

THE LINK BETWEEN ORGANIZATIONAL CULTURE AND PERFORMANCE MANAGEMENT PRACTICES: A CASE OF IT COMPANIES FROM ROMANIA

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Abstract: *The aim of this research paper is to empirically test the relationship between the components of organizational culture and the practices of performance management. In this study, the primary data were collected through questionnaires from 81 employees working in IT companies from Bucharest. Strong cultures help organizations anticipate and adapt to changes in environment, thus proactive cultures should enhance and support organizational performance on the long-run. The results from the statistical analysis of primary data show that the dimensions of organizational culture have a positive impact on performance management practices. Moreover, all the four traits of organizational culture (adaptability, mission, consistency, involvement) have a significant and positive influence on performance management practices. However, consistency has the largest influence on performance management practices, meaning that effective organizations have strong cultures that are highly coordinated, consisted and properly integrated. Consistency is a great source for stability and internal homogeneity, as behavior has its source in the core values of the organization.*

Taking into account the relation between these variables and organizational performance, it is important to retain key employees that are aware of the organizational goals and values. Therefore, the organization should implement practices that increase job security and career development. In this manner, the organization will not only decrease turnover rates, but it would also form a stronger organizational culture by keeping the employees that are already accustomed with the values, beliefs and norms of the corporation. In order to analyze the data collected from the employees working in IT field, regression and correlation statistical analysis have been used. The results show that adaptability is highly correlated to the mission. The implications of my research for the field of organizational behavior is that the models that were developed for developed economies also applies to developing economies, such as the one from Romania.

Keywords: organizational culture; performance management;

JEL classification: M14; M15

1. Introduction

The recent scientific literature highlighted that human resource management has become an essential tool to increase firm performance and to achieve the business vision. In the new context of economic changes, employees are considered to be valuable assets to an organization. Therefore, effective management of the employees is needed. In spite of the dynamic competitive environment of the developing countries, most of the studies have been conducted on western countries. Some scholars even questioned the applicability of the western practices of management in developing countries, although it has been universally recognized that organizational culture is one of the main reasons for differences in performance management practices (Denison et al, 2004).

Although the relation between organizational culture and performance has been studied in many researches (Ogbonna and Harris, 2000), just a very few studies have focused on organizational culture as a factor on performance management. That is why this study's purpose is to analyze the relationship between the components of organizational culture and performance management practices.

In this empirical study, the theory of organizational culture of Denison is used. The theory focuses on four cultural traits: mission, adaptability, consistency and involvement. In addition, the theory explains the cultural traits of organizational performance, while the practices of performance management sustain the view that the members of the organization benefit from the culture seen as a contextual factor.

In the process of developing the organizational culture, not only the human resource department should be involved, but also the top management of the organization (Dorothy, 2008). Having a strong culture is not about being a good employer, but more about having employees that are committed to the vision and mission of the organization. However, there are companies that see their culture just as a recruitment tool and mean to motivate and communicate with employees. Instead of that approach, companies should focus on engaging employees at a fundamental level. On the long run the engagement will transform into high performance. An effective and strong culture aligns with the business strategy to ensure the organization meets its goals on the long run (Reinter, 2009).

2. Literature analysis

Culture is defined by Schein (1985) in terms of basic assumptions, shared beliefs or values. From his point of view, culture exists at three levels within the organizations: basic assumptions, values, and artifacts and creations. Organizational culture contains a set of norms that describe which behaviors are appropriate and which aren't within the organization. However, the culture is not necessarily homogenous across all departments of the company, as some norms might be embraced by all members of the organization. Moreover, different groups within the organization might develop their own sub-cultures over time. The increasing interest in studying the organizational culture is generated by the belief that the culture of an organization could influence its short and long term performance.

Schein (2004) defines organizational culture as "the set of shared, taken-for-granted implicit assumptions that a group holds and that determines how it perceives, thinks about and reacts to its various environments". This definition shows three main characteristics of organizational culture: organizational culture is passed on to new members of the organization through socialization, the behavior at work is influenced by the culture of an organization and that organizational culture operates at different levels.

Generally speaking, values are the foundation of any company so in order to set up a strong organization, it should have strong values. The values should be related to innovation and a methodology regarding the efficient use of resources. If these conditions are met, the organization will create a sustainable vision.

Every organization has its own unique set of values and therefore culture. Some companies focus on integrity and honesty, passion for customers while others emphasize on technology, self improvement or innovation. Irrespective of the organization's culture, the companies should align the core values with the overall performance, including employee retention. Organizational culture really matters to employees, so a negative and not transparent culture leads to high churn rates. It is important to focus on creating a performance culture and to help employees that don't achieve their goals, before finding a better match for the position.

Organizations cultural change does not happen by accident. In most of the cases, culture changes are implemented using a defined strategy for high involvement and by using a measurable action plan.

2.1. Performance management

The concept is defined as a strategic and integrated approach to achieve sustained success for an organization, by improving the performance of the employees and by developing the capabilities of the teams and of the underlying individuals. Performance management includes activities which ensure that goals are consistently being met in an effective and efficient manner. This approach suggests that people are the most important assets in organizations, as they create the competitive advantage and not the capital. Performance management is a system that aims to exploit the full potential of human resource by removing barriers and by motivating the members of the organization (Armstrong and Baron, 1998). By training strong people and by cultivating their capabilities, the organization will benefit, as the competitive advantage is improved. In essence, performance management is about creating competitive advantage by developing and keeping the employees motivated (Kandula, 2006).

2.2. The link between organizational culture and performance management

According to many scholars the main element that helps to attain good performance is to develop a strong organizational culture. Moreover, the culture can even represent a barrier when trying to implement new strategies. That is why, the same strategy can yield different results for two companies that compete in the same industry or geographical region.

Numerous studies have been conducted regarding the relationship between the culture type and the organizational performance, motivated by the belief that certain cultures might be more effective than others. The studies showed that a positive and strong culture help employees perform in a great manner and achieve success, while weak and negative cultures may decrease their performance and even demotivate an excellent employee. Therefore, organization culture has a direct influence on performance management. According to Magee (2002), organizational culture and performance management are interdependent. That is why managers should understand the impact of organizational culture in order to get the highest yield from practices such as performance management, as a change in one impacts directly the other.

Both research and observation of successful companies have showed a direct correlation between strong corporate cultures and performance. Moreover, the organizational culture has a vital and measurable impact on the ability of a company to implement its strategy. The culture of an organization cannot be ignored when dealing with concepts such as risk management, customer relationship management, change management or leadership.

More and more companies are encouraging employees to be more responsible and are given more freedom to act. In addition, they are also encouraging teamwork and the formation of teams. A strong culture is one in which the employees work together effectively, share the same core values, and take decisions to meet the organization's primary goals and objectives.

2.3. Organizational culture according to Denison's model

Denison's model has been developed starting from the Schein (1985) approach to organizational culture. Therefore, the core of the model is represented by the underlying beliefs and assumptions. At the more surface-level, there are the values and the artifacts (symbols, heroes) and the behavior. In this model, the comparison between organizations is made according to the surface-level values and their manifest practices.

The organizational culture model of Denison is based on four cultural traits: involvement, consistency, adaptability and mission. All these traits have been shown to have an influence on organizational performance (Denison, 1990).

2.3.1 Adaptability

High performing organizations distinguish from low performing organizations by their ability to understand and react to the competitive environment and customers. In addition, they restructure behaviors and processes that help them to adapt. Moreover, high performing organizations encourage new ideas and different solutions for solving problems. In addition, employees seek new and better ways to meet customer expectations on a continuous basis. Controlled risk taking is encouraged as the organizations learn from both successes and failures.

2.3.2 Mission

Successful organizations have a clear mission that shows employees why they are doing their tasks and how the work they do help the organizational performance. Strategic direction and intent are about multi-year strategies and high priorities are established. In successful organizations the goals and objectives are short term. In addition, specific goals are defined so that employees understand how their daily routines relate to the vision of the organization. Vision represents the main reason an organization exists and competes on a certain market.

2.3.3 Consistency

Consistency represents the main source of integration, coordination and control. In addition, it helps organizations develop a set of procedures that create an internal system of governance which is based on support that is consensual. Successful companies have a clear set of values that support employees and managers in making consistent decisions. When facing difficult issues and misunderstandings, the members discuss them openly and try to reach an agreement. In these organizations, each employee is aware of the fact that their work impacts others and how the work of others impacts them. The employees always make sure that their work is aligned with the organizational goals and objectives.

2.3.4 Involvement

Highly involved organizations differentiate from the rest of the companies by creating a sense of responsibility. This particularity creates a greater commitment to the organization and autonomy. In these organizations, employees know kind of decisions they are allowed to take and which ones are beyond their responsibility. In other words, employees are empowered to take decisions in an informed framework. Employees are encouraged to work in teams and they support each other to attain their work goals. Last but not least, the high-involved companies use training and coaching to develop employee capability.

3. Research methodology

The main aim of the present scientific paper concerns the analysis of relationship between the organizational culture and the practices of performance management practices. This research is based on non-probabilistic sampling, more specifically on rational theoretical guided sampling. I have selected employees working in IT field from Bucharest and used primary data collection, such as questionnaire and face-to-face interviewing. The studied population is represented by personnel from privately-own IT companies located in Bucharest. As far as the application of the questionnaire is concerned, I used a mixed strategy. On one hand, I sent questionnaires by email to 82 persons working in the IT

field, of which only 38 have been returned, 37 being valid. On the other hand, I went to the Chamber of Commerce and I identified several companies which are competing in IT market. I managed to fill in another 44 questionnaires. All the questionnaires were checked for validity, before numbering and loading them in a SPSS 17, data processing software. The graphs and the frequency were generating using this software. Taking into account the objectives of the research and the nature of the variables, the main analysis used were frequencies, Chi Square Test and the Correlation Coefficient.

Denison's model suggest that organizations with a higher measure of the combined four traits highlight a high level of performance, which is the result of performance management. The first hypothesis of this study (H1) is that organizational culture has a positive and significant relationship with high performance practices.

Since performance management also creates superior performance for organizations, the second hypothesis (H2) is that the four traits of organization culture (involvement, consistency, adaptability and mission) have a positive and significant on management practices (clear goals, performance measurement system, performance-based compensation and training effectiveness).

In order to measure the organizational culture Denison (2000) created an Organizational Culture Survey that consists of sixty Likert scale questions. The survey focuses on the four traits of organizational culture: adaptability, mission, consistency and involvement. Some of the questions are related to team work, core values of the organization, customer relationship, employee involvement or continuous improvement processes.

On the other hand, the practices performance management refers to the clarity of the organizational goals, measuring performance, training effectiveness or performance based compensation.

In order to measure how clear and detailed goals are, I have used the framework developed by Verbeeten (2008). The theory suggests that people with specific goals will outperform those employees with vague goals. The goal setting theory suggests that there is a direct and positive relationship between the clarity and measurability of goals and performance. Therefore, the mission of the organization should be properly formulated and the goals should be measurable and detailed.

Secondly, the performance system instrument evaluates the systems that have been developed by the organization to measure performance except performance measures. Such instruments could assess operating efficiency, customer satisfaction and other areas.

Thirdly, the training effectiveness refers to the ability of the organizations to analyze the need for training programs, their costs and benefits, as well as to evaluate if the objectives of the programs are met.

Last but not least, performance-based compensation includes how important the performance of an employee is when determining his earnings. In addition, this component evaluates how promotions are made in the organization (Ehtesham et al, 2011).

4. The results of the research

In order to analyze the relationship between organizational culture and performance management practices, I have averaged each variable in one construct. In addition, I have used the Pearson correlation coefficient to see the relationship between the two variables and to measure the strength of the relationship. On the other hand, I have used One-way Anova to determine the significance level of the correlation.

Table 1: Correlation between culture and performance management practices

		OC	PMP
Organizational Culture (OC)	Pearson Correlation	1	0.857
	Significance		.001
	N	81	81
Performance Management Practices (PMP)	Pearson Correlation	0.857	1
	Significance	.001	
	N	81	81

Source: made by author

As it can be seen in Table 1, there is a strong and positive correlation between the organizational culture and performance management systems, thus conforming hypothesis H1. The confidence level for the relationship is 0.99.

Table 2 shows the correlation between the four traits of organizational culture and the practices of performance management. As it can be seen in the table, all of the four traits have a positive influence on performance management practices.

The value of adaptability for performance management practices is 0.703 at a significance level of 99%. The value for mission is 0.813 which shows a high level impact for the trait on the performance management.

The values for the consistency is 0.862 is also shown a high significance of the relationship between the variables. Last but not least, the value for involvement is 0.702 at a significance level of 99%.

As it can be seen in the Table 2, the consistency has the highest impact on practices of performance management and involvement has the lowest impact. All the four traits of organizational culture have a positive and significant impact on performance practices management, so the second hypothesis is also valid.

Table 2: Correlation between organizational culture traits and PMP

		Adaptability	Mission	Consistency	Involvement	PMP
Adaptability	Pearson Correlation	1	0.866	0.822	0.9	0.703
	Significance	-	.001	.001	.001	.001
Mission	Pearson Correlation	0.866	1	0.84	0.772	0.813
	Significance	.001	-	.001	.001	.001
Consistency	Pearson Correlation	0.822	0.84	1	0.808	0.862
	Significance	.001	.001	-	.001	.001
Involvement	Pearson Correlation	0.9	0.772	0.808	1	0.702
	Significance	.001	.001	.001	-	.001
PMP	Pearson Correlation	0.703	0.813	0.862	0.732	1
	Significance	.001	.001	.001	.001	-
N		81	81	81	81	81

Source: made by author

On the other hand, there can be seen some correlations between the organizational traits. Therefore, adaptability is correlated to mission and adaptability, more than it is to

performance management practices. In addition, the least correlation is between the adaptability and the practices of the performance management, with a coefficient of 0.703.

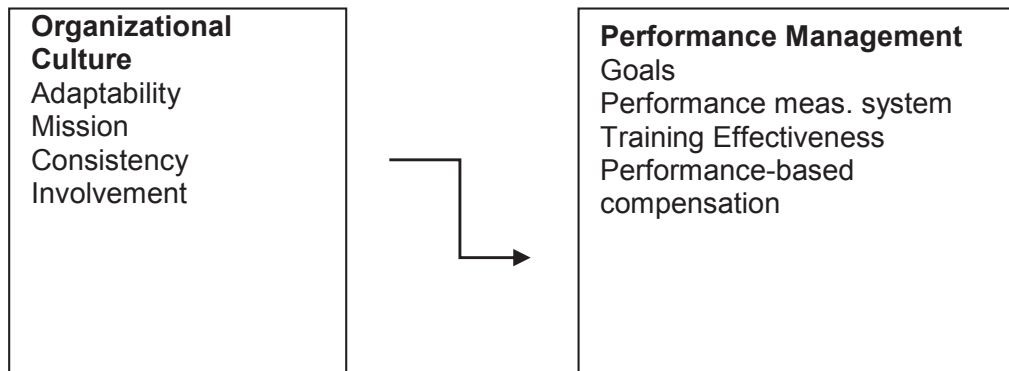


Figure 1: A model for Organizational culture and performance management

The coefficient of determination (R square) between the organizational culture trait and the performance management practices is 0.65, which means that 65% of the variance of performance management practices can be explained through the shift in organizational culture traits. Similarly, the coefficient of correlation between the dependent variable and the independent variable is 0.81, which means there is a strong positive correlation between the variables.

Taking into account all the information described above, along with the fact that that F is statistically significant, I can conclude that the model is valid. Therefore, in the case of the organizations that compete in IT field in Bucharest, there is a strong link between the organizational culture traits and the practices of performance management.

5. Conclusions

Churn rates for IT companies have been increasing in recent years, so that keeping the key employees has become a real challenge for any organization competing in this field. Numerous studies have shown that clear goals and a really strong culture could engage the employees to the organization's values and increase both the performance and the competitive advantage. Unpleasant work environment, not transparent mission and vision, weak culture or limited prospects of promotion contribute to low job satisfaction, motivation and involvement.

A significant percent of the personnel working in IT sector is dissatisfied with the facilities offered by the organizations, as well as with the climate at work. Nevertheless, due to the dynamic environment of IT sector, the need for experienced professional is growing and keeping the best employees has become harder than ever before. Training programs and performance-based compensation system keep the employees motivated and fully engaged to the core values of the organization.

Implementing an efficient culture from the top of the organization is impossible, as it can be only achieved by training managers and supervisors to involve the rest of the employees in the process. The main elements that managers have to take into account are the vision, the way the vision is communicated and the management style across the organization.

The main purpose of the paper was to determine the relationship between the organizational culture traits (adaptability, mission, consistency, involvement) and performance management. After analyzing the primary data, it has been found that all the four traits have a significant and positive influence on the performance management practices. However, the greatest influence is represented by the consistency and mission.

Moreover the study shows that organizational culture and performance management are two complementary concepts. Therefore, when analyzing the organizational performance of an organization, these two concepts should not be isolated one from another.

Implementing proper human resource management strategies require an integrative approach, so that there are aligned horizontally with all human resource processes and vertically with the organizational goals. Achieving horizontal fit of the human resource strategies with all HR policies would improve the productivity of employees, increase the flexibility of the organization and facilitate the incorporation of new technologies. The main principle is to link learning and development to HR processes, to support the best practices on the long term. According to recent studies, training has become vital to knowledge management, therefore new structural relationships should be promoted.

The limitations of this research are about the number of respondents and their location, as the primary data were collected from employees working in several IT companies located in Bucharest. I intend to extend my future researches to investigate the link between performance management and organizational culture, in other regions of Romania. In addition, this study doesn't establish ways in which the cultural differences between organizations from public and private sector can be minimized. Taking into account these limitations, I will focus my future work towards eliminating these aspects.

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