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CULTURAL WAVES IN COMPANY PERFORMANCE

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ABSTRACT

One of the great challenges companies face today is globalisation and the gradually intensifying market competition under which competitive performance is becoming more and more demanding to assure. Companies respond individually to every challenge. The reason behind the diversity of reactions is that all companies follow different strategies, have different structures and different cultures with distinct sets of beliefs and attitudes.
The author of this paper has developed indicators to measure company strategy, structure, culture and performance. The present article focuses on the relationship between the characteristics of organisational culture and company performance.
For the evaluation company performance the Kaplan-Norton Balanced ScoreCard model has been used. On the basis of this model financial and non-financial indicators are also taken into consideration. To the analysis of organizational cultures Cameron and Quinn's culture diagnostic questionnaire has been applied, which assesses a company's culture on the axis of four cultural types that are clan, adhocracy, market and hierarchy.
The empirical research has been performed with quantitative methods in 256 companies. The exploration and identification of the relationship between variables related to performance and organizational culture has been carried out with the help of the path model.
During the research the effects variables concerning culture have been made numerical and this led to the conclusion that the rigid hierarchy culture, which employs bureaucratic principles, has negative effects upon company performance. It is much more effective for leaders to develop corporate culture into a supportive clan culture that supports personal development, or focus on the market culture that emphasizes result orientation.

JEL CLASSIFICATION & KEYWORDS

■ L25 ■ M14 ■ CULTURE ■ PERFORMANCE ■ COMPANY ■ COMPETITION ■ GLOBALIZATION

INTRODUCTION

According to Drucker (1955) a company's good spirit is the organizational culture that supports performance improvement. The importance of strategic management and corporate culture, their influence upon success and competitiveness have been discussed in several publications and practical analyses (Gaál, 1999). Today culture is a fundamental source of maintainable economic growth (Szabó et al., 2007), cultural assets have taken place among traditional capital assets, and become strategic success factor for both organizations and national economies in the globalized world economy (Kovács, 2006). Accommodation to national and corporate cultures is a prerequisite for companies even on international scale; consequently managers working internationally must be aware of cultural differences in order to take advantage of their conciliation (Gaál et al., 2004). Corporate culture defines the fundamental values, presuppositions, interpretations and approaches that are typical of an organization. The colourfulness of definitions proves that within corporate culture everything develops that makes an organization unique. The present study observes the connections between company performance and organizational culture; analyses which cultural characteristics support the improvement of company performance.

Organization culture

Organizational culture is the system of beliefs and convictions deeply embedded in the organization (Handy, 1985), which the company developed during its history, and guarantee the company's survival with the help of staff solidarity (Kommeier – Schneider, 2006), and provide the sense of organizational identity for the members of the organization (Daft, 2001). "Culture is the divided system of meanings" (Gaál et al., 2005) that shapes individual behaviour (Gaál – Szabó, 2001), describes collectively accepted behavioural norms (Pfohl et al., 2007). The deep layers of organizational culture are provided by fundamental invisible, subconscious presuppositions (Bleichner, 1994). Cameron and Quinn (2006) stated that successful contemporary companies capitalize their unique company culture. Cultural peculiarities may become strategic success factors for organizations (Óvári, 2006).

Through time, organizations develop a dominant culture as a response to environmental challenges. Organizational culture provides both stability and ability to accommodate (Bakacsi, 1998). Deal and Kennedy (2000) showed that companies with strong organizational culture are successful despite globalization, informational technologies, fusions and size decrease. Organizational culture is a cohesive force that enables people to achieve collective goals. Cameron and Quinn (2006) stated that although organizational culture includes unique subcultures, those subcultures possess common characteristics that are typical of the organization as a whole. In the assessment of organizational culture such comprehensive characteristics must be kept in focus.

Characteristics of the empirical research

The characteristics of 256 companies have been studied. The survey questionnaire included questions regarding organisational strategy, culture and performance. The research is descriptive and as a result quantitative methods have been used for the analysis.

The study covers the area of Hungary. More than half of the companies included in our study are medium size based on the number of employees. 36.1% of the companies are large and 13.27% are small and micro businesses considering their size. The majority of the companies studied in our research operate in the processing industry.

Research model

The research results of linkages between organisational culture and performance are in the focus of present article.In the research, the assessment of organizational cultures has been carried out with the help of Cameron and Quinn's culture types, and of the company performance with the help of the Balanced ScoreCard model invented by Kaplan and Norton.

Avariables applied to the assessment of company performance

To the assessment of company performance Kaplan and Norton's Balanced ScoreCard model (1996, 2001, 2004)

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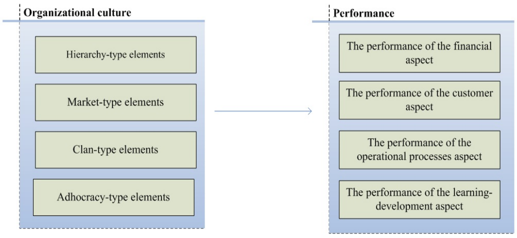
Figure 1: Research model



Source: Authors

has been applied because with the help of the method the whole sphere of company performances can be examined, including financial and non-financial performances, indicators as well. In the survey the respondents assessed their companies' performance compared to the industrial mean on a one-to-seven scale from the four aspects of the Balanced ScoreCard. In the four points, respondents assessed the factors provided by Kaplan and Norton.

Factors assessed by respondents in the financial perspective:

- the increase of revenues: that can derive from the improvement of the profitability of existing clients, or from new revenue sources
- expense reduction: the moderation of direct and indirect expenses
- the improvement of productivity: the more efficient use of financial and physical assets
- the improvement of asset-exploitation: the exploitation of capacities
- the length of money circulation cycle: the interval between the cash flow of acquisition and realization
- the increase of the value provided for owners (dividend, rate of profit)
- the quantity of available independent financial assets: the maximization of the amount of negotiable cash within the enterprise
- the return of invested assets: the achievement of the highest possible yield projected to the available assets
- the increase of service and business results: a category of accounting, the result deriving from productive activities and product realization
- the status of liquidity: solvency, the company can meet due debt obligations

In the financial aspect it is owner expectations, yield expectations and the long term business goals of survival that appear.

Factors assessed in the customer perspective:

- Customer satisfaction and loyalty, customer retention: a company may expect repeated orders in case it has satisfied customer needs and expectations because it is only customer satisfaction that can lead to customer loyalty.
- Market share: the rate of a company's products / services on a given market.
- Gaining new customers: at what pace the company gains new customers and receives new orders.
- Image and fame: it provides opportunity for a company to position itself, and to distinguish itself from competitors.
- Product and service characteristics provided for customers – function, value of application, price, quality, short term lead time, accurate fulfillment: these are all characteristics that the company provides together with products or services in order to gain loyal and satisfied customers, and they express the ways the company intends to create value for the targeted consumer segment.

In the focus of customer aspect stand the customers and consumer segments targeted for the realization of financial performance, and the product and service characteristics they consider to be important.

Factors assessed in the internal business processes perspective:

- Innovation, the development of new products / services: it makes possible to break into new consumer segments and markets.
- The quality of product and service creating processes: the processes are apt for satisfying certain needs, but it requires the constant improvement of processes.
- The cycle time of processes: the time elapsed from the beginning of production to the end.
- Unit labor costs: the cost level of producing goods and services.
- Fix costs: the cost level of general operation.
- Post-marketing services: it includes guaranteed and non-guaranteed repairing, the treatment of returns and faults, and the processing of payments.
- Relationship with suppliers, inputs of excellent quality (e.g. raw materials): to what extent the company can trust in reliable supply through its cooperative relations.
- Environmental protection: the reduction of environmental burden, and the safe utilization and recycling of the byproducts and waste.

The operational processes aspect represents the company processes the quality of which must meet the expectation of both the customers and the owners.

Factors assessed in the learning and growth perspective:

- Employee satisfaction, behavior, expertise, skills and abilities, productivity, training, and motivation, and the attraction of talent: these mean the availability and development of skills and abilities and know-how necessary for supporting the strategy – they are all essential for the realization of internal processes of capital importance, necessary for the success of strategy.
- Workplace atmosphere, internal communication, organizational culture: it is necessary to establish and maintain an environment that supports employee commitment to mission; that includes the fact that colleagues are aware of and internalize fundamental values, visions and missions, and in also includes the cultivation of the culture harmonized with objectives.
- The standard of informational systems, technological infrastructure: the availability and application of informational systems, networks and infrastructure that contribute to the realization of the strategy and help growth and decision making.

- Managing competences, the standards of management: the availability of skilled managers on every level who orientate the organization into the direction of the strategy.
- Social relations, the organization's awareness and responsibility: responsibility for employees, for citizens, for the community; meeting social requirements gains high reputation for the company.

The competences necessary for the liquidation of processes and for long-tem development are examined.

During the quantitative analysis the performance present in various aspects has been the explained variable.

Variables used for the assessment of organizational culture

It is a very difficult task to assess a company's culture. The organizational culture-assessing tool created by Cameron and Quinn (2006) identifies the current type of organizational culture, and defines the desired future culture. The starting points of Cameron and Quinn's cultural dimensions are the values that serve as a basis for the operation of the organization and the organizational culture. Their culture diagnostic survey is quite simple and time-saving so it is easily applicable to researches. It measures the organization's current and required culture with six groups of questions, each question including four alternatives. The six groups of questions focus on the fundamental values and presuppositions of the organization:

- the dominant characteristics of the organization, what the organization is like
- the leadership style that pervades the organization
- the management of employees, how employees are treated, what the work environment is like
- the organizational 'glue', that is, the copulative mechanism that holds the organization together
- strategic emphases – what type of goals the company aims to achieve
- success criteria – what is considered to be a victory, what is rewarded and celebrated.

The six groups of questions are, of course, not comprehensive, but in their research the authors got to the point that they provide an adequate image of organizational culture.

In the completion of the survey the respondents distributed a hundred points among the four alternatives in the six questions. Based on the six groups of questions stated which one of the four types of organizational culture (market, clan, adhocracy, hierarchy) is the most typical of the organization. These four variables have been used to assess culture as explanatory variables.

Research methodology

The path model has been used to explore the relationships between individual variables because it can define the impact of a given variable upon another variable as the sum of direct and indirect effects (Hunyadi et al., 2000). In the first place it was necessary to explore all the possible relations between variables with the help of correlate analysis. During the development of path model regression analysis has been employed to find out about the existence, direction and strength of relations among variables. In the quantitative analysis every condition of linear regression has been tested.

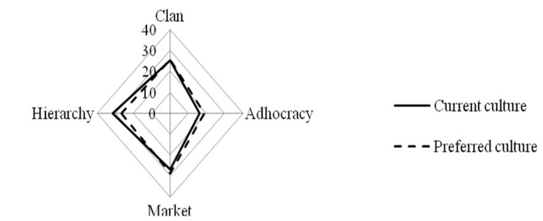
Current vs. Preferred cultures in the analysed sample

According to Cameron and Quinn's typology of organizational cultures, the currently dominant cultural type in the circle of the analysed organizations is the hierarchy culture, followed by the market and clan culture and finally the adhocracy culture. This order is set up by the average of responses given about organizational culture. The questions did not only target the current culture but also the desired one as well. This observation focuses on what the organizational culture should be in five years' time according to the respondent so that the organization can achieve outstanding performance and exceed its current aims. Questions concerning the desired organizational culture revealed that companies would like to shift towards market and adhocracy culture at the expense of hierarchy culture. In terms of the desired culture on the average market culture gained the highest score.

For the visualization of organizational cultures Cameron and Quinn's spider web chart (2006) is advised to use because it clearly shows the most typical culture type – the chart has its peak at the dominant culture type. Such a chart cannot only be used to introduce and describe an organization's culture but it can also show the total sum of cultural means in an analysed sample.

In the spider web chart the present culture's shape has its peak in the direction of hierarchy culture, and the desired culture has it in the direction of market culture.

Figure 2: Present and desired cultures in the analyzed sample



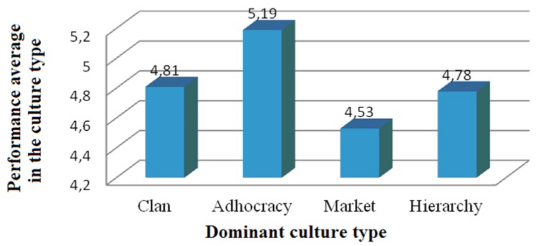
Source: created by the authors

Relations between organizational culture and company performance

If the averages of the total performance of the analysed companies, the explained and organizational culture type, the explanatory variable and the total performance are not the same in the categories of organizational culture, it means that the organizational culture has significant impact on the total performance. This statement was supported by one-aspect variance-analysis, which examines whether a non-metric explanatory variable has impact on a metric explained variable; if the effect prevails, then out of the averages of groups created within the groups of explained variables at least one differs significantly from the others, that is, in each culture type performance averages differ significantly. This is supported by the F-probe's significance level (0,013). The conditions of variance analysis as well as the normality of the explained variable and the variance-homogeneity were realized.

For the comparison of the differences of averages in couples from among the post-hoc tests the LSD test was used, the result of which shows that the performance averages taken from clan and adhocracy cultures significantly differ from those in market and hierarchy cultures.

Figure 3: Performance averages in individual cultures types



Source: created by the authors

The effects of the characteristics of organizational culture upon performance perspectives

The path model has been used to explore the relationships between individual variables because it can define the impact of a given variable upon another variable as the sum of direct and indirect effects (Hunyadi et al., 2000).

Effects upon financial performance

According to the results of the path model variables related to organizational culture have low-level effects upon financial performance (for the value of regression coefficients see Figure 1), but their impact upon other perspectives are much greater. However, the negative effect of hierarchy culture upon financial performance is conspicuous. All the other culture types have positive impact upon financial performance, mainly that of the clan and market culture. The characteristics of hierarchy culture such as regulation, the standardization and control of co-worker behaviour, specialization, performance-orientation, authority scopes, impersonality, and the respect towards formal positions all have negative impact upon financial performance. On the contrary, the market focussing on outer surroundings, where the major goal is efficiency, effectiveness and competitiveness, has clear positive impact. The positive effect of the familial clan culture is greater upon financial performance than that of market culture. In the clan culture mutual trust, common aims, co-operation, consensus, participation, 'we-sense', and verbal communication are typical, where the development of human resource, individual development and care for people are important. The positive impact upon performance is the result of devotedness to the organization, loyalty and tradition.

The effects of organizational culture upon financial performance are shown by the regression coefficients in Table 1.

Effect upon customer perspective performance

Among the characteristics of organizational culture it is the hierarchy culture that has the greatest impact upon the performance of the customer perspective – and it is a negative impact. The culture type is characterised by internal orientation; in relatively stable environment it can be efficient. The clan and market cultures have positive effect upon the performance of customer perspective and so does the adhocracy culture but to a much lesser extent. The market culture focuses on the transaction with outer characters. The aspirations to exploit market gaps, to achieve tense aims, to ensure consumer basis all have positive effects upon the performance of the customer perspective. In this culture success is measured by market share and market penetration, it is important to defeat competitors and to gain market leader role. In clan culture, caring for people and customers, loyalty, aspirations for individual development takes positive effect upon the performance of the customer perspective through the learning-development perspective. The adhocracy culture takes its positive effect upon the performance of the customer perspective through the effects of its product development and diversification strategy. In adhocracy, success means the production of unique goods; innovative products and services help the accommodation to new possibilities.

The effects of organizational culture upon the performance of customer perspective are shown by regression coefficients in Table 2.

Effects upon internal business processes performance

Organizational culture types have no significant impact upon the performance of operational processes perspective, yet it is visible that the hierarchy culture has negative effect so intense bureaucracy does not support rather sets back companies so that they cannot meet customer needs through excellent product and service production processes.

The effects of organizational culture upon the performance of operational processes are shown by the regression coefficients in Table 3.

Effects upon the learning and growth perspective performance

From the point of view of organizational culture clan culture has a really positive effect upon the performance of the learning-development perspective. Thus a supportive culture, where the workplace is a friendly place, there is mutual trust, shared goals, cooperation, consensus, participation, 'we-sense', and verbal communication is typical, a strong positive effect is achieved upon the performance of the learning-development perspective. The more visibly elements of clan culture emerge in an organizational culture, the higher the performance of the learning-development perspective.

The effects of organizational culture upon the learning-development perspective are shown by the regression coefficients in Table 4.

Table 1: The effects of the characteristics of organizational culture upon financial performance

Organizational culture type	Direct	Indirect	Total
Clan	–	0,057	0,057
Adhocracy	–	0,005	0,005
Market	–	0,046	0,046
Hierarchy	–	-0,056	-0,056

Source: Authors

The effects of organizational culture upon company performance prevail through a chain of relationships, variables related to organizational culture are also in connection, and hierarchy culture is in negative relationship with the other cultural variables. The more a market and/or clan culture is typical of an organization's culture, the less characteristics of hierarchy culture are typical of it. At the same time, if characteristics of hierarchy culture are typical of an organization's culture, to lesser extent can

Table 2: The effects of the characteristics of organizational culture upon the performance of customer perspective

Organizational culture type	Direct	Indirect	Total
Clan	–	0,171	0,171
Adhocracy	–	0,009	0,009
Market	–	0,147	0,147
Hierarchy	-0,119	-0,059	-0,178

Source: Authors

Table 3: The effects of the characteristics of organizational culture upon the performance of operational processes

Organizational culture type	Direct	Indirect	Total
Clan	–	0,06	0,06
Adhocracy	–	0,008	0,008
Market	–	0,041	0,041
Hierarchy	–	-0,049	-0,049

Source: Authors

Table 4: The effects of the characteristics of organizational culture upon the performance of the learning-development perspective

Organizational culture type	Direct	Indirect	Total
Clan	0,11	–	0,11
Adhocracy	–	–	–
Market	–	–	–
Hierarchy	–	–	–

Source: Authors

characteristics of adhocracy culture appear. It must be noted that it is possible for an organization to possess all the four types of characteristics at the same time, but there is almost always a dominant one.

Conclusion

In sum, from an organizational culture's point of view, it is not positive if a bureaucratic, rigid type of culture is dominant in the organization's life. It is much more effective if leaders endeavour to direct the organization towards a market that emphasizes result-orientation, or they support personal development; that is, in the direction of a clan culture. Besides financial goals, the effects of the clan culture that focuses on organizational commitment and loyalty upon company performance must also be kept in mind. Caring for people, moving in the direction of a supportive culture and the achievement of financial goals cannot be separated, and are not negative polarities; the way to the achievement of financial goals leads through co-worker performance.

According to the regression coefficients, from the characteristics of organizational culture's point of view, the hierarchy culture's strong negative effect upon the performance of customer perspective is the most visible. The positive effect of clan culture upon the customer and learning-development perspectives supports the clan culture's fundamental suppositions: the development of human resource, sensitivity towards customers and caring for people are the best response to environmental challenges. As for company performance, the effects of a market culture focussing on transactions with outer characters, on competitiveness and efficiency are most visible in the customer perspective.

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