Corporate Culture and Its Effects on Organizational Performance: Multi-Group Analysis Evidence from Developing Countries


ABSTRACT

Corporate culture is one of the most critical intangible resources that substantially affect the overall organizational performance in developing countries. Hence, this study focused on developing countries' energy sectors to evaluate corporate culture's influence on performance. A quantitative research approach was used in this study to achieve the set goals. The study population comprised 408 employees of General Electric Company of Libya (GECOL) who were sampled during the data collection stage of this study. Structural Equation Modelling (SEM) was used to evaluate the impact of organizational culture on performance. The study's outcome evidenced a significant positive impact of culture on corporate performance; this effect was more significant for administrative employees than technical employees. This study offers some recommendations for the direction of future research, as well as criticism of its limitations.

Keywords: Corporate Culture, Developing Countries, Electricity Sector, Organizational Performance.

I. INTRODUCTION

The business environment in developing countries is continually changing, making it very challenging for service and production organizations to forecast future changes. These problems and challenges have driven organizations to make huge investments in terms of time and money in a risky environment to achieve high performance. Organizational performance may also be poor due to ongoing environmental changes as a result of social, cultural, political, and economic transformations that are seen as a barrier to rapid growth, continuous process improvement, greater profitability, and public sector capability in meeting future development goals (Nikpour, 2017; Aboajela, 2015). It has been shown in previous studies that public sector organizations in developing countries struggle to perform efficiently for various reasons (Aboajela, 2015).

Corporate culture has been considered one of an organization's crucial intangible resources that is hard for competitors to replicate or duplicate, with a significant impact on organizational performance (Joseph & Kibera, 2019). Scholars suggest that corporate culture assists in two functions: it adapts to changes in the external environment and promotes internal integration because the response of organizations to new conditions (internal and external) is a function of their current culture (Colyer, 2000; Schein, 2016). Therefore, the analysis of corporate culture may help the management better understand organizational performance (Colyer, 2000; Schein, 2016; Joseph & Kibera, 2019).

The link between company culture and employee performance has received increased attention from academics, and the results have been conclusive because the two variables are strongly correlated (Febrina et al., 2021; Kuswati, 2020; Fidyah & Setiawati, 2020; Giri et al., 2016; Sopiah et al., 2021). Even though some scholars have concluded that the influence of culture on performance was insignificant (Sapta et al., 2021; Pawirosumarto et al., 2017), most of the available studies on the culture-performance relationship in organizations have reported a positive and significant influence of culture on performance (Goromonzi, 2016; Nikpour, 2017; Leithy, 2017; Imran et al., 2021; Nuryanto et al., 2020; Nunchim, & Leilhaothabam, 2022). Previous empirical findings appear inconsistent and unclear in this regard since some studies concluded that corporate culture did not influence organizational performance (Yesil & Kaya, 2013; Mousavi, Hosseini, & Hassanpour, 2015). The reason for this is that the influence of culture on performance is a function of different types of performance measurements utilized, the types of firms (Lim,
1995), and the peculiarities/social culture of the related country (Zumrah et al., 2021). As a result, additional research may be needed on the impact of corporate culture on OP to arrive at a consensus. Hence, this study is mainly focused on the investigation of the influence of corporate culture on OP in developing countries using the electricity sector as a case study.

II. LITERATURE REVIEW

A. Corporate Culture

Corporate culture refers to a set of values and norms that determine how the people within the organization behave; each member of the organization must act following these principles to gain acceptance by the organization (Luthans et al., 2021). According to Hofstede (2016), “culture is mind collective programming that separates one group member or people type from another”. The mind is made up of the brain, heart, and hands, or thinking, feeling, and doing, all of which have an impact on one's attitudes, beliefs, and capacities. The values system is the core of the culture, which is defined by the organization's values. The whole notion will be integrated into the values, including symbols, heroes, and rituals.

Nevertheless, corporate culture has several aspects; Denison (1990) included a concept of corporate culture that identified four dimensions which are inclusiveness, flexibility, consistency, and mission. These are important dimensions for the establishment and sustenance of a thriving corporate culture in a company (Kotrba et al., 2012). Inclusivity and consistency, as per Denison (1990), are intrinsic and necessary elements of excellent business culture.

Inclusion is an internal aspect of building a strong corporate culture, signifying shared responsibility and ownership (Khan et al., 2020). This component tries to give workers the impression that they are a legitimate part of the management team and participate fairly in decision-making, as well as knowledgeable and involved in their job, which improves their performance (Khan et al., 2020).

Consistency is the fundamental source of controlling coordination and integration in the organization. Consistency significantly affects the efficiency and effectiveness with which an organization completes its work; it also facilitates the sharing and use of knowledge and other resources among members of the same cultural group (Awadh & Alyahya, 2013). Consistency was mentioned as a factor that supports organizations as they develop policies and practices that lead to an internal governance structure based on the understanding of all stakeholders (Twumasi-Ankrah, 2012).

Flexibility is the management's capacity to identify and respond to external contexts (Schein, 2016). Corporate leaders are willing and flexible to both internal and external components of attractive business culture. For adaptation, business managers may adjust corporate culture (flexibility). In light of foreign rivalry, the shift entails modernizing internal departments and goods (Mousavi et al., 2015). The mission is thought to explain the association's existence, and long-term goal direction, as well as the company's strategic planning, is understood by the employees (Khan et al., 2020). Employees must believe that their daily effort will assist the organization in accomplishing its goals. In addition, Khan et al. (2020) noted that the mission ought to prioritize the firm's approaches and enhance financial and non-financial performance.

B. Organizational Performance

Although performance can be measured and assessed in a variety of ways, yet there is no one agreed-upon definition of what performance is. The main objectives of the organization are to increase performance, create goals, and discover new methods for performance improvement (Ismail & Al Hosni, 2021; Ghumiem, et al., 2022). Academics continue to show a lot of interest in studying and assessing organizational effectiveness because of organizations' various aims. (Lu, 2019). When it comes to achieving essential objectives, performance can be described as “acting”, “actually executing an activity”, or “completing a task” (Miller & Bromley, 1990). Success requires presenting an organization's performance to all stakeholders (Akpoviro & Owotutu, 2018). Top management uses organizational performance to analyze an organization's status and objectives (Balabonien & Veerskie, 2015). Organizational efficiency, as per Eneizan et al. (2016), entails both non-financial & financial performance. Effectiveness, efficiency, and operation are three indicators of organizational performance as per Ismail and Al Hosni (2021) and Ghumiem and Alawi (2022). In this research, the non-financial performance included innovation, customer satisfaction, and effectiveness.

C. Corporate Culture and Organizational Performance

Organizations face challenges in achieving their goals in the changing environments due to rapid changes in the external environment; this has a direct impact on organizational structures, complicating the steps towards overcoming certain challenges to achieve its goals (Polychroniou & Trivellas, 2018; Behmer et al., 2016; Alsamawi et al., 2019a). Organizations that operate in dynamic working environments strive hard to improve their performance by altering their culture and responding swiftly to external influencing factors, such as using technologies (Al-Muhrami et al., 2021), hence corporate culture is a vital component in achieving greater organizational effectiveness and performance (Ismail et al., 2021; Martinez et al., 2015; Imran et al., 2021; Rahmatullah et al., 2022). It has also been shown that corporate culture improves corporate value and competitiveness (Alsamawi et al., 2019b). Previous studies mentioned that successful firms have strong cultures, which may be defined in a variety of ways. Companies that have strong cultures tend to have greater overall performance compared to those with weak cultures (Jamali et al., 2022; Demir, 2011; Polychroniou & Trivellas, 2018; Giri et al., 2016; Aboajaela, 2015).

Studies have empirically verified that corporate culture significantly and positively affects organizational performance. For example, Goromonz (2016) discovered that corporate culture significantly and positively affects bank performance in Zimbabwe. According to Nikpour (2017), establishing an acceptable culture that the organization adopts in the Iranian education sector has a significant and positive impact on performance. Polychroniou and Trivellas (2018) further noted the significant impact of culture on internal performance (innovative competency & human relations), as
well as on the growth, profitability, and reputable assets of organizations. Sopiah et al. (2021) revealed that corporate culture positively and significantly affects employees’ performance in the Islamic banking sector. In the same manner, Sapat et al. (2021) found that corporate culture directly and positively influences employees’ performance and has an indirect influence by motivating employees to enhance their performance in the banking sector in Bali. Another study by Joseph and Kibera (2019) on the managers of microfinance businesses in Kenya found that, in addition to its beneficial influence on organizational performance, corporate culture is also viewed as a crucial factor for sustainable competitiveness. Given these claims, this study hypothesized as follows:

H1: Corporate culture has a direct effect on organizational performance.

III. RESEARCH METHOD

A. Sample and Data Collection

The selection of the sample from the population was done in this study using the sampling frame criterion; the study sample included employees of General Electric Company of Libya (GECOL). A total of 408 participants (n = 408) from the administrative and technical staff working at GECOL were involved in the study. The selected participants claimed to have worked at the company for about 3 years and are up to 26 years old to maintain data authenticity and trustworthiness.

A method of random sampling was utilized in the process of selecting the instances that would be used to provide answers to the research questions (Sarstedt & Mooi, 2019). This method of sampling is the best and most appropriate method of sampling to use when the target population is accurate and each case is easily accessible, which is the situation in which this work makes use of the simple random sampling method. The reason for this is that it enables the researcher to choose the sample without being influenced by any bias, which in turn enables the sample to be reflective of the target population (Saunders et al., 2019). To promote a high response rate, the questionnaires were given out during the participants' working hours and were accompanied by a cover letter that described the intention of the researcher, the objective of the research, and the precautions that would be taken with the data.

B. Measures

This study used the 28 items adapted from Denison (1990) for measuring corporate culture. Four dimensions (inclusion, consistency, flexibility, and mission) were used to build up the scale. There are seven elements used to gauge each dimension. This measurement was chosen because it has a strong research background, is reliable and valid, and has been used in prior studies examining how corporate culture affects organizational performance (Darmanto, 2015; Mousavi et al., 2015). In this study, OP was measured by non-financial performance. Being that the measurement of performance in financial terms is difficult in the context of governmental establishments such as GECOL (Phills, 2005) owing to the higher influence of non-financial dimensions on performance, the main concern remains the implementation of performance measures specific to governmental organizations in this study (Palmer & Randall, 2002). The measurement of non-financial performance was based on the 13 items culled from the study by Nikpour (2017). The review employed three subjective metrics: effectiveness, innovation, and client satisfaction. The recruited participants (GECOL staff members and management) were asked to rate their levels of acceptance of each statement in the survey tool using a 5-point Likert scale (“1= strongly disagree”, “5 = strongly agree”).

C. Data Analysis

Confirmatory Factor Analysis (CFA) using AMOS was utilized to evaluate the measurement model for this study. This evaluation took place in two steps: evaluation of goodness-of-fit and construct validity assessment which included convergent & divergent validity. The fitness evaluation was done by adjusting the index χ2 by “degrees of freedom or relative χ2 (χ2/df)”; the other metrics used are TLI, CFI, and RMSEA based on previous studies (Al-Refaei & Zumrah, 2019; Zumrah et al., 2021; Al-Refaei et al., 2019). The second stage is a structural model to examine the research hypothesis; the metric used is the critical ratio value which must have a value of > 1.960 as recommended by Byrne (2016).

IV. RESULTS

A. Demographic and Profile of the Respondents

Table I displays the demography of the 408 study participants. With regard to age, 16.2% (n = 66) of the participants were below 21 years old (YO), 32.1% (n = 131) were aged between 31 and 35 YO, 29.9% (n = 122) were between 36 and 40 YO, and the rest (21.8%, n = 89) were > 40 YO. Considering education, 12.7% (n = 52) are diploma holders, 81.9% (n = 334) are holders of bachelor's degrees, 2.9% (n = 12) are holding a master's degree, and 2.5% (n = 10) have additional degrees. Regarding their occupations, 50% (n = 204) of the participants are holding managerial positions (such as managers, head directors, and department heads), and 50% (n = 204) are technicians. Employees who have worked at the GECOL for > 6 years make up 73.5% (n = 300), whereas those who have worked there for less than six years make up 26.5% (n = 108) of the total.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Category (years)</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>21–30</td>
<td>66</td>
<td>16.2</td>
</tr>
<tr>
<td></td>
<td>31–35</td>
<td>131</td>
<td>32.1</td>
</tr>
<tr>
<td></td>
<td>36–40</td>
<td>122</td>
<td>29.9</td>
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<tr>
<td></td>
<td>&gt; 40</td>
<td>89</td>
<td>21.8</td>
</tr>
<tr>
<td>Qualification</td>
<td>Diploma</td>
<td>52</td>
<td>12.7</td>
</tr>
<tr>
<td></td>
<td>Bachelor's degree</td>
<td>334</td>
<td>81.9</td>
</tr>
<tr>
<td></td>
<td>Master’s degree</td>
<td>12</td>
<td>2.9</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>10</td>
<td>2.5</td>
</tr>
<tr>
<td>Job</td>
<td>Managerial</td>
<td>204</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Technician</td>
<td>204</td>
<td>50</td>
</tr>
<tr>
<td>Working experience</td>
<td>&lt; 6 years</td>
<td>108</td>
<td>26.5</td>
</tr>
<tr>
<td></td>
<td>&gt; 6 years</td>
<td>300</td>
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The measurement model used two latent variables—corporate culture and performance—and 46 observed variables. The factor loading estimates varied from 0.58 to 0.92 for corporate culture and from 0.87 to 0.92 for organizational performance, with all estimates exceeding the cut-off threshold (see Table II). The CFA for the measurement model produced a satisfactory model fit evidenced by the χ² statistic value of 1493.727, df = 621 (CMINDF = 2.40, p < 0.000), TLI = 0.93, CFI = 0.936, RMSEA = 0.059. These values are an indication of a good level of model fitness and sufficiency to assess the model (Hair et al., 2019; Kline, 2016).

The models’ reliability & validity was determined by measuring the composite reliability (CR) of all the constructs. On the other hand, the factor loadings for all items were measured as a way of measuring the models’ convergent validity (CV); the average extracted variance (AVE) and maximum shared variance (MSV) of the constructs must be lower than the AVE. As seen in Table II, the results of the convergent and reliability tests provided acceptable indicators. The findings showed that all items’ factor loadings ranged between 0.58 and 0.92, except for item (PS1), which was below 0.50; this item was deleted as suggested by Awang (2012) and Hair et al. (2019). The C.R. for each construct had satisfying values; for corporate culture, it was 0.86; for performance, it was 0.77; these values were above the specified cut-off value of 0.70 as recommended by Hair et al. (2019). In contrast, each construct achieved AVE value in the range of 0.054 to 0.61, which was more than 0.50 and lower than the C.R. value predicted by Hair et al. (2019). Additionally, each variable's MSV ranged from 0.243 to 0.270; these values were less than the AVE value, thereby establishing the CV of the measurement model.

Discriminant validity (DV) is the level of difference between variables. Previous studies have used two methods to evaluate discriminant validity (Zumrah et al., 2021); the first method is the Fornell Larcker Criterion (FLC) which, in
the correlation matrix, showed a higher AVE square root coefficient value than that of the squared correlation estimates of the construct (Fornell & Larcker, 1981). The next method is the Heterotrait-Monotrait Ratio (HTMT) recommended by Henseler et al. (2015). All the constructs had HTMT values less than 0.85. The constructs’ FLC results, presented in Panel A of Table III, and the HTMT results in Panel B demonstrated sufficient discriminant validity.

C. Hypothesis Testing And Results

The outcomes of the structural model (SM) assessment are shown in Table IV, comprising the p-values, beta, standardized estimate, and t-statistics; these values portray the significance of the impact of corporate culture on OP. According to the recommendation made by Byrne (2016) regarding t-statistics, the cut-off point should be > 1.96, and the p-value < 0.05. The standardized path coefficients for the observed relationship between culture and OP in this study were (β =0.51, t = 6.75, p = 0.000); these values suggest a significant & positive correlation between culture and OP. Table IV presents the outcome of the standardized regression estimation of the SM. However, in terms of employee's job type, the association between corporate culture and performance is found to be positive, but the influence of culture on performance is more significant for administrative workers based on job type rather than technical. However, because the p-value of the difference was higher than 0.05 (p>0.05), the difference in this relationship was deemed to be insignificant based on the job type. Table V displays the findings of the differences in the impact of corporate culture on OP based on the job type.

The current study concludes that corporate culture positively impacts organizational effectiveness and performance. The findings demonstrate that companies with a strong corporate culture have stable and committed employees who perform outstandingly. Because employees who adopt and accept the goals and values of a firm strive to make efforts towards achieving those goals, corporate culture shows how well businesses can create a set of guiding principles that must be adhered to, as well as the skills and competencies needed to support both the organization's short- and long-term goals. In contrast to businesses with a weak corporate culture, the findings demonstrate that companies with a strong corporate culture have loyal workers who actually perform well, which increases their capacity to manage and reduce the consequences of the external environment. Companies with a strong corporate culture may create and innovate new ideas, benefit from technology advancement, utilize the resources at hand, and build creative abilities and processes that provide the company with a competitive advantage.
VII. LIMITATION

When analyzing the results, it is crucial to keep the study's limitations in mind. One of the limitations of this study is the inclusion of only one company from one city which resulted in a limited sample size. The results are difficult to generalize, so, larger sample sizes, including those from various cities, should be used in future studies. Other factors like transformational leadership, organizational commitment, and job satisfaction are included in different cultural and performance models; these may be looked at in a future study.

REFERENCES


