

## Features of Organizational Culture and Their Impact on Banking System Performance

by

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*Abstract:* Culture is recently considered by researchers as one of the important factors that affects the long-term performance of organizations. This article aims at presenting the general cultural features of major banks operating in Vloja Region, and their impact on the performance of these banks. This research paper will aim to analyze whether these cultural profiles are similar to the cultural profile that contributes to the organization high-performance. The paper methodology is based on the combination between primary and secondary research. The paper ends with the conclusions and recommendations.

*Keywords:* Organizational culture, financial performance, bank sector

JEL classification: M14

### 1 Organizational culture, literature review

Culture is regarded as the software of mind. (Hofstede, 2005) Recent studies show that the culture of an organization has a lasting impact on the performance and it is an important factor in determining the success or failure of organizations over the coming decades. Different organizations have different cultural profiles. It is possible that different organizations have organizational culture that does not allow the achievement of a high performance, and this happens also in cases when the organization consists of intelligent and logical persons (Kotter and Heskett 1992), but such a kind of culture contributes to the deterrence of the organization performance. The culture / performance perspective establishes a relation between strong culture and high performance. (Hofstede, 1980). In a strong organizational culture, almost all the managers share common positions for the values and methods of doing business. New employees adapt quickly to these values. The logic of how strong culture relates to performance includes some certain ideas - the sequencing and coordination of goals come first. In strong culture companies, employees tend to move in the same direction. The CEO of a medium sized organization (Kotter and Heskett, 1992) says: "I cannot imagine trying to operate in a weak or non-existent cultural business, because it means

that everybody guides their actions in 100 different ways", therefore, there are no common ways of doing things, or the culture does not exist, thus putting the organization at the risk of failing to unify the staff efforts to achieve the goals. Strong cultures enhance business performance because they create a high motivation level for employees. This sense of ownership or loyalty makes people make great efforts and probably reach a high achievement. Terry Deal and Allan Kennedy (1991), argue that the Tandem Computers is a typical example of a strong company culture. It was founded on a model of unwritten rules, from trusted practices and reliable management. The company has no formal organization structure and less formal rules; the employees collaborate with each other and orientate towards meeting common goals. They act on the basis of unwritten rules and understanding. Another example of strong culture is IBM culture. IBM employees are known for their subsisting loyalty and good motivation. A core value for IBM is undoubtedly the running-business consensus. This precious value, above all, focuses on:

- Respect for the dignity and rights of everyone in the company.
- Providing a better customer service from all the branches in the world.
- Commitment to all tasks with the aim of fulfilling them in the best way

Tom Watson showed himself to be very capable for cultivating and maintaining this culture. In 1962 his son and IBM successor, Tom Watson Young, gave a lecture about the prospect of strong culture at Columbia University. Watson said: "The central philosophy, spirit and desires of the people in the organization have much to do, as well as the technological or economic resources, the organizational structure, innovation and coordination. They all have a great weight on success. But I think it all depends on how strongly people believe in common values, common perceptions and how faithfully they carry these values to their work."

## 2 Beyond the strong culture, strategically appropriate culture

Another perspective of culture and performance relationship is culture ability to adapt strategically.

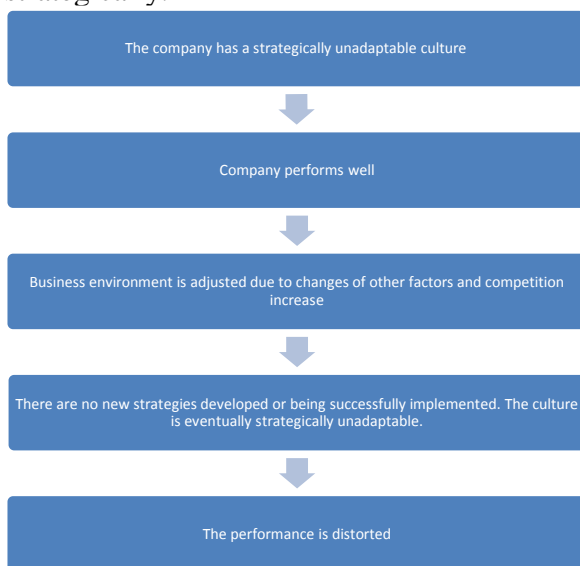


Figure 1: Creating a culture influence strategically inappropriate (Kotter and Heskett, 1992)

The better the culture adaption is, the higher the performance becomes, whereas the smaller the adaptability is, the poorer the performance becomes (Lawrence and Lorsch, 1967). According to Heskett and Kotter (1992), cultures characterized by a fast and non-bureaucratic decision making will improve the performance, in terms of high competition. A stable value culture and multi-level hierarchical structure will work better in a stable environment while a very competitive and

changeable industrial environment will not be appropriate.

## 3. The methodology of the research paper

### 3.1 Selection of population

The research was performed in second-level banks in Vlora city, in the southern Albania. It focused on 13 second-level banks in Vlora city.

The population is the total number of permanent employees in these banks, at all staff levels. The sample consists of 195 employees and is a final sample of 91% of the total population.

The questionnaire applied preserved the anonymity of the respondents. In the context of global crisis, banks are considered to be the first activities affected by the confidence crisis of leading stakeholders, such as customers, causing a further chain of negative effects in all their activities and in the development of the region. By means of good beliefs and values which appear in the work practices of the employees, their organizational culture will have an important role in reflecting their continued stability, sustainability and the sense of mission with the help of employee's involvement and their adaptation to new environmental conditions. In this way, according to Denison, the four organizational culture traits: consistency, mission, involvement and adaptation will not only affect the future performance of the banks where applicable, but it will also minimize the negative consequences of bank relations with their stakeholders because of the crisis.

### 3.2 Measuring instrument

The measuring instrument for the research is Denison Surveillance of Organizational Culture (Denison, 2000). The Survey used 60 questions focusing on four cultural traits with a significant impact on the performance of organizations in areas such as profitability, quality, sales increase and customer satisfaction increase (Denison, 2000).

### 3.4 Formulation of hypotheses

Hypothesis of this research can be formulated as follows:

**H1:** The cultural trait of consistency in second level banks in Vlora city stands on the levels of high- performance organization consistency trait.

**H2:** The cultural trait of involvement in second-level banks in Vlora city stands on the levels of high-performance organization involvement trait.

**H3:** The cultural trait of mission in second-level banks in Vlora city stands on the levels of high-performance organization mission trait.

**H4:** The cultural trait of adaptability in second-level banks in Vlora city stands on the levels of high performance organization adaptability trait.

### 4 Findings of the study

Obviously, organization performance depends on a set of factors and organizational culture is not the only factor, although it still remains a very important one in fact, and nowadays its impact is often ignored or not recognized by the organization leadership in Albania. Organization leaders tend to put emphasis on other factors to increase performance. This comes from the fact that they do not recognize the organization culture term and its impact on the performance of the organization. From questionnaires collected, 97% of them proved to be valid, while 3% of the questionnaires posed problems in processing because they were either partly filled or there was more than one alternative considered. As such, they were regarded invalid and dismissed. There were 12 cultural indices obtained in percentage points by the processing of the information received from the questionnaires, according to the topics described in the previous chapter, and they all belong to the cultural trait of involvement, consistency, adaptability and mission. In consequence, the obtained average indices for all banks are given in Table 4.1. Table 1 shows that according to the answers, Strategic Direction indices carry the highest value, while Goals and Objectives carry 70% of

the points, and Vision just 69% of the points. However, it is important to note beyond any value that the three indices classified on top belong to mission trait. The analysis results show that Capability Development index carries the average minimum value, by 60% points. This is the lowest index value considered by the employees.

Table 1: Average indices for all banks

Group	Index	Index averages
<b>Involvement</b>	Empowerment	69
	Team Orientation	63
	Capability Development	60
<b>Consistency</b>	Core values	67
	Agreement	64
	Integration/coordination	63
<b>Adaptability</b>	Creating Change	67
	Customer Focus	67
	Organizational Learning	66
<b>Mission</b>	Strategic Direction	70
	Goals and Objectives	70
	Vision	69

Generally speaking, young people pay interest on bank employment as far as salary and status establishment concerns, but once they are employed they consider it monotonous, which allows a little space for creativity, opportunities, or developing their skills. However, this is an average-value analysis for all banks. The assessment of indices and each bank characteristics gives more detailed information since they are the organizational culture indices which represent the DNA of any organization, and as such tend to be unique.

### 5 Findings for cultural traits

#### *Involvement*

Data analysis indicates that 47% of surveyed banks indices that constitute the cultural trait of involvement, empowerment, team orientation and capability development have a rating below 50% (Figure 2).

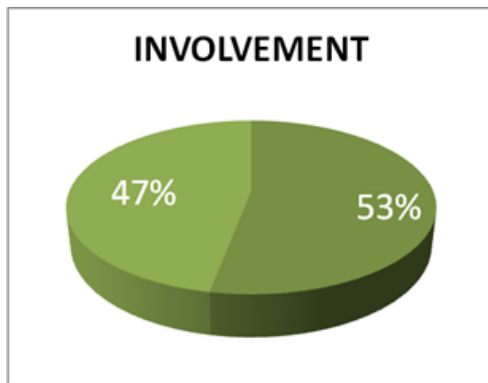


Figure 2: Results of involvement culture trait

Denison's model of organizational culture asserts that organizations that have ratings above 50% of maximum points for indices that make up each cultural trait belong to high-performance organizations since involvement is positively associated with performance. In contrast, when the cultural trait has a rating below 50%, it is of no use increasing the performance; workers attitudes and practices embodied in the cultural trait of low involvement fail instead to achieve a high performance. Even if these banks have a high level of performance, there were other factors that influenced it. The cultural trait of involvement in 47% of the banks it is actually of no avail to the performance and specifically ROA parameters of product quality and innovation. But involvement is not the only cultural trait of these parameters that has an impact on the financial and non-financial performance. As a result, H1 hypothesis for the second-level banks in Vlora city turns out to be not true.

#### Consistency

This cultural trait consists of core values indices, integration and coordination agreement. Consistency cultural trait features the weakest impact in a short term. Consistency strongest impact is on the quality of the firm's products and services, and employees' satisfaction. Empirical research data indicates that 23% of banks have consistency component indices lower than 50% (Figure 2). In these banks consistency is low and as such does not contribute to the performance increase of these organizations in the parameters of quality of service and employees' satisfaction. H2

hypothesis for second-level banks in Vlora city turns out to be not true.



Figure 3: Results of consistency culture trait

#### Adaptability

Being influenced by the short period study, adaptability affects all areas, with the exception of ROA. According to Denison (2000) the results of high adaptability will reflect after a 3-year period, since adaptability increases first and foremost the cost due to relative changes. Adaptability provides indices of creating changes, emphasizing customer focus and promoting organizational learning. The study results show that only one of the banks has an organizational learning index below 50%, whilst all 12 other banks have indications over 60% of the points.

This indicates that adaptability and its indicators is a strong cultural trait for the banks in Vlora city, which serves to significantly increase performance in the areas of increased market share, customer satisfaction, and service growth and new product development (Figure 3).

Consequently, the H3 hypothesis on adaptability for second-level banks in Vlora city turns out to be true.

#### Mission

Mission has a strong impact on all areas of performance, with the exception of the development of new products. Mission cultural trait is composed of three indicators: strategic direction, goals and objectives, and vision.

Organizations that have high ratings for these indices focus on a future-oriented motivation; they believe in a common dream for their organization and this vision is widely known

and accepted by the members of the organization. The results of empirical research on the banks in Vlora city conclude that 100% of surveyed banks have high levels of mission trait. All indicators of mission in these banks get value from 60% -82% out of the evaluation score. The organizational culture trait of mission contributes to financial or nonfinancial specific parameters of banks performance and H4 hypothesis results to be true.

## 5 Recommendations to organizational leadership

Research findings highlight the importance of organizational culture in influencing the financial and non-financial performance parameters. Seen from this perspective it is recommended:

- *Understanding the importance of organizational culture*

It acquires leaders to acknowledge the concept of culture and its impact on the performance of organizations, and provide a real significance to the organizational culture in the context of business strategy. Leaders should be committed to helping their employees understand the importance of culture on their activities performance and the necessity for operating culture in line with the business strategy. They must gain their staff confidence as long as they communicate clearly and openly the importance of culture for the survival of the organization to their respective staff.

- *Delivering training*

Banking leadership should be aware and informed about the concept of culture and its impact, and help pave the way for making staff aware about these aspects. Leaders can use "outsourcing" by entrusting the implementation of staff training to the specialists.

- *Change Designs*

According to the outcomes, it is strongly recommended to design changes in the features that indicate the weakness points of the organization. However, the resulting change might be easy to comprehend but it will be difficult to achieve since the culture is a stable element, not a static one. The emergence of a change in the weak cultural indicators verified

by empirical research should be designed in cooperation between directors and employees, and be managed by directors. Employee's participation is necessary because they get motivated, become aware of the need for change, and the actions for the realization of these changes become more acceptable.

- *Proactive actions*

Actions for change need to be proactive and forasmuch as, leaders are the first to be aware and reflect their awareness in their efforts, their energy, vision and strategies designed for a change.

- *Values alignment*

The designed changes should be free of any antagonism between the new practices associated values that the organization is trying to introduce and the basic assumptions and its traditional values, considering that the more different they are the less acceptable and difficult the change will be.

- *Success Promotion*

Organizations ought to manifest collective success in exercising the new practices will the support of all staff. On the other hand, leaders should present success as a result of all staff efforts. It is important that organization leadership should promote success afterwards.

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