

## Organisational Culture: The Root of Sustainable Competitive Advantage

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**Abstract:** Today's business world is characterized by unpredictable, high volatility and cut-throat competition. The challenge to remain competitive, highly innovative and respond to dynamic customer needs has made organisations to pay particular attention to culture as a key foundation of their survival and sustainability. Numerous research have singled out culture as a significant determinant of organisational success and sustainability. As such, leading corporates are paying special attention to cultures as a source of competitive advantage and a foundation to employees' attitude towards innovation, leadership, management and overall performance. For these businesses, culture is seen as a root of attaining sustainable competitive advantage and a springboard for satisfying rising dynamic competitive market needs, both local and global. Organisational culture gives identity and personality to organisations and is considered an asset that can't be imitated by rivals. It is culture forms the foundational framework that governs operations, systems and management practices. However, besides growing recognition as critical to organisational or business survival and sustainability, there still exists a gap in literature due to lack of clear understanding of the relationship between organisational culture and sustainable competitive advantage. This paper establishes that there is a strong relationship between organisational culture and sustainable competitive advantage. Based on empirical literature and scholarly findings, the paper explores cultural elements that are critical to organisational competitiveness. The paper brings to out an area that has been greatly misunderstood and neglected in the past decades yet without it, successful future business operations are impossible. The paper has also developed a model of culture as a source of sustainable competitive advantage. The model emphasizes the need to identify relevant resources and competencies and integrate them in the organisational cultural practices to attain desired level of competitiveness.

**Keywords:** Culture, competition, sustainability, cultural model, organisational management, leadership

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### I. INTRODUCTION

It is now believed that the type of culture created in organization determines the level of organisational sustainability and overall competitiveness. Organisation cultural researchers and scholars show that managerial beliefs which are embedded on the cultural core values or personal value systems determine the success or failure of an organization. It is the culture that determines attitude towards innovation, motivation, management and overall performance, whether financial or non-financial (Deal & Kennedy, 1982; Yazdani, 2013). In fact, the leading corporates today are said to pay special attention to their cultures as a source of their competitive advantage. It is through such cultures that organisations are able to develop employees' capabilities, competencies, quality product and strong customer services (Quinn, 1990; Barney, 1986) leading to unmatched competitive abilities and strong financial performance. According to Di Stifano (2007) culture is a major determinant of moving an organization or business to greater heights. In relation to competitive advantage, Di Stifano (2007) has emphasized that the pre-requisite for achieving the desired competitive distinction is to have the right corporate culture in place. Organisational culture is also supported as the only asset that competitors cannot copy. However, its successful creation that makes or breaks an organization (Deal & Kennedy, 1982; Ramadan, 2010; Want, 2006; Yazdani, 2013)

#### 1.1 Why study corporate culture

Every organization has a culture (Lynch, 2000). According to Ramadan (2010), organisational culture is a valuable asset that no money can buy and is a strong determinant which can easily make or break an organization. However, though important, there exists a gap in literature in terms of lack of clear relationship between organisational culture and its influence on sustainable competitive advantage (Ramadan, 2010). Collis and Montgomery (1998) further observe that the nature of corporate culture is one of the most misunderstood concept in business. This argument is supported by Dulebohn (2006) whose research indicates that besides corporate culture being critical to the development and survival of any organization, many executives and top

management mostly ignored culture as important and insignificant to performance. But the importance of corporate culture cannot be ignored or assumed since it influences all areas of an organization from leadership, management, decision making, communication effectiveness, behavior, innovation, risk tolerance, overall effectiveness and profitability (Harris, 2004). DeWitt (2001) and Lynch (2000) further see culture as responsible for determining organisational leadership styles, structure, nature of tasks, size of company, moral and integrity, nature and attitude to competition. Want (2006) further emphasizes that lack of attention on critical role played by culture has been attributed to many organisational failure.

The organisational management are instrumental in establishment and development of desired culture. It is the management and other leaders that originates the nature of beliefs, value systems, philosophies and principles that guide operations and behavior of members. Over time, such culture takes root and is embedded in the day-to-day practices and business operations. The culture is taught to new members of the organization as the shared way to feel, think and perceive and conduct business. It is this culture that employees, managers and organisational constituencies find meaning and identity (Schein, 1990; Thompson, Strickland & Gamble, 2005). The prevailing discussion definitely highlights the importance of conducting more research on the study of corporate culture as a source of corporate sustainable competitive advantage.

## **II. ORGANISATIONAL CULTURE**

The term culture denotes the beliefs, values, norms, customs, art, morals, knowledge and expectations that a group of people share (Van Maanen & Schein, 1979). Culture has also been defined as a set of socially constructed meanings that shape people's behaviour in a given group of people or society (Francesco & Gold, 2005). Culture has its roots in the field of anthropology and sociology and focuses on a specific group of people who are distinct from those surrounding them (Smircich, 1983). Tharp (2008) on the other hand defined corporate culture as all of a group's shared values, beliefs, assumptions, attitudes and behaviors while Pearce and Robinson (2007) see corporate culture as set of important common assumptions that organisational members of an organization share. In management term, culture has gained significance as a determinant of organisational performance and competitiveness. In relation to organisational culture, this is widely described as a group of individuals in an organization who possess values, beliefs, norms, cognitive patterns and expectations that shape their behaviors and determine the outcome of their activities and practices. The total values systems determined by organisational culture orchestrates the behavior, prepositions, processes, speed and outcome of organisational performance and competitiveness. In reality, corporate culture does not develop overnight but develops over a long period of time. Such culture arises from the basic assumptions, beliefs, values and philosophies embedded in the management and organisational or business founders (Brunetti, 1993). This means that corporate culture must not be judged from the surface but an outsider must understand the expressed values and core assumptions in which the manifested behavior stems from (Trompenaars & Hampden-Turner, 2011).

For management, organisational culture forms the foundation and underlying beliefs and principles that govern operation systems and practices thereby determining the level of performance (Dension, 1990). This means that a change in culture can alter the state of organisational performance. As Meek (1988) and Fiol (1991) observe, ineffective and inefficient organisations or businesses can be transformed into effective and efficient organisational or businesses by changing the culture which is the basis of thinking, performing and mindset. This view is supported by Kilmann (1992:11) who emphasized that organisational culture is "the collective will of members" and it is "what the corporation really wants or what really counts in order to get ahead." It is the culture created in an organization or business that leads to expectations which members come to share and in the process develop norms and rules that shape behavior and expectations in an organization (Schwartz & Davis, 1981). Such expectations become strong drive for or against performance and eventually resulting to competitive advantage or sustainable competitive advantage. In fact, culture centrality to an organization can only be attributed to what a personality is to an individual. It is what defines an organization and give it identity.

To emphasize the importance of culture to an organization, Kilmann (1985:351) states, "to understand the essence or soul of the organization requires that we travel below that charts, rulebooks, machines and buildings into the underground world of corporate cultures." This indicates that all visible behaviors and practices are manifestations of deeply held beliefs, values, norms, assumptions, attitudes that knit the organization together, thereby determining its operations, positioning, competitiveness and sustainability. In fact, scholars now see culture as a tool for achieving desired organisational performance and gain commitment of employees and other stakeholders (Schwartz & Davis, 1981; Fiol, 1991; Peters & Waterman, 1982). Yazdani (2013) further observes that in order to for an organization to attain normal financial performance, its culture play a critical role.

### **III. SUSTAINABLE COMPETITIVE ADVANTAGE (SCA)**

The concept of competitive advantage is not new after being introduced by Chamberlin (1939) in the business world having been given prominence in the second era of the 21<sup>st</sup> century. However, a more formal definition of competitive advantage was given by Hofer and Schende (1978:25) who defined it as “the unique position an organization develops vis-à-vis its competitors through its patterns of resource deployments.” Stevenson (2009) has further defined competitive advantage as a business’s effectiveness in utilizing its resources to satisfy customers in comparison to its competitors. Such customer satisfaction is only attained if the business or organization is able to create economic value superior to competitors (Barney & Hesterly, 2008). A well-grounded competitive advantage is broadly expressed in terms of lower costs, flexibility, high quality, and timely delivery. Earlier Sleznick (1957) established a connection between competitive advantage and competency arguing that competitive advantage arises from well-grounded organisational competencies. In the 1980s, Porter (1985) added the term “sustainability” by stating that competitive advantage can only be sustainable “when advantage resists erosion by competitors” thereby proving impossible for competitors to imitate or copy. This argument is supported by Lippmann and Remelt (1982:420) and Yazdani (2013) who emphasize that organisations able to attain effective competitive barriers that competitors are unable to comprehend have great source of competitive advantage.

To further distinguish competitive advantage from sustainable competitive advantage, Barney and Hesterly (2008) noted that there are two types of competition, namely temporary and sustainable. Temporary competitive advantage is where a business is able to attain high profits but unfortunately, the earnings attract competitors who want a share of the gains. If there are no entry barriers to an industry, the competitors easily gain an edge and reduce profit gained. This makes the competitive advantage to be temporary and if the business is not careful, it can easily lose to the competition. Sustainable competitive advantage on the other hand results when the business is able to sustain some form of barriers to entry making competitors to be less attracted or unable to compete or imitate offerings (Barney & Hesterly, 2008). The sustainable advantage is achieved by businesses that have very clear methods of adding value and entrenched in their value chain (Ramada, 2010). Such a value chain involves well defined both primary and supporting activities. Primary activities are activities that directly concerned with actual creation (Pitts & Lei, 1996) and include inbound logistics, operations, outbound logistics, marketing, sales, after sales and installation services. Supporting activities on the other hand are activities contribute or assist the organization or business primary activities. This means that support activities enhance the effective functioning of primary value-adding activities. Such activities are availability of appropriate infrastructures, human resources management, technology, procurement processes and distribution channels. Effective management of the value chain ensures that there is no wastage of resources while at the same time there is maximization of return of investments (Pitts & Lei, 1996). However, such a value chain is greatly enhanced by creating the appropriate corporate culture and believes in efficiency and effective operations.

The importance of sustainable competitive advantage has gained popularity in modern businesses as prime to their performance. In fact, competitive advantage remains at the heart of modern business performance and a major challenge to sustain in competitive markets (Peter, 1985; Stalk, 1988). The challenge arises from inability of businesses to produce goods and services that are inimitable by competitors whose antennae remain high and readily copy any unprotected formulas or compositions. Such rivals copy, modify or adopt successful strategies and market positions thereby destabilizing the market (Porter, 1996). Unless a business remain innovative, flexible and move rapidly to effect changes as they arise, inability to cope is detrimental to its sustainability and survival.

Sustainable competitive advantage is defined numerously as the unmatched and distinctive competencies that position a business far above competitors’ capability and ability (Porter, 1985). While factors such as location, size and access to resources influence a business competitive advantage, it is the ability to build distinctiveness competencies that set them apart from other competitors or withstand external pressure (Barney, 1986; Yazdani, 2013). Such competencies include both tangible (building, assets, machines, etc.) and intangible resources (skills, experience, knowledge) and their careful combination to turn materials into finished products that are cost effective and valuable and considered satisfactory to customers (Barney, 1986; Lado, Boyd & Wilson, 1992). According to Lismen, Margaret and Ed (2004), organisational members’ competencies (knowledge, skills and ability) form the basis of sustainable competitive. Ramadan (2010), Barney and Wright (1998) have identified major types of resources associated with competitive advantage, namely organisational resources, human resources and physical resources. However, even with these resources, distinguishing core competencies and sustaining them remain major threats for medium and growing businesses (Van Gils, 2000). The threats have made these businesses vulnerable and therefore to continually rethink, innovate, develop new business strategies and reinvent business models that assure them of retaining their leadership positions, now

and in the future (Porter, 1996). One buffer to the threats is strong well-rooted and developed organisational culture.

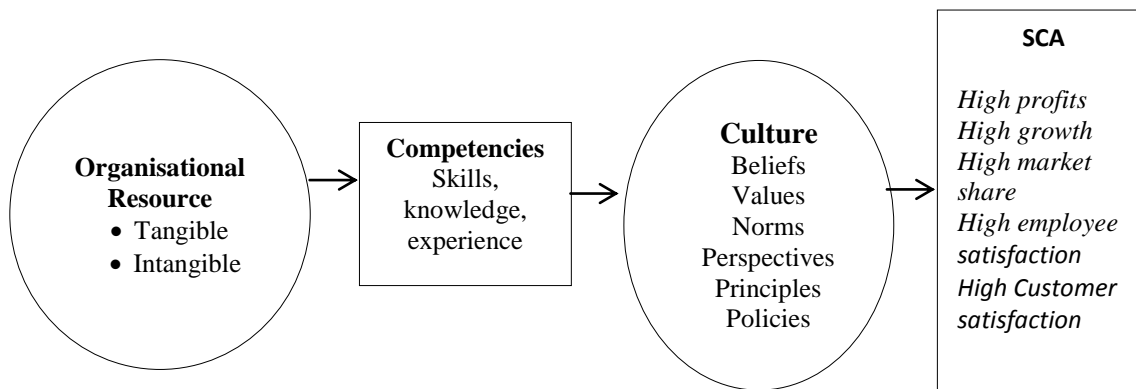
#### IV. ORGANISATIONAL CULTURE AND COMPETITIVE ADVANTAGE

Besides the tangible and intangible resources attributed to distinctiveness competencies of an organization or a business, culture is recognized as a major competency associated with sustainable competitive advantage (Barney, 1986; Fiol, 1991; Nelson, 1991). From various scholars and researchers (Amit & Shoemaker, 1993; Hansen & Wernerfelt, 1989; Conner, 1991), sustainable competitive advantage is only attained by firms or businesses whose products are termed as valuable, rare, inimitable and with non-substitutes an argument grounded on the Resource Based View of the firm (RBV) (Barney, 1986). Such competitiveness are based on strong internal capabilities, skills and competencies.

The importance of culture is attaining sustainable competitive advantage is based on the fact that it is very difficult to duplicate it (Meek, 1988; Lismen, Margaret & Ed, 2004). From Barney’s perspective, it is the organisational culture that is attributed to practices and products that are rare, valuable, inimitable and with no substitutes (1986). The uniqueness of culture is based on its “tacitness”, “complexity” and “specificity” (Barley, 1983). Accordingly to Fiol (1991:93) and Yazdani (2013:7) tacitness denotes the ability to learn by doing which in turn makes it difficult to imitate by others especially competitors. Complexity on the other hand refers to an organisational members’ ability to integrate the various resources under their disposal in a manner that it is difficult for competitors to replicate. Finally, Fiol (1991:93) argue that specificity “arises from close symbiosis in the exchange relationships of a firm’s transactions, so that competencies are too transaction-specific for a firm’s rival to copy.” The three competencies are critical determinants of creating a unique integrated cultural atmosphere and casual ambiguity that is almost impossible for competitors to imitate thereby leading to sustainable competitive advantage of an organization (Reed & Defillippi, 1990).

The importance of competencies cannot be undervalued. According to King and Zaithamal (2001), it is competencies that reside in the culture of an organization or businesses that assist and sustain competitiveness. This means that the ability of a business to build its competencies grounded in its culture has a direct benefit of giving an edge in market positioning and attaining sustainable competitive advantage. It is the responsibility of organisational management to create a cultural framework that establishes distinct competencies that blends well with existing culture and forms the foundation of sustainable competitive advantage and superior performance. Figure 1 demonstrates the interaction between organisational resources and competencies and how culture influence shapes them to produce desired level of sustainable competitive advantage. Such sustainable competitive advantage is measured in terms of high profits, business growth, increase market share, high employee and customer satisfaction. The ability for an organization to build such a culture is critical to its sustainability. It is a culture that is ingrained in the beliefs, values, norms, perspectives, principles, policies, decision making, motivational and rewards systems and overall organisational or business climate.

**Figure 1:** Organisational culture and sustainable competitive advantage



There is also a strong believe that for organisational culture to attain the desired level of sustainable competitive advantage, then its focus on employee training, participation and talent management are instrumental (Ramadan, 2010). From a study of 492 manufacturing establishments in Wisconsin (USA) aimed at identifying best management practices established that was a strong relationship between organisational culture and competitive advantage (Ramadan, 2010). The study further found strong relationship among certain cultural variables such as training, employee dedication and talent management, all reading to high performance. This argument was first raised by Denison (1990) who pointed out that businesses or organisations with excellent training programs, participation and talent management display high level of involvement, ownership and responsibility among employees making them key measures of organisational culture. Such ownership results



in great commitment, independence and self-motivation which are marks of organisational effectiveness (Danison, 1990; Ramadan, 2010).

## V. CONCLUSION

It is now agreed among management and cultural scholars that a strong organisational culture is the basis of a sustainable competitive advantage (Barney, 1986, Fiol, 1991; Lado & Wilson, 1994). Organisational culture is also associated with clarity and reduced ambiguity and uncertainty in decision making leading to maximum of return on investments and high profits (Jones, 1983). Barney (1986) advocates that for an organisational culture to result to sustainable competitive advantage, such a culture must have characteristics of being valuable, rare, inimitable and non-substitutable. Barney challenged organisations to work very hard to identify the four characteristics in their culture and then build on them as strengths and capabilities for competitiveness and high yields. Smirich (1983) further emphasizes that organisational culture becomes a source of competitiveness and superior financial performance when it remains unique and not readily accessible, manipulated or modified, characteristics that cannot be ignored in modern ever changing business world.

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