THE EFFECT OF ORGANIZATIONAL CULTURE: THE CASE OF A MALAYSIAN SERVICE ORGANIZATION FROM BALANCE SCORECARD PERSPECTIVES

Mohd Haizam Mohd Saudi
International University of Malaya-Wales
Kuala Lumpur MALAYSIA
Email: haizam@iumw.edu.my

ABSTRACT

The objective of this research was to investigate the impact of the employees’ attitude derived from the usage of Balanced Scorecard (BSC) perspectives and Organizational Culture in ABC Public Service Organization. Other objectives include recommendation to improve existing performance management system (PMS) practices and to identify issues and challenges in its implementation which merits further research. A total of 1000 respondents were surveyed and the data was analysed using Pearson Correlation Analysis and Regression Analysis. Analysis of results indicated that there was a positive relationship between the Organizational Culture and Employee Attitude in ABC. The implication of this research would benefits the organization in terms of employees’ effectiveness and the pervasiveness of the performance metric implementation.

Keywords: Organizational performance, Employee Attitude, Performance Management System, Balanced-Score Card

Introduction

This research examined the perception and attitude of the employees of a Malaysian organization on the implementation of performance management system, organizational culture and its effectiveness on the organisation. The role of employee attitude has been found to be critical in determining the success of an organisation’s performance. Previous research has been silent on the effect of PMS towards the attitude of employees. Thus, this research has focused on and measured the work attitude that has been a great influence in the effectiveness of the job performance. This research is in line with the statement made by Morehead and Griffin (1992), which suggested that employee attitude plays a vital role in determining organisational performance in the long run - because it could lead to the desired employee behaviour required to achieve the mission and objective of a firm.

Objectives of the study

Based on the research questions and hypothesis, this research has two objectives:

i) To identify the effects of implementing Performance Management System by using Balanced Scorecard on employees’ attitude in pursuit for better performance; and

ii) To investigate the impact of the organizational culture towards the employees’ attitude in the development of effective performance management system.

Research Problem

A research starts with a research problem and is normally presented by a management question (Cooper & Schindler 2003). Accordingly, the problem statement of this research is stated as, “what are the effects of the organisational culture on the Employees’ attitude upon the implementation of Performance Management System using Balanced Scorecard in ABC?”

Literature review

Organisational Culture

The research on corporate culture is abundant has been proven to be one of the variables that has determined work outcome similar to other variables such as leadership (Hartog, Koopman & Muijen 1996), organisational structure (Hofstede, Neuijen, Ohavy & Sanders 1990) and organisational effectiveness (Denison 1990; Quinn & Cameron 1988). Thus, the evaluation of employees’ perception towards organisational policy and practices is another way to understand OC instead of looking at the values held by the firm.

Over the past decade, Organisational Culture (OC) has been receiving growing attention among scholars and some empirical studies have suggested that strong-culture organisations have been capable of overcoming the weaker-culture ones (Kotter & Heskett 1992; Gordon & DiTomaso 1992; Burt 1994). The consistent behaviour within the organizations imposed by the normative order has been defined as ‘Organisational Culture’ (Sorenson 2002). In this case, many empirical studies have considered organisational culture to have played a role as a social control mechanism (O’Reilly 1989; O’Reilly & Chatman 1996).
Moreover, organisational performance has been greatly influenced by the strong organisational culture because the norms and values of the firm would influence the way the firm manages the business (O’Reilly & Chatman 1996). However, some empirical studies suggested that workers who were highly motivated to achieve the firm’s goals and objectives would contribute to the organisation and at the same time enhanced performance level (Peters & Waterman 1982; Deal & Kennedy 1982; Kotter & Heskett 1992).

Oudhoven and Zee (2002) propose that the attributes of the cultural environment have been influencing the organisational culture and the firm’s value. Thus, the research of the organisational culture was found to be necessary in order to investigate the effects of the implementation of the performance management systems, because culture is deemed as the mechanism or tool to achieve the managerial control and effectiveness (Barley, Meyer & Dash 1988; Peters & Waterman 1982). Organisational culture (OC) was found to be formed by a group of people who have similar or different national cultures and beliefs and thus, people are the essence of organisations and as a matter of fact, organisations are built with a group of people nationally and culturally similar (Fatehi 2008).

In 1998, Lawson and Shenin found that corporate culture was associated with the value and belief of the individuals that bound the organisational group together. The bond of the individuals with specific goals, mission and vision would create a sense of synergy or belonging among the individuals in the organisation. Moreover, Schein (1992) discovered that a group was shaped by culture based on the basic assumptions developed or discovered in order to overcome the internal and external integration problems.

**BSC as a Strategic Management System**

Strategy and vision are situated at the core of Balanced Scorecard. The necessary action or behaviour must be taken by the employees in order to achieve the agreed goals. Kaplan and Norton (1996) have highlighted four important processes in linking BSC with the strategy as follows:

1. **Overcoming the vision barriers through translation of strategy**
   The usage of BSC in this research is to provide guidance to the organisation on the overall strategy that has translated nebulous declarations into measurable achievement. The mission, vision and core values of the organisation would only be established if the organisation took a necessary action or behave accordingly and thus, BSC acts as a tool to transform vision based on the management’s strategy.

2. **Cascading the Balanced Scorecard to overcome the employee’s barriers**
   Norton (2001) stated that 95 percent of the workforce did not understand the organisation’s strategy. BSC elaborates on the mission and the strategy by providing “line of sight” from the director’s office to the front line (Azhar, 2008). Thus, employees would be able to know specific functions and contributions to the overall outcome of the organisations. Hence, the employees could agree to emphasize on the performance drivers that could lead to the desired outcomes by the management.

3. **Strategic resource allocation to overcome the resource barriers**
   The resources and processes are the two critical elements that BSC could assist in ensuring the success of managing the organisation (Kaplan & Norton 2002). The missed opportunity on recruitment and the inability of the firm to realize the processes would affect the final outcome.

4. **Strategic Learning to overcome barriers**
   This research will identify the processes carried out in the course of implementing the performance management system by ABC Manufacturing. The lack of information had caused the obtained knowledge to be short term in nature and obsolete. Hence, it is critical to gain the accurate information combined by the vision, resources and people’s barriers in the organisation.

**Employee Attitude**

Employee attitude play a vital role in determining organisational performance in the long run because it could lead to the desired employees’ behaviour and attitude that are needed in order to achieve the objective, mission and vision of the organisation (Moorhead & Griffin, 1992). Kreitner and Kinicki (1992:98), stated that attitude could be defined as ‘a learned predisposition to respond in consistently favourable and unfavourable manner with respect to a given object’. Moreover, Moorhead and Griffin (1992) outlined that attitude could arise from three major factors namely organisational factors, group factors and personal factors.

Employee attitudes are associated with many vital aspects of organisational behaviour such as job performance. Nevertheless, despite the increasing attention among scholars on employee attitude, the research by Mowday et. al (1982), shows a negative relationship between job satisfaction, absenteeism and turnover. However, positive attitudes should occur when the workers have high job satisfaction towards job factors such as opportunity for promotion and recognition (Du Brin 2005). Saari and Judge (2004) stated that management must be able to understand the relationship between business performance and work environment
Organisational Cultural and Performance

The association or relationship between corporate culture and organisational performance has been extensively studied and identified in business literature. Some empirical studies in the literature have also identified the connection with corporate culture towards performance in organisations (Meyer & Allen 1991; Ricardo & Jolly 1997; Lau & Idris 2001). Gordon and Christensen (1993) proposed that the industry has moderated the link between corporate culture and performance. Thus, a better understanding of the effects of OC towards the productivity that has led to better performance could be obtained. However, some empirical studies have concluded that the variance and differences in the national culture might result in differences in the consequences of the OC towards the performance (Chow, Kato & Merchant 1996; Steers 1989; Lincoln & Kalleberg 1990).

Moreover, Kotter and Heskett (1992) proposed that cultural change has become tougher as organisations become more successful and established. The findings of Kotter and Heskett et al. (1992) were relatively significant to research on corporate culture because the long-term financial performance could be significantly affected by corporate culture. Thus, it is important to provide a better platform for producing higher productivity. Hence, the major findings from the work of Kotter and Heskett et al. (1992) as the superior performance over long periods of time could only be achieved through the corporate culture that has stimulated the anticipation and adaptation of change management. Furthermore, Sielh and Martin (1998) concluded that the values in OC could be measured and observed. Thus, the comparison across organisations and individuals could be made in order to determine organisational and individual performance.

Hypothesis for this Research

To achieve the objectives of this research, the following hypothesis was tested in the course of this research. The hypotheses analysed the effect of the Performance Management System on the employees’ attitude in ABC in the existence of organisational culture.

Hypothesis 1: There is evidence that organisational culture does moderate the relationship between the four BSC perspectives and the Employees’ Attitude in ABC.

Methodology

This research uses a positivist paradigm, which is a quantitative approach, because of the main strengths: generating precise, quantitative, numerical data from large survey sizes. Furthermore, the findings are reliable and can be generalised and replicated on many different populations (Maxwell & Delaney 2004).

The objectives of this research, however, were largely directed at understanding the effects of organisational culture and performance management system towards the employees’ attitude in government agencies. For this reason only the quantitative or deductive approach is being applied in this research.

Research design must be suited with the purpose of the research (Cavana et al. 2001; Neuman 2006). Thus, hypothesis testing, exploratory, descriptive are some of research designs that have been used in social science research (Neuman 2006). The type of investigation, time horizon, researcher interference and unit of analysis could be the elements in research design depending on the purpose of the research. Sekuran (2001) stated that critical choices, point to each component of the research design.

A research is conducted as a quantitative research due to the application of a more quantitative design for well-known subjects (Ward, Pearson & Entrekin 2002). Furthermore the research was conducted in a natural environment of the organisation, thus, the interference could be minimized by the researcher. Moreover, this research is concerned with the statistical significance and effect size for an overall model, hence, the correlation and regression analyses are appropriate to be implemented.

The Social science research could be made available through case research, exploratory, descriptive or hypothesis testing (Cavana et al. 2001). However, Morgan, Gliner and Harmon (1999) comment that if there is no or little information available about the subject, the researcher must perform an exploratory research so that the grasp of the phenomena or interest on the subject matter could be obtained. Hypothesis testing is applicable to establish and understand further the relationship between variables (Cavana et al. 2001; Morgan 1999).

A total of 1000 respondents were randomly selected and surveyed in the particular organization. The respondents represented a variety of management levels specifically junior, middle as well as upper level. Prior to the fieldwork, a pilot testing was conducted with a sample of 50 individuals to ensure the validity of the questionnaire. To analyse the data, regression analysis was used in order to determine the relationship between the studied variables.

Analysis of findings and discussion

From a total of 1000 questionnaires distributed, 507 of them were collected out of which only 400 (response rate of 40%) were usable. Of the 400 respondents, 256 (64%) were males and 144 (36%) were females. In terms of age composition, 150 (37.5%) of them were found to be less than 30 years, 127 (31.7%) were between the age of 30 to 40, whilst the remaining (30.8%) were of the age of 40 and above. In the context of educational background, a total of 150 or 37.5% of the respondents were degree holders, another 187 or 46.8% were diploma holders, 49 of them or 12.3% hold school certificates, whereas 10 or 2.5% were post-graduate and 4 or 1% of the remaining respondents hold professional qualifications.
The breakdown composition of respondents in terms of positions were as follows: 226 (38.2%) constitutes of junior level, another 150 (37.5%) represent middle level, and the remaining 24 (6%) were from upper management level. In terms of working experience, a total of 153 (38.2%) had less than 5 years, another 172 (43.0%) were between 5 to 15 years and the remaining 75 (18.8%) were senior staff with more than 15 years.

Reliability Test for This Research

Table 1.1 Cronbach’s alpha analysis

<table>
<thead>
<tr>
<th>Questions Category</th>
<th>Cronbach’s Alpha</th>
<th>No of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational Culture</td>
<td>0.717</td>
<td>19</td>
</tr>
</tbody>
</table>

Testing the reliability of the questions that used Likert’s Scale showed that data from this research was reliable with Cronbach’s alpha value of at least 0.70 as shown in Table 1.1. Sekaran (2003) states that the closer the alpha value to 1 means the data is more reliable. In general, reliabilities less than 0.60 are considered to be poor or not good, those in the 0.70 are acceptable, and those over 0.80 are considered good. Therefore we can conclude that the data collected in this research was reliable and acceptable.

The Cronbach’s alpha for the 5 items in Organisational Culture components was .717 in this research. According to Hair et al. (1998, p.118), ‘the generally agreed upon limit for Cronbach Alpha is .70 although it may decrease to .60 in exploratory research’. Thus, all components in BSC Customer perspective have been found reliable in this research.

Table 1.2: Summary of Result of Pearson Correlation Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>R Value</th>
<th>R-Square</th>
<th>F-Statistic</th>
<th>Std Error Estimate</th>
<th>P-value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balanced Score Card &amp; Organisational Culture</td>
<td>0.31</td>
<td>0.10</td>
<td>21.22</td>
<td>0.32</td>
<td>&lt;0.001</td>
<td>Significant at p&lt;0.001</td>
</tr>
</tbody>
</table>

Table 1.3 Pearson Correlation Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Pearson’s R</th>
<th>R²</th>
<th>F-statistic</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balanced Score Card</td>
<td>0.28</td>
<td>0.08</td>
<td>33.47</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Balanced Score Card and Organisational Culture</td>
<td>0.31</td>
<td>0.10</td>
<td>21.22</td>
<td>&lt;0.001</td>
</tr>
</tbody>
</table>

Source: analysis of data survey

Result of the Pearson Correlation Analysis (PCA)

PCA evaluated the Balanced Scorecard and was found to be significant with a p value <0.001, and Pearson’s R value at 0.28. However, Pearson’s R value was increased to 0.31 when organisational culture was included as a moderating variable in this research. Thus, the Balanced Scorecard was a significant predictor of EA because the R value was 0.28 and R square was 0.08 with a p value less than 0.001. Each component of the Balanced Scorecard had a significant proportion of its variance explained by Employee Attitude components. However, with the existence of or in combination with OC, the R square increased to 0.31, R square was 0.10 with a p value less than 0.001. Thus, each component of OC and BSC had significant proportion of its variance explained by Employee Attitude components. Hypothesis 5, which states that there is evidence that organisational culture does moderate the relationship between the four BSC perspectives and the Employees’ Attitude in ABC, was supported in this research.

Regression Analysis

Table 1.4: Summary of Regression Analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>R Value</th>
<th>R-Square</th>
<th>β</th>
<th>Std Error of Estimate</th>
<th>P-value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 Perspectives of BSC</td>
<td>0.28</td>
<td>0.08</td>
<td>0.17</td>
<td>0.32</td>
<td>&lt;0.001</td>
<td>Significant</td>
</tr>
<tr>
<td>BSC &amp; OC</td>
<td>0.31</td>
<td>0.10</td>
<td>0.10</td>
<td>0.32</td>
<td>&lt;0.001</td>
<td>Significant</td>
</tr>
</tbody>
</table>

A standard regression was performed between employee attitude as the dependent variable and BSC as the Independent variable. The correlation coefficient (R=0.31) was significantly different from zero, F(1,398) = 0.236, p<0.001, and 0.1% of the variation...
in the dependent variable was not explained by the sets of independent variables \( (R^2 = 0.1) \). BSC and Organisational Culture (OC), \( \beta = 0.10, p<0.001 \), was found to significantly contribute to moderate the relationship of BSC and Employee Attitude. The overall result of the regression model is significant as \( p<0.0001 \), is less than the threshold of 0.05. This indicates that Organisational Culture as the moderating variable does significantly affect the relationship between dependent variable, the Employee Attitude (EA) and independent variables, BSC. The result also indicates that R square for 4 BSC Perspectives is 0.0001 which means the independent variable contributes only 0.01% towards the dependent variable (Employee attitude) and the significant value more than the alpha value of 0.05. The value of standardized coefficient also indicates the relative importance of this independent variable in the Regression analysis. Referring to Table 1.4, for BSC and OC, it is a positive relationship (\( \beta = 0.10 \)). Therefore, Hypothesis H1 is supported.

**Discussion and conclusion**

**Hypothesis 1: Organisational Culture does moderate the relationship between the BSC and the Employees’ Attitude in ABC.**

**Findings**
Examining the moderation effect of organisational culture on the relationship between Performance Management System (BSC) and employee attitude, this research found that OC fully moderates the relationship between PMS and EA.

The findings also highlighted key issues that related to the research problem.

- First, the organisational culture of ABC that controlled the employees. The findings indicated that bureaucratic culture exerted influence on the ABC’s management and operations. Stemming from the bureaucratic culture, it is a common practice to appoint senior employees for senior positions in the firm. The bureaucratic culture, therefore, provides for a relationship base of OC which does not lend itself to transparency.

- Second, this would show that employees of ABC were not able to grasp new knowledge or new skills. Furthermore, a healthy hierarchy should be generated in ABC so that it would stimulate the integration of the vertical relationship between the managers and their subordinates. Thus, the success of today’s organisation would depend heavily on integration, speed, innovation and flexibility whereas, in the past, the crucial part or the success factor would be the size, control and specialization and role charity (Ashkenas et al. 2002).

- Third, the closed system applied by ABC caused frustration, low job satisfaction and slow response time for decision making. Furthermore, questionnaire of this research found that that ABC was having an unhealthy hierarchy. Thus, the situation should be corrected by pursuing the open system concept (Cummings & Worley 2001).

- Fourth, the influences of organisational culture among the employees towards the internal behaviour in the organisation were found to be undeniable in this research. Hence, in the open system model, the ultimate mission of the firm is to coordinate behaviours of every department or division in order for them to function together in the service of a strategy and goal (Cummings & Worley 2001).

- Fifth, this research found that the PMS played a vital role in changing the mind-set or making the paradigm shift within the organisation by promoting the performance-based culture in ABC.

**References**


