

Business Strategy, Culture Control and Organizational Performance

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Abstract - The purpose of this study is to investigate the relationship business strategy, culture control and organizational performance. The data is processed by using a Partial Least Square (PLS). The population consists of middle manager of multinational manufacturing company in Banten., Sample of this research is middle manager, Using purposive sampling, we select 52 respondents as the sample of this study. The results of this study show that,business strategy significant associated toward culture control and organizational performance. On the other hand, culture control have significant associated with organizational performance. In addition, this research found that culture control can mediated the relationship of business strategy and organizational performance.

Index Terms - Business Strategy, Culture Control, Organizational Performance, Multinational Manufacturing Company,Banten, Partial Least Square.

I. INTRODUCTION

Management Control System (MCS) is one of several types of planning and control activities that exist within an organization. Management Control System is a tool designed to help the decision process by using formal and informal control [1].in order to achieve organizational goals [2]. Previous studies illustrate the role of management control system in an organization. Research conducted by Chapman [3] said that formal and informal control affects organizational performance. Amabile[4] and Burns [5] says that MCS has an effect on product innovation. In addition Davila [6] and Simons [7] reveals MCS has an effect on organizational creativity.

One form of Management Control System is Culture Control. Culture Control is a set of written and non-written values that serve as the basis for forming organizational culture and employee behavior [15][16]. Based on these definitions, Culture Control conforms to the definition of MCS, a tool designed to assist management in formal and informal control decision making processes [1] to achieve organizational goals, including organizational performance. [2] Research has been done to find out the role of Culture Control to organizations both outside and inside the country. These studies include research conducted by [9][10][11][12][13][14].

A study conducted byKranias[11] found that multinational companies originating from Japan used Culture Control as their control system. This is supported by research

conducted by Baliga[15] Dunning[16] Wilkinson[17] which concluded that there is a Culture Control on Japanese multinational Companies. In addition to this research conducted by Winfield[18] on Human Resource Management at Toyota.Ltd. Found there is a Culture Control in Toyota's business process in the UK.

However, in recent years there have been several Japanese multinational companies collapse, such as Sony, Panasonic and Toshiba [19][20]. In contrast, Sharp, one of the Japanese multinational corporations that is estimated to be exposed, actually invested by setting up an LED TV factory in Karawang[21]. The investment made by Sharp is a good indication of Sharp's performance. On the other hand LG. Ltd. A Korean multinational company based in Banten announces the best profit forecast for the past two years. The phenomenon provides an illustration that the application of Culture Control has a different influence on the performance of multinational companies. Therefore, further research on the influence of Culture Control on the performance of multinational corporations and other factors that may affect Culture Control and the performance of multinational corporations

Chenhall[1] and Fauzi [22] argue that there are several factors that influence the Culture Control. One of them is Business Strategy. Business strategy is a pattern of resource allocation that enables organizations to maintain their performance (Barney) The choice of strategy is crucial for the company The mistake in the selection and implementation of the strategy will result in the performance of the company due to the unexpected expectations between what is planned and the target of the company's achievement In addition strategy plays a role in the design of a control system The differentiation of the strategy will give the design control that is made no exception to the company that applies Culture Control The difference of this strategy influences the selection and formation of culture which is the root of Culture Control The previous research on the role of strategy to the performance And Control design is still a contradiction. The research conducted by Allen [23] found that business strategy has a positive and significant effect on organizational performance whereas,Teeratsirikool et al[24] said the selection strategy has a positive but insignificant effect on company performance. On the other hand, Auzair[25] found that the strategy influenced the design of Culture

Control. Meanwhile, Fauzi et al [22] found that the strategy has no influence on the design of Culture Control.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. Contingency Theory

The contingency approach as a theory (contingency theory) began in the mid 1960s. This approach then developed very quickly in the field of management accounting [26]. Basically contingency theory emerges as a very basic part because various studies are conducted to look for the nature of contingencies in accounting [28]. The main proportion of contingency theory is that contingency theory assesses firm performance will depend largely on the fit between the contextual factors of an organization [29]. The basic essence of the theory of contingencies also says that organizations must adapt to their contingent structures such as environment, organization size and business strategy when the organization is well-run [30]. Contingency studies then have a wide impact on the use of contextual factors.

Culture Control is part of the management control system [9][10]. Therefore the contingency approach applies to Culture Control, where the design of Culture Control will not be the same between one organization and other organizations. This is due to differences in situations faced by the organization and the model of universality. Strategy is a way that companies take in achieving the vision, mission and goals that setya. Every business entity has a religious strategy to win the competition it faces. Therefore, the choice of strategy will affect the design of Culture Control. Culture Control as a monitoring tool helps to apply the strategies that business entities have set to match what is expected and leads to improved organizational performance.

B. *The Influence Of Business Strategy On Organizational Performance*

Strategy is the various decisions and actions taken by the management to achieve superior performance compared with rival [31]. Strategy is one of the ultimate weapons of the company to win the competition and survive in the business environment. Ponter et al [32] explains there are several strategies to win the competition such as cost-leadership strategy and product differentiation strategy. Cost-leadership strategy is a business strategy whereby a product or service with unique features is sold at the lowest price compared to competitors while product differentiation strategy is a business strategy whereby a product or service is created with features different from competitors.

Beard [27] says that the level of business strategy is significant in influencing the company's profitability and long-term performance. Ponter et al [32] say that business strategy has an effect on performance. In addition Teeratansirikool et al [24] also find cost-leadership strategy and product differentiation strategy influence on organizational performance.

Based on the above explanation strategy is a way taken company in realizing the desire company. By choosing and applying strategy optimally will affect to company performance. Hence the proposed hypothesis is

H1: Business strategy affects organization performance.

C. *The Influence Of Business Strategy On Culture Control*

Strategy is a way to achieve long-term goals. Business strategies may include geographical expansion, diversification, acquisition, product development, market penetration, employee rationalization, divestiture, liquidation and joint ventures. Business strategy is a tool used by management to influence organizational culture, external environment, technology, organizational structure and design of Management Control System [1].

Previous studies have revealed that there is a link between strategy and MCS [22] in Gau- dindijan, 1986, Govindarajan and Gupta [33], Govindarajan and Fisher[35], Kumar [36] say cost-leadership strategy is more effective in use when using Action control while product differentiation strategy is more effectively applied to Result control or flexisble control. On the other hand research conducted byAuzair[25] shows influential business strategy Against the Management Control system. Therefore Culture Control design is also by the strategy applied by the company. Differences strategy will affect the design Culture Control created by the company. From the various explanations above, the hypothesis proposed is as follows.

H2: Business strategy affects culture control

D. *The Influence Of Culture Control On Performance*

Culture Control is part of the MCS and serves to control the nature and behavior of employees in the organization [9] [37][38]. Culture Control is the values and beliefs that are used as the norm for organizational behavior [37]. Culture Control includes every element of both formal and informal control system designed in writing (code of ethics and mission) and orally [38]. MCS consists of various control systems that are interconnected and mutually working with each other and are used efficiently to improve organizational performance [10].

Widener [45] reveals the use of control systems has an effect on improving organizational performance. In addition, research conducted by [40] found that in order to achieve the best organizational performance required a formal and informal control system. Thus as part of the MCS Culture Control affects the performance of the organization by providing information useful in achieving organizational goals. Based on the above exposure then the proposed hypothesis is

H3: Culture control affects organizational performance

III. RESEARCH METHODOLOGY

Sample in this research is manager of financial, production, sales and marketing and human resource development who have experience at least 3 years at multinational manufacturing company in Banten .Data for this study are primary data on respondents 'perceptions collected via questionnaire. Survey was performed for two months in 2017. . The data in this study were tested using structural equation modeling analysis with partial least square

method. Variables in this research is measured by indicator and using likert scale 7 points.

Variable business strategies are measured by indicators developed by Gordon [41] and Govindarajan[34]. The indicator of Business Strategies are price, cost of research and development, brand, product quality and produk feature. Variable culture control measured from indicator adapted from [15]. The indicators are communicating the organizational values, using ethic code of a firm to inform employees about the undesired behavior, creating an environment that will result in commonness felling in each department, supporting employee to realize their peer activities and making employees realize the organizational values. Variable organizational performance will be measured by instruments adapted from Wiklund[42] and Stam [43] sales growth,market share, employment growth, and profit.

IV. RESULT AND DISCUSSION

A. Descriptive statistic

Author distributes 120 questionnaires directly to respondents. There are 56 unreturned questionnaires, 64 returned questionnaires and 12 unused questionnaires since they are not completely answered. Therefore, the usable questionnaires which will be further analyzed are 52 questionnaires. Respondents in this study are manager of multinational companies in chemical industries, plastic and packaging industries, food and beverage industries, cables industries, ceramics industries and cosmetics industries. The gender of respondent are dominated by a men (57,7%). The average age of respondents are 41-50 years old. And the responden mainly have 5 to 10 year working experience in their companies,

TABLE I
DESCRIPTIVE STATISTIC

| Variable | N | Mean | Std. Deviation | Minimum | Maximum |
|----------------------------|----|------|----------------|---------|---------|
| Business Strategy | 52 | 5,35 | 1,331 | 2 | 7 |
| Culture Control | 52 | 5,87 | 1,518 | 2 | 7 |
| Organizational Performance | 52 | 6,17 | 1,494 | 2 | 7 |

Table I shows the descriptive statistics (mean, standard deviation, maximum and minimum). The averages score for Business Strategy, Culture Control, and Organizational Performance are 5.35, 5.87, and 6.17. while, standard deviation for all construct in this research are lower than the average score of all of construct so we can conclude that the mean are representative. The lowest value of respondents answer for all construct are 2. On the other hand, the highest value are 7.

B. Structural Equation Modeling

In this research model testing is used three stages. The stage are data quality testing, outer model and inner model (hypothesis testing). The data quality test is performed to see if the indicator used to measure the constructs is valid and reliable. Testing the validity of data in this research is using

PLS software with Outer Model that is Convergent validity which is seen with average variance extracted (AVE) value of each construct where its value must be greater than 0.5. Based on table 1 it is known that all constructs have an AVE value above 0.5 so that it meets the Convergent validity criteria.

TABLE II
QUALITY CRITERIA

| Variable | AVE | Composite Reliability | Cronbachs Alpha | R Square |
|----------------------------|-------|-----------------------|-----------------|----------|
| Business strategy | 0.777 | 0.945 | 0.928 | |
| Culture control | 0.843 | 0.964 | 0.953 | 0.884 |
| Organizational Performance | 0.920 | 0.978 | 0.970 | 0.961 |

While the reliability test in this study using the value of Crobach alpha and Composite Reliability [44]. A construct is said to be reliable if it gives a Crobach alpha value > 0.60 and the value of Composite Reliability greater than or equal to 0.70 [44]. Based on Table II it is known that the entire construct is reliable because it has a cronbach alpha value above 0.6 and composite reability above 0.7

One of the criteria used to assess Outer Model in PLS is to see Convergent Validity. Convergent validity of measurement models with reflexive indicators is judged by correlation between item score / component score estimated with PLS software. Individual reflexive sizes are said to be high if they correlate more than 0.7 with the constructs (latent variables) measured. However, according to Chin in Ghazali [44], for the initial stage of development, the scale of measuring loading values of 0.5 to 0.6 is considered sufficient. Based on Figure 1 it is known that all indicators have values above 0.6 so that meet the criteria of convergent validity.

Inner model or structural model testing is performed to see the relationship between construct, significance value and R-square of the research model. The significance of estimated parameters provides very useful information on the relationship between research variables. The limit to reject and accept the proposed hypothesis is ± 1.96 , where if the statistical t value is greater than t table (1,96) then the hypothesis is accepted, otherwise if the value of t statistic is smaller than t table (1,96) then the hypothesis rejected. Table III provides estimation output for structural model testing.

TABLE III
PATH COEFICIENT

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | Standard Error (STERR) | T Statistics (O / STERR) |
|----------|---------------------|-----------------|----------------------------|------------------------|----------------------------|
| SB -> KO | 0.151 | 0.1500 | 0.060 | 0.060 | 2,500 |
| SB -> CC | 0.940 | 0.937 | 0.016 | 0.016 | 58,090 |
| CC -> KO | 0.836 | 0.837 | 0.057 | 0.057 | 14,500 |

The table explains that business strategy has an effect of 0.151 on organizational performance and significant at 0.05 (2,500 > 1.96). So the first hypothesis is accepted. Effective implementation of strategies will improve organizational performance. The results of this test are in line with research

conducted by Allen and Helms[23] Table III also explains that business strategy influences 0.94 to culture control and significant at 0.05 ($58.090 > 1.96$). Thus, the second hypothesis is accepted. Will differentiate the design of culture control due to the different focus on each strategy. This test results are in line with the research conducted by Auzair[25] In addition, table III illustrates that culture control has an effect of 0.836 and significant at 0.05 ($14,500 > 1.96$). Then the third hypothesis is accepted. The results of this test are in line with the study [40].

TABLE IV
SOBEL TEST RESULT

| | Original Sample (O) | Standard Error (STERR) | T Statistics | Information |
|---------|------------------------|------------------------------|--------------|-------------|
| SB → CC | 0.643 | 0.067 | 8.09623070 | mediation |
| CC → KO | 0.769 | 0.051 | | |

The study also found other results. From the results of the test, it is known that Culture Control mediates the relationship between business strategies toward organizational performance. This mediation effect is evidenced by the z-score culture control value of $8.09 > 1.96$ ($\alpha = 0.05$) so that the application of culture control as a control system can improve the effectiveness of the implementation of strategies in an effort to improve organizational performance

V. CONCLUSION, LIMITATION AND IMPLICATION

According the test results in this research model is known that business strategy has a significant effect on culture control and organizational performance. In addition, culture control also affects organizational performance. The study also found that culture control can mediate the relationship between strategy and organizational performance.

In this research there are some limitation. First, data of this research resulted from the instrument base on perception of respondent. So that, This will cause problems if the respondent's perception differs from the actual situation. Second, respondents who returned the questionnaire were dominated by respondents who came from East Asia so that this research cannot describe the culture difference in Multinational Corporation in detail. Further research is expected to test the culture control as a mediation variable, adding other variables such as organizational commitment to improve the effectiveness of the implementation of culture control. The implication of this research is that this research can be used as reference for company management who want to use culture control system as its control system. Application of culture control as a control system provides various benefits such as costless and easy to implement.

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