"The Importance of Corporate Culture in International Market: The case of Procter & Gamble"

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Abstract
*Many academics argue that corporate culture constitutes a vital factor for the organizational performance. The specific research focuses on the called "behavioral side" of organization and management in general. This managerial approach supports that the difference between high performing and lower performing organizations is affected significantly from the Core values and Principles of their organizational/corporate culture. Studies from Pascale (1985) and Kotter & Heskett (1993) mentioned that the most usual reason for an organization's failure is that they did not focused enough on their corporate culture. Porter (1979) argued that large, successful organizations simply respond to external markets and narrow forces based just on financial criteria such as: entry-barriers, market share and suitable policy against competitors. Firms like Wal-Mart and P&G become successful not only by following the factors that Porter (1979) suggested. Their competitive advantage in achieving this enormous performance seems to be its organizational/corporate culture. Using the qualitative case study method, in other words presenting the "Procter & Gamble" case study, the research will practically demonstrate how the strong culture of this specific organization has a great impact on its international performance. P&G is chosen as a case study because this corporation constitutes an excellent example of an undoubtedly strong culture, while it is widely known as one of the most profitable consumer marketing organizations. Also notice that the nature of a particular culture is a reflection of the original strategies of the founders of the company, as well as the learning and retention that have occurred over time.
Therefore, the main aim of this paper is to theoretically buttress that the specific culture of an organization greatly affects its*

effectiveness/performance, as well as to present and critically analyze the case of Procter & Gamble in order to demonstrate this influence in a business-like manner in the international field.

Keywords: corporate culture, international management, business performance, organizational behavior

Introduction

During the 1980's there was a break-through in the field of organizational/corporate culture. The specific trend began with the books *"The Art of Japanese Management"* by Pascale and Athos (1981) and *"Corporate Cultures"* by Deal and Kennedy (1982) and reached at its peak with the book that probably best presents this trend, *"In search of Excellence"* by Peters and Waterman (1982). Since then, numerous academics and other authors have published various books focusing on organizational studies and management.

Porter (1979) argued that large, successful organizations simply respond to external markets and narrow forces based just on financial criteria such as: entry-barriers, market share and suitable policy against competitors.. Firms like Wal-Mart and P&G become successful not only by following the factors that Porter (1979) suggested. Several recent studies indicate that the factor that distinguishes those from their competitors is something less tangible. Their competitive advantage in achieving this enormous performance seems to be its organizational/corporate culture.

Therefore, *the main aim of this paper is to theoretically buttress that the specific culture of an organization greatly affects its effectiveness/performance, as well as to present and critically analyze the case of Procter & Gamble in order to demonstrate this influence in a business-like manner.*

Chapter 1

The relationship between corporate/organizational culture and organizational performance/effectiveness has attracted the attention of numerous academic and business authors for many years. Some researchers have studied culture from a strategic perspective and argue that corporate culture can generate significant competitive advantages for a company (Barney 1986, Wilkins and Ouchi 1983). Other authors have developed explicit theories of corporate culture and organizational performance (Denison and Mishra 1995, Kotter and Heskett 1993).In addition, authors like Hofstede (1980), Trompenaars (1994, cited in Ghoshal and Bartlett 1998), and Adler (2002) who have conducted cross-cultural investigations on organizational culture, support that most management theories and practices should be modified in order to be adopted into different national contexts.

The Corporate/Organizational Culture

Academic research on the field of organizational culture and performance came on the surface over the year 1980. During the next years the concept attracted the immense interest of the business as well as the academic world and created a phenomenon known as the **"culture revolution"**. Understanding the assumptions and dynamics of this phenomenon is considered essential in order to conduct a new research related with the effects of corporate culture on organizational performance.

A more recent academic literature on this field has emphasized the importance of the ways in which an organization develops and maintains these core values, the patterns of behavior that result from them, and the manner the **behavioral characteristics** of organizations, through studying organizational culture. The most common topics of interest have been in which these behaviors and values are transmitted to new members of the organization (Linstead et all 2004, Adler 2002). Moreover, a rather known topic is the symbols that express the links between assumptions, values, and behavior of an organization's members (Stonehouse and Campbell 2004).

Firstly, "strong culture" is usually a main characteristic of a high performing organization. Thus, it is very often claimed that some organizations have a greater sense of culture than others, and this contributes to a stricter coordination of organizational actions, while it defines goals and helps in achieving them (Deal and Kennedy 1982, Pascale 1985, Saffold 1988, Ouchi and Raymond 1993). According to Saffold (1988) the cultural "trait" approach assumes an implicit model in which cultural characteristics influence an organization in proportion to the "strength" of its culture and ultimately affect performance. Strength is defined in various ways: as coherence (Deal and Kennedy 1982), as homogeneity (Wilkins and Ouchi 1983) as stability and intensity (Schein 1992). Secondly, the concept of "shared beliefs" widely accepts that principles and ideologies have all some important impact on organizations. Organizational values and beliefs according to Peters and Waterman (1982) are vital for the organizational success. Undoubtedly, the corporate culture perspective has contributed significantly to management. Moreover, it seems that the cultural perspective has drawn much attention to the symbolic nature of organizational life and to the significance of the shared meaning of concepts like behavior, values and principles

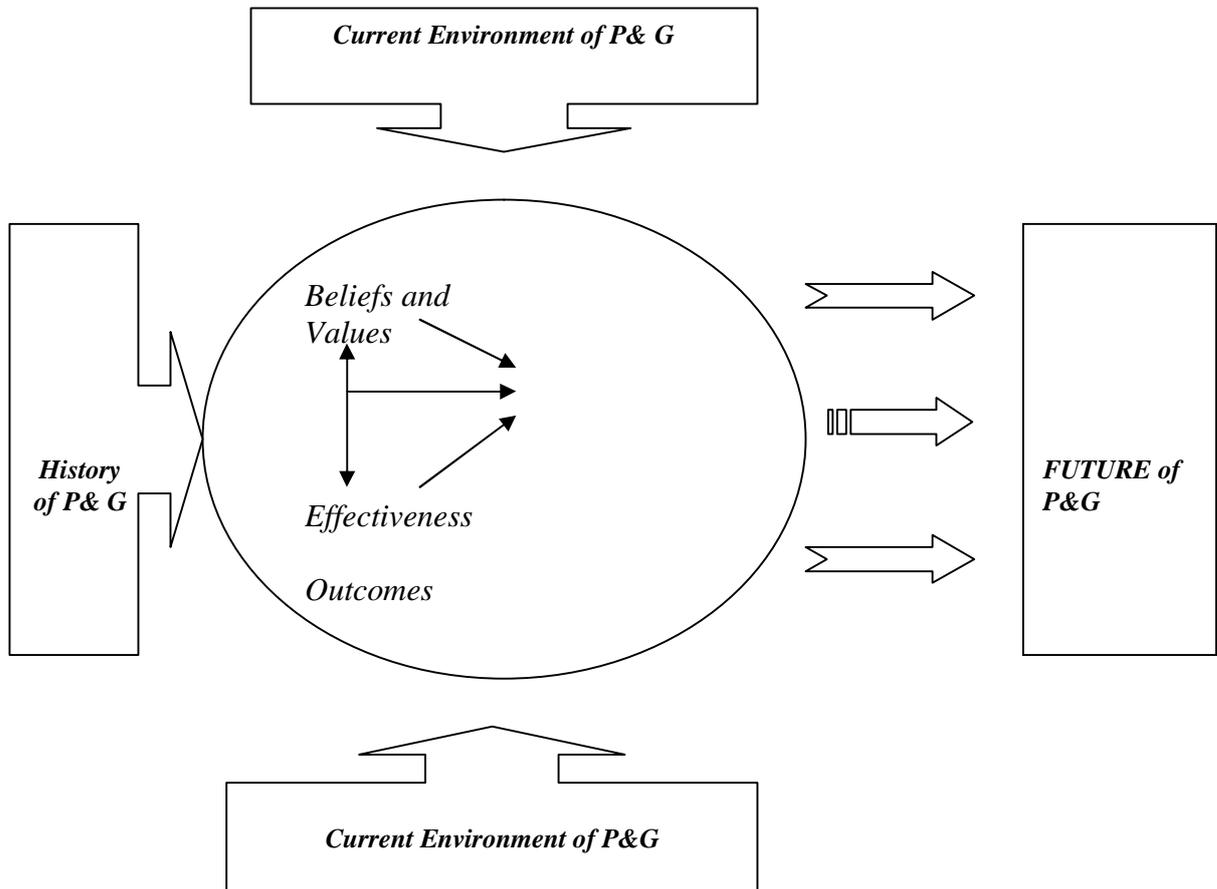### The Relationship between Corporate Culture and Organizational Performance

The relationship between corporate culture and organizational performance is considered a significant debated topic within literature. Numerous academics have studied the above relationship during the last two decades. Many studies during the 1980s were skeptical about the influence of organizational culture on a firm's performance. Authors like Martin and Siehl (1983), Saffold (1988), and Barney (1986) expressed their concerns about the culture-performance relationship, but no one has ever ignored the existence of a link between those two variables. This relationship has been studied from many authors. Deal and Kennedy (1982) as well as Peters and Waterman (1982) examined the strategic significance of organizational culture and their study is still considered active today. Particularly, Peters and Waterman (1982) with their work "*In search of Excellence"* recognized 36 US firms that had presented excellent performance between 1961 and 1980. They used various performance measures such as: compounded asset growth and average turnover growth. The results of their study showed that there is a direct impact of corporate culture in performance in many of the 36 different companies. However, they did not manage to test statistically the relationship between organizational culture and economic performance. Additionally,Denison and Mishra (1995) conducted a new research, which was based on the answers of 43,747 respondents in 34 countries across 25 industries. The results of Denison and Mishra's (1995) study showed that there is a strong, positive relation between a well-organized business environment and return on investments and sales.
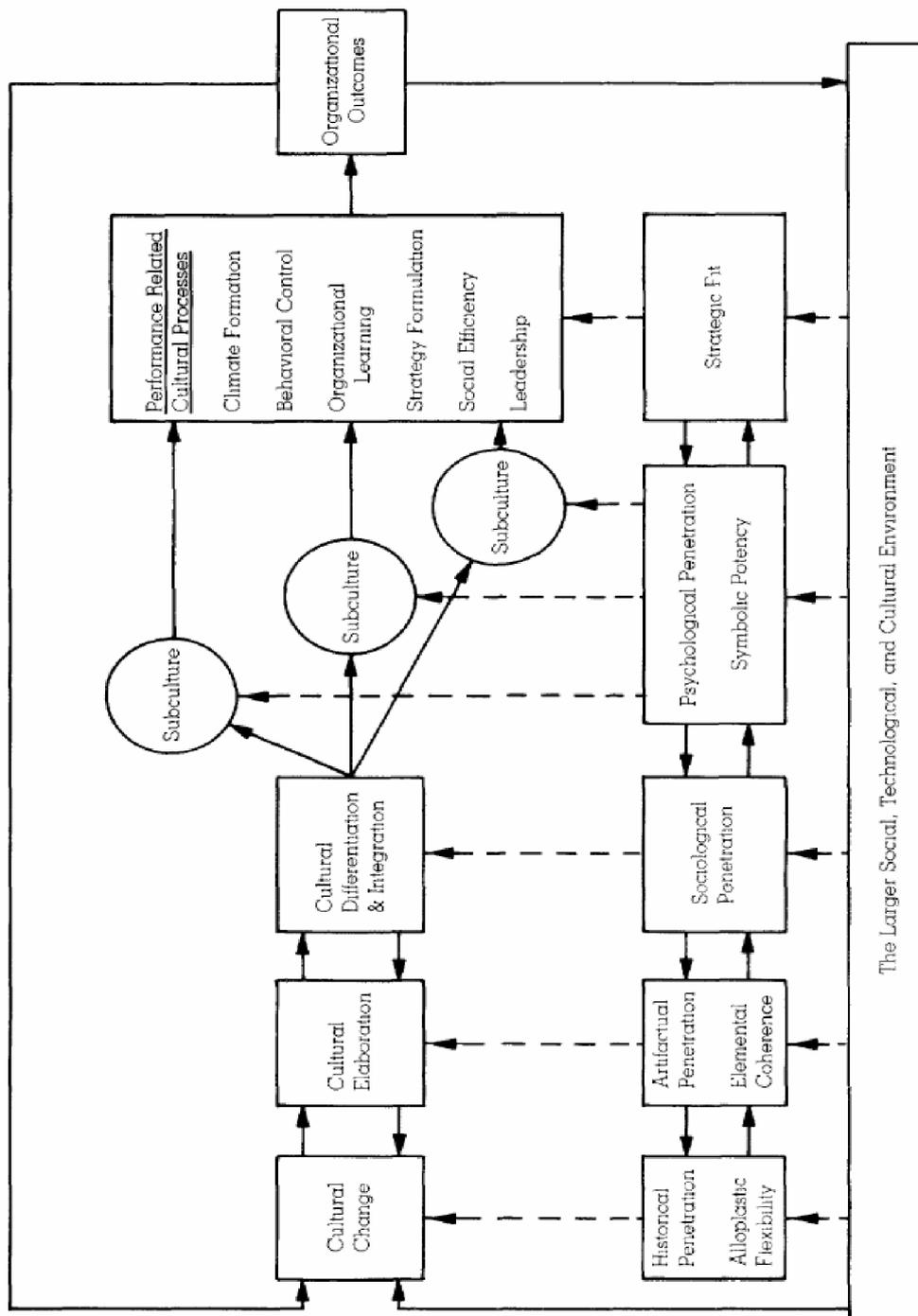
Figure 1: Some elements and relationships of a culture-performance framework

The result for the organization is a **"cultural evolution"** that leads to the formation of **multiple subcultures**. These subcultures affect the firm's performance/effectiveness trough various performance related cultural processes such as: **climate formation** and **organizational learning**. Furthermore, Kotter and Heskett (1993) conducted a four year study so as to investigate the culture-performance relationship. Their work was based on the examination of 207 large US companies. They support that there was a correlation between culture and performance for the firms that they have examined. The results of their work mentioned that very **successful**

firms such as Procter & Gamble, PepsiCo, and Wal-Mart characterized for their **adaptive cultures**. These cultures are able to serve the interest of all the main stakeholders such as: customers, employees and shareholders. With the long examination of various successful firms such as HP, P&G, Disney, and Johnson & Johnson they reached to the conclusion that the **"core ideology"** of a company is vital for its success.

Figure 2: A general framework for the relationship between corporate culture and organizational performance adopted on P& G

Managing Corporate/Organizational Culture

The notion of managing corporate culture is obviously related with the improvement of the firm's competitive situation. Organizational culture was always a "tricky" concept for almost all leaders as it refers to intangible and very often uncontrolled variables that have mentioned above. The question is: can organizational culture be managed? A few academics such as: Deal and Kennedy (1982), Peters and Waterman (1982) believe that corporate culture is an organizational variable, which as all the other variables can be controlled. Some others support that culture constitutes a vital element of an organization and not just a simple variable necessary to be managed (Acroyd and Crowdy 1990, Wilmott 1993, Anthony 1994). By contrast, Gagliardi (1986) strongly disagree with the assumption that a company's members renew their existing values and beliefs so as to adapt themselves with the evolution of the organizational business environment. In our way of thinking it is very complex and some times infeasible for an organization to change its culture. On the other

hand, the researchers feel that the fact that organizational culture cannot be changed and managed is not the reality. According to Fiol (1991, cited in Linstead et all. 2004), both sides of this debate suffer from **"cultural schizophrenia"** and that is why numerous academics today support that corporate culture can be managed and changed to some degree (Martin 1999, Buchanan and Huczynski 2004).. A relevant research question in our paper would be: *"Is there a direct impact of corporate/organizational culture on organizational performance/effectiveness?"*

Chapter 2: The four hypotheses about Culture and Performance/Effectiveness

In order to comprehend further the significant relationship between Corporate Culture and Organizational Performance/Effectiveness, we could analyze all the concepts presented into figure 1, as well as their interrelationships. Towards this direction, Daniel Denison and Mishra (1995) proposed the adoption of four integrative principles (cultural traits) that address these relationships. Denison and Mishra (1995) named these principles as the four **"hypotheses",** the involvement hypothesis, the consistency hypothesis, the adaptability hypothesis and the mission hypothesis.

The Involvement Hypothesis: Involvement seems to be a key factor in the culture of "Procter & Gamble". According to Denison and Mishra (1995) "Involvement" culture means that almost everyone is involved in the process of taking organizational decisions and as a result, employees feel like managers. **"Self-management"** implies that all individuals are responsible for managing themselves. Many times, in a high-involvement culture, stock ownership and profit sharing constitute a significant part of the compensation system. In addition, the structure is based primarily on an informal rather than a formal control system. The involvement hypothesis about the relationship between corporate culture and organizational performance is not actually a new idea. The central idea that organizational effectiveness is a function of the level of involvement and employees' participation in management, has been developed mainly from other authors (Wilkins and Ouchi 1983, Peters and Waterman 1982, and Lawler 1996). According to these studies the involvement hypothesis emphasizes that **high participation** and **involvement** in decision making and management procedures tolerate a strong sense of ownership and responsibility to the employees of a large corporation, like Procter & Gamble.

The Consistency Hypothesis: This hypothesis focuses on the significant impact that a **"strong culture"** could have on performance. Also it supports that a shared system of values, beliefs and principles well understood by all employees of an organization, has a positive influence on their ability to reach **total agreement** on crucial managerial matters, as well as implement motivated and **coordinated activities**. The main concept is that implicit control systems, founded on shared values, and beliefs, can successfully achieve much more coordination than other external control systems that rely on explicit rules and regulations (Denison and Mishra 1995).

The Procter & Gamble case study will show us that this corporation constitutes an excellent example of highly consistent culture. This organization has, undoubtedly, committed to the company employees, extremely strong core values, a traditional, distinctive, and ethical method of doing business, and a clear set of internal, informal, widely accepted rules regarding "do's and don'ts" for organizational

behavior. These characteristics contribute to the foundation of a "strong culture" that endures over time and is consciously believed by all the organizational members (Denison 1996).

Of course, Consistency Hypothesis implies that the core culture of an organization must be aligned to actual management policies and practices, if the company desires to achieve high degree of integration and coordination. Thus, inconsistency between values and practices constitutes a barrier for the shared interpretation of culture, the implicitly controlled behavior, and the consistency that are closely related to performance.

The involvement theory argues that the participation of employees in management is linked with a more democratic internal process and can outweigh the potential inconsistency and explicitly control behavioral system. On the other hand, the consistency theory predicts that low involvement can be outweighed by a high degree of normative integration, shared meaning, and common frame of reference. These elements result in a more coordinated action, and thus in a faster implementation of decisions. As Daniel Denison (1996) claims, "effective organizations seem to combine both principles in a continual cycle".

The Adaptability Hypothesis: Much has been written about the external environment of organizations or the relationship between organizations and their environments, concerning the adaptation process. Unfortunately, very little of the literature has dealt with the problem from a cultural aspect. Schein (1984) emphasized that a culture is consisted of collective, adaptive, and behavioral responses to the environment. When meet a new situation, an organization first "tries" the collective responses, which have already tried successfully in the past. Additionally, Schein (1984) argued that these responses mean so much for the employees of an organization, as they have actually come out from individuals' strategies for successfully organization's adapting to its environment over time.

Of course, an **"Adaptability"** or a **"Proactive"** Cultural Theory of an organization's adaptation to its environment and continuous changes. The adaptability has **three aspects** that are likely to have a crucial impact on an organization's performance: the ability to comprehend and promptly **respond to the changes** of its **external environment ,**the ability of an organization to **respond** successfully and immediately to its **internal customers' needs and** reacting to either external or internal customers needs requires an organization's capacity to **rearrange** widely accepted behaviors and management processes that permit the organization to adapt to its environment.

The Mission Hypothesis : The last element of the organizational culture and performance/effectiveness framework focuses on an equally significant theory in the literature of culture and performance. This hypothesis describes the great importance of a "Mission", or else a shared definition of the purpose and the existence reason of an organization. Most authors, who have studied this topic, have agreed that a sense of mission generates always two influences on an organization's function (Hamel and Prahalad 1989, Westley and Mintzberg 1989). Particularly, in long-aged and successful organizations like P&G, a common mission or in other words a shared sense of the wide, long-term goals of the organization, is implicit and helps to shape current behaviors and practices (Denison 1996).

Integrating the Four Hypothesis: Earlier, we examined separately the four principles, which Daniel Denison and Mishra (1995) have addressed, in order to study the relationship between organizational culture and performance/effectiveness, as they are viewed in the framework. Now we have to integrate these four hypotheses into a single culture and effectiveness model, so as to comprehend the specific interrelationships among them.

Furthermore, an organization oriented towards involvement and adaptability will be more innovative and proactive to new ideas, in comparison with an organization oriented to high consistency and a strong feeling of mission among its members. By contrast, a system focusing on mission and consistency tends to reduce a variety of opinions, and instead to emphasize on control and stability (Schein 1992). Denison and Mishra (1995) integrated these four hypotheses in the following framework:

External Orientation	**Adaptability**	**Mission**
Internal Integration	**Involvement**	**Consistency**
	Change and Flexibility	Stability and Direction

Source: Denison and Mishra (1995)

From a closer view, some of the concepts are partly in disagreement. Thus, an organization of high flexibility or high involvement is probably in contrast to a rigid, highly consistent, with a strong sense of mission organization. This framework also argues that an organization's culture must include all the four elements/concepts in order to have a positive influence on performance. As a result, a corporate culture that is simultaneously adaptive to its environment, highly consistent, allowing fully individual participation in decision making, but being always within the context of a rather strong, shared mission, will be an increasing/improving performance organizational culture.This model serves as the base for the linked study of organizational culture and performance/effectiveness, which is presented in this dissertation. This study is based on the case of "Procter & Gamble Hellas SA" and tests the above model trough examining the relationship of corporate culture and organizational performance for the specific company. The case of P&G Hellas SA offers the opportunity to examine the culture of a large multinational corporation and describe how the model applies in the realities of the Greek context.

Chapter 3: The Importance of Organizational Culture in the "new", Global Business Environment

The new realities of Business Competition

It is generally accepted today that the international business environment is under radical changes. A very common question in the recent business world is: **why business competition is so different today?** The answer to this crucial question comes from a series of changes in the global business environment. According to Linstead (2004) there are four major changes in the recent world business environment: The new "across-boundaries" economy and the globalization of business have increased the number of competitors, with both new and different management styles, and powerful

competitive advantages into various markets,Worldwide labor markets: various work forces in different countries, which own different skills and earn different wages. As a result, organizations can now based on and cultivate a wider variety of workers and working conditions.

The need for a "Global" Corporate Culture

These new logic principles for organizing as well as the increasing pressures for disintegration in international corporations have grown the demand for the adoption of an appropriate corporate culture. This mainly happens because processes of decentralization, de-layering, and devolution towards complex sets of differentiated centres (which are often located on different continents and focused on distinctive products, customers, regions, suppliers or competences) have made the task of integration more difficult and more demanding. Differentiation, which is an inevitable element of scale and complexity, must be balanced with a need for corporate integration.
But, how can such a flexible coordination be achieved? According to Adler (2002) the only way for an organization to achieve this desired coordination is through developing and cultivating the appropriate corporate/organizational culture.

Cross-cultural management explains organizational behaviour across different countries and cultures and tries to improve the interaction of employees, managers, suppliers, and partners around the world (Adler 2002). Thus, effective cross-cultural management promotes and strengthens the adoption of a global corporate culture, able to combine traditional domestic management approaches with international and multicultural dynamics. Despite the increasing complexity, global firms must be able to manage their businesses in many different countries simultaneously (Schneider and Barsoux 2003).

Chapter 4: Research Methodology

This chapter deals with the analytical documentation of research methods that adopted for the collection and data analysis. Of major importance for the particular paper is the part which includes the analysis of the usage of the interviews that have conducted during this research. The collection of primary and secondary data for the completion of this paper was a very demanding task that proved time consuming and very difficult at times. The negotiated topic of the relationship between corporate culture and organizational performance is after all such a highly developed notion, that there is a plethora of available resources.

Type of Methodology

There are two available methods to use for the conduct of this research: **deductive** and **inductive**. According to the deductive methodology, "a model based upon the literature is used to lead the inquiry. The focus is on whether or not the suggested model fits and it is appropriate in our case" (Seddighi 2004). The inductive type of methodology suggests that the observations are collected from the company, in the light of the literature review, to lead the inquiry (Seddighi 2004). We believe that the deductive type is more suitable for the specific research as there is a large amount of available published material on this field and the existing literature includes a lot of frameworks. However, does the existing framework fit to our case? I feel that for the specific research the answer is clearly "yes". In case that the answer to this question was not clear I think

that the best for a research is to use both deductive and inductive methods simultaneously and if the existing models are not able to give as a detailed view of our field, then to develop a suitable model for the specific research question, that of the impact of corporate culture on organizational performance. The development of this kind of model can be achieved through observations, explanations of the facts, tests on them and reached conclusions.

Interview schedule based on a semi-structured questionnaire

An interview is a significant tool for each researcher for collecting valid and reliable data associated with his/her research question and goals. A semi-structured interview is not standardized. That means that the researcher has a list of questions and topics to be covered, which may vary from interview to interview. Questions must be prepared before the interview designing. The researchers have the ability to modify the questions during the interview as well as to include open-ended questions. The most common way to conduct such an interview is face to face. Saunders, M. et al. 2003). Following tightly the above directions the researchers prepared an interview schedule based on a semi-structured questionnaire, suitable for the specific research.

Chapter 5: Analysis of the P&G case study

Procter & Gamble is one of the world's largest and most innovative international companies, operating in the extremely competitive fast-moving consumer goods market. They develop, manufacture and market high-quality products designed to meet consumer needs worldwide. Their products are recognized and relied upon by people in over 150 countries. Some distinguished products are: Ariel, Tide, Jet, Pampers, Always, Pantene, Vidal Sassoon, Crest, Camay, Oil of Olaz, Max Factor, Vicks, and Swiffer etc(P&G 2004).

Undoubtedly, if the criterion for performance was **long-term growth**, Procter & Gamble would surely be an outstanding performer.The corporate culture of P&G is widely accepted as unique! Its emphasis on ethical guidelines and compliance with P&G laws and business conduct policies, are some of the culture concepts transmitting to new employees through special recruitment procedures and socialization practices that combine intense internal competition and impartial promotion. At P&G only the "victors" in this "struggle" eventually acquire leadership roles. All these practices have shaped a **strong** and **distinctive culture**, in which the members of the organization deeply believe to be very closely to P&G's effectiveness (McGee 1999).The corporate culture of P&G is widely accepted as unique!

The cultural system is founded on a set of "shared" values, beliefs and principles, very well perceived by all the members of the organization. Furthermore, culture gives birth to special designed recruitment procedures, and socialization practices that combine intense internal competition and impartial promotion, so as to transfer this "shared" set of values, beliefs and principles to new employees (P&G 2004). Of course, there has been a lot of criticism on P&G culture, as most of the times it implies that individual identity is minimized and sometimes lost. There would be a wall where the door was, since (both walls and doors) are movable panels. This is an attempt to totally erase the memory of the departed manager. As **Mrs. Fannie Georgakopoulou** (Training Manager of P&G Hellas SA) has claimed "this organizational system requires tremendous conformity and no doubting on how things are designed, in order to work successfully.

That is why a great number of highly talented managers were made to leave the company and pursue successful careers in the consumer products industry often using the methods and systems learned at P&G". Other managers have also pointed out that once you learned the rules, "you can absolutely bank on them" because you know for sure that others will behave in the same predictable way. It may be difficult to innovate in the way you work, but you are guaranteed outstanding progress. So, according to **Mrs. A. Polygerinou** (Recruiting Manager of P&G Hellas SA) **the system is specially designed to preserve the P&G way of functioning and to develop a highly motivated and talented set of recruits, in order to become the future P&G managers.** This is quite obvious in the company's application leaflet "Growing to Excellence" (2002), where there is a special part of the "Qualities we look for in our recruits" **Initiative :** getting going and following through on priorities, overcoming obstacles, setting and meeting goals, Leadership : forming a vision of what can be achieved, setting direction and capturing the commitment of others , Thinking/Problem Solving Skills : drawing well-reasoned conclusions from complex data, recognizing developing problems and handling them **,**Communication Skills : expressing thoughts clearly and concisely, both verbally and written, capturing the commitment of others to ideas, even unpopular ones , Ability to work with others : respecting and working effectively with diverse people enabling all to contribute their best, building and maintaining productive relationships, Creativity and Innovation : going beyond accepted ideas to generate new ways to get better results, using logic and intuition , Priority Setting : taking a long-term view and getting resources in place to achieve key objectives. As **Mrs. A. Polygerinou** mentioned, P&G uses the same selection criteria to all its prospective employees.

Chapter 6: The results from the "Procter & Gamble" case study

Indisputably, the P&G Culture is a very "strong", distinctive and closely related culture to the performance and efficiencies of the organization**.** Some useful **conclusions** about the relationship between corporate culture and organizational performance of P&G are the following: **a)** P&G presents the unique combination of the use of special socialization processes, rigid internal promotion practices, and a policy of high secrecy towards outsiders and in some cases towards the insiders as well. So, there is a socialization system of widely accepted behaviors, beliefs, and norms, which virtually forms the organizational behavior of the recruits, to become the future leaders of the corporation. **b)** We have already mentioned that the P&G culture has been gradually developed over the company course in time.As time passed, the company became more and more experienced on its field, the decision making process developed to give better decisions, and thus the culture became more elaborate. Of course, all these P&G principles on "the right way" to do business, and its traditional beliefs and norms, were reinforced even more by the constant, company's success. c) P&G defines its own performance target. This target has always been steady growth and moderate profitability.

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