The Effects of Organizational Culture
on Company Finances

by

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ABSTRACT

The purpose of this study is to determine the effects of organizational culture on companies with a focus on financial impacts. Organizational culture is a topic individuals in organizations have a difficult time defining, therefore they do not necessarily believe it can have an overall impact on organizations. High performing people process cultures have put the focus on working with their employees and have seen financial improvements *vs.* organizations that do not put an emphasis on their organizational culture. Certain companies undergo changes to improve their culture while others are founded on positive organizational cultures. Results have shown financial improvements in areas of profitability, return on equity, and net income amongst others. These findings supported that organizational culture is in fact an important issue for companies to take into consideration in order to improve bottom line finances.

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Without the People Process Culture department this paper would not be in existence. The PPC class allowed me to learn more about myself and the workplace, information I will use throughout my career and for that I am forever thankful.

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Chapter I: Introduction

Approximately 145,287,000 people are employed in the United States and 4,782,000 people want to be employed (Bureau of Labor Statistics, 2006). Why do people want to stay employed or be employed if they are not? There are simple answers to these questions such as paying bills and necessities, but there is more to working than money. Individuals tend to find personal enjoyment in the jobs they hold and the organizations they work in. Organizational culture plays an important role in why people work in the organizations they do. Without understanding the culture in an organization it is difficult to know why organizations do what they do and why leaders make certain decision (Schein, 1985). This literature review field problem will determine the effects of organizational culture on companies with focus on financial impacts.

Purpose of Study

The purpose of this study is to determine the effects of organizational culture on companies with a focus on financial impacts. Information was gathered to determine what the effects of company culture. This information was taken from available journals, books, and selected companies. A special emphasis is placed on what it means and why it is beneficial to be a high performing People Process Culture company according to standards of the University of Wisconsin – Stout. An explanation of People Process Culture will be discussed later in this paper. The purpose is to determine how important it is for companies to have a positive organizational culture and the damaging effects of not having that culture. In order to better demonstrate what can occur in actual business, a variety of case studies will be looked at after they had undergone a culture change with emphasis on financial impacts.

Definition of Terms

Assumptions taking things for granted (Berube, 2000)

Bias-for-action creating a sense of urgency (Childress & Senn, 1995)

Configurationist view arranging parts and elements according to form (Berube, 2000)

Cognitive perspective centering on non-visible items in an organization (Sackmann, 1991)

Denison model a model working on improving organizational culture (Denison, 2000)

Empowerment allowing employees to feel as powerful beings in a company

Functionalism an object is made up of design and materials (Berube, 2000)

Holistic perspective beliefs, customs, value systems, and activities of an organization (Sackmann, 1991)

Ideational view using three perspectives of culture in an organization (Sackmann, 1991)

Individual accountability taking responsibilities for actions (Childress & Senn, 1995)

Invisible level basic assumptions in an organization (Schein, 1985)

Manifestation-oriented view using functionalism as a perspective (Berube, 2000)

Net income revenues minus expenses

Norms a standard considered typical (Berube, 2000)

Organizational culture a pattern of basic assumptions (Schein, 1985)

People process culture organization environment (http://ppc.uwstout.edu/ppcmission.html)

Return on assets profit produced on assets of a company

Return on equity company profit compared to shareholder equity

Turf issues competition between employees (Childress & Senn, 1995)

Variable perspective physical items in an organization (Sackmann, 1991)

Visible level noticeable items in an organization (Schein, 1985)

Organization of Paper

This study is organized into five chapters. Chapter I includes an introduction, a purpose of this study, definition of terms, and organization of the study. Chapter II contains a review of literature with focus on organizational culture definitions, the importance of positive organizational culture, why companies change, and what people process culture is. Chapter III looks at different case studies of high performing people process cultures including Denison Consulting, Pulte Homes, Phillips Plastics, and Simmons Bedding. Chapter IV looks at the results on financial impact of being a high performing people process culture. Chapter V concludes with a discussion.

Chapter II: Review of Literature

Definitions of Organizational Culture

The purpose of this study is to determine the effects of organizational culture on companies with a focus on financial impacts. Culture in a business organization is very similar to culture as viewed in terms of anthropology. When looking at an anthropological view three different culture aspects have played a major role in influencing literature available to managers (Sackmann, 1991). The culture aspects include the pattern or configurationist view, the manifestation-oriented view, and ideational or cognitive view.

The pattern or configurationist view is a theory in psychology placing an emphasis on arranging parts and elements according to a form (Berube, 2000). Businesses are often run according to sets of rules and procedures which can be similar to parts and elements. All organizations are made of different parts and elements, enabling the organization to run as a whole.

The manifestation-oriented view includes Functionalism. Functionalism is the idea that what an object does makes up its design and materials (Berube, 2000). In a business sense, the main items in an organization are the values and beliefs which the organization are founded on. The values will then make up the designs and materials of the organization.

The ideational or cognitive view includes three perspectives to help differentiate culture in an organization: holistic perspective, variable perspective, and cognitive perspective. These three perspectives overlap however each can be defined on their own. A holistic perspective incorporates a wide variety of aspects in a culture such as beliefs, customs, an entire value system, and the activities in an organization (Sackmann, 1991). The variable perspective tends to look more at physical items such as artifacts in an organization, how individuals interact with one another, and the initial process one undergoes when they enter into the organization (Sackmann, 1991). Finally, the cognitive perspective centers on non-visible items yet dominant aspects of an organization such as ideas, values, and beliefs (Sackmann, 1991). While one cannot necessarily see these items, they very much can be the foundation of an organization.

Schein is one of the pioneers in organizational culture and has looked at culture in a variety of means including observed behavioral regularities, norms, philosophy, rules, and climate feeling (1985). Schein looked at the aspects of culture as reflections of what companies stand for. Schein (1985) didn't feel the aspects encompassed the true meaning of what company culture is, and created a formal definition of culture. According to Schein (1985) culture is:

> A pattern of basic assumptions- invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration- that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems. (p.9)

Schein suggests it is not enough to just define a culture; one needs to understand the culture. Understanding individual performance along with organizational performance cannot fully be assessed unless one understands the culture (Schein, 1985). A culture provides employees with beliefs, values, and norms within the organization (Trice & Beyer, 1993). Cultures in organizations emerge because of the people who work there. Cultures provide individuals with a set of ideas on how to deal with the doubts of an organization not only on their own but as a whole (Trice & Beyer, 1993). Culture tends to be very "visible and feelable," (Schein, 1985) meaning culture is a real part of an organization which individuals can see when they enter an organization. It is also necessary to establish one general point of reference that sets an organization's culture apart from others (Schein, 1985). By doing this, individuals will have a better understanding of what the company is about and what it stands for. Culture needs to be considered as a greater aspect made up of smaller more individual aspects (Schein, 1985).

Schein (1985) and Kotter and Heskett (1992) discuss the two levels of organizational culture, a visible level and an invisible level. Even though they are two different levels of company culture, they still coexist together in a company and cannot exist without each other. At the visible level, level one, items such as artifacts, art, and visible and audible behavior patterns are noticeable but tend to not be comprehensible (Schein, 1985). Employees are automatically encouraged to follow visible behaviors once they begin working at a company (Kotter & Heskett, 1992). In this situation, an outsider to the organization would hold the possibility of being able to observe artifacts, even though they do not see them on a regular basis, because they are visible.

Invisible levels of culture are harder to see and change. It includes values shared by the entire group in the workplace. Despite changes in employees the culture tends to remain the same (Kotter & Heskett, 1992). The invisible level of culture is often more difficult to change than one would think. This is because those members don't realize the values are holding them together and sometimes not to the benefit of the organization (Kotter & Heskett, 1992). Values of an organization depend heavily on the individuals who work there. Individuals in an organization will rely on their personal values when making decisions in problem situations and the overall decisions of an organization. The invisible level of an organization includes the basic assumptions such as human natures, activities, and relationships along with the nature of reality, time, and space that are all taken for granted (Schein, 1985; Sackmann 1991). According to Schein (1985) basic assumptions are "nonconfrontable and nondebatable" and can lead to the distortion of data often times because individuals let past experiences or learning's decide how they feel about a given situation.

Within the levels of culture there is also the ability to have positive and negative effect on an organization. When the culture has a positive impact on an organization it is said to be moving the culture in the right direction and group members are strongly encouraged to follow the culture (Kilmann et al., 1985). Demonstrated later in this paper are examples of companies with positive company cultures, such as Phillips Plastics Corporation. When there is a negative culture impact in an organization, the culture is pointing in the wrong direction and tends to go against the organization (Kilmann et al., 1985). It is better for organizations to have a weak culture in the negative direction opposed to a culture that is mobilized in the negative direction with a strong impact (Kilmann et al., 1985).

If there is a lack of values in an organization for employees to follow, they may make their own. Having this occur is a weak culture in a negative direction because employees have no collective values to follow. Despite not having a set of company values they are still following something, so there is not a strong negative impact. An example of this is an organization where company values exist but are not followed. Instead of following the existing values individuals follow their own personal values. Traditions in an old company can make for a strong culture but may make it very difficult to change when the economy demands it. An example of a strong impact of negative culture would potentially be one where employees don't trust the decisions made by management. Because there is a lack of trust, employees don't follow the leadership, creating a negative culture impact throughout the organization.

Importance of Organizational Culture

Why then is organizational culture so important and what do companies experience when culture is negative? Organizations tend to view culture as something having the ability to influence overall performance and want to know how to have the best possible culture (Sackmann, 1991). Studies completed by Kotter and Heskett (1992) found a variety of reasons why culture in an organization is so important, with an emphasis on long term economic performance. Companies placing an emphasis on a culture that includes customers, stockholders, employees, and leaders in decision making tend to out perform by a shocking 682 percent over 11 years versus 166 percent for those companies without the culture bond (Kotter & Heskett, 1992). Companies with this focus also tended to grow their work forces, stock prices, and net incomes by outstanding numbers over companies that didn't.

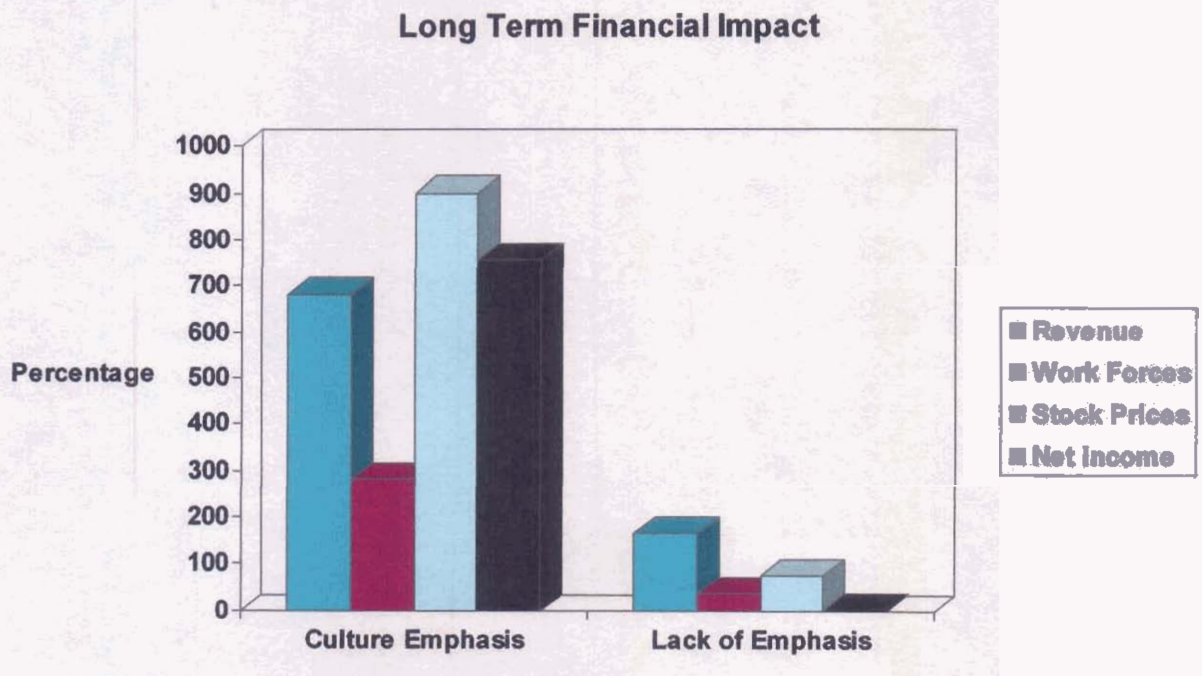

Figure 1. Long Term Financial Impact of companies with an emphasis on culture lack of emphasis (Kotter & Heskett, 1992)

Another finding of the study by Kotter and Heskett (1992) found culture plays a role when looking at the success and failure rates of organizations throughout the next decade. Negative performance cultures have a negative impact on financial performance which can potentially lead to company failure (Kotter & Heskett, 1992). Other findings in the studies completed by Kotter and Heskett (1992) found that companies with long term financial performance are not hard to come by and can be developed without difficulty. Kotter and Heskett (1992) also found that although a culture in an organization can be difficult to change it is not impossible to change the performance of a company. Everyone from management to lower level employees depending on the organizational set-up have to want to change. Management needs to convey the change as positive and how the organization will benefit. They also need to understand how individual employees will be impacted.

Change in Organizational Culture

How then do companies change? What makes a company feel as though changing what their culture is like will benefit the people at the organization and improve it as a whole? As stated by Childress and Senn (1995) the initial culture in an organization could be the very one which brings it down in the long run.

Change doesn't necessarily need to be a major event. Most often the smallest thing can result in major change and make a big difference. According to Gladwell (2002) three characteristics of change are contagiousness, that little things have big effects, and that change occurs at one major point opposed to smaller incremental steps. There can be one certain thing which causes a change in an organization or one person in an organization who will cause a change. Contagiousness is where one person or a small group of individuals doing something can have an effect on everyone and trickle down to more people following these actions. Little changes, such as having a manager start recognizing employees for a job well done, can lead to employees working harder on a more consistent basis. Change occurring at one major point can involve something such as creating and implementing core values. By having a new set of core values, this can have a positive impact on employee behavior and give them a reason to enjoy their job.

The external driving factors behind change in organizations tend to look at major business impacts such as globalization, technological change, growth of equity markets and corporate restructuring, changes in public policy, and demographic transitions (Ulrich & Lake, 1990). These are logical reasons for an organization to change as a whole in terms of how they function. Looking more deeply at an organization, what needs to happen in order to change culture? According to Childress and Senn (1995) the three primary areas in an organization needing to change on an internal level are individual accountability, turf issues, and bias-for-action. In terms of individual accountability, employees need to be able to take responsibilities in the organization and be proactive opposed to making excuses or blaming others (Childress & Senn, 1995). Turf issues refer to individuals who are too concerned with being competitive with each other instead of supporting each other as a whole, which benefits the organization (Childress & Senn, 1995). The last area needing to change is bias-for-action. Bias-for-action creates a sense of urgency within an organization whether it is having fewer meetings or committees in order to get more done (Childress & Senn, 1995).

People Process Culture

These reasons for change are addressed in people process culture. According to the University of Wisconsin – Stout an organization that is People Process Culture centered can be defined as “an organization environment that creates a strong, positive belief in people and sustains a high level of performance and profit over an extended period of time" (http://ppc.uwstout.edu/ppcmission.html). It is a real concept with real results.

The concept of People Process Culture incorporates four elements for an organization to have in order to be high performing. The first of four elements is a core set of values and beliefs for an organization to follow (Krueger, 1999). All individuals should be included in establishing and defining the behaviors related to the core values from top leaders to employees and customers (Krueger, 1999). Making all these individuals part of the process gives them an opportunity to include their personal beliefs and values and integrate into the organization. The core values of an organization can change in order to stay with the current times and be flexible. By making a small change to the core values in an organization, a big result can follow. This is similar to Gladwell's theory (2002) of small things making a big difference.

The second element in a high performing people process culture is to have all levels in the organization "walking the talk" (Krueger, 1999). Leaders at the very top of an organization play a vital role in making sure the message of the organization gets across to all employees. Leaders also have the responsibility to help individuals in the organization act in a way that brings out all aspects of the core values. This includes understanding them, believing in their importance, practicing them, communicating them, and rewarding and reinforcing the core values (Krueger, 1999). One individual practicing the core values of an organization can create a contagious effect, and in result everyone will be practicing the core values (Gladwell, 2002). Relating to individual accountability, employees will need to be able to accept responsibility for maintaining core values. It should not matter what part of the company an employee works in, all individuals are equally responsible for core values. Employees will need to overcome any turf issues (Childress & Senn, 1995) to work together as a team behind the core values of their organization. A leader in an organization should be able to walk up to any individual, and have that person know what the core values are, why they are in place, and the leader should be able to see them practicing and modeling the values for others to see. It may not always be easy for an individual to demonstrate the core values of an organization and adapt as necessary. As companies grow and change, values need to be able to grow and change with them. If not, the values making the organization currently successful could end up damaging an organization in the long run (Krueger, 1999).

The next element of a high performing people process culture is having processes and support systems which are developed to align with the values and beliefs of an organization (Krueger, 1999). Support systems can vary depending on what the company needs or views important. Examples of different support systems include communication, structure, rewards, measures, policies and procedures, management style, symbols, history, training, and informal organization (Krueger, 1999). The different support systems in an organization help to maintain a variety of aspects, with the main goal to provide as much support as possible in terms of influencing, shaping, and sustaining behaviors (Krueger, 1999).

The final element in high performing people process culture organizations is having actions which are able to move and adapt to change. It is necessary for organizational leaders to be proactive to changes in an organization with taking risks when appropriate (Krueger, 1999). A high performance people process culture organization should have the ability to capitalize on potential threats to turn them into even better opportunities (Krueger, 1999). This can benefit employees and customers (Krueger, 1999). This also relates to Childress and Senn (1995) bias-for-action. In a situation where companies are adapting to change there may not be enough time to meet and go over all aspects of change. Individuals will instead need to concentrate on getting things done. With these circumstances employees will also have to have individual accountability, and be able to support the decisions they make whether they are right or wrong. Something the best way for employees and organizations to learn is from mistakes.

The purpose of this study is to determine the effects of organizational culture on companies with a focus on financial impacts. By breaking down the different aspects of organizational culture it is easier to see how they individually affect company finances. Organizations will know what characteristics they need to possess in order to have a positive organizational culture. In turn, this positive culture will make for a positive influence on company finances.

Chapter III: Case Studies

Introduction

The purpose of this study is to determine the effects of organizational culture on companies with a focus on financial impacts. There are many ways to achieve a high performing people process culture. One, of many models, looked at is the Denison Model used by Denison Consulting.

Denison Consulting Group

Denison Consulting Group works with businesses to improve their organizational culture and links those improvements to bottom line advantages, emphasizing financial aspects. Specific to their organization is a behavior model which they contribute their success to working with companies to improve their organizational culture. The Denison model is behavior based, created for the business environment, and demonstrates improvement to bottom line figures such as profitability, customer satisfaction, return on equity, shareholder value, sales growth, innovation, and employee satisfaction (Denison, 2000). This model has been created for its ease of use and implementation and all levels in an organization can use it. This model supports the concept of high performing people process culture in that all levels should walk the talk (Denison, 2000).

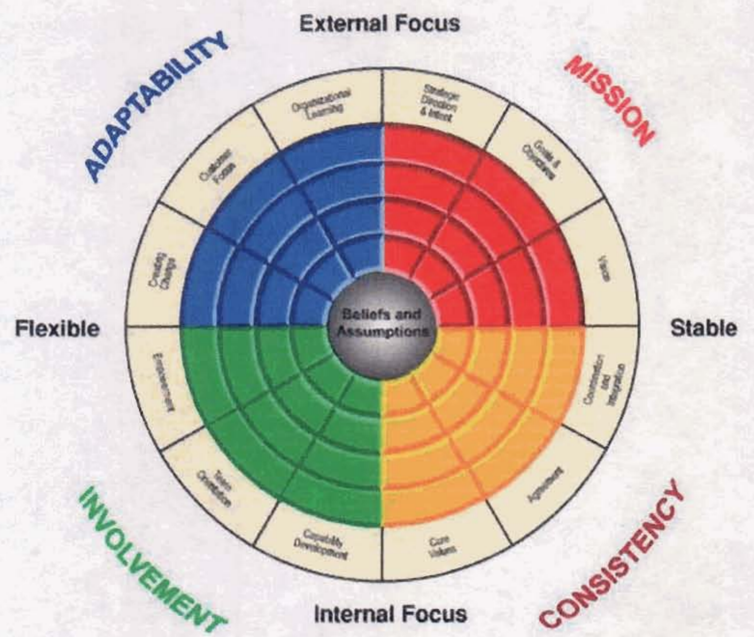

Figure 2. Denison Consulting Research Based Model when looking at high and low performing organizational cultures (Denison, 2000)

This model incorporates four major traits of mission, adaptability, involvement, and consistency (Denison, 2000). Within each major aspect there are smaller indices (Denison, 2000). The indices further breakdown each trait and allow companies to see where improvements need to be made. The purpose of the mission trait is to develop and define a long term direction and goal for the company (Denison, 2000). The indices in the mission focus include strategic direction and intent, goals and objectives, and a vision (Denison, 2000). Adaptability focuses on the capabilities of an organization to channel the demands of a business setting into actions which a company will benefit (Denison, 2000). Within the adaptability trait, the indices include creating change, customer focus, and organizational learning (Denison, 2000). The involvement trait examines building the human capability, ownership, and responsibility of individuals in an organization (Denison, 2000). In this trait the indices are empowerment, team orientation, and capability development (Denison, 2000). The involvement trait suggests that all individuals in an organization have some sense of ownership to their actions, and the result of this will then be an improvement in quality because better decision can be made as a whole (Denison, 2000). The final trait of the model is consistency, which helps to define the values and systems set by an organization (Denison, 2000). By defining values and systems, a stronger organization is created because individuals will know exactly what the company stands for. The indices of the consistency trait include coordination and integration, agreement, and core values (Denison, 2000).

The final aspects of the model are the external and internal splits, and the flexible and stable splits. The external and internal split occurs horizontally, with external being the top half and internal the bottom half. External aspects of the model include things such as customer focus, organizational learning, and creating change amongst items (Denison, 2000). These are considered external aspects because they are influenced by outside forces beyond the organization. In the external part of the model, adaptability and mission are the main traits. On the other half, internal, involvement and consistency are the main traits. Internal aspects in the model are items such as team orientation, empowerment, and core values (Denison, 2000). These items are influenced very heavily by the individuals in an organization and therefore are considered internal aspects. The flexible and stable split occurs vertically in the model. The left half is the flexible aspect of an organization, and the right half of the model is the stability factor. Within the flexible aspect, involvement and adaptability are the main traits (Denison, 2000). In the stable aspect, consistency and mission are the main traits. According to Denison (2000) organizations focusing on involvement and adaptability are flexible because they will produce more variety and solutions opposed to organizations focusing on consistency and mission. Flexible aspects include creating change, and other traits. If a company is going to focus on creating change it needs to be flexible to support the different types of change occurring, and the rapid rate at which it might occur. Stable organizations focus on indices such as core values, which may rarely change.

Denison Consulting has worked with a variety of organizations throughout different industries to help them increase financial aspects through improving organizational culture. In order to measure the different traits in an organization, Denison Consulting uses the Denison Organizational Culture Survey (DOCS). All individuals in an organization including leaders, vital stakeholders, and employees, complete the DOCS to gain a better understanding the link between their organizational culture and the financial impact (Denison, 2000). The DOCS looks at the culture traits of involvement, consistency, adaptability, and mission (Denison, 2000). Within the four traits there are three indexes including five items, for a total of sixty items (Denison, 2000). In order to determine the reliability and validity of the DOCS, a reliability analysis and confirmatory factor analysis were completed (Denison, 2000). For the 12 traits the coefficient alphas ranged from .70 through .86 and for the 4 culture traits ranged .87 to .92 (Denison, 2000). The coefficient ranges were considered significant, therefore the DOCS is a reliable and valid tool to use when assessing organizational culture.

One study completed looked at 161 publicly traded companies in a variety of industries. The top 10 percent scores on organizational culture were compared with the bottom 10 percent of organizational culture. Cultures in the top 10 percent had an average return on equity (ROE) of 21 percent versus culture in the bottom 10 percent having a ROE of only 6% (Denison, 2000). Another study, completed of 102 public companies over 8 years, found organizations with high performing cultures outperformed low performing cultures in terms of profitability, sales growth, and market value (Denison, 2000). The overall financial impact of organizational culture is crucial for companies. Another study looked at 161 publicly traded companies with high performing cultures and low performing cultures and found a return on equity (ROE) of 21% in high performing cultures versus 6% in low performing cultures. In a study of 102 public companies, a return on assets (ROA) in high performing cultures was 6.3% versus 4.5% in low performing cultures and sales growth was 15.1% versus .1%. Finally, in a study of 338 automotive dealerships, those with high performing cultures had customer satisfaction of 80% or higher versus 50% or less for low performing cultures.

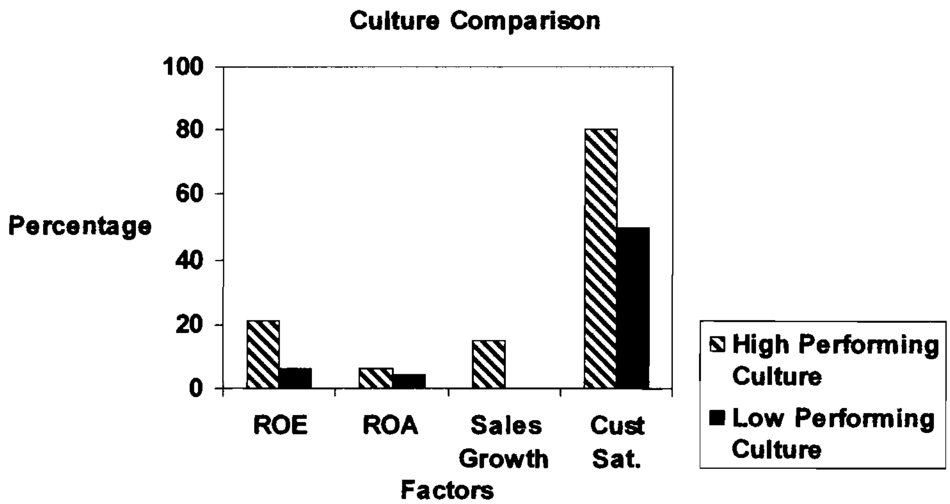

Figure 3. A culture comparison of high performing cultures versus low performing culture looking at major financial aspects (Denison, 2000).

Pulte Home Corporation

Pulte Home Corporation, a residential home builder in Midwest Wisconsin started in the 1950s, used the DOCS and DLDS from 2000 through 2003, focusing on employee growth and increasing revenue. In the early 1990s management at Pulte knew changes were taking place by looking at an increase in volume, the geographic area expanding, and more demanding customer expectations (JD Power Associates, 2003). The result of recognizing these changes saw Pulte in a position where they felt they needed to change their culture. A 40 year philosophy had been in place and was about to undergo a major overhaul from all aspects, beginning with senior management through suppliers and contractors (JD Power Associates, 2003). Everyone was going to believe in what the company stood for and that customer satisfaction was the most vital aspect in the company (JD Power Associates, 2003). The goal was to "capture their hearts and wallets" (JD Power Associates, 2003). Employees in the company were going to be empowered, rewarded, and celebrated so everyone could understand the importance and value behind changing the company culture (JD Power Associates, 2003).

During this culture change Pulte hired double the number of employees, 5,200 employees to 10,800 employees, and doubled sales revenue, $4.2 billion to $9.0 billion (Pulte, 2001; Pulte 2003). Sales growth rate and net income growth increased by 38.8% and 50.5% respectively in 2002 (Denison, 2000). Additional information was gathered from the Pulte Home Corporation website to determine if trends continued. In 2005 employed individuals grew to 13,400 employees and $14.7 billion in revenue (Pulte, 2005). Not all of the growth can be attributed to organizational change. Some growth can be contributed to economics and how the housing market is doing as a whole.

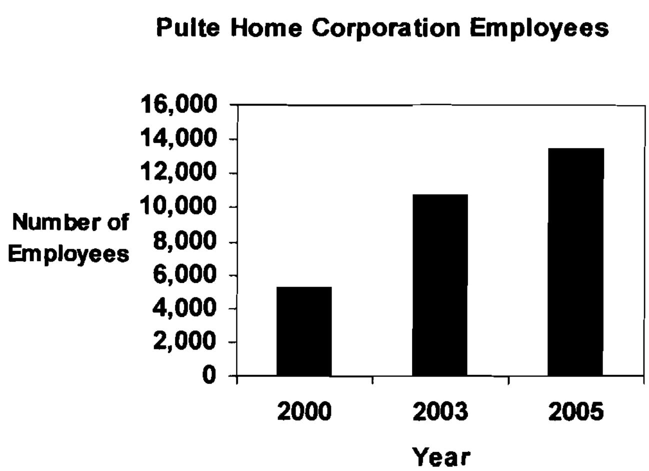

Figure 4. Pulte Home Corporation employee growth from 2000 through 2005 (Pulte, 2001; Pulte, 2003; Pulte, 2005)

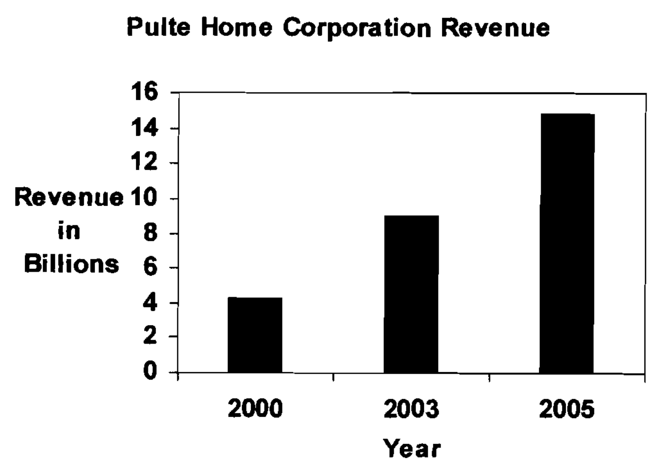

Figure 5. Pulte Home Corporation revenue growth from 2000 through 2005 (Pulte, 2001; Pulte, 2003; Pulte, 2005)

Phillips Plastics Corporation

There are companies that exist where the main focus is on high performing people process culture on an internal level opposed to working with an outside consulting company. As previously mentioned Denison Consulting uses one of many models that exist to change and improve organizational culture. Another model used in organizational culture is people process culture, the foundation of Phillips Plastics.

Phillips Plastics Corporation, a molding company primarily located in Wisconsin, has an average return on equity of 23% for roughly 40 years, with its ability to focus on customers while having the opportunities to take risks and innovate (Krueger, 1999). Phillips Plastics utilizes the very essential elements previously discussed of values, walking the talk, having an aligned system with the necessary support, and making difficult decision involving change (Krueger, 1999). Core values are the very beginning of conveying a message of what Phillips Plastics is truly about. For Bob Cervanka, founder of Phillips Plastics, the most important values in the workplace is knowing people are important and when working together people will achieve more (Krueger, 1999). It is not just Cervanka who emphasizes the core values of the organization. All employees have everyday access to knowing what the core values are and how they are expected to be performed in order to be a successful organization. Core values are available for everyone to see on stationary, posters, newsletters, and can be seen in the architecture of the facilities (Krueger, 1999).

In 42 years the company grew from 13 employees with $40,000, to 1,750 employees currently and $250 million in sales (Krueger, 1999; Phillips Plastics, 2000; Focus, 2006).

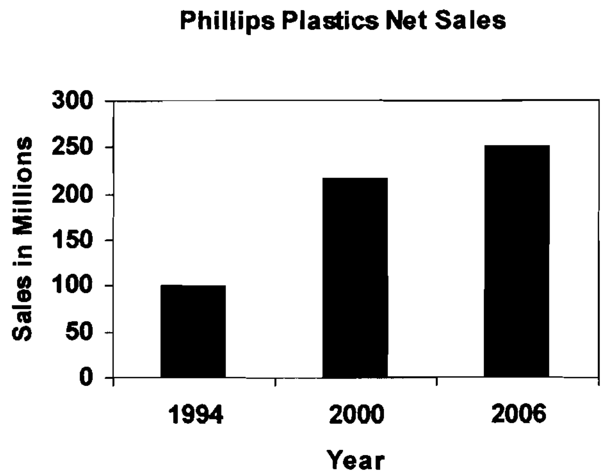

Figure 6. Phillips Plastics Net Sales from 1994 through 2006 (Phillips Plastics, 2000-2007; Focus 2006)

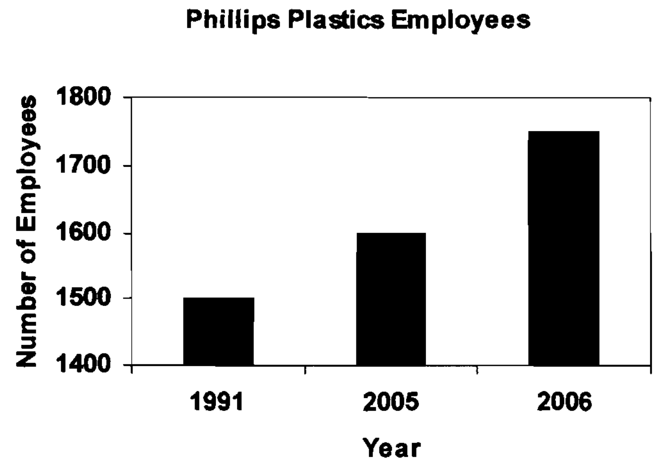

Figure 7. Phillips Plastics Employee growth from 1991 through 2006 (Phillips Plastics, 2000-2007; Focus 2006).

One asks how this company makes these achievements when so many other companies struggle. The answer is the company's people process culture (Krueger, 1999). Phillips Plastics hasn't had to undergo a major culture change like Pulte. Phillips' has ingrained people process culture into the foundation of the company and will continue to do so with a goal of making Phillips Plastics a $400 million company by the year 2012 (Focus, 2006).

Simmons Bedding Company

Simmons Bedding Company, a 125 year old company, underwent a major change in 2003. It was in 2003 when Fenway Partners sold their controlling interest in Simmons to Thomas H. Lee Partners for $1.1 billion (Casciaro & Edmondson, 2005). After the Lee Partners acquired Simmons, the "Great Game of Life" was rolled out in attempt to create a culture supportive of employees and emphasizing teams (Casciaro & Edmondson, 2005). The Great Game of Life is a process designed to create excitement with positive energy when maintaining culture in an organization (Casciaro & Edmondson, 2005). The end results of improving organizational culture through using the Great Game of Life were almost inconceivable. Simmons Bedding

Company, which was being out performed by competitors in 2001 and early 2002, had begun to out perform competitors by mid 2002 through 2004 (Casciaro & Edmondson, 2005). Prior to undergoing a culture change, Simmons was operating at a negative net income. Following the implementation of a culture change toward positive organizational culture, net income was positive (Simmons, 2005). Net income is a measure of revenues minus expenses to determine a company's income. Net sales in 1999 were just over $500 million and by 2004 were nearing $900 million (Casciaro & Edmondson, 2005). Net sales and income for 2003 are not included because the year was not measured the same as 2001, 2002, 2004, and 2005.

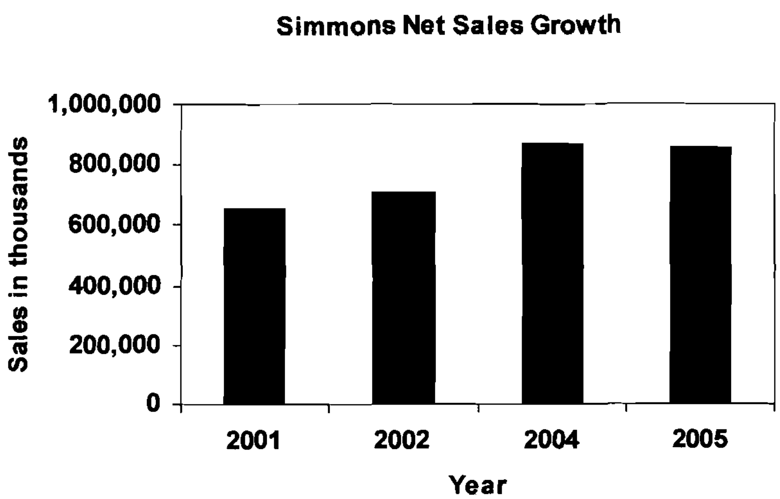

Figure 8. Simmons Net Sales from 2001 through 2005 (Simmons, 2005).

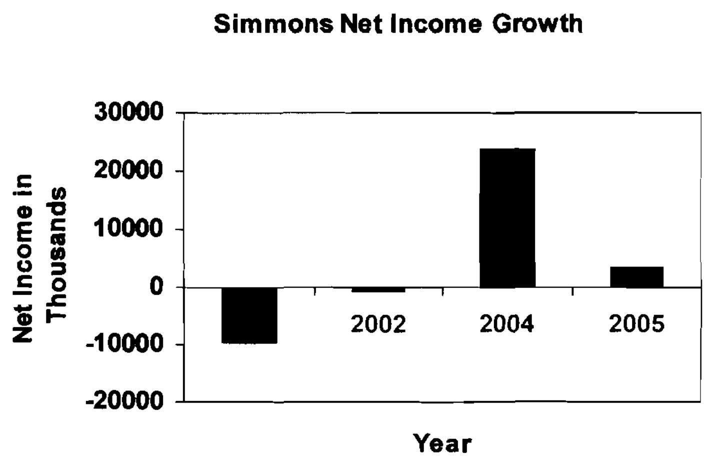

Figure 9. Simmons Net Income from 2001 through 2005 (Simmons, 2005).

Chapter IV: Results

Financial Impact

The purpose of this study is to determine the effects of organizational culture on companies with a focus on financial impacts. Results from Denison consulting on 161 publicly traded high performing culture companies saw a ROE equaling 21% and a 6% ROE in low performing culture companies (Denison, 2000). The results of a study on 102 public companies with high performing cultures saw a ROA of 6.3% and sales growth of 15.1% compared to a 4.5% ROA and.1% sales growth in low performing cultures (Denison, 2000). Customer satisfaction of greater than 80% for high performing cultures and 50% or lower for low performing cultures was found in a study of 338 automotive dealerships (Denison, 2000).

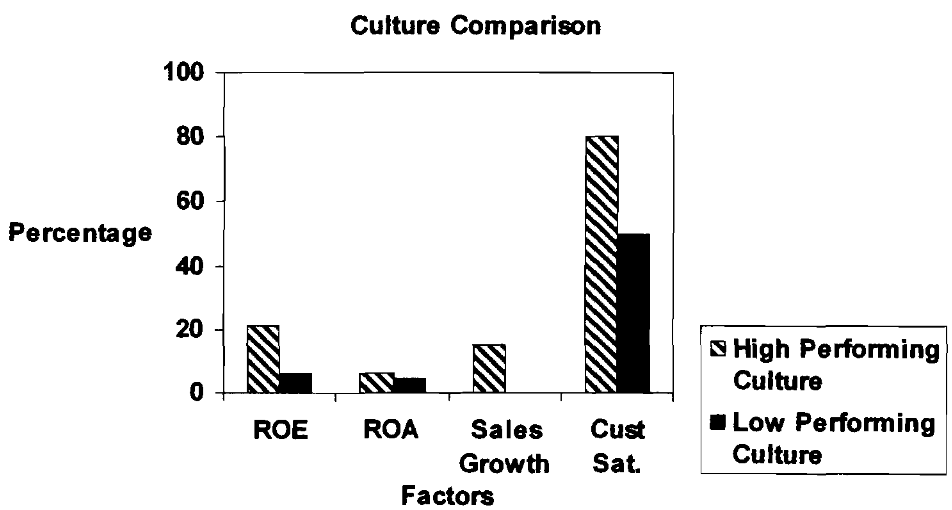

Figure 3. A culture comparison of high performing cultures versus low performing culture looking at major financial aspects (Denison, 2000).

Going through a culture change from 2001 through 2003, Pulte Homes saw results in employee growth, sales revenue, and net income. The number of employees grew from 5,200 employees in 2001 to 10,800 employees in 2003 (Pulte, 2001; Pulte, 2003). Also during this time sales revenue grew from $4.2 billion to $9.0 billion (Pulte, 2001; Pulte, 2003). The final set of results, from 2005, after the culture change had taken place, saw 13,400 employees and revenue of $14.7 billion (Pulte, 2005).

Phillips Plastics has been built on the foundation of people process culture, and in turn the company has grown and profited. In 1964, when the company was founded, there were 13 employees (Phillips Plastics, 2000). In 1991 there were roughly 1,500 employees, in 2005 there were 1,600 employees, and currently there are 1,750 employees at Phillips Plastics (Phillips Plastics, 2000-2007; Focus, 2006). Net sales have grown from $100 million in 1994, to $216 million in 2000, and currently at $250 million (Phillips Plastics, 2000-2007; Focus, 2006).

Simmons underwent a culture change when it was purchased by a new company in 2003. In 2001 Simmons had a net income of negative $9.6 million and net sales of $655 million (Simmons, 2005). In 2002, Simmons had a net income of negative $661,000 and net sales of $700 million (Simmons, 2005). In 2004, after the culture change, Simmons saw net income of $23 million and net sales of $869 million (Simmons, 2005). Finally, in 2005 Simmons saw net income of $3.3 million and net sales of $855 million (Simmons, 2005).

Figure 10. A review of employee growth for Phillips Plastics and Pulte Homes (Phillips Plastics, 2000-2007; Focus, 2006; Pulte, 2001; Pulte, 2003; Pulte, 2005)

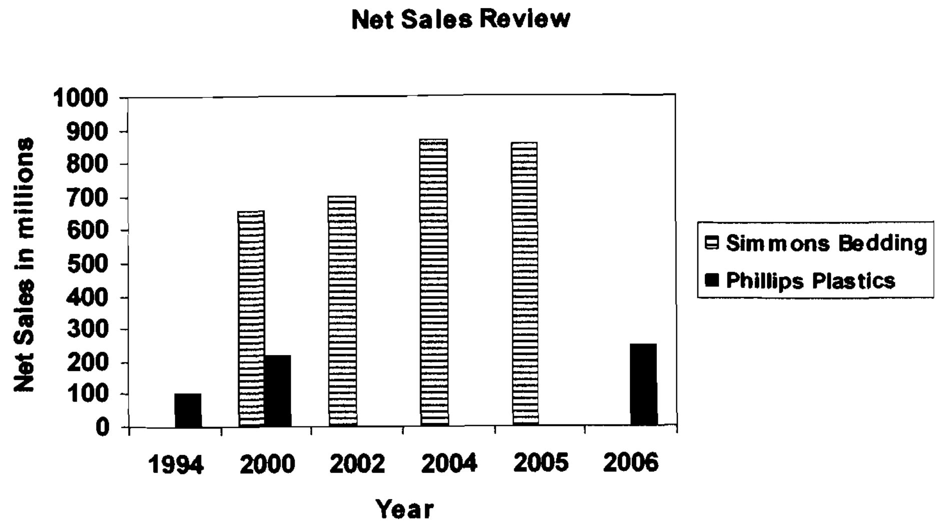

Figure 11. Net sales review of Simmons Bedding and Phillips Plastics (Phillips Plastics, 2000-2007; Focus, 2006; Simmons, 2005).

Chapter V: Discussion and Conclusion

Discussion

The purpose of this review is to determine the effects of organizational culture on companies with a focus on financial impacts. Based on the results shown, companies that have undergone a change in organizational culture have seen an improvement in bottom line finances. The literature discussed was supported through these findings that companies are affected by organizational culture. Different aspects of the literature review were supported and are explained throughout the discussion.

When an individual understands their organizational culture, (Schein, 1985) companies are positively affected. Organizations which have a the basis of a strong positive culture from the beginning, or change to have one, will have employees on the same page understanding what their companies organizational culture is. Simmons, for example, underwent an organizational culture change involving each individual in the workplace so they understood what was happening, and in turn saw tremendous financial outcomes.

While culture has the potential to be a very large aspect in an organization, it is still made up of smaller aspects (Schein, 1985). A company such as Phillips Plastics focuses on the smaller elements of what it means to be a high performing people process culture. By focusing on the smaller aspects of each element of people process culture, they are able to maintain the overall concept of high performing people process culture.

When culture is moving in a direction with positive impact, employees will be more likely to follow (Kilman, et al., 1985). This notion is supported at Simmons. All employees went through the Great Game of Life process and some had reactions of excitement to the changes that were taking place within their company (Casciaro & Edmondson, 2005). By seeing the positive influence the Great Game of Life would have not only at work, but in life outside of work, employees were more apt to follow. Only those employees who quit or were let go did not complete the Great Game of Life (Casciaro & Edmondson, 2005).

The case studies represented the various impacts on financial aspects when one pays attention to organizational culture and wants it moving in a positive direction for employees. Those companies, especially Simmons and Pulte, saw drastic positive improvements in bottom line figures when they under went an organizational culture change. The results supported research by Kotter and Heskett (1992) that organizational culture impacts company finances.

Simmons Company saw a major point in which a change was going to take place when the Great Game of Life was implemented into the company. Similar to the review of Gladwell (2002), changes can occur because of one major happening. Also supporting Gladwell's theory of contagiousness (2002), when a small group of individuals in the organizations started with the Great Game of Life it proceeded to trickle through all employees (Casciaro & Edmondson, 2005).

Conclusion

Future research on organizational culture is needed to gain a better understanding of how different companies in different industries view the importance of organizational culture. When companies want to work on improving their cultures they need to focus on what exactly they want to change. By doing this they will be able to link the direct effects of organizational culture to specific items they want to change within their company. It is recommended to organizations that are seeking to change their organizational culture that they start with a measurement to see where there organizational culture is. By determining where the organizational culture is at the beginning, they can create a better understanding of what outcome they would like to see after undergoing an organizational change.

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