailing in the selected product based Software Company.
- To find the impact of dominant organizational culture on organization profitability

### **Proposed Hypotheses**

From the literature review it was identified that the strong culture prevailing in the organization has major impact on organization performance. So the hypothesis was proposed as follows: There is an impact of dominant culture on organization profitability.

### **Research methodology**

It is a case study approach where one of the Bangalore based software organizations was selected for the study. From that company, data has been collected from a sample size of 100 employees at various levels using snowball sampling technique. The entire study is based on primary data.

Primary data was collected using a structured questionnaire to know their opinion about the various forms of cultural practices prevailing in the organization and its impact on organizational performance. After data collection, analysis was done using statistical tools like "Factor analysis and multiple regression analysis". SPSS software package was used for analysis.

### **Scope of the study:**

This study aims at identifying the dominant culture of the organization and to find the impact of that organizational culture on performance. Identifying weak culture and its impact on organization performance would help the organization to improve the cultural practices which is very much necessary for the organization's growth.



### Limitations of the study:

- This research was based on only 100 employees' perceptions about the culture of the selected organization. The other employees' perceptions may vary.
- Only 14 variables of organizational culture were considered to measure the impact of it on organization performance based on literature review. There may be other variables too that could be considered.
- This study was done in a single organization which could not be helpful in making generalizations.

### Discussion on findings

After the data collection, analysis was started with a normality test on sample to check whether this sample could be considered for factor analysis or regression analysis. Even though the sampling technique adopted was snow ball sampling method, the sample cleared the normality test (Shapiro-Wilk test). Then reliability of the items considered for measuring organization culture was done using reliability analysis in SPSS. As the Cronbach alpha value stood at 0.694 which is nearer to 0.7, items taken were considered as reliable.

To identify the various cultural orientations prevailing in the organization, factor analysis was done. The KMO measures the sampling adequacy which should be greater than 0.5 for satisfactory factor analysis to proceed. Looking at Table no.1, KMO measures 0.523. Bartlett's test is another indication of the strength of the relationship among variables. From the same table no.1, it could be seen that the test of sphericity is significant. Table of communalities which shows how much of the variance in the variables has been accounted for by the extracted factors. From table no.2, it could be seen that, for instance 71.3% of variance in V13 is accounted for while 24.8% of the variance in V2 is accounted for. From the total variance explained (Table no. 3), it was understood that before rotation, first factor accounts for 19.3, second 14.473, third 13. 417, and fourth 9.459 and all other factors remaining insignificant.

From the rotated component matrix table it was interpreted that the loadings of the 14 variables which were used to measure the organizational culture were converged in to four factors. These four factors could extract 56.65% of all the variables under consideration of organizational culture. With the help of Competing Values Framework, the four factors were named as follows.

Factor1: Group Culture (V3, V4, V5 and V7)

Factor 2: Hierarchical Culture (V10 and V11)

Factor 3: Rational culture (V1, V12 and V14)

Factor 4: Developmental culture (V8 and V13)

From the factor analysis it was identified that the organization culture prevailing in the selected company is a mixture of all cultural orientations. Through this it was well understood that there is no organization with a single cultural orientation which is supported by literature too. But for any selected organization there would be a dominant culture which is also known as strong culture. For example, in most of the government organizations, hierarchical culture is dominant and in most of the advertisement firms development culture is dominant where work practices are also different according to the prevailing culture. Similarly in software organizations too, there would be a dominant culture.

In order to identify the dominant dimension of organization culture and its impact on organization's profitability, multiple regression analysis was done. Even though the r square value showed that only 12.5% of the variation in profitability (Refer table no.5) was caused by organization culture, it was shown that the variation is significant (sig value:  $0.019 < 0.05$ , Refer table no.6). Variation in profitability due to organization culture is very small. As everyone knows that profitability is not only a function of organization culture and there are other parameters too which will cause variation in profitability which was accumulated as uncontrolled factors according to this study. The other factors



may be customer satisfaction, other macro economic variables etc. From the table no.7, it was found that developmental culture is the dominant culture (Sig. value:  $0.021 < 0.05$ ) in this organization and hierarchical culture occupies the second position (sig value  $0.058 < 0.10$ ), both of which have significant impact on the profitability of the organization. With the help of this regression analysis, the above stated hypothesis was tested which supported the validation of the objectives stated.

In a knowledge intensive industry like software industry, it is obvious that innovation as well as quality are the competitive advantage for their existence in the global market. From the literature, it was understood that hierarchical culture poses order of work, structured work environment which supports enhancing the quality of the product as well as processes of a company whereas development culture supports innovation, taking risks. In this global market, customers are demanding more in terms of novel products at reasonable price. Especially in a product based company like this, if a company cannot innovate new products, its survival in this competitive world becomes questionable. For creating innovative products the culture in the organization should be supportive as well as nowadays customers are much more aware and demanding about the quality of the product, which makes the company to produce a quality product. For that process orientation is also important which is provided by hierarchical culture. From this research it was well understood that the combination of developmental culture and hierarchical culture which are prevailing in that company keeps it as a leader in the Software products market.

### Conclusion

The results of this research can be used by a manager of a software company to identify the dominant culture prevailing in the organization and to identify the weak culture. Once it is identified, necessary steps can be taken to improve certain areas to maintain their competitive advantage, because culture is not stagnant. It can be changed by good leadership and value system with proper efforts. This research work can be carried out across software industry instead of doing it for a single organization and universal theory can be developed. The study can also be extended in future to find out the cross cultural impact on organizational performance as most of the software organizations are Multinational, international and Global. In this study, only few variables of Culture were considered and other factors affecting profitability were not taken into consideration. By considering other factors which affects profitability, this study could be extended to find the moderating effect of organization culture.

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**Annexure**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.523
Bartlett's Test of Sphericity	Approx. Chi-Square	315.490
	df	91
	Sig.	.000

	Initial	Extraction
V1	1.000	.691
V2	1.000	.248
V3	1.000	.604
V4	1.000	.711
V5	1.000	.746
V6	1.000	.273
V7	1.000	.728
V8	1.000	.553
V9	1.000	.367
V10	1.000	.532
V11	1.000	.659
V12	1.000	.473
V13	1.000	.713
V14	1.000	.634

Extraction Method: Principal Component Analysis.



**Table 3: Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.702	19.300	19.300	2.702	19.300	19.300	2.225	15.895	15.895
2	2.026	14.473	33.773	2.026	14.473	33.773	2.111	15.082	30.977
3	1.878	13.417	47.190	1.878	13.417	47.190	1.844	13.168	44.145
4	1.324	9.459	56.650	1.324	9.459	<b>56.650</b>	1.751	12.505	<b>56.650</b>
5	1.023	7.304	63.954						
6	.949	6.777	70.731						
7	.894	6.387	77.118						
8	.791	5.652	82.771						
9	.595	4.247	87.018						
10	.552	3.943	90.961						
11	.452	3.228	94.189						
12	.334	2.387	96.576						
13	.299	2.138	98.715						
14	.180	1.285	100.000						

Extraction Method: Principal Component Analysis.

**Table 4: Rotated Component Matrix<sup>a</sup>**

	Component			
	1	2	3	4
V1			<b>.708</b>	
V2				
<b>V3</b>	<b>.574</b>			
<b>V4</b>	<b>.588</b>		.537	
<b>V5</b>	<b>-.818</b>			
V6				
<b>V7</b>	<b>.776</b>			
V8				<b>.700</b>
V9				
V10		<b>.694</b>		
V11		<b>.790</b>		
V12			<b>.654</b>	
V13				<b>.831</b>
V14			<b>.643</b>	

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Rotation converged in 7 iterations.



**Table 5 : Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.354 <sup>a</sup>	<b>.125</b>	.085	.479
a. Predictors: (Constant), Group Cultrue, Hierarchical Culture, Rational Culture and Developmental Culture				
b. Dependent Variable: profitability				

**Table 6 : ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.862	4	.716	3.118	<b>.019<sup>b</sup></b>
	Residual	19.964	87	.229		
	Total	22.826	91			
a. Dependent Variable: profitability increased						
b. Predictors: (Constant) Group Culture, Hierarchical Culture, Rational Culture and Developmental Culture						

**Table 7: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.457	.050		89.233	.000
	Group Culture	.049	.050	.097	.972	.334
	<b>Hierarchical Culture</b>	<b>.097</b>	<b>.050</b>	<b>.193</b>	<b>1.922</b>	<b>.058</b>
	Rational Culture	.077	.050	.153	1.527	.130
	<b>Development Culture</b>	<b>.118</b>	<b>.050</b>	<b>.235</b>	<b>2.345</b>	<b>.021</b>
a. Dependent Variable: <b>profitability</b>						