CORPORATE CULTURES OF MALAYSIAN AND FOREIGN-OWNED FIRMS AND THEIR IMPACT ON ORGANIZATIONAL PERFORMANCE

LEE MIN CHING

UNIVERSITI SAINS MALAYSIA

2006

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Research report in partial fulfillment of the requirements for the degree of Master of Business Administration

2006

ACKNOWLEDGEMENT

I would like to express my gratitude to my supervisor, Professor Mohamed Sulaiman for his guidance in completing the project.

I would also like to thank my sister, brother and friends who have helped me in distributing and completing the questionnaires. Also, I would like to thank my parents and husband who has shown understanding and given me moral support throughout my semesters in USM.

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ABSTRAK

Kajian mengenai budaya firma dan pengaruhnya terhadap keuntungan organisasi kebanyakannya dari Negara Barat. Kajian di dalam bidang ini masih kurang di Malaysia. Pemerhatian kasar menunjukkan Syarikat Malaysia berbeza daripada syarikat milikan luar negara dari segi budaya korporat dan prestasi. Berdasarkan situasi ini, kajian ini bertujuan mengkaji perbezaan di antara budaya korporat syarikat tempatan dan syarikat milikan luar negara. Objektif kedua adalah untuk mengkaji hubungan elemen budaya korporat dengan keuntungan syarikat. Sampel kajian terdiri daripada seratus dua buah syarikat yang terletak di Pulau Pinang, lima puluh syarikat tempatan dan lima puluh dua syarikat milik asing. Pembolehubah bebasnya terdiri daripada kestabilan, keterangan dalam membuat keputusan, adaptasi, pembuatan keputusan dengan sistematik dan kekuatan budaya. Hipotesis pertama adalah untuk menentukan sekiranya terdapat perbezaan di antara syarikat tempatan dan milikan luar negara dari segi elemen budaya korporat; hipotesis kedua menentukan sekiranya elemen-elemen budaya korporat ada berkaitan dengan keuntungan atas jualan; hipotesis ketiga menentukan sekiranya elemen kekuatan budaya korporat ada kaitan dengan pulangan jualan; hipotesis keempat menentukan sama ada elemen budaya firma ada kaitan dengan perkembangan jualan; hipotesis kelima menentukan sama ada kekuatan budaya syarikat ada kaitan dengan perkembangan jualan. Hipotesis keenam menentukan sama ada elemen budaya firma yang menampakkan pertumbuhan dalam pulangan jualan adalah berbeza daripada elemen budaya firma yang menampakkan pulangan jualan yang rendah. Hipotesis yang terakhir menentukan sama ada elemen budaya firma yang menampakkan perkembangan dalam jualan adalah berbeza daripada elemen budaya firma yang menampakkan perkembangan

jualan yang rendah. Keputusan menunjukkan hipotesis pertama mendapat sokongan di atas satu elemen iaitu keterangan dalam membuat keputusan. Hipotesis kedua juga mendapat sokongan di atas satu elemen iaitu adaptasi ada berkaitan dengan keuntungan atas jualan. Hipotesis ketiga, keempat dan kelima tidak mendapat sokongan. Hipotesis keenam mendapat sokongan di atas tiga elemen iaitu firma yang menampakkan pulangan jualan yang tinggi adalah lebih stabil, lebih jelas dan sistematik dalam membuat keputusan dari segi budaya korporatnya. Hipotesis ketujuh tidak disokong. Kesimpulannya, memang wujud perbezaan nilai budaya korporat di antara syarikat tempatan dan syarikat milikan luar Negara. Elemen tersebut ialah keterangan dalam membuat keputusan. Budaya korporat juga didapati berkaitan dengan pulangan jualan dan firma-firma yang menampakkan pulangan jualan yang tinggi didapati juga berbeza budaya korporatnya daripada firma-firma yang pulangan jualannya lebih rendah dari segi elemen kestabilan, keterangan dalam membuat keputusan dan pembuatan keputusan dengan sistematik

ABSTRACT

Numerous studies on corporate culture and its impact on company performance have been conducted in Western countries but local studies in this area are limited. Moreover, Malaysian firms have different cultural values and performance levels compared to foreign firms. Given this situation, this research identifies the corporate cultural differences between Malaysian and foreign-owned firms. The second objective is to determine specific cultural traits that are related to a better organizational performance. The sample of 102 firms that make up this study came from the Northern Region of Malaysia, mainly Penang where 50 are local firms and 52 are foreign-owned firms. The independent variables that make up the cultural values are stability, clarity of strategic decision making, adaptability, systematic decision making and strength. The first hypothesis stated if there are any differences in corporate cultural traits between local and foreign-owned firms; the second one hypothesized if the corporate cultural traits of firms are related to ROS performance; the third hypothesized if the strength of corporate culture is related to ROS; the fourth one hypothesized if the corporate culture traits of firms are positively related to sales growth; the fifth one hypothesized if the strength of corporate culture is positively related to sales growth; the sixth hypothesis examined if high performing ROS firms exhibit different corporate cultural traits from low ROS firms and the last hypothesis hypothesized if high performing sales growth firms exhibit different corporate cultural traits from low sales growth firms. The results showed that hypothesis one is supported on one dimension, that the corporate culture of Malaysian firms is different from that of foreign-owned firms on the dimension of clarity of strategic decision making. Hypothesis two is also supported on one dimension, that the

adaptability of corporate culture is related to ROS. Hypotheses three, four and five are not supported. Hypothesis six is partially supported on three dimensions which include: high performing ROS firms show higher stability, higher clarity of strategic decision making and higher systematic decision making corporate culture. Hypothesis seven is not supported. In conclusion, it cannot be denied that there is a difference in the corporate culture values between Malaysian firms and foreign-owned firms, the value being clarity of strategic decision making. Moreover, the corporate culture traits of firms are indeed related to ROS performance and high performing ROS firms do exhibit different cultural traits from low ROS firms, the traits being stability, clarity of strategic decision making and systematic decision making.

Chapter 1

INTRODUCTION

1.1 Background of the study

Statistics reveal that different countries have different levels in their economic performance. Higher performers, as indicated by the GDP per capita in 2003 include the USA (USD37,388), Japan (USD34,010), UK (USD30,277), and Germany (USD29,080) while countries such as Thailand (USD2,308), Malaysia (USD4,164), and in particular Indonesia (USD971), and The Philippines (USD988) seem to be rather toiling far behind. (Source: www.worldbank.com). Interestingly too, different countries also potray different ways of doing things and dealing with business activities. The economy of a country is made up of the aggregate of the public and private sectors. The private sector in developed countries usually dominate the economy. Apparently, "the well-run corporations of the world have distinctive cultures that are somehow responsible for their ability to create, implement, and maintain their world leadership positions". (Schwartz and Davis, 1981, p. 30). As pointed out by Ott (1989), amongst others, organizational cultures exist and each organizational culture is relatively unique and is a powerful lever for guiding organizational behaviour. This naturally leads us to wonder if, at all, the differences in the performance of the various countries are tied to any aspects of the cultural values.

A visit to foreign-owned Citibank, Penang and a local bank and an observation on how their employees work reveals totally different behavioural experiences from the employees. The staff in the former were expeditious and courteous while the staff in the latter were lackadaisical and indifferent. These differences have been observed not only in the service sector, but also in the manufacturing sector. Malaysian firms are slow and cumbersome. And yet, the Public Bank Bhd which has won the best domestic commercial bank in Malaysia award for three consecutive years is said to possess the critical shared values in the achievement culture.(Tan, pp. 195-196). This illustrates the differences in cultures of organizations.

A previous research on national cultures has been done by Hofstede (1980, 1983a, 1983b, 1983c, 1983d) as highlighted in Hofstede, Neuijen, Denis, and Geert (1990). Hofstede's studies use an existing data bank from a large multinational business corporation (IBM) covering matched populations of employees in national subsidiaries in 64 countries and the result shows major national idiosyncracies that centre on four major dimensions. It would seem that there is some underlying intangible aspects that each of these organizations of different countries of origin seem to be practising. Deal and Kennedy (1982) describe this as corporate culture and that "every business –in fact every organization – has a culture" (p. 4). Deal and Kennedy opined that the reason the Japanese have been so successful, is their continuing ability to maintain a very strong and cohesive culture throughout the entire country. "Not only do individual businesses have strong culture, but the links among business, the banking industry, and the government are also cultural and also very powerful", (Deal and Kennedy, 1982, p. 5). "Infact a strong culture has almost been the driving force behind continuing success in American business". (Deal and Kennedy, p. 5).

If we compare the performance of local firms and foreign owned firms, the profit before tax of these companies will reveal that the performance of these companies differ greatly. For example, for the financial year ending 2005, Ho Wah Genting Bhd incurred a loss before tax of RM42.2 million. Other local firms such as Pensonic, Proton and Public Bank recorded a profit before tax of RM4.038mil, RM0.779mil and RM2.048mil respectively. (Source : http://www.klse-ris.com.my/).

However, if we compare the performance of these companies with foreign-owned companies such as Toyota Motor ADR, Intel and DELL, it is clear that the profits earned by these foreign firms far exceed the performance of our local companies. The earnings before tax for Toyota, Intel and DELL for year ending 2005 are US$16,338.1mil, US$12,610mil and US$4,445mil respectively. (Source : http://quicktake.morningstar.com/Stock/Income10.asp?Country=USA&Symbol=DELL&pgid=qtqnlinkfinstate).

It would seem that there are some underlying corporate trait differences between local and foreign-owned firms that drive the performance of these companies. What are the important traits in these successful companies ?

There is a paradox here. The Deal and Kennedy (1982)'s view says that a strong culture is better. But there is also the view that the culture should be flexible, i.e to be able to adapt and/or adopt to changing situations. Especially in this 21st century and an era of globalization where competition is increasingly intense, companies need to follow the flow and change or face extinction. Kotter and Heskett (1992, pp. 142)'s study indicates that "even contextually or strategically appropriate cultures will not promote excellent performance over long periods unless they contain norms and values that can help firms adapt to a changing environment". Gordon and DiTomaso (1992)'s study also supports that a culture of adaptability is predictive of short term performance.

1.2 Research Problem

It can be summarised from the above that there are cultural trait differences among organizations and in particular between local and foreign-owned firms, but we are still not sure what the differences are, to what extent are the differences and how they could impact on the firm's performance. Excluding charitable organisations, firms exist to perform and thus naturally, making profit is the objective. If performance is related to the underlying organizational traits, then it would be all the more important to identify those relevant traits that could aid in a firm's profit making ability. Furthermore, there is not many empirical research done in Malaysia to close this gap and thus remain an unsolved problem in the Malaysian setting.

1.3 Objective of the Study

The first objective of this study is to examine if there are any corporate culture differences of Malaysian firms from that of foreign-owned companies and if there are, to identify the differences. The second objective is to determine if any specific cultural traits are related to organizational performance and if there are which trait(s) lead to better performance.

1.4 Research Questions

The above objectives raise a few questions related to corporate cultural differences between Malaysian and foreign-owned firms and the particular traits that lead to a better performance. They are :

1. Are there any corporate cultural trait differences between Malaysian firms and foreign-owned firms?
2. If there are, what are the cultural trait differences among them?
3. Are those trait differences related to organizational performance?
4. If there are, which trait(s) lead to better performance?

1.5 Significance Of Study

The significance of this study is two folds. Firstly, from a theoretical point of view, this research will contribute to the building of a theoretical model, especially in the Malaysian setting and the eventual findings can be used to close the gap in our research problem. Moreover, it can be used as an extension to and to substantiate previously-built models by Denison (1984), Gordon (1985) and Gordon and DiTomaso (1992). Secondly, from an application point of view, once the above questions are answered, we would have been able to identify positive culture that could be adopted by Malaysian firms or any other foreign-owned firms that are still lacking in them so that corporate performance can be improved.

1.6 Definitions

1.6.1 Culture

"Culture refers to 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" (Schein, 1985).

1.6.2 Organizational Culture

Organizational culture refers to the beliefs, values and meanings shared by members of an organization to grasp how the organization's uniqueness originates, evolves, and operates (Deal and Kennedy, 1982). Gordon and Cummins (1979) call this "management climate", which are defined as manager's perceptions of the many characteristics of their organizations that have a direct impact upon their behaviour. They have used the climate analysis to make evaluations knowledgeably and then focus on the needed changes. The survey conducted by Gordon and Cummins (1979) showed that climate as perceived by management is definitely related to a firm's success.

1.6.3 Performance

Performance refers to the ability of the organization to achieve goals, objectives and standards set. Strategic goals are made up of three types which are :

1) Survival
2) Profitability
3) Satisfying stakeholders

To measure survival, the business owner needs to look at his rate of sales growth and compare it with the rate of population or economic growth. For example, the growth rate of population in Malaysia is about 2.3% (Source: www.worldbank.com) and so logically, the growth rate for the business should grow together. Or, the company could measure the growth of its own market share in its own industry to see if it is growing, at least to be able to survive in the long term. Thus, the measure of survival for this survey is the company's sales growth.

In terms of profitability, the business should measure how efficient it is using its assets to generate profit. This is imperative because shareholders want fair returns on their investment. It is an opportunity cost for them not to keep their investment in the bank for an interest payment. The owners, too need to ensure the business is generating profits so that they can reinvest to generate further growth and buy new assets. For the purpose of this study, measures of profitability used are Return on Sales.

The company also needs to ensure that its stakeholders such as the employees are satisfied with their jobs. This is to reduce turnover rate. Moreover, new employees are costly as the company needs to recruit, provide training and to motivate them and it takes a while before the employees can perform on their jobs confidently. The company does not have to face this if it ensures that its employees are satisfied with their jobs.

1.7 Organization of Chapters

The remaining chapters of this study are organized as follows: Chapter 2 presents an overview of literature on corporate culture, values and the development of the theoretical framework and hypotheses. Chapter 3 describes the research methodology of the study while chapter 4 presents the results of the statistical analyses of the study, including the new theoretical framework and hypotheses. In conclusion, chapter 5 will include discussion of findings, implications of this study, limitations and offers some suggestions for future research.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

This chapter begins by discussing the meaning of corporate culture and values as provided by literature reviews and then turns to the claims that a "strong culture" leads to a higher performance. To facilitate this discussion, we address four issues: (a) the various definitions of the concept of strong cultures; (b) the content of corporate cultures considered to have positive effects; (c) the cultural contents associated with certain countries, and (d) the relationship between corporate culture and corporate performance. We, then, develop a theoretical framework and hypotheses of this study.

2.2 Critical Review

2.2.1 Definition of Values

According to Rokeach (1973, p. 5), values represent the basic convictions that "a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence." In his effort to create a conception of human values, he creates the Rokeach Value Survey (RVS) which consists of two sets of values, with each set containing 18 individual value items. One set, is called terminal values, refers to desirable end-sates of existence. These are the goals that a person would like to achieve during one's lifetime. The other set, called instrumental values, refers to preferable modes of behaviour, or means of achieving the terminal values.

Table 2.1 :
Terminal and Instrumental Values in Rokeach Value Survey

Terminal Values	Instrumental Values
A comfortable life (a prosperous life)	Ambitious (hardworking, aspiring)
An exciting life (a stimulating, active life)	Broad-minded (open-minded)
A sense of accomplishment (lasting contribution)	Capable (competent, effective)
A world at peace (free of war and conflict)	Cheerful (lighthearted, joyful)
A world of beauty (Beauty of nature and the arts)	Clean (neat, tidy)
Equality (brotherhood, equal opportunity for all)	Courageous (standing up for your beliefs)
Family security (taking care of loved ones)	Forgiving (willing to pardon others)
Freedom (independence, free choice)	Helpful (working for the welfare of others)
Happiness (contentedness)	Honest (sincere, truthful)
Inner harmony (freedom from inner conflict)	Imaginative (daring, creative)
Mature love (sexual and spiritual intimacy)	Independent (self-reliant, self-sufficient)
National Security (protection from attack)	Intellectual (intelligent, reflective)
Pleasure (an enjoyable, leisurely life)	Logical (consistent, rational)
Salvation (saved, eternal life)	Loving (affectionate, tender)
Self-respect (self-esteem)	Obedient (dutiful, respectful)
Social recognition (respect, admiration)	Polite (courteous, well-mannered)
True friendship (close companionship)	Responsible (dependable, reliable)
Wisdom (a mature understanding of life)	Self-controlled (restrained, self-disciplined)

2.2.2 Definition of Culture and Organizational Culture

There are many definitions of 'culture'; considering its roots from social anthropology (Kotter & Heskett, 1992, p. 3), and, thus, there is no concensus on its meaning. In 1952, cultural anthropologists, Kroeber & Kluckhohn (1963) identified no less than 164 meanings of the word.

Schein (1985), in his quest to clarify the concept of "organizational culture" says that there are three levels of culture, and they need to be carefully distinguished to avoid conceptual confusion. They are :

Level 1 : Artifacts. The most visible level of the culture where one can look at physical space, the technological output of the group, its written and spoken language, artistic productions, and the overt behaviour of its members.

Level 2: Values. This reflects one's sense of what "ought" to be, as distinct from what is. Only values that are susceptible of physical or social validation, and that continue to work reliably in solving the group's problems, will become transformed into beliefs and ultimately, assumptions.

Level 3 : Basic Underlying Assumptions tend to be non-confrontable and non-debatable as repeated successful solution to a problem is taken for granted.

The above situation leads to organizational culture's definitional problems. Amongst others, organizational culture has been defined as shared values and beliefs (Deal & Kennedy, 1982), central values (Barney, 1986; Broms & Gahmberg, 1983), basic assumptions (Schein, 1984; Trompenaars, 1996) behaviour patterns or style of an organization (Kotter & Heskett, 1992) . Hadi (1991) points out the definition by Hofstede, (1991), as the "the collective programming of the mind which distinguishes the members of one group or category of people from another". The view that culture is a shared phenomenon is widely held (Bate, 1984; Broms & Gahmberg, 1983; Posner, Kouzes & Schmidt, 1985; Schein, 1984; Schwartz & Davis, 1981)

2.2.3 Content of Corporate Cultures

From the varied definitions of organizational culture provided in the literature review above, it is without doubt that there is ambiguity about the content of the beliefs or values thought to produce a strong organizational culture. Saffold (1988) calls this the trait approach to culture. Peters and Waterman (1982) have also provided widely known discussion of organizational culture traits. They outline six characteristics of excellent – i.e well performing – organizations. These are : strategy, structure, systems, skills, styles and staff, which they suggest would form shared culture of the organization. Kilman (1985, p. 356) has suggested that to perform well, companies must have adaptive cultures that involve a 'risk-taking, trusting and proactive approach'. Kotter and Heskett's (1992) view is similar, however, only leadership rather than entrepreneurism is stressed.

The trait approach to corporate culture has also been pursued by others, each with their own preferred content, such as Akin and Hopelain (1986), Denison (1984), Ouchi and Price (1978), Stevenson and Gumpert (1985) and Wilkins (1984). But much of this work has been attacked from both methodological criticism and conceptual bases. For example, a consistent evidence that companies with the traits differ from those which lack them (Caroll, 1983; Saffold, 1988). And as noted by *Business Week* (1984), a third of the companies identified as excellent by Peters and Waterman (1982) experienced poor performance within two years after the book was published. The same studies have also been criticized for their lack of conceptual development. Many do not discuss the content of values or beliefs, while others seem to point toward very different content (Saffold, 1988).

Deal and Kennedy (1982), in their research for the elements of corporate culture, find these elements :

a) Business environment

b) Values

c) Heroes

d) The Rites and Rituals

e) The Cultural Network,

which make up the core of corporate culture. From the hundreds of corporations they examined, they summarise that many companies fall into four general categories or types of cultures. These categories are determined by two factors in the market place : the degree of risk associated with the company's activities, and the speed at which companies—and their employees–get feedback on whether decisions or strategies are successful. The four generic cultures are :

a) *The tough-guy, macho culture*—high risks and quick feedback.

b) *The work hard/play hard culture*—low risks but quick feedback.

c) *The bet-your-company culture*—high risks and slow feedback.

d) *The process culture*—low risks and slow feedback.

In a more systematic search for the range of cultural elements, Hofstede, Neuijen, Denis, and Geert (1990, p. 311) utilized in–depth interviews to collect information on values and practices, indicating that the latter can alternatively 'be labelled conventions, customs, habits, mores, traditions or usages'. This information was, then, incorporated into a questionnaire administered to employees in 20 organizational units in two countries. The authors hold that "this study… empirically shows **shared perceptions** of daily practices to be the core of an organizational's culture" (Hofstede et al., 1990, p.311).

This subsequent study results in a six dimensional model. The six dimensions that make up organization culture are:

a) *Process-oriented vs. Results-oriented*

b) *Employee-oriented vs. Job-oriented*

c) *Parochial vs. Professional*

d) *Open-system vs. Closed-system*

e) *Loose-control vs. Tight-control*

f) *Normative vs. Pragmatic*

These practices fit Saffold's (1988) characterization of cultural traits. At least two of the practices, process-oriented *vs*. results-oriented and loose control *vs*. tight control, parallel Peters and Waterman's (1982).

A seven-item description on the meaning of shared meaning was provided by O'Reilly III, Chatman and Caldwell (1991, pp. 487-516) and Chatman and Jehn (1994, pp. 522-53). Each of these characteristics exists on a continuum from low to high which will result in highly diverse organizations. These items are :

a) *Innovation and risk-taking*. The degree to which employees are encouraged to be innovative and take risks.

b) *Attention to detail*. The degree to which employees are expected to exhibit precisions, analysis and attention to detail.

c) *Outcome orientation*. The degree to which management focuses on results or outcomes rather than on the techniques and processes used to achieve these outcomes.

d) *People orientation*. The degree to which management decisions take into consideration the effect of outcomes on people within the organization.

e) *Team orientation*. The degree to which work activities are organized around teams rather than individuals.

f) *Aggressiveness*. The degree to which people are aggressive and competitive rather than easygoing

g) *Stability*. The degree to which organizational activities emphasize maintaining the status quo in contrast to growth.

2.2.4 Cultural Contents Associated With Certain Countries

A further empirical study was undertaken by Hofstede, Neuijen, Denis, and Geert (1990). Their study on corporate culture was modelled after a first study undertaken by Hofstede (1983) on a large multinational corporation (IBM) with covering matched populations of employees in national subsidiaries in 64 countries found large differences among national value systems. These were labelled “power distance” (large vs. small), “uncertainty avoidance” (strong vs. weak), “individualism” vs. “collectivism”, and “masculinity” and “feminity”. This became their four dimensional model of national culture, a cross-national culture study which did not reveal anything about IBM’s corporate culture. But it became a model of how a cross-organizational study could be undertaken i.e studying many different organizations in one and the same country.

Hadi (1991) writes that MIM has conducted a three-year study on Managerial Values in 1991/1992. Using Hofstede, Neuijen, Denis, and Geert ‘s (1990) criteria, the study reveals that Malaysia scores highly on power distance, low in individualism, is neither tough nor soft, quite high in uncertainty avoidance.

Trompenaars (1996) has put up questionnaires and taken the form of a dilemma to study the differences of culture dimensions among different countries and how international conflict can be minimised. He identifies seven dimensions by which cultures can be distinguished from each other, which are:

a) *Universalism vs. Particularism*; (rules vs. relationships)

b) *Collectivism vs. Individualism*; (the group vs. the individual)

c) *Affective vs. Neutral relationships*; (the range of feelings expressed)

d) *Specificity vs. Diffuseness*; (the range of involvement)

e) *Achievement vs. Ascription*; (how status is accorded)

f) *Orientation towards time* and

g) *Internal versus External Control* (ability to respond to the environment)

Stouffer and Toby (1951)'s study has also been tested by Trompenaars (1996) by asking 25,000 managers world-wide to consider different dilemmas. The test reveals that more Protestant countries such as Canada, the USA and the Scandinavian countries (including Denmark) are predominantly universalistic in their approach to the problem. The proportion falls to under 70% for the French and the Japanese, while the (South) Koreans would tend to prefer to help a friend even if it goes against telling the truth. In testing for the second dimension, Trompenaars finds that Anglo-Saxon managers tend to be more individualistic, which is in sharp contrast to many Asian managers, who focus on group process. The Japanese also tend to ascribe more than his counterpart, the Americans who favour achievement orientation. The implication of the test results are important to this research because it is telling the researcher in advance that there are differences in cultural values among different countries. Rather than ignoring the differences or leading them to one specific culture, Trompennars (1996) posits that for a firm to be successful, the firm needs to reconcile those dilemmas and the extent of the reconciliation will determine the success or failure of the firm.

Trompenaars and Turner (1998), uses two dimensions, equality-hierarchy and orientation to the person or orientation to the task, to distinguish different corporate cultures. The results are four types of corporate culture as follows:

a) *Family(Person-oriented culture)*: In this type of culture, the leader is regarded as a caring father who knows better than his subordinates what should be done and what is good for them, hence it results in a power-oriented culture. This type of culture is personal and hierarchical.

b) *Eiffel Tower (Role-oriented culture)* : This is like the formal bureaucracy where one obeys the boss because it is his role to instruct him. This is task-oriented and hierarchical.

c) *Guided Missile* (*Project-oriented culture)*: It is oriented to tasks and egalitarian, typically undertaken by teams or project groups.

d) *Incubator (Fulfilment-oriented culture)*: It is to free individuals from routine to more creative activities and to minimize time spent on self-maintenance. Egalitarian and person-oriented.

The result of Trompenaars and Turner (1998)'s study reveals that in different national cultures one or more of the above types clearly dominate the corporate scene. For example, companies in the USA and the UK score highest for guided missile, whereas French and Spannish companies score highest for family culture. Other countries like South Korea and India are also in the family culture domain. They also conclude that "smaller companies **wherever** located are more likely to take the family and incubator forms. Large companies needing structure to cohere are likely to choose Eiffel Tower or Guided Missile forms".

2.2.5 Strong and Weak Cultures

According to Saffold (1988, p. 547), the cultural 'trait' approach assumes an implicit model in which traits impact an organization in proportion to the 'strength' of its culture in various ways: as coherence (Deal & Kennedy, 1982; Weick, (1985); as homogeneity (Ouchi and Price, 1978); as stability and intensity (Schein, 1985); as congruence (Schall, 1983); as thickness (Sathe, 1983); as penetration (Louise, 1985); as internalised control (DiTomaso, 1987); as consistent values and style (Kotter & Heskett, 1992; Gordon & DiTomaso, 1992).

Deal and Kennedy (1982, pp. 15-16) says that "a strong culture is a powerful lever for guiding behaviour; it helps employees do their jobs a little better, especially in two ways :"

a) "*A strong culture is a system of informal rules that spells out how people are to behave most of the time*. By knowing what exactly is expected of them, employees will waste little time in deciding how to act in a given situation. In a weak culture, on the other hand, employees waste a good deal of time just trying to figure out what they should do and how they should do it."

b) "*A strong culture enables people to feel better about what they do, so they are more likely to work harder***.** But for a weak culture, uncertainty is at the core of it all, employees are confused; they feel cheated by their jobs; they allow special interests to take up their time; they confuse morality with ethics."

In Peters and Waterman (1982)'s search for excellent companies in the US, they use the McKinsey 7-S Framework to force explicit thoughts about the hardware—strategy, systems, and structure--and the software of organization—style, staff(people), skills, and shared values. He conducted surveys on 62 American companies and found eight attributes that characterize excellent, innovative companies. But at the core of excellence is the shared values with specific content of the dominant beliefs (p. 285). They put it as "The excellent companies…of the original guru." (p. 26). The eight attributes are as follows:

1. A bias for Action
2. Close to the Customer
3. Autonomy and Entrepreneurship
4. Productivity through people
5. Hands-On, Value-Driven
6. Stick to the Knitting
7. Simple Form, Lean Staff
8. Simultaneous Loose-Tight Properties

Peters and Watermann's (1982) study also claim that strong cultures are more result-oriented. Their claim is empirically substantiated by Hofstede, Neuijen, Denis and Geert (1990).

Kilman, Saxton and Serpa (1985, p. 4) say that the "a culture has positive impact on an organization when it points behaviour in the right direction, is widely shared among the members of work groups, and puts strong pressure on group members to follow the established cultural guidelines".

While these authors define cultural strength, most of them do not try to operationalize it except for Kotter and Heskett (1992) who try to operationalize the strength of a culture by associating affirmative answers to his questionnaire survey on style, values known through a creed and management according to long-standing policies for each respondent of his firm. He then creates a "culture strength indexes" by computing an average response for each firm. The other authors seem to consider cultural strength a function of some combination of the following: who and how many accept the dominant value set; how strongly, deeply or intensely the values are held; and how long the values have been dominant (Louise, 1985).

Gordon and DiTomaso (1992), in their study on culture strength on financial performance, operationalize the culture strength by measuring the consistency of respondents' perception on their company values based on eight factors which include:

1. Clarity of strategy / shared goals
2. Systematic decision-making
3. Integration / communication
4. Innovation/Risk-taking
5. Accountability
6. Action orientation
7. Fairness of rewards
8. Development and promotion from within.

The above dimensions are consistent with Peters and Waterman's (1982) integration/communication, and Hofstede's (1983) innovation/risk-taking.

2.2.6 Corporate Culture, Adaptive Culture, and Performance

Most empirical research that attempts to relate culture to some type of organizatonal outcome has pursued the trait approach. That is, a specified type of value or belief has been found to have particular effects. For example, Dunn, Norburn and Birley (1985) found a correlation between a marketing effectiveness scale and customer-oriented cultures, as described by Peters and Waterman (1982). Amsa (1986) reported that loitering behaviour (unauthorized rest breaks) in work groups was related to company beliefs about the desirability of discipline. Finally, specific cultural characteristics have been related to involvement, identification and commitment to the firm (Koberg and Chusmir, 1987; Posner, Kouzes and Schmidt, 1985)

Very few empirical studies have related cultural characteristics to some measure of corporate financial performance. Reynolds (1986) found that employee responses to a culture questionnaire in a company identified as 'excellent' by Peters and Waterman (1982) did not differ from those in two other companies with less impressive performance.

Deal and Kennedy (1982) stress on the importance of having a strong culture because it enables people to feel better about what they do, so that they are more likely to work harder. They say that "a strong culture has almost always been the driving force behind continuing success in American business." (p. 5). In a survey of about eighty companies (although not done scientifically for the purpose), they conclude that a strong culture, through its impact of values and beliefs indeed have impact on the companies' performance.

Gordon (1985) contrasts companies in dynamic industries with companies in the more static utilities industry. His findings are that dynamic industries are characterized by cultural values that enhance adaptability, whereas utilities are characterized by cultural values that enhances stability. Kilman (1985) describes adaptive culture as risk-taking, trusting, and proactive approach to organizational as well as individual life.

Denison (1984) relates ‘organization of work’ and ‘decision-making practices’ (the other two cultural traits are emphasis on human resource and coordination) to subsequent returns on sales and investment. His findings are that companies that score above the average of each measure show higher returns. This is probably the first study to examine the impact of cultural traits and to attempt to conceptualize cultural strength (as consistency) on organizational performance.

Following on the study to relate cultural strength on performance, Gordon and DiTomaso (1992) try to relate value on adaptability and stability to a firm’s financial performance. The performance element is conceptualized by measuring total assets and total premiums of insurance companies. They conclude that a higher value placed on adaptability leads to a stronger financial performance, while a greater value placed on stability leads to a weaker financial performance.

Kotter and Heskett (1992) found that a firm’s performance is due to a strong culture and is linked to the company’s top leadership but it was a modest relationship because he also found that strong culture can include dysfunctional elements as well as vigorous, functional ones. That is they concluded that strong cultures can lead people—even reasonable, thoughtful people—astray. In short, they concluded that a firm can have a strong culture and poor performance or a weak culture and excellent performance. The latter position is due to the firm having some monopolistic market positions or the result of company acquisitions. To have excellent performance over long periods , the cultures must contain norms and values that can help firms adapt to a changing environment.

2.3 Theoretical Framework

A casual observation on cultural traits of foreign-owned and Malaysian firms seems to suggest that there are corporate cultural differences between Malaysian firms and foreign-owned firms, but there is not much empirical work done to compare the traits of Malaysian and foreign-owned firms and to relate the trait differences to organizational performance. Furthermore, almost all of the previous researches conducted on this area transpired in non-Asian countries. As Hadi (1991) posited that there are differences in the values of Malaysian firms and foreign-owned firms, it is deemed crucial to examine the differences and to further examine if they impact on the organization's performance and also to identify those traits that lead to a better performance, in the Malaysian context. This study adapts a strategy similar to Gordon and DiTomaso (1992), Denison (1984) and Kotter and Heskett(1992), and will examine the effects of culture strength, measured as the consistency of survey responses within a company on subsequent financial performance. The study also provides a follow-up to their work relating cultural values on adaptability versus stability to corporate performance. The framework is posited in figure 2.1 below.

2.4 Hypotheses

Based on the theoretical framework above, seven general hypotheses are developed for empirical verification in this research.

As there has not been any major study on the corporate culture traits of Malaysian firms, this study adopted Hadi's (1991) suggestion which posited that there are

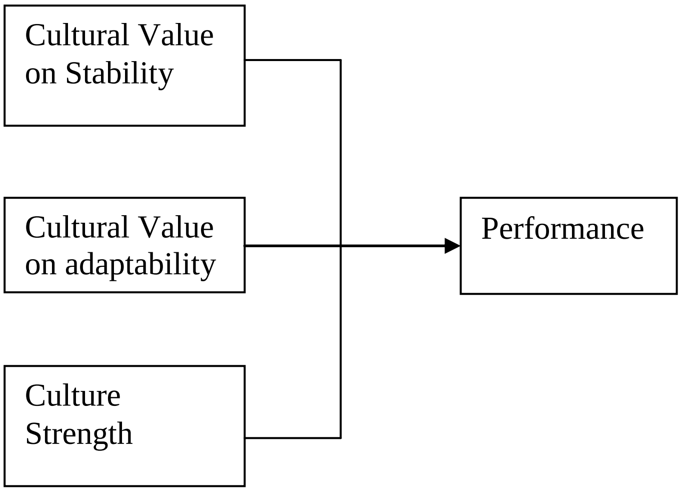

Figure 2.1 : Theoretical Framework

differences in the values of Malaysian firms and foreign-owned firms for hypothesis 1. For hypotheses 2 to 5, they are formulated according to the study taken by Gordon and DiTomaso (1992). Hypotheses six and seven are advanced to countercheck hypotheses 2, 3, 4 and 5. It is envisaged that due to aggregation of data from multiple responses within a company, statistical significance would be difficult to be established.

H1 : *There are differences in corporate cultural traits between Malaysian firms and foreign-owned firms.*

H1.1 : *The corporate culture of Malaysian firms is different from that of foreign-owned firms on the dimension of stability*

H1.2 : *The corporate culture of Malaysian firms is different from that of foreign-owned firms on the dimension of adaptability*

H1.3 : *The corporate culture of Malaysian firms is different from that of foreign-owned firms on the dimension of corporate culture strength*

H2 : The corporate culture traits of firms are related to return on sales performance.

H2.1 : The stability dimension of corporate culture is related to return on sales

H2.2 : The adaptability dimension of corporate culture is related to return on sales

H3 : The strength of corporate culture is related to return on sales.

H4 : The corporate culture traits of firms are positively related to sales growth.

H4.1 : The stability dimension of corporate culture is positively related to sales growth

H4.2 : The adaptability dimension of corporate culture is positively related to sales growth

H5 : The strength dimension of corporate culture is positively related to sales growth

H6 : High performing return on sales firms exhibit different corporate cultural traits from low return on sales firms.

H6.1 : High performing return on sales firms show higher stability corporate culture

H6.2 : High performing return on sales firms show higher adaptability corporate culture

H6.3 : High performing return on sales firms show higher strength corporate culture

H7 : High performing sales growth firms exhibit different corporate cultural traits from low sales growth firms

H7.1 : High performing sales growth firms show higher stability corporate culture

H7.2 : High performing sales growth firms show higher adaptability corporate culture