C E Center for Effective Organizations

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Paper prepared as a chapter to be included in B. Schneider (Ed.), Organizational Culture and Climate. San Francisco: Jossey-Bass.

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ORGANIZATIONAL CULTURE:
A KEY TO FINANCIAL PERFORMANCE?

The quantity of organizational culture research has increased dramatically during the last decade (e.g., Barley, Meyer, & Gash, 1988), in part because so much of it has held out a tantalizing promise: that culture may be a key to enhancing financial performance. Supposedly, articulating the "right" set of cultural values will: create excitement, high morale, and intense commitment to a company and its objectives; clarify the behaviors expected of employees; galvanize their potential productivity; and, through these activities, ultimately improve the financial performance of the organization (e.g., Baker, 1980; Kilmann & Saxton, 1985; Martin, Feldman, Hatch, & Sitkin, 1983; Ouchi, 1981; Pascale & Athos, 1981; Schein, 1985; Schwartz & Davis, 1981). These are all functionalist claims, although some (the cognitive clarification and morale claims, for instance) are less immediately utilitarian than others (for example, the link to financial performance).

The objective of this chapter is to argue that this subset of organizational culture research is on the "wrong track," that the promise of a link between organizational culture and financial performance is empirically unsubstantiated--perhaps impossible to substantiate. In the first part of this chapter, we review published empirical research that claims to have found a link to financial performance. We delineate ways that this work (including our own) is conceptually limited, methodologically flawed, and, therefore, empirically inconclusive. In the second section, we discuss practical reasons for this shortage of solid empirical evidence.

The inherent methodological difficulties of exploring the relationship between culture and financial performance are analyzed. In the third and final section, we challenge the theoretical and political assumptions implicit in this or any utilitarian functionalist approach to the study of culture.

We are not questioning claims of a link to financial performance in order to declare the "death" of culture research (see Calas & Smircich, 1987), although we do recognize the risks inherent in questioning a functionalist approach. As Staw (1984) has convincingly argued, "Organizational researchers have had difficulty in sustaining interest in models that do not explain at least some variance in outcomes such as performance." Staw suggests that

interest in decision-making and attribution declined because of this problem. The risk, of course, is that culture research may succumb to a similar lack of interest if links to financial performance are not found.

We believe that organizational culture is a fruitful topic of study, whether or not support for functionalist arguments is found. Our point in this chapter is that it is unwise and misleading to justify studying culture in terms of its links to financial performance, since such a link has not been--and may well never be--empirically demonstrated. The first step in this argument is to define what is meant by the problematic terms, "culture" and "financial performance."

Defining Culture

Researchers vary dramatically in how they define culture and what they study, when they claim to be studying culture. Below we use a matrix framework for analyzing the various ways researchers have operationalized the concept of culture. We then use the patterns of relationship among the cells of the matrix to distinguish three different paradigms of culture research, each of which defines culture in a different way. (The material immediately below is adapted from Martin & Meyerson, 1988, where fuller descriptions of these concepts, as well as a justification for the use of the term "paradigm" can be found. We describe the matrix and paradigms below from the perspective of researchers, but similar frameworks are also used by cultural members to describe their own experiences in an organization.)

A Matrix Framework

A matrix, like that in Figure 1, can be used to summarize a description of a culture. Across the top of the matrix are the aspects of organizational life that researchers study when they say they are studying culture. These include formal practices (such as structure, job descriptions, and formal, written policies), informal practices (for example, behavioral norms), and artifacts such as rituals, stories, special jargon, humor, and physical arrangements (including dress, interior decor, and architecture).

Insert Figure 1 About Here

"Generalist" cultural research includes many of these manifestations in a cultural portrait, as illustrated in Figure 1. In contrast, "specialist" research focuses primarily on a single manifestation of culture, for example, only informal behavioral norms or only stories. While a specialist study can increase understanding of a single cultural manifestation, it cannot offer the breadth and depth of insight that comes with a generalist analysis of the full range of the manifestations of a particular culture.

Cultural researchers use content themes, listed down the left-hand side of the matrix, to unify their descriptions of the cultural manifestations they choose to study. For example, as can be seen in Figure 1, an egalitarian theme might be used to explain such cultural manifestations as informal superior-subordinate relationships, a cafeteria used by all, and an absence of reserved parking spaces. Researchers vary in the kinds of content themes they use. Most stress relatively superficial, value-laden content themes such as the need for innovation, egalitarianism, a holistic concern for employee well-being, or the importance of "bottom line" profitability.

Others seek deeper themes, for example, pre-conscious fundamental assumptions (e.g., Schein, 1985), hidden symbolic meanings, or other aspects of deep interpretations (e.g., Gahmberg, 1987; Moxnes, 1987). For example, Barley (1983) uses the theme of "life-restoration" to explain, using semiotic analysis, a wide range of funeral directors' activities. The matrix approach can be used to summarize all these various ways of operationalizing culture.

<u>Espoused vs. Enacted Content Themes</u>

One further distinction, included in the matrix, is crucial to understanding the shortcomings of the studies reviewed in this chapter. Content themes may be espoused or they may be enacted (cf., Argyris & Schon, 1978). Espoused content themes are expressed opinions--what cultural members say they think, believe, or do themselves, or what they say others in their milieu think, believe, or do. Enacted content themes, in contrast, are abstractions that capture aspects of how people actually behave, rather than how they say they behave. Thus, a person may describe his or her work group as valuing open confrontation of conflict (an espoused content theme), but long-term observation of this group in a wide variety of circumstances may reveal the opposite pattern of actual behavior (enacted content theme).

This espoused versus enacted distinction is important because people often want to portray themselves

attractively--in their own eyes as well as in the eyes of others. Furthermore, their attitudes about work, either positive or negative, can affect what they perceive and remember and which opinions they express. These familiar impressionmanagement and social desirability biases can affect cognitions, attitudes, and reports of behavior, even when anonymity is protected. For these reasons, espoused content themes must be kept conceptually distinct from enacted content themes. Furthermore, research on the prevalence of attitude-behavior inconsistency (e.g., Salancik, 1977) clearly indicates that, under most conditions, espoused and enacted content themes are unlikely to be highly correlated. Therefore, it is important that researchers study more than espoused content themes.

Because of the difficulties caused by impression management and social desirability biases, as well as attitude-behavior inconsistencies, many cultural researchers have preferred in-depth, qualitative methods to "penetrate the front" of espoused content themes and to develop a richly detailed, context-specific understanding of actual behavior (e.g., Gregory, 1983; Smircich, 1981; Van Maanen & Barley, 1984). Those researchers who seek an understanding of preconscious assumptions or deep symbolic meanings are even more strenuous in their insistence upon the superiority of in-depth, clinical approaches (e.g., Schein, 1987) or the long-term participant-observation methods favored by ethnographers. Although a full discussion of this methodological debate is beyond the scope of this paper, it is important to note here that researchers who advocate the use of qualitative methods tend to study a wider range of cultural manifestations in order to "penetrate the front" of espoused content themes.

Because espoused and enacted content themes are conceptually distinct and may be empirically independent as well, cell entries in a matrix may be inconsistent with each other. This possibility is important because the pattern of relationships among cell entries in a matrix reveals the essence of the way culture is being defined and studied. Such patterns provide a key to understanding the differences among the three paradigms of culture research described below.

The Integration Paradigm

Those who use the Integration Paradigm focus on those cultural manifestations that are consistent with each other. When Integration Paradigm research is summarized using the matrix format, every cell entry in the matrix is consistent with every other cell. For example, Integration Paradigm research might describe how a content theme (such as the importance of confronting conflict) is espoused in a philosophy of management statement and enacted, consistently, in formal practices, informal behavioral norms, etc. Because of this inter-cell

consistency in the matrix, an Integration Paradigm cultural portrait is like a hologram, in that when a hologram breaks each part encapsulates the whole.

Only one matrix is needed for an Integration Paradigm cultural portrait, because all cultural members are said to share the same view of the culture. Figure 1 is an example of an Integration Paradigm cultural portrait. The consistent pattern of relationships among the cells of this matrix, and the fact that only one matrix is needed, implies that this paradigm is defining culture in terms of that which is shared--the "social glue" that holds members together in an organizationwide consensus.

The Integration Paradigm also defines culture as that which is clear, rather than ambiguous: "an area of meaning cut out of a vast mass of meaninglessness, a small clearing of lucidity in a formless, dark, always ominous jungle" (Berger, 1967, p. 23, quoted in Wuthnow et al., 1984, p. 26). There are three defining characteristics, then, of the Integration Paradigm: consistency, organization-wide consensus, and the denial of ambiguity.

The Differentiation Paradigm

The cultural portraits characteristic of the Differentiation Paradigm include some cultural manifestations that are inconsistent with each other. For example, a C.E.O. might espouse the importance of participative management and yet make decisions without consultation, in an authoritarian manner.

Differentiation Paradigm researchers also question the existence of organization-wide consensus. Instead, they argue that cultural boundaries coalesce around sub-cultures, for example, levels of a hierarchy, an occupation, or a friendship group. Thus, any Differentiation Paradigm matrix would have some inter-cell inconsistencies and a full portrait would include one matrix for each sub-culture. Whereas the Integration Paradigm assumes unity and harmony, the Differentiation Paradigm permits the analysis of inequalities and conflicts.

Finally, the Differentiation Paradigm portrays each subculture as an island of lucidity; ambiguities are relegated to the intersections among sub-cultures, in the same way swift currents create channels among islands. The defining characteristics of the Differentiation Paradigm, then, include: inconsistency, sub-cultural consensus, and the channeling of ambiguity.

The Ambiguity Paradigm

The third, the Ambiguity Paradigm, describes the relationships among cultural manifestations as neither clearly consistent nor clearly inconsistent with each other. Instead, the relationships among manifestation is

confused (due to a lack of knowledge or an excess of complexity) or contradictory (in the sense that a paradox implies a contradiction that cannot be resolved).

Cultural portraits constructed from an Ambiguity Paradigm perspective show a lack of organization-wide consensus and a lack of consensus within clear sub-cultural boundaries. Instead, individuals seem to be like nodes in a web, connected by shared concerns t.o some but not all the surrounding nodes. When a particular issue becomes salient, one pattern of connections becomes relevant. That pattern would include a unique array of agreements, disagreements, and domains of ignorance, complexity, or contradiction. A different issue would draw attention to a different pattern of connections--and different sources of confusion.

Rather than being "a small clearing of lucidity in a formless, dark, always ominous jungle," the Ambiguity Paradigm portrays culture as the jungle itself. The three defining characteristics of the Ambiguity Paradigm are: lack of clarity, lack of consensus, and the acknowledgment of ambiguity.

Insert Figure 2 About Here

Figure 2 juxtaposes the defining characteristics of these three paradigms and cites examples of representative research. We believe that any adequate portrait of an organizational culture should include aspects of all three paradigms, that is, some cultural manifestations that demonstrate organization-wide consistency and consensus, some inconsistencies and subcultural groupings, and some inescapable ambiguities. In contrast, most cultural researchers do not cross these paradigmatic borders.

As we shall see in the next section of this chapter, culture researchers who seek a link to financial performance usually work within only a small subset of the matrix and within only one paradigm. Before reviewing these studies, however, we need to look at how they operationalize and define financial performance.

Defining Financial Performance

Culture researchers have followed the lead of researchers in other domains that specialize in studying financial performance. Although no single, uniformly accepted operationalization of performance has emerged, culture researchers generally operationalize performance with financial ratios. For example, four standard ratios which are frequently utilized include: return on assets, return on equity, return on sales, and earnings per share.

Each of these ratios taps a different aspect of financial performance and, in a sense, has a different limitation. For example, risk-adjusted earnings per share show a clear bias toward the concerns of shareholders and investors, while return on sales may be of broader interest. Such collections of ratios are highly correlated (e.g., Martin, Anterasian, & Siehl, 1988) and are a reasonably well-accepted indicator of how well an organization is meeting the financial interests of various stakeholders, such as customers, investors, and employees.

This does lead, however, to a significant problem which is evident in most of the research linking culture to financial performance. The financial ratios which are used to operationalize performance are generally computed at the level of the firm. These measures of financial performance are congruent with the assumption, characteristic of Integration Paradigm research, that an entire firm contains a single culture. Researchers seeking a link between culture and financial performance have failed to grapple with the financial performance implications of the Differentiation Paradigm's emphasis on subcultures and the third Paradigm's emphasis on ambiguity.

Reviewing the Evidence of a Link to Financial Performance

The empirical studies that have examined the relationship between culture and financial performance began with the assumption that a firm has a single, organization-wide culture. These studies then tested, to some extent, three versions of the culture-financial performance relationship: (1) a direct link between the two concepts, so that certain broad types of "strong" cultures are said to cause superior performance; (2) a direct link between particular aspects of culture and performance with the direction of causality reversed; and (3) contingency variants of the direct arguments, for example, that superior performance results only when a firm's culture is congruent with its business strategy. Below, we review a representative--but not all-inclusive--sample of the empirical evidence regarding each of these versions of the argument.

The Direct Culture-Performance Link

The first direct version of the culture-performance argument posits that the key to profitability is having the appropriate type of "strong" culture. Although definitions of the appropriate type vary, as discussed below, those researchers who study this issue implicitly share a definition of a "strong" culture as one where espoused values are consistent with behavior and where all (or most) employees share the same view of the firm. This is an Integration Paradigm portrait of consistency (across cells of the matrix) and organization-wide consensus--a portrait of harmony, in that people at all levels of the hierarchy share the values espoused by management.

Organizational cultures that fail to generate this kind of consistency and consensus concerning the "appropriate" or "strong" content themes are, then, considered "weak" cultures.

For example, Ouchi (1981) and Pascale and Athos (1981) argue that the financial success of some Japanese and American firms is attributable to their "strong" cultural emphasis on certain humanistic values, such as concern for the personal well-being of employees, an emphasis on consensual decision-making, and so forth. These ideas echo the themes of the human relations movement (Leavitt, 1978; McGregor, 1960). The idea that humanistic reforms will eventually have financial benefits is not new, but firm empirical support for the idea has remained elusive.

Ouchi and Johnson (1978) presented an in-depth portrait of the cultures of two electronic companies, demonstrating through careful interviews and observation that a particular theoretically-derived set of humanistic values was shared among executives in one company and not in the other. These humanistic values include a concern for people, collective decision-making and long-term employment. The financial performance (as measured through profitability and sales) of the humanistic company was then shown to be superior.

The two companies were selected (using data from a panel of expert judges) in order to maximize the differences between two "ideal-type" control systems (Type h and Type Z). As the authors describe, the selection procedure is similar to the common procedure in psychology of administering a test to screen for the trait under study and then choosing to study those who score highest and lowest on the characteristics being investigated. This sampling procedure yields a true comparative sample rather than a representative sample. Although carefully executed, the procedure carries risks of small numbers, as well as the potential instabilities associated with studying statistical "outliers."

Ouchi and Johnson interviewed every person at the level of vice president or above in both companies. In addition, each officer of the company was asked to complete a questionnaire and to take home a spouse questionnaire to his spouse. In total, 13 company A executives and 16 company Z executives participated in the study. By interviewing only executives, Ouchi and Johnson are implicitly stating that the perceptions of executives about the culture are the same as the perceptions of other lower-level employees. If this assumption is incorrect (and it is entirely believable that it could be), then the limitations of the individual-level sampling procedure may have led to unwarranted conclusions about cultural consistency and organization-wide consensus, putting the

financial performance conclusions of the study into doubt. Figure 3 summarizes the sampling procedures and the measures of culture and performance used in this study and in the other studies described below.

Insert Figure 3 About Here

Using a larger sample of organizations than Ouchi and Johnson, Peters and Waterman (1982) described the cultures of 62 financially successful firms, making similar claims of a link between a particular type of "strong" culture and superior performance. The authors of this vivid, powerful, and popular book admit in their introduction that their study lacks the rigor of traditional scientific research. The 62 companies were a convenience sample, apparently drawn from a list of McKinsey clients. Samples of cultural members were selected in a non-random fashion, often by the firm's management. As in the Ouchi and Johnson study, Peters and Waterman focused primarily on the top managers of these firms. Once again, the subculture of the single most powerful group in the firm was treated as equivalent to a unitary, firm-wide culture.

Interviews with these managers were apparently open-ended and unstructured (little detail is given). Illustrating their generalizations with copious, memorable anecdotes, the researchers defined the "strong" cultures of these 62 firms as sharing eight characteristics (see Figure 3). Some of these characteristics were humanistic, such as caring about people, while others were market-related, such as "backing fanatics" about product quality and making heroes of innovators.

The measures of financial performance were relatively sophisticated, (as can be seen in Figure 3). Financial ratios were used to measure the performance of firms in the original convenience sample. Those firms with poor performance levels for their industry were simply excluded from the sample, opening the possibility that the residual "superior performance" group would regress toward the mean over time. No comparison groups of less successful companies or companies with different kinds of cultures were included in the sample.

A subsequent follow-up of the companies in Peters and Waterman's sample (Business Week, 1984) demonstrated some inadequacies of these methodological choices. Focusing on measures of financial performance only, this article concluded that 14 of the original 62 "superior performers" would either not pass the financial tests described in the book or had subsequently suffered significant earnings decline. Although this journalistic follow-

up was not a full-blown scientific study, it did make it clear that Peters and Waterman's articulate and vivid book did not establish a solid empirical link between culture and financial performance.

A third study also sought evidence of a direct link between these two concepts, using more sophisticated sampling procedures for both the organizations and the subjects within the organizations. Denison (1984) studied a convenience sample of 34 firms representing 25 different industries as defined by Standard and Poor's four-digit industry code. These industries were as diverse as metal mining, guided missiles and space vehicles, and electrical services. The companies in the sample were a convenience sample in the sense that they were client organizations of the University of Michigan's Institute for Social Research that voluntarily chose to be involved in the larger-scale "Survey of Organizations" at some point between 1966-1981.

"Culture" was measured by administering a standardized questionnaire to a sample of employees. Firms non-randomly selected divisions to be studied, but within divisions, employees were randomly selected. This was a large sample of 43,747 employees, representing all levels of the hierarchies of 32 firms. Each employee's responses to the questionnaire were averaged into 22 indices, including such topics as organizational climate, leadership, peer relations, group process, work design, and satisfaction. In addition, a number of measures of financial performance were obtained on the 32 firms, including return on investment, return on sales, and performance against competitors.

Given the ambious scope of this project, it is noteworthy that only two of the indexes were reported to be significantly correlated with financial performance (as measured by the income/ investment ratio and the income/sales ratio): the organization of work index and the decision-making practices index. The organization of work index is a composite of four survey items that reflect the degree to which respondents say work is sensibly organized, work methods are adapted to changing conditions, decisions are made at appropriate levels, and the goals of the organization are perceived by the individual as clear and reasonable. The decision-making practices index is a two-item measure indicating the degree of involvement that individuals say they have in decisions that affect them and the extent to which they say information is shared across the levels of the organization. These two indices, measuring reported decision making and work organization procedures, were labeled, by the researcher, as indicative of a "widely-shared participative culture."

This study defines and measures culture in a manner that is quite different from that adopted by most

culture researchers, perhaps because this questionnaire was designed for use in numerous other, "noncultural" research projects. The questionnaire items measure employees' reports about behavior. In the terms used here, these are espoused content themes, not measures of actual behavior. Therefore, they are open to the biases associated with impression management, social desirability, and attitude-behavior inconsistency discussed in the introduction. Even when anonymity is guaranteed, subjects' responses can be influenced by desires to control the ways they present themselves and the organizations where they work. In addition, the topics of the questions (particularly organizational climate, work design, and job satisfaction) seem to bear more relation to these well-established research traditions than to the ways culture is usually defined.*1

Furthermore, the language in these questions is generated by the researcher, not the organizational member. Therefore we cannot know whether employees would spontaneously come up with these categories of experience. We also cannot know whether categories, such as "participative management," "teamwork," or "cooperation" have similar meanings across organizational contexts. Thus, the comparative statistics that can be used on such measures may well mask incommensurabilities.

These criticisms are not unique to Denison's study. Similar criticisms have been made of all the cultural studies that have used standardized, researcher-generated questionnaire items or phrases as stimuli to gather cultural members' descriptions of what they or others think, value, or do. Such "cultural" measures appear to have two important advantages. They can be quantified and, arguably, they can in some cases be compared--comparisons of cultures being essential for theory-building. However, most culture researchers are particularly sensitive to the necessity of "penetrating the front" of social desirability inherent in espoused content themes and opinions. From this perspective, these kinds of measures of culture are seriously inadequate.

These difficulties in the measurement of culture, however, must be balanced against the methodological strengths of this study. The sample of individuals, if not firms, is relatively large and randomly selected. Performance is carefully measured at multiple points in time. Keeping both strengths and caveats in mind, it is noteworthy that Denison found that companies in a "widely-shared participative culture" had superior returns on investment and sales. Similar results were found when performance against competitors was used in place of the direct performance measures. Denison argues that contingency theory would predict that in stable environments, participation should have had an adverse effect on performance. Thus, by comparing companies from a diverse set

of industries and from differing environments, the performance impact of participation should have lessened. Because the effect continued to be significant, these results suggest that this type of "strong" culture was effective, independent of contingency variables such as firm strategy and environmental uncertainty.*2

A fourth study by Gordon (1985) also purports to examine the direct version of the culture-performance argument. The organizations in Gordon's convenience sample consisted of fourteen utility companies (electric, gas, and local telephone companies), eighteen manufacturing firms (all in highly competitive market places and all with products that employed some element of high technology), and thirty-one financial institutions (banks and insurance companies). Cultural data were collected through a survey of a non-random sample of the top managers of the firm (sample size is not mentioned). Top managers included the four or five levels of management from the CEO down. Culture was measured by obtaining the perceptions of these top managers concerning eleven "values" such as clarity of company direction, innovation, top management communication, individual initiative, action orientation, and human resource development. These data were averaged for each company to determine a "cultural" profile.

For all of the companies in the sample, performance was measured by the amount of profitability for the year the survey was conducted and for two subsequent years. In addition, for the dynamic-marketplace companies (the manufacturers), the performance measure was augmented to include growth in revenues for the same time period. A comparison was made between a company's performance data and the industry's average performance (profitability and growth) for the same years. High performing companies were then isolated and contrasted with low performing companies, those operating below the industry average, or mixed performers. Companies that had average performance were not included in the analysis. Among the fourteen utility companies, six were labeled as high performers and four as low performers. Five of the eighteen manufacturing firms were labeled high performers and thirteen were labeled mixed performers. Of the thirty-one financial institutions, eight were labeled high performers and twelve were low performers.

The results of this study showed virtually no significant differences between the low and high performers of the three industries for any of the eleven "values." Only one difference was found to be significant at the .01 level. The high performing utility companies were perceived to be more open in dealing with conflicts than the low performing companies.

This study has many of the same failings as the studies described above. Like the work of Peters and Waterman, as well as Ouchi and Johnson, the reports of a non-random selection of top managers is presented as representative of the firm as a whole, implying organization-wide consensus without sufficient data. In addition, this is a "specialist" study of only one cultural manifestation--the relatively superficial espoused content themes that may well be uncorrelated with the behaviors of most cultural members. Finally, the use of researcher-generated categories in the standardized questions leaves open the issue of whether similar categories would be spontaneously used by cultural members when describing their experiences in the firm.

In summary, the first, direct version of the culture-performance argument has received very limited empirical support. These studies are plagued by methodological shortcomings in the sampling procedures, sample size, and the measurement of culture and/or performance. Similar difficulties are evident in studies examining the second version of the culture-performance argument.

The Direct Performance-Culture Link

The second version also posits a direct link between particular aspects of culture and superior financial performance. In the second version the order of causality is reversed so that a firm's performance level is now what influences the content of the culture. Empirical support for this second version, like the first, is scarce.

Martin, Anterasian, and Siehl (1988) randomly selected 100 organizations from the 1980 Fortune Directories of the 500 largest U.S. industrial corporations. A systematic content analysis of the photographs and texts of these firms' annual reports produced measures of the extent to which the top management of the firms externally espoused ten types of content themes. These theme profiles were used as input into a cluster analysis, which yielded eight distinct clusters of firms. The eight types were labeled in terms of the espoused theme receiving greatest emphasis, although each type included some emphasis on other themes as well: People (a mix of humanitarian and team work concerns), Pride in Products, Quality, Innovation, Social Responsibility, Customer Service, Finances (emphasis on the importance of the firm's "bottom line"), and Economy (emphasis on the state of the national economy).

This study has some of the same advantages as the Denison study. The sample of firms is relatively large

(and in this case random). The measures of culture are quantified and, perhaps, comparable across firms. In this study, the espoused content themes were independently generated by these cultural members, not developed in response to researcher questions.

Unfortunately, these advantages are counter-balanced by important disadvantages. This is a severely limited "specialist" study of espoused content themes drawn from a text designed by top management for public relations purposes. These content themes are obviously not equivalent to enacted behavior and they may well not represent the opinions of lower-level employees in these firms. Thus, as a measure of culture, this study has severe inadequacies.

Martin et al. used an index incorporating four measures of financial performance (return on assets, return on equity, return on sales, and earnings per share) at only one point in time. Control variables often associated with performance (firm size, market competitiveness, industry) were also included. In this study, as in the Denison study, relatively sophisticated measures of performance variables were coupled with relatively superficial, quantitative indicators of culture.

Results of this study showed relatively little support for this second, more limited, version of the culture-performance argument. The performance levels of the seven theme types of the firms did not differ significantly with one exception: the Social Responsibility firms had significantly higher performance levels than the firms emphasizing the state of the economy. Firms in the People cluster were not unusually profitable or unprofitable.

These results for the Economy cluster are congruent with the findings of previous attribution studies of annual reports, which found that firms tended to blame poor performance on the state of the economy in an attempt to escape blame and improve their public image (Bettman & Weitz, 1983; Salancik & Meindl, 1984; Staw, McKechnie, & Puffer, 1983). A similar impression-management explanation can be made for the high performing firms in the Social Responsibility cluster. Those firms that espoused the importance of social responsibility had, during the previous year, been criticized for behaving in a socially irresponsible manner, for example, by polluting the sea with oil spills or causing erosion because of deforestation.

The results of this study, then, suggest that any direct association between espoused content themes and financial performance may be relatively weak. Further, these results indicate that the direction of causality, to the extent it exists at all, may be reversed; financial performance levels may cause certain themes to be espoused, in

order to improve the firm's image and offer a socially desirable explanation for unusually high or low profit levels.

A broader and less cynical form of this reverse causality explanation is also possible: high levels of performance may make it possible to espouse (and enact) certain types of cultural content themes. According to this version, high levels of performance provide the organizational slack and excess resources which "pay for" the expenses associated with enacting humanitarian values such as job security, caring about people, and giving to the community. Without these excess resources, it would be difficult, if not impossible, for an organization to sustain a humanitarian culture. To date, this proposition has not been subjected to conclusive empirical testing, although the middling performance levels of firms in the People cluster suggest that empirical support may not be forthcoming.

The results of this reverse-causality interpretation cannot be assessed without further research because of the strong limitations of the kind of data described above. Themes espoused by top management to external constituencies, as in annual reports, may be the aspect of culture that is least likely to be related to a firm's financial performance. If values impact financial performance by galvanizing employees' commitment and productivity, then future research must focus on internally enacted aspects of culture, rather than externally espoused themes. Given this focus, it would be essential to study the perceptions of employees at all levels of the organization, not just top management. And, longitudinal studies of both culture and performance (with adequate measures of each) are essential for the assessment of questions of causality.

Another possibility is suggested by Schein's (1981) assertion that the most important aspect of culture is the set of fundamental assumptions that underlie a culture. Perhaps a link to financial performance will be found when deeper levels of cultural phenomena, such as assumptions, are studied. Until such studies are conducted, a question mark must be placed next to claims that levels of financial performance can influence the content of particular aspects of a culture or that certain types of culture lead to superior financial performance.

Contingency Studies of the Direct Culture-Performance Link. The third version of the culture-financial performance proposition consists of variants of a contingency argument. The most common variant is a claim that firms with cultures congruent with their business strategies are better performers than firms that lack this congruency (Bourgeois & Jemison, 1983; Phillips & Kennedy, 1980; Schwartz & Davis, 1981; Tichy, 1982). These authors argue that when a firm's culture clashes with its strategy, confusion and conflicts of interest increase, strategies are resisted, and the firm's financial performance ultimately may be impaired. For example, the cautious,

tradition-bound culture of the "bell-shaped man" at American Telephone and Telegraph was challenged by the firm's decision to enter the highly competitive, fast-paced field of information processing, at least temporarily impairing the firm's performance. In contrast, when culture and strategy are synchronized, such difficulties are said to be minimized, with a concomitant beneficial effect on financial performance.

Evidence supporting this third, contingency version of the culture-performance relationship has been confined, for the most part, to short, almost anecdotal descriptions of case studies of single organizations. To the best of our knowledge, no detailed, in-depth, ethnographic case studies investigating this point of view have been done. Limited strategy-relevant data from a larger sample of firms is, however, available in the Martin et al. study described above.

Two strategies were studied: degree of diversification (an index based on measures of the number of four-digit SIC codes, the number of lines of business in the annual report, a specialization ratio, a Herfindahl-based index, and an entropy index) and level of riskiness of a firm's financial policies (an index based on beta, total risk, and the ratio of debt to equity). These strategies were selected for several reasons. Riskiness and diversification have been related to organizational survival (Hannan & Freeman, 1977). Furthermore, there are plausible reasons why these particular strategies may link the value types described above to financial performance. When a firm adopts a relatively risky financial strategy, or when it becomes more diversified, employees may be put under additional strain. More risky strategies may present a threat to employees' financial and emotional security, as jobs are threatened or company ownership is transferred. Similarly, employees' shared interests may decrease as diversification increases, since product-driven common concerns may be few. Under these conditions, some types of content themes should be more likely to emerge than others. It was argued that two alternative hypotheses were plausible.

One alternative is that greater diversification and more risky financial strategies may create conditions that make the espousal of humanitarian concerns desirable. For example, espousing people-oriented values might provide a common set of interests and a cohesiveness that might otherwise be absent in a highly diversified company, where different interest groups struggle for economic resources. Emphasis on the value of employees as individuals might also carry a promise of security otherwise missing in a firm prone to taking financial risks. These can be seen as impression-management arguments. The problems created by more risky and more

diversified strategies, such as employee insecurity and a lack of shared interests, are partially compensated for by top management's espoused values, emphasizing humanitarian rather than financial concerns. Such espoused humanitarian concerns, of course, may be quite inconsistent with the effects of risky financial and diversification strategies that threaten employees' financial and emotional security.

The opposite alternative is also possible. In firms that adopt less risky financial strategies, there should be less rapid turnover and more geographic stability, enabling employees to get to know each other personally. In specialized firms, employees who share task-oriented concerns about similar products may be more likely to develop the personal concerns that must be present if 'concern for people" values are to be credible. Thus, more specialization and less riskiness may create the homogeneity of interests and personnel stability that are congruent with humanistic values (e.g., Leavitt, 1978; McGregor, 1960). This latter viewpoint is congruent with the consistency and consensus emphasis of the Integration Paradigm approach to culture, rather than the more cynical impression-management position described above.

Finally, if either viewpoint were supported (i.e., if an association between these types of content themes and these strategies could be found), then the contingency argument could be tested. The contingency argument can be summarized as: Firms that manifest a culture-strategy congruency should have higher financial performance levels than firms that lack such congruency.

In order to determine if the clustering of firms, according to the content themes emphasized in the annual reports, was related to choice of strategy, a multivariate discriminant analysis (MDA) was performed. In order to avoid the unreliability associated with small cluster size, only the 72 organizations from the four largest clusters (People, Products, Social Responsibility, and Finances) were included in this analysis. The riskiness and diversification indices were used as independent variables for classification.

The results of the MDA provided some evidence of a "culture"strategy fit. The more risky financial strategy was associated with humanitarian content themes, in accord with the impression-management argument. Diversification did not have enough explanatory power to enter the model.

In another analysis, the weights associated with placement in the discriminant space were used to classify the 72 organizations into one of the four content theme clusters listed above. Those organizations which were correctly classified into the appropriate type, using weights derived from the MDA, would be exhibiting evidence

of a "culture"-strategy fit. According to the contingency hypothesis, firms that were correctly classified by this analysis should have higher performance levels than those firms that were not correctly classified.

Within each of the four types, the correctly classified firms, i.e., those exhibiting a culture-strategy fit, did not have significantly higher performance levels than the incorrectly classified firms, i.e., those not showing evidence of a culture-strategy fit. A similar analysis, contrasting correctly and incorrectly classified firms from all four types simultaneously, also yielded no significant differences in financial performance levels. Contrary to the hypothesis, no evidence supporting the contingency approach to predicting financial performance was found.

In addition to the methodological limitations discussed above, this study focused on only two strategies: financial riskiness and degree of diversification. The results of this study may be due, not to flaws in the contingency argument, but to the choice of strategies studied. Although these two strategies have been shown to be related to organizational survival (Hannan & Freeman, 1977), survival is not the same as superior financial performance, particularly when the latter is measured only at a single point in time. Perhaps marketing strategies, particularly those that bear on a firm's definition of its distinctive competence, will present a more fruitful direction for research on the strategy-contingency argument.

The model proposed by Barney (1986) is in accord with this suggestion. Barney argues that organizational culture will be a source of sustained competitive advantage and thus, by implication, a source of sustained superior financial performance only when three conditions are met. First, the culture must be valuable in the sense of enabling positive economic consequences. Second, the culture must be rare and, third, the culture must be imperfectly imitable. Because not all firms have cultures with these attributes, organizational culture will not be a source of competitive advantage for all firms. This model is a provocative variant of the contingency argument presented above, but it has yet to be tested empirically.

A further variant of the contingency argument was proposed by . Wilkins and Ouchi (1983). They argued that if an organization is facing conditions of high ambiguity, complexity, and interdependence of transactions, then a "strong" culture will result in greater efficiency and, by implication, improved performance. But under conditions of low complexity and low uncertainty, culture will be less efficient than other forms of control and, by implication, will result in lower performance. Again, this variant of the contingency argument has yet to be systematically tested.

Quinn and McGrath (1985) have also proposed a contingency argument linking culture to performance. They suggested that the type of culture must be congruent with the type of environment in order that certain outcomes, including performance, will occur. Working with a competing values framework (Quinn, 1984; Quinn & Cameron, 1983; Quinn & Kimberly, 1984), they specifically link a rational culture, whose organizational purpose is the pursuit of clear objectives, with improved performance (efficiency, productivity, and profit) under the environmental condition of high intensity/low uncertainty. These predictions about the contingent nature of the relationship between culture and performance have yet to be tested empirically.

Finally, it is important to point out that some of the culture literature implicitly assumes that an organization's culture may significantly impair an organization's effectiveness and thus, negatively impact its financial performance. For example, some kinds of shared cultures may prevent organizational members from perceiving diverse and/or unexpected opportunities and may inhibit them from pursuing activities which are inconsistent with the culture, but may be potentially critical to organizational effectiveness in a turbulent environment (e.g., Crozier, 1964; Porter, 1980; Tichy, 1983). Research has failed to address this issue. Finally, there are numerous performance-related questions that emerge from the Differentiation and Ambiguity Paradigm approaches to studying culture. For example, are there conditions under which subcultural differentiation (e.g., Martin & Siehl, 1983; Wilkins & Ouchi, 1983) or open tolerance for ambiguity (e.g., March & Olsen, 1976; Weick, 1979) have positive or negative impacts on performance?

Summary

Although this review of studies seeking a link between culture and financial performance is not complete (several unpublished studies, for example, are not included), it is, we believe, representative of the scope of this kind of research. These culture researchers have tended to be "specialists," focusing primarily on content themes rather than the full range of cultural manifestations. Further, they have generally examined relatively superficial content themes, such as policy-specific beliefs, rather than deeper, pre-conscious assumptions or symbolic interpretations. They tend to focus on espoused, rather than enacted, content themes. Most importantly, they tend to work exclusively within the Integration Paradigm, creating severe limitations in the ways they are defining culture.

In addition to these limitations in the definition and measurement of culture, these studies have not

definitively established an empirical link to financial performance. Three versions of this link were examined and the evidence supporting each was found to be weak. In the next section of this chapter, we explore the possibility that this lack of support is not the result of the lack of a relationship, but rather due, in part, to the difficulties of testing these relationships.

Empirical Intractability

It is important to acknowledge the empirical difficulties inherent in examining the relationship between culture and performance. For generalized statements to be made about a link between culture and financial performance, a large sample of organizations is needed. And, in order to acquire a deep and thorough understanding of a variety of cultural manifestations (including relatively deep interpretations and taken-for-granted, perhaps unconscious, assumptions), a large investment of time, money, and patience is required--in even one firm. Special skills, such as ethnographic methods or clinical interviewing techniques, may be necessary, particularly if deeper aspects of culture are being studied (Schein, 1987; Van Maanen, 1979).

Gathering these kinds of cultural data in a large number of organizations is nearly impossible. It simply takes too much time. Yet, many researchers are understandably reluctant to rely on culture measures that are insufficiently rich or close to the phenomenon.

It is virtually impossible to conduct in-depth case studies of the cultures of more than a few sites. The usual methodological caveats--for example, about taking comparable measures across sites and using appropriate comparison groups--are essential and very difficult to execute. Some researchers have developed repeatable quantitative measures that tap a variety of cultural manifestations--not just espoused content themes (e.g., Kilmann & Saxton, 1985; Martin, Sitkin, & Boehm, 1985; Siehl & Martin, 1988). However, these measures lack the breadth, depth, and richness that many cultural researchers find essential.

In addition, most culture researchers are reluctant to become involved in building fully specified models of financial performance, including all the usual control variables (such as size, market competitiveness, industry, etc.) that researchers in other domains consider essential for a full understanding of financial performance. Indeed, data on a wide range of these control variables is essential for identification purposes, if causal modeling techniques are to be used. For these reasons, studies of the culture-performance relationship that involve adequate aggregated data are a methodological nightmare.

These methodological difficulties are severe in and of themselves. Yet they fail to even allude to a much tougher problem: time. Perhaps a link between culture and financial performance exists, but it does not reliably become evident within a short (one-year) time frame. If this is so, a cross-sectional design would reveal no relationship and an erroneous conclusion would be drawn. If longitudinal data on culture and financial performance were available, important questions about causality could be addressed. For example, are informal behavioral norms generally stable over time independent of changes in formal policy? What is the lag between the adoption of a new cultural direction and its impact, if any, on financial performance? If there is an association between culture and financial performance, what is the direction of causality: do certain content themes influence performance, as is usually implied, or does the level of financial performance determine what themes are expressed, or is the relationship reciprocal~ In order to address these important issues, however, all of the methodological difficulties discussed above would have to be addressed at every time period to be studied.

To further complicate matters, it may be inappropriate to address the question of a relationship between culture and financial performance with organization-level data. As Barney suggests, cultural variables may impact financial performance only under some specialized conditions. For example, the impact may only occur in firms where certain specific cultural assumptions block the implementation of particular change programs. If studies rely exclusively on aggregated data drawn from large random samples of organizations, this limited kind of impact of cultural variables on financial performance will be missed. Such a point of view suggests that some research should focus on longitudinal case studies of organizations facing similar kinds of trouble.

Furthermore, it is possible that performance has been inappropriately conceptualized. Even if a financial focus is appropriate, perhaps, in some firms, culture is related to profit stabilization or growth, while in others, it is related to the maximization of profits in the short term. In addition, it may be that financial performance measures should incorporate consideration of "intermediate factors," such as differential tax structures in various industries, scrappage and technology-based economies of scale. It is possible that culture has a direct impact only on non-financial aspects of financial performance, such as morale, commitment, mental and physical health, and job satisfaction. Culture might impact financial performance indirectly, through such variables as productivity, quality control, turnover, or absenteeism.

When these other aspects of performance are considered, different kinds of variables become relevant.

Perhaps, rather than looking internally to a firm's strategies, the appropriate focus is external to the organization. To cite only one possibility, organizations that are heavily resource dependent, or that face an unusually turbulent environment, may try to reduce uncertainty by stabilizing, rather than maximizing, profits. If so, degree of resource dependency or environmental turbulence may impact which values are articulated to organizational constituencies and which financial objectives are sought.

Expansion of the types of variables considered, to include such other contingencies as environmental turbulence or resource dependency, might well increase the chances of finding a link between culture and performance. In addition, such a major change in the focus of culture research would link this domain of inquiry to other streams of financial performance research, and to the mainstream of organizational theory, more broadly defined (see the Slocum & Joyce chapter in this volume).

Finally, an emphasis on traditional outcome variables, such as financial performance, may well obscure the importance of organizational processes, such as innovation and creativity. Such processes are significant independent of a direct link with performance-related outcome variables, particularly if we can begin to distance ourselves from existing functionalist paradigms, and consider the perspective of those people, such as lower-level employees, who benefit less fully and directly, if at all, from an improvement in profitability. We agree with the argument that such processes may be ultimately more important and fundamental than traditional outcomes (Staw, 1984). Clearly this is a critically important avenue for future research.

Is the Focus on a Link Between Culture and Performance Problematic?

The existing research on the relationship between organizational culture and financial performance, and some of the difficulties of conducting such research, have been addressed. Now, we turn to the third focus of this chapter. We believe that it is critical to discuss the potentially negative ramifications of focusing on the link between culture and performance. All of the functionalist suggestions for improving culture-performance research, detailed in the previous section, may be on the "wrong track." We believe there are several significant reasons why a focus on performance may be hampering the development of our understanding of culture specifically and, more generally, how culture relates to other aspects of organizational theory.

First, a continued functionalist focus on financial performance reinforces applied, managerial thinking rather than theory development. Searching for a link between culture and performance confines researchers to the

existing functionalist paradigm of what organizations are, and what they should be doing. If we continue, either explicitly or implicitly, to use culture as yet another determinant of performance-related outcomes, we will fail to realize the full potential of studying culture. Many cultural researchers, (we are relatively recent converts to this point of view), do not conceive of culture as yet another variable to add to the domain of organizational theory.

Rather than conceptualizing culture as "caused" by some variables and as "causing" other outcome variables to increase or decrease, these cultural researchers argue that, rather than being a variable, culture is a metaphor for organizational life (Smircich, 1983). A full presentation of these ideas requires exploration of the epistemological roots and methodological implications of this approach to theorybuilding. Although such an exploration is beyond the scope of this paper, introductions to some of these ideas, with specific reference to culture research, can be found elsewhere (e.g., Schein, 1987; Van Maanen, 1979; Van Maanen & Barley, 1984).

When researchers look at organizations "as if" they were cultures, they can enrich our understanding of organizational life in new and unexpected ways. Already, interest in culture has opened and re-opened neglected areas of inquiry, for example, exploring the organizational relevance of symbolism, structuration, semiotics, deconstruction, and ideology (e.g., Barley, 1983; Gahmberg, 1987; Jermier, 1985; Moxnes, 1987; Pondy, 1977; Riley, 1983). These cultural studies bring us far beyond the traditional variables of organizational theory, such as structure, firm size, technology, job satisfaction, motivation, and leadership.

By drawing attention to the multiple interpretations that people generate to understand, legitimate, or question their activities at work, these studies offer a deeper understanding of what goes on inside organizations. Examination of the patterns of relationship among cultural manifestations gives us a fuller comprehension of the consistencies, inconsistencies, and ambiguities that constitute the texture of organizational life. These approaches to the study of cultures lead us to insights unavailable within current paradigms of organizational theory.

Furthermore, for some researchers in the field of organizational behavior, exposure to qualitative cultural studies has led to a new appreciation for the depth of understanding that can emerge from the sophisticated use of ethnographic methods. In addition, if culture research supplements its traditional focus on internal organizational workings with a greater consideration of environmental concerns, then culture studies may suggest more complex and subtle ways to contribute to theories of institutionalization, resource dependence, and organizational learning. None of these contributions--potential or already achieved--is predicated on finding a link between culture and

performance.

Indeed, seeking a culture-performance link may not only deflect energy from potentially innovative avenues of inquiry; it may even have pernicious social effects. Organizational behavior research has been criticized as biased to serve managerial, rather than individual or societal interests (e.g., Braverman, 1974; Clawson, 1980; Nord, 1974). Such criticism has been directed specifically at culture research (e.g., Calas & Smircich, 1987; Jermier, 1985; Stablein & Nord, 1985), particularly that research which has sought links between culture and performance. The potential of such links raises ethical questions as to "in whose best interests is this research being conducted?" (Deetz, 1985). Even cultural studies of ESOP's, worker cooperatives or labor unions (as yet undone) are not necessarily immune to this problem.

Some specific examples should make this negative potential evident. To the extent that culture researchers focus on the ideologies espoused by top management, they may be studying efforts to indoctrinate employees in a value system that exploits their potential for enthusiasm, commitment, and productivity, facilitating the direction of resulting profits to the disproportionate benefit of higher level employees and stockholders. Thus, the arguments of those who admiringly describe culture as a managerial control mechanism can be restated as attempts to maintain ideological hegemony and exploit the productivity of those who do not control or own the means of production.

A more moderate version of this argument (and one that pertains to all studies of culture, not just those that seek a link to performance), begins with the premise that culture is cognitive and emotional, as well as behavioral. While many would concede some aspects of the control of behavior to organizations, we are particularly uneasy about facilitating control of employees' thoughts and emotions. This can present particularly severe problems for women and minorities, especially in organizations where management's espoused values are clearly articulated and conformity is expected. Such "strong cultures" are almost always initiated and controlled by white males. In such contexts, cultural conformity may be particularly difficult--and undesirable--for those who are demographically (or otherwise) dissimilar (e.g., Ouchi, 1981). Even if clearly-articulated, widely-shared cultures were shown to be a key to improved financial performance, these cultural environments might be precisely the contexts where women and minorities would encounter the most discrimination.

These are but a few of the reasons a focus on the relationship between culture and performance may have

negative effects. An implicit managerial bias leads many researchers to continue to advocate and pursue this relationship in spite of a glaring lack of empirical support and potentially insurmountable difficulties in gathering reliable data. We would conclude by asserting that, rather than continuing in this quest, as culture researchers, we should instead seriously consider the issues raised above. The concept of culture holds too much promise to be sold short as just another intervening variable in existing models of the determinants of organizational performance.

FOOTNOTES

*The authors wish to thank Debra Meyerson and Benjamin Schneider for their comments on earlier versions of this chapter. Their help should not be taken as indicative of approval of the contents of this chapter. For that, we must take responsibility.

1. Space limitations make it impossible for us to address, except obliquely, the question of how culture differs from other familiar concepts, such as climate, commitment, job satisfaction, etc. This is a far more difficult request than it first appears because many--but by no means all--culture researchers do not have functionalist objectives. Also, many cultural researchers prefer idiographic and qualitative methods. Most importantly, many culture researchers would argue that, rather than being a variable, culture is a metaphor for organizational life (Smircich, 1983). When culture is conceived as a metaphor in this manner, a request to define the difference between culture and other more familiar variables misses the point. Given the focus of this volume, it may be helpful to note that the culture researchers who seek a link to financial performance are generally more similar to climate researchers than they are to the qualitative, idiographic culture researchers described in this footnote.

2. We understand that Denison, in an as-yet unpublished manuscript, has extended his study of financial performance longitudinally, with perhaps an additional five years of data. This will be an important improvement in the measurement of financial performance, a variable that Denison has already measured as well as any cultural researcher. The question, of course, is whether the measures of culture have also been significantly improved.

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Figure 1: Matrix Analysis of an Integration Paradigm Cultural Description

Cultural Manifestations

Content Themes		Practices		Artifacts			
Espoused	Enacted	Formal	Informal	Rituals	Stories	Jargon	Physical Arrangements
Egalitarian sharing	Egalitarian sharing	Answer own telephone "Perk" distribution based on need, not status Consensual decision-making	Informal superior-subordinate relations				One Cafeteria Non reserved parking spaces
Confront conflict	Confront conflict	Open door policy to discuss problems	Many arguments in groups	Hard-fought softball game		"Fighting" "Kill him"	

Figure 2: Summary of the Three Paradigms of Organizational Culture Research

	Paradigm Name		
Defining Characteristics	Integration	Differentiation	Ambiguity
Level of consistency	Only consistent elements mentioned	Some inconsistency	Lack of clarity
Degree of consensus	Organization-wide consensus	Consensus within, not between, subcultures	Issue-specific consensus, dissension, and confusion
Orientation to ambiguity	Denial	Channeling	Acknowledgement
Metaphor	Hologram, clearing in jungle	Islands of clarity	Web, jungle
Representative studies	Barley, 1983 Clark, 1970, 1972 Martin et al., 1983 Ouchi, 1981 Pascale & Athos, 1981 Peters & Waterman, 1982 Schein, 1981, 1983, 1985 Selznick, 1957 Siehl & Martin, 1984 Wilkins, 1983, 1984	Gregory, 1983 Louis, 1983 Lukas, 1987 Martin & Siehl, 1983 Riley, 1983 Van Maanen & Barley, 1984	Brunsson, 1985 Calas & Smircich, 1987 Feldman, 1983 Golding, 1987 Grafton-Small & Linstead, 1987 March & Olsen 1976 Siehl, 1988 Starbuck, 1983 Weick, 1979

Figure 3: Summary of Culture-Financial Performance Studies

- Researchers' names	Ouchi and Johnson (1978)	Peters & Waterman (1982)
- Type of organizations	Electronics Firms	Business firms representing 6 industry segments
- Number of organizations	2	62
- Sampling procedure for organizations	Comparative sample to maximize differences between two "ideal-type" organizational control systems	Convenience sample of companies considered to be innovative and excellent
- Type of subjects	Employees at the level of vice president or above including officers of the company	Top managers
- Number of subjects	29	Not reported
- Sampling procedure for subjects	Hand-picked	Hand-picked
- Measure(s) of culture (as reported by the researchers)	Members' reports of firm characteristics regarding: 1. length of employment 2. individual vs. collective decision making 3. responsibility 4. frequency of evaluation 5. type of evaluation 6. type of career path 7. concern for people	Researcher's judgment of the degree to which the firm exhibited eight attributes: 1. a bias for action 2. close to the customer 3. autonomy and entrepreneurship 4. productivity through people 5. hands-on value driven 6. stick to the knitting 7. simple form, lean staff 8. loose-tight properties
- Measure(s) of financial performance (as reported by the researcher)	- Profitability of the firm - Dollar sales - Level of debt financing	- Measures of growth 1. Compound asset growth from 1961-1980 2. Compound equity growth from 1961-1980 3. Average ratio of market value to book value - Measures of return on capital and sales 1. Average return on capital for 1961-1980 2. Average return on equity (1961-1980) 3. Average return on sales (1961-1980)

Fig. 3 (cont)

Denison (1984)	Gordon (1985)	Martin, Anterasian & Siehl (1988)
Business firms representing 25 different industries	Utility companies, manufacturing firms, and financial institutions	Business firms from the 1980 Fortune 500
34	63	100
Convenience sample (companies are client firms of ISR that voluntarily choose to be part of the survey)	Convenience sample (intentionally included firms in either a nondynamic marketplace, a dynamic market place, or one undergoing change; part of a larger study conducted by Hay and Associates)	Random sample
Employees at all levels in the firm, but not all divisions in the firm are represented	Upper-level managers	Annual reports
43,747	Not reported	100
Semi-random (the firm selected the divisions to be surveyed, but within a division, the selection was random)	Hand-picked to focus on "the top of the pyramid" (pg. 104)	Random sample
Members reports' of organizational practices and conditions were averaged into 22 indexes. All scores were then averaged to arrive at a score for the entire organization on each index. The two indices found to be related to financial performance were organization of work and decision-making practices.	Member reports' of "how the company operates" including questions about the clarity of company direction, top management communication, individual initiative, action orientation and human resource development. Data were averaged to determine a "cultural profile" for the firm.	Externally espoused content themes, in annual reports, were analyzed to determine an espoused content theme profile for the firm. Eight profiles emerged: people, pride in products, quality, innovation, social responsibility, customer service, finances, and economy.
- income/investment ratios - income/sales ratios	- Profitability of the firm - Growth in revenues for the firm	- Return on assets - Return on equity - Return on sales - Earnings per share