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# Practiced Culture Toward Firm Competitiveness Performance: Evidence from Indonesia

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## ABSTRACT

Company values and beliefs are the grounds on which a company can develop their strategy, build their structure, and establish their processes. These values and beliefs manifest in their business practices and become critical aspects for the company to attain their goals. In small and medium entrepreneurial business, culture becomes a vital role that drives their success in limited capacity and resources. We estimated our model using the partial least squares method and gathered data from 137 digital entrepreneurial firms within six months using both offline and online methods, using the Hofstede Multi Focus Model as a framework to attribute the practice-culture. The results show that there are three dominant practices reflected in start-ups that have a significant relationship with organizational competitiveness and performance: results-oriented, pragmatic approach to the customer, and professionalism. This study contributes to a more comprehensive understanding of entrepreneurial firm practices from the human resources and organizational perspectives.

*Keywords:* Competitiveness, culture, customer orientation, Hofstede multi-focus model, organizational effectiveness, organizational focus, performance

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## INTRODUCTION

The high penetration and high growth of startup-companies in Indonesia has recently been gaining attention. There are over 2,000 start-up companies in Indonesia currently, which makes Indonesia in the top five start-up company countries worldwide (Google & Temasek, 2015; Tech in Asia, 2017). Every day there is a new business created

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that has never been heard of before. It also has come to the Indonesian government's attention and focuses, as 90% of businesses in Indonesia are categorized as small and medium companies. Indonesia has an opportunity to leverage this condition to open a new opportunity for acceleration in economic development through improved per capita income, more employment, and by making Indonesia more innovative and competitive when facing the regional and global markets by having sustainable firm performance and competitiveness (Simes et al., 2015).

Start-up companies are defined as temporary organizations in search of a scalable, repeatable, profitable business model (Blank & Dorf, 2012). It is a temporary organization because it has a high risk with a low level of survivability. After a certain time, it either has died or has become an established firm in search of a business model. Start-up firms work with an uncertain environment wherein they try to produce an innovative product or approach the unproven market. Most start-up companies are operating in small teams that develop products and focus on growth and customer acquisition (Burke, 2016).

The failure rate for startups is between 30%–90%, which is different from other industries and their reasons for failure. Many of them just do not have an exit (acquisition, IPO, others), or they have an inability to develop a product that the market needs or they fail as a result of poor leadership or management (CB Insights, 2014; The Statistic Brain Institute, 2013; Xavier, 2012). This leadership and management is reflected in team composition and incompetence, which all can be linked to culture (Brush, 2014).

Studies on start-up culture have received much attention recently not only because this new and small highly innovative technology company can "disrupt" the business world, but also because the research focus concerning the organizational culture is still limited. Shinichi et al. (2007) argued that this limitation was caused by two factors. First, corporate culture has tacit, ambiguous, and difficult to observe aspects that make researchers avoid quantitative research. Second, it is challenging to understand the significant positive effect on organizational culture in relation to firm performance, since some companies may not have an adaptive or defective culture that harms productivity.

This paper focuses on three essential aspects. First, it focuses on understanding and discussing the most valid start-up culture using Hofstede's Multi Focus mode. Second, it aims to understand and discuss the relationship between an organizational culture with firm competitiveness and firm performance. Lastly, it examines the mediating role firm competitiveness has on the relationship between organizational culture and firm performance.

## LITERATURE REVIEW

### Organizational Culture

Many scholars have acknowledged that organizational culture significantly determines organization behavior and performance (Gordon & Ditomaso, 1992;

Kotter & Heskett, 2011; Lee & Yu, 2004). For several top companies in the world it is not just important, but it is everything (Cava, 2015; Lagace, 2002). Organizational culture also acts as a driver for competitive advantage (Madu, 2011). The ten years of empirical study done by Kotter and Heskett (2011) summarized that: (1) the firm performance to enhance culture had a significant effect on overall performance when comparing it to an unenhanced culture; (2) organization culture was a major factor in determining the success of the company in the future because it had a tendency for business adaptation in making strategic or tactical changes; (3) inappropriate behavior caused by organizational culture was a latent danger, even if the company was full of reasonable and intelligent people; and 4) although organization culture is complex, difficult to change, and required leadership, it could be performance enhancing. Corporate culture also has a significant impact on the organization's long-term sustainability, economic performance, and outcomes such as profitability, turnover, and commitment (Câmpeanu-Sonea et al., 2010; Tidball, 1988).

Organization culture means the values, ideology, philosophy, beliefs, ritual, symbol, and norms that affects organizational performance (Bourantas & Papadakis, 1996). Organizational culture also defines the way in which members of an organization relate to one another, their work, and the outside world in comparison to others (Hofstede et al., 1990). As the organizational culture observation is hard, understanding the manifestation of culture is critical (Shinichi et al., 2007). Culture is manifested in values, rituals, heroes, symbols, and practices. Symbols are words, gestures, pictures, or objects that are recognized. *Heroes* are a person, real or imaginary, who possess characteristics for a model of behavior. *Ritual* is a collective activity that is technically superfluous to reaching the desired end. *Value* is a broad tendency to prefer certain states of the affair to others. These *symbols*, *heroes,* and *rituals* are only visible in terms of *practices* from the outside observer. However, it is invisible and lies precisely only in the way these practices are interpreted by the insider. In the organizational context, *values* represent corporate heroes (founders and significant leaders), and it influences organizational culture. But the way this culture affects a member of the organization is through shared practice (Hofstede, 1998; Hofstede et al., 2015).

Furthermore, the cross-organizational factor analysis study on 20 working units in two countries conducted reveals six clear and mutual independent dimensions of perceived practices (Hofstede et al., 1990). Although not all dimensions are relevant to every country (Bös et al., 2011) and there are critics (McSweeney, 2002), Hofstede's dimensions are still some of the most frequently used (Tsui et al., 2007). The six dimensions that were based on 93 empirical studies published in the 16 leading management journals are explained below.

Process- vs. Results-Oriented (mean vs. goal).

In a results-oriented culture, people have a tendency to achieve a specific goal even though it involves substantial risks. In a process-oriented culture, people have a tendency to focus on how the work is completed. This is related to organizational effectiveness.

**Normative vs. Pragmatic (internally vs. externally).** This is related to customer orientation wherein a pragmatic or external focus organization emphasis is on meeting customer needs. While normative, people have a tendency to know what is right for the customer.

**Loose vs. Tight Control (easy vs. strict disciplines).** Loose work disciplines tend to be innovative, informal, self-managed, and fund working culture, while tight control is more cost-conscious, conservative, and has a lot of procedures and controls.

**Parochial vs. Professional (local vs. professional).** In professional, there is diversity, outward looking, and many years of thinking ahead, while local will focus on short-term, personal loyalty.

**Open System vs. Closed System.** This is related to how open an organization is to new customer and diversity.

**Employee- vs. Job-oriented.** This aspect concerns people as either assets or people as task completion tools.

**Firm Competitiveness**

Competitiveness originates from the Latin word, "*computer*", meaning involvement in the business rivalry for markets (Bhawsar & Chattopadhyay, 2015). The competitiveness concept can be traced back to classical theory (Smith, 1776) work on 'absolute advantage' that suggests a nation specializes on labor to produce their specific advantage where its production is going to be most efficient compared with other nations.

Competitiveness is a complex subject that covers a range of studies at various levels. It has been conceptualized and measured at the country, industry, cluster, and firm levels with different dimensions and approaches. Its concept development cannot be separated from the researchers that focuses on the 5Cs: competition, competitive strategy, competitive advantage, competitiveness, cluster, and creating shared value (Solvell, 2015).

In the strategic management literature, understanding firm competitiveness, firm performance, and competitive advantage are fundamental. Many times these are used interchangeability, which could cause bias in definition and understanding. Garelli (2003) defined firm competitiveness as synonymous with a company's long-run profit performance while also compensating their stakeholders. It is the capability of a firm to sustainably fulfill its dual purposes: meeting customer requirements at a profit. This capability is realized through an offering of the market goods and services, where a customer's value is higher than those offered by competitors are and achieving competitiveness requires the firm's continuing adaptation to changing social and economic norms and conditions (Chikan, 2008). We can draw several attributes based on the above definition that firm-level competitiveness will have innovation, productivity, efficiency, and profitability factors comparable with another firm in the specific market. This research tends to agree on the widely accepted firm-level competitiveness of a company that is its ability to design, produce, and market its products superior to those provided by its competitors, considering both the price and non-price factors (Roy, 2010).

### Firm Performance

Firm performance is central to strategic management study, as strategic management focuses on performance improvement (Venkatraman & Ramanujam, 1986). Despite its importance, the firm performance measurement system has shortcomings and is dysfunctional (Neely, 2007). Moreover, over the last 100 years, there are many performance measurement systems that have been developed, from the "management by remote control" performance measurement system developed by General Electric in 1951, to the newer Balanced Scorecard that was introduced in 1984. These performance measurement systems have some key characteristics that help organizations to identify measure to assess their firm performance (Neely, 2007): (1) it provides a balanced picture of the business. It measures financial and non-financial measures, internal and external measures, and efficiency and effectiveness measures; (2) a succinct overview of the organization's performance through simplicity and intuitive logic that can be understood by users and easily applied to their organizations; (3) multidimensional that measures all areas of performance that are critical to the organization's success; (4) it maps all possible measures of an organization's performance across the organization's functions and through its hierarchy, encouraging the congruence of goals and actions; and (5) the results are a function of the determinants. This demonstrates the need to measure the results and their drivers so that the performance measurement system can provide data for monitoring past performance as well as planning future performance.

The firm performance metric is complex and multidimensional (Gerba & Viswanadham, 2016). Other scholars (Venkatraman & Ramanujam, 1986) have proposed that there should be three domains of business performance in strategy research: financial performance, operational performance, and operational effectiveness performance. The previous study by Murphy et al. (1996) provided eight dimensions of firm performance efficiency, growth, profit, size, liquidity, success failure, market share, and leverage. From these eight dimensions, efficiency, growth, and profit were the most common dimensions used in entrepreneurial studies.

These metrics are critical for startups to set goals and track progress. Moreover, knowing these metrics allows start-ups to improve and make major decisions (e.g., product iterations, raising capital, pivots) (Ehrenberg, 2014; Suster, 2011; Vaughn, 2011). The performance metric in the start-up company is difficult for two reasons. First, newly established start-ups do not have any data, since they are new. Second, if there is data, their measurement needs to align with the sector and environment in which they operate (e.g., in the search engine campaign, click-through rate and conversion rate are very important, which is different than in application development, which depends on churn rate). Nevertheless, there is a common performance metric that is used from small firms to large enterprise that is related to sales and financials. The number of customers and their increments determine customer acquisition and retention of their customer, while revenue and cost determine the profit of these start-ups.

## MATERIALS AND METHODS

### Data Collection

This research used a random sampling method of digital-startup companies with a sampling frame of start-up companies that participated in an exhibition in between November 2016 – April 2017. An onsite questionnaire gathering was done at the management level of these start-up companies. A total of 137 companies responded to this study questionnaire.

### Measurement Scale

The questionnaire comprises three sections: company profile information (6 questions), respondent profile (6 questions), and quantitative questions (32 questions) on organizational culture, environmental dynamism, firm performance, and competitiveness. The company profile identifies firm age, size, holdings status, funding source, and their achievements, while respondent profile comprises their age, educational background, and their career background. The quantitative questions were constructed to capture the start-up's practiced culture, the respondents' perception of their firm's performance and competitiveness in the market, and the environment in which they operated and competed. The quantitative questions were probes using a 4-point Likert-type scale that measures agreement (1: Strongly Disagree to 4: Strongly Agree) for organizational culture construct practice, and comparative performance (much higher-much lower) for firm performance and competitiveness.

### Analysis Technique

Smart PLS 3.0 was used for the Structural Equation Modeling (SEM) analysis with the partial least squares (PLS) estimation technique (Ringle, Wende, & Becker, 2015). SEM analysis is a second-generation multivariate analysis that allows for simultaneous assessment of multiple independent and dependent constructs, including multi-step paths and mediating and moderating effects. SEM can observe latent variables (LV) with high complexity. It can also examine non-normally distributed data with all kinds of measurement scales (interval, nominal, ordinal, and ratio) with a small sample number, and is proven and widely used (Ghozali & Latan, 2014).

SEM works with two models for reporting: (1) the measurement models (outer model), which describe the relationship between the latent variables and their indicators; and (2) the structural model (inner model), which outlines the relationships between the latent variables. PLS estimates loading and path parameters between latent variables and maximizes the variance explained for the dependent variables (Hair et al., 2016).

In several studies, the constructs that the investigation wishes to examine are complex and operationalized at a higher level of abstraction. This higher-order construct or hierarchical latent variable model, or hierarchical component model, are explicit representations of multidimensional constructs that exist at a higher level of abstraction and are related to other constructs at a similar level of abstraction, completely mediating the influence from or to their underlying dimensions (Chin, 1998). Smart PLS deals with this higher construct using the Two-Stage Approach (Afhanorhan, 2014; Ghozali & Latan, 2014; Hair et al., 2016; Wilson & Henseler, 2007) by: (1) getting the latent variable scores by running a PLS algorithm from the latent variable construct with its indicators; and (2) using the latent variable score as an indicator for higher order constructs and another construct within the model for structural model evaluation. Combining these two approaches between the measurement report model and the two-stage approach, we were able to report the higher-construct and complex models.

## RESULTS AND DISCUSSIONS

### Results

Demographic data of the respondents shows that there were young, small, and medium companies (based on employee size). Small and medium companies represented 88% of the respondents, with 78% of respondents having a company age of less than three years. From the funding stage, the companies were in the pre-seeding and seeding stages that represented 78.8% of respondents. Although they were in the early stage, 22.63% of respondents had either international, regional, or local competition achievement.

The descriptive analysis shows that these startups have a tendency to be goal-oriented, customer oriented (pragmatic), and professional (Mode=3 for all respective LV indicators). Two indicators presented strong agreement from the respondents (Mode=4) that their main objective was to fulfill customer requirements (COE1), and open communication was an important aspect of a co-working relationship (CAPR3).

The repeated indicator approach was used to deal with the high-order construct. The outer and inner model analyses were also conducted, where four indicators and one latent variable were removed since they had below 0.7 indicator reliability and did not pass the discriminant validity (HTMT test).

The goal-oriented factor that reflected organizational effectiveness (COE) and customer orientation (CCO) had the highest path coefficient reflected from a corporate culture with COE ($\beta=0.814$, $p<0.001$) and CCO ($\beta=0.851$, $p<0.001$). The bootstrap analysis result shows a full mediation effect between organizational cultures (CULTURE) with the firm performance

(FP) through firm competitiveness (FC). The CULTURE significantly predicts the FC ($\beta$=0.325, p<0.001) and FC significantly predicts the FP ($\beta$=0.485, p<0.001), while the relationship between CULTURE and FP is insignificant ($\beta$=0.136, p<0.144). There is also a significant indirect effect between CULTURE and FP ($\beta$=0.167, p<0.003).

## DISCUSSION

There is no good or bad culture; they are rather either functional or dysfunctional cultures (Waisfisz, 2015). The four cultural dimensions of six (process vs. result, parochial vs. professional, loose vs. tight and normative vs. pragmatic) relate to the type of work the organization does and the type of market in which it operates (Hofstede et al., 2015).

The questionnaire feedback from these start-up companies aligns with the majority of the typical four cultural behaviors feedback from the same company with the same type of work in which they operate. The research and development units or service units scored more result-oriented; high-tech units scored professional; those working in the competitive markets scored pragmatically. The exception was for loose vs. tight (organizational control), where the respondent showed inconsistency in their response concerning loose vs. tight behavior in their organization. The respondent had a tendency for organizational, informal aspects (loose), but they were tight with cost control and standard operating procedures (SOP).

Reflecting on the organizational life cycle, these respondents are in the existence and survival stage. The existence stage (Churchill & Lewis, 1983) or the entrepreneurial (Quinn & Cameron, 1983) or birth stage (Lippitt & Schmidt, 1967) is characterized by a firm's struggle to achieve viability. Decision-making is in the hands of one or a few members, while ownership is concentrated. The structure is simple, as most firms are quite small regarding revenues and number of employees. Their focus is on speed innovation (Lester et al., 2008). At the survival stage, growth is the primary goal for many firms (Adizes, 1979; Downs, 1964). Organizations move from a simple structure to one that emphasizes the role of managers and promotes the division of labor.

The organization will be more successful if they fit with their primary task. The success of the startup's company should fit with their organizational life cycle stage, which in this research respondent should focus on innovating and understanding customer requirements. This research posits that this fit-to-cycle can increase the life expectancy of a start-up company, since the top reason for start-up company failure is developing a product with no market need (CB Insights, 2014).

Organizational effectiveness (COE) therefore becomes a priority that start-up companies need to focus on. The weight of the SOE from the SEM analysis is the highest, followed by the CCO and CFOC. Organizational effectiveness is the concept of an organization achieving the outcomes the organization intends to produce. The customer orientation (CCO) has been criticized to inhibit the innovation processes (Racela, 2014). Research from Govindarajan et al. (2011) showed that the relationship between market orientation and innovation were based on the separation between the type of customer orientation (mainstream and emerging) and type of innovation (sustaining and disrupting), and how they correlated together. The results showed that only emerging customer orientation is positively related to disruptive innovation. The disruptive innovation is typically cheaper, simpler, smaller, and frequently more convenient to use. It provides new customer value (Christensen, 1997). The start-up company can be more relevant, as their understanding of the client requirements become a critical capability despite the limited resources they have.

The full mediation of FC between functional cultures with the firm performance might be explained through a capability-based view of an organization, where, in this “startup” stage, the company focus is on the development of the capacity to understand their customer to develop their product. If necessary, they pivot, which is a structured course correction designed to test a new fundamental hypothesis about the product, strategy, and engine of growth (Ries, 2011), before they fall into what Marmer and Bjoern (2011) called “premature scaling”, which the most common reason for a startup to perform worse. Extending further from the same report: Startups that pivot once or twice raise 2.5x more money, have 3.6x better user growth, and are 52% less likely to scale prematurely than startups that pivot more than two times or not at all.

## CONCLUSION AND RECOMMENDATIONS

The conclusions and recommendations for this study are as follows: (1) The organization culture is an important aspect even in the early stage of start-up company. It might not be in the form of a formal statement, but is shows in the company attitude in business practice. (2) In the early stages, a startup company needs to focus on organization effectiveness, especially in achieving their goal, focus on the customer, and being professional. (3) The practice culture will drive the firm competitiveness (ability to design, produce, market its products superior to those provided by its competitors, considering both the price and non-price factors), which eventually will drive the firm performance. It will not drive performance directly as they are in the early stage, but a startup company should develop its competitiveness instead of chasing firm performance.

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