

**THE RELATIONSHIP BETWEEN ORGANISATIONAL  
CULTURE AND FINANCIAL PERFORMANCE:  
AN EXPLORATORY STUDY IN A SELECTED FINANCIAL  
INSTITUTION IN SOUTH AFRICA**

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## **DECLARATION**

I, Sybel Swanepoel, hereby declare that this research thesis is my own original work, that all reference sources have been accurately reported and acknowledged, and that this document has not previously, in its entirety or in part, been submitted to any University in order to obtain an academic qualification.



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**31 October 2009**

## **ABSTRACT**

This research investigates the relationship between organisational culture and financial performance in a selected financial services institution in South Africa.

The banking sector as part of the financial services industry contributes to economic growth in the economy. The banking sector in South Africa is highly concentrated, but also highly competitive. It is important for banks to retain their competitiveness and increased global competition places further pressure on banks to perform financially in order to satisfy the demands of shareholders.

The literature reviewed and previous studies both suggest that organisational culture is an important variable that influences organisational performance. For purposes of this research, organisational performance will be measured in terms of financial performance.

The concepts of organisational culture and financial performance are discussed and a questionnaire based on Hall's (1988) theory of organisational competence is used to determine the strength of the levels of the dimensions of competence as indicators of organisational culture within the selected financial institution. The financial performance of the branches within the organisation is determined by calculating certain selected financial performance ratios, namely cost-to-income ratio, cumulative leverage and contribution per employee. A correlation analysis is conducted in order to establish whether there is a statistically significant relationship between organisational culture and financial performance.

A conclusion is drawn that there is a statistically significant relationship between the organisational culture and the financial performance of the branches of the selected institution and recommendations are made as to how financial performance can be improved by strengthening the dimensions of competence as indicators of organisational culture. These recommendations include specific actions that can be taken by leaders to improve commitment, collaboration and creativity.

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### **ANNEXURE A: ORGANISATION CULTURE ANALYSIS**

## **CHAPTER ONE**

### **INTRODUCTION**

This research investigates the relationship between organisational culture and financial performance and is an exploratory study in a selected financial services institution in South Africa. Organisations are an integral part of society and organisations are formed by members to serve the specific needs of society or the needs of certain members of society.

The financial services industry in South Africa serves the financial needs of all levels of society and provides a full range of services – banking services, insurance services, investment services, intermediary services and brokerage services. South Africa has a sophisticated financial system which is fundamentally sound and which has so far weathered the global financial market turmoil without major pressures (SARB, 2009).

The South African Banking industry is well regulated and the regulatory framework is modern and generally effective. Notwithstanding the international financial market turmoil in 2008, the South African banking system remained stable and banks were well capitalised and profitable (SARB, 2009). At the end of December 2008, there were 33 banking institutions reporting to the Registrar of Banks and 43 international banks with authorised representative offices in South Africa (SARB, 2009). The market is highly concentrated with a continued dominance of the four largest banks. As at end of December 2008 only 6 banks had assets of >R50 billion (SARB, 2009). Eight banks have assets of between R10 billion and R50 billion, 3 banks had assets of between R5 billion and R10 billion, 13 banks had assets of between R1 billion and R5 billion and 3 had assets of <R1 billion (SARB, 2009).

There are various factors that could influence a company's performance and these could include economic climate, organisational strategy and structure, competitor's influences to name a few. The problem that is to be addressed in this study is whether organisational culture as a component of an organisation, has any influence on the financial performance of the organisation and whether this influence (if any) is of statistical significance. Organisational culture will be determined by using the

Organisation Culture Analysis based on Hall's (1988) competence theory and financial performance will be measured using cost to income ratio, cumulative leverage and contribution per employee.

Literature around organisations and organisational structure and architecture will be reviewed in order to gain a clear understanding of how organisations function. Organisational culture, as a component of an organisation will be identified. Various definitions and dimensions of organisational culture will be explored and compared whereafter the different typologies and dimensions of culture as identified by various authors are explained.

Organisational performance as a concept will be defined and financial performance as a measurement of organisational performance will be discussed. Balance sheets and income statements of an organisation provide financial performance figures that can be used to assess the financial performance of an organisation. In order for these figures to make sense, they need to be compared to the figures of organisations within the same industry and merely comparing figures could be meaningless. The figures need to be converted to ratios for comparative purposes. Various ratios can be calculated from the balance sheet and income statements of an organisation and these are discussed and explained. These ratios will be explained and the relevance for the purpose of this study will be discussed.

Existing literature that investigated the possible relationship between organisational culture and organisational performance will be reviewed and a conclusion drawn that there is no conclusive evidence from the literature at hand, to prove a relationship between organisational culture and organisational performance and that further studies in this field are necessary.

The research goals and objectives will be stated and the main and sub-hypotheses to be tested are identified. The Organisation Culture Analysis will be used as an instrument to determine the organisational culture within the selected organisation and this instrument will be discussed. This instrument is based on Hall's (1988) Competence Process and it measures competence or organisational culture in terms of the three dimensions of culture and ten conditions of organisational culture. The

instrument was originally named the Organisation Competence Index, but has since been renamed to the Organisation Culture Analysis. The Competence Process can be used to create and entrench an organisational culture (Hall, 1988).

The selected financial institution will be discussed and information regarding the population and the sample will be provided. The data gathering and analysis process is explained where after the results of the research are discussed. A conclusion is drawn that there is a statistically significant positive relationship between organisational culture and performance and recommendations are made as to how the three dimension and ten conditions of organisational culture can be improved in order to enhance financial performance.

## CHAPTER TWO

### LITERATURE REVIEW

#### 1. INTRODUCTION

The aim of this chapter is to review current literature available around organisational theory, the different organisational components and how these components interrelate. Literature relating to organisational culture, financial performance and the relationship between organisational culture and financial performance will be discussed. This review of literature will provide the theoretical background for a quantitative study that will be undertaken by determining the organisational culture in a selected financial services institution in South Africa and to investigate whether there is a statistically significant relationship between organisational culture and financial performance.

#### 2. ORGANISATIONS AND ORGANISATIONAL ARCHITECTURE

An organisation, according to Schein (1980, p. 15) is “the planned coordination of the activities of a number of people for the achievement of some common explicit purpose or goal, through division of labour and function, and through a hierarchy of authority and responsibility”. An organisation does not exist and operate in isolation, but operates within a broader external environment which could influence the internal environment of the organisation.

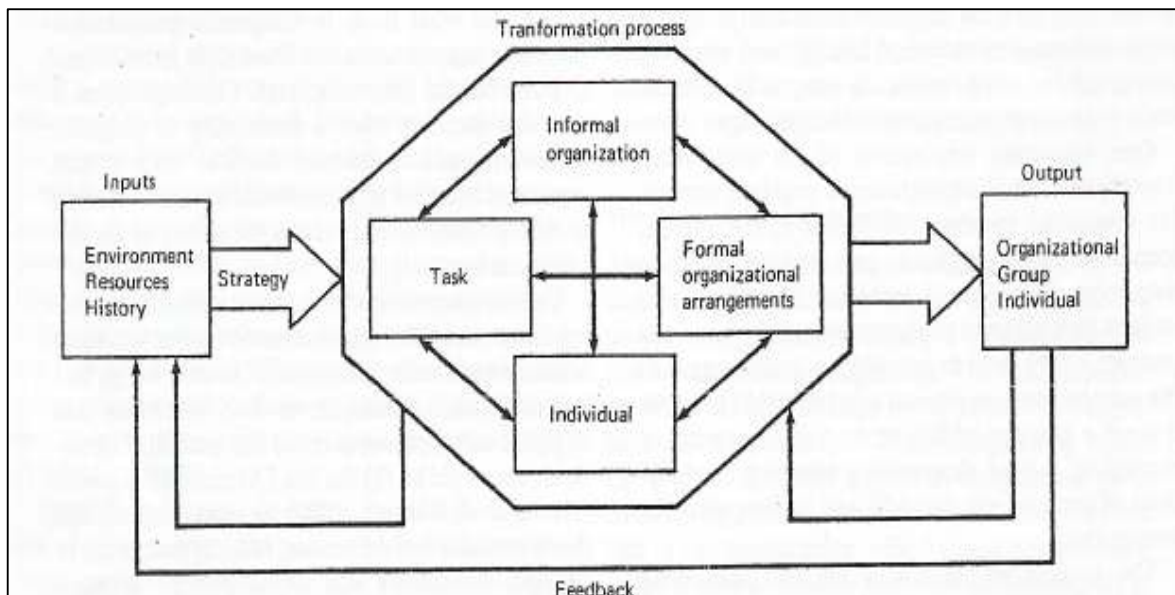
Nadler and Tushman (1983) argue that an organisation should be viewed as a social entity and a dynamic and open system as the organisation consists of a set of interrelated components that interacts with an environment, both internal and external. These components produce patterns of behaviour (which can be referred to as the personality or culture of the organisation) that will influence the performance of the organisation.

As depicted in Figure 1, the inputs that Nadler and Tushman (1983) refer to are firstly the external environment in which the organisation operates, secondly the resources

which the organisation employs, which includes human resources, technology, capital, information, intangible resources such as organisational perception in the market place, thirdly the history of the organisation and fourthly the strategy of the organisation.

The outputs referred to include whatever the organisation produces or how effective the organisation is. The organisational performance according to Nadler and Tushman (1983) will depend on how well the organisation meets its goals or objectives, how well the organisation makes use of its resources and how adaptable the organisation is to environmental changes. As can be seen in Figure 1, the organisation's performance can be measured on an individual level, a group level or an organisational level. One of the goals or objectives could be to provide a return to shareholders in the form of a financial reward and thus financial performance could also be an output.

Figure 1: Nadler and Tushman's model of organisational functioning



Source: Nadler and Tushman, 1983, p. 121.

The components that collectively make up the organisation include the task of the organisation, i.e. the basic work done by the organisation, the individuals who perform the tasks and the formal organisational arrangements that facilitate this transformation process. The needs and preferences of the individuals together with their perceptions

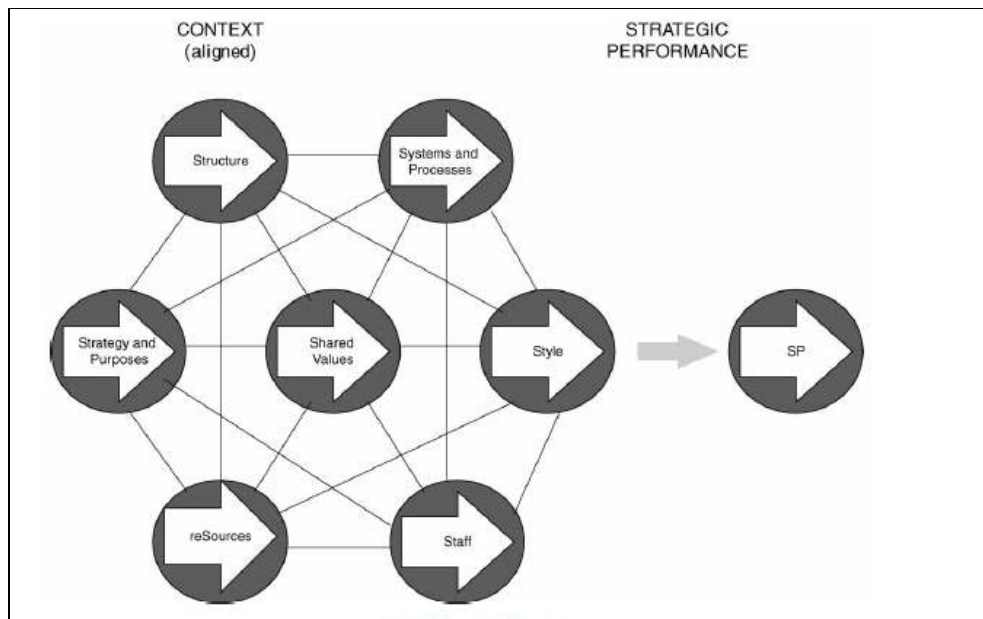
and expectancies will influence the individual behaviour and ultimately the organisational behaviour.

The formal organisational arrangements will include the organisational structure, processes, job design, physical working environment and procedures that are inherent to the specific organisation. The informal organisational arrangements referred to, are also components of the organisation and they will also play a role in the performance of the organisation. The informal organisational arrangements refer to the behaviour of the leaders and members, the relationships between the leaders and members, the working conditions and working environment. It refers to the way members and leaders think and act and will contribute to the personality of the organisation.

Similarly, Higgins (2005) designed the 8-S model (See Figure 2) to diagrammatically explain the interaction between the formal and informal arrangements within the organisation and also indicated that all the formal and informal arrangements must be aligned with one another in order to achieve strategic performance. This model defines the components of organisational behaviour as 1) strategy and purpose, 2) structure, 3) systems and processes, 4) style, 5) resources, 6) staff, 7) strategic performance and 8) shared values.

All eight components need to be aligned and shared values and style are the overt variables that will contribute to the personality or culture within the organisation. The style component refers to the leadership or management style and the consistent patterns of behaviours exhibited by managers. The shared values component also refers to the organisational culture and cultural artefacts and this is what differentiates the organisation from other organisations (Higgins, 2005).

Figure 2: Higgins 8-S model of organisational components



Source: Higgins, 2005, p. 5.

Organisations have certain characteristics that make them unique and these could include size, organisational structure, for example hierarchical or according to functional preferences, the technology that governs how work is done and the organisational culture (Hall and Goodale, 1986).

An organisation will be structured in order to optimise its performance and effectiveness and the structure will depend greatly on the management style. The structure could either be hierarchical or a flat management structure depending on management needs, styles and what they are trying to achieve. Employees could be grouped together in teams or a more individualistic, specialist approach could be adopted. The strategic goals and objectives of management and the leadership style will determine the structure as it will be aligned with the culture of the organisation and the individuals within the organisation.

The way an organisation is structured, will also be influenced by the organisational culture and the leadership style (the informal organisational arrangements). The founders of the organisation will largely define the culture as they are the origin of the values and the behaviours that characterise an organisation (Schein, 1983).

“There cannot be a culture unless there is a group...culture is embedded in groups” (Schein, 1984, p. 5). It is thus necessary to have a definable set of people with a shared history in order to determine a group’s culture. Because an organisation is a group of people with a shared history, it should be possible to determine an organisation’s culture.

### 3. DEFINING ORGANISATIONAL CULTURE

The term organisational culture has been widely studied and defined and various authors such as Schein (1990) and Hall (1988) are of the opinion that culture comprises of different dimensions and characteristics. Organisational culture is defined in various ways and refers to anything from organisational climate, management style, rituals and symbols to behaviour. It forms “the glue that holds the organisation together and stimulates employees to commit to the organisation and to perform” (Van den Berg and Wilderom, 2004, p. 571).

A broad outline of the views of various authors will now be listed.

Schein (1990, p. 111) defines culture as:

“a pattern of basic assumptions that a group has invented, discovered or developed in learning to cope with its problems of external adaptation and internal integration, and that have worked well enough to be considered valid, and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems”.

Schein (1985) is of the further opinion that culture comprises of three levels, namely behaviours and artefacts, values and basic underlying assumptions. The first level, namely visible artefacts comprises of “the constructed environment of the organisation, its architecture, technology, office layout, manner of dress, visible or audible behaviour patterns, and public documents such as charters, employee orientation materials, stories” (Schein, 1984, p. 3). The second level is the values. The values will govern behaviour and will explain why members of the organisation behave in a certain manner. The third level is the underlying assumptions and these are typically unconscious. These assumptions will determine how members think and

feel and it guides the behaviour of the members. Schein (1984) also suggests that cultures are created through the way organisations have reacted to important incidents in the past and how the organisation evolved certain norms to deal with certain incidents.

Contrary to Schein's (1985) opinion that values are part of culture, Van den Berg and Wilderom (2004) argue that although values are an important element of organisational culture, organisational culture is more the shared perceptions of organisational practices and that values are merely expressed in organisational practices. They also found that organisations differed more strongly on practices than on values. They therefore do not include values in their definition of organisational culture, but define organisational culture as "shared perceptions of organisational work practices within organisational work practices" (Van den Berg and Wilderom, 2004, p. 571).

McGuire (2003) defines culture as a system of shared values, beliefs and norms of members of an organisation, including valuing creativity and tolerance of creative people, believing that innovating and seizing market opportunities are appropriate behaviours to deal with problems of survival and prosperity, environmental uncertainty, and competitor's threats, and expecting organisational members to behave accordingly.

Harrison (1972) refers to an organisation's ideology and explains that this ideology will explain the behaviour of the members of the organisation and the working of the external environment. According to Harrison (1972), the organisation's ideology will specify the goals and values towards which the organisation will be directed, it will prescribe the relationships between individuals and the organisation, it will indicate how behaviour should be controlled, it will depict which qualities and characteristics will be valued, it will show members how they should treat one another and it will establish the methods for dealing with the external environment.

Nel, Van Dyk, Haasbroek, Schultz, Sono and Werner (2006, p. 19) define organisational culture as "the manner in which things are done in the organisation".

Kilmann, Saxton, Serpa and Associates (1985) are of the opinion that culture has something to do with the people within the organisation and refers to the unique quality and style of the organisation. Martins and Terblanche (2003) define culture as “the deeply seated (often subconscious) values and beliefs shared by personnel in an organisation.” It offers a shared system of meanings, which forms the basis for communication and mutual understanding.

Hall (1988, p. 308) defines organisational culture as “a system of norms, policies, practices, incentives, and expectancies – within which individual and collective competence may flourish”. “Every organisation has a fundamental character of spirit – we might call it culture – which is revealed in a prevailing system of values, beliefs about the importance and basic nature of people, and norms of authority and influence” (Hall, 1988, p. 76).

Hall (1988) is of the opinion that organisational culture is created by means of empowering people through the competence process. According to Hall (1988), the competence process is three-dimensional with the dimensions being collaboration, commitment and creativity. All three these dimensions will influence the manner in which organisations are structured, how staff is rewarded and how reporting relationships are established and managed. Managers will create the conditions which will give the organisation its basic character. Through managing these conditions within the organisation, the competence process can be set in motion and the organisation will become better equipped to meet adaptive demands.

For the purpose of this study, Hall’s (1988) theory of organisational competence will be adopted as it incorporates various conditions for the three dimensions that constitute organisational competence and organisational competence will lead to organisational effectiveness. Hall (1988) states that the competence process can be used to strengthen organisational culture and thereby improving organisational effectiveness.

Organisational culture is very important as it indicates the way in which things are done in an organisation and it is also referred to as the personality of the organisation. The personality of the organisation is in turn influenced by the personality of the

employees and it is important that two personalities are in tune with one another in order to attain both personal and organisational goals (Hall and Goodale, 1986 and Nel, *et al*, 2006).

Culture develops over a period of time and it involves assumptions about how the organisation is structured, how employees feel about the organisation and it is represented by goals, structures, policies, procedures and communication. Schein (1984) argues that a group can only have a strong culture if it has a long and intense history and have shared enough experiences and faced difficulties together. The length and intensity of the shared experiences will determine the strength of the culture. Schein (1984) further states that cultural strength may or may not be correlated with effectiveness as it is the actual content of the culture and not the strength thereof that will have a correlation to effectiveness.

#### 4. UNDERSTANDING ORGANISATIONAL CULTURE

In order to measure and manage organisational culture as a component of an organisation, it is important to understand organisational culture. It is evident in the literature that there are a number of ways in which organisational culture can be interpreted and measured.

Denison and Mishra (1995), through the use of case studies and survey data, found evidence for the existence of four cultural traits, namely involvement, consistency, adaptability and mission. They further found that organisational culture is measurable and that it can be related to organisational outcomes or performances.

Adebanjo and Kehoe (1998) identified seven dimensions of culture, namely:

- Senior management leadership
- Employee involvement and empowerment
- Teamwork
- Customer focus
- Partnership with suppliers
- Effect of chief executive
- Open corporate culture.

Hofstede (1980) identified five dimensions of culture in his studies, namely:

- Power distance
- Uncertainty avoidance
- Individualism vs collectivism
- Masculinity vs femininity
- Long vs short term orientation.

Although Hofstede (1980) found that the five dimensions of national culture mentioned above can be used to understand differences in culture, it can also be used to explain differences in work-related attitudes and these differences in attitudes will ultimately influence organisational culture and organisational performance. Schein (1984) also states that organisational culture paradigms are adapted versions of broader cultural paradigms.

Deal and Kennedy (1982) suggest four classifications of organisational culture based on feedback and risk, namely:

- The Tough-Guy Macho Culture. In this type of culture, feedback is quick and rewards are high, but it is also a very stressful culture.
- The Work Hard/Play Hard Culture. This is usually the typical large organisation where a few risks are taken and the rewards are high. These organisations usually strive for high quality customer service.
- The Bet your company culture. Here, large risks are taken, but feedback can take a long time.
- The Process Culture. In this type of culture, the process is more important than the performance. This is the typical culture in a bureaucracy.

Harrison (1972) identified the following types of cultures, namely:

- Power orientation. This type of organisation attempts to dominate its environment and is highly competitive and jealous of its territory. The organisation will exploit weaker organisations.
- Role orientation. This is the typical hierarchical bureaucracy and people have clearly defined authorities within a defined structure. There are various rules, regulations and procedures in place.

- Task orientation. The focus in this type of culture is the formation of teams to achieve a superordinate goal.
- Person orientation. Here the individual is the focus and the individual deems him/herself to be more important than the organisation. The organisation exists primarily to serve the needs of the members.

According to Deshpande and Farley (1999) there are four types of corporate culture.

- Competitive culture – Values relating to demanding goals, competitive advantage, marketing superiority and profits are emphasised.
- Entrepreneurial culture – Values relating to innovation, risk taking, high levels of dynamism and creativity are emphasised.
- Bureaucratic culture – Values relating to formalisation, rules, standard operating procedures and hierarchical coordination are emphasised.
- Consensual culture – Values of tradition, loyalty, personal commitment, socialisation, teamwork, self-management and social influence are emphasised.

In a bureaucratic culture, individuals do not challenge the organisational thinking and heavy reliance is placed on structure and lines of authority. The approach is a more individualistic approach and emphasis is placed on the performance of the individual. Structural characteristics of these organisations are specialisation, formalisation, standardisation and centralisation and values are rigidity, control, predictability, stability and order and all of these characteristics and values will hinder creativity and innovation (Arad, Hanson and Schneider, 1997). According to Jackson and Schuler (2003) this type of culture has many rules and processes and managers view their roles as being coordinators, organisers and enforcers of written rules and standards.

In an innovative or entrepreneurial culture, individuals are empowered to make decisions and are given the opportunity to challenge convention. The focus is internal and the organisation unites members through entrepreneurship, flexibility and risk (O’Cass and Ngo, 2007). An organisation with an innovative culture has the ability to develop unique ways of delivering superior value to customers and empowers employees to do this. A flat structure, autonomy and work teams as well as values like flexibility, freedom and cooperative teamwork will promote creativity and

innovation (Arad, *et al*, 1997). According to Jackson and Schuler, (2003) this type of culture does not merely react to changes in the environment, but it creates change within the environment. Individual initiative is encouraged and well rewarded.

In a market-orientated culture, market-based assets are produced that lead to a competitive advantage. Information is gathered and analysed on customers and competitors and responses are customised accordingly. Therefore the focus is more externally (Harris, 1998). The core capabilities of this type of culture are market sensing, market relating and strategic thinking. The culture is a very open one, with a clear vision, strategy and structure and excellent information systems (Kasper, 2002).

A further type of culture identified by Jackson and Schuler (2003) is the so-called clan culture. The main characteristics of this type of culture are tradition, loyalty, commitment, teamwork, self-management and socialisation. Newer members are mentored by long-term clan members and the clan culture achieves unity through socialisation. The individual's commitment is exchanged for the organisation's commitment. The clan will document its history and celebrate traditions in various rites.

Traditionally, organisational cultural studies were qualitative in nature and founded on social constructionism (Van den Berg and Wilderom, 2004). A number of questionnaires have been developed to compare organisational culture and these focus on day-to-day organisational work practices. Various cultural dimensions and leadership styles should be measured in order to ascertain what type of culture exists within the organisation. So apart from the traditional qualitative measurement of culture through interviews, numerous questionnaires have been developed to quantitatively measure organisational culture in order to place numerical values on certain attributes of culture.

Organisations can have either a strong or a weak culture and a strong culture will only develop after the group has shared enough experience to have a defined culture (Schein, 1984). In a strong organisational culture, there is an alignment of staff to the organisational values and employees respond positively because of their alignment to the organisational values. If organisational culture is strong, employees do things

because they believe that the organisational values are right and the culture provides shared values that ensure that everyone in the organisation is on the same track (Robbins, 1996). If organisational culture is weak, there is no or little alignment with the organisational values. Control is usually exercised through bureaucracy and extensive structures and procedures will exist within the organisation.

Based on the identified essential characteristics of organisational culture, and existing definitions, one comes to the conclusion that there is no simple definition for organisational culture that encompasses only the essential characteristics. Most definitions are elaborate and include an explanation of the essential characteristics. In order to simplify the definition it can thus be summarised that organisational culture refers to the behaviour of members of an organisation or the organisational practices, which are guided by the shared values, beliefs and norms of the individuals and the teams within an organisation.

After examining the various dimensions and typologies of culture, a conclusion can be drawn that Hall's (1988) Competence Process, incorporates most of the dimension and conditions of culture as mentioned by other authors and therefore the Organisational Competence Theory as a basis for determination of organisational culture will now be investigated.

## 5. ORGANISATIONAL COMPETENCE THEORY

“The competence process has as its objective the widespread release of human commitment and creativity into the organisation's bloodstream” (Hall, 1988, p. 59).

This statement outlines the three major dimensions which determine organisational competence, namely commitment, creativity and the trigger to the competence process, collaboration. Collaboration triggers the process of commitment and makes creative functioning possible. “The competence process is a three-dimensional approach, with each dimension serving a different function yet interdependent with the remaining dimensions” (Hall, 1988, p. 64).

Hall (1988) argues that stronger conditions of competence will lead to higher performance in organisations and this argument is supported by the findings of Schlechter and Maritz (unknown).

## 5.1 CONDITIONS FOR COLLABORATION

Collaboration is all about sharing of power and it creates a process whereby decision-making and problem-solving can be shared by leaders and people in the organisation. Collaboration provides people in the organisation with a clearer picture of what needs to be done and also provides them with a better sense of their own responsibilities (Hall, 1988).

Conditions for collaboration can be created through management values, support structure, managerial credibility and climate (Hall, 1988).

### 5.1.1 MANAGEMENT VALUES

Management values create the backdrop for collaboration and shape a productive orientation. Management values are revealed in the prevailing system of values, the convictions about the worth of the people who do the work and the norms of authority and influence. Management values recognise the human desire for competence and the mutual dependence of people and organisations. People within the organisation are given a sense of ownership through which they gain personal satisfaction and are recognised by management as being important to the overall effectiveness of the organisation. Decision-making, rights, privileges and rewards are shared throughout the organisation and management will provide training or support required to enable people to perform at their best. The core issue is respect for individual competence and a productive orientation.

“Cultures based on a preoccupation with controls, authority-obedience norms of relating, subtle forms of elitism, manipulation, and the like undermine collaboration and make the achievement of widespread competence less probable” (Hall, 1988, p. 83).

### 5.1.2 SUPPORT STRUCTURE

The support structure refers to the physical and social structure of relationships and it governs the manner in which people interface and interact within the organisation. Within a collaborative system, there are many relationships that need to be facilitated. The structure of the organisation must allow for a free flow of information and two-way communication to ensure that people are informed and they are given the opportunity to provide feedback. Opportunities must be created for open and honest feedback and people must be encouraged to speak out. Functionally related jobs must be located in such a way that people have access to one another (Hall, 1988).

### 5.1.3 MANAGERIAL CREDIBILITY

Managerial credibility can be said to be the amount of trust that people have in management and must be earned. People will know whether management can be trusted, based on their past experiences with regard to whether their input is valued and incorporated in work decision and policy reviews. Management will also provide regular feedback to employees to enhance their credibility and will be trustworthy and will resist counterproductive activities.

“The more managers may be described, on the basis of past experience with them, as reinforcing the rational order of work processes while remaining true to their words, the more trusting people will be of opportunities to collaborate” (Hall, 1988, p. 96).

### 5.1.4 CLIMATE

Climate involves a set of feelings related to management values and reflects the impression among people about the workplace and the importance placed on their contribution. Climate sets the emotional tone of the organisation (Hall, 1988).

## 5.2 CONDITIONS FOR COMMITMENT

“Commitment .....is the sense of purpose that guides one’s activities; it is the meaning that justifies one’s investment of self; it is the feeling of responsibility that defines one’s

role and reason for being; and, when shared, it is a common bond which holds people together in ways that transcend differences and personal gratification. Commitment fuels existence” (Hall, 1988, p. 100). “Commitment is a personal desire to contribute to the success of the organisation by doing one’s best in accomplishing the tasks for which one has accepted responsibility” (Hall, 1988, p. 126).

Commitment is characterised by a strong sense of personal ownership, responsibility, identity and purpose. The dimension of commitment is translated into conditions of impact, relevance and community.

### 5.2.1 IMPACT

People must feel that their work has a direct influence on events in the workplace. They must be able to determine their own priorities, pace, operating procedures and guidelines. They must be able to directly influence design decisions and productivity goals. Management must provide the framework, but people must be given the freedom and power to operate within this framework and to use their own judgement in responding to problems and decision-making.

### 5.2.2 RELEVANCE

“...the condition of relevance is accorded special status as a characteristic of work activities which is logically consistent with and pursuant to those goals to which people have committed themselves” (Hall, 1988, p. 117).

People must spend their time on core activities which are aligned to organisational tasks which are challenging. They must feel that the activities that they are performing are meaningful and contribute to the achievement of organisational and personal goals.

### 5.2.3 COMMUNITY

“Community refers to the sense of oneness or spirit of belonging and identification with the organisational group.....it is concerned with issues of interdependence, mutual

respect, and sense of shared responsibility for one another's well-being" (Hall, 1988, p. 119).

Management must promote a sense of interdependence among people and must encourage mutual reliance and trust between individuals and teams. Management must ensure that people feel that they are essential to the health of the organisation and must show a strong concern for commitment through collaborative practices.

### 5.3 CONDITIONS FOR CREATIVITY

The dimension of creativity is supported by the conditions of task environment, social context and the problem-solving process. Management must encourage, facilitate and reward creative problem solving within the organisation. "The more people are encouraged to be open to novelty and experimentation, tolerant and sensitive to conflict dynamics, and consensual in their approach, the more creative will be their output. Neither unilateral decision making nor compromise serve the creative demands of widespread competence" (Hall, 1988, p. 153).

#### 5.3.1 TASK ENVIRONMENT

Task environment refers to the manner in which work processes are structured. It also refers to the priorities according to which tasks must be performed. Managers must afford people the freedom to experiment and must encourage people to use their creative capacities to allocate resources and to structure processes. Innovation should also be rewarded (Hall, 1988).

People must not be constrained and must be encouraged to get the work done in the best way possible and must be given the freedom to organise themselves effectively to do their jobs. They must be given access to resources to do their jobs (Hall, 1988).

#### 5.3.2 SOCIAL CONTEXT

People have a need to interact with one another in the workplace. They must be given the opportunity to share experiences and exchange ideas relating to the work to

be done. Management must be highly visible and involved and must encourage creativity and innovativeness. People must be encouraged to share ideas and opinions and must be provided with feedback. Management must encourage and allow people to relax and enjoy one another and must also allow camaraderie, playfulness and humour in the workplace (Hall, 1988).

“The resulting shared excitement and cross-fertilisation of ideas makes work enjoyable and enhances the probability of creativity. Whether work is fun and stimulating, whether one can look forward to going to work each day, and whether the people one works with may be thought of as dependable and supportive – all these bear on the issues of creativity” (Hall, 1988, p. 145).

### 5.3.3 PROBLEM SOLVING

The problem solving processes should be geared to creativity, novel insights and innovative thinking. “Problem-solving processes must be managed in such a way as to remove constraints on imagination; conflict must be recognised for what it is...and managed accordingly; common problems must be managed for common acceptance; and the rewards for trying must be far greater than the costs of failing” (Hall, 1988, p. 151).

An experimental approach to problem-solving must be promoted and people must be encouraged to think “out of the box”. Problem situations must be viewed as challenges and must be approached with open minds and high expectations. A collaborative process must be promoted to enhance collaborative creativity and to ensure optimal use of available resources.

Table 1 provides an overview of the ten conditions of the competence process and also indicates how the components can be managed in order to enhance organisational performance.

Table 1: An overview of the Components of Competence

Component	Major characteristics	When properly managed
Management Values	<ul style="list-style-type: none"> <li>• Reflects basic organisational culture</li> <li>• Affirms organisation's concern for excellence</li> <li>• Gives evidence that management values the resources of its personnel and acknowledges the humanity of employees</li> </ul>	<ul style="list-style-type: none"> <li>• Enhances feelings of self-esteem</li> <li>• Diminishes the power-based class system</li> <li>• Instils self-confidence</li> </ul>
Support structure	<ul style="list-style-type: none"> <li>• Involves both the physical and psychological structuring of relationships</li> <li>• Maintains both the technical and social systems</li> <li>• Facilitates information flow</li> </ul>	<ul style="list-style-type: none"> <li>• Translates "philosophy" into action</li> <li>• Opens communication channels</li> <li>• Initiates and nurtures collaboration</li> </ul>
Managerial credibility	<ul style="list-style-type: none"> <li>• Develops basic trust in management</li> <li>• Gives evidence that management will do what it says it will do</li> <li>• Creates a norm of reciprocity</li> </ul>	<ul style="list-style-type: none"> <li>• Determines if anything will really happen</li> <li>• Promotes flexibility</li> <li>• Stimulates employee input</li> </ul>
Climate	<ul style="list-style-type: none"> <li>• Reflects the "emotional" tone of the organisation</li> <li>• Serves as a check on the system of values and practices within the organisation</li> <li>• Determines readiness for growth</li> </ul>	<ul style="list-style-type: none"> <li>• Promotes authentic working relationships among people</li> <li>• Sets a norm of spontaneity and responsiveness</li> <li>• People are not afraid to make mistakes</li> </ul>
Impact	<ul style="list-style-type: none"> <li>• People can cause things to happen</li> <li>• One's involvement or participation does lead to personal impact</li> <li>• Those who need authority get it without regard to rank or position</li> </ul>	<ul style="list-style-type: none"> <li>• Formalise the sharing of power</li> <li>• Improves morale and productivity</li> <li>• Causes people to give their "best"</li> </ul>
Relevance	<ul style="list-style-type: none"> <li>• People spend their time in core activities</li> <li>• There is a logic involved in the work which allows people to find challenge and a sense of purpose</li> <li>• People can do rather than getting ready to do or analysing what to do</li> </ul>	<ul style="list-style-type: none"> <li>• Sustains a sense of purpose</li> <li>• Integrates personal goals and organisational objectives</li> <li>• Lends coherence to job activities</li> </ul>
Community	<ul style="list-style-type: none"> <li>• Establishes interdependence and mutual reliance and respect</li> <li>• Promotes shared responsibility and a concern for the common good</li> <li>• Minimizes issues of "territoriality"</li> </ul>	<ul style="list-style-type: none"> <li>• Avoid win-lose dynamics</li> <li>• Makes commitment a wide-spread commodity</li> <li>• Promotes greater identification with work group organisation</li> </ul>
Task environment	<ul style="list-style-type: none"> <li>• Acknowledges that work must be structured and priorities set, but minimises emphasis on conformity to procedures</li> <li>• People have access to needed resources</li> <li>• Allows personal control over work activities</li> </ul>	<ul style="list-style-type: none"> <li>• Increases creative problem solving</li> <li>• Promotes accomplishment through personal initiative</li> <li>• Eliminates inefficient methods and procedures</li> </ul>
Social context	<ul style="list-style-type: none"> <li>• Promotes that sharing of ideas and opinions</li> <li>• Capitalises on the positive aspects of social facilitation</li> <li>• Encourages innovation and promotes a</li> </ul>	<ul style="list-style-type: none"> <li>• Creates excitement, not boredom, in workplace</li> <li>• Avoids depersonalisation of individuals</li> <li>• Makes work fun rather than</li> </ul>

	norm of candor and openness	a chore
Problem solving	<ul style="list-style-type: none"> <li>• Emphasises that problem solving is basically a process issue and not a task issue</li> <li>• All resources are utilised – not just those of a single individual</li> <li>• Conflict is not avoided but is utilised as a source of potential creativity</li> </ul>	<ul style="list-style-type: none"> <li>• Encourages abstract thinking</li> <li>• Ignites collective creativity</li> <li>• Reinforces personal impact</li> </ul>

Source: Adapted from Schlechter, 2000.

## 6. DEFINING ORGANISATIONAL PERFORMANCE

Organisational performance is one of the outputs of an organisation that Nadler and Tushman (1983) and Higgins (2005) refer to and organisational performance also refers to the extent to which goals relevant to the specific organisation are attained (Lim, 1995). Performance can be in relation to the expectation of all stakeholders in the organisation, i.e. shareholders, staff, customers and the community. Performance outcomes could have various measures, i.e. quantity and quality of outputs, efficiency, labour productivity, sales, response times, customer satisfaction, employee satisfaction, innovation and financial.

Organisations perform at different levels and by benchmarking their performance against competitors, organisations could ascertain in which areas they need to improve or increase performance. The measurement of organisational performance has always been problematic and choosing a viable method for effective evaluation of performance is not an easy task (Ho and Wu, 2006). Traditionally, organisational performance was commonly referred to as financial performance (Yeo, 2003).

An organisation's performance should not only be measured in financial terms, but consideration should also be given to its social/ethical and environmental performance, the so-called "Triple Bottom Line" (Norman and MacDonald, 2003). Shareholders are not the only stakeholders and merely creating shareholder value is no longer sufficient. Organisations must also have regard to the interest of other stakeholders and their obligations to these, namely employees, communities, customers and suppliers. Triple Bottom Line responds to the demands of all stakeholders and defines an organisation's performance in terms of financial, social and environmental criteria.

Keegan, Eiler and Jones (1989) proposed a performance matrix that categorises performance measures as being financial or non-financial and being external and internal measures, thereby reflecting a need for a greater balance of measures across all dimensions. The Strategic Measurement and Reporting Technique pyramid developed by Wang Laboratories also places emphasis on internal as well as external performance measures (Lynch and Cross, 1991).

The Balanced Scorecard proposed by Kaplan and Norton (1992) identifies and integrates four different ways of looking at performance, i.e. financial, customer, internal business and innovation and learning, and links these measures to the corporate strategy. The Balanced Scorecard however, does emphasise the need to implement multi-dimensional performance measures.

Given the vast number of performance measurement tools available and although it is acknowledged that there are a number of performance measurements that can be used to measure organisational performance, financial performance will be used for the purpose of this study.

## 7. FINANCIAL PERFORMANCE AS A MEASUREMENT OF ORGANISATIONAL PERFORMANCE

One of the main objectives of the management of an organisation is to generate profit and to maximise stakeholder's wealth, although as argued above, it is accepted that an organisation also has a social and environmental responsibility.

Financial performance is a broad measure of organisational performance. It is inclusive of the benefits and costs of production (Devaro, 2006). The financial benefits of organisational performance are often associated with organisational success (Thurbin, 1994). The traditional bottom line is the net income (profit or loss) generated by an organisation within a given period.

Ho and Wu (2006) developed a new approach to performance evaluation for banks in order to reduce the number of ratios most commonly used in financial analysis. They

borrowed the Grey Relation Analysis from the study of industry in order to reduce the number of financial indicators used to assess business operational performance.

Financial performance can also refer to the profitability of an organisation, i.e. the ability of the organisation to generate revenues that will exceed costs by using the organisation's assets for productive purposes (Marx, De Swart and Cronje, 1999). Shareholders of an organisation expect to receive a return for their contribution to the organisation. In order to measure financial performance, one has to make reference to the financial statements of a company.

Companies produce financial statements in order for stakeholders to determine whether the company is producing economic value add. By analysing these financial statements and by calculating and comparing various ratios, one can determine whether one company is performing better over a specific period of time than another company.

In terms of S286 of the Companies Act 52 of 1973, a company is required to produce annual financial statements and to lay them before an annual general meeting. These statements should fairly present the state of the affairs of the company and the operation results for the year (Correia, Flynn, Uliana and Wormald, 2007). Schedule 4 of the Companies Act prescribes that the information should consist of the following reports:

Balance sheet	(Quantitative data)
Income statement	(Quantitative data)
Statement of changes in equity	(Quantitative data)
Cash flow statement	(Quantitative data)
Director's report	(Qualitative data)
Auditor's report	(Qualitative data)

A balance sheet has three main elements, namely assets, liabilities and equity and the balance sheet provides a summary of a company's assets, liabilities and equity at a specific point in time (Correia, *et al*, 2007). An asset is defined as a resource which the company controls and from which it expects to derive a future economic benefit (Flynn, Koornhof, Kleynhans, Meyer and Posthumus, 2005). A liability is an obligation

that the company needs to honour and will result in an outflow of economic benefits (Flynn, *et al*, 2005). Equity refers to the owners' or shareholders' interest in the business.

The income statement measures a company's performance over a specific period in time. It provides a summary of how the business generated its income during that specific period. Income can be generated either through operating activities or through non-operating activities, i.e. other income. It also provides a summary of what expenses were incurred in the generation of the income and this can also be related to operating or non-operating activities. It is important to ascertain what portion of a business's income was directly related to its operating or core activities and what portion is related to non-operating activities as these could be once-off of nature.

A statement of changes in equity will show profit or loss for the period under review, capital transactions with owners, balance of accumulated profit and loss at beginning of period and movements for the period, a reconciliation between the carrying amount of each class of equity capital, share premium and each reserve at the beginning and at the end of a specific period.

The cash flow statement provides aggregate data regarding all cash inflows a company receives as well as all cash outflows during a given period in time. As with the income statement, a distinction is made between operating and non-operating activities.

The directors' report is published by the directors of the company and it gives a synopsis of the trading conditions and general recommendations by the directors to the stakeholders. It is descriptive of nature and provides a background to the firm's operating results during the given period. It also discusses new developments and indicates management's perceptions of the future. It is more subjective in nature than the quantitative reports (Correia, *et al*, 2007).

The auditors' report is a statement by the auditors of the firm that the firms financial statements comply with the required accounting standard, albeit IFRS or GAAP. It can be qualified or unqualified.

The financial statements of a company are produced in order for stakeholders to examine and analyse the financial data of a company. This information is then used to make economic decisions. The information cannot be used in isolation and one has to take into account prevailing economic conditions and other circumstances in the industry in which the company operates (Flynn, 2003).

In order to assess a company's financial performance, it is necessary to calculate certain ratios from the balance sheet and income statement and to compare these ratios to ratios from previous periods or those of the competitors within the industry.

## 8. RATIO ANALYSIS

There are various techniques available to evaluate financial performance. These methods include:

- Comparative financial statements and trend analysis
- Index analysis
- Common size analysis
- Ratio analysis

The most popular analytical technique is ratio analysis (Flynn, 2003) and this is also the technique that will be employed in this study. "Ratio analysis may be defined as the selection of two line items which have a meaningful relationship and expressing that relationship as a ratio" (Flynn, 2003, p. 173). These line items are obtained from the financial statements of the organisation. A vast number of ratios have been identified to be used in ratio analysis and it is important to ascertain what the objective of the analysis is in order to ascertain which ratios to use. It is also important to compare the ratios of the company to that of its competitors. The comparison of financial statements will indicate trends. The trend will indicate the direction, rate and the amount of change over a period (Correia, *et al*, 2007). For effective ratio interpretation, it must be compared with historic ratios, or with industry ratios or with management's goals and standards.

Various sets of ratios have been developed and grouped together in order to measure various aspects of financial performance. Ratios can be grouped together as:

- Profitability ratios
- Liquidity ratios
- Efficiency ratios
- Financial leverage ratios
- Market ratios

## 8.1 PROFITABILITY RATIOS

Profitability ratios indicate whether the business effectively uses its assets to produce a reasonable profit. Profitability ratios are calculated by using the information obtained from the balance sheet of the company and show the combined effect of liquidity, asset management and debt management on operating results. Profitability ratios could include the following:

- Return on Equity
 

The return on equity is the ratio of net profit after interest and taxes (i.e. profit attributable to shareholders) to shareholder's equity. This ratio is also called the Return on Shareholders Funds.
- Return on Total Assets
 

The return on assets ratio measures the profitability of the company in relation to the total assets employed. It is also referred to as the return on investment. The return on total assets is calculated by dividing earnings by total assets. The dilemma here is which definition of earnings to use as there are three possible definitions of earnings: earnings before interest and tax (useful when comparing firms in different tax situations and with different degrees of leverage), earnings before interest but after tax (conceptually this is the most correct approach because it excludes financing cost, but includes operating costs), and net income which is after interest and tax (this understates the return as the degree of financial leverage will have an impact on the return on total assets). The objectives of the analysis will determine which definition of earnings should be used (Correia, *et al*, 2007).

## 8.2 LIQUIDITY RATIOS

The liquidity ratios will determine whether the company will be able to meet short term financial obligations (current liabilities). In the banking industry, a more appropriate measure to use would be capital adequacy which is a measure of the adequacy of a banking institution's capital resources in relation to its current liabilities. The Basel Committee on Banking Supervision have issued guidelines as to the minimum amount of capital to be maintained by banking institutions against their risk-adjusted assets (8%). In South Africa, this has been increased to 10%.

## 8.3 ASSET MANAGEMENT RATIOS

This group of ratios measures whether company assets are effectively managed. These ratios are more applicable to industries that carry inventory and not to the financial services industry.

## 8.4 MARKET VALUE RATIOS

These ratios indicate the relationship of an organisation's share price to dividends and earnings. Market value ratios are strong indicators of investors' perceptions of the organisation's past performance and future prospects. The market value ratios could include:

- **Headline earnings per share**  
This is the amount earned per share during a given year. It is calculated by dividing net profit after tax by the number of shares in issue (Flynn, 2003).
- **Dividends per share**  
This is the amount received per share during a given year. It is calculated by dividing dividends declared by the number of shares in issue.
- **Dividend yield ratio**  
This indicates the return that investors are obtaining on their investment in the form of dividends. It is calculated by dividing the dividend per share by the price per share.

- Earnings yield  
This is calculated by taking the earnings per share and dividing it by the market share price of the share. This indicates the yield or return that investors are demanding.
- Price-earnings ratio  
This shows how much investors are prepared to pay per rand of reported profits. This is calculated by taking the price per share and dividing it by the earnings per share.
- Dividend cover  
This ratio measures the extent of earnings that are being paid out in the form of dividends and thus how much of earnings are being retained and reinvested within the organisation.

There are also certain ratios that can be calculated by using information from the income statement. These ratios are also an indicator of profitability and are more applicable to the financial services industry and will be used in this research.

- Cost to income ratio  
This ratio is calculated by dividing the total operating expenses by the total operating income generated without taking into account any impairments. This is an efficiency measure and is similar to operating margin, however the lower this ratio is, the more efficient or profitable the organisation is. There is an inverse relationship between this ratio and the organisation's profitability, i.e. a negative relationship. This is a ratio that is reported on by the South African Reserve Bank to monitor profitability in the banking sector in South Africa. In a paper delivered at the African Economic Conference, 2009, by Mthuli Ncube, he stated that the cost-to-income ratio has always been used in the South African banking sector to measure efficiency. Banks still use mainly accounting methods to assess and measure performance.
- Cumulative leverage  
This ratio is calculated by dividing total income by the total expenses and shows how many times the income will cover the expenses. It is a profitability measure and it takes into account the total income, after provision is made for impairments.

- Contribution per employee

This ratio is calculated by dividing the income before tax by the total headcount in the organisation. This ratio takes into account the value of intangible assets, i.e. returns on talent, knowledge, relationships, reputations and other intangibles created by talented people (Bryan, 2007).

## 9. EMPIRICAL STUDIES INVESTIGATING THE RELATIONSHIP BETWEEN ORGANISATIONAL CULTURE AND ORGANISATIONAL PERFORMANCE

On the one hand, effective human capital processes of which a subcomponent would be culture, has been proven to increase the effectiveness of an organisation and it has been found that there is a strong link between an organisation's human capital processes and the organisation's overall financial performance (Benton, Cantrell and Vey, 2004). More than half of the human capital processes measured showed a statistically significant relationship between human capital processes and the financial performance of the organisation (Benton, *et al*, 2004).

In a study undertaken by Patterson, West, Lawthorn and Nickell, (2003), it was found that there is a definite link between people management practices and business performance. The following findings were made:

- Cultural factors account for 10 per cent of the variation in profitability between companies.
- Managerial practices and human resource management practices account for 17 per cent variation in profitability between companies.

Hansen and Wernerfelt (1989, p. 399) reported that "organisational factors explain about twice as much variance in profit rates as economic factors". They conclude that the intangible attributes of a firm are crucial to its performance.

Rashid, Sambasivan and Johari (2003) showed that corporate culture has a significant influence on financial performance, particularly profitability ratios, but that it has no influence on liquidity ratios. Their findings suggest that there is a strong relationship between organisational culture and organisational profitability or performance.

Gordon and DiTomaso (1992) found that there is a strong relationship between a strong organisational culture and better performance. They found that a strong culture, in which substantive value was placed on the value of “adaptability” was associated with stronger performance. They also found that a cultural value of “adaptability” is also predictive of short-term performance.

Denison and Mishra (1995) concluded that cultural traits are positively related to objective performance measures such as return on assets and sales growth. The cultural traits that they identified were involvement, consistency, adaptability and a sense of mission or long-term vision.

Lee and Yu (2004) found that the cultural strength of organisations was related to organisational performance in some cases and that the cultural elements which distinguish companies from each other were also found to be related to performance. They also found that culture can be a source of sustained competitive advantage under certain conditions. However, their study only included senior management within the organisations and may not be a representative sample.

Deal and Kennedy (1982) argued that a strong culture contributes towards the successful organisational performance. Schein (1984) however states that the actual content of the culture and not necessarily the strength thereof may be correlated to effectiveness. In a study undertaken by Human Synergistics International, the possible link between organisational culture and financial performance was investigated. This study was undertaken in the fast food industry and the EBITDA (earnings before interest and tax) was used as financial indicator. The results found that there was a significant correlation between a high achievement culture and financial performance.

Kangis and Williams (2000) concluded that there is a consistent association between organisational climate and performance and that companies that performed above average showed higher values on climate dimensions than those performing below average. The performance measures that were used in their study were profit margin, return on capital employed and sales growth. They did however caution that it would

be premature to conclude that this connection is causal. Kangis and Williams (2000) acknowledged that organisational climate differs from organisational culture and state that organisational climate refers to the perceptions that organisational members share of the fundamental elements of the organisation.

Schlechter (2000) used the Organisational Competence Index (identical to the Organisation Culture Analysis used in this study) based on Hall's (1988) competence theory and found a statistically significant link between the dimension and conditions for competence and stock losses, profit and labour turnover in a large retail organisation in South Africa. This study was only undertaken in a single large retail organisation. Schlechter and Maritz (unknown) found evidence of this statistically significant link and stated that an organisation can add to its bottomline and thus increase profitability by implementing Hall's (1988) competence process.

However, contrasted to the above findings that there is indeed a strong link between organisational culture and financial performance, a study undertaken by Silvestro (2002), found that there is no significant link between employee satisfaction and profitability. Lim (1995) did not find conclusive evidence for the culture-performance link and criticised the fact that previous studies failed to discuss the influence of other variables such as organisational structure and leadership. The reasons for the inconclusiveness of evidence was mainly definitional problems as to the application of the term "organisational culture" and the difficulty in measuring organisational culture.

Kotter and Heskett (1992) studied the relationship between organisational culture and performance and only found a modest correlation between a "strong" organisational culture and long-term financial performance. They also found that firms with market-orientated cultures had better performance than other firms.

Mavondo and Farrell (2003) found that there was no statistically significant positive relationship between cultural orientation, market orientation and innovation within an organisation and the financial performance of the organisation.

Davidson, Coetzee and Visser (2007) explored the relationship between organisational culture and financial performance of a South African investment bank.

They used the Denison Organisational Culture survey to measure the culture and used various financial indicators to explore the link, namely effective tax rate, net interest and income after tax/operating income, net interest income/operating income, Non-Interest Revenue/operating income and operating expenses/operating income. Although they found high correlations between some of the subscales (team orientation, agreement, customer focus, core values and vision), the results were regarded as tentative because statistical significance was not reached for most of the correlations.

## 10. CONCLUSION

From the literature reviewed, it is evident that the concept of organisational culture is a very complicated concept and no single definition or classification exists. There is also no single way of determining culture and culture evolves over time, albeit a long period. Leadership within the organisation is the driving force behind organisational culture and the founder members will have a great influence on the type of culture that an organisation will have.

There is still debate as to whether organisational culture actually has an influence on organisational performance and more specifically financial performance and further research will be undertaken to ascertain whether a statistically significant positive correlation exists between organisational culture and organisational performance, measured in terms of chosen financial performance ratios.

## **CHAPTER THREE**

### **RESEARCH DESIGN**

#### 1. INTRODUCTION

This chapter will provide an explanation of how the research was conducted. The research problem will be stated and the research goals and objectives will be stated. The main hypotheses are very broad and the sub-hypotheses that will be tested are identified and stated and the population and sample will be discussed. The research instrument used, Organisation Culture Analysis, based on Hall's (1988) competence theory, will be discussed. Thereafter the data gathering process will be explained. The statistical data analysis methods employed, namely analysis of variance and correlation analysis will be explained.

#### 2. RESEARCH PROBLEM

There are various factors that could influence a company's performance and these could include economic climate, organisational strategy and structure, competitor's influences. Within a specific industry, such as the financial services industry and more specifically, the banking industry, different banks perform at different levels, and some are more profitable than others. Even within the same bank, different branches perform at different levels and some branches are more profitable than others. One needs to determine what causes this difference in performance and whether the organisational culture has any influence on the financial performance of the different banks or branches and whether this influence is of statistical significance.

#### 3. GOAL OF THE RESEARCH

The overall goal of the research is to establish whether there is a statistically significant positive relationship between organisational culture and the financial performance of selected branches of a financial institution in South Africa.

The main hypotheses to be tested are:

H<sub>0</sub>: There is no statistically significant positive relationship between organisational culture and financial performance.

H<sub>1</sub>: There is a statistically significant positive relationship between organisational culture and financial performance.

These main hypotheses are very broad and in order to draw any meaningful conclusions, it is necessary to unpack these hypotheses and to test the following sub-hypotheses.

The sub-hypotheses to be tested will therefore be:

H<sub>0</sub>: There is no statistically significant relationship between collaboration and cost to income ratio.

H<sub>A</sub>: There is a statistically significant relationship between collaboration and cost to income ratio.

H<sub>0</sub>: There is no statistically significant relationship between commitment and cost to income ratio.

H<sub>A</sub>: There is a statistically significant relationship between commitment and cost to income ratio.

H<sub>0</sub>: There is no statistically significant relationship between creativity and cost to income ratio.

H<sub>A</sub>: There is a statistically significant relationship between creativity and cost to income ratio.

H<sub>0</sub>: There is no statistically significant relationship between collaboration and cumulative leverage.

H<sub>A</sub>: There is a statistically significant relationship between collaboration and cumulative leverage.

H<sub>0</sub>: There is no statistically significant relationship between commitment and cumulative leverage.

H<sub>A</sub>: There is a statistically significant relationship between commitment and cumulative leverage.

H<sub>0</sub>: There is no statistically significant relationship between creativity and cumulative leverage.

H<sub>A</sub>: There is a statistically significant relationship between creativity and cumulative leverage.

H<sub>0</sub>: There is no statistically significant relationship between collaboration and contribution per employee.

H<sub>A</sub>: There is a statistically significant relationship between collaboration and contribution per employee.

H<sub>0</sub>: There is no statistically significant relationship between commitment and contribution per employee.

H<sub>A</sub>: There is a statistically significant relationship between commitment and contribution per employee.

H<sub>0</sub>: There is no statistically significant relationship between creativity and contribution per employee.

H<sub>A</sub>: There is a statistically significant relationship between creativity and contribution per employee.

#### 4. POPULATION

The financial institution in which the research was conducted is an international specialist banking group that provides a diverse range of financial products and services to a select client base. The group was founded in 1974 and since inception it has expanded through a combination of organic growth and a series of strategic acquisitions. It offers its core activities in the UK and South Africa and select activities in Australia. The group comprises of five business divisions, namely Private Client Activities, Capital Markets, Investment Banking, Asset Management and Property

Activities. The group's strategic goals and objectives are based on the aspiration to be recognised as a distinctive specialist banking group. The distinction is embodied in the group's entrepreneurial culture, which is balanced by a strong risk management discipline, client-centric approach and its ability to be nimble, flexible and innovative. It does not seek to be all things to all people and aims to build well-defined, value-added businesses focused on serving the needs of select market niches in which it can compete effectively (Company Annual Report, 2009).

The group strives to be a distinctive specialist banking group, driven by commitment to its core philosophies and values, which are:

Values:

- Distinctive performance
  - Outstanding talent – empowered, enabled and inspired
  - Meritocracy
  - Passion, energy, stamina, tenacity
  - Entrepreneurial spirit
- Dedicated partnerships
  - Respect for others
  - Embrace diversity
  - Open and honest dialogue
  - Unselfish contribution to colleagues, clients and society
- Client Focus
  - Distinctive offering
  - Leverage resources
  - Break china for the client
- Cast-iron integrity
  - Moral strength
  - Risk consciousness
  - High ethical standards

Philosophies

- Single organisation
- Meritocracy
- Focused businesses

- Differentiated, yet integrated
- Material employee ownership
- Creating an environment that stimulates extraordinary performance

The research was conducted in the Private Bank, which is a division of the Private Client Activities. The Private Bank in South Africa has five main branches, with a number of satellite offices. It employed a total of 1010 staff members at the end of March 2009.

As discussed earlier, various factors could influence an organisation's performance. These could include economic climate, organisational strategy and structure, possibly organisational culture and the influence of competitors. In order to eliminate or limit the influence of external or other factors on the financial performance, five branches of the same financial institution were used in this study. The benefit of this was the fact that these branches operate in the same economic climate and environment, the branches have the same credit and risk policies, they have the same target markets and therefore the influence of external factors on the financial performance was greatly limited.

## 5. THE SAMPLE

The study involved a quantitative determination of organisational culture by administering a questionnaire. Data was collected from five branches of the selected financial institution in order to establish whether there is a difference in organisational culture between the five branches. A convenience sampling method was adopted. A convenience sample is selected in such a way that members of the population are chosen based on the ease of access and availability (Keller and Warrack, 1997).

The researcher obtained staff lists of the branches in which the researcher is not employed and selected names from the lists to ensure that all levels of employees were engaged in the process. The researcher did not select the names of the respondents in the branch in which she is employed, but requested the human resources officer to select the respondents in order to eliminate the potential for bias.

A total of 200 questionnaires were handed out (40 per branch) and a total of 128 questionnaires were received back with 11 spoilt questionnaires, so a total of 117 usable questionnaires were used in the research. The response rates are listed below in Table 2.

Table 2: Response rates

BRANCH	NUMBER OF STAFF MEMBERS	QUESTIONNAIRES HANDED OUT	RESPONSES	RESPONSE RATE
A	46	40	25	62,50%
B	141	40	29	72,50%
C	390	40	32	80,00%
D	199	40	26	65,00%
E	234	40	5	12,50%
TOTAL	1010	200	117	58,50%

## 6. THE RESEARCH INSTRUMENT

The Organisation Culture Analysis questionnaire was used for this research. This instrument is based on Hall's (1988) competence theory and the instrument measures the three dimensions of organisational competence, namely collaboration, commitment and creativity and the underlying conditions of each of these three dimensions.

Table 3: Dimensions and conditions for competence

CONDITIONS FOR COLLABORATION	CONDITIONS FOR COMMITMENT	CONDITIONS FOR CREATIVITY
<ul style="list-style-type: none"> <li>• Management values</li> <li>• Support structure</li> <li>• Managerial credibility</li> <li>• Climate</li> </ul>	<ul style="list-style-type: none"> <li>• Impact</li> <li>• Relevance</li> <li>• Community</li> </ul>	<ul style="list-style-type: none"> <li>• Task environment</li> <li>• Social context</li> <li>• Problem solving</li> </ul>

The support conditions for each of the three dimensions for competence are set out in table 3 above.

The questionnaire comprises of 40 items that are broken down into the three dimensions and the 10 conditions for competence. Each item has three capsule

answers, namely A, B and C. Each capsule is a brief description of a certain condition commonly found in organisations. Together, the capsules provide a range of answers. A respondent must firstly indicate which of the three descriptions is most characteristic of the condition in the organisation and then the respondent must indicate the degree of accuracy.

If the description in capsule A is most characteristic of the condition within the organisation, but there is a degree of the description in capsule C present, the correct answer would be Ac. If the description in capsule A is very accurate and no characteristics from the descriptions in capsule B or C are present, then the correct answer would be AA. A copy of the questionnaire is attached as Annexure A.

Once the questionnaires are completed, the answers are converted into a score sheet in order to convert the raw scores to Percentiles. The percentile scores permit a direct comparison of the raw scores. The three dimensions of competence and the ten conditions of competence were converted to percentiles by using the Organisation Culture Analysis conversion chart, which was supplied with the questionnaires. The scores were then input into an Excel spreadsheet to facilitate the statistical analysis.

The questionnaire provides for two answers to each question, an “as it is” part and an “as I would like it to be” part. For the purpose of this study, respondents were only asked to complete the “as it is” part, as no gap analysis is required for this research. The questionnaire is merely used to determine the three dimensions and ten support conditions of culture within the organisation in order to perform statistical analysis.

The OCA has been found to be an extremely reliable measuring instrument to assess the current organisational conditions and two separate studies have yielded Cronbach Alpha coefficients (a measure of internal consistency and overall reliability) of .928 and .924, respectively (Hall and Goodale, 1986). Schlechter (2000) used the instrument in a South African context, conducting his research in a major retail organisation and found the instrument to be highly reliable.

## 7. DATA GATHERING AND ANALYSIS

The researcher obtained a staff list per branch and selected 40 staff members from each branch to complete the questionnaire. Although the researcher was present in each branch at the time of administration and completion of the questionnaires to address any concerns and answer any questions, the researcher did not influence the respondents in the completion of the questionnaires to ensure unbiased results. The respondents collected the questionnaires from the researcher at a central point where the purpose was explained to the respondents by the researcher and an explanation given as to how to answer the questions. The respondents then went to their desks to complete the questionnaires in their own time and returned the questionnaires to the researcher later during the day. The respondents were also informed that the researcher will be available all day should they need to contact the researcher for further clarification and explanation while completing the questionnaires. The respondents who were unable to complete the questionnaires were given the option to mail the questionnaires back to the researcher.

The income statements of the five branches for three financial years ended 31 March 2007, 2008 and 2009 were obtained from the national accountant for the organisation. The income statements were analysed by the researcher and a branch accountant and three ratios measuring financial performance and profitability, namely cost-to-income ratio, cumulative leverage and contribution per employee were calculated, by using the formulas as explained in the previous chapter. These ratios were chosen as they are a measure of profitability and are also the key ratios monitored by the management of the organisation on a monthly basis to ensure that profitability targets are met.

The ratios were calculated per branch for each of the three years and the averages over a three year period were calculated per branch. Averages were used as this gives an indication of financial performance over a longer period than one year, and culture also evolves over a long period. All financial data and the converted scores from the OCA were recorded on Excel spreadsheets to facilitate the statistical analysis. Two statistical methods were used for the analysis of the data, namely an analysis of variance and a correlation analysis.

There are five branches used in the study. The statistical analysis involves one independent variable namely organisational culture (three dimensions and ten conditions of culture) and multiple dependent variables, namely the financial ratios (cost to income ratio, cumulative leverage and contribution per employee).

A correlation analysis will be performed in order to establish whether there is a relationship between the three dimensions of culture and the ten conditions of culture and the chosen financial performance indicators. A correlation analysis measures the degree of a relationship between two variables and expresses the extent of this relationship by means of a correlation coefficient. The validity and reliability of the results obtained from the OCA will be tested by conducting a Cronbach's Alpha test.

The statistical significance of each of the three dimensions of culture will be tested in relation to each of the chosen performance indicators. The ten support conditions for the three dimensions of culture will not specifically be reported on, because they cumulatively contribute to the three cultural dimension scores.

A correlation analysis between two variables will result in a correlation coefficient being obtained. A correlation coefficient always lies between -1 and +1 (Keller and Warrack, 1997). The sign indicates the direction, i.e. positive or negative. A correlation close to +1 indicates that two variables are very strongly positively related. A correlation close to -1 indicates that two variables are very strongly negatively related. A correlation close to 0 indicates that no straight line relationship exists. A correlation of +.3 indicates a weak positive association between two variables and a correlation of -.89 indicates a strong negative relationship (Keller and Warrack, 1997).

Even though a correlation could be strongly positive, it could be of little statistical significance, depending on the selected levels of significance at which it is tested. For purposes of this research, a 95% level of significance will be used. Thus, in testing the null hypothesis against the alternative hypothesis, if an observed p-value is  $<0.05$ , the null hypothesis will be rejected and an inference will be drawn that the alternative hypothesis is true.

## 8. ETHICAL CONSIDERATIONS

The organisation in which the research was conducted, requested anonymity in respect of its identity and further requested that the branches remained anonymous and therefore the branches were referred to as branches A, B, C, D and E. Participation in the research process was voluntary and the respondents were assured that all information gathered was merely for academic research purposes, that it was not a formal intervention by the organisation and that all information provided would be treated as anonymous.

## CHAPTER FOUR

### RESEARCH RESULTS AND DISCUSSION

#### 1. INTRODUCTION

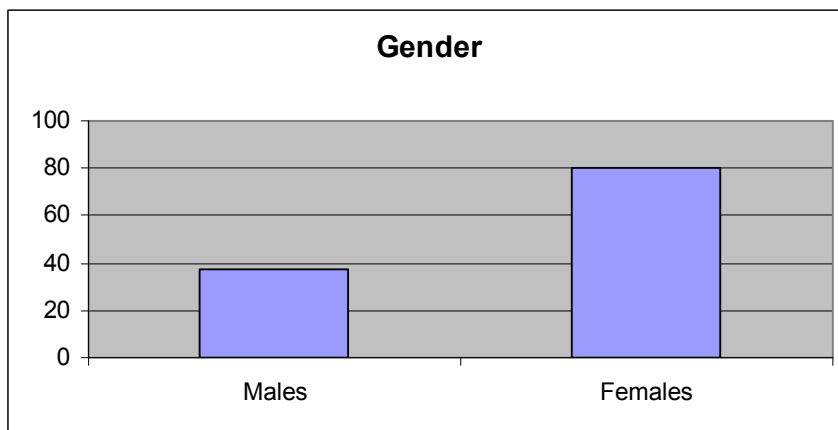
The results from the research will now be presented. The sample will be described in terms of gender of respondents, years of employment with the organisation, age of respondents and the respondent's position within the organisation. The organisation culture analysis scores will be presented and the results per branch, broken down into the three dimensions and the ten conditions of organisational culture will be set out. The financial performance indicators that were calculated will be presented. The correlation coefficients obtained from the correlation analyses will be presented, whereafter the results will be discussed in further detail.

#### 2. DESCRIPTIVE STATISTICS

##### 2.1 GENDER

The sample consisted of 117 usable responses. Of the respondents, 37 were male and 80 were female.

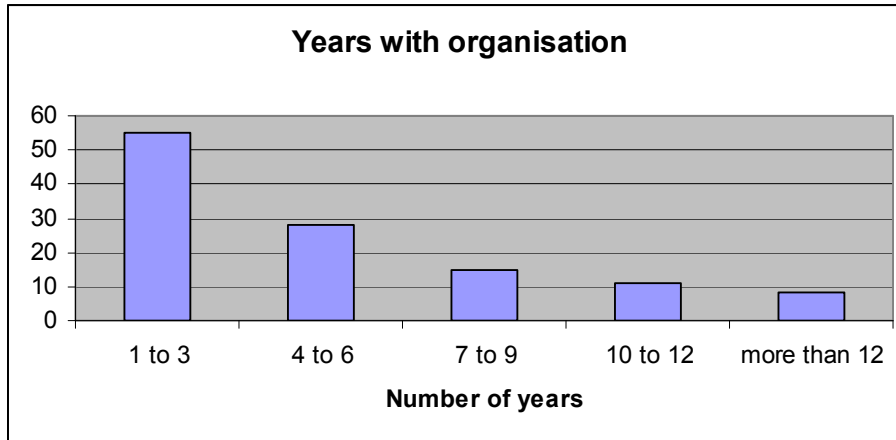
Graph 1: Gender



## 2.2 YEARS WITH ORGANISATION

The respondents' number of years employed at the organisation ranged from 1 year to 20 years with an average of 5 years and 2 months. The majority of respondents had 1 to 3 year's service with the organisation.

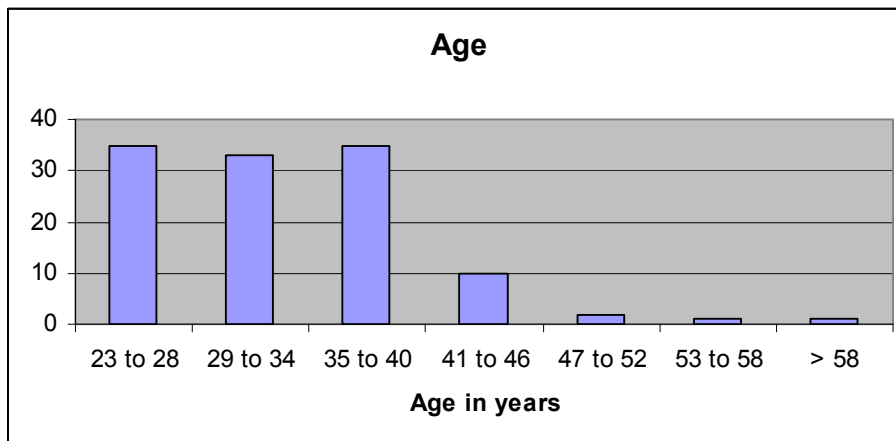
Graph 2: Years employed with organisation



## 2.3 AGE

The age of the respondents ranged from 23 years to 62 years with an average age of 33 years and 6 months. The vast majority of staff members (88 percent) are 40 years old, or younger.

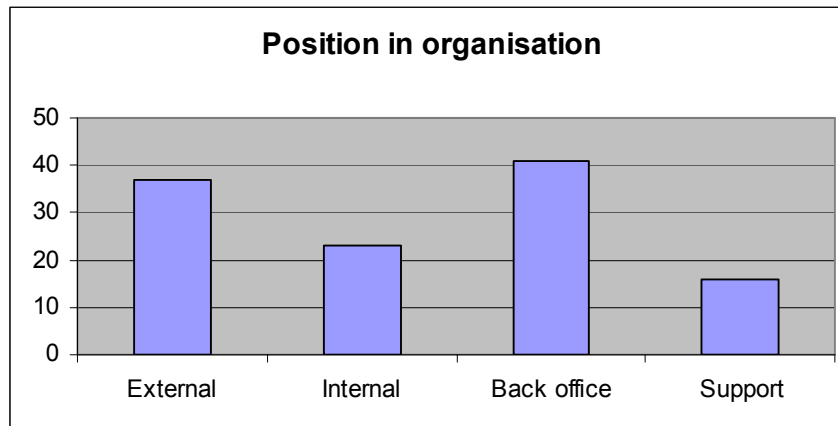
Graph 3: Age of respondents



## 2.4 POSITION IN ORGANISATION

There are four broad position levels within the organisation, namely external consultants, internal consultants, back office staff and support services staff. The sample consisted of 37 external consultants, 23 internal consultants, 41 back office staff members and 16 support services staff members, thus representing all the levels.

Graph 4: Respondent's position in organisation



## 3. FINANCIAL PERFORMANCE INDICATORS USED

The formulas used to calculate these ratios and the reasons why these were selected were explained in a previous chapter.

Table 4: Financial ratios

	BRANCH A	BRANCH B	BRANCH C	BRANCH D	BRANCH E
Cost to income ratio	0,347953	0,256051	0,24542087	0,2821129	0,3317824
Cumulative leverage	2,725117	3,82411	3,69029767	3,184105	2,8576727
Contribution per employee	695,281	1,112,367	1,136,198	955,234	678,303

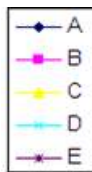
#### 4. ORGANISATION CULTURE ANALYSIS SCORES

The next step was to evaluate the organisational culture profile of the various branches according to the three dimensions and ten conditions of competence as identified by Hall (1988). The terms competence and culture are used interchangeably as the name of the questionnaire used in this research, changed from the Organisation Competence Index to the Organisation Culture Analysis. The average percentile results per branch are set out in Table 5 below.

Table 5: Percentile results per branch

	BRANCH A	BRANCH B	BRANCH C	BRANCH D	BRANCH E
Collaboration	36.8	62.07	57.97	48.73	40
• Management values	29.8	56.65	54.06	45.69	29
• Support Structures	55	69.44	70.63	59.76	46
• Managerial credibility	42.32	59.82	51.34	45.69	52
• Climate	38	51.55	51.13	45.57	48
Commitment	44.64	60.68	64.69	51.15	33.2
• Impact	52	67.41	64.34	54.07	41
• Relevance	37.64	53.17	56.87	54.03	40.2
• Community	45.84	68.07	65	46.73	29.2
Creativity	46.84	56	60.47	49.30	45
• Task environment	60.16	58.72	67.34	51.57	39
• Social context	38.24	54.03	54.81	48.30	51
• Problem solving	44.84	56.04	55.46	52.53	49.2

Graph 5: Percentile results per branch



Graph 5 above clearly indicates that there are variances in the scores of the different branches with regards to the three dimensions and ten conditions of culture or competence. All the scores were also in the fair to good region and none in the poor or outstanding region. Branches B and C scored the highest for all the three dimensions of competence, namely collaboration, commitment and creativity with branches A and E scoring the lowest. Therefore one can draw the conclusion that the dimensions of culture, namely collaboration, commitment and creativity in branches B and C are more relevant than the dimensions of culture in branches A and E.

A one way analysis of variance was used to assess whether the average item score, for each component and supporting condition, was statistically significantly different between each branch. It is important that there is a statistically significant variance in the scores between the branches in order to test the hypotheses to determine whether this difference in culture has an influence on the financial performance indicators. If the variances in culture between the branches are not of statistically significance, then

it would not be possible to find a relationship between the variance in culture and the variance in financial performance. The results of the analysis of variance are set out in Table 6 below.

Table 6: Analysis of variance in scores between branches

	SS Effect	df Effect	MS Effect	SS Error	df Error	MS Error	F	p
Collaboration	10838.98	4	2709.744	67097.95	112	599.0888	4.523109	0.002004
• Management Values	13340.34	4	3335.086	84653.97	112	755.8390	4.412429	0.002381
• Support Structure	6349.86	4	1587.464	49409.29	112	441.1544	3.598433	0.008462
• Managerial credibility	4825.78	4	1206.446	92698.34	112	827.6637	1.457653	0.219895
• Climate	3227.56	4	806.891	77687.02	112	693.6341	1.163280	0.330918
Commitment	9385.55	4	2346.389	72221.03	112	644.8306	3.638768	0.007946
• Impact	6437.76	4	1609.441	77562.10	112	692.5187	2.324040	0.060867
• Relevance	6498.09	4	1624.522	79401.16	112	708.9389	2.291484	0.063962
• Community	10446.98	4	2611.746	67041.14	112	598.5816	4.363224	0.002570
Creativity	3658.06	4	914.514	82190.87	112	733.8470	1.246192	0.295582
• Task Environment	5696.07	4	1424.017	84024.72	112	750.2207	1.898131	0.115690
• Social Context	4717.21	4	1179.302	82155.94	112	733.5352	1.607696	0.177279
• Problem Solving	2164.92	4	541.231	99107.56	112	884.8889	0.611637	0.655108

Significant differences between the average dimension and condition scores between the branches were found for the following variables and this enables the researcher to proceed to test whether there is a statistically significant relationship between organisational culture and financial performance:

Collaboration,  $F = 4.523109$ ,  $df = 4, 112$ ,  $p\text{-value} = 0.002004$

Commitment,  $F = 3.638768$ ,  $df = 4, 112$ ,  $p\text{-value} = 0.007946$

Management values,  $F = 4.412429$ ,  $df = 4, 112$ ,  $p\text{-value} = 0.002381$

Support structure,  $F = 3.598434$ ,  $df = 4, 112$ ,  $p\text{-value} = 0.008462$

Community,  $F = 4.363224$ ,  $df = 4, 112$ ,  $p\text{-value} = 0.002570$

## 5. CORRELATION ANALYSIS

Correlation analysis measures the strength and the direction of an association between two variables. A correlation coefficient is calculated and this coefficient will determine the strength between the variables. A correlation of -1 corresponds to a perfect negative linear relationship, a correlation of 0 corresponds to no linear

relationship and a correlation of +1 corresponds to a perfect positive relationship (Keller and Warrack, 1997).

In order to establish whether there was a relationship between the independent variable (components and conditions of competence/culture) and the dependant variables (cost to income ratio, cumulative leverage and contribution per employee), the Pearson correlation coefficient (r) was computed. The average organisational culture dimension (three) and condition (ten) scores for each of the five branches were calculated and these scores were used as the independent variable. The measured financial performance indicators for each of the five branches were used as the dependant variable in the correlation analysis and the results are set out below in Table 7.

Table 7: Correlation coefficients (r) indicating the relationship between the dimensions and conditions of competence and the indicators of performance

	Cost to income ratio		Cumulative leverage		Contribution per employee	
	Correlation coefficient (r)	P-value	Correlation coefficient (r)	P-value	Correlation coefficient(r)	P-value
Collaboration	-0.9655126	0.00213	0.9973658	0.00000	0.9696695	0.00158
• Management values	-0.9773128	0.00079	0.9736173	0.00114	0.9940529	0.00002
• Support structure	-0.8924765	0.02128	0.9058988	0.01670	0.9516568	0.00446
• Managerial credibility	-0.5939735	0.16677*	0.7439317	0.08746*	0.5551826	0.18806*
• Climate	-0.8024949	0.05896*	0.821102	0.05042*	0.7197108	0.09979*
Commitment	-0.8925003	0.02128	0.886165	0.02356	0.9490569	0.00498
• Impact	-0.8344072	0.04451	0.8895927	0.02231	0.9106289	0.01518
• Relevance	-0.9691633	0.00165	0.8697776	0.02978	0.9490419	0.00499
• Community	-0.8242808	0.04900	0.8858769	0.02366	0.9008546	0.01838
Creativity	-0.9099773	0.01538	0.9165544	0.01334	0.9329289	0.00874
• Task environment	-0.5248525	0.20483*	0.5411503	0.19580*	0.6332668	0.14544*
• Social context	-0.7956305	0.06219*	0.7906253	0.06456*	0.7029919	0.10844*
• Problem solving	-0.9698291	0.00156	0.9512463	0.00454	0.9308702	0.00927

From the results, it can be observed that there is strong correlation (correlation coefficient >0.5) between all the dimensions and support conditions and the financial performance indicators, although the correlation is negative with regards to cost to income ratios, which is expected. These findings support Davidson, *et al's* (2007)

findings that there were strong correlations between organisational culture and financial performance and Schlechter's (2000) findings that there is a strong correlation between organisational culture and financial performance. It must be noted that Schlechter (2000) used the same instrument to measure the organisational culture within a retail organisation while Davidson, *et al* (2007) used a different instrument to measure organisational culture.

The next question which needs to be addressed is to determine whether these correlations are of statistical significance.

The general hypotheses to test whether the correlation between the financial performance indicator and the dimension and support conditions for competence is statistically significant would be:

H<sub>0</sub>: There is no statistically significant correlation between the financial performance indicator and the dimension or support condition for competence/culture.

H<sub>A</sub>: There is a statistically significant correlation between the financial performance indicator and the dimension or support condition for competence/culture.

As mentioned earlier, at a 95% level of significance, should the observed p-value be <0.05, the null hypothesis will be rejected and it will be concluded that there is a statistically significant correlation between the financial performance indicator and the dimension of or support conditions for culture.

The null hypothesis is rejected for all three the dimension of competence, namely collaboration, commitment and creativity, because the p-values are all <0.05, i.e. all three the dimensions of competence have a statistically significant correlation with the financial performance indicators and therefore it can be stated that there is a statistically significant relationship between culture and financial performance. This is contrary to Davidson, *et al*'s (2007) findings that although the correlation coefficients indicated a strong relationship between organisational culture and financial performance, these were not statistically significant. The current findings provide further support for Schlechter's (2000) findings that there is a statistically significant relationship between organisation culture and financial performance.

The null hypothesis must be rejected for six of the support conditions of culture, namely management values, support structure, impact, relevance, community and problem solving and therefore there is a statistically significant relationship between these support conditions and financial performance. The only support conditions which did not prove to have a statistically significant relationship with the financial performance indicators are managerial credibility, climate, task environment and social context (p-values >0.05).

## 6. DISCUSSION OF THE RESULTS

The results will now be discussed in detail, in terms of each of the dimensions of culture and its influence on each of the financial performance indicators. As discussed earlier, the support conditions for the dimensions will not be discussed individually, as their combined values are indicative of the dimensions of competence.

### 6.1 THE RELATIONSHIP BETWEEN COLLABORATION AND FINANCIAL PERFORMANCE

“Collaboration is viewed as the well-spring from which commitment and creativity flows. It serves to trigger the (competence) process” (Hall, 1988, p. 62).

The question to be answered is whether there is a statistically significant relationship between collaboration and financial performance.

$H_0$ : There is no statistically significant relationship between collaboration and financial performance.

$H_A$ : There is a statistically significant relationship between collaboration and financial performance.

The test results are as follows:

#### 6.1.1 Collaboration and cost to income ratio

(Correlation coefficient = -0.9655126, p-value = 0.00213, test-statistic = -2.85877)

The null hypothesis is rejected ( $p\text{-value} < 0.05$ ) and it will be accepted that there is a statistically significant relationship between collaboration and the cost to income ratio. The correlation coefficient of  $-0.9655126$  indicates a strong negative relationship between collaboration and the cost to income ratio, and this negative relationship is to be expected. As explained previously, there is an inverse relationship between the cost to income ratio and profitability of an organisation.

#### 6.1.2 Collaboration and cumulative leverage

(Correlation coefficient =  $0.9973658$ ,  $p\text{-value} = 0.00000$ , test-statistic =  $4.68882$ )

The null hypothesis is rejected ( $p\text{-value} < 0.05$ ) and it will be accepted that there is a statistically significant relationship between collaboration and cumulative leverage. The correlation coefficient of  $0.9973658$  indicates a strong positive relationship between collaboration and cumulative leverage.

#### 6.1.3 Collaboration and contribution per employee

(Correlation coefficient =  $0.9696695$ ,  $p\text{-value} = 0.00158$ , test-statistic =  $2.95109$ )

The null hypothesis is rejected ( $p\text{-value} < 0.05$ ) and it will be accepted that there is a statistically significant relationship between collaboration and contribution per employee. The correlation coefficient of  $0.9696695$  indicates a strong positive relationship between collaboration and contribution per employee.

All three the null hypotheses are rejected and it is thus clear that there is a statistically significant relationship between collaboration and the financial performance of an organisation.

## 6.2 THE RELATIONSHIP BETWEEN COMMITMENT AND FINANCIAL PERFORMANCE

Commitment refers to the energy within the individuals within the organisation and the energy, feelings or psychological events that will be triggered by the collaboration (Hall, 1988).

It must now be determined whether there is a statistically significant relationship between commitment, as a condition of organisational culture, and the financial performance of an organisation. If there is a statistically significant relationship, then it follows that by increasing the commitment of employees, an organisation can improve its financial performance.

$H_0$ : There is no statistically significant relationship between commitment and financial performance.

$H_A$ : There is a statistically significant relationship between commitment and financial performance.

The test results are as follows:

#### 6.2.1 Commitment and cost to income ratio

(Correlation coefficient = -0.8925003, p-value = 0.02128, test-statistic = -2.0281)

The null hypothesis is rejected (p-value < 0.05) and it will be accepted that there is a statistically significant relationship between commitment and the cost to income ratio of an organisation. The correlation coefficient of -0.8925003 indicates a strong negative relationship between commitment and the cost to income ratio, which negative relationship is to be expected as it was argued earlier that there is an inverse relationship between the cost to income ratio and profitability.

#### 6.2.2 Commitment and cumulative leverage

(Correlation coefficient = 0.886165, p-value = 0.02356, test-statistic = 1.98524)

The null hypothesis is rejected (p-value < 0.05) and it will be accepted that there is a statistically significant relationship between commitment and cumulative leverage. The correlation coefficient of 0.886165 indicates a strong positive relationship between commitment and cumulative leverage.

#### 6.2.3 Commitment and contribution per employee

(Correlation coefficient = 0.9490569, p-value = 0.00498, test-statistic = 2.57697)

The null hypothesis is rejected ( $p\text{-value} < 0.05$ ) and it will be accepted that there is a statistically significant relationship between commitment and contribution per employee. The correlation coefficient of 0.9490569 indicates a strong positive relationship between commitment and contribution per employee.

All three the null hypotheses are rejected and it is accepted that there is a statistically significant relationship between commitment and the financial performance of an organisation.

### 6.3 THE RELATIONSHIP BETWEEN CREATIVITY AND FINANCIAL PERFORMANCE

Creativity is seen as the capabilities or capacities of people. One needs to determine whether there is a relationship between creativity as a component of organisational culture and financial performance.

$H_0$ : There is no statistically significant relationship between creativity and financial performance.

$H_A$ : There is a statistically significant relationship between creativity and financial performance.

#### 6.3.1 Creativity and cost to income ratio

(Correlation coefficient = -0.9099773,  $p\text{-value}$  = 0.01538, test-statistic = -2.16006)

The null hypothesis is rejected ( $p\text{-value} < 0.05$ ) and it will be accepted that there is a statistically significant relationship between creativity and cost to income ratio. The correlation coefficient of -0.9099773 indicates a strong negative relationship between creativity and the cost to income ratio, which negative relationship is to be expected as it was argued earlier that there is an inverse relationship between the cost to income ratio and profitability.

#### 6.3.2 Creativity and cumulative leverage

(Correlation coefficient = 0.9165544,  $p\text{-value}$  = 0.01334, test-statistic = 2.21614)

The null hypothesis is rejected (p-value <0.05) and it will be accepted that there is a statistically significant relationship between creativity and cumulative leverage. The correlation coefficient of 0.9165544 indicates a strong positive relationship between creativity and cumulative leverage.

### 6.3.3 Creativity and contribution per employee

(Correlation coefficient = 0.9329289, p-value = 0.00874, test-statistic = 2.37661)

The null hypothesis is rejected (p-value <0.05) and it will be accepted that there is a statistically significant relationship between creativity and contribution per employee. The correlation coefficient of 0.9329289 indicates a strong positive relationship between creativity and contribution per employee.

All three the null hypotheses are rejected and it is accepted that there is a statistically significant relationship between creativity and the financial performance of an organisation.

## 7. CONCLUSION

The results found above can be summarised as follows:

There is a statistically significant relationship between all three dimensions of organisational culture, namely collaboration, commitment and creativity and the measured financial performance indicators used, namely cost to income ratio, cumulative leverage and contribution per employee.

In conclusion, the results show that there is a statistically significant relationship between the three dimensions of organisational culture and the financial performance of an organisation. The null hypotheses were rejected for all three the dimensions of culture and their relationship with financial performance and this provides further support for previous findings of a statistically significant relationship between the two variables.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **1. INTRODUCTION**

This chapter investigates the difference in cultural dimensions and support conditions per branch and since it has now been found that there is a statistically significant relationship between organisational culture and financial performance, recommendations will be made as to how the individual branches may enhance or improve their financial performance by strengthening the dimensions and conditions of culture. The branches in which members experienced higher levels of collaboration, commitment and creativity, were more profitable in that the cost to income ratios were lower, the cumulative leverage was higher and the contribution per employee was higher than the branches in which members experienced lower levels of collaboration, commitment and creativity.

Each branch will be ranked according to the scores achieved for the dimensions of culture in order to ascertain where there is room for improvement. Recommendations will then be made as to how the leadership in the organisation can improve and strengthen the dimensions and conditions of competence or culture.

According to Hall (1988) stronger conditions of competence will lead to higher performance in organisations. An inference can thus be drawn that an increase in the strength of the dimensions and conditions of competence will lead to an increase in performance.

#### **2. COLLABORATION AS A DIMENSION OF CULTURE**

From the results set out in Table 5 in the previous chapter, the individual branches scored as follows:

Branch B: 62.07

Branch C: 57.97

Branch D: 48.73

Branch E: 40  
Branch A: 36.8  
Average: 49.11

The branches with scores below the average of 49.11, being branches D, E and A, must endeavour to improve collaboration, as collaboration serves as the trigger to set the competence process into action which will result in improved financial performance. Even the higher scoring branches can improve collaboration which will in turn lead to increased financial performance as the scores were still in the “good” region of the graph and can be improved to the “outstanding” region. The conditions for collaboration, namely management values, support structure, managerial credibility and climate should all be improved, although only management values and support structure were found to have a statistically significant relationship with financial performance.

According to Hall (1988), certain identifiable and specifiable managerial practices can be employed to create the conditions for collaboration within an organisation and these could include:

Collaboration is basically an invitation to share power and refers to participative management. It creates a democratic environment in which opportunities are created for all people to participate. Leaders leverage off the knowledge, skills and decisions of people in the organisation and therefore have a broader base off which to make decisions which affect the processes within the organisation.

Leaders should discourage pre-judging of anyone and should not look upon people more or less favourably because of the specific function that they perform. Factors such as titles, education and job complexity should not be used as a basis for special privileges or preferential treatment (Hall and Goodale, 1986). People should be encouraged to express their opinions freely and should be allowed to make suggestions about their specific functions and how their outcomes might be better accomplished. The flow of information within the organisation should be encouraged and management should take the necessary steps to ensure that people have the

information they need and they should have access to information and contact with people with whom efforts can be coordinated.

Leaders should value their human resources by giving employees the opportunity to actively participate, give them the opportunity to engage in open dialogue and create an environment where members can perform extraordinarily. Leadership should have high credibility and must prove that they can be trusted. All these practices will promote management values, improve the support structure available and will establish managerial credibility (Hall and Goodale, 1986).

### 3. COMMITMENT AS A DIMENSION OF CULTURE

From the results set out in Table 5, in the previous chapter, the individual branches scored as follows:

Branch C:	64.69
Branch B:	60.68
Branch D:	51.15
Branch A:	44.64
Branch E:	33.2
Average:	50.87

Once again, statistically significant differences in the scores for branches were found. Interestingly enough, there was only a statistically significant difference found in the community support condition of the commitment dimension. One can therefore allege that there was no significant difference in the scores for impact and relevance. Support to staff is thus very important.

It is also interesting to note that the same branches appear in the top three and bottom two positions, albeit in slightly different orders. Commitment serves as the energy that fuels the competence process and the higher the energy, the higher the commitment and the higher the levels of competence and therefore performance will be. Commitment is the desire to contribute to the success of the organisation and is more on a personal level, whereas collaboration exists on an interpersonal level. In order to be committed to contribute to the success of the organisation, employees should have

clearly aligned goals and should work towards the achievement of an organisational goal or mission.

Leadership within the organisation can improve the commitment of people by once again employing certain practices and behaviours and these will now be discussed. These will all have an impact on the support conditions for commitment, namely impact, relevance and community.

People should be given the freedom to exercise self-control and self-direction and leadership should guard against imposing directives and prohibitions. People should be questioned about and should have input into the establishment of rules, policies and controls as they best know how to perform their tasks. People should be encouraged to also learn from each other and to support and help one another to do their tasks so that they can help one another if the need arises. People should be held mutually responsible and accountable and should be given ownership of their jobs. The sense of ubuntu must be encouraged so that there is a clear understanding that a person is best served when the common good is served as well. If management employ such practices, the goals of individual and collective commitment are served.

#### 4. CREATIVITY AS A DIMENSION OF CULTURE

From the results set out in Table 5 in the previous chapter, the branches scored as follows:

Branch C:	60.47
Branch B:	56
Branch D:	49.30
Branch A:	46.84
Branch E:	45
Average:	51.52

Once again, the same branches scored in the top three and the same branches in the bottom two. Although the creativity score average was higher for this condition of competence, there was no statistically significant difference found in the scores for the

five branches. There was however a statistically significant relationship found between creativity and financial performance and it follows logically that financial performance can be increased if creativity is encouraged.

In order to improve the creativity of people, management practices must be inclusive and people should be asked what tools they need to best perform their duties, how the office should be laid out and task scheduled to improve efficiencies and what is needed to accomplish objectives in the best possible way. People should also be encouraged to experiment and openness and honesty should be encouraged. People should see that it is fun to be at work and social interaction should be encouraged.

## 5. LIMITATIONS OF THE RESEARCH

This study only examined the possible link between organisational culture as determined by the Organisation Culture Analysis and certain selected financial performance indicators. It is acknowledged that there are various other methods to determine organisational culture and various other factors which could influence financial performance, eg. Economic conditions, competitors, products and services mix, customer satisfaction, employee satisfaction and engagement, to name but a few. Only three financial performance indicators were used and there are many other indicators that could be used to ascertain whether there is a statistically significant link between organisational culture and financial performance.

The income statements for the 2007, 2008 and 2009 financial years were used as a base for calculation of the ratios and it is a well known fact the there was a global financial meltdown in the second half of 2008 and this could have had a negative impact on the financial performance figures for the organisation in the 2009 financial year. The findings could possibly have been significantly different if another base for calculation was used. The external events could have had a significant impact on organisational performance, even if culture had a strong and significant influence on financial performance.

The research was undertaken in a single organisation and the findings and conclusions that were drawn, are therefore only relevant and applicable to the specific

organisation and should not be generalised to a broader population. The response rate in Branch E was also extremely poor and it could be argued that the results are not representative of the actual levels of competence in this specific branch.

A further limitation is the fact that although there was great variance in the competence scores for the different branches, there was not great variance in the financial performance indicators and correlating culture data with financial data only makes sense if there is enough variability in both sets of data.

## 6. FURTHER RESEARCH SUGGESTED

As a result of the limited research that has been conducted in this field, it is suggested that further research be conducted within the financial services industry in South Africa in order to find further support for the findings of this study. The suggestion is that the same instrument to measure culture, be administered in three or more other financial institutions and that the same financial performance indicators are used to examine the relationship between organisational culture and financial performance.

It is a further suggestion that other financial performance indicators are used in a future study to ascertain whether the findings in this study can be supported by the findings in a future study, using different financial performance indicators.

## 7. CONCLUSION

In conclusion, it is evident from the above findings that improved organisational culture will lead to improved financial performance. “The superior performance of some of the largest and most successful companies over the past decade demonstrates the value of intangible assets” (Bryan, 2007, p. 58).

Organisational culture is such an intangible asset as it is explained above as the soul or spirit of the organisation. Various attributes can be ascribed to culture and a combination of all of these attributes will give one a sense of the personality of the organisation. Culture does not change overnight and certain managerial behaviours should be entrenched to enhance the culture of an organisation. By merely valuing

employees, their input and the way they interact with one another and by making their working environment more acceptable and enjoyable place to be, a company can add to its bottom line.

“Leadership is a system – the Complete Team Leadership System – and the competent leader is the one who should manage the system for it to work properly. Most importantly, however, it also tells us that this Leadership transforms the innate human competence and potential into performance excellence and creativity – the real determinants that add to the bottom line” (Schlechter and Maritz, year of publication unknown, p. unnumbered).

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