

Organization culture as driver of competitive advantage

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ABSTRACT

One of the many responsibilities confronting leaders is the creation and maintenance of organizational characteristics that reward and encourage collective efforts. The organizational culture stands out as one of the components that are important to sustaining performance, and competitive advantage, and a good reason for becoming a great company. The reason for ethical failure in many organizations is the fact that while leaders concede of culture as a powerful tool that can create and sustain performance, only few leaders give it the attention it deserves. The cause of ethical failure in many organizations can be traced to organizational failure of leadership active promotion of ethical ideals and practices. This paper will discuss the use of Schein's five primary mechanisms as a model for leaders in creating a culture that supports moral and ethical behavior. Examine the implications of this model in gaining competitive advantage, and will further critique the implications of an unethical culture within the organization in terms of maintaining or expanding its market share.

Keywords: organizational characteristics, collective efforts, culture, sustaining performance, ethics, Schein's five primary mechanisms, organization culture, competitive advantage

The importance of culture in the organization

There has been growing concerns over the Ways many organizations have chosen to do business in the recent past. The organization culture as a leadership concept has been identified as one of the many components that leaders can use to grow a dynamic organization. Leadership in organizations starts the culture formation process by imposing their assumptions and expectations on their followers. Schein, (2004) states that As organizations stabilizes because of success in accomplishing its primary tasks, the leader's assumptions become shared and embedding those assumptions can then be thought of more as a process of socializing new members. Organizational leaders achieve success by being consistent, in sending clear signals about their priorities, values and beliefs. Once culture is established and accepted, they become a strong leadership tool to communicate the leader's beliefs and values to organizational members, and especially new comers. When leaders promote ethical culture, they become successful in maintaining organizational growth, the good services demanded by the society, the ability to address problems before they become disasters and consequently are competitive against rivals. Schein, (1999) informs that corporate culture matters, because the decisions made without the awareness of the operative culture forces may have unanticipated and undesirable consequences. Organizational leaders are confronted with many complex issues, when making decisions about the best methods to generate organizational achievements in their complex environments. The leader's success will depend to a large extent, on his knowledge and understanding of the organizational culture. The leader who understands his organizational culture and takes it seriously is capable of predicting the outcome of his decisions in preventing any anticipated consequences. What then is organizational culture? The concept of organizational culture has been defined from many perspectives in the literature. There is no one single definition for organizational culture. The topic of organizational culture has been studied from many perspectives and disciplines, such as anthropology, sociology, organizational behavior, and organizational leadership to name a few. Deal (1999) defines organizational culture as values, beliefs, and behaviors that differentiate one organization from another. Schein, (1999) outlines the manifestations of culture as "the way we do things around here", "the rite and rituals of our company", "the company climate", "the reward system", "our basic values" (p.15), and so on. These are manifestations of culture because they do not represent culture at the deeper levels where we must understand and manage the deeper levels. In Schein, (2004) organizational culture is defined as a "dynamic phenomenon that surrounds us at all times, being constantly enacted and created by our interactions with others and shaped by leadership behavior, and a set of structures, routines, rules, and norms that guide and constrain behavior" (p.1). A practical way to define organizational culture is the environment in which we work; these are the member's behaviors, attitudes, beliefs, skills, perspectives, habits and prejudices. Some of these attributes have been molded by past leaders, either good or bad through years of indoctrination, influence, and reinforcement. The truth remains that leaders of organizations are responsible for the climate they create in their organization.

Levels of culture:

To fully understand the meaning of culture, Schein, (1999) characterizes organizational culture as consisting of three levels. The first lever, the behavior and artifacts level represents the most visible level, which is characterized by our behavior and artifacts around us. This observable level of culture consists of behavior patterns and outward manifestations of culture. These cultural characteristics can be observed in the physical layout of work environments, dress

codes, and levels of technology, the attitudes and behaviors of the people. The second level the espoused values of an organization to a large extent determine behavior Schein, (1999). These values are not observable as our physical behaviors and artifacts. These values are the difference between stated values and operating values. For example, this company values quality, we value our customers and so on. The operating value on the other hand is the actual manifestation of value that is truly in force. Most people in the organization will attribute their behavior to the stated value. To truly understand culture according to Schein, (1999) we have to get to the deepest level the level of assumptions and beliefs. The essence of culture is the learned values, beliefs, and assumptions that become shared and taken for granted as the organization continues to be successful. These components are taken for granted as long as the members of the organization agree that these values, beliefs and assumptions of their founders and leaders led the organization to continued success, and is therefore correct.

The opposing question confronting most organizational leaders is whether established cultures can be changed? Organizational cultures are created, maintained, and transformed by people. An organizational culture is in part, also created and maintained by the organization's leaders. Organization founders and leaders at the executive level are the principal source for the generation and reinfusion of organizations ideology, articulation of core values and specific norms. Organizational values express preferences for certain behaviors or outcomes. Organizational norms express behaviors acceptable by others, and are culturally acceptable ways of pursuing goals. Leaders also establish the parameters for formal lines of communication and the formal interaction rules for the organization. Values and norms, once transmitted through the organization, establish the permanence of the organization's culture. The primary mechanisms: In support of moral and ethical behavior.

Leaders must operate from a foundation of high morality and ethical discipline in the organization at all times. They must personally act in accordance with productive values and beliefs, and they must teach, others to do the same. They must establish and promote the culture. With the awareness of culture in today's organizations, and its strong impact on employee behavior, leaders in organizations can create a culture that supports strong moral and ethical behavior. Over the years, there has been a growing concern in the way many organizations have chosen to do business. With many scandals that have drawn public and media attention to many organizations for participating in illegal and unethical behavior, organizational ethics has developed as a professional and academic disciplines to address some of these concerns. Organizations are now being challenged to be more accountable to their stakeholders and not just their shareholders, and this has made organizations begin to examine the relationship between management and their boards of directors. Moral simply stated "Is concerned with social practices defining right and wrong" (Beauchamp & Bowie, 2004, p.1). These practices of right and wrong are transmitted within cultures and institutions from generation to generation. Organizational ethics on the other hand "studies the ethical issues relevant to ways in which organizations influence their members, and the ways in which these members influence each other and the organization Horvath, (1995). Organizational ethics studies organizational culture, and the standards that are relevant in guiding behavior. These standards are derived from the organizations core values, such as honesty, trust, and loyalty. Organizational ethics perceives an organization as a community or culture, focusing on its strengths both past and present. It address the need for an organization to be run in a manner that takes into consideration each member of the organization and how their interactions affect one another as well as the organization (Senge, 1994; Hartman, 2001). Moral and ethical issues, in organizations are not

new to society. Northouse, (2004) states that ethics is central to leadership, leaders who engage followers to accomplish mutual goals by nurturing ethical and moral behaviors in their organizations significantly reinforce organizational values. Hartman, (1996) asserts that culture includes laws, rules and systems as well as language, history, formal and informal practices, beliefs and rituals. Therefore, organizational ethics works on the whole of the moral culture of the organization. "Corporate culture is the means of inducing any sort of behavior in the organization" (p.146) and "is a vehicle for imparting and maintaining the moral principles and the values that govern life in the organization" (p.150). Schein,(2004) one of the top management thinkers in organizational culture, has recommended five primary embedding mechanisms which leaders can use as major tools to teach their organizations how to perceive, think, feel, and behave, based on their own conscious and unconscious convictions.

These primary mechanisms are listed as (1) what leaders pay attention to, measure, and control on a regular basis. (2) How leaders react to critical incidents and organizational crises. (3) How leaders allocate resources, rewards and status. (4) Deliberate role modeling, teaching and coaching and (5) how leaders recruit, select, promote and excommunicate (Schein, 2004).

What leaders pay attention to, measure, and control on a regular basis

One of the most powerful ways leaders and organizational founders communicate values, beliefs and priorities are on what and where they place their attention. What the leader emphasizes and measure overtime can have a great impact on the organization's culture. Schein,(2004) states that this process becomes a powerful way of communicating a message, especially if the leaders are totally consistent in their own behavior. It is the consistency that sends the message about the leader's priorities, values and beliefs. It is therefore the consistency that is important and not the intensity of the action. When subordinates focus attention on what the leader is looking at they begin to pay attention to it. Northouse, (2004) argues that all leaders have an agenda, a series of beliefs, proposals, values, ideas, and issues which they wish to put on the table. The values promoted by the leader, has significant impact on the values exhibited by the organization (Carlson & Perewe, 1995; Schminke, Ambrose, & Noel, 1997; Trevino, 1986). Organizational leaders play a major and very important role in establishing the ethical climate of their organization. Leader's, who pay more attention to form, can create organizational cultures to make people believe that the substance of the recommendation is less important than the way it is presented Schein, (2004). A leader can use both positive and negative signals as powerful tools to draw the attention of subordinates to what is important to the leader and the organization. A morally ethical organization must establish trust to obtain the accurate knowledge required to make ethical decisions. Telling the truth at all times become a leader's powerful toll on what subordinates pay attention to. Leader's who pay attention to moral and ethical behavior, empower and motivate subordinates to also pay attention in that direction. An integrity based aspect of leadership combines concerns for the law Paine, (1994). It is not enough to have a business code of conduct; the leader must give very strong signals, and pay attention in that direction, also monitoring policies and operating procedure on a consistent basis. What the leader pays attention to can equally include punishment for non compliance and reward for adherence. Leadership responsibility for ethical behavior must reflect the attitudes, beliefs, values and behavior patterns of an organizations operating culture. All these begin with the leader. Looking at what the leader is looking at can reinforce a strong culture of ethical and moral behavior in the organization.

How leaders react to critical incidents and organizational crises

Crises by their very nature draw the attention of every one around it. A leader's reaction to a crises situation, speaks much about the organizations values, norms and culture. Crises situations in the organization tend to bring out the organizations core values. Schein, (2004) opines that "when an organization faces crises, the manner in which leaders and others deal with it creates new norms, values, and working procedures, and reveals important underlying assumptions. Crises in an organization generate a great deal of attention and emotional involvement for those associated with the organization, particularly if the crises threaten the survival of the organization. Because of the intensity of the emotional involvement, such periods increase the intensity of learning in the organization. In crises, people's deeper values are exposed. Every ones reactions become visible, because attention is focused on the situation. In crises situations, the meaning of the deeper levels of culture – artifacts (the level where culture becomes clear and has immediate emotional impact), espoused value – (what the organization's values are), and the basic underlying assumptions – (the taken for granted assumptions) of the organization are truly exposed. This exposure will increase the potential to either reinforce the existing culture, or to simply change the existing culture. In such crises situations, leaders can influence the organizational culture to support strong moral and ethical behaviors, and reinforce the creation of new organizational values. Such situations become a rallying point for the leader to teach, coach and mentor.

How leaders allocate resources, rewards and status

The organizations budget is a basic tool for the allocation of company resources. The manner the leader allocates organizational resources through the organizations budget, also reveals the leaders assumptions and beliefs. A balanced allocation of resources improves operational efficiency, increases Company values and creates customer satisfaction. Schein, (2004) asserts that the leaders beliefs about the degree to which the organization must be financially strong influence their choice of goals, the measure of accomplishing them and the management process to be used. The task of allocating the organizations resources should have top priority for corporate leaders. Business units with the brightest profit and growth potentials should lead the list of corporate support. (Thompson, Strickland & Gamble 2005) argue that corporate executives should give special attention on how corporate resources and capabilities can be used, to enhance the competitiveness of particular business units. When resources are equitably distributed, steering organizational performance into high opportunity areas, every one in the organization appear to be doing well. Moral and ethical behavior consequently increases. The consequences of what behavior are rewarded, and which one is punished can have significant effect on culture in an organization. Leaders can use the performance appraisal process to priorities values by linking rewards and punishment to the behavior they are concerned about. The performance appraisal as a tool evaluates the effectiveness of change on an ongoing basis. Contributions to creating new knowledge and more effectively applying existing knowledge can be rewarded with some form of incentive pay, recommendations or even promotion. If a firm reacts to the innovation of new ideas by ridiculing those who are involved, other employees will believe new ideas are not desired. If the organization on the other hand punishes immoral and unethical behavior, every one around will realize that the firm values trust, respect for the rule of law and order. As (Schein, 2004) states "if the founders or leaders are

trying to ensure that their values and assumptions will be learned, they must create a reward, promotion and status system that is consistent with those assumptions” (p. 259). Linking reward to moral and ethical values answers the question of operational efficiency and competitive advantage.

Deliberate role modeling, teaching, and coaching

The personal examples of a leader can send very important and powerful messages to the members of an organization, particularly if such actions are ethical and consistent. People in the organization do not only listen to the leader, they also watch what he does. Followers who assume the behavior of their leader is right will tend to follow suite. Schein, (2004) states that founders and leaders of organizations know that their own visible behavior has great values to the members, especially new members. How leaders behave is how their followers will tend to behave. As Paine,(1994) puts it, “Ethics is as much an organizational as much as a personal issue” (p.1). Personal ethics of subordinates are often derived from the perceived ethical standards of the leader. The ethical standards of any organization flow from the leaders and permeate the organization. The leader reinforcing these examples with teaching and coaching helps subordinates to internalize the desired values. The crucial issue is how is individual learning transferred in the organization? The leader can communicate his message in many formal and informal ways. The leadership culture that succeeds must have strong values, vision and consistency. Schein, (2004) asserts that the informal messages are the more powerful teaching and coaching mechanism. The informal examples appear to bring the leader closer to the subordinates.

How leaders recruit, select, promote and excommunicate

One of the significant ways in which leaders change an organization culture and embed their assumptions is through the process of selecting, retaining, and promoting people in the organization. In most organizations this embedding mechanism is subtle, because it operates unconsciously Schein, (2004). Founders and leaders establish this culture base in the organization by hiring and advancing those they perceive as having the values they want, and by eliminating those they consider as having undesirable value base. (Pfau and Kay, 2002) argue that companies with a formal recruiting strategy enjoy a financial advantage. Failing to link recruitment efforts to a strong business ethics and moral can spell disaster for an organization. The criteria for recruiting and promoting subordinates assume the best people are hired by assigning characteristics that justify their being hired. Any criteria used should consider the personality, integrity, style and the competence of the person involved. This process also should consider the cultural aspects of the organization in the selection and dismissal process. Competitive advantage:

This section of the paper examines the implication of gaining competitive advantage. The organizational culture stands out as one of the components that are important to sustaining performance, competitive advantage, and a good reason for being a great organization. A consistent culture of organizational learning can develop the ethical environment, which in turn can develop people in the organization with the shared belief, trust and team coordination for critical success. (Kotler & Keller, 2006) define competitive advantage as a company’s ability to perform in one or more ways that competitors cannot or will not match. A cultural leader

supports the hiring and development of people with the prerequisite skill and competencies needed to get the job done. (Pfau and Kay, 2002) asserts, hiring the right people can catapult a company into the kind of financial success that creates a buzz, which attracts more star performers. A leader can create a culture that distinguishes his organization as a great place to work for. Simply put, a leader creates a culture of commitment, through the allocation of organizational resources, rewards, and promotions, that encourages competitive behavior. The best way to encourage competitive advantage is to continuously encourage individuals to innovate new advantages. The difference between success and failure can depend on the degree and purpose, the value created by the culture of the organization. If a leader is totally consistent in his behavior of paying attention to operating efficiency and encouraging subordinates to be creative, the organization gains low cost advantage over rivals. (Thompson, Strickland & Gamble, 2005) asserts that companies earn strong market positions because of the low cost advantages they have achieved over their rivals and their consistent ability to under price their competitors. Leaders who model and value work and change leaders who balance the interest of all stake holders address the role in maintaining an organizational culture that encourages learning and competitive advantage.

However, at the other extreme a leaders inconsistencies in what the leader pays attention to can empower subordinates to pay less attention, and default on what the leader wants. Inconsistent signals from a leader can impose assumption on subordinates that consider management programs to be unimportant. Schein, (2004) states that subordinates will accommodate contradictory messages because founders and leaders at the top are granted the right to be inconsistent, and they may be too powerful to be confronted. The emerging culture then will reflect not only the leader's assumptions, but the complex internal accommodations created by subordinates to run the organization inspite of the leader. Leader's who continue to fen ignorance and create lack of control at situations, create a culture that poor performance can be excused. Leaders who equally fail to allocate organization resources equitably create cultures that limit organizational growth and the prospect of alternatives.

Unethical culture and the expansion of market share:

Organizational leaders must acknowledge their role in shaping organizational culture that encourages moral and ethical behavior. Leaders in most organizations have to wrestle with ethical questions. The recent wave of organizational scandals over inaccurate reporting of company profits and executive pay privileges has brought the question of business ethics to lime light. (Thompson Strickland & Gamble, 2005) asserts that the apparent pervasiveness of immoral and amoral business people is one obvious reason why ethical principles are an ineffective moral compass in business dealings and why companies may resort to unethical behavior. Most companies will strive to expand their markets as much as possible given that business expansion is the core of most businesses. (Kotler & Keller, 2006) asserts that every company has a natural drive to expand consumption of its products leaving the consequences to be the result of the free choice of consumers. Apart from this kind of business thinking, (Thompson, Strickland & Gamble, 2005) list three main drivers of unethical business as:

- Over zealous pursuit of personal gain, wealth, and other selfish interests.
- Heavy pressure on company managers to beat earnings target.
- A company culture that puts the profitability and good business performance ahead of ethical behavior.

Leaders who are obsessed with the pursuit and accumulation of wealth, power, status and other personal interests often neglect the principles of good ethics in their ambition for self gain.

Driven by this ambition, they create a culture that goals can be achieved by doing whatever is necessary to achieve the organizational goal.

When companies are pressed by competition and the ambition to achieve earnings growth to meet performance expectations for shareholders, leaders tend to do whatever is necessary to present good financial reports. (Thompson, Strickland & Gamble, 2005) states "as pressure builds to keep performance numbers looking good, company personnel over stretch the rules until the limits of ethical conduct is overlooked" (p.286). Once this ethical boundary is compromised, subsequent acts of unethical conduct follow simultaneously. The fundamental problem with a company making profits at all cost is that the company does not serve either its customers or its shareholders. Share holders interest is really served when the company does a good job serving its customers, and improving the company's competitiveness in the market place. Unethical and illegal activities, when they are exposed, result in actions that depreciate shareholder value and customer patronage of company products and services. When the corporate culture of an organization become corrupt, people in the organization find reasons to ignore what is right, and engage in any unethical activities they can get away with. An example of a company culture that was over stretched on ethics to expand its market share is Enron Corporation. The issue that captured the attention of the organizations leaders will become the focus of employees. Enron employees got the message that pushing the numbers and meeting the limits regardless of the means to get there was viewed as a survival skill. Leaders encouraged employees to focus on bottom line and to be innovative and aggressive in whatever could be done to grow revenue. Since employees often follow the examples of their leaders, and look at what their leader pays attention to, Enron employees, and executives deceived stakeholders regarding the company's debts by falsifying company records inspite of the integrity in its code of ethics. Enron became divisively clever in ways to boost revenue, even when it meant operating outside the company's policies. Enron employee evaluation process and policy created a distrustful work environment, in an employee win at all costs mentality, a willingness to cross ethical lines. This company's aggressiveness and win at all cost mentality nurtured an environment that eroded ethical standards.

The consequences of unethical culture and culture that is insensitive and indifferent to ethical considerations can be serious and far reaching for an organization. Organizations can be entangled in a web of legal proceedings. Equally important is the damage an ethical lapse can cause an organization's reputation and relationships. The struggle to regain customer trust and market share has witnessed the exit of many organizations with such errors of ethical judgment.

Conclusion:

Organizational leaders are confronted with many issues on how to generate organizational achievements. The organizational culture stands out as one of the important components that leaders can employ to sustain performance, build ethical and moral organizations and maintain competitive advantage. The leader who understands his organizational culture, and takes it seriously, will be capable of predicting outcomes, and making decisions to counter anticipated consequences. Schein's primary embedding mechanisms can be employed by organizational leaders as major tools to teach their organizations how to perceive, think, feel and behave. These tools can be used positively or negatively. The application will depend to a large extent on the leader's priorities, beliefs and values.

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