RI HUB

RESEARCH NOTE #13

RULE 12: DEVELOP A UNIQUE CULTURE

The Ruthven Institute has developed 12 rules for business success. Based on 45 years of analysis of Australia's top 1000 companies, the Ruthven Institute has distilled the essence of a winning business strategy. Research undertaken by the University of Melbourne between 1998 and 2001 supported many of these rules. In this series, the RI Hub examines the literature to assess the validity and continuing relevance of these rules. In each of the following sections, the literature is summarised, the key issues for implementation highlighted, and the questions for future research identified.

> "Our final guideline for sustained success concerns corporate culture. In essence, a unique organisational culture is necessary for several reasons. It's a factor in attracting good staff and keeping them interested and progressing. You want them to turn up each day – or at least most days – with a smile on their face. A unique culture encourages productivity and inspires creativity at all levels. Created successfully, a unique culture joins innovation and IP as one of the most important wealth-creating assets for a business, even though accounting standards mean they rarely find their way onto a balance sheet. Culture is usually a difficult thing to pin down. It is always a mixture of values (as every company should have) and traditions (which aren't necessarily values)."
>
> Ruthven Institute (2019) *Business Success: In Brief the 12 Golden Rules*

RI rule 12 calls for a unique culture for sustainable and competitive success. The results of this culture will be motivated and productive staff, innovativeness and adaptability. The company will be known externally as an *employer of choice* that attracts and retains good staff and minimises turnover. A good, strong, and distinctive culture will have identifiable positive effects for both employee outcomes and the company's bottom line and thus can be seen as a key element of a company's competitive success. The CEO is critical in establishing or continuing, and embedding such a culture.

Locating the relevant research to test the rule

RI Rule 12 draws attention to the impact of organisational culture on employee motivation, productivity, innovativeness, and ultimately firm performance. Much has been written on organisational culture. The research has typically focussed on defining and measuring culture, and understanding the mechanisms by which culture is created, maintained, and changed. However, as a new management research area

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in the 1970s it depended on other more established research traditions – economics, psychology, anthropology, sociology. Each has its own research foci and methods. These antecedents meant continual debates about what organisational culture is, its significance, and the most effective ways to measure organisational culture. But, despite the concerns of researchers about the robustness of the studies, a widespread belief persists among organisational leaders and analysts that culture matters.[1]

Historical reviews of organisational culture research have shown us the legacy of these debates in the form of a multiplicity of models. But they also show a rich understanding of what culture is. The evolution of standardized culture measurement instruments provided breadth and comparative data, while qualitative methods and a focus by some on individuals or groups gave a deeper understanding of the dynamics within organisations. But the multiplicity of models does not allow an easy understanding of how it all fits together, and how *good* cultures may be established.

Indeed, because researchers had such varied interests in culture, they also had different perspectives about what represented organisational *success*. Many were concerned about optimizing employee outcomes and the mental health of employees. Others with the effectiveness of organisations within their social, as well as their economic settings. In this Research note we canvas the generality of the literature but are particularly focused on testing the link between culture and long-term financial performance. Many studies tested this in parallel with assessing for employee outcomes.

Two separate research streams emerged around (1) organisational climate and (2) organisational culture. Many management researchers have ignored the fine distinctions between the two, seeing culture as longer lasting and more engrained in the values and practices of organisations, and climate as associated with more temporary employee attitudes and motivation. But, in the following discussion we see crossovers between the two streams and that the distinction arises more from the underlying discipline, focus and approach of the researchers. Both have contributed to the understanding of culture in organisations.

1 See a recent study of executives who were convinced about the importance of culture (Graham et al., 2021.) and a survey of financial analysts who believed that culture was an important element distinguishing high performing companies (Kotter & Heskett, 1992).

The history of organisation culture research[2]

As previous Research Notes have described, the 1970s and 1980s saw a significant expansion in the research into what factors and decisions resulted in improved organisation performance and sustained competitive advantage. And as earlier research notes have outlined, many strategic management researchers focused on establishing the basis of competitive advantage by identifying the opportunities and threats within external environments. These researchers tended to assume homogeneity of internal characteristics of firms in the same industry and immobility of important internal resources between firms. These assumptions were challenged by a second stream of strategic management researchers. These researchers concentrated on the internal analysis of firms as required by the prevailing planning models and abandoned the assumptions that the sources of competitive advantage were only external. They developed resources-based models to explain potential sources of competitive advantage arising from distinctive internal characteristics within firms. To meet the *competitive advantage* test, those internal resources needed to be valuable, rare, unable to be imitated and not able to be substituted. Picking up on the widespread belief among executives that culture mattered, the resource-based culture researchers combined an economic approach to firm success with organisational studies research as they recognised the impact of social dynamics and individuals' characteristics within firms.Thus, management research began to see organisational culture as one such potential source of competitive advantage (Barney, 1991).

The earliest work on organisational culture occurred within what became known as the organisational climate stream. Originating from within the psychology and later industrial psychology fields, this work focused on understanding how the values and behaviours of individuals developed and later intertwined with social processes to deliver a 'culture'. The work began in the 1930's and 1940s as scholars sought to understand how Nazism had arisen and as military organisations needed to build resilience and then adaptability after the end of the war. The focus of this early work was on the *individuals* and as organisations as collectives of individuals.

Early pioneers of this work included Lewin who used gestalt psychology and a field theory approach to develop cultural types – autocratic, laissez faire and democratic - linked to the values and behaviours of their leaders. This work was taken over by Likert (1955) but in contrast to Lewin, he took a quantitative approach to measure organisational cultures through a combination of survey and rating systems that

2 This section draws heavily on Ashkanasy et al. (2000).

captured employee perceptions about their jobs, workplaces, and their leaders. These systems are still widely used today.

The UK's Tavistock Institute has also been highly influential in highlighting the importance of culture. Originating in WW2 with a focus on mental health and resilience for military personnel, the Institute used psychoanalytic methods, sociotechnical systems theory, and action research, to show how culture and worker empowerment can be a source of improved mental health and organisational performance. The Institute's Elliot Jacques is credited with being the first to apply the concept of culture to corporate organisations and to see it as an instrument of changed performance (Jacques & Tavistock Institute of Human Relations, 1951). But unable to discern more hidden characteristics of workplaces, Jacques (and Handy later (1975)), focused on establishing a productive culture through 'improving' structure design, task allocation and reward systems. By varying the structure and process elements within organisations, Jacques sought to increase employee motivation and engagement on the one hand and accountability on the other.

It was not until the late 1970s that the concept of organisational culture was taken up fully by management theorists. The performance differential between US companies and their Japanese counterparts spurred efforts to identify differences in management approaches, including whether the different kinds of cultures exhibited by Japanese firms, contributed to their performance. Their focus was organisations, or their sub-units. This change in focus – from the individual to the organisation - meant a change of approach. Where organisational climate had been derived from collectivising the perceptions of individuals and measuring the impact of work and job characteristics on their motivation and productivity, management researchers sought organisation wide – top-down -analyses of cultures and how it affected firm performance. The survey methods, whose validity at the organisational level was already criticised, provided insufficient understanding or guidance to managers keen to understand the key elements of culture they needed to measure or change. Anthropology and sociology became the influencing disciplines as researchers adopted their methods to better understand these whole-of-organisation cultures; that is, qualitative methods that allowed a more in-depth description and categorisation of cultures.[3]

This development was reinforced by the crossover between academics and consultants and the use of case studies to distil lessons from successful companies. The growth of the Harvard model and consulting practices, popularised interest in organisational culture. Four books published in 1981 and 1982 reflect this surge in attention – Ouchi's *Theory z*; Pascale and Athos' *The Art of Japanese Management*; Deal and Kennedy's *Corporate Cultures*, and Peters and Waterman's *In Search of Excellence*. These authors highlighted the role of organisational culture in successful companies, summarising their findings from their consultancy work in the form of typologies of cultures. Not only did they believe that cultural factors played a critical role in determining organisational outcomes, but they also saw organisational culture as something that could be influenced or controlled by executives. In doing this they articulated what many executives believed.

The difficulties executives experienced in managing culture were also increasingly recognised by researchers. For example, Schein (1985), stressed the long-term nature of culture: cultures could be stable and long-lasting even while organisation structures and processes were changing. And Cameron and Quinn (2011) noted that as many as three quarters of reengineering, TQM, strategic planning, and downsizing efforts have failed or created problems serious enough to threaten the survival of the organisation. They attributed this to the failure to attend to the parallel need to change the culture of the organisation.

At the same time, the organisational climate stream of research continued to stress the impact of workplace design – structures, processes, and leadership – on employee job satisfaction, motivation, and productivity – and later – creativity, safety consciousness, quality and customer focus.[4]

Schneider and Barbera (2014) claim that both organisational climate and culture research streams focus on capturing the shared meaning employees attach to different phenomena in the workplace. Climate research focuses on the shared meaning attached to policies, practices, and procedures and the behaviours that get rewarded, supported, and expected at work. By contrast, culture research focuses on the shared meaning employees derive about the basic assumptions, values, and beliefs that underlie their experiences at work, as transmitted via myths and stories

3 Cameron and Quinn (2011) explain: anthropology sees organisations as cultures, whereas sociology sees organisations as having cultures. Further, two different approaches to organisational research developed. The first was a functional approach (culture emerges from collective behaviour) and the second a semiotic approach that sees culture residing in individual interpretations, whereby individuals and groups are enabled to make sense of reality. The two approaches crossed disciplinary boundaries and so there have been those researchers who have been influenced by anthropology's conceptions of culture who have used a functional approach; others who have used the semiotic approach; and similarly, with those influenced by the sociological tradition. The first approach when adopted by those from within the anthropology stream focus their research on the collective assumptions through observation of subjective factors, with culture seen as a dependent variable that is worthy of understanding in itself. But when adopted by those from the sociological tradition, the functional approach leads to a research focus on collective behaviour, as measured by objective factors, and culture is seen as an independent variable that predicts other outcomes.

they hear, especially in their socialization experiences to a new setting. These alternative perspectives on a similarly macro issue of meaning emerged because of the disciplines from which organisational climate and culture emerged.

In a review of 30 years of culture research, Giorgi et al. (2015) noted three major areas of research interest, in all of which multi-directional relationships have been revealed:

1. *The relationship between identity and culture.* Scholars generally agree that culture affects identity - who we are and what we do – but are unclear about how the relationship unfolds. Some suggest that organisational culture tends to support organisational identity stability and consistency over time. And others have pointed to culture as a potential source of organisational identity change. More empirical work is needed to explain more fully how culture affects identity and mechanisms that engender both consistency and difference in links between identity and culture at different levels of analysis.
2. *The relationship between institutions and culture.* Organisations will often claim a distinctive culture but in fact many in the same institutional field or national setting will demonstrate the same characteristics. Weber (2005) showed how globalisation has led to a growing similarity in the cultural toolkits of German and US pharmaceutical companies. Institutions can also affect culture by imposing stability or prompting cultural change. Culture is important in enabling actors to influence relevant audiences through a process labelled as cultural entrepreneurship, defined as "the process of story-telling whereby a new venture identity is created in pursuit of legitimacy and subsequent resource acquisition" (Weber, 2005: 29). The curating of a culture also includes efforts at guiding audience assessments and prompting action through symbolic management and sensemaking.
3. *The relationship between culture and 'how we do things'.* A lot of recent culture research has focused on cognitive processes or strategic decisions in the use of culture. And often researchers have seen culture and practices as separate silos or subsumed practices within their conceptions of culture (e.g., Schein 1985). But Giorgi et al. (2015) argue, that a focus on practices – those standard operating procedures or routines that are largely automatic – may better explain how and why culture influences organisational processes, often without intentional planning or recognition by actors. Additionally, changed practices can change cultures.

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Giorgi et al. (2015) recognised that a better understanding of how culture, identity, institutions, and practices are linked would require a methodological approach to culture research even more diversified than it has been to date, and the use of a wider range of empirical measures.

Sackmann's 2010 review of organisational culture research between 2000 and 2010 showed continued strong research interest. Through this decade culture research had become more globalised, with only 20 percent of the studies being US-based. Partly this has been prompted by those in emerging economies seeking to understand how to accelerate development or improve the performance of newly emerging market organisations. It is through their work (for example, Xiaoming & Junchen, 2012) we are reminded of the mediating influence of national or professional cultures and institutions on internal organisational cultures.
Sackmann also found that the research had become more specialised as interest grew in specific types of culture (e.g., innovation, market-oriented, organisational learning, industry, or sectoral cultures).

As well, methodologies had become more sophisticated with most studies designed to test hypotheses derived from theory, using sophisticated sampling and analytic techniques with multiple dimensions and measures. However, few had used longitudinal data. The availability and acceptance of several standardised questionnaires, or measures of culture – such as Denison's Organizational Culture Survey (DOCS) instrument and Cameron and Quinn's 1991 Competing Values Framework (CVF)[4] – allowed comparative research programs to cross national and industry or sectoral boundaries and enabled the links between HR practices, culture, and performance to be explored. For example, research has emerged on the effects of competitive strategy and culture on firm performance; the effects of HR flexibility on culture and performance; high performance work systems, culture and firm effectiveness and the impact of HR style and flexibility, and the links between leadership, culture, and performance.

In summary, organisation culture research has its roots extending back over 50 years. The challenge has been how to define culture, how to measure it, identify its key elements and importantly, how to improve it. The mix of underlying disciplines – anthropology, sociology, psychology and even economics – have all contributed to both the growing understanding of culture and its relationship with performance.

4 The CVF framework differentiated organisations based on focus, structure, and means-ends. It has become one of the widely adopted standardised measurement instruments over the past 25 years.

These disciplines have also provided a diverse array of methods for capturing and assessing it.

This diversity has been further enlivened by the multiplicity of approaches and methodologies *within* each of these disciplines, what have been called the *culture war games* (Martin & Frost, 1996). Although our understanding of culture and how it operates within organisations is greatly enhanced, there is still a lack of clarity about how exactly the relationships and linkages work and in which direction they work. This has meant a rich environment for researchers but many different models and improvement guides for practitioners and a lack of definitive answers to the overarching questions for management researchers – does culture influence performance and if so, how, and what can managers/leaders do to improve performance through culture?

Definitional issues – what is culture?

Although Pettigrew (1979) was one of the first to study organisational culture directly and was credited with using a novel longitudinal-process approach to do so, his use of a single case study in a school and lack of accepted definition limited his impact. In undertaking this research, however, Pettigrew highlighted both the importance of studying culture and developing methods for doing so.

The first major contributions to the organisation culture literature, noted above in the form of the four popular books, stressed the *values* of an organisation as the underpinning of its culture. They observed successful organisations had *strong* cultures which stressed shared values and well-integrated practices that bound organisational effort together and/or participative cultures that empowered workers.

In 1985, Schein took this further. He set out a multi-layered definition of organisation culture that has become widely used:

> "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: 9).

Schein provided a strong definition of culture, described its key elements, highlighted its dynamic nature, and provided a framework by which cultures could be diagnosed and improvement strategies designed. Much subsequent research relied on his definitions and insights. However, critiques at the time (for example, Tierney, 1986) suggested that adoption of more advanced anthropological methodologies might have resulted in a better understanding of how culture was created and changed, and that Schein's clinical approach predetermined the importance of influences, such as leadership.

But an alternative view of culture was emerging from European researchers, such as, Hofstede et al. (1990). Where the US researchers had seen culture as *values*, Hofstede et a.l found instead that it was the *practices* of organisations that dominated their culture. Moreover, they concluded that in measuring an organisation's culture, it was important to disentangle differences arising from different national and occupational cultures and settings.[5] For example, they found nationality, as well as other demographic characteristics such as education, age, seniority, and hierarchical level, strongly affected the answers on questions dealing with values, but not practices (Hofstede et al., 1990).

By 2015, Giorgi et al. could identify five dominant models, or definitions of culture within the research stream –culture (i) as values that guide and constrain; (ii) as stories about how things get done; (iii) as frames that guide how attention is directed; (iv) as toolkits that can be used as needed, and (v) as categories that are social constructions or classifications which link to a broader system of meaning and allow delineation and distinctiveness. Such theoretical pluralism has complicated empirical research, but Giorgi et al. argue against the development of a "single best conceptualisation" of culture that covers all cultures in all settings. Rather, they offer an integrating perspective: culture as "a broad system anchored by values or overarching toolkits within which categories, frames and stories serve as cultural manifestations, which congeal, express, and diffuse commitments, ideas, and beliefs among actors" (Giorgi et al. 2015: 4). They argue that without such a multi-dimensional view of culture, researchers cannot fully capture reality. They call instead for a "deeper examination of how the multiple forms of culture are productively used and mutually informed in companies [to] aid in understanding of culture's multi-faceted role in social interactions, organisations and markets" (Giorgi et al. 2015: 23).

5 Hofstede differentiated national cultures on five dimensions: power distance; uncertainty avoidance; individualism/collectivism; masculinity/femininity; long term /short termism (Hofstede, 2001).

How can it be measured?

Before moving on to look at the link found between culture and performance, we look more closely at the implications of the varied disciplinary background of organisation culture research. We have already noted different streams and their varying areas of research focus. But the underlying disciplinary background of researchers determined not only the focus of their interest in culture, but also their definitions of culture, successful organisations, and research methods.

Although Schein had postulated organisation culture operated at three different levels of an organisation,[6] many early empirical researchers aiming to measure and assess culture were limited by their ability to observe and gather data about characteristics only at the first level. As noted above, the earliest surveys gathered data from employees on their perceptions of specific workplace characteristics (e.g., Tavistock Institute; Likert). They evolved from industrial psychology research instruments.

Both the *values* and *practices* streams of organisational culture research tended to present their findings in *culture types*. By seeking to categorise organisations on various dimensions they sought to highlight not only the current state of an organisation, but also the ideal type that would be successful in any particular setting.

For example, an early measurement model developed from within the practices stream was presented by Hofstede et al. (1990). This model for assessing organisational culture using six different dimensions to measure practices and three to measure values. They found that where the organisation sat on four practice dimensions – P1 (process versus results), P3 (parochial versus professional), P5 (loose versus tight), and P6 (normative versus pragmatic) – related at least partly to the type of work the organisation did and the type of market in which it operated; that is to industry culture. The two remaining dimensions – P2 (employee- versus job-oriented) and P4 (open versus closed) – were found to be apparently independent of industry and more determined by the philosophy of founders and top leaders. Although the study also showed that different settings along each of the dimensions was associated with different financial results, they considered the study too limited to draw clear conclusions beyond the fact that cultures could be measured and that where an organisation culture was situated along the dimensions

6 The first was visible in the characteristics of structure, technology, overt rules of conduct, dress codes, records, physical layout, stories and rituals. At the second level were organisational values, and, at the third level, the underlying assumptions of organisational reality.

was a matter of strategic choice. In doing so they rejected the notion popular in US circles that there was one best way for culture.

Cameron and Quinn (2011) report that by 1988 more than 20 dimensions had been tested by researchers, seeking to capture the distinguishing features of successful organisations. They ranged from internal/external orientation; speed; riskiness; participativeness; clarity; power distance; masculinity and individualism.

As the field developed and a more varied disciplinary approach was brought to bear, qualitative methods sat alongside quantitative and survey instruments, and latterly a combination of the two. Further, the evolution of analytic techniques has allowed instruments that not only measure culture at multiple levels and across multiple dimensions, but also to test relationships and linkages between them. These have included Denison's DOC instrument and the OCAI developed by Cameron and colleagues.[7] But notwithstanding these advances, some such as Sackmann (2010), believe the measurement of organisational culture and performance remains diverse and "problematic" and many teams had not adopted objective outcome data although performance data at the organisational level often included financial measures. Xiaoming and Junchen (2012) identified four different categories of performance: (i) accounting definitions (including profit rate, Return on Assets (ROA), sales growth and long-term profitability); (ii) non-financial indices (such as employee satisfaction, customer satisfaction or a combination of indicators as in Kaplan and Norton's balanced scorecard (1992)); (iii) Tobin's Q (which reflects the *value added* of intangible factors such as management and governance); and, (iv) long-run development, competitive strength, or long-run stock market performance. Most mainstream organisation culture research now incorporates multiple dimensions of performance measurement, including the accounting measures adopted by RI.

Relationship between culture and performance

As the previous section showed, organisational research developed within several streams, using the different conceptions of culture and research methods of the originating disciplines. Partly because of this, empirical research has been equivocal about the strength and nature of the link between culture and performance. As noted above, the early work of US researchers/consultants was prompted by the desire to examine the prevailing belief that productivity in US firms lagged Japanese counterparts because of the participative cultures and different management processes practiced by Japanese firms. By contrasting the cultures of successful and

7 For a history of research methods that led to the development of the CVF, see Cameron & Quinn (2011).

unsuccessful companies, they concluded that *strong* cultures of shared and unified cultures supported strategy implementation. However, their chosen research method was the case study and/or comparative case studies of successful and unsuccessful companies. Such a methodology was open to critique, especially from those researchers from a more quantitative research tradition.

Denison (1984) sought to address the lack of empirical evidence of the link between culture and firm financial performance. Using survey data from 34 US firms, together with five years of Standard and Poor's financial data, Denison found companies with a participative culture achieved a return on investment (ROI) almost double those in firms with less efficient cultures. While well-integrated and coordinated systems (*high consistency*) were associated with high current performance and short-term performance, long-term performance suffered, possibly because the lack of variation limited the organisation's ability to adapt to environmental changes.[8]

Gordon & DiTomaso (1992) took up this point, in a study of 11 US insurance companies, finding that a strong culture, as measured by the consistency of perceptions of company values, and a substantive value placed on adaptability were predictive of short- and longer-term financial performance. In other words, it was not consistency alone that determined performance, but also whether the culture valued adaptability.

Between 1987 and 1991 Kotter and Heskett conducted four studies to determine whether a relationship exists between corporate culture and long-term corporate performance, to clarify the nature of and reasons for such a relationship and to discover whether and how that relationship might be exploited to enhance a firm's performance. These studies used US firms across 22 industries, tested different culture theories and looked at firms whose economic performance had apparently been hurt by poor cultures. They found corporate culture can have a significant impact on a firm's long term economic performance. Firms with cultures that emphasised all the key managerial constituencies (customers, stockholders, and employees) and leadership from managers at all levels outperformed, by a large margin, firms that did not have those cultural traits. They also noted that *performance-degrading cultures* negatively affected performance by inhibiting the uptake of necessary strategic or tactical changes quickly enough to meet changed

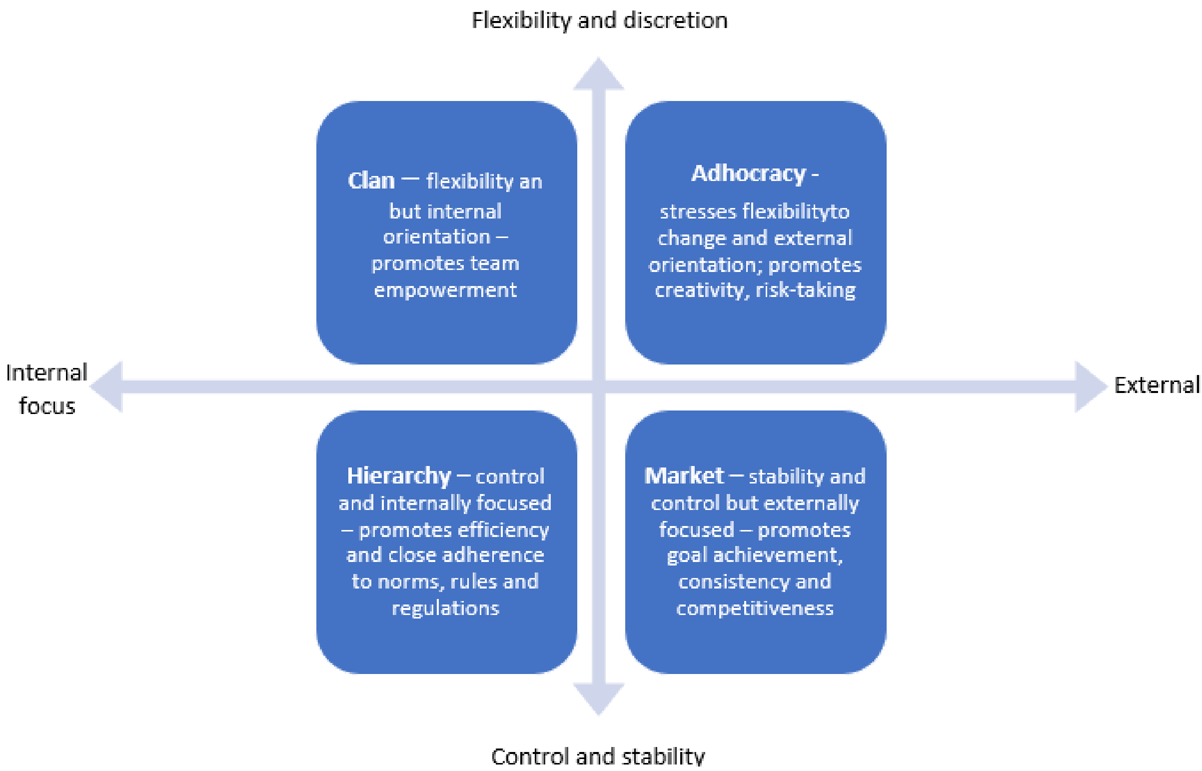
8 Demonstrating the evolution to multiple measures of performance and a combination of both qualitative and quantitative methodologies, he later argued that subjective measures of effectiveness were better suited for comparing a disparate set of firms than objective measures of effectiveness, influencing much of the future research into the links between culture and performance (Denison & Mishra, 1995).

external circumstances. Such cultures are not rare and can develop easily even in firms full of reasonable and intelligent people, because they are largely invisible and built into unquestioned practices and assumptions and existing power (and resource allocation) structures. Despite this, Kotter and Heskett believed cultures can be made more performance-enhancing, but the change is complex, takes time and requires leadership. It also requires a realistic vision of what kinds of cultures enhance performance (Kotter & Heskett, 1992).

Sorenson (2002) investigated the relationship between culture strength and *consistency* of firm performance. He found that a strong and unified cohesive culture was associated with reliable and consistent firm performance – but only in a stable environment. Once again, the finding, highlighted originally by Denison and echoed by Kotter & Heskett, that strong and consistent cultures contributed to firm performance tended to be a two-edged sword. Using a sample of firms from a broad variety of industries, Sorenson found that strong culture firms excel at incremental change and have more reliable or consistent performance in relatively stable environments. However, in more volatile environments, the reliability benefits of strong cultures disappear. Once again, it was the settings for organisational learning within strong cultures that affected the variability of firm performance in response to internal and external change.

Cameron and Quinn (2011) (Cameron & Quinn, 2011) after reviewing the research since 1988 found over 20 dimensions of culture had been tested for their impact on performance. The three dimensions most often used were cultural strength, cultural congruence, and culture type. The Kotter & Heskett study (above) had confirmed the importance of these three as the key differentiators of high performing organisations. But, Cameron & Quinn concluded that effectiveness of organisations was more closely associated with type of culture, than with congruence or culture strength. Their four-quadrant model, adopted by many subsequent researchers, categorises organisational culture on four dimensions – flexibility and discretion versus stability and control; external focus versus internal focus and integration – and six organisational characteristics – leadership, employee management, organisational glue, strategic focus, and criteria for success. Their model produces four culture types, as shown in Figure 1.

Figure 1: Four culture types



Source: Cameron & Quinn (2011)

Hartnell et al. (2011) used Cameron and Quinn's Competing Values Framework to test the impact of culture on financial performance, quality of products and services. They found organisation culture was positively associated with organisational outcomes, but the taxonomy of culture types was not as predictive as expected. Instead, the differentiated types were not found to be *clean* with certain types including characteristics of their opposite. In other words, they believed their evidence supported a link between organisational culture and performance, but the nature of that link remained unclear and liable to change according to circumstances.

Others were less positive. Wilderom et al. (2000) reviewed ten studies from the 1990s that sought to establish evidence of the link between culture and performance. They concluded that the studies did not conclusively show such a link, citing both theoretical and methodological issues ranging from inadequate measures of culture and organisational performance, sampling issues and overall research design that did not capture the holistic nature of culture. Although several of the studies used financial and accounting measures for performance, in the same way RI has, only three of the studies had sought to measure the strength of culture and much of the data was based on perceptions from a single information source. This can be a limitation when there is a widespread view that culture has a significant impact on employee attitudes and job satisfaction and that this *should* lead to higher productivity and firm performance (for example, Fok et al, 2021).

Sackmann's review (2010) found most empirical studies on performance and culture did provide support for a direct link between culture and performance. But, with the use of different measures of culture and performance, data collection and analysis, the studies could not be compared. However, Sackmann did note some similarities in findings. For example, those dimensions of culture found to be positively related to performance measures were more externally oriented, such as market, customer, and adaptive orientations. Internally oriented culture dimensions associated with good performance included identification with the company, team, humanistic-task and quality orientation and entrepreneurship. Sackmann concluded that the weight of the studies showed the *combination* of both external and internal orientation, with a slight weighting to external orientation, appeared to have the greatest direct positive impact on performance, regardless of national or industry context.

Employee outcomes - High Performing Workplaces

A distinctive stream of research that has emerged in the past 20 years has been between employee satisfaction, employee engagement, productivity, and firm performance. A core assumption has been those high levels of employee satisfaction will be positively linked to high levels of motivation, engagement, and productivity, and that these in turn will drive superior firm performance. Key linkages include management and HR practices and policies, together with job design and reward structures – formal and informal. Although the RI rules stress the long-term financial performance of firms, Rule 12 does also refer to employee outcomes and by implication, suggest that they are a contributing factor to high performance. We test this through a quick survey of some of the research that focuses on employee outcomes. Most flows from organisation climate and industrial psychology research, but with contributions from some economists focused on workplace productivity.

We note first that most of the research has focused on the linkages between employee satisfaction and individual job performance, rather than on the linkage between employee satisfaction and organisational performance. In relation to the former, a linkage has been established by most studies. However, the translation of this, an implicit assumption of those studies, into overall organisational effectiveness is less clear. There have, however, been some studies that have focused directly on the link between satisfaction and organisation outcomes.

For example, Ostroff (1992) was one of the first to investigate the link between job satisfaction, attitudes, and organisational performance. She found school organisations with higher employee satisfaction had higher effectiveness in terms of student outcomes. Other job attitudes were less important to organisational effectiveness, but she found satisfaction did affect turnover. Social processes and other climate characteristics, including autonomy, influenced the relationship between satisfaction and performance.

Similarly, Harter et al. (2002) in a US study of nearly 8000 business units in 36 companies found that the levels of employee satisfaction and engagement were reflected in business unit outcomes, measured by customer satisfaction, productivity, profit, employee turnover and accidents. This suggested that managers could improve outcomes by finding ways in which to increase employee satisfaction but that further research was required to identify these clearly and to understand the time lags between actions to increase satisfaction, how quickly these were reflected in overall satisfaction levels and then in changes in performance outcomes. Using a longitudinal method, Schneider et al. (2003) confirmed earlier studies which had found higher ROA and higher earnings per share were positively correlated with job satisfaction. More importantly, however, they found the link operated in both directions and was only uncovered because of the use of a longitudinal study using multiple measures of organisational performance and employee satisfaction. Although they recognised that some of the early researchers such as Porter and Lawler (1968) had recognised that organisational performance could drive satisfaction (mainly through the reward schemes), many other studies that had assumed that employee satisfaction drove, or predicted, organisational performance. These claims – many of the high-performance workplace and human relations models (see below) – were, in Schneider et al.'s view, too simplistic.

Bakotic (2016) also investigated the link between job satisfaction and organisational performance and the causal direction of the linkage. He noted prior research on the link between job satisfaction and organisational performance was unclear: some found a positive link; others had not found a significant link. His own study, in Croatia, did find evidence of a link between job satisfaction and organisation performance but the link was not strong. However, his results showed that the link between job satisfaction and performance was stronger than the other way around. This may be because companies are not obliged to give employees any additional benefits arising from organisational success.

Some studies tested the productivity impacts of varying workplace characteristics. For example, Marcoulides and Heck (1993) developed a multi-dimensional model to assess productivity. They found organisational productivity was affected by organisational structure and how tasks were assigned, the complexity of administrative processes, and resource and communication patterns. Organisational values had a large effect on climate and employee attitudes (that is, their motivation), and employee attitudes and task organisation had the greatest effect on performance. They concluded that managers could influence performance through decisions about recruitment and selection, evaluation and remuneration, decision making processes, and their attitudes towards employees.

Bloom and van Reenan (2007) investigated the differences in productivity between firms and countries. They found evidence persistent differences in productivity at the firm and the national level largely reflect variations in management practices like systematic performance monitoring, setting appropriate targets, and providing incentives for good performance. These variations in turn appeared to be driven by a combination of imperfectly competitive markets, family ownership of firms, regulations restricting management practices, and informational barriers that allow bad management to persist. In this international survey Australia was ranked below the UK at 9th out of the 17 countries surveyed, with management in the US ranked number one.

This study was followed up in 2011, amidst concerns about lagging national productivity growth, by a study of Australian workplaces (Boedker et al., 2011). This study compared high (HPW) and low (LPW) performing workplaces.[9] They found the average profitability of high performing workplaces was nearly three times higher (15.62 percent) than low performing workplaces, which averaged profits of 5.44 percent. This superior performance was not deemed random, with HPWs performing

9 Workplaces categorised by measuring their performance on 6 dimensions of performance – productivity and profitability, innovation, employee experience and emotions, fairness, leadership and customer orientation. High performing workplaces were characterized by management practices that were responsive to changes in stakeholder and customer networks using accounting information; employee participation in decision making; developing behavioural and skills flexibility in employees, the use of high-quality ICT and their attraction and retention of high quality people.

well on several criteria simultaneously. While the study canvassed several dimensions of organisational operations, it also showed that culture was a major factor in defining high performing workplaces. But of the four CVF-based culture types presented – control, results, people, and change – the latter three were all found to be related to high performance. Specifically, this suggested that high performing workplaces were "characterised by a culture where people welcome and seek to introduce change and innovation, where leaders care for their employees and foster collaboration and where there is an ambition to deliver results and a focus on achieving goals" (Boedker et al, 2011: 57); that is, they were good at empowering and engaging employees to take part in crafting innovations and implementing new ideas that meet customer needs The barriers to achieving high performance were identified as motivating the workforce to take more responsibility; retention of high performing staff, and creating a flexible and responsive workplace.

Arnold et al (2016) found in a Netherlands-based study of healthcare staff, that higher job satisfaction was positively associated with lower productivity-related costs, including presenteeism, but it did not appear to affect absenteeism. There were differences in impact across job types. Bellet et al. (2019) went further, arguing that inadequate research attention had been paid to how employees' emotional states affected their productivity. For example, they found that the productivity of call centre staff varied by exposure to local weather conditions. What this means is that understanding what drives employee productivity and job performance means understanding more than the cognitive factors emphasised by researchers until recently. Happiness counts. And in a study in Bahrain, Almaamari and Alaswad (2021) remind us that physical work environment also matters. For example, extreme temperatures and lack of quiet spaces can reduce employee productivity.

In summary, there is a plentiful literature on the links between employee attitudes and satisfaction with job performance, productivity, and organisational performance. While results are mixed, there does appear to be established relationships between these variables, but the causality remains to be fully understood and a continuing deepening understanding of what drives employee satisfaction, even emotions, is necessary to fully disentangle the relationships. Certainly, the story is more complicated than originally envisaged when employee satisfaction achieved through better management practices and the development of supportive participative and flexible cultures would almost guarantee better performance. Tracking the causality is made more difficult by the time it takes to effect changes in attitudes, to say nothing of changes in values, underlying assumptions, and processes.

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Links between culture and innovation, leadership and life cycle

In this section we outline some examples from the literature of the specialist streams of research between culture and organisational performance in specific settings. These are chosen not just for their topical interest, but also because they refer to the core ideas in other RI rules and demonstrate again, the interdependence between the rules.

Culture and leadership

Schein (1985: ix) made it clear: leadership and culture were integrally intertwined because "leadership is the fundamental process by which organisational cultures are formed and changed". And most theorists and researchers have agreed. Although changing a culture may be difficult, a leader's behaviours, actions, statement, and language are closely watched by employees wanting to understand what is considered important, and what exacts punishment or merits reward (Schein, 1985; Schein & Schein, 2016). Gaps between espoused and enacted values are quickly discerned, with employees adjusting their behaviours and actions to the latter. For this reason, guides on transforming organisations always stress the importance of the leader's multiple roles in leading, communicating, role-modelling, and enabling the desired change. Many organisations have sought to become agile, innovative, and flexible but leaders have failed to change processes and systems that maintain old power structures, reward systems and administrative processes that align with past goals (Mumford & Licuanan, 2004).

O'Reilly et al. (2014) undertook one of the few empirical studies of the relationship between CEO personality, organisation culture and firm performance. Using the Five Factor Model to capture personality,[10] the Organization Culture Profile (OCP) to measure culture,[11] and adopting five different objective and subjective financial and non-financial measures of firm success, they surveyed 34 companies in the IT industry. Although the study was limited to one industry and perhaps could be seen as less generalizable, it had the advantage of eliminating industry differences and allowing the personality/culture aspects to be studied. They found that CEO personality did shape organisation culture and that culture had a direct effect on firm performance, without it being necessarily the key determinant of that performance. Moreover, they found that the longer the CEO tenure, the stronger their impact on culture. They found that CEOs who were higher on *Openness to*

10 The Five Factor Model emerged out of extensive body of research on personality types and assesses personality based on five dimensions – Extraversion; Agreeableness; Conscientiousness; Neuroticism; Openness to Experience (cited by O'Reilly et al. 2014: 598).

11 The OCP appears in O'Reilly and Chatman (1991) and has been validated by various subsequent researchers.

Experience are more likely to be associated with cultures that are adaptable then those who are less open; CEOs who scored high on *Conscientiousness* are more likely to be in cultures that emphasise attention to detail; and CEOs that are lower on *Agreeableness* (more sceptical, competitive) are likely to engender a culture that is more results oriented. These findings are consistent with social learning theory; personality traits translate into values, expectations, and behaviours and then, in turn, cultural norms. The results also showed that cultures that emphasise adaptability and detail orientation are significantly associated with higher ratings from Fortune magazine's *Most Admired List*, are given more positive evaluations by employees, have a higher market-to-book value and are evaluated more positively by share analysts. Together these results suggest that while CEO personality has little direct effect on firm performance it can affect how the market and employees evaluate the company.

Culture, leadership and life cycle

Much has been written on the way in which founders will influence the culture of the company they started and steered in the early days. Their values, assumptions, interests, communication preferences, and behaviours are embedded quickly into a culture through resource allocation and priorities, hiring decisions, remuneration and reward systems, and the establishment of policies and practices.

Schein and Schein (2016) point out, however, that as companies grow and mature, the structural and process changes necessary to support that growth – even the hiring of a new CEO and management team – will start to influence and change the culture. For example, growth often means a growing formalisation and standardisation of communication, performance management and production processes. Informal relationships become more formal; different governance and accountability structures apply, together with changing performance measures. Sub-cultures can develop as functional or geographic divisions are established, each reflecting its own culture and professional background. New ways of ensuring internal coordination and effective communication and knowledge management become necessary.

Schein and Schein's description serves to remind us that, on the one hand, cultures inevitably shift as other structural and process elements of the organisation change. On the other hand, the research on cultural types discussed above suggests that the culture needs to change as the strategy changes, and that strategies will change over the lifecycle of the organisation and industry.[12] For example, the CVF's hierarchical culture type may not support an adaptive strategy or quest for innovation, but it may well be a supportive culture for a strategy based on cost-based or efficiency-based competition in a stable environment (Prajogo & McDermott, 2011).

Culture and innovation

The need to adapt to fast-changing markets, technology and economic circumstances, has meant a premium for innovative and adaptable organisations and scholars have been keen to understand the role of organisation culture in building organisations that can successfully innovate as a means to improving or sustaining long term economic performance. This view is reflected in the RI Rule 4.

Prajogo and McDermott (2011), using the CVF, surveyed 194 Australian firms spanning various industry sectors to test the relationship between two dimensions of culture – flexibility/control and internal/external orientation – and innovation and firm performance. The study confirmed earlier findings that culture was one of the determinants of financial success and further that innovation (product or process) was essential to ongoing adaptation to changing external markets. They found that a culture characterised by flexibility and an external orientation promoted product and process innovation and financial growth. However, they found that there while there were elements of crossover between the dimensions, it was important that firms understood their current and required culture to support their chosen strategy. If that strategy were multi-dimensional then the cultural settings also needed to be multi-dimensional.

Hogan and Coote (2014) studied innovation in Australian law firms, noting that much of the research on innovation related to product and manufacturing firms, rather than professional services firms. Applying Schein's multi-layered model, they tested whether innovative values (success, openness and flexibility, open communication, professional competence, risk-taking) and norms (as suggested by the literature) translated into innovative behaviours and artifacts, and whether these in turn translated into improved financial performance for the firm. They found that this chain did, in fact, deliver improved financial performance but that too often the innovative values and norms were inadequately translated into supporting processes and facilities. The role of the leader in ensuring that there was follow through was paramount.

12 For more on Industry Life Cycles, see RI Rule 2 - *Know Your Industry and its Life Cycle Phase*.

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Buschgens et al. (2013) undertook a major meta-analysis of 43 studies on innovation and culture. They found a multiplicity of variables and models that made development of a practical management theory difficult. However, using the Competing Values Framework, they did find that managers of innovative firms had established developmental cultures, although once again there were other cultural types – rational and group – that demonstrated elements of innovativeness. Hierarchical firms however – internal orientation and control emphasis – were least likely to exhibit innovativeness. There was little difference between the type of innovation – radical or incremental; process or product – that occurred in the most innovative firms.

In a study of Spanish manufacturing companies and using the CVF, Naranjo-Valencia et al. (2016) showed that culture can foster innovation, as well as company performance, or it could also be an obstacle for both of them, depending on the values promoted by the culture. Their study confirmed what had they had seen as the consensus in the prior literature that four cultural values or characteristics - creativity, freedom/autonomy, a risk-taking attitude, and teamwork - enhanced innovation. Their study found specifically, that an adhocratic culture is the best innovation and performance predictor.[13] They concluded that, innovation mediates the relationship between certain types of organisational cultures and performance.

Newman et al. (2020) reviewed the literature on innovation and organisation climate. They found that organisations wanting to foster innovation need to think not just about organisation-wide culture mechanisms, but also how to support innovation climates at the team level. This can involve leaders articulating a vision, role-modelling innovative behaviours, and providing individualized support to subordinates. But more, managers needed to encourage their team members to be reflexive, ambitious, and motivate one another, while at the same time ensuring that team tasks are complex and challenging and team membership is diverse. Finally, they issue a warning – innovation and creativity may not always have positive results. Although there has been little research into the negative consequences of creativity, clearly this idea suggests again the need for executives to be conscious of the need for organisational cultural settings to fit with strategic settings and priorities.

13 According to the CVF an *adhocracy culture* emphasizes flexibility and change; it is externally orientated and usually seen in companies that operate in dynamic contexts and in those seeking to be leaders in their markets. The key values in an adhocracy culture are creativity, entrepreneurship, and risk taking.

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Culture, leadership and innovation

In a major review of 27 years of literature on innovation, Crossan and Apaydin (2010) identified innovation leadership as a key area or research focus. Adopting the Upper Echelons theory framework (see Research Note on leadership), they find a dominant view in the literature that supports the need for leadership of innovation. Leading and supporting innovativeness is seen as one of the roles of leaders (Mumford & Licuanan, 2004), but the capacity of leaders to do so will be influenced by their own values and propensities, such as tolerance of risk and ambiguity and their need for control, their capacity to motivate and inspire, and their understanding of external trends and professional competence. And as seen below, the preparedness to attend to building and maintaining all the elements of an organisation culture will engender creativity and support innovation. In Upper Echelons Theory, leaders are seen as deliberately and consciously using managerial levers to drive organisational performance and one of those levers is seen as organisational culture.

Culture and institutional failures – management of safety and ethics

One final specialist area of research looks at the relationship between culture and institutional failures. Hald et al. (2021) tested a common assumption that poor organisational culture is a key factor in large-scale and avoidable institutional failures, such as accidents or corruption. They point to the key roles of two distinct paradigms: *safety culture* and *ethical culture*. These both examine how the management of risk and ethics within an organisation shape employee attitudes, such as employees' attitudes towards incident reporting or whistleblowing, and organizational practices, such as risk-taking or unethical conduct. Neglect of the former, or an excess of the latter, are hypothesised as contributing to large-scale failures. However, theories of safety culture and ethical culture that purport to explain why organisational failures occur and the key psychological dimensions of problematic behaviour, are currently backed by only minimal empirical evidence. Nor is there any consensus about how good cultures could avert institutional failures.

To address this gap, Hald et al. (2021) used case study analyses of failures and found 23 common factors and a common sequential pattern. First, culture is described as causing practices that develop into institutional failure (for example, poor prioritisation, ineffective management, inadequate training). Second, and usually sequentially related to the causal culture, problems of correction emerge – people, in most cases, had the opportunity to correct a problem and avert failure, but did not take appropriate action (for example, listening and responding to employee concerns). Most of the cultural factors identified in the case studies were consistent with survey-based models of safety culture and ethical culture. Failures of safety and ethics also largely involve the same causal and corrective factors of culture, although some aspects of culture more frequently precede certain outcome types (for example, management not listening to warnings more commonly precedes a loss of human life). As a result of finding these similarities in approach, Hald et al. proposed that the distinction between causal and corrective culture can form the basis of a unified (combining both ethical and safety culture literatures) and generalisable model of organisational failure.

In Practice

What is clear from the above is that there are many streams of research which have investigated the concept of organisational culture – its elements, its origins and its impact on organisational performance. The results are rich but diverse, and studies, such as in psychology, continue to delve into drivers of employee motivation and attitudes within the workplace and the capacity of managers to influence those and job and organisational performance.

In this final section we review the findings from a recent study of US-based executives on their perceptions of culture, how it affects performance and how they can improve performance through changes to culture.Graham et al. (2021) found that almost all executives (91 percent) recognise the importance of culture and 79 percent believe it to be a key driver of performance. The researchers found that culture influenced financial decisions of the company, with 61 percent believing that culture proscribed the appetite for risk. For example, 88 percent were prepared to either walk away from, or heavily discount, an acquisition if the cultural fit was not right and 41 percent heavily weight short-term negative cashflows when analysing potential investment decisions. And 85 percent of executives believes that culture will be a key driver of unethical behaviours and decisions.

However, their understanding of how to improve culture lags the sophistication of the research findings, described earlier in this Note. Perceived institutional and external barriers tend to militate against them seeking decisive cultural change. For example, although nearly half the executives believe that compensation and reward systems and performance measurement systems do not align with their espoused corporate values, or even stated strategy, they feel powerless to change these – recognising the gap between the two but seeing the systems and processes as formal barriers to cultural improvement. Often they blame corporate governance and the influence of investors for their incapacity to change these. They are also aware that attempting to do so would be risky for themselves personally should the changes not deliver the improvements and a lack of trust, and a culture of blame (*accountability*) works against risk-taking or moving from the status quo. A key message from these executives is that investments in culture are not seen as important by investors, who continue to value (often short-term) financial and economic returns.

Conclusion

In this Note we have surveyed the literature on organisation culture and performance to see whether the RI rule is supported by the evidence. What we have found is that there is a widespread belief by both executives and scholars that a supportive organisational culture is an important element in successful organisations. However, there is a surprisingly small body of empirical evidence that measures the impact of culture on the financial performance of organisations. The limited studies that do adopt a financial measure of organisational success do report a positive link between culture and higher performing organisations.

The studies that do, also find that the most successful organisations exhibit a flexible and adaptive culture – one that encourages innovation and a capacity to adapt to fast-changing external environments – and a culture that is externally oriented. In other words, those organisations that are externally focused on customers, stakeholders and emerging trends in technology and customer preferences are most likely to show superior performance. But it is those organisations that have a culture that also has a strong internal dimension that outperform other purely external oriented companies. This highlights the need for organisations to be balancing their adaptation to external changes with attention to detail in implementation or execution of new strategies or tactics. This is consistent with the RI rule. Similarly, Schein has also underscored the importance of the CEO in influencing culture through their espoused and enacted values and behaviours.

While the literature has tended to focus on the adhocracy or adaptive/innovative cultures needed to keep organisations agile, the literature also reminds us that different cultures are needed to support different strategies, or at different stages of the life cycle. For example, internal orientation and attention to detail are necessary in mature stages or where the competitive strategy depends on cost or quality control. Some studies that tested the ideal types flowing from the oft-adopted Competing Values framework found that elements of types crossed over, that the typology was not cleanly differentiated. This supports the concept above about the need to balance the external and internal orientations, even where an external orientation needs to be stronger.

Another major focus in the literature relates to the national or industry setting in which a particular organisation operates. The wider industry and national cultural settings will affect and often limit the range of cultural settings available within a particular firm. Upper Echelon Leadership theory sees organisation culture as a requisite management lever for optimising organisational performance, but we are reminded of the limits on executive capacity to execute a given strategy, based on external environmental cultural and institutional constraints.[14] Hofstede's early work on the need to disentangle the influence of industry and national cultural influences on organisations from the internal drivers thereof is particularly important as scholars and practitioners in emerging economies and countries try to understand how organisation culture may contribute to a firm's performance. The results of studies undertaken in the US and Europe need to be re-interpreted for application in organisations that sit within countries that have quite different historical, cultural, and economic settings.

Time is the other major limitation on the use of culture as a management lever. While strategy consultants and some researchers stress the need for cultures to be adapted to *fit* and support a chosen strategy, other researchers (particularly those from psychology-related discipline streams) highlight how long it takes to unravel, or *unfreeze*, a culture and to create and embed a new one.[15] A process of understanding, analysing and changing a culture through its many conscious and unconscious layers of values, assumptions, practices and systems of an organisation is not quick. Perhaps for this reason, one stream of research has focused on improving organisational climate (that is employee attitudes and motivation) as it has often been seen as a shorter term phenomenon; another stream has focused on establishing a continuous learning culture that allows for continuous change and adjustment; and yet another (early) stream focused on aligning structures and systems with strategies and ensuring that task assignment (that is job design) reflected organisational strategic priorities while providing challenging work for employees.

One of the persistent characteristics of the organisation culture literature is its

14 See RI Rule 11 - *Lead from the Inside Out*.
15 See Lewin (1947) for the challenges of cultural change, and Burnes (2004, 2007).

multiple streams of research. This reflects both the diverse disciplinary roots of the study of organisation culture and the different research interests of the researchers themselves. For example, while one of the streams emerged out of economics and production-oriented strategy and Upper Echelon area, another (the human relations stream) focused on investigating the key elements of an organisation culture that optimises employee engagement and job satisfaction. Success in this stream was defined in employee outcome terms, with an implicit assumption that engaged and motivated employees will deliver higher productivity and through this better overall financial performance for firms. In many studies this final assumption has been neither tested nor validated. However, there is some evidence to support this widespread belief, but equally, some to counter it.

As a result of several different disciplinary influences on the study of organisational culture, a multiplicity of models and measures have emerged for both culture and performance. This has meant a rich tapestry of understandings of organisational culture, including its complexity and interdependence with other organisational, industry and national settings. But, importantly, it has fuelled the lack of agreement about the cause-and-effect relationship between culture and performance. Without these basics in place, it is difficult to provide clear guidance to practitioners about how to improve culture to improve performance. Moreover, it is not helped by a lack of interdisciplinary work or even awareness. For example, some of the recent economic studies of the contribution to organisational performance appear unaware of the depth of research undertaken in other disciplines.

Finally, a word of warning. While this Note has focused on the research that sought to establish the contribution of culture to performance either directly or indirectly, there have been researchers who have criticised the utilitarian nature of this research. Although some researchers have focused on improving the cultures of organisations to make those organisations better places for employees, many from within the management research stream have focused on improving culture to improve organisational performance. In putting forward mechanisms for strengthening culture or increasing its congruence they have risked imposing conformity in organisations, reducing diversity and reinforcing existing stereotypes. This has become particularly problematic as societies' expectations about diversity change. Furthermore, it may jeopardise the very nature of dissonance which is the essence of innovation and disruption. Moreover, to the extent that leaders may seek to change the mental models of individuals, they potentially stray into private and personal areas of employees beyond the legitimate concern of organisations.

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It would be wise to remember Handy's early words in 1976 in *Understanding Organizations*. There are many variables that affect the success of an organisation. Identifying what they are and their relative contribution at a point in time is incredibly difficult. But understanding the motivations and aspirations of an organisation's employees at all levels is an essential part of understanding how culture contributes – be it defined as values or practices or a combination of both. As with all other RI rules, understanding how culture can contribute to an organisation's success and how it links to implementation of the other RI rules, rests on having a good knowledge and understanding of its people in all of its diversity and commonality and how they respond to the structures, processes and rituals of the organisation and relate to external developments.

So just as RI does not see culture as a driver of success on its own, the RI rule sees it as a complementary characteristic of successful organisations. As long-term culture researcher Heskett (2021) puts it:

> "An effective culture embodies learning, innovation, and change. Cultures centered around transparency and trust pave the way for change. In this way, culture is an enabler of an agile approach to strategy. It makes the leadership and management of all kinds of change easier."

Heskett conceives of *culture as a platform* that either enables or constrains the implementation of successful strategy implementation and points to successful organisations as having cultures that are characterised by trust, participative cultures, and strong customer engagement. Overall, it is open to change and adaptation and builds the competencies (and judgment) of employees to respond positively as circumstances and strategies change.

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