

# Cultural determinants of customer- and learning-oriented value systems and their joint effects on firm performance

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## Abstract

The authors examine the effects of firm-level reflections of two societal–culture factors, collectivism and power distance, as well as organizational cultural strength, on the development of customer- and learning-oriented value systems in organizations. The joint effects of customer and learning orientations on components of firm performance are also investigated. The main theses of the study are that a customer- and learning-oriented organizational value system is more likely to develop and improve firm performance when (1) complemented by appropriate societal–culture factors and (2) supported by a “strong” organizational culture. The results obtained from a sample of manufacturing firms in Turkey generally support the study theses. The study uses multiple informants from each firm and measures cultural factors and performance assessments from the viewpoints of different informants, thus achieving a greater level of measure specificity while at the same time eliminating same-source bias. Implications of the study findings for managers and researchers are discussed.

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## 1. Introduction

The topic of organizational culture and its impact on firm performance has become a core area of interest for organizational researchers and practitioners (e.g., Denison and Mishra, 1995; Schein, 1985). Specifically, two cultural value systems, a *customer orientation* and a *learning orientation*, have been suggested as the defining characteristics of modern organizations and crucial drivers of superior firm performance (e.g., Argyris and Schon, 1978; Sinkula et al., 1997). A customer orientation (hereafter, CO) is manifested as the organization and its members focus

their efforts on understanding and satisfying customers (Deshpande et al., 1993). A learning orientation (hereafter, LO), on the other hand, reflects the extent to which the organization values the acquisition, improvement, transfer, and utilization of knowledge (Slater and Narver, 1995). While closely related, CO and LO exert distinct (as well as synergistic) effects on firm performance (Hult et al., 2001; Sinkula et al., 1997). Managers in a variety of industries therefore face the complex challenges of (1) building customer- and learning-oriented organizational value systems and (2) using such capabilities to achieve superior organizational performance.

To accomplish both challenges, managers need to consider two distinct mechanisms that are influential in the shaping of an organization’s culture. The first mechanism concerns the impacts of the broader society on organizational culture. Societal–culture factors exert a strong influence on the cultural orientations of organizations and may even become the core elements of an organization’s culture (Schein, 1985). This is largely because

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individuals bring into the organization's culture the values they acquired earlier in their societies (Hofstede et al., 1990). To the extent that an organization is composed of people from a singular sociocultural identity (e.g., a national culture or subcultural elements within a nation), the cultural values of that particular societal group establish a basic ground, a cultural foundation to be acted upon, for managerial attempts to move the organization towards a more customer- and learning-oriented stance (Newman and Nollen, 1996). The second mechanism concerns the fact that organizational members acquire, identify with, or internalize the specific values of the organization largely through the socialization processes at the workplace (e.g., Pascale, 1985). Thus, through effective workplace socialization, managers can generate a congruence of customer- and learning-oriented values across the organization. In fact, factors that facilitate the socialization process, such as management support, facilitative leadership, and internal communication, are seen as the strongest drivers of CO and LO (e.g., Conduit and Mavondo, 2001; Slater and Narver, 1995). Research attempting to provide guidance on how to build and utilize CO and LO should therefore consider both: (1) firm-level reflections of *societal-culture factors* and (2) factors related to the *socialization processes within the firm*.

In view of this, the present study focuses on two societal-culture factors highly relevant to the emergence of customer- and learning-oriented organizational value systems, *collectivism* and *power distance* (Hofstede, 1980), as well as on the ultimate criterion for assessing the degree of within-firm socialization, that is, *cultural strength* (e.g., Denison, 2000). Collectivism refers to the subordination of personal interests to the interests of a larger work group, and power distance relates to the degree of asymmetry in power relationships recognized by organizational members (Hofstede, 1980). Cultural strength concerns (1) "who and how many [of the organizational members] accept the dominant value set and (2) how strongly, deeply, or intensely the values are held" (Fisher, 1997, p. 47; Schein, 1985). Effective socialization processes lead to strong organizational cultures where all members share, coherently and intensely, a common set of beliefs and values (e.g., Schall, 1983).

Our first research objective is to investigate how these three cultural factors facilitate or inhibit CO and LO in organizations. We then turn our attention into the effects of CO and LO on components of organizational performance. We examine the joint effects of CO and LO on financial and qualitative components of firm performance. In addition, regarding these effects on performance components, we adopt a contingency approach and posit that cultural strength not only facilitates or inhibits CO and LO but also (positively) moderates their effects on firm performances. Thus, overall, we investigate the theses that CO and LO are more likely to develop and achieve maximum effectiveness when they are (1) complemented by appropriate societal-

culture factors and (2) supported by a "strong" organizational culture.

To test these ideas, we use data collected from the managers and employees ( $N=1349$ ) of 134 manufacturing firms in Turkey. The firms in this sampling context rely heavily on ethnic and/or geographical kinship in their recruitment policies. Therefore, each firm is a typical reflection of one of the various subcultures in Turkey, which presents a rare opportunity for examining the effects of societal-level cultural factors on organizational phenomena. We conduct our analyses at the firm level using multiple informants from each firm, which is considered a major plus for measurement quality. More important, we use top-level managerial assessments for measuring firm performance and examine its relationships with measures of cultural factors obtained from other informants in the firm, which eliminates concerns about same-source bias and adds substantially to the value of our research.

## 2. Proposed model and research hypotheses

Fig. 1 provides the conceptual basis for the hypotheses we develop. The hypotheses sequentially consider (1) the effects of the societal-culture factors and cultural strength on CO and LO, (2) effects of CO and LO on components of firm performance, and (3) the moderating role of cultural strength within the relationships of CO and LO with the performance components. The framework also includes market dynamism, firm size, and industry as control variables affecting directly firm performances. Given the widespread of firms included in the sample, controlling for the effects of these factors enables to us separate out the impacts of culture on firm performances (cf. Slater and Narver, 1995; Liu et al., 2002). Each phase of the relationships in Fig. 1 is discussed in the following sections.

### 2.1. Societal-culture factors as bases of CO and LO

Researchers have long recognized that the cultural values of the broader society in which an organization operates may have profound impacts on its culture (e.g., Gordon, 1985; Hofstede et al., 1990). Regarding the role of national culture, Hofstede et al. (1990) assert that individuals enter organizations as adults, with the bulk of their values acquired in early youth "firmly in place" (p. 312). The societal-culture elements individuals bring into a company may therefore play a major role in the evolution of its specific culture, particularly in cases where the organization's members share a common (sub)cultural background.

What societal-culture factors are relevant to the development of CO and LO, then? Hofstede (1980) identifies four societal-culture dimensions—collectivism, power distance, masculinity, and uncertainty avoidance—to explain differences across nations. Each one of these dimensions characterizes how work is conducted in organizations

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