

THE EFFECT OF BUSINESS OWNERS'/LEADERS' CULTURAL VALUES ON THE STRATEGIC BEHAVIOR IN CONDITION OF CRISIS: A RESEARCH ON SMALL ENTERPRISES IN ISTANBUL CHAMBER OF INDUSTRY

Binali Doğan

Marmara University, Ressay Namik Ismail Sok. No:1
Bahcelievler ISTANBUL 34180, TURKEY

Ata Özdemirci

Marmara University, Ressay Namik Ismail Sok. No:1
Bahcelievler ISTANBUL 34180, TURKEY

Abstract

During the last era in business strategy area, some theoretical and empiric studies were made about the role of culture on adopting strategies. These studies are mostly based on Miles and Snow's strategy typology and Hofstede's value groups. While in some of these works, culture is found as an important factor with other different factors on strategy formulation and adoption, some works defends that culture has a limited effect. The perspective of these works were based on the relationship between strategy and national culture or business culture and because of this difference, they have reached different results.

This study assumes that, "cultural values of business owners or leaders" effects "the perception difference of crisis as opportunities or threats" and also their "strategic behavior in the condition of crisis". As he said, Hofstede's uncertainty of avoidance scale is for multicultural researches, we preferred Voich's "Uncertainty Avoidance" scale for focusing individuals. We also used Rotter's "Internal/External Orientation" which is used by Trompenaars on the management area, are taken as dimensions of cultural values. We strongly assume that if the uncertainty avoidance of business owners or leaders is high and they are external oriented, they will perceive the condition of crisis as a threats because of its uncertain nature, and also they will choose defensive strategies (decreasing the costs, economizing, strengthening the cash flow, staying stabilized in the market, etc.). If the uncertainty avoidance of business owners or leaders is low and they are internal oriented, they will perceive the condition of crisis as an opportunity and also they will choose proactive strategies (making investment, increasing the market share, penetration into new markets, etc.).

The hypothesis which are about the relationship between cultural values of "Uncertainty Avoidance" and "Internal/External Orientation and strategic behavior are tested on the small enterprises of Istanbul Chamber of Industry.

Keywords: Cultural values, strategic orientation, crisis management, uncertainty avoidance, internal orientation, external orientation

1. Theoretical background

There are lots of typologies about the concept of strategic orientation in the strategic management literature. But two of these typologies are accepted as milestones: Miles and Snow's typology (prospector, analyzer, defender, reactor) (Miles and Snow, 1978) and Porter's typology (cost leadership, differentiation, focus) (Porter, 1980). Just like Vankatraman's approach to Miles and Snow's typology with 6 dimensions (aggressiveness, analysis, defensiveness, futurity, proactiveness, riskiness)(Vankatraman, 1989) there had been lots of studies about these typologies. Some of the studies about strategic orientation researched the relationship between strategic orientation and performance (Morgan and Strong, 2003; Kaya ve Seyrek, 2005; Sanchez and Marin, 2005; Pleshko,2006; Pleshko and Nickerson, 2008; Azhar,2008) and some of them researched the factors that effects the forming of strategic orientation (Zhou and Li, 2007). The basic factors that effect the strategic orientation are environmental factors (market turbulence and technology turbulence), organizational factors (organizational structure, organizational culture and leadership) and institutional factors (government interference and corporate governance) (Zhou and Li, 2007).

The effect of organizational factors on strategic orientation is researched in the base of structure-strategic orientation (Lin and Germain,2003) and organizational culture – strategic orientation (Muafi, 2009; Fang and Wang, 2006) relationship. Beside these, although there had been lots of studies about the role of leader on success of strategic decisions, there is no research about the relationship between the leaders cultural values and strategic orientation.

The studies about the effect of culture are mostly about the national culture, management styles and organizational practices (Mueller and Thomas, 2000, Dong and Glaister, 2007; Wennekers at al, 2007)., especially after Hofstede's work, "Culture's Consequences" (Hofstede, 1980). The studies about the business strategies and culture can be divided into two groups: The studies that find a weak relationship (Singh, 2007) or no relationship (Meyer,2007) between national culture and strategy, the studies that finds big relationship between business culture and strategy (Muafi, 2001;Fang ve Wang, 2006). Individuals in a society have different cultural values, these cultural values are the causes of attitudes and behaviors of individuals. On this study, it will be researched that; if the business owners' or leaders' cultural values and their strategic orientations have a relationship or not.

Hofstede defines culture as "collective programming of mind which distinguishes the members of one group category of people from another" (Hofstede, 2007). This collective programming form by the struggle of a group with the threats that comes from three sources (human-nature, living together, life-death). (Hofstede, 1984) Schein defines culture as "the way in which a group of people solves problems".(Schein,1985). For enterprises, Shine attracts attention for a vital problem: The relationship between enterprise and environment. The problem has two sides: One is seeing the real problem and the other is way of solving this problem. Both are about the strategic orientation factor

and we can say that the selection process of this factor depends the owner's or leader's uncertainty avoidance and internal-external oriented cultural values.

Uncertainty avoidance is "the extent to which the members of a culture feel threatened by uncertain or unknown situation" (Hofstede, 1991:113). Uncertainty avoidance should not be confused with risk avoidance. There must be a strong relationship between uncertainty avoidance and strategic orientation as we told above. If the owner's or leader's uncertainty of avoidance is high, it's expected that they will keep away from the uncertain and risky strategies like prospector, innovator, future oriented, and if the owner's or leader's uncertainty of avoidance is low, it will be just the opposite.

Hypotheses development and research model

The cultural value dimension of locus of control can be defined as the response style of a person to his circumstances, with other words, tendency to agree the environment's treatment (external orientation) or dominating the circumstances (internal orientation) (Trompenaars, 1994). It's strongly expected that, internal oriented leaders or owners choose prospector, innovator and future oriented strategy because of their problem solving style; and external oriented leaders or owners tend to choose defender and analyzer strategies.

H₁: If the uncertainty avoidance of business owners or leaders is high, they will perceive the condition of crisis as threats and they will choose defensive strategies.

The concept of uncertainty avoidance has got similarities with risk avoidance. Risk is often expressed as a percentage of probability that a particular event may happen (Hofstede, 1991:113). Beyond this definition, risk is a negative attitude to the possible loses in the real life (Forlani, Parthasarathy and Keaveney, 2008). It can be considered as a cultural characteristic that is defined as uncertainty based mood of loss (Williams and Voon, 1999), (Williams and Narendran, 1999). The manners of individuals about the risk have two dimensions. One is the perception of risk, and the other is risk propensity. Risk propensity is individual's current tendency to take or avoid risks (Williams, Zainuba ve Jackson, 2008). Risk propensity is the outcome of the individual's perception of risk (Stkin ve Weingart, 1995). Some people's willingness and unwillingness about taking risks is explained by risk propensity. As we think about the uncertainty avoidance with risk propensity, we see that it consists of two dimensions. One is uncertainties that come from the social relations and its solutions. In management literature, this dimension's effects appear with managers' or leaders' solutions, rules and procedures. Business owners or leaders see rules and procedures as tools for making business. It can be called as being normative. The second is environmental based uncertainty, and its causes of loss. It can be called as being deliberate. So, uncertainty avoidance will bring the defensive strategies because of the perception of possible loss based on uncertainty. And also;

H_{1a}: If the business owners or leaders are more normative, they will perceive the condition of crisis as threats and they will choose defensive strategies.

H_{1b}: If the business owners or leaders are more deliberate, they will perceive the condition of crisis as threats and they will choose defensive strategies.

H₂: If the business owners or leaders risk propensity is low, they will perceive the condition of crisis as threats and they will choose defensive strategies.

The internally oriented business owners or leaders are expected to choose prospector, innovator, and future oriented strategies, the externally oriented business owners and leaders are expected to choose defensive strategies.

H₃: If the business owners or leaders are external oriented, they will perceive the condition of crisis as threats and they will choose defensive strategies.

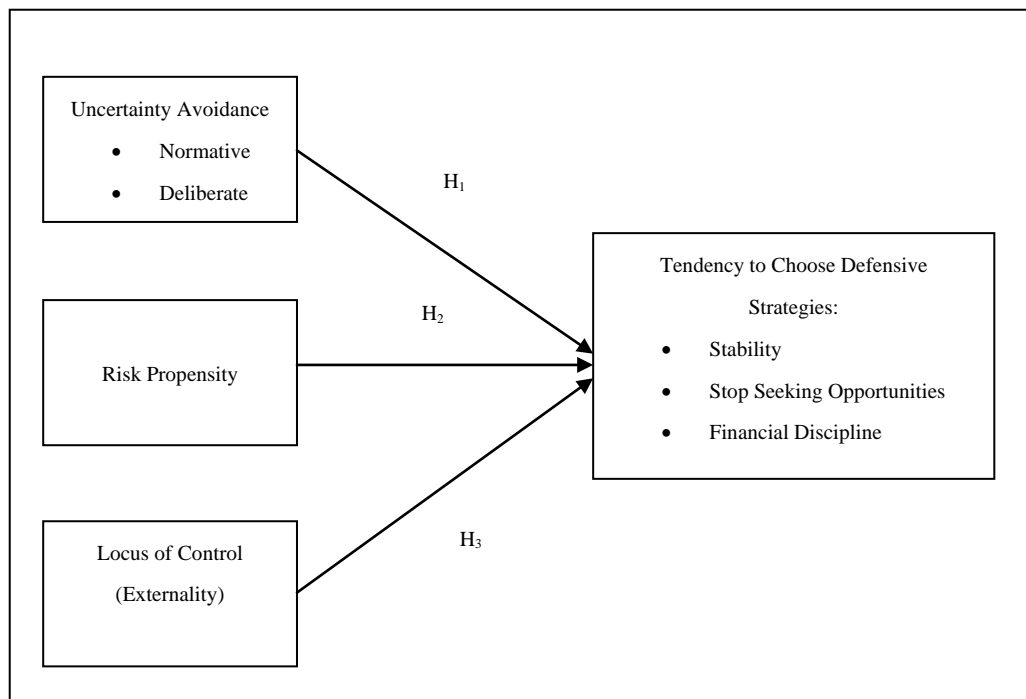


Fig. 1: Research Model

2. Methodology

2.1 Data collection and instrument

The type of the research is hypothetic research. Data collection method is survey. Sample selection method is coincidental. Our only limitation is about the number of workers. We decided to limit this number with 250 workers, because of the possible strategy formation differences in institutional and big-scaled enterprises. The universe of this work consists of the small-scaled enterprises in the list of Istanbul Chamber of Industry that means approximately 6000 members. Our basic assumption is that strategy process starts from the top, and it's obvious to be like that in small-scaled companies. We made face-to-face survey as much as we can, but we'll also used mail and telephone survey for reaching maximum participation.

Measures

We used the scale of Voich for uncertainty avoidance, the scale of Rotter for locus of control (internal/external orientation), and the scale of Chew for risk propensity (risk liking).

We developed a scale with 11 items for strategic behavior in condition of crisis based on the crisis and strategic behavior literature. The content of the questions is discussed below. We also asked the strategy of their company to the participators that is based of Miles and Snow that has been corrected and adapted by (Zahra ve Pearce, 1990) for strategic orientation.

Table 1: Measures Used in Research

Measure	Developers	Item Number
Uncertainty Avoidance	Voich (1995)	5
Risk Liking	Chew (1996)	8
Locus of Control	Rotter (1996)	29
Strategic Behavior in Condition of Crisis	Original Measure	11

The survey prepared for the research has 72 questions. As seen at Table 1, measure of uncertainty avoidance (Voich, 1995) with 5 items, measure of risk liking (Chew, 1996) with 8 items, measure of locus of control scale (Rotter,1966) with 29 items and measure of strategic behavior in condition of crisis (Original Measure, 2010) with 11 items are used in the survey. There is also 1 control question about the participants' contribution to firm's strategy, 8 questions about the firm's perceived performance, 1 question about firm size, 1 question about the sector of the firm, and 8 questions about the demographics. Likert Scale-5 is used in all questions except Rotter's scale which uses 1 and 0 grading method. (Locus of Control Total Point=0 Internal Oriented, Locus of Control Total Point=23 External Oriented, 6 questions are dummy questions).

We used factor analysis to determine the dimensions of the measures. We also made K-S test for normal distribution and Cronbach Alpha test for reliability. Correlation and Regression tests are made with SPSS 17.0 to measure the power of our hypothesis.

Before testing the main hypothesis, we looked at the descriptive statistics and the correlation between performance and the factors in the model. Then, we made a multi regression test for measuring the effect of the independent variables (Uncertainty Avoidance, Risk Propensity, Locus of Control) on dependent variable (Strategic Behavior in Condition of Crisis).

Factor Analysis and Reliabilities

We made exploratory factor analysis for establishing the sub dimensions of measures. All factors have passed the KMO Measure of Sampling Adequacy and Bartlett test of Sphericity which means that our data set is appropriate for factor analyses (Table 2). Principal components and varimax method are used in analysis. For all measures, items which have factor weight below 0,50; unique items in a factor; items with close factor weights are leaved out of evaluation. After this processes, factors which have initial eigenvalues over 1,00 and Cronbach Alpha over 0,65 are:

1 factor in Risk Propensity Measure (Cronbach Alpha=0,780)

2 factors in Uncertainty Avoidance Measure (Cumulative Extraction Sums= %79,611) which can be called as "Normative" (Cronbach Alpha=0,787) and "Being Deliberate" (Cronbach Alpha=0,679).

3 factors in Strategic Behavior in Condition of Crisis Measure (Cumulative Extraction Sums= %70,214) which can be called as "Stop Seeking Opportunities" (Cronbach Alpha=0,747), "Financial Discipline" (Cronbach Alpha=0,674), and "Stability" (Cronbach Alpha=0,668).

Also questions about firm performance are collected under two dimensions: Concrete Performance and Abstract Performance. The first factor of performance consists of sales, financial performance, profitability and market share items which can be called as concrete performance criterions; and the second factor of performance consists of reaching goals, handling difficulties, HR quality and meeting expectations items which can be called as abstract performance criterions. Locus of Control is a grading measure and is not adequate for factor analysis. (Table 2).

Table 2: The Results of Factor and Reliability Analysis

Factor Name	Items	Factor Loadings	Factor Extraction (%)	Reliability Analysis (Cronbach Alpha)
Uncertainty Avoidance Normative	Importance of rules and regulations – Importance of job requirements and instructions	.912 .878	52.78	.787
Uncertainty Avoidance – Being Deliberate	Being deliberate for possible problems Being contented with certain situation	.867 .711	26.83	0.68
TOTAL			79.611	
Kaizer Meyer Olkin Measure of Sampling Adequacy			0.596	
Bartlett Test of Sphericity Chi-Square			62.207	
df			6	
Sig.			0	
Risk Liking (Risk Propensity)	Nothing is compared with value of my life (reverse) Having fun with uncertainty and risk of failure. Life is taking risks. Respect for risk takers. Addicted to the excitement of danger and uncertainty.	.829 .803 .758 .647 .611	53.97	0.78
TOTAL			53.968	
Kaizer Meyer Olkin Measure of Sampling Adequacy			0.756	
Bartlett Test of Sphericity Chi-Square			88.814	
df			10	
Sig.			0	
Strategic Behavior In Condition Of Crisis - Stop Seeking Opportunities	Seeking for new markets in condition of crisis (reverse) Seeking for new customers in condition of crisis (reverse) Experiencing crisis as an opportunity for growth (reverse)	0.864 0.829 0.739	33.45	0.747
Strategic Behavior In Condition Of Crisis – Financial Discipline	Decreasing the labor costs in condition of crisis Decreasing the stock in condition of crisis Importance of economization in condition of crisis	0.771 0.765 0.733	21.82	0.674
Strategic Behavior In Condition Of Crisis – Stability	Stopping investments in condition of crisis Tried to be stable in condition of crisis	0.889 0.778	11.88	0.668
TOTAL			67.139	
Kaizer Meyer Olkin Measure of Sampling Adequacy			.701	
Bartlett Test of Sphericity Chi-Square			163.260	
df			36	
Sig.			0	

Descriptive Statistics and Correlations

When we look at the descriptive statistics at Table 3, we can see that during the crisis, firm owners/leaders prefer the financial discipline (M=3,89) and stability (M=3,68) for defensive strategies. We can also say that firm owners/leaders are very normative (M=4,27), but they have low risk propensity (M=2,64) and they are mostly internal oriented. (M=7,21; 0=internal oriented, 23=external oriented)

Correlation test between factors and demographics are also shown at Table 3. There are only 3 significant correlations. One is between firm seniority and financial discipline (r=0,297), second is between professional seniority and financial discipline (r=0,259), and the last one is between education and risk propensity (r=0,280). We see that when seniority is high, managers tend to use financial discipline. It means that experience teaches financial defense to the leaders. Also by the education, risk propensity rises too. It means that education increases leader's courage.

Table 3: Descriptive Statistics and Correlations Between Factors and Demographics

	Mean	SD	Age	Education	Professional Seniority	Firm Seniority
Stop Seeking Opp.	2.4718	1.09432	.204	-.178	.083	.039
Financial Discipline	3.8872	.99001	.131	-.116	.259*	.297*
Stability	3.6846	1.06642	.109	-.142	.039	.194
Being Deliberate	3.7231	1.03468	-.032	-.194	-.060	-.019
Normative	4.2769	.89281	.004	.047	.042	.000
Risk Propensity	2.6444	.82340	.058	.280*	-.139	-.104
Locus of Control	7.2154	4.3499	-.023	-.076	-.184	-.155
Abstract Performance	3.5117	.71190	.119	-.227	.164	.179
Concrete Performance	3.2654	.72467	-.119	.130	.025	-.070

*Sample Size =65 *p<0.05, **p<0.01

Correlation test between the factors are shown at Table 5. We see a high positive correlation between “external locus of control” and “stop seeking opportunities” (r=0,360), “being deliberate” and “stability” (r=0,436), and high negative correlation between “risk propensity” and “financial discipline” (r=-0,312). These relations confirm our hypothesis, but we'll say the last decisions after the multi regression test. When we look at the relations between the independents, we see that “risk propensity” and “being deliberate” are negatively correlated (r=-0,319) and have a risk of collinearity which will be tested before the regression test.

When we look at the correlations about the perceived performance, we see that only financial discipline is successful in the defensive strategies and interestingly, external locus of control and perception of performance is negatively correlated. It means that externality makes more pessimistic.

Table 4: Correlations between factors

Variable	1	2	3	4	5	6	7	8	9
1.Stop Seeking Opp.	1								
2.Financial Discipline	0.12	1							
3.Stability	0.134	.412**	1						
4.Being Deliberate	0.007	0.183	.436**	1					
5.Normative	-0.24	0.242	0.138	.325**	1				
	-		-		-				
6.Rik Propensity	0.158	-.312*	0.173	-.319*	0.215	1			
					-	-			
7.Locus of Control	.360**	0.063	0.222	0.088	0.179	0.067	1		
8. Abstract Performance	-	.256*	-.018	.018	.235	-.042	-	1	
	.342**						.346**		
9. Concrete Performance	-.290*	-.116	-.155	-.122	.084	-.067	-.300*	.401**	1

*Sample Size =65 *p<0.05, **p<0.01

Hypothesis testing

For analyzing the model and hypothesis, multi regression test is applied to the data. The significant effects are “external locus of control” on “stop seeking opportunities” ($\beta=0,335$, Sig.=0,009); “risk propensity” on “financial discipline” ($\beta=-0,296$, Sig.=0,030); “being deliberate” on “stability” ($\beta=0,366$, Sig.=0,005) (Table 5).

Table 5: Multi Regression Tests for Hypothesis

	Stop Seeking Opportunities		Financial Discipline		Stability	
	β	Sig.	β	Sig.	β	Sig.
Being Deliberate	0.048	0.711	-0.018	0.895	0.366**	0.005
Normative	-0.116	0.367	0.083	0.533	0.010	0.937
Risk Propensity	-0.145	0.264	-0.296*	0,030	-0,041	0,746
Locus of Control	0.335**	0.009	0.063	0.624	0.186	0.131
Adjusted R ²	0.11		0.044		0.137	
N	65		65		65	
F	2.921		1.711		3.46	
Sig.	0.029		0.16		0.013	
S.E.	1.01334		0.94342		0.98278	

Standardized regression coefficients are reported. * p < 0.05; ** p <0.01

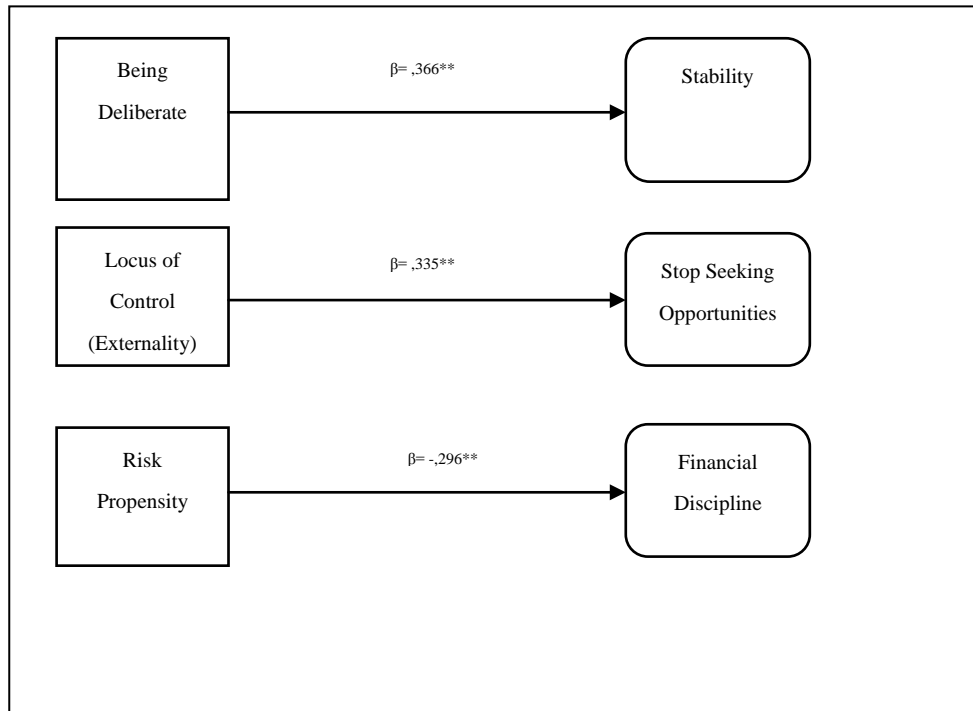


Fig. 2: The significant effects in the research model

Conclusion:

This study showed that the cultural values of business owners or leaders effects their strategic behavior in the condition of crisis. We strongly assume that this is about the perception difference of business owners or leaders who have different cultural values.

If the owner’s or leader’s uncertainty of avoidance which is defined as “the extent to which the members of a culture feel threatened by uncertain or unknown situation” is high, they will choose stability in the condition of crisis. If the owner’s or leader’s external orientation which is defined as “tendency to agree the environment’s treatment” is high, they will stop seeking opportunities in the condition of crisis. If the owner’s or leader’s risk propensity which is defined as “individual’s current tendency to take or avoid risks” is high, they will choose financial discipline in the condition of crisis.

All of these results show that strategy is not only a rational choice that depends on environmental factors (market turbulence and technology turbulence), organizational factors (organizational structure, organizational culture and leadership) and institutional factors (government interference

and corporate governance), but also an emotional choice that depends on the owner's or leader's cultural values. This is a minor scaled pioneer study for further researches.

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