

## **THE RELATIONSHIP BETWEEN ORGANIZATIONAL CULTURE AND FIRM PERFORMANCE -A CROSS-CULTURAL STUDY AMONG TURKEY, RUSSIA, AND ROMANIA**

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### **Abstract**

The aim of the study was to (1) compare dimensions of organizational culture in organizations which were created in different countries; Turkey, Russia and Romania by the same founder, (2) investigate the relationship between organizational culture and firm performance. The sample consisted of 432 white-collar members. This study demonstrated that there are significant differences among organizations created by same founder in Turkey, Russia, and Romania on the perception of organizational culture. There are positive and significant relationships between the organizational culture and employee perceptions of Firm Performance. It is observed that in Turkey and Romania mission trait has the highest correlation with dimensions of Firm Performance whereas in Russia involvement trait has highest correlation with Firm Performance.

**Keywords:** *Organizational Culture, Denison Organizational Culture Model, Firm Performance, Turkey, Romania, Russia*

**JEL Code:** L29

### **1.INTRODUCTION**

In today's rapidly globalizing business world, organizations spread out all over the world competing with much more of rivals than before. As a requirement of globalization, the borders of business world began to disappear and people from different cultures began to be in much closer relationships. Increasing the performance and effectiveness of organizations in different cultures is one of the

most crucial responsibilities of managers and the founders. Romania and Turkey have a long tradition of strong economic and commercial ties that have steadily developed at a rapid pace during the recent years. Since the revolution of 1989, Romania has made significant progress toward the development of a market economy. As a result of perestroika period, Russia opened its doors to foreign direct investment in 1987. Companies from around the world were naturally attracted to the country, with its population of 150 million, a well-educated and inexpensive labor supply, and excellent natural resources. Currently Russia is Turkey's second-largest trading partner, while Turkey is Russia's 5th largest trade partner. Increasing the business relations among these countries requires more attention for founders and managers who need to survive in a global environment. The purpose of the study is to examine the effects of organizational culture on firm performance in organizations in Turkey, Romania, and Russia.

## **2. FIRM PERFORMANCE**

*Firm performance is one of the most important constructs in management research.* The definition of firm performance could vary from one and another. According to Richard et al. (2009:719) organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.) On the other hand, firm performance can also be measured using perceived performance approach (also referred to as subjective performance measure) where Likert-like scaling is used to measure firm performance from the top management perspectives (Selvarajan, 2007:1465).

In this study, taking into account the banking sector, we intent to concentrate on the following eleven firm performance outcomes; Qualified labor, Commitment of employees, Job satisfaction of employees, New product/service development capability, Product/service quality, Customer satisfaction, Sales growth, Market share growth, Return on sales, Return on assets, Overall profitability.

## 2. ORGANIZATIONAL CULTURE

Before we review the literature on OC relevant to the development of the research model, it will be helpful to review the concept of culture based on Hofstede's (2005) framework in order to understand the differences and similarities of countries: Turkey, Russia, and Romania.

**Table 1.** Cultural Dimensions of Each Country

	TURKEY	RUSSIA	ROMANIA
Power Distance	66	93	90
Individualism	37	39	30
Masculinity	45	36	42
Uncertainty A.	85	95	90

The famous 19th century Russian historian Kliuchevskii (1990:36) describes a set of stereotypical Russian behaviors, including resourcefulness, patience under adversity, deprivation, and spurts of energy, combined with a tendency to dissemble and an inconsistency in seeing things through.

Schein (1992:106) defines organizational culture as the pattern of shared basic assumptions, values, norms, and artifacts that the organization members learned as they solved organizations problems of external adaptation and internal integration. In addition to founder, culture is also created by new beliefs, values and assumptions brought in by new members and leaders. As a consequence of social, economic, and politic construct of organizations operating in Turkey, Russia, and Romania would not have expected same perception of organizational culture, eventhough they are created by same founder. A culture will be based on a unique history of a group of people dealing with a unique set of physical, social, political and economic conditions. All these conditions would differ based on countrys' conditions. Hence, with the light of these theoretical explanations following hypothesis is formulated;

*H1) There is a significant difference among organizations created by same founder in Turkey, Russia, and Romania on the perception of organizational culture.*

## **2.1. DENISON ORGANIZATIONAL CULTURE MODEL**

Denison believed that organizational culture is embedded in a set of basic assumptions, values and beliefs about employees, management, customers, share holders, suppliers and others. Denison's model is made up of 4 basic dimensions and 12 sub-dimensions that are found to be related with organizational performance like return on investment, return on assets, growth in revenues and sales, market share, innovation, quality of products and services, and employee satisfaction. The results were expressed in a model that measure four basic dimensions: Mission, Involvement, Adaptability, and Consistency.

## **3. ORGANIZATIONAL CULTURE AND FIRM PERFORMANCE**

Yılmaz and Ergun (2008:298) conducted a study using data collected from manufacturing firms in Turkey. The study examines the effects of four major organizational culture traits, involvement, consistency, adaptability, and mission, on measures of firm effectiveness. They found significant correlations between the four traits of DOCS and organizational effectiveness items like market share growth, ROA, quality improvements, new product development, employee satisfaction and overall effectiveness. They found the mission trait as the strongest determinant of sales growth, market share growth, and financial profitability (ROA).

Fey and Denison (1999:101) extended the literature on organizational culture and effectiveness by examining a set of foreign-owned firms operating in Russia. Adaptability proved to be the most important dimension of organizational culture with respect to overall firm performance and profitability. The other flexibility trait, involvement, also appears to be highly important to organizational effectiveness in Russia. Moreover all cultural traits correlated with market share, sales growth, and profitability (Fey and Denison, 1999:102). Hence, in the light of relevant literature cited in this study, the following hypothesis is formulated;

*H2) There is a positive and strong relationship between organizational cultural dimensions and firm performance for each country.*

#### 4. METHODOLOGY

The study is applied to three banks created by same founder operating in Turkey, Russia and Romania in banking sector. A total of 432 responses were used for analyses. Data collection went ahead by going to companies and distributing the surveys to the employees by hand. Organization Culture Model was used. Denison’s Organizational Culture Questionnaire’s short Turkish version was used which was adapted into Turkish by Mehmet Yahyagil (2004:72). The nine performance indicators were adapted from Barringer and Bluedorn (1999:434), and Wiklund and Shepherd (2003:1938).

#### 5. FINDINGS

Testing Hypothesis 1, One-way ANOVA test was conducted whether there were any differences in the perception of organizational culture between countries.

**Table 2. ANOVA Test of Organizational Culture**

		N	Mean	F test	p
<b>Organizational Culture</b>	<b>Turkey</b>	152	4.2303	11,69	,000
	<b>Russia</b>	108	3.9575		
	<b>Romania</b>	172	3.8325		
			Mean Difference	Std. Error	p
<b>Scheffe Test</b>	<b>Turkey</b>	<b>Romania</b>	0,272	,077	,002
		<b>Russia</b>	,397	,087	,000
	<b>Romania</b>	<b>Turkey</b>	-272	,077	,002
		<b>Russia</b>	,125	,084	,000
	<b>Russia</b>	<b>Turkey</b>	-397	,087	,000
		<b>Romania</b>	-125	,084	,000

Correlation analysis has been conducted to test the hypothesis 2 to identify the relations among dimensions of OC and FP for each country. Pearson correlation test results showed that there is a positive and significant relationship between

cultural dimensions of involvement, mission, internal-external communication and firm performance.

**Table 3. Correlations of the variables for TURKEY**

Measures	Mean	SD	Involvement	Mission	IEC	OC	FP	QnP	QIP
<b>Involvement</b>	4,06	,94	1						
<b>Mission</b>	4,14	,94	,68**	1					
<b>IEC</b>	4,36	,68	,60**	,59**	1				
<b>OC</b>	4,23	,69	,84**	,86**	,85**	1			
<b>FP</b>	3,44	,62	,40**	,50**	,42**	,55**	1		
<b>QnP</b>	3,71	,73	,15	,25**	,23**	,29**	,84**	1	
<b>QIP</b>	3,22	,71	,51**	,59**	,48**	,64**	,88**	,50**	1

**Table 4. Correlation Analysis for ROMANIA**

Measures	Mean	SD	Involvement	Mission	IEC	OC	FP	QnP	QIP
<b>Involvement</b>	4,05	,91	1						
<b>Mission</b>	4,06	,79	,68**	1					
<b>IEC</b>	3,96	,73	,76**	,74**	1				
<b>OC</b>	3,95	,68	,87**	,89**	,91**	1			
<b>FP</b>	3,19	,57	,38**	,43**	,42**	,46**	1		
<b>QnP</b>	3,13	,65	,09	,20**	,13	,20**	,82**	1	
<b>QIP</b>	3,25	,67	,51**	,51**	,55**	,56**	,88**	,47**	1

**N: 172**

**Table 5. Correlation of the variables for RUSSIA**

Measures	Mean	SD	Involvement	Mission	IEC	OC	FP	QnP	QIP
<b>Involvement</b>	3,87	,87	1						
<b>Mission</b>	4,00	,77	,68**	1					
<b>IEC</b>	3,65	,70	,71**	,70**	1				
<b>OC</b>	3,83	,68	,86**	,91**	,87**	1			
<b>FP</b>	3,28	,59	,49**	,45**	,42**	,54**	1		
<b>QnP</b>	3,50	,66	,31**	,25**	,11**	,28**	,83**	1	
<b>QIP</b>	3,10	,69	,51**	,51**	,57**	,62**	,89**	,50**	1

**N: 108**

## 6. CONCLUSION

First of all, this study showed that there is a significant difference among organizations created by same founder in Turkey, Russia, and Romania on the perception of organizational culture. According to ANOVA tests, Turkish employees perceive organizational culture more than Russian and Romanian employees. As a consequence of social, economic, and politic construct of organizations operating in Turkey, Russia, and Romania would not have expected same perception of organizational culture, even though they are created by same founder.

Another important issue is which dimension of organizational culture differs based on country. According to ANOVA test, there is a significant difference among organizations in Turkey, Russia, and Romania on the perception of internal-external communication ( $\mu$  TURKEY=4,36,  $\mu$  ROMANIA=3,96,  $\mu$  RUSSIA=3,65). Turkish employees perceive internal-external communication more than Romanian employees. The perception of Russian employees' internal-external communication is at the lowest level. As we mentioned in the concept of culture, power distance values of Russia and Romania (PD Russia=96, PD Romania=93, PD Turkey=66) are at the higher level. Power distance is negatively associated with leader communication, delegation, approachability, and teambuilding; and uncertainty avoidance is positively linked to leader control and negatively to delegation (Offermann and Hellman, 1997:348). As Vlachoutsicos and Lawrence (1990:57) have noted, Russian organizations often have good vertical flow of information, but poor horizontal flow from department to department. Information is typically seen as power, creating barriers to coordination and integration. Several authors have advocated using teams to achieve coordination because Russians like working in groups and are good at doing it (Puffer 1992:56, Vlachoutsicos 2001:57).

Correlation analysis between dimensions of organizational culture and firm performance verify that there are positive and significant relationships among the cultural dimensions (involvement, internal-external communication and mission) and employee perceptions of Firm Performance.

When the Pearson coefficients are considered, it is observed that in Turkey and Romania mission trait has highest correlation with dimensions of FP than

involvement and internal-external communication traits. In addition, according to Yılmaz and Ergun, the mission trait was the strongest determinant of sales growth, market share growth, and financial profitability (ROA) in Turkey. Indeed, our analyses showed that organizations in Turkey and Romania which have a clear mission, long-term purpose and direction, clear goals and objections tend to be more effective on the perception of firm performance.

The result of this study indicated that in Russia involvement trait has highest correlation with firm performance than mission and internal-external communication traits. Fey and Denison (1999:99) extended the literature on organizational culture and effectiveness by examining a set of foreign-owned firms operating in Russia. The clearest differences between the Russian and US contexts that emerge from the quantitative study are the importance of flexibility traits in Russia. The flexibility trait, involvement, also appears to be highly important to organizational effectiveness in Russia. Moreover all cultural traits correlated with market share, sales growth, and profitability (Fey and Denison, 1999:101).

The data in this study also showed that internal-external communication trait has the strongest relationship with the qualitative firm performance in Russia and Romania. According to Hofstede, Russia and Romania rank among high power distance and high uncertainty avoidance cultures than Turkey. In terms of cultural trait; results about relationship between qualitative performance (commitment of employees, qualified labor, satisfaction of employees, product/service quality, new product development capability, customer satisfaction) and internal-external communication would not be unexpected result for Russia and Romania. Organizations in Romania and Russia which share a common perspective, deep understanding of customer needs, coordination and integration across different parts of the organization tend to be more effective on the perception of qualitative performance.

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