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Organization culture as driver of competitive advantage

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ABSTRACT

One of the many responsibilities confronting leaders is the creation and maintenance of

organizational characteristics that reward and encourage collective efforts. The organizational

culture stands out as one of the components that are important to sustaining performance, and

competitive advantage, and a good reason for becoming a great company. The reason for ethical

failure in many organizations is the fact that while leaders concede of culture as a powerful tool

that can create and sustain performance, only few leaders give it the attention it deserves. The

cause of ethical failure in many organizations can be traced to organizational failure of

leadership active promotion of ethical ideals and practices. This paper will discuss the use of

Schein’s five primary mechanisms as a model for leaders in creating a culture that supports

moral and ethical behavior. Examine the implications of this model in gaining competitive

advantage, and will further critique the implications of an unethical culture within the

organization in terms of maintaining or expanding its market share.

Keywords: organizational characteristics, collective efforts, culture, sustaining performance,

ethics, Schein’s five primary mechanisms, organization culture, competitive advantage

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The importance of culture in the organization

There has been growing concerns over the Ways many organizations have chosen to do

business in the recent past. The organization culture as a leadership concept has been identified

as one of the many components that leaders can use to grow a dynamic organization. Leadership

in organizations starts the culture formation process by imposing their assumptions and

expectations on their followers. Schein, (2004) states that As organizations stabilizes because of

success in accomplishing its primary tasks, the leader’s assumptions become shared and

embedding those assumptions can then be thought of more as a process of socializing new

members. Organizational leaders achieve success by being consistent, in sending clear signals

about their priorities, values and beliefs. Once culture is established and accepted, they become a

strong leadership tool to communicate the leader’s beliefs and values to organizational members,

and especially new comers. When leaders promote ethical culture, they become successful in

maintaining organizational growth, the good services demanded by the society, the ability to

address problems before they become disasters and consequently are competitive against rivals.

Schein, (1999) informs that corporate culture matters, because the decisions made without the

awareness of the operative culture forces may have unanticipated and undesirable consequences.

Organizational leaders are confronted with many complex issues, when making decisions about

the best methods to generate organizational achievements in their complex environments. The

leader’s success will depend to a large extent, on his knowledge and understanding of the

organizational culture. The leader who understands his organizational culture and takes it

seriously is capable of predicting the outcome of his decisions in preventing any anticipated

consequences. What then is organizational culture? The concept of organizational culture has

been defined from many perspectives in the literature. There is no one single definition for

organizational culture. The topic of organizational culture has been studied from many

perspectives and disciplines, such as anthropology, sociology, organizational behavior, and

organizational leadership to name a few. Deal (1999) defines organizational culture as values,

beliefs, and behaviors that differentiate one organization from another. Schein, (1999) outlines

the manifestations of culture as “the way we do things around here”, “the rite and rituals of our

company”, “the company climate”, “the reward system”, “our basic values” (p.15), and so on.

These are manifestations of culture because they do not represent culture at the deeper levels

where we must understand and manage the deeper levels. In Schein, (2004) organizational

culture is defined as a “dynamic phenomenon that surrounds us at all times, being constantly

enacted and created by our interactions with others and shaped by leadership behavior, and a set

of structures, routines, rules, and norms that guide and constrain behavior” (p.1). A practical way

to define organizational culture is the environment in which we work; these are the member’s

behaviors, attitudes, beliefs, skills, perspectives, habits and prejudices. Some of these attributes

have been molded by past leaders, either good or bad through years of indoctrination, influence,

and reinforcement. The truth remains that leaders of organizations are responsible for the climate

they create in their organization.

Levels of culture:

To fully understand the meaning of culture, Schein, (1999) characterizes organizational

culture as consisting of three levels. The first lever, the behavior and artifacts level represents the

most visible level, which is characterized by our behavior and artifacts around us. This

observable level of culture consists of behavior patterns and outward manifestations of culture.

These cultural characteristics can be observed in the physical layout of work environments, dress

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codes, and levels of technology, the attitudes and behaviors of the people. The second level the

espoused values of an organization to a large extent determine behavior Schein, (1999). These

values are not observable as our physical behaviors and artifacts. These values are the difference

between stated values and operating values. For example, this company values quality, we value

our customers and so on. The operating value on the other hand is the actual manifestation of

value that is truly in force. Most people in the organization will attribute their behavior to the

stated value. To truly understand culture according to Schein, (1999) we have to get to the

deepest level the level of assumptions and beliefs. The essence of culture is the learned values,

beliefs, and assumptions that become shared and taken for granted as the organization continues

to be successful. These components are taken for granted as long as the members of the

organization agree that these values, beliefs and assumptions of their founders and leaders led the

organization to continued success, and is therefore correct.

The opposing question confronting most organizational leaders is whether established

cultures can be changed? Organizational cultures are created, maintained, and transformed by

people. An organizational culture is in part, also created and maintained by the organization’s

leaders. Organization founders and leaders at the executive level are the principal source for the

generation and reinfusion of organizations ideology, articulation of core values and specific

norms. Organizational values express preferences for certain behaviors or outcomes.

Organizational norms express behaviors acceptable by others, and are culturally acceptable ways

of pursuing goals. Leaders also establish the parameters for formal lines of communication and

the formal interaction rules for the organization. Values and norms, once transmitted through the

organization, establish the permanence of the organization’s culture.

The primary mechanisms: In support of moral and ethical behavior.

Leaders must operate from a foundation of high morality and ethical discipline in the

organization at all times. They must personally act in accordance with productive values and

beliefs, and they must teach, others to do the same. They must establish and promote the culture.

With the awareness of culture in today’s organizations, and its strong impact on employee

behavior, leaders in organizations can create a culture that supports strong moral and ethical

behavior. Over the years, there has been a growing concern in the way many organizations have

chosen to do business. With many scandals that have drawn public and media attention to many

organizations for participating in illegal and unethical behavior, organizational ethics has

developed as a professional and academic disciplines to address some of these concerns.

Organizations are now being challenged to be more accountable to their stakeholders and not just

their shareholders, and this has made organizations begin to examine the relationship between

management and their boards of directors. Moral simply stated “Is concerned with social

practices defining right and wrong” (Beauchamp & Bowie, 2004, p.1). These practices of right

and wrong are transmitted within cultures and institutions from generation to generation.

Organizational ethics on the other hand “studies the ethical issues relevant to ways in which

organizations influence their members, and the ways in which these members influence each

other and the organization Horvath, (1995). Organizational ethics studies organizational culture,

and the standards that are relevant in guiding behavior. These standards are derived from the

organizations core values, such as honesty, trust, and loyalty. Organizational ethics perceives an

organization as a community or culture, focusing on its strengths both past and present. It

address the need for an organization to be run in a manner that takes into consideration each

member of the organization and how their interactions affect one another as well as the

organization (Senge, 1994; Hartman, 2001). Moral and ethical issues, in organizations are not

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new to society. Northouse, (2004) states that ethics is central to leadership, leaders who engage

followers to accomplish mutual goals by nurturing ethical and moral behaviors in their

organizations significantly reinforce organizational values. Hartman, (1996) asserts that culture

includes laws, rules and systems as well as language, history, formal and informal practices,

beliefs and rituals. Therefore, organizational ethics works on the whole of the moral culture of

the organization. “Corporate culture is the means of inducing any sort of behavior in the

organization” (p.146) and “is a vehicle for imparting and maintaining the moral principles and

the values that govern life in the organization” (p.150). Schein,(2004) one of the top

management thinkers in organizational culture, has recommended five primary embedding

mechanisms which leaders can use as major tools to teach their organizations how to perceive,

think, feel, and behave, based on their own conscious and unconscious convictions.

These primary mechanisms are listed as (1) what leaders pay attention to, measure, and

control on a regular basis. (2) How leaders react to critical incidents and organizational crises.

(3) How leaders allocate recourses, rewards and status. (4) Deliberate role modeling, teaching

and coaching and (5) how leaders recruit, select, promote and excommunicate (Schein, 2004).

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

One of the most powerful ways leaders and organizational founders communicate values,

beliefs and priorities are on what and where they place their attention. What the leader

emphasizes and measure overtime can have a great impact on the organization’s culture.

Schein,(2004) states that this process becomes a powerful way of communicating a message,

especially if the leaders are totally consistent in their own behavior. It is the consistency that

sends the message about the leader’s priorities, values and beliefs. It is therefore the consistency

that is important and not the intensity of the action. When subordinates focus attention on what

the leader is looking at they begin to pay attention to it. Northouse, (2004) argues that all leaders

have an agenda, a series of beliefs, proposals, values, ideas, and issues which they wish to put on

the table. The values promoted by the leader, has significant impact on the values exhibited by

the organization (Carlson & Perewe, 1995; Schminke, Ambrose, & Noel, 1997; Trevino, 1986).

Organizational leaders play a major and very important role in establishing the ethical climate of

their organization. Leader’s, who pay more attention to form, can create organizational cultures

to make people believe that the substance of the recommendation is less important than the way

it is presented Schein, (2004). A leader can use both positive and negative signals as powerful

tools to draw the attention of subordinates to what is important to the leader and the organization.

A morally ethical organization must establish trust to obtain the accurate knowledge required to

make ethical decisions. Telling the truth at all times become a leader’s powerful toll on what

subordinates pay attention to. Leader’s who pay attention to moral and ethical behavior,

empower and motivate subordinates to also pay attention in that direction. An integrity based

aspect of leadership combines concerns for the law Paine, (1994). It is not enough to have a

business code of conduct; the leader must give very strong signals, and pay attention in that

direction, also monitoring policies and operating procedure on a consistent basis. What the leader

pays attention to can equally include punishment for non compliance and reward for adherence.

Leadership responsibility for ethical behavior must reflect the attitudes, beliefs, values and

behavior patterns of an organizations operating culture. All these begin with the leader. Looking

at what the leader is looking at can reinforce a strong culture of ethical and moral behavior in the

organization.

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How leaders react to critical incidents and organizational crises

Crises by their very nature draw the attention of every one around it. A leader’s reaction

to a crises situation, speaks much about the organizations values, norms and culture. Crises

situations in the organization tend to bring out the organizations core values. Schein, (2004)

opines that “when an organization faces crises, the manner in which leaders and others deal with

it creates new norms, values, and working procedures, and reveals important underlying

assumptions. Crises in an organization generate a great deal of attention and emotional

involvement for those associated with the organization, particularly if the crises threaten the

survival of the organization. Because of the intensity of the emotional involvement, such periods

increase the intensity of learning in the organization. In crises, people’s deeper values are

exposed. Every ones reactions become visible, because attention is focused on the situation. In

crises situations, the meaning of the deeper levels of culture – artifacts (the level where culture

becomes clear and has immediate emotional impact), espoused value – (what the organization’s

values are), and the basic underlying assumptions – (the taken for granted assumptions) of the

organization are truly exposed. This exposure will increase the potential to either reinforce the

existing culture, or to simply change the existing culture. In such crises situations, leaders can

influence the organizational culture to support strong moral and ethical behaviors, and reinforce

the creation of new organizational values. Such situations become a rallying point for the leader

to teach, coach and mentor.

How leaders allocate resources, rewards and status

The organizations budget is a basic tool for the allocation of company resources. The manner the

leader allocates organizational resources through the organizations budget, also reveals the

leaders assumptions and beliefs. A balanced allocation of resources improves operational

efficiency, increases Company values and creates customer satisfaction. Schein, (2004) asserts

that the leaders beliefs about the degree to which the organization must be financially strong

influence their choice of goals, the measure of accomplishing them and the management process

to be used. The task of allocating the organizations resources should have top priority for

corporate leaders. Business units with the brightest profit and growth potentials should lead the

list of corporate support. (Thompson, Strickland & Gamble 2005) argue that corporate

executives should give special attention on how corporate resources and capabilities can be used,

to enhance the competitiveness of particular business units. When resources are equitably

distributed, steering organizational performance into high opportunity areas, every one in the

organization appear to be doing well. Moral and ethical behavior consequently increases.

The consequences of what behavior are rewarded, and which one is punished can have

significant effect on culture in an organization. Leaders can use the performance appraisal

process to priorities values by linking rewards and punishment to the behavior they are

concerned about. The performance appraisal as a tool evaluates the effectiveness of change on an

ongoing basis. Contributions to creating new knowledge and more effectively applying existing

knowledge can be rewarded with some form of incentive pay, recommendations or even

promotion. If a firm reacts to the innovation of new ideas by ridiculing those who are involved,

other employees will believe new ideas are not desired. If the organization on the other hand

punishes immoral and unethical behavior, every one around will realize that the firm values trust,

respect for the rule of law and order. As (Schein, 2004) states “if the founders or leaders are

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trying to ensure that their values and assumptions will be learned, they must create a reward,

promotion and status system that is consistent with those assumptions” (p. 259). Linking reward

to moral and ethical values answers the question of operational efficiency and competitive

advantage.

Deliberate role modeling, teaching, and coaching

The personal examples of a leader can send very important and powerful messages to the

members of an organization, particularly if such actions are ethical and consistent. People in the

organization do not only listen to the leader, they also watch what he does. Followers who

assume the behavior of their leader is right will tend to follow suite. Schein, (2004) states that

founders and leaders of organizations know that their own visible behavior has great values to

the members, especially new members. How leaders behave is how their followers will tend to

behave. As Paine,(1994) puts it, “Ethics is as much an organizational as much as a personal

issue” (p.1). Personal ethics of subordinates are often derived from the perceived ethical

standards of the leader. The ethical standards of any organization flow from the leaders and

permeate the organization. The leader reinforcing these examples with teaching and coaching

helps subordinates to internalize the desired values. The crucial issue is how is individual

learning transferred in the organization? The leader can communicate his message in many

formal and informal ways. The leadership culture that succeeds must have strong values, vision

and consistency. Schein, (2004) asserts that the informal messages are the more powerful

teaching and coaching mechanism. The informal examples appear to bring the leader closer to

the subordinates.

How leaders recruit, select, promote and excommunicate

One of the significant ways in which leaders change an organization culture and embed

their assumptions is through the process of selecting, retaining, and promoting people in the

organization. In most organizations this embedding mechanism is subtle, because it operates

unconsciously Schein, (2004). Founders and leaders establish this culture base in the

organization by hiring and advancing those they perceive as having the values they want, and by

eliminating those they consider as having undesirable value base. (Pfau and Kay, 2002) argue

that companies with a formal recruiting strategy enjoy a financial advantage. Failing to link

recruitment efforts to a strong business ethics and moral can spell disaster for an organization.

The criteria for recruiting and promoting subordinates assume the best people are hired by

assigning characteristics that justify their being hired. Any criteria used should consider the

personality, integrity, style and the competence of the person involved. This process also should

consider the cultural aspects of the organization in the selection and dismissal process.

Competitive advantage:

This section of the paper examines the implication of gaining competitive advantage. The

organizational culture stands out as one of the components that are important to sustaining

performance, competitive advantage, and a good reason for being a great organization. A

consistent culture of organizational learning can develop the ethical environment, which in turn

can develop people in the organization with the shared belief, trust and team coordination for

critical success. (Kotler & Keller, 2006) define competitive advantage as a company’s ability to

perform in one or more ways that competitors cannot or will not match. A cultural leader

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supports the hiring and development of people with the prerequisite skill and competencies

needed to get the job done. (Pfau and Kay, 2002) asserts, hiring the right people can catapult a

company into the kind of financial success that creates a buzz, which attracts more star

performers. A leader can create a culture that distinguishes his organization as a great place to

work for. Simply put, a leader creates a culture of commitment, through the allocation of

organizational resources, rewards, and promotions, that encourages competitive behavior .The

best way to encourage competitive advantage is to continuously encourage individuals to

innovate new advantages. The difference between success and failure can depend on the degree

and purpose, the value created by the culture of the organization. If a leader is totally consistent

in his behavior of paying attention to operating efficiency and encouraging subordinates to be

creative, the organization gains low cost advantage over rivals. (Thompson, Strickland &

Gamble, 2005) asserts that companies earn strong market positions because of the low cost

advantages they have achieved over their rivals and their consistent ability to under price their

competitors. Leaders who model and value work and change leaders who balance the interest of

all stake holders address the role in maintaining an organizational culture that encourages

learning and competitive advantage.

However, at the other extreme a leaders inconsistencies in what the leader pays attention

to can empower subordinates to pay less attention, and default on what the leader wants.

Inconsistent signals from a leader can impose assumption on subordinates that consider

management programs to be unimportant. Schein, (2004) states that subordinates will

accommodate contradictory messages because founders and leaders at the top are granted the

right to be inconsistent, and they may be too powerful to be confronted. The emerging culture

then will reflect not only the leader’s assumptions, but the complex internal accommodations

created by subordinates to run the organization inspite of the leader. Leader’s who continue to

fen ignorance and create lack of control at situations, create a culture that poor performance can

be excused. Leaders who equally fail to allocate organization resources equitably create cultures

that limit organizational growth and the prospect of alternatives.

Unethical culture and the expansion of market share:

Organizational leaders must acknowledge their role in shaping organizational culture that

encourages moral and ethical behavior. Leaders in most organizations have to wrestle with

ethical questions. The recent wave of organizational scandals over inaccurate reporting of

company profits and executive pay privileges has brought the question of business ethics to lime

light. (Thompson Strickland & Gamble, 2005) asserts that the apparent pervasiveness of immoral

and amoral business people is one obvious reason why ethical principles are an ineffective moral

compass in business dealings and why companies may resort to unethical behavior. Most

companies will strive to expand their markets as much as possible given that business expansion

is the core of most businesses. (Kotler & Keller, 2006) asserts that every company has a natural

drive to expand consumption of its products leaving the consequences to be the result of the free

choice of consumers. Apart from this kind of business thinking, (Thompson, Strickland &

Gamble, 2005) list three main drivers of unethical business as:

• Over zealous pursuit of personal gain, wealth, and other selfish interests.

• Heavy pressure on company managers to beat earnings target.

• A company culture that puts the profitability and good business performance ahead of

ethical behavior.

Leaders who are obsessed with the pursuit and accumulation of wealth, power, status and

other personal interests often neglect the principles of good ethics in their ambition for self gain.

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Driven by this ambition, they create a culture that goals can be achieved by doing whatever is

necessary to achieve the organizational goal.

When companies are pressed by competition and the ambition to achieve earnings growth

to meet performance expectations for shareholders, leaders tend to do whatever is necessary to

present good financial reports. (Thompson, Strickland & Gamble, 2005) states” as pressure

builds to keep performance numbers looking good, company personnel over stretch the rules

until the limits of ethical conduct is overlooked” (p.286). Once this ethical boundary is

compromised, subsequent acts of unethical conduct follow simultenously. The fundamental

problem with a company making profits at all cost is that the company does not serve either its

customers or its shareholders. Share holders interest is really served when the company does a

good job serving its customers, and improving the company’s competitiveness in the market

place. Unethical and illegal activities, when they are exposed, result in actions that depreciate

shareholder value and customer patronage of company products and services. When the

corporate culture of an organization become corrupt, people in the organization find reasons to

ignore what is right, and engage in any unethical activities they can get away with. An example

of a company culture that was over stretched on ethics to expand its market share is Enron

Corporation. The issue that captured the attention of the organizations leaders will become the

focus of employees. Enron employees got the message that pushing the numbers and meeting the

limits regardless of the means to get there was viewed as a survival skill. Leaders encouraged

employees to focus on bottom line and to be innovative and aggressive in whatever could be

done to grow revenue. Since employees often follow the examples of their leaders, and look at

what their leader pays attention to, Enron employees, and executives deceived stakeholders

regarding the company’s debts by falsifying company records inspite of the integrity in its code

of ethics. Enron became divisively clever in ways to boost revenue, even when it meant

operating outside the company’s policies. Enron employee evaluation process and policy created

a distrustful work environment, in an employee win at all costs mentality, a willingness to cross

ethical lines. This company’s aggressiveness and win at all cost mentality nurtured an

environment that eroded ethical standards.

The consequences of unethical culture and culture that is insensitive and indifferent to

ethical considerations can be serious and far reaching for an organization. Organizations can be

entangled in a web of legal proceedings. Equally important is the damage an ethical lapse can

cause an organization’s reputation and relationships. The struggle to regain customer trust and

market share has witnessed the exit of many organizations with such errors of ethical judgment.

Conclusion:

Organizational leaders are confronted with many issues on how to generate

organizational achievements. The organizational culture stands out as one of the important

components that leaders can employ to sustain performance, build ethical and moral

organizations and maintain competitive advantage. The leader who understands his

organizational culture, and takes it seriously, will be capable of predicting outcomes, and making

decisions to counter anticipated consequences. Schein’s primary embedding mechanisms can be

employed by organizational leaders as major tools to teach their organizations how to perceive,

think, feel and behave. These tools can be used positively or negatively. The application will

depend to a large extent on the leader’s priorities, beliefs and values.

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