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THE INFLUENCE OF ORGANIZATIONAL CULTURE ON THE PERFORMANCE OF PHILIPPINE BANKS

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Abstract

This study examines the relationship between organizational culture and organizational performance in the Philippine banking sector. Based on a sample of 60 banks operating in the Philippines, this study sought to verify the notion that organizational culture — especially when it is "strong" and "adaptive" — can influence an organization's financial performance. The results show that there is a significant and positive correlation between corporate profitability and the banks' Culture Strength. This observation is especially relevant in environments characterized by rapid, unpredictable change, given that being too focused on clearly defined visions and goals may cause organizations to lose sight of emerging threats and opportunities and thus make them less adaptive. Moreover, more detailed analysis reveals the critical importance of bank size (represented chiefly by number of employees) for both deposits performance and profitability. The study further finds that it is the Profitability measure, not the Deposits measure, that relates to Culture Strength. This is an important result, as Net Profits are an after-cost measure of bank profitability, i.e., a key corporate effectiveness measure.

Keywords: *Organizational culture, financial performance, Philippine banks*

Introduction

The impact of corporate culture on the design and management of organizations has been a recurring theme in contemporary writing about business, particularly so because of the rising tide of global competition. Such impact of culture on organizational performance has held out a tantalizing promise: that culture may be key to enhancing financial performance (Martin, 1992). Supposedly, articulating the "right" set of cultural values will: create excitement, high morale, and intense commitment to a company and its objectives; clarify the behaviors expected of employees; galvanize their potential productivity;

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and, through these activities, ultimately improve the financial performance of the organization (Baker, 1980; Kilmann, et al., 1985; Ouchi, 1981; Pascale & Athos, 1981; Schein, 1985; Schwartz & Davis, 1981). A number of organizational researchers have established or supported the hypothesis that successful companies tend to possess specific cultural traits (Deal & Kennedy, 1982; Wilkins & Ouchi, 1983; Denison, 1984; Pascale, 1985; Barney, 1986; Calori & Sarnin, 1991; Gordon & DiTomaso, 1992), although this should not be interpreted to mean that success is attributable to those very factors.

Theories of organizational or corporate culture find their roots in the perspective that there exists an important correlation between purposive, intentional forms of social organization and performance (Meek, 1988; Denison & Mishra, 1995). The paradigm that emerged has generally relied upon the identification of a limited set of underlying values and traits (often identified through inductive analysis), which are then measured through survey responses. The culture measures are compared, in most cases, to measures of business performance, defined in financial terms (Denison & Mishra, 1995).

The study of the culture-performance relationship should be of interest to both practitioners and researchers, and is the subject matter of this paper. By investigating the purported link between an organization's culture—its strength, its adaptiveness—and financial performance in the context of Philippine institutions, this study sheds light on whether indeed cultural characteristics have had some influence upon Philippine firms' performance over the years. This ought to facilitate the drawing of implications for culture's being a possible instrumental object of management action toward the achievement of organizational effectiveness and efficiency.

Attention to the design and management of organizations is overarching in contemporary writing about business, given the many organizational governance issues that have arisen in the last few years. While 'organizational culture' has no single widely accepted definition, most authors agree that 'corporate culture' refers to the assumptions, beliefs, goals, knowledge and values that are shared by organizational members (Schwartz & Davis, 1981; Deal & Kennedy, 1982; Schein, 1990). While not definitively pointing to a precise influence of such values and beliefs on the overall ability of the organization to deal with the challenges that it faces, this literature seems to suggest that, when supported by various operating norms and rituals, cultural elements collectively have an interrelationship with organizational functioning (Morgan, 1997).

Culture is said to have pervasive effects on a firm because a firm's culture defines who are its relevant employees, customers, suppliers, and competitors, and how a firm will interact with these key actors (Barney, 1986). Studies postulating relationships between organizational culture and the behavior of key organizational actors are based largely on the functionalist view of culture, which considers culture as a component of an integrated social system and treats culture as serving the common good, thereby promoting the effectiveness of the organization and the well-being of all its stakeholders (Alvesson, 2002; Smelser, 2005).As theories developed linking organizational culture and effectiveness, structural-functionalist models of organizational culture emerged that emphasized the fact that organizations face various challenges as they try to achieve both internal cohesiveness and external adaptability. These models have, thus, sought to create theoretical bases for the purported link between "strong" cultures and organizational performance (the *strength perspective*), and between "adaptive" cultures and organizational performance (the *adaptive perspective*) (Kotter & Heskett, 1992; Kreitner & Kinicki, 2001). These two perspectives are not dichotomous: a given organization may possess both "strong" and "adaptive" cultural traits. This theory has lately been used for comparative analysis of organizations across geographical regions (Denison, Haaland, & Goelzer, 2004).

It is this theory that culture in both its strength and adaptiveness has a direct relationship with performance †that is now being applied to the Philippine banking sector, through a survey of the culture of banks operating in the Philippines and through the independent collection of performance data. This study focuses on the two important elements of any culture: the culture's intensity or strength, and, its adaptiveness. These are the components that enable organizations to meet the twin demands of internal consistency and external flexibility (Schein, 1990). These two elements are treated separately and in turn in the next section of the paper.

Culture Strength

The powerful, pervasive role culture plays in shaping organizational life lends plausibility to the claim that cultural factors may be linked to exceptional levels of organizational performance. Some scholars have claimed that positive cultural traits boost performance in proportion to the strength of their manifestation. This view has been called the 'strong culture' perspective (Denison, 1984; Gordon & DiTomaso, 1992). This perspective associates 'strong' cultures with excellent performance. It is based on the intuitively powerful idea that organizations benefit from having highly motivated employees dedicated to common goals (e.g., Peters & Waterman, 1982; Deal & Kennedy, 1982; Kotter & Heskett, 1992).

It is easy to understand the performance-enhancing effects of a strong culture. When values are clear and broadly accepted, internal controls and coordination are more effective. Consequently, the alignment between goals and behavior is greatly enhanced. Any actions contrary to behavioral norms can be easily identified and quickly corrected. Moreover, less time is wasted in deciding what actions to take or how to coordinate actions across groups. All of this should greatly improve execution around established routines and processes, thereby improving organizational performance (Sørensen, 2002). In particular, the performance benefits of a strong corporate culture are thought to derive from the chief consequences of having widely shared and strongly held norms and values: consistency (or normative integration), enhanced coordination and control within the firm, improved goal alignment between the firm and its members, and increased employee effort and motivation (Sørensen, 2002). Normative integration, or the pervasiveness of a consensual system of behavioral control, results in an effectiveness springing from the collective definition of behaviors, systems, and meanings in an integrated way that requires individual conformity rather than voluntary participation (Denison & Mishra, 1995). In other words, an implicit control system, based upon internalized values, can be a more effective means of achieving coordination and integration than external control systems relying on explicit rules and regulations (Pascale, 1985; Saffold, 1988; O'Reilly, 1989). Representing the high-information "ideal factors" in a system or organization that exert significant and partly independent influence on human events (Parsons & Shils, 1951), culture as implicit or tacit knowledge embedded in organizational processes accumulated from past learning can indeed be more effective.

As a potential social control system, culture works as a pattern of beliefs and expectations shared by the organizational members and, as such, provides central norms that characterize the organization. Members sharing the same culture are described as knowing what they are to do and why it is worthwhile to do it. Culture exists to alleviate anxiety, to control the uncontrollable, to bring predictability to the uncertain, and to clarify the ambiguous (O'Reilly, 1989; Martin, 1992). An organization whose culture is "strong" is composed of members who have 'internalized' the beliefs, attitudes, and values that exist within the organization. Members infer these beliefs, attitudes, and values from the behavior of other members, from written communications, and from the systems, rules, and procedures that are applied. Internalization is the reasoning process whereby individuals come to accept as correct particular goals, methods, and ways of doing things. These beliefs, attitudes, and values become owned and valued. Behavior becomes self-reinforcing; things 'should' or 'ought' to be done this way. Strong cultures are characterized by dedication, spontaneity, and cooperation in the service of common values (Williams, Dobson, & Walters, 1993) which, at times, can foster homogeneity.

In a firm with a strong culture, employees tend to march to the same drummer. 'Strong' cultures are also often said to help business performance because they create an unusual level of motivation in employees. Sometimes the assertion is made that shared values and behaviors make people feel good about working for a firm; that feeling of commitment or loyalty then is said to make people strive harder. Sometimes certain practices believed to be common among firms with strong cultures are said to make work intrinsically rewarding. Involving people in decision-making and recognizing their contributions would be two common examples. Likewise, the provision of the needed structure and controls does away with a stifling formal bureaucracy that can dampen motivation and innovation (Kotter & Heskett, 1992). The viewpoint that strong cultures are linked to successful performance has been studied by several authors. For instance, Deal and Kennedy (1982) argue that shared values affect organizational performance in that they act as an informal control system that tells people what is expected of them. More specifically, shared values affect performance in three main ways: (1) Managers and others throughout the organization give extraordinary attention to whatever matters are stressed in the corporate value system—and this in turn tends to produce extraordinary results; (2) Down-the-line managers make marginally better decisions, on average, because they are guided by their perception of the shared values; (3) People simply work a little harder because they are dedicated to the cause.

Barney (1986) explains that firms with sustained superior financial performance are typically characterized by a strong set of core managerial values that define the ways they conduct business. It is these core values—about how to treat employees, customers, suppliers, and others—that, especially when linked with management control, are thought to lead to sustained superior financial performance. Part of culture strength being an informal control system is a well organized work environment which is positively related to return on investment and return on sales (Denison, 1984). A strong culture, defined as a set of norms and values that is widely shared and strongly held throughout the organization (O'Reilly & Chatman, 1986), likewise works to consolidate employees' perception of how concerned the organization is with their welfare (Hansen & Wernerfelt, 1989), which may turn out to be a strong determinant of a firm's financial performance.

The Culture Strength Perspective suggests that strong cultures enhance firm performance. This is based chiefly on the idea that organizations benefit from having highly motivated employees dedicated to common goals (e.g., Peters & Waterman, 1982; Deal & Kennedy, 1982; Kotter & Heskett, 1992). In particular, the performance benefits of a strong corporate culture are thought to derive from three consequences of having widely shared and strongly held norms and values: enhanced coordination and control within the firm, improved goal alignment between the firm and its members, and increased employee effort (Sørensen, 2002).

In support of this argument, quantitative analyses have shown that firms with strong cultures outperform firms with weak cultures. Denison (1984), using survey-based culture measures, showed that perceived involvement and participation on the part of organizational members predicted both current and future financial performance. Participation and autonomy as elements of a 'strong' culture have been shown to be related to corporate performance. While the study by Kotter and Heskett (1992) showed only partial support for the strength perspective, Kravetz (1988) showed that management practices fostering participation and autonomy were closely correlated with objective indicators of organizational performance. Likewise, Gordon and DiTomaso (1992) found that widespread agreement about basic assumptions and values in the firm should increase behavioral consistency and thereby enhance organizational performance, which is a function of the potential return to an organization's activities and its ability to carry out those activities.

The Adaptive Perspective

Every group and organization is an open system that exists in multiple environments. As an open sociocultural system, the organization is seen to be in dynamic interplay with its environment and thus develops cultural traits which may influence its structures and processes to ensure continued existence. Changes in the environment will produce stresses and strains inside the organization, forcing new learning and adaptation (Lawrence & Lorsch, 1986; Allaire & Firsirotu, 1984; Schein, 1990).

The theory that adaptability is a cultural trait that is positively related to organizational effectiveness is premised on the fact that culture is one of the primary means by which organizations are intimately linked to their environments. While consistency—a trait of 'strong' cultures—provides integration and coordination, it may also happen that the very efficiency and pride that result from highly consistent cultures can become a straitjacket that resists needed changes (Wilkins, 1989; Denison & Mishra, 1995).

In some of the innovation literature, the term used is 'intrapreneurship', which refers to pervasive innovation wherein individuals take ownership of the company's growth. With the sanction and support of organizations, employees develop an 'intrapreneurial' spirit whereby they become flexible and creative. Intrapreneurship is seen as one solution to corporate woes such as lagging competitiveness. There is empirical evidence of a relationship between this type of nimbleness and corporate profitability and growth. The adaptability hypothesis, thus, asserts that an effective organization must develop norms and beliefs that support its capacity to receive and interpret signals from its environment and translate these into internal cognitive, behavioral, and structural changes (Kanter, 1983; Denison & Mishra, 1995). Culture adaptiveness, then, is expected to enhance long-term financial performance. Kotter and Heskett (1992) found a close relationship between adaptability and firm performance, and Kuratko and Montagno (1989) provide evidence of intrapreneurship leading to marketplace success.

Likewise, Denison and Mishra (1995) described a number of cases where organizational adaptability was linked to effectiveness. Wilkins (1989) documented cases where this adaptive character was instrumental in continued existence and corporate success. Gordon and DiTomaso (1992) investigated the relationship of two substantive cultural values—'adaptability' (the combination of action orientation and innovation/risk-taking) and 'stability' (the combination of integration/communication, development and promotion from within, and the fairness of reward)—with organizational performance. Their results indicated that a substantive value placed on adaptability is associated with better performance in subsequent years.

The Culture Adaptiveness Perspective suggests that an effective organization must develop norms and beliefs that support its capacity to receive and interpret signals from its environment and translate these into internal cognitive, behavioral, and structural changes (Kanter, 1983; Denison & Mishra, 1995). Adaptiveness entails a risk-taking and creative approach to organizational as well as individual life. This pervasive innovation and nimbleness, which has come to be called 'intrapreneurship' in the innovation literature, has been shown to be correlated to corporate effectiveness and financial success. Specifically, such creativity, openness to the environment, anticipation, and entrepreneurship as elements of adaptiveness were shown to be related to improved financial performance (Kravetz, 1988; Kuratko & Montagno, 1989; Calori & Sarnin, 1991). The findings of Kotter and Heskett (1992) and Gordon and DiTomaso (1992) were completely consistent with the adaptive culture perspective. Financial performance in the long run was best for organizations with an adaptive culture.

Methodology

Research Design. This study utilized the survey questionnaire to generate data on the culture —its strength, its adaptiveness— in the Philippine banks being studied. In the process of finalizing the questionnaire survey, informal discussions with those knowledgeable about the Philippine banking industry as well as qualitative analyses of explanations given were carried out. Along with the survey questionnaire, an independent collection of financial performance data on the various banking institutions was made. This has made possible the correlational analysis between the banks' culture—as revealed by a factor analysis of the responses to the culture survey—and their organizational performance, measured through the institutions' financial performance data.

Operationalization of Variables. The variables for the measurement of the chief concepts in this study—namely strong culture, adaptive culture, and organizational performance—are as follows:

'Strong Culture'. The culture strength of the respondent firms was measured through responses to 12 Likert-type items on the culture questionnaire. These items looked at involvement and participation, consistency, existence of core corporate values, agreement and consensus, coordination and goal alignment (Denison & Fey, 2003), as well as enthusiasm, being informed, and involvement in meetings and problem-solving activities (Bellingham, Cohen, Edwards, & Allen, 1990).

'Adaptive Culture'. The adaptiveness and flexibility of the organization's culture were measured through the responses to 12 Likert-type items on the culture questionnaire. These items looked at creativity, innovation, risk-taking, willingness to experiment, and ability to take advantage of opportunities (O'Reilly, Chatman, & Caldwell, 1991), responsiveness to competitors, customer-orientation, and continuous improvement (Denison & Fey, 2003), and information flow throughout the organization (Bellingham, Cohen, Edwards, & Allen, 1990).

'Organizational Performance': Performance has been limited to financial performance, namely: (1) net profits, (2) net profit ratio, (3) return on assets, (4) return on equity, (5) amount of deposits, and (6) industry rank in terms of assets and revenues. As this is a cross-sectional study, these financial performance data have been collected only for the year 2007. Studies of banking performance have focused on financial measures (both Peso amounts and ratios) related to profitability, bank assets and the returns thereon, extent of capitalization and the returns thereon, and the capability to attract deposits. Among these various measures, there are those that are called *outcome* measures—they are "ends-

oriented" and they measure effectiveness—whereas there are those that are *process* measures—they are "means-oriented" and, thus, are a measure of efficiency. These dimensions of performance are typically operationalized exclusively in terms of measurable results. In the present study, the deposits would be *process* measures—sometimes called "leading indicators", as they show the progress of key areas in implementing a strategy, whereas the net profits would represent *outcome* measures sometimes called "lagging indicators", as they tell management what has happened (Anthony & Govindarajan, 1995, 2001). Thus, the amount of deposits as well as net income and net profit ratio would be of particular interest in this study.

'Industry'. The survey in this study has been limited to the banking and financial services industry, for the reason that confining the study to the respondents belonging to one industry is an attempt to control as many other effectiveness-related determinants as possible. The use of respondents from a single sector is aimed at reducing sampling biases that may affect general analysis, that is to say, it helps reduce other sources of variance that would most likely occur when using non-comparable organizational units. As for the banking industry, banks are regulated, and they have similarities in the nature of their services, tasks, operations, procedures, technology, and structures. Thus, any variations in their financial performance may be a reflection of differences beyond what can be regulated. One such explanatory variable for the differences may be the organizational culture, which the framework of this study proposes. That is to say, culture as a cohesive force and as a navigation aid in a fast-paced environment (Alvesson, 2002) might explain the variances between one bank's given performance and that of another.

Unit of Analysis. Organizational culture is an organizational-level construct since it resides at the collective level of analysis — the organization, the institution — and represents descriptions of collective phenomena (Klein, Dansereau, & Hall, 1994; Morgeson & Hofmann, 1999). Thus, this research, as it tests the culture-performance link, which is an organizational-level theory, has collected data at the banking institution level. In this regard, issues of key informants have arisen; Kumar, Stern and Anderson (1993) suggest the selection of multiple key informants for organizational-level responses, adding that informant competency should be ensured, and that consensus responses (requesting the multiple respondents to agree on a single response) be obtained for those items where their responses diverge significantly. While this requirement has been quite difficult to carry out in practice, efforts have been made to obtain responses that are as representative as possible of the banking institution as a whole. For this purpose, the data collection procedure of this study has relied heavily on referrals.

A screening criterion of at least two years' experience in the bank has been applied to the choice of respondents. Likewise, apart from the CEO of the banking institution, each respondent had to be at least a branch manager or a loan officer, as these are the organizational members who are expected to be knowledgeable about the bank culture as well as have the most influence on banking institution or bank branch performance.

Method of Data Collection. The survey questionnaire was administered to the target respondents—bank executives, branch managers, etc.—for data regarding the banks' culture. For data related to bank financial performance, data were gathered from the *Bangko Sentral ng Pilipinas* (BSP) website (for commercial banks) and manually from the BSP office (for rural and thrift banks). The period of data collection covered the months of June 2008 up to January 2009.

Statistical Methods. The analyses utilized statistical methods that exploit the correlations existing between data on organizational culture and organizational performance. To reduce the number of indicators, factor analysis using principal axis factoring method with varimax rotation was utilized. This multivariate statistical method was used to identify the underlying dimensions to represent the different variables considered in this study. Factor analysis is a way of condensing the information from the original variables into a smaller set of variates or factors with a minimum loss of information (Hair et.al, 1998). In other words, factor analysis thus revealed the latent factors defining the characteristics of the culture of the respondent banks.

To determine the soundness of the measurements, reliability tests were undertaken. Reliability is closely related to consistency. The reliability test used in this study was Cronbach's alpha which is a measure of internal consistency or the degree to which the items are homogeneous (Cooper & Emory, 1995). A series of factor analyses and reliability tests were performed until an acceptable reliability coefficient of at least .60 and measure of sampling adequacy (appropriateness of applying factor analysis) of at least .50 (Hair et.al., 1998) were obtained.

After the factor analysis procedure, the factor scores for the items composing each resulting factor (for each bank) were saved for the multiple regression analysis. Such regression analysis was performed on each of the resulting Culture and Human Resource (H.R.) factor scores vis-à-vis the measures of financial performance. Multiple linear regression has enabled the exploration into the relationships between the Culture and H.R. variables on the one hand, and the financial performance variables on the other (Wooldridge, 2006). This methodology enables us to draw inferences about the possible simultaneous effects on financial performance of all the resulting Culture and H.R. management factors taken together. More specifically, this methodology allows for effectively holding other variables fixed while examining the effects of a particular independent variable on the dependent variable. Multiple regression analysis can incorporate fairly general functional form relationships and, thus, allows for much more flexibility, as compared to simple linear regression (Wooldridge, 2006). For instance, in the case of this study, we are interested in the possible simultaneous effects on financial performance of all the resulting Culture and H.R. management factors. This model and its resultant findings would be of interest especially for managerial policy.

Statement of Hypotheses. The null hypothesis is as follows:

H_0: There is no relationship between organizational culture and organizational performance.

Given the Theoretical Framework above, the hypotheses of this study are as follows:

H_1: Strong Culture is positively related to organizational performance.

H_2: Cultures that are adaptive are expected to be positively related to organizational performance.

Data Analysis and Results

Sample Characteristics. There were a total of 60 banks in the actual sample. Out of these 60 respondent banks, 27 (45%) were Commercial Banks and 33 (55%) were Rural or Thrift Banks. Out of these 60 banks, 45 (75%) were local banks and 15 (25%) were foreign banks (Philippine operation of a multinational).

Table 1 below summarizes the description of the banks surveyed.

Table 1: Sample of Banks

Bank Type	Number	Percentage
Thrift/Rural Banks	33	55%
Commercial Banks	27	45%
TOTAL	60	100%
Local	45	75%
Foreign	15	25%
TOTAL	60	100%

Bank Size. When studying the banking industry, it is important to consider Bank Size as a control variable because the banking sector is characterized by major differences in performance depending on whether the bank is "big" or "small", which is usually given by the distinction "Commercial bank" vs. "Rural/Thrift bank" (Marzan, 1997) as well as Assets and Organization Size (number of employees). In terms of asset base, the average commercial bank in the sample had about 16 times as much assets as the average rural/thrift bank for 2007. In terms of capitalization, the average commercial bank was 15 times bigger than the average rural/thrift bank. On average, the commercial banks had 15 times as much deposits as the average rural/thrift bank, while the net profits for the year 2007 were eight times as much for commercial banks as they were for thrift/rural banks.

Factor Analysis Results. Based on the responses of the Bank informants to the Culture Survey, it turns out that there are six Culture variables, which we have labeled: (1) Clarity of Vision and Consensus; (2) Involvement; (3) Risk-Taking; (4) Flexibility; (5) Human Resource (H.R.) Development; and (6) Competitive Compensation and Recognition. These Factor Analysis results do not seem to have strictly followed the theory on Organizational Culture that says there are two chief characteristics of culture —viz. strength and adaptiveness. The Factor Analysis of the Strength aspect resulted in two factors: (a) Clarity of Vision and Consensus (clear and consistent corporate vision and values), and (b) Involvement (members' participation in decision-making and meetings). The Factor Analysis of the Adaptiveness element, on the other hand, split into two factors: (a) Risk-Taking (creativity and risk-taking), and (b) Flexibility (orientation toward the customer and information flows).

Discussion of Results. The chief question being investigated in this study is the link between an organization's culture — its strength, its adaptiveness — and the financial performance of Philippine banking and finance institutions. Hence, the models set up for this study have the financial performance indicators (deposits, net profits, return on equity, return on assets) as dependent variables, the factor scores (saved from the Factor Analysis) of the Culture factors as independent variables, and organization size (number of employees and assets) and age as control variables.[1]

The regression runs resulting in significant, relevant relationships are those for deposits and profitability only as dependent variables. In all the runs, the models having Net profit margins, Return on Assets, and Return on Equity as dependent variables did <u>not</u> produce any significant results. There is need to point out that given the Variance Inflation Factors (VIFs) shown in Tables 2 and 3, there is <u>no</u> problem with multi-colinearity among the independent variables.

Model 1 (Table **2**) presents *Bank Deposits* as dependent variable and the Culture strength and adaptiveness factor scores as the independent variables. Model 2 (Table **3**) shows *Net Profits* of the banks regressed on the Culture factor scores.

The regression results for Model 1 are shown in Table 2 below.

Table 2: Summary of Regression Results –
Culture Factors independent; Deposits dependent
[Full Model has Human Resources as Independent]

Model 1: Deposits (dependent variable) Factor Scores & controls (independent)			
Adjusted R^2 = .971			
F-value = 177.802 (p < .01)			
Independent Variables	Standardized Coefficient	Significance (p-value)	VIF
Constant		NS	
S1 = "Clarity and Consensus"	-.004	NS	2.156
S2 = "Involvement"	-.088	.025	2.604
A1 = "Risk-Taking"	.011	NS	1.853
A2 = "Flexibility"	.019	NS	2.100
HR1 = "Development"	-.055	NS	3.210
HR2 = "Competitive Compensation & Recognition"	.069	.015	1.360
Ln_Organization Size	.209	.000	3.830
Ln_Assets	.869	.000	5.359
Years in Operation	.006	NS	1.442
Commercial_Dummy	.051	NS	2.688

**NS = not significant*

$$DEPOSITS = c - .004\ STRENGTH_1 - .088\ STRENGTH_2 + .011\ ADAPT_1 + .019\ ADAPT_2 - .055 HR_1 + \underline{.069}\ HR_2 + .209\ EMPLOYEES + .869\ ASSETS + .006\ AGE + .051\ KB\_DUM$$

***H_1*: Strong Culture is positively related to organizational performance.**

H_1 suggested that strong cultures are positively related to organizational performance. In Model 1, the dependent variable is amount of Deposits drawn by the bank, an important financial performance factor among banks. The results in Table 2 indicate a significant [$p < .05$] but negative correlation between Deposits and the strength element called 'involvement'. This can be interpreted as: the stronger the bank employees' Involvement (members' participation in decision-making and meetings), the lesser the bank's performance in terms of Deposits. Thus, H_1 receives no support, given the model with deposits as dependent variable.

Table 3: Summary of Regression Results – Culture Factors independent; Net Profits dependent [Full Model has Human Resources as Independent]

Model 2: Net Profits (dependent variable)			
Adjusted R^2 = .822			
F-value = 25.093 ($p < .01$)			
Independent Variables	Standardized Coefficient	Significance (*p*-value)	VIF
Constant		.050	
S1 = "Clarity and Consensus"	.223	.012	2.117
S2 = "Involvement"	.074	NS	2.401
A1 = "Risk-Taking"	-.041	NS	1.889
A2 = "Flexibility"	-.213	.015	2.049
HR1 = "Development"	-.057	NS	3.092
HR2 = "Competitive Compensation & Recognition"	.035	NS	1.287
Assets	1.029	.000	4.488
Organization Size	-.102	NS	3.608
Years in Operation	.070	NS	1.587
Commercial_Dummy	.116	NS	1.640

*NS = *not significant*

$$NETPROFITS = c + \underline{.223}\ STRENGTH_1 + .074\ STRENGTH_2 - .041\ ADAPT_1 - .213\ ADAPT_2 - .057\ HR_1 + .035\ HR_2 - .102\ EMPLOYEES + 1.029\ ASSETS + .070\ AGE + .116\ KB\_DUM$$

In Model 2, the dependent variable is amount of *Net Profits* of the banks, a very important financial performance factor among banks. The results in Table 3 above indicate a significant [$p < .05$] and positive correlation between corporate profitability and the banks' 'clarity of vision and consensus' (clarity and consistency in corporate vision and values, corporate consensus and coordination, and goal alignment). This is a very important finding, as H_1 receives strong support on the basis of this set of statistical results (model where bank profitability is the dependent variable).

As predicted by the Strength perspective, there indeed is a significant relationship between clarity of corporate vision and financial performance. The results of this study corroborate this theoretical prediction in the following ways: (a) The clarity and consistency in the corporate vision and values provide a guidepost for individual and collective behavior in the organization. When values are clear and broadly accepted, less time is wasted in deciding what actions to take or how to coordinate actions across groups and, consequently, greater efficiency is achieved. This in turn tends to improve execution around established routines and processes, thereby improving organizational performance (Sørensen, 2002). This "normative integration", as Denison and Mishra put it, results in an effectiveness springing from the collective definition of behaviors, systems, and meanings in an integrated way and, thus, are seen to lead to sustained superior financial performance (Denison & Mishra, 1995). (b) The consistency in rules and policies as well as the clarity in expectations serve to enhance coordination and control within the firm. As an implicit control system, this strength of culture a set of internalized values, as it were †can be a more effective means of achieving coordination and integration than external control systems relying on explicit rules and regulations (O'Reilly, 1989). For an industrial environment as dynamic and rapid as that of banks and financial institutions, this efficiency understandably leads to enhancement of the bottomline. (c) Corporate consensus in terms of problem-solving acts as a normative system of regulation that can be projected by organization members even in ambiguous or ill-defined situations. In this sense, the culture strength truly becomes the "social glue" that holds members together in an organization-wide consensus (Siehl & Martin, 1990). (d) Goal-alignment across levels of the organization leads managers as well as subordinates throughout the organization to give extraordinary attention to whatever matters are stressed in the corporate value system. The strong culture enhances alignment between goals and behavior: any actions contrary to behavioral norms can be easily identified and quickly corrected. All of this in turn tends to produce extraordinary results and, hence, impacts the bottomline positively (Deal & Kennedy, 1982; Sørensen, 2002).

We should note that, under Model 1 – with Deposits as dependent variable – the control variable 'organization size', in terms of number of employees as well as Asset base, turns out significant [$p < .01$ for both in Model 1, and $p < .01$ for Assets in Model 2], with the coefficient for Assets being 0.869 and 1.029 respectively for Model 1 and Model 2, a sizeable magnitude. The control variable 'commercial dummy' is not significant for either Model 1 or Model 2. Thus, a bank's being a commercial bank or a rural/thrift bank does not matter for deposits performance and net profitability.

***H_2*: Cultures that are adaptive are expected to be positively related to organizational performance.**

H_2 suggested that adaptive cultures are positively related to organizational performance. In Model 1, the dependent variable is amount of Deposits drawn by the bank, an important driver measure of the performance of banks. The results in Table 2 above show that none of the adaptiveness variables neither innovativeness nor flexibility turns out significant. Hence, H_2 receives no support based on the Model 1 results.

Model 2 results in Table 3 above indicate that the second Adaptiveness factor–"Flexibility", consisting of a keen orientation towards customers, adoption of new and improved ways of doing work, and smooth information flows–has a highly significant [$p < .01$] relationship with the profitability of the banks. However, this coefficient is negative. Thus, this hypothesis receives no support from the results of this second Model, as it goes against the theoretical proposition that only cultures that can help organizations anticipate and adapt to environmental change will be associated with superior financial performance. This result can be explained by the need for conformance and the valuableness of tight control among banks operating in the Philippines, given the highly regulated banking environment. This result, however, needs further investigation in a future study.

Table 4 shows a summary of significant results.

Table 4: Summary of Significant Results

Model 1: Deposits (dependent variable)			
S2 = "Involvement" *(wrong sign)*	-.088	.025	2.604
Ln_Organization Size	.209	.000	3.830
Ln_Assets	.869	.000	5.359
Model 2: Net Profits (dependent variable)			
S1 = "Clarity and Consensus"	.223	.012	2.117
A2 = "Flexibility" *(wrong sign)*	-.213	.015	2.049
Assets	1.029	.000	4.488

Conclusions

Organizational literature has extensively discussed the proposition that organizational culture especially when it is strong and adaptive†can influence an organization's financial performance. The evidence in this study lends support to this theoretical relationship, in the following ways: (1) There is a significant and positive correlation between corporate profitability and the banks' clarity of vision and consensus (clarity and consistency in corporate vision and values, corporate consensus and coordination, and goal alignment); and (2) Bank performance seems to be all about being big, particularly in terms of number of employees and amount of total Assets. This may explain the impetus for continued consolidation within the Philippine banking sector.

Managerial Implications. The findings of this study (involving a survey of 60 banks operating in the Philippines) appear to confirm the suggestion that organizational values do interrelate with organizations' financial performance, lending evidence to the theory that an organization's ideology and culture is indeed likely to influence managerial action and decision-making, especially that which could lead to greater organizational effectiveness. The managerial implications of this finding involve discussions of the cultural values that are needed depending on the life-cycle or developmental stage at which the organization finds itself. Concretely, the fact that clarity of vision and consensus are related to profitability implies that there is value to employees' greater awareness and ownership of the corporate vision and mission.

For an industrial environment as dynamic and rapid as that of banks and financial institutions, this result is important, as it suggests recommendations for organizations in relation to the formation of a corporate culture that is meaningful enough to possibly lead to enhanced net profits. While the findings refer more specifically to banks, a great deal of applicability may be drawn for other industries as well, so that executives and managers may re-think the value and importance of organizational culture.

Limitations of the Study. The economic bias in the definition of organizational effectiveness: Only the financial aspects of organizational performance and success have been considered here. It has been shown that other variables which culture has influence on are: strategy, mergers and acquisitions, intergroup conflicts within the organization, the effectiveness of communication, socialization, and the level of productivity, among others (Schein, 1985; Alvesson, 2002).

Methodological issues. Most of the remaining limitations and issues revolve around methodology. The first major issue here is the temporal element: this study is merely a cross-sectional one. There may be many aspects and findings that a longitudinal study can reveal. The second major issue is, as pointed out in the paper, the *caveat* that no conclusions about causation ought to be drawn from the results of this study. Results have merely shown significant correlations between specific variables, but they are not meant to be understood as culture strength leading to or causing successful (profitable) organizational performance.

Endnote

[1]It should be mentioned that in the original study (Racelis, 2009) other independent variables were integrated into the model, namely Human Resources Management Practices as well as Organization Size, and Assets, Years in Operation, and Commercial/Non-Commercial. I have not included these in the current paper.

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