

## **Organizational Culture Assessment of Small & Medium-Sized Enterprises**

**Arshad Zaheer<sup>\*</sup>, Kashif ur Rehman<sup>\*\*</sup> and Abrar Ahmad<sup>\*\*\*</sup>**

### ***Abstract***

*This paper is an ethnographic study defining and assessing the organizational culture exhibited by Small and Medium Enterprises (SMEs). It primarily focuses on four cultural categories: clan, adhocracy, hierarchy and market-driven. These conceptual domains have been examined by the Organizational Culture Assessment Instrument. Results from a sample of 162 SMEs in the Rawalpindi/Islamabad area indicate that SME culture lacks creativity, innovation, freedom and risk taking. SMEs are not looking to change in the future, preferring the status quo. The most important finding is that SMEs exhibit a market-oriented culture focusing on results, competition and achievements.*

### **Introduction**

A single definition of organizational culture has proven to be very elusive. No one definition of organizational culture has emerged in the literature (Scholl, 2003). There is considerable agreement on the general definition of organizational culture and most questionnaires define culture as: “a set of cognitions shared by members of a social unit” (Reilly, Chatman, and Caldwell (1991)), or more fully: “a system of shared values and beliefs that produces norms of behavior and establishes an organizational way of life” (Koberg & Chusmir, 1987).

The latter definition is important because it pinpoints the fact that the culture construct can be unequivocally understood to deal with “major beliefs and values”, or alternatively as “norms and patterns of behavior and

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<sup>\*</sup> HEC PhD Scholar, Foundation University, FUIMCS, FF Complex, New Lalazar, Rawalpindi Cantt.

<sup>\*\*</sup> Assistant Professor, Iqra University, H-9, Islamabad.

<sup>\*\*\*</sup> Associate Professor, Iqra University, H-9, Islamabad.

norms” (Gundry & Rousseau, 1994; Delobbe, Haccoun & Vandenberghe, 2002).

The cultural aspects of businesses are very complicated, but their importance cannot be overstated. Organizational culture is the personality of the organization. Trade experts at Moran, Stahl and Boyer International, an international consulting firm, said that culture has two components: surface culture (fads, styles, food and holidays) and deep culture (norms, attitudes, values and beliefs). According to the tip-of-the iceberg concept, many important cultural aspects are not easily seen. According to Berg and Harra1 (1998) certain resources, especially personnel, generally are not as available in smaller organizations. Also, overlapping responsibilities or assignments are uncommon because each person has defined activity areas or turf. Smaller firms maintain a more limited scope in terms of products or services, processes, customer base, geographic market and technology. Exceptions to this tendency include large scope/small organizations such as trading companies, independent manufacturers' representatives, internet sales firms and consortiums, or the opposite extreme of narrow scope/large organizations such as airlines and governmental agencies. Adding or letting go of a single person in a small company may create major change and chaos until everyone determines his or her new responsibilities.

Small firm culture is more informal, although not necessarily more relaxed. This translates into fewer written directions and records. People unfamiliar with small company culture often mistake informality for indifference. Nothing could be more erroneous. A small company owner casually requesting a subordinate to perform an activity may convey unmentioned dire consequences for nonperformance exceeding those of a registered letter of demand. A primary difference between large and small companies is the management's role and involvement. Typically, the top management of a small firm has greater interest and control of the firm through ownership. They are more involved with daily operations in all areas. They know all employees and their strengths and weaknesses. They understand, and can often perform, all activities or processes. They know the customer's representatives and understand customer needs and quirks. They are knowledgeable about the relative strengths and weaknesses of the firm's products/services as well as its competitors. Above all, top management is reflected as the firm's alter ego (Berg & Harra1, 1998).

Cameron and Quinn (1999) have defined four types of culture, which are identifiable among small as well as large firms. These four classes include clan, adhocracy, market-driven culture and hierarchy. Organizational

performance and routines, and their responsiveness to change are believed to depend on the type of culture (Deshpande, Parley & Webster, 1993).

Although there are valuable contributions, there exists a lack of significant study of organizational culture in SMEs in Pakistan. This paper is an attempt to address this important issue of defining and identifying the particular components of organizational culture exhibited by SMEs.

### **Literature Review**

Organizational culture is postulated to be one of the most important theoretical levers required for understanding organizations. Verifying and using those theories minimally requires comparisons between the cultures of different firms, which in turn implies the identification of common dimensions for assessing organizational culture (Delobbe, Haccoun & Vandenberghe, 2002).

Koley, Bernice, and Meredith (1997) addressed the importance of managerial values. They identified four clusters of firms that vary in terms of personal values (entrepreneurs-conservatives), strategies (proactive-reactive), and performance (above average-below average).

Pederson and Sorensen (1989) studied high technology small firms for the specific identification of shared values. Some shared values among the firms studied were: treat people with consideration, high education-high spirit, proper consultancy, do not brag, and get things done-the results count, were found to be some shared values among these firms. The findings, therefore, contributed to a relatively unexplored area of small business culture.

Jung (1923) developed a cultural paradigm and described several archetypes of culture, which were further developed by Quinn and McGrath (1985) and Deshpande, Parley, and Webster (1993). Two key dimensions were used to classify organizational culture: the continuum from organic to mechanistic processes and the relative emphasis on internal maintenance versus external.

Cameron and Quinn (1999) have developed an organizational culture framework built on a theoretical model called the "Competing Values Framework". This framework refers to whether an organization has a predominant internal or external focus and whether it strives for flexibility and individuality or stability and control. The framework is also based on six organizational cultural dimensions and four dominant culture types (i.e.

clan, adhocracy, market, hierarchy). In addition, the authors generated an 'Organizational Cultural Assessment Instrument (OCAI)' which is used to identify the organizational culture profile based on core values, assumptions, interpretations, and approaches that characterize organizations. In this respect the overall culture profile can be identified as:

- **Clan:** an organization that concentrates on internal maintenance with flexibility, concern for people, and sensitivity for those it serves. Clan culture values cohesiveness, participation and teamwork. Employee commitment is achieved through participation. Personal satisfaction is more important than financial goals.
- **Adhocracy:** an organization that concentrates on external positioning with a high degree of flexibility and individuality. It centers on entrepreneurship, creativity and adaptability. Success means gaining unique and new products or services.
- **Hierarchy:** an organization that focuses on internal maintenance with a need for stability and control. Hierarchy culture stresses order and regulations. The leadership style is administrative. Tracking and control are emphasized relative to clearly stated goals. The management of employees is concerned with secure employment and predictability.
- **Market:** an organization that focuses on external maintenance with a need for stability and control. Market-driven culture focuses on competitiveness and goal achievement. Emphasis is on productivity and responsiveness to the market. It focuses on getting the job done. People are hard-driven, producers, tough and demanding.

Berrio (2001) described the dominant culture type of Ohio State University (OSU) Extension using the OCAI tool. They concluded that the clan culture classification applied to OSU Extension, portraying the institution as an organization that concentrates on internal maintenance with flexibility, concern for people, and sensitivity towards customers. The cultural profile of the University played an important role in the personnel plan, implementation, and evaluation of the educational programs.

Alley and Faubert (2005), institutional research analysts at the South Dakota School of Mines & Technology (SDSMT), articulated and appraised the organizational culture of SDSMT's campus for the reconsideration of organizational structure by applying the OCAI instrument in academic settings for the first time. They recognized the

hierarchical nature of culture with a strong shift toward “adhocracy” indicating that the campus community placed a higher value on responding effectively to change rather than maintaining a stable bureaucracy that produces a predictable output.

### **Methodology**

The descriptive method of research was used because it facilitated the description of the prevailing culture type of selected SMEs. The descriptive method is also a logical approach because the data consisted of the perceptions of respondents, which were gathered through the survey questionnaire.

### ***Sample***

The sample was composed of the managers and owners of SMEs located in the Rawalpindi/Islamabad region. Data were collected from a range of firms pertaining to eleven different industries. A total of 250 questionnaires were distributed among the firms using the method of non-probability sampling. From a total of 250 personnel, the researcher was able to retrieve 162 questionnaires or 65% of total possible respondents.

### ***Instrument and Measures***

The ‘Organizational Culture Assessment Instrument’ developed by Cameron and Quinn (1999) was used to gather the data. This instrument has been found to be both useful and accurate in diagnosing important aspects of an organization’s underlying culture.

The survey questionnaire constitutes two parts. The first part comprises demographic characteristics of the respondents such as industry, firm age, number of employees, location, and gender of the respondent. The second part of the questionnaire has six different categories which represent six key dimensions of organizational culture. These dimensions include dominant characteristics, organizational leadership, management of employees, organizational glue, strategic emphasis and criteria for success. Each of six categories consists of four alternatives which measure the four different types of culture.

For the purpose of the study, instrument reliability was established. In assessing the reliability of the scales used in the questionnaire a coefficient of internal consistency was calculated both for current and preferred situations using Cronbach’s alpha methodology (Santos, 1999).

**Table-1: Cronbach Alpha Reliability Coefficient**

Type of Culture	Present or Current Situation	Future or Preferred Situation	Computed by Angel A. Berrio (2003)	
			Current Situation	Preferred Situation
Clan	0.62	0.78	0.80	0.77
Adhocracy	0.78	0.82	0.75	0.72
Market	0.75	0.84	0.90	0.84
Hierarchy	0.77	0.72	0.62	0.79

Table-1 computes the Cronbach's alpha coefficients for the survey as compared to the values worked out by Cameron and Quinn (1999) and Berrio (2003). The comparison revealed the construct validity of the instrument.

### ***Procedure***

The fixed or constant sum scale was used to gather data. The respondents were asked to spend 100 points to be divided among the four alternatives. Its intent was to help identify the organization's current culture (Step 1). The same instrument helped identify what the culture organization members think should be developed to match the future demands of the environment and the challenges to be faced by the company (Step 2).

Scores by participants were recorded and the average was computed for different alternatives representing the respective culture type both for current and future situations. Again the average for each alternative for all the participants was computed for current and future situations. The same procedure was adopted to compute relevant averages for various industry sectors, demographic characteristics, and culture dimensions by computing the relevant averages.

These averages for different categories were plotted in the graph constituting the four quadrants with a scale of 0-50, with intervals of 5. The four quadrants represent the clan, adhocracy, market and hierarchy culture types respectively. The scores plotted in each quadrant represent the strength of culture type for the present and future situations exhibited by SMEs for relevant categories.

**Result & Discussion**

Table-2 reveals the dominant culture type, as perceived by the respondents of SMEs with respect to various demographic characteristics. The dominant culture type of SMEs with the highest mean scores 38.29 and 40.85 respectively for current and preferred situations, is the market culture.

**Table-2: Dominant Culture of SMEs**

Category	n	Present (Current) Situation			Future (Preferred) Situation						
		Mean	S.D	Dominant Culture	F	P	Mean	S.D	Dominant Culture	F	P
Overall	162	38.29	10.74	Market			40.58	14.46	Market		
Industry					2.686	0.008				1.570	0.134
Advertising	24	39.31	5.62	Market			38.06	8.94	Market		
Chipboard	4	33.75	8.84	Market			37.08	2.95	Market		
Engineering	24	40.35	8.66	Market			42.01	9.64	Market		
Food	26	46.79	12.77	Market			46.41	12.74	Market		
Glass	8	39.38	3.56	Market			48.54	14.62	Market		
Hotel	8	41.75	17.53	Market			46.92	16.71	Market		
IT	8	39.38	2.49	Market			49.17	0.68	Market		
Marbel	14	38.93	11.52	Market			41.43	17.86	Market		
Pharma	26	28.59	10.13	Clan			35.10	17.17	Clan		
Packaging	10	35.33	11.13	Market			43.17	5.01	Market		
Plastic	10	34.50	7.33	Market			37.00	23.29	Market		
Age					1.600	0.183				0.598	0.666
1-20	2	32.50	6.27	Clan			32.50	6.87	Clan		
21-35	82	37.76	10.53	Market			39.16	16.67	Market		
36-50	64	38.57	10.99	Market			42.04	12.12	Market		
51-60	10	46.17	7.28	Market			45.83	10.07	Market		
>60	2	34.17	7.55	Hierarchy			39.17	9.79	Market		
Gender					0.681	0.412				1.784	0.185
Male	144	39.00	10.53	Market			42.38	13.05	Market		
Female	18	32.59	11.34	Market			36.76	19.46	Clan		
Area					1.211	0.274				0.645	0.424
Urban	136	39.10	11.03	Market			41.77	13.90	Market		
Rural	26	34.04	8.12	Market			34.36	16.28	Market		
No. of employees					0.007	0.931				1.719	0.194
1-30	56	37.10	10.05	Market			38.67	12.17	Market		
>30	106	40.54	10.99	Market			44.20	15.30	Market		

\* P < 0.05

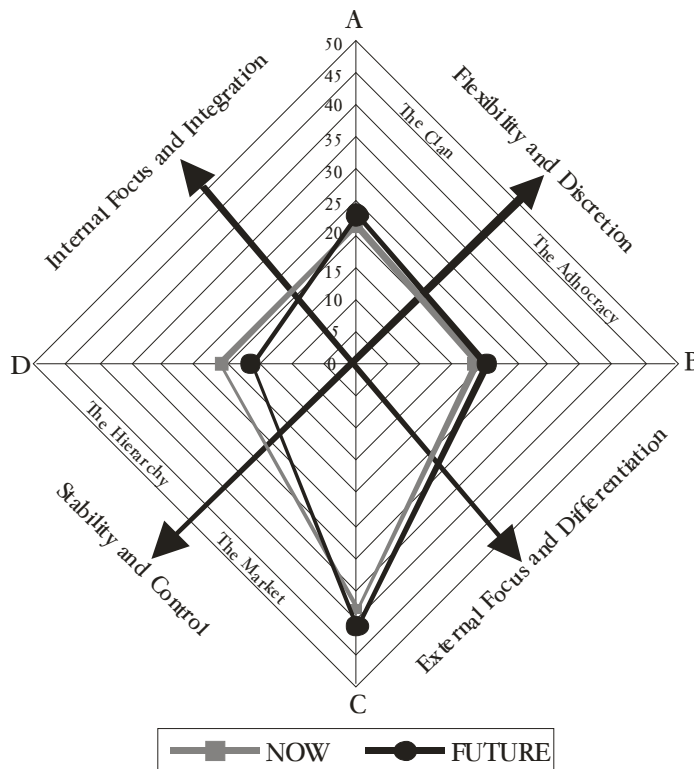
The dominant culture type exhibited by various industry categories is market culture except for the pharmaceutical industry where the clan culture is dominant. In the age category, the group from age 1-20 revealed the clan culture while the group older than 60 depicted hierarchy and market oriented as dominant cultures in the current and preferred situations

respectively. However, the results for these age groups cannot be generalized due to the small sample size. Other demographic categories including gender, geographic area and number of employees had the market dominant culture. Only respondents older than 60 and female participants had a different dominant culture type for the current and preferred situations.

Generally, the dominant culture type among the various demographical variables is market culture both in the present and future situations.

There is no statistically significant difference between the various categories as revealed by the *post hoc* pair wise multiple comparison analysis.

**Graph1: The Organizational Culture of Small Businesses (n=162**



Graph-1 shows the mean scores in the relevant quadrants representing the four culture types for both current and future situations for SMEs. Only the hierarchy culture type is on a diminishing trend for the preferred situation. There is a moderate increasing trend in other culture



types. The culture dominated in the SMEs is the market culture both for the current and future situation which is a strong indication of external focus and differentiation of SMEs.

**Table-3: Dimensions of Organization Culture**

Dimensions of Culture	Current (Present) Situation			Future (Preferred) Situation		
	Mean	S.D.	Culture Type	Mean	S.D.	Culture Type
Dominant Characteristics	39.72	14.43	Market	42.75	17.67	Market
Organizational Leadership	38.58	17.2	Market	39.81	21.57	Market
Management	38.15	16.69	Market	41.78	18.84	Market
Organizational Glue	37.35	17.47	Market	41.98	19.52	Market
Strategic Emphasis	37.84	14.21	Market	37.86	18.55	Market
Criteria for Success	38.09	16.67	Market	39.31	19.34	Market

Table-3 represents the highest mean scores for the six dimensions of the organizational culture as assessed by the ‘Organizational Culture Assessment Instrument’ in present and future situations. In the present situation, the highest mean score exhibited by SMEs is in the dominant characteristics criteria (Mean = 39.72), while the lowest mean score is in the criteria for organizational glue. In future situations, the highest mean score is recorded in the dominant characteristics criteria (Mean =42.75) and the lowest score is in strategic emphasis (Mean =37.86).

Table-3 clearly indicates cultural congruence as various aspects of organizational culture become increasingly aligned. The strategy, leadership style approach to managing employees and dominant characteristics, all tend to emphasize the market culture values.

The market culture exhibited by SMEs portrays the organizations that concentrate on the market orientated approach where people are competitive and goal oriented. Leaders are hard drivers, producers and competitors. They are tough and demanding. The glue that holds the organizations together is an emphasis on winning. The long-term concern is on competitive actions and achieving stretch goals and targets. Reputation and success are common concerns. Success is defined in terms of market share and penetration. Outpacing competition and market leadership are

important. The organizational style is hard driving competitiveness. Productivity in the organizations is achieved through a strong emphasis on external positioning and control. (Cameron & Quinn, 1999)

The other three factors, clan, hierarchy and adhocracy have comparatively less consideration in their leadership style. A major difference was not found in the organizational culture that employers prefer in their organizations for the future. Organizations prefer the status quo and are not looking for “change”. In the future, organizations prefer to minimize the impact of hierarchy culture by being less structured in terms of rules and regulations and polices to some extent.

**Table-4: Strength of Dominant Culture**

Culture Type	Current (Present) Situation		Future (Preferred) Situation	
	Mean	S.D.	Mean	S.D.
Clan	21.35	8.76	22.95	12.28
Adhocracy	19.08	10.1	20.35	11.38
Market	38.29	10.74	40.58	14.46
Hierarchy	21.2	9.7	16.67	9.32

Table-4 describes the strength of the dominant culture type exhibited by SMEs in the present and preferred situations. Market culture is strong both in current and future situations with mean scores 38.29 and 40.58 respectively. Adhocracy culture is weak with mean score 19.08 in the present situation. In the future situation, hierarchal culture is weak with mean score 16.67.

### **Conclusion**

The findings of the study are in consonance with the fact that adhocracy scores are generally rated the lowest and there is a strong association between market culture and the status quo (Cameron and Quinn, 1999). In this study, the association between market culture and the status quo is found to be even stronger.

Several management consultants and authors recently have equated “leadership” with clan and adhocracy culture, and management with hierarchy and market culture.

SMEs may not be regarded as high performing organizations strongly emphasizing only one culture type. Research has indicated that effective and high performing organizations were supportive of and developed their employees (Clan) but also demanded output and achievement from them (Market), so effective organizations are able to behave in flexible and sometimes contradictory ways (Cameron & Quinn, 1999). The same is not the case with the sampled SMEs, which is a point alerting policy makers.

A good point regarding the dominance of market culture prevailing in the sampled SMEs is a better match between culture and the environment to efficiently operate in a fiercely competitive industry.

The results provided another source of information about the discrepancies between the current SME culture and what they prefer it to be. In the opinion of the survey respondents, there does not exist a strong need for change.

The study revealed another important finding about the stronger or more dominant market culture of SMEs. Strong cultures are associated with homogeneity of effort, clear focus, and higher performance in environments where unity and common vision are required (Cameron & Quinn, 1999).

At the same time, the study indicates clear caution for managers and leaders that SMEs with strong market culture will find extreme difficulties in circumstances where survival depends on flexibility, innovation, creativity and entrepreneurship.

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