

# Competitiveness, Growth and Change Process in the Perspective of the Organizational Culture

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**Abstract:** The purpose of this paper is to identify the organizational culture influence on the relations among competitiveness, growth and the change process. Competitiveness can be achieved based on different production factors, various assets, both tangible and intangible, as well as dominant positions generated naturally or artificially. An asset to be taken into account that generates competitiveness is organizational culture, whose own intangibility gives the company an inimitable factor, able to mutate, change and give the internal process of any organization a high degree of dynamics. We address the issue of organizational culture to be aware of its scope from the perspective of its evolution and the competitiveness it generates. The launching of any business initiative demands from the owners an interpretation of their vision of the future of the project they wish to implement. Years later, this interpretation may be articulated explicitly detailing, in a tacit form, the set of values and beliefs that underpin the company. Thus, organizational culture has, as its main goal, to bring together the people's main intentions, while it generates its own dynamics, evolves and develops; it becomes enriched, but also questioned, especially when the answers provided by the company are ineffective in meeting the requirements of the environment and his possibility to adapt and grow.

**Key words:** culture; resources and capabilities; cultural response; competitive advantage; learns and knowledge

**JEL codes:** M1, M14

## 1. Introduction

In a global, complex and competitive world, companies achieve their international expansion processes based on growth, however, growth processes are faster through the mergers and acquisitions. In either case, this growth creates a new organization, as a result of integration and cohesion of resources and capabilities of two or more business. Companies have always worked on competitive environments. However, the theoretical framework employed to try to explain the origin of the difference in their performance, that is to say, why some companies achieve a profit rate higher than the competition has not always been the same. The thing is that when we talk about a competitive position we have to refer necessarily to business strategy. The organizations must be adopting a conduct that makes a difference, about the performance of its competitors, and this difference is the basis for competitive advantage. However, the basis for achieving this advantage may originate from two different sources, although both intend to reach the same goal: achieves higher performance than the competition, or achieve it

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attains the potential to do so (Grant, 1966).

### **1.1 Competitive Advantage Based on the Analysis of Industry Environment**

To summarize, from a traditional perspective, we can say that competitive advantage based on analysis of current industry environment is a strategic thinking approach, whose original ideas go back to the sixties and reached its highest development and dissemination in the eighties. Based on the principles of industrial economics, it argues that sustainable competitive advantage of a company in the long run depends on the position of the products in the markets. That is, the competitiveness of a company depends on: (1) the degree of adjustment between their resources and the conditions of its environment and (2) its position (strengths and weaknesses) for competition. The logic of the industrial economy is: *structure-conduct-results*, according to Bain (1959) who focuses his study on the imperfections of product market competition, trying to find significant differences associated with representative variables of market structure (concentration of supply and demand, barriers to entry, economies of scale, etc.), as evidence of profitability in each sector. This analysis, on the attractiveness of different sectors in terms of potential for future benefits is based on industry structure as a determinant of competitiveness. Under this line of thinking, the corporate strategy guides the business decisions to select the best areas in which to invest, as long as the company develops one of two basic competitive advantages: *low cost or differentiation*; a situation that will have beforehand an influence in the organizational-cultural context, in the coordination mechanism, in the work processes, in information systems and organizational control, all from the concept of the *value chain*, developed as a fundamental tool in the diagnosis of corporate competitive advantage to find out how to reduce costs or how to differentiate the products of the company from the competition.

### **1.2 Competitive Advantage Based on the Analysis of Resources and Capabilities**

Another approach to reach a position of competitive advantage is developed since the nineties, the so-called “Theory of resources and capabilities”, which shifts the attention and interest from the study of the competition imperfections in product markets (traditional approach grounded in the paradigm *structure–conduct–results*) to the study of the imperfections in the resource market, based on a new paradigm, which can be called *distinctive capabilities–performance–results*. The primary bases of this new theory can be traced back to the work of Wernerfelt (1984), from which the company is considered as a set of resources, as distinct from the traditional view of an organization as a mere provider of products in the markets it competes. According to the idea of the theory of resources and capabilities, the competitiveness of companies is determined by the characteristics that certain resources and capabilities have, that is, the heterogeneity of resources and capabilities available to a company, the difficulty of mobility in the factor market and the limited ability of competition to imitate or copy these resources.

## **2. Resources and Capabilities to Competitive Position**

This approach has two key elements: resources and capabilities.

*Resources*: any factor of production available to the company, even if the company does not have clear property rights over it, whether tangible or intangible. For example, a useful starting point for classification is to distinguish between tangible resources, intangible resources and human resources. Among them, it is the corporate culture.

*Capabilities*: they represent the body of knowledge and skills to perform some task or activity supported by a number of resources.

In both cases, an heterogeneous nature is assumed, that is to say, that: (1) companies are fundamentally

different depending on the assets they own and the variability of skills that can develop (by the training programs for example) and (2) the assets—which are a dynamic combination of resources and capabilities—determine competitiveness, since it is through them that the different options of product-market strategies plausible to be implemented become a reality.

However, a further step in the analysis and study of the competitive advantage is, at present, the *dynamic capabilities approach*, in an attempt to analyze and explain the causes of permanent heterogeneity of business resources from a dynamic context which has not been covered so far (Teece et al., 1997). Thus, with competitive advantage based on the analysis of dynamic capabilities, the analysis focuses on the processes of change (caused both by the heterogeneity of resources and by the environmental conditions) that have a place in the company. The principle of the heterogeneity of resources and capabilities is still an explanatory variable of the differences in yields, but additionally other elements are taken into account, such as the ability of the organization to renew and increase its capacity when a response to changes in the business environment is needed.

Throughout this dynamic process of change, the organization, simultaneously, is able to:

- Record the knowledge produced as a result of the synergy between resource capacity and condition of the environment through a process of individual and organizational learning (exploration) and
- Make use of all previously developed routines (exploitation), which ensure a minimum level of stability, in the process of change.

In this vein, the theoretical framework that supports a position of competitive advantage based on resources—including contributions from the approach of dynamic capabilities and knowledge in the organization—hands over to us, in our view, a new business and management vision, much broader, enriching and creative, that the paradigm offered by *the structure-conduct-performance*, admitting that now business activity can be conceived as a process of deliberate and continuous change, driven by the need to maintain economic rents over time based on the creation, accumulation, application and distribution of knowledge, skills and resources, as a plausible means to create a distinctive performance that supports the company's competitive advantage.

### 3. Organizational Culture in Context

All entrepreneurship requires, previously, from its promoters<sup>1</sup>, an interpretation and concept about the future vision of the project that they want to conduct as well as the environment and the conditions under which it is expected to unfold. In the vast majority of cases, and especially in the early years of business life, this is an intellectual effort of reflection that appears implicit in the promoters' and their associates' daily life. Over the course of the years, this endeavor can be expressed explicitly in order to become a key element of commitment and to let society know about the ideas that will guide all actions of the organization, in the present and future.

The company culture's main aim is to bring together the main intentions of people; it generates its own dynamic, evolves and develops, and it becomes enriched, but also questioned, especially when cultural events are ineffective before the environmental requirements. This state of affairs tenders an opportunity for changes in the cultural constitution of the organization, initiating a process of continuous improvement.

#### 3.1 The Cultural Process in the Company

The intellectual effort of reflection and interpretation that takes place at the beginning of all entrepreneurship

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<sup>1</sup> We understand as promoters of an enterprise, both the founder, or founders, that with efforts set a company in motion, as well as the leader or leaders who, at a later stage, organize and manage resources to ensure continuity in the organization.

depends on the set of basic assumptions and beliefs held by the promoters at a given time, which have been developed over links and previous experiences (Schein, 1988), both of everyday life, and business. They make possible that their actions may be understood, in principle, depending on how they approach and interpret a particular situation.

From the first moments of life of a business project promoters share the results of their interpretations and ways of looking at life with other members (not promoters) participating in the project, helping to further strengthen the link “individual-group” or “individual-company” arising from the contractual relationship that linked them from the start. These signals or messages from the “top down”, about the expected results, on how to do things or how to act at any given time, are accepted to some extent by the members of the organization as dogmas that guide their actions and determine their performance. One of the main reasons for this level of acceptance is that, in general and at this stage, the members (not the promoters) feel unable to question and contradict the basic assumptions and beliefs of the founders or leaders, because they:

- Do not have enough power to support their own assumptions, and
- Require much more of guides and work elements to strengthen their sense of belonging to the group, than to prepare and present judgments that contradict these aspects.

Therefore, members of the organization accept them as such, incorporate their own assumptions and beliefs, reinforce every day from their relationships with other members as well as from the results obtained from the interaction of elements or cultural components<sup>2</sup> and the realization<sup>3</sup> of these predictions in the external environment.

### 3.2 Cultural Structure Dynamics

It is of capital importance in this scheme to highlight the necessary participation of those people who take on these aspects, whether or not they are participating as promoters in an entrepreneurship. Undoubtedly, these three components only have sense in the context of the business culture to the extent that members of an organization are actively involved in the planning, configuration and development. This last stage is understood as the group's efforts to achieve reinforcement, maintenance, enrichment and subsequent growth of the culture. Additionally, along with the components and the main actors—promoters and non-promoter's members of an enterprise—a culture, something that must be taken into account is the process by which their performance is enhanced or its effectiveness questioned, both internally and externally.

From these three elements, components, actors and process, we can sketch the cultural fabric of an organization. Its main feature is its dynamic nature, whose origin lies in the incremental accumulation of interactions; the human group, involved in its final configuration, and the assessment processes that are exercised by the various social partners.

For practical purposes, the *cultural structure* can be defined simply as the set of interrelated and interdependent components of the culture of an organization that promotes its realization in a series of events that support its use, effectiveness and validity, and which includes the existence of a dominant culture and other less influential subcultures (Ruiz-Olabuenaga, 1995). For Schein (1988, p. 65) culture is “... a dynamic process ...” of

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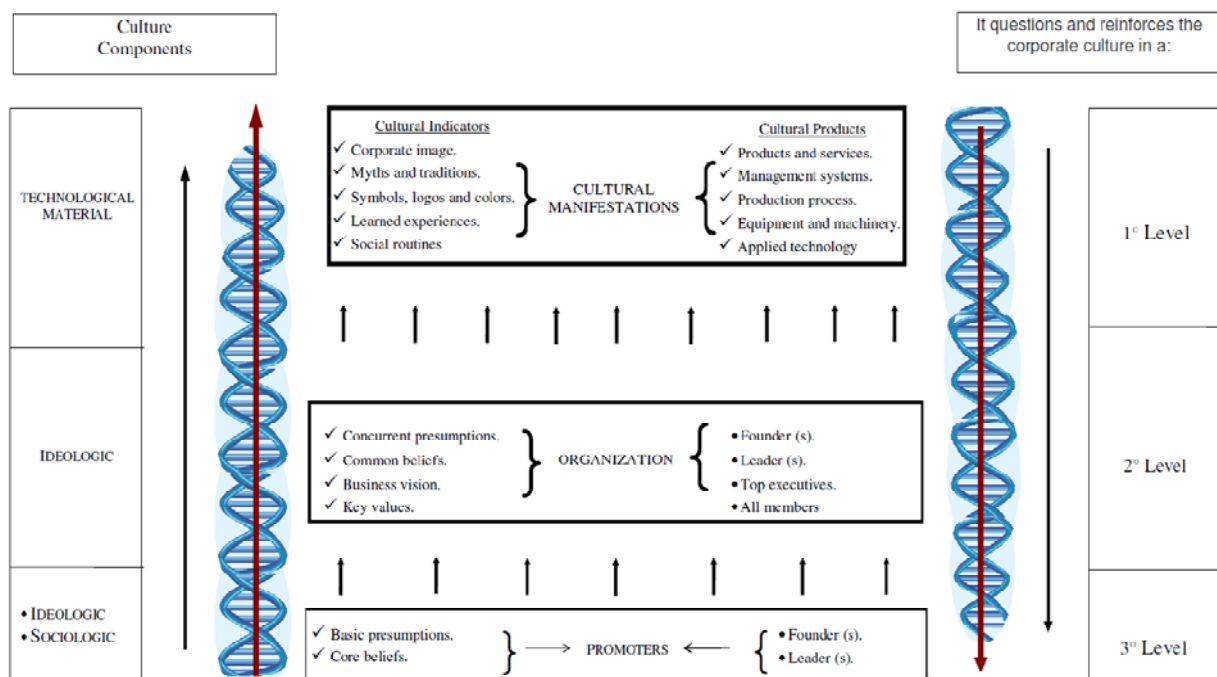
<sup>2</sup> Such as a corporate image, symbols, colors, logos and designs that identify an organization, traditions, social routines, employees' uniforms, and any implicit or explicit distinguishing feature that allows an organization to identify and differentiate from any other of the same industry and business.

<sup>3</sup> This materialization becomes evident through links and relationships with new customers, new suppliers and new social participants, also in work routines, management processes, in products, services, management results, income account evolution, and so on.

individuals, groups and their beliefs, and its genesis has a particular resemblance to the process of group formation. Thus, culture has its natural place of conception and development in basic and primitive relations of all human groups pursuing specific objectives.

The formation of a culture is part of the development process of a group, although some of its members—the promoters—play a decisive role in the design and initial configuration of the organizational culture (Schein, 1988), and therefore, have a determining role in its subsequent evolution.

To explain the dynamics of the cultural structure, we will rely on the graphic in Figure 1, which aims to provide a broad and comprehensive vision of how the business culture materializes through certain elements and processes departing from the ideas and beliefs postulated by their promoters.



**Figure 1 Cultural Structure of the Company, Component Elements and Levels in Which the Culture is Questioned and Reinforced**

Source: Own elaboration.

In this regard, we believe that every organization has a particular cultural framework, a system of hierarchy and levels of definition; although in each case they have a very singular form and function. However, its dynamics can be observed, such as proposed below. According to the scheme presented in Figure 1, the culture of an organization structure consists of three closely interrelated parts, which are shown separately, in order to identify their functions.

### 3.3 Hierarchical Levels of the Cultural Structure

In the case of a company's organizational structure, dynamics arises from the information that flows along it, as well as orders that are given, from the upper levels to the lower ones. The principle of authority and responsibility are essential to coordinate the work. However, in the case of the cultural structure, its dynamic nature is determined additionally by the process that hierarchically enhances or questions the usefulness, effectiveness and validity of the various components of corporate culture. This process is generated from the

information that flows along the cultural structure of the company and has two main characteristics:

- It originates from the internal environment (members of the organization and their relationships) and the external environment (social participants of the company).
- Information flows through the cultural structure in a hierarchical manner, contrary to the process of cultural concretion<sup>4</sup>, providing relevant information.

At each level above, the organizational culture is likely to be reinforced or challenged. This process, which reinforces or challenges the organizational culture, is represented graphically (see Figure 1) by an “*endless spiral of double orientation*.” On the one hand, of “downward” orientation, this represents the information received by the organization with regard to the aspects that are questionable (solid lines, downward orientation). The flow of information will continue to decline in the level as they continue questioning the corporate culture. In this regard, Hall (1995, p. 6) argues, in the case of strategic alliances, cultural differences trigger a downward spiral of relationships, which eventually eliminate all positive synergic effect in partnerships. Misunderstandings, mistrust of the intentions, increased tension and conflicts generate a break in relations and the dissolution of all cooperative work.

Thus, the direction “*upwards*” represents a timely response that reinforces culture. The spiral “*downward*” originates from the information provided by the social participants regarding the efficacy, effectiveness and validity of cultural events, and it can reach the substrate itself in corporate culture. It is also an *ongoing* process, but the organization has the opportunity to reverse its direction and trend, to the extent that it can respond correctly and accomplish to mitigate the impact caused by inefficiency of the culture.

### 3.4 The Cultural Response or the Learning Process of Culture in the Firm

In the firm, which really should matter about the organizational culture is that it encourages, within the organization, the construction of a response pattern to the external environment when the market calls into question the usefulness of the material-technological aspect, the soundness of the ideo-sociologic aspect, or the validity of the assumptions and beliefs of the promoters (Kotter and Heskett, 1995, p. 4). The importance of this process is not about questioning or not the cultural fabric of an organization, but that it is possible to establish a relationship of mutual dependence between the company and its environment, through which the required information should flow:

- Towards the company, so that it interprets the messages of change and adaptation that the market is requiring, and
- Towards the environment, to take into account the improvements that are made and incorporated into the disputed items, and submits them, once again, to a new process of evaluation and control.

From this point of view, we understand as business culture:

“... that process for generating answers that formalizes, conditions and predetermines the behavior of the members of a company ...”

Here what matters the most is not that a culture can be challenged or that the effectiveness and usefulness of its material-technological aspect is called into question; what is really important is the *ability of the organization to respond correctly and effectively* to what the external environment challenges. We should note that the elements of

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<sup>4</sup> In our opinion, the organizational culture comes true when the organization as a whole makes a practical and consistent use of its assumptions and common beliefs—“lives them” literally—in each of the company activities, and of everyday life, which requires, in general, to have to realize these assumptions and beliefs in certain cultural manifestations.

culture being questioned may be modified in accordance to the real needs of consumers, but also according to the real capabilities of the company; that is the reason why the answers given by the organization correspond, in general, to an *adaptation* mechanism to certain optimum conditions. Those conditions, according to Schein (1988), are:

- To achieve a level of internal “integration” in the organization, and
- To attain a level of stability and “subsistence” in the external environment.

The organization, every time that manages to adapt to these optimal conditions, generates a wealth of experiences that prepare it to face two situations: *routine* and *key*.

### **3.5 The Learned Cultural Response (L.C.R.)**

A situation is called *routine* to the extent that in order to successfully overcome it or resolve it is necessary to use a regular pattern of settlement. It is, therefore, a situation that requires a pre-established response, previously learned knowledge and whose application is dominated by the members of a company. This situation is characterized in that the organization “knows” how to address and solve this problem. It requires that the organization and its members offer a *learned cultural response* based on the assumptions and common beliefs, in the command of a certain knowledge and skill, and in a set of experiences previously acquired as a result of having successfully resolved, earlier, similar situations.

To the extent that an organization can solve a series of routine situations with learned cultural responses, it strengthens and confirms the validity of its culture, since there is no reason to doubt its effectiveness. Only otherwise, that is to say that learned cultural responses fail to solve routine situations, then a process of disbelief starts about the usefulness of this response, whereby the demonstrations and cultural elements that have greater contact with the external environment are questioned first.

### **3.6 The Cultural Response to be Learned (C.R.B.L.)**

On the other hand, a company faces a *key* situation when there is no routine solution or a previous solution and, therefore, the organization requires that its members:

- Create new answers, share knowledge and experience gained in developing the new solution, and
- All new responses and new knowledge and lessons learned, are incorporated into the set of assumptions and common beliefs, not only as individuals but mainly as groups (Wilkins, and Patterson, 1986, p. 264).

In this case, the organization *must learn* a new cultural response, enabling it to solve a new problem or new situation, which affects considerably the normal course of business activities. That is, a *key* situation can only be resolved by a *cultural response to be learned*. In this case, the content of organizational culture is derived from the combination of concurrent assumptions and common beliefs and new learning experiences as a result of solving a key situation (Sathe, 1986). It is considered that a situation is *key* because the response provided *allows new learning* and encourages further enrichment of today’s organizational culture, considering that you get to incorporate new elements that strengthen the existing cultural structure, or manage to change it. However, it is also considered that a situation is *key* because if the organization fails to resolve the situation successfully and with a high degree of satisfaction, the aspects composing the culture will be questioned hierarchically.

It is in these situations labeled as *key* where a company attains to enrich its culture. This action is perceived, as “that process by which an organization manages the development, evolution, growth or change of its cultural component towards a substantial improvement in any of its three aspects.”

As a result of this process, the organization adds new cultural elements, thanks to which it is prepared to overcome the present difficulties and future problems of survival and integration. Only when the new cultural elements successfully solve a key position and the effectiveness of the proposed solution is recognized, the

*cultural response to be learned* becomes part of the set of learned cultural responses of an organization. In this case, the members of the organization should definitely incorporate the new criteria and elements that represent the cultural response to be learned and set aside and, in a sense, *unlearn* those processes and elements that are contrary to the new solution situation. It is as if it were the process of “two-way learning” or “double loop” (Argyris and Schon, 1974).

### 3.7 Generative Model of Cultural Responses or Learning Model to New Cultural Responses

According to the above, every organization facing a:

- Routine situation, will require a learned cultural response (LCR), or
- Key situation will need a cultural response to be learned (CRBL).

As such, they are two different stages, mutually dependent, which have constituted a “generating circle” (Morin, 1981) of responses and behaviors that encourage incremental knowledge in the organization, to the extent that adapts and meets the situations that come about. A culture is more sensitive to the demands of adaptation to the external environment to the extent that the organization carries out processes of innovation and values entrepreneurship in the company. To this end, the culture demands a strong bond and close relationship with consumers/clients and other social participants, in order to have the necessary information on the effectiveness of the material-technological component and the different cultural manifestations of the organization (Kotter and Heskett, 1995).

In this sense, according to the cyclic phase model developed by Jansen (1982) to explain the reactions of people to change, or the three-stage model proposed by Lewin (1947) to incorporate and consolidate the change in organizations, in each of which both authors assume a growth-generating process, taking into account that the situation that develops in the end is totally different from the point of departure (Morin 1981) we can set up a generating model of cultural responses that, departing from a position of certainty in regard to the usefulness of a *learned cultural response* (LCR), an organization is forced to generate an alternative solution; in this case, a cultural response to be learned (CRBL), due to the greater uncertainty and complexity of the situations they have to face and intend to solve (Kotter and Heskett, 1995, p. 46).

This way, we can see in Figure 2 that, from a *learned cultural response* ( $LCR_{t1}$ ), the organization can generate new cultural responses ( $LCR_{s1}$ ,  $LCR_{s2}$ ,  $LCR_{s3}$  ...  $LCR_{sn}$ ), as it offers solutions to every key situation, whether it comes to issues of internal integration or external subsistence.

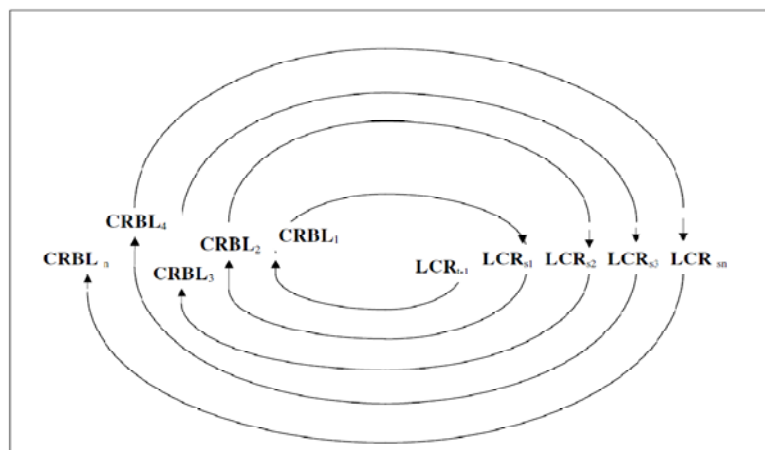


Figure 2 Generative Model of Cultural Responses

Source: Own elaboration.



As mentioned above, each situation requires a new key cultural response, but soon acquires the category of “learned” when the response has been fully incorporated into the set of assumptions and common beliefs shared by the members of the organization, and they have learned to work with it. The solutions capable of solving problems tend to become part of organizational culture only to the extent that the process of acquiring knowledge of the organization incorporates such responses as valid. And this only happens once the response has demonstrated the capacity to successfully resolve a *key* situation, that is, the answer supplied allows the organization to return to a state of relative certainty and stability.

Now, to reach a new stage of certainty and relative stability, the organization must change some of their assumptions and common beliefs, either by improving, removing or creating new elements of its culture in any of its three aspects, which implies a learning process, that ends—partially—when members of the organization make them their own and feel safe with the new aspects of culture.

The dynamics of business life makes the “generating circle” expand, so the *learning process never ends* and generates an enrichment of culture, taking into account that each learned cultural response means having successfully resolved a *key* situation. Hence, in principle  $LCR_{t-1} < LCR_{S1} < LCR_{S2} < LCR_{S3}, \dots < LCR_{Sn}$ .

For a cultural response to be learned (CRBL) to get to establish itself as a learned cultural response (LCR), that is, for the organization to formalize the new pattern of cultural response will require:

- To confirm the effectiveness of the response given in a key situation.
- To identify those concurring assumptions and common beliefs, but incompatible with the new cultural response.
- To prepare the organization to learn by training programs.
- To definitely incorporate into the cultural structure those elements that create certainty and stability back to the company.
- Set the new position reached by the organization as an attitude and behavior pattern (LCR) to address and resolve routine situations.

Therefore, the learned cultural responses (LCR) act, in routine situations, as a reinforcement of the current culture, because every opportunity that they successfully resolve a situation of this type; they confirm and validate the relevance of the assumptions and beliefs, as well as cultural elements and *material-technological* aspects.

#### 4. Conclusions & Recommendations

The organizational culture defined and understood as “... *a response generating process that formalizes and predetermines the behavior of the members of an organization ...*” represents a means to achieve an advantage competitive position well as stability and certainty of the activities developed in the company.

There are two fundamental aspects for organizational culture to incorporate change processes in their structure and evolution to the competitive position:

The first is a process by which culture is likely to be questioned—hierarchically—by the social participants and the own members of the organization who question its effectiveness when the organization as a whole, or a part of it, does not succeed with their responses to background demands.

The second aspect relates to the learning process developed by the organization as a result of the need to incorporate new elements and build a new learned cultural response (LCR) that allows it to successfully solve a *key* situation.

The company and workers learn about the experience when the cultural structure is questioned but also when will try obtaining new answers to respond new problems.

The learning processes based on experiences in organizations allow heterogeneous cultural responses difficult to imitate and favors the development of intangible assets and ultimately the sustainability of competitive advantage in the firm.

Organizations could design and implement training programs to help in change process and creation of intangible assets that support the position of competitive advantage.

Organizational culture is a clear example of an intangible asset to must be developing

Thus, we can understand the organizational culture as an evolutionary process that grows over time by the actions of the leader and employees, seeking to learn and adapt to the environment getting better.

Therefore, we can say that organizational culture can be managed based on learning processes, especially in situations of crisis or great need to adapt to environmental circumstances, either of crisis in society or a need for recovery performance of the company.

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