

Cross-Cultural Competence and Management: Knowledge Migration, Communication and Value Change

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Paper

The author conducted an empirical research across Austrian companies in order to identify specific aspects of corporate culture and their relation to financial performance.

Based on the pioneering work of Geert Hofstede on corporate culture (1990), implemented in Denmark and the Netherlands in the 1980s, the author analyzed the quantitative feedback from 175 salaried employees (around 50% clerks and 43% managers with subordinates – thereby reflecting the composition of the Austrian business environment) in regard to the following research question: “Can Hofstede’s corporate value dimensions be replicated for the author’s sample of Austrian managers or are there other dimensions to be found? And can these dimensions be related to corporate financial performance?”.

Concerning Hofstede’s work on corporate culture, the following aspects should be mentioned: In his research on cross-national culture differences Geert Hofstede (2001) identified national cultures to distinguish people, institutions and organizations in different countries. In a separate research project, which is be the basis for the author’s study, Geert Hofstede et al. (1990) focused on organizational culture differences within a country, working out the differences between organizational and national cultures. For Hofstede, organizational cultures manifest themselves in underlying nation-related values and in what he called „practices“, consisting of symbols, heroes, and rituals. In their study on organizational culture

differences Hofstede et al. only found a weak values component, but strong diversity in practices (Hofstede, 2002). Therefore they concluded that organizational cultures differ mainly at the level of practices, whereas national cultures differ mostly at the deeper level of values. As a consequence, they found the value-based „five dimensions of national cultures“ (Power distance, individualism, masculinity versus femininity, uncertainty avoidance, long-term versus short-term orientation) not suitable for comparing organizations within the same country. They identified „six dimensions of practices“ for organizational cultures (“P” stands for “practices”): P1 “process-oriented versus results-oriented”, P2 “employee-oriented versus job-oriented”, P3 “parochial versus professional”, P4 “open system versus closed system”, P5 „loose versus tight control“, and P6 “normative versus pragmatic“ (Hofstede, 2008; Hofstede et al., 1990).

As this survey by Hofstede is the basis for this research work, these “value dimensions” are described briefly: P1 “process-oriented versus results-oriented” opposes a concern with means (process-oriented) to a concern with goals (results-oriented). P2 “employee-oriented versus job-oriented” a concern for people (employee-oriented) contradicts a concern for “getting the job done” (job-oriented). P3 “parochial versus professional” reflects an organization’s internal to an external frame of reference (Merton, 1968). It opposes units whose members derive their identity largely from the group it-self (parochial) to organizations in which people primarily identify with their job (professional). P4 “open system versus closed system” describes the communication climate of an organization. P5 „loose versus tight control“ refers to the degree of internal structures within an organization, which affect aspects like company behavior and business apparel. P6 “normative versus pragmatic“, dealing with the aspect of “customer orientation”, opposes units, whose members accomplish their tasks in strictly following their inviolable rules (normative) to market-driven organizations (pragmatic) (Hofstede et al., 1990).

For the author, these “six dimensions of practices“ demonstrate the expression of under-lying values. In consequence, the following pragmatic interpretation is suggested: There is “national culture” with its “national/societal values”. Companies have an “organizational/corporate culture”, which consists in its core of low-lying national and societal values together with their “organizational value dimensions” (corresponding to the “six dimensions of practices“). The implementation of these “value dimensions” results in “organizational practices/behavior”.

Apart from the six main “practice” factors (P1 to P6), the core of his survey, Hofstede also extracted three “value”-factors and two “promotion and dismissal”-factors. The three value-factors (with “V” for “value”) were V1 “need for security”, V2 “work centrality” and V3 “need for authority”. V1 and V3 resemble two dimensions in his cross-national study (Hofstede, 1980): V1 corresponds to his “uncertainty avoidance”-dimension, V3 matches with his “power distance”-dimension. Dimension V2 focuses on the mindset of the people within an organization, which place work has in their life pattern. The two “promotion and dismissal”-factors (with “H” for “hero”) were H1 „promotion for present and past merits“ and H2 “dismissal for misbehavior and moral”. H1 opposes promotion for present merits (commitment, creativity, performance) to promotion for past merits (diplomas and seniority). In dimension H2 dismissal for job-related misbehavior (stealing) contradicts dismissal for off-the-job morals (sex) (Hofstede et al., 1990).

As the replication of the Hofstede survey in the Austrian business environment was one of the tasks, the Austrian results were in a first attempt analyzed following Hofstede’s assignment of the 100 culture items to his practice- and value-dimensions.

The main focus of the factor analysis was put on the six “practice”-factors (P1 to P6), the core of Hofstede’s survey, followed by three of his “national value”-factors (V1 to V3), and completed by two “promotion and dismissal”-factors (H1 to H2).

In order to check internal consistency of each of the factors, the author used Cronbach’s coefficient alpha (Cronbach, 1951; Green & Salkind, 2008). This statistic provides an indication of the average correlation among all of the items that make up the scale. Values range from 0 to 1, with higher values indicating greater reliability. Although no clear limit is set for reliable Cronbach’s alpha values, recommendations focus on acceptable levels between .5 and .8 (e.g., Wikipedia, 2009). In order to work with stable data, Nunnally (1978) recommends a minimum level of .7.

The analysis showed the following results for Cronbach’s alpha based on standardized items (Table 1): Good consistency was found for Hofstede’s practice factors P1 “process-oriented vs. results-oriented” (.882), P2 “employee-oriented vs. job-oriented” (.753) and Hofstede’s promotion and dismissal factor H2 “dismissal for misbehavior and moral” (.807). Internal consistency with levels higher than .5 were found for P4 „open system vs. closed system“ (.518), the value factors V1 „need for security“ (.518) and V2 „work centrality“ (.676), and the factor H1 „promotion for present and past merits“ (.637). Poor consistency was found for

the factors P3 „parochial vs. professional“ (.170), P5 „loose vs. tight control“ (.409), P6 „normative vs. pragmatic“ (.390), and V3 „need for authority“ (.382).

In a next attempt of the replication process the author realized an amelioration of Cronbach's alpha values by manipulating the number of items for the factors (Backhaus et al., 2003; Green & Salkind, 2008). After deleting one item per factor, the outcome showed two promising trends: On the one hand, the majority of the factors with Cronbach's alpha already above .5 (P1, P2, P4, V1, V2, H1, H2) only slightly improved. On the other hand, the factors with poor internal consistency (P3, P5, P6, V3) all improved strongly, with values increasing for P3 to .309, P5 to .551, P6 to .472, and V3 to .540.

Already the first task of replicating Hofstede's dimensions in the Austrian business environment had brought valuable results: For four of the six dimensions significant or near significant results could be achieved (Cronbach's alpha values between 0.5 and 0.9). The factor of dismissal for misbehavior delivered significant results, for the other dismissal factor and for all three value factors near significant results (Cronbach's alpha values higher than 0.5 and less than 0.7) could be achieved, too. With the deletion of specific items, the Cronbach alpha values increased significantly.

Table 1: Cronbach's Alpha: Internal consistency for Hofstede's dimensions in the Austrian replication

Hofstede Original			Author's Replication		
Hofstede Value Dimensions		Number of items	Cronbach's Alpha based on standardized items	Cronbach's Alpha if 1 item deleted	Item deleted questionnaire number
6 Practice factors:					
P1	Process-oriented vs. results-oriented	15	.882	.887	48
P2	Employee-oriented vs. job oriented	8	.753	.758	64
P3	Parochial vs. Professional	5	.170	.309	72
P4	Open system vs. closed system	5	.518	.563	68
P5	Loose vs. tight control	4	.409	.551	41
P6	Normative vs. Pragmatic	6	.390	.472	53
3 Value factors:					
V1	Need for security	11	.518	.521	13
V2	Work centrality	5	.676	.686	9
V3	Need for authority	4	.382	.540	2
2 Promotion and Dismissal factors:					
H1	Promotion for present and past merits	7	.637	.672	91
H2	Dismissal for misbehavior and moral	6	.807	.823	95

In order to further increase the data reliability, the author will implement the method of psychometric item selection. This will lead to a comparison between Hofstede's item allocation of the six factors with the author's improved item correlation. This measure will be followed by an explorative factor analysis, using the "maximum likelihood method", in combination with another item selection. These scales should then be separately implemented in a regression model.

This procedure should lead to the following results: On the one hand the replication of Hofstede's organizational value dimensions for the author's sample. On the other hand the extraction of new organizational factors specific for this Austrian business sample.

Apart from the "conversion" of the Hofstede "organizational value dimensions" to the Austrian business environment, the second task of this study is the connection of the results on corporate culture to aspects of economic performance.

The respondents were asked to indicate the company's growth in turnover for a four-years period (question "Average growth of turnover 2003 to 2006 in % (Austria)"). Apart from this measure for development, it was also asked for categories of absolute numbers (question "Turnover or balance sheet total 2006 in bn EUR (Austria)" so to also distinguish companies for their financial importance. The decision to define sales numbers and development as the measuring tools for "financial performance" is supported by various researchers (e.g., Calori & Sarnin, 1991) who mention that organizational culture seems to have more influence on growth than on profitability.

The author also tries to investigate, if financially successful companies had participated in this survey by putting into relation their performance to their sector's financial development. The data for calculating the average sector growth 2003 to 2006 was retrieved from the web page of Austria's federal statistics institution "Statistik Austria". The "Compound annual growth rate" (CAGR) was used for calculating the development. For these respondents, who could not assign their company to a specific sector, a dummy-sector "Others" was introduced. The growth number was computed by calculating the average of the other 29 sectors.

When comparing these average sector developments in turnover to the values indicated by the company representatives in the survey, it may be interpreted that representatives of highly successful companies have participated in this research, as the indicated growth rates were significantly higher than the average sector growth. Nevertheless, it has to be mentioned that the number of participants per sector differed. Therefore, no general conclusions should be drawn of these numbers.

One of the targets for the author is to provide evidence that the consideration of these corporate culture factors is directly related to a higher performance in a company's turnover. In average, the participating managers reported much higher turnover increases for the four consecutive years (2003 to 2006) than the sectoral development implied. Therefore, an

increased knowledge about the factors of corporate culture, which have a direct relation to financial performance, would certainly be of direct benefit for managers of today. Especially in the light of the current developments, as competition among managers becomes harder and an information advantage in all aspects of management becomes vital for survival.

Nevertheless it has to be mentioned that the correlations between these organizational factors and a company's financial performance are weak, as numerous aspects influence this relation. Also the size and the homogeneity of the sample bear some uncertainty for the author's implications. Therefore, an enlargement of the sample on both a sectoral or national level would further increase significance. The comparison of these results with research in neighboring countries would put further importance to this topic.

Already in the current status of the author's research work the first results indicate a relation of these corporate culture dimensions with financial performance, implying the direct benefit of a better understanding of the functioning of organizational culture. All this seems very promising that further research on the relationship between organizational culture and economic performance should be further intensified.

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