

## *CHAPTER I*

### *INTRODUCTION*

With the introduction of the New Economic Policy (NEP), and the liberalization of the Indian economy in 1991, Indian organizations needed to modernize and restructure themselves within the boundaries of long-established socio-cultural values and ethos (Agarwal & Misra, 1993; Amba-Rao, Petrick, Gupta, & Von der Embse, 2000; Saha, 1993). Thus, post-1991, Indian organizations had to move from operating in an industrial to a post-industrial social setup. The business and economic foundation of the industrial society was rooted in mass produced industrial goods, mass consumption, rigid instrumentation, information uncertainty, and urbanism. By comparison, the highlights of the post-industrial social setup are the growing importance of the service industries where the principal resources were knowledge, creativity, information, network organizations, and attempts to reduce uncertainty. The contrasting nature of the two kinds of social setup provided the backdrop against which one needed to understand the new paradigms of business.

As stated earlier, the social transition in India started to take shape from an industrial to a post-industrial system with the introduction of the NEP in 1991 that opened the economy to foreign direct investments. Consequently, organizations in India, whether owned by indigenous entrepreneurs or by entrepreneurs from abroad, faced the turmoil of the global business environment. As a result, they tried to find out ways and means to survive in the face of growing competitive challenges.

The transition of societies from industrial to post-industrial does not indicate that economies which were earlier based on manufacturing companies now started depending exclusively on the service sector. Hasse and Leiulfstrud (2002) indicated that manufacturing processes depended significantly on contributions made by the service industries, thus underlining the interdependence of both types of industries in an economy. However, if one is

to capture the differences between the two types of industry, one needs to understand the variations in the manner in which each copes with the problems of external adaptation and internal integration, as well as organizational members' individual evaluation of their everyday working environment, rather than, differentiate them on the basis of the production processes and the nature of resources employed.

While the industrial society marked a watershed departure from the agricultural society preceding it, there are a lot of overlaps as well as differences. This led to the current trend among researches in organizational sciences, especially those related to organizational sociology and organizational psychology, to focus upon how organizations manage to cope with the fluidity of their external environment, and at the same time cohere and strengthen themselves internally in a bid to survive within their respective industries, and simultaneously achieve efficiency and effectiveness to attain their business goals and objectives. As a result, importance attributed to linkage researches in organizational sciences increased over time. Researches examined certain constructs that influence outcomes related to the organization, as well as, to the organizational members (Wiley, 1996). Subsequently, it became relevant for organizational researchers to concentrate upon areas that helped predict and interpret differences that contributed towards the efficacy of organizations within the ambit of their business scenario. Researchers are trying to explore organizational dynamics to understand those factors that shall help practitioners cope with the day-to-day problems of the continually changing business environment.

In the past, both bureaucratic and humanistic control failed to reduce vertical divisionalization, generate sentiments and emotions, or discard the use of financial motivators to increase goal congruency of organizations and their members. This led to a search for an alternative method of management that would appeal to the emotional, non-rational, and affective elements among organizational members that would, in turn, increase the efficiency

and effectiveness at the organizational as well as the individual level. As a result, the construct of organizational culture increasingly assumed importance to a wide cross-section of people concerned with organizations and their effective management “from managers in search of excellence to organizational scientists in search of a molar construct to represent the gestalt of a complex social system” (Woodman & Pasmore, 1991, p. ix). This is because the volatility of the contemporary business circumstances necessitates reforming the whole system from time to time and organizational culture as a construct provides a comprehensive way to go about such reformulations. Accordingly, the construct of organizational culture, or more specifically, its inherent characteristic of bringing organizational members together in order to adapt to changes in the external business environment led to it being considered as an important informal control mechanism that brought about increased individual and organizational efficacy (Calori & Sarnin, 1991; Deal & Kennedy, 1982; Denison, 1984; Gordon & DiTomaso, 1992; Peters & Waterman, 1982; Wilkins & Ouchi, 1983).

In this context, one of the primary objectives of the current study was to draw up a causal model linking organizational culture and organizational effectiveness, as well as, some individual level outcomes such as employee performance, job satisfaction, organizational citizenship behaviour, and intention to quit.

In continuation, it can be stated that research interest with respect to the organizational culture construct gained popularity since Pettigrew’s (1979) seminal article, it has been sustained till date as the construct provides pointers to managers regarding organizational problem-solving that are easier to comprehend. According to Cameron and Freeman (1991), there are at least three implications as to how researches dealing with organizational culture are of importance to practicing managers. Firstly, an organization has a dominant culture over and above several subcultures across organizational units. Awareness about the congruence and incongruence among these subcultures help managers in engineering interventions that

lead to successful organizational changes. Secondly, understanding an organization's culture coincides with grasping the essence of an effective tool for diagnosing and improving organizational performance. Thirdly, by being sensitive to an organization's culture, practitioners can capitalize on the effectiveness and efficiency criteria by formulating consistent policies, procedures and practices. After all, management has been defined as "the process of effectively and efficiently getting things done, with and through other people" (Robbins & De Cenzo, 2003, p.5).

Thus, the central values and beliefs that lie at the core of an organization's social system has been a focal topic of much of the published researches on organizational culture. The most frequent topics have been the ways in which organizations have developed and maintained these central values and behaviour and the manner in which they are transmitted among organizational members (Louis, 1983; Sathe, 1983; Schein, 1985). Thus, organizational effectiveness, or the lack of it, is a function of shared values and beliefs held by organizational members. In other words, effectiveness depends upon an organization's culture (Denison, 1990; Kotter & Heskett, 1992).

The discussion about organizational culture above makes it apparent that the frame of reference in this case would be the summation of perceptions of individuals about an organization, other organizational members, and themselves. The collective perception influencing outcomes is what the organizational culture construct focuses upon. If culture refers to a collective sensemaking to cope with changes in external environment of an organization while strengthening the 'glue' among organizational members, then psychological climate refers to "cognitive appraisals of environmental attributes in terms of their acquired meaning and significance to an individual" (James, James, & Ashe, 1990, p.54). In order to get a holistic view of various organizational and individual related outcomes, it is relevant that the frame of references from the input variable point of view

should capture both the macro as well as the micro level outcomes. Accordingly, the current study incorporates organizational culture, the construct with more pronounced macro reference point, and psychological climate, the construct whose frame of reference is the individual. These two variables constitute the first-level predictors.

The choice of psychological climate as an independent variable was not accidental. It was chosen as a complementary variable to organizational culture. While, culture may influenced macro *and* micro level outcomes, psychological climate mainly influences the individual related outcomes. James *et al.* (1990, p.72) say that “it is not the content of the variable [psychological climate] *per se* that differentiates climate from culture. Rather, it is the frame of reference, [that is] personal versus group that is the key to differentiating climate and culture”.

### **1.1 Literature Review and Model Development**

Studies of organizational culture provided a comprehensive framework to understand how organizations and their major subunits operate. This is primarily because the organizational culture takes into account, aspects of several disciplines in social sciences such as economics, classical and operant learning theories, system theories and so on. The significance of the culture construct with its emphasis on shared values and meanings, provides organizational scholars a more holistic perspective of organizations and their subunits.

Schein (1983, p.15) defined organizations as “... the planned coordination of the activities of a number of people for the achievement of some common explicit purpose or goal, through division of labour and function and hierarchy of authority and responsibility”. This definition, while describing organizations made an important point with respect to the current study, in that, it emphasized the ‘activities of ... people’. This necessitates the inclusion of variables that provide an individual level description of organizational dynamics that may be

aggregated to corroborate with variables such as organizational culture when predicting organizational as well as individual related outcomes.

The above discussion lays the foundation for including psychological climate as the other predictor as it was found to provide a micro level assessment of perceptions about the individual's work environment. Collective consideration of its impact on the stated outcomes is assumed to reinforce the causal model. Thus, the outcomes would be predicted by a construct, organizational culture, which provides immediate macro perspective of how organizational and individual related outcomes occur. Another construct, that is, psychological climate, when considered collectively would build up on a micro level basis for the individual outcomes. This completes the premises on which the proposed causal model is based.

This chapter aims at building up the proposed theoretical model that would be consequently subjected to empirical testing. For this purpose, literature relevant to the variables included in the model has been extensively reviewed. Conceptual definitions of the variables have been affirmed and based on these definitions the variables have been operationalized. Indications from the literature have been translated to testable hypotheses. Based on the hypotheses and the relationships among the variables, path models have been generated in a manner that sequentially charts the findings from the reviewed literature up to the final conceptual model upon which the present study is based.

The chapter is structured in a manner such that the predictor variables are discussed in the beginning, followed by an exposition of the criterion variables. Furthermore, hypotheses relating the predictor variables to the criterion variables are documented.

#### **1.1.1 Organizational Culture**

Literature pertaining to organizational culture acknowledged that although it is common for researchers from the field of organizational psychology and organizational sociology to