The Effect of Corporate Culture and Strategic Orientation on Financial Performance: An Analysis of South Korean Upscale and Luxury Hotels

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The Effect of Corporate Culture and Strategic Orientation on Financial Performance: An Analysis of South Korean Upscale and Luxury Hotels

Abstract
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Keywords
hospitality, corporate culture, luxury hotels, Korea

Disciplines
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The Effect of Corporate Culture and Strategic Orientation on Financial Performance: An Analysis of South Korean Upscale and Luxury Hotels

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by HyunJeong "Spring" Han, Ph.D., and Rohit Verma, Ph.D.

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EXECUTIVE SUMMARY

Researchers have been studying the importance of an appropriate and effective culture to business success for over thirty years. A successful culture combined with a congruent strategic orientation is now considered essential for a business to maintain its edge in a fiercely competitive environment. So far, however, little research has focused directly on how the hospitality industry can maximize performance through the combination of a corporate culture and a strategic action plan. In this study, we explore the relationship between strategic orientation, corporate culture, and financial performance for hotels, using data from 211 managers of 99 upscale and luxury (4- or 5-star) hotels in South Korea. The study shows that corporate culture directly affects financial performance, but for this group of hotels not all cultures performed equally. The transaction-oriented Market culture did not promote financial performance, as compared to the family-oriented Clan culture or the innovative “Adhocracy” culture. The tradition-bound Hierarchical culture actually cost hotels in terms of financial performance. Certain strategic orientations moderated and improved financial results for some of the cultures, but not all. The opportunity-seeking approach of a Leading strategic orientation drove financial results for the Clan and Adhocracy cultures, but did not help the Market or Hierarchy cultures. Other strategic orientations also drove financial results, including Future-analytic and Defensive.
The relationship between corporate culture and performance has been extensively studied during the last thirty years as part of the larger topic of strategic management. Studies presented in three widely circulated books, for example, have verified a strong relationship between culture and performance. More recently, Kim, Lee, and Yu presented the results that demonstrate that a “strong culture” which is shared by majority of employees could be a predictor variable for measuring an organization’s financial performance.


While this topic has been studied extensively in the strategic management literature, to our knowledge, none of the studies are based on the global hospitality and tourism industry. Moreover, although those early studies confirm the benefits of a strong culture, we need to ascertain exactly what type of culture works best for the hotel industry. Therefore, in this study, we explore the relationship between four types of corporate culture, related strategic orientations, and resulting financial performance for hotels, as shown in the theoretical framework in Exhibit 1. For this study we collected data from managers and executives at the upscale and luxury hotels (4- or 5-star) located in various parts of South Korea. Before we present our findings, we first review cultural theory and research. We then describe our research design, present our results; and discuss the managerial implications of our work.

Corporate Culture

A 1979 study by Pettigrew can be recognized as the beginning of formal writing on the concept of organizational culture. Drawing on anthropological concepts, he showed how related concepts like “symbolism,” “myth,” and “rituals” can be used in organizational analysis to reveal the “deep structure” of an organization.4

Corporate culture has come to be defined as the pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide norms for behavior in the organization.5 Another way to look at corporate culture is to focus on the underlying values and attitudes which affect the way in which things are done.6 Most intriguingly, a corporate culture can work against a company’s success as much as it can excite and guide their actions for the company’s benefit.7 This insight has led researchers to investigate the link between corporate culture and other variables that promote corporate success. So, for example, Pascale argues that assessing an organizational culture allows one to predict an orga-

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6 Deal and Kennedy, op.cit.

nization’s ability to survive. With that in mind, this study draws on the culture taxonomy developed by Cameron and Quinn, as based on their Organizational Culture Assessment Instrument. They propose four culture types, namely, Clan, Adhocracy, Market, and Hierarchy, which are explained in Exhibit 2. Briefly, a Clan culture is a family-style organization, an Adhocracy seeks to be as entrepreneurial as possible, a Market culture focuses on results, and a Hierarchical culture is structured and governed by formal rules.

Strategic Orientation

The stream of literature that has developed and defined corporate strategic orientation has unfolded largely separate from the culture research, even though strategy is also a considerable factor in corporate success and failure. Strategic orientation is a set of behaviors that operationalize a firm’s overarching strategy. Strategic orientation focuses on how firms should interact with external environmental aspects such as customers, competitors, and technology to conduct business. Because strategic orientation is considered a controllable variable, companies may hold their managers accountable for the company’s strategy. This stems from the view that strategic orientation is a significant driver of superior performance in emerging economies (and elsewhere).

For this study, we adopt the framework developed by Venkatraman, who conceptualized strategic orientation in terms of six dimensions, for which he developed operational indicators along the following six dimensions: Aggressiveness, Analysis, Defensiveness, Futurity, Proactivity, and Riskiness. As shown in Exhibit 3 (on the next page), Venkatraman’s research outlined six strategic orientation types, which we apply in this study. Briefly, they are Leading (always trying to innovate), Future-Analytic (focusing on research for future activities), Aggressive (undercutting competitors), Defensive (maintaining careful control), Adventurous (risk taking), and Conservative (avoiding risk).

Performance:
The Intersection of Culture and Strategy

Many researchers have attempted to explain organizational performance in terms of culture or strategic orientation.

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Note: Definitions are from: K.S. Cameron and R.E. Quinn, Diagnosing and Changing Organizational Culture (New York: Addison Wesley, 1999); and K.S. Cameron and R. E. Quinn, Diagnosing and Changing Organizational Culture, Revised edition (San Francisco: Jossey-Bass, 2006).

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and others have focused on classification of corporate strategies and performance.\textsuperscript{14} However, the results have been inconsistent. We have found only a few studies that related corporate culture to performance in the service industries. Doran, Haddad, and Chow, argued that hotels’ corporate culture might directly affect performance,\textsuperscript{15} and Kim, Lee, and Yu investigated the relationship between corporate culture and organizational performance among three industries in Singapore: high-tech manufacturing, hospitals, and insurance.\textsuperscript{16} They documented a significant relationship between ROA and corporate culture for manufacturing but could not find such a relationship for the two service industries that they studied.

Avci, Madanoglu, and Okumus obtained a different outcome in their investigation of the financial and non-financial outcomes for tourism firms in Turkey that adopted one of four strategic orientations.\textsuperscript{17} This study found differences in both financial and non-financial performance based on the strategic orientations. Garrigos-Simon, Marques, and Narangajavana likewise found significant differences in total performance in an analysis of four types of strategic orientation for Spanish hotels.\textsuperscript{18}

One consistent theme regarding corporate culture was put forth by Barney: that is the idea that a firm’s culture can

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\textbf{Exhibit 3}

<table>
<thead>
<tr>
<th>Strategic Orientation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leading</td>
<td>Usually the first ones to introduce new brands or products in the market. Constantly seeking new opportunities related to the present operations</td>
</tr>
<tr>
<td>Future-analytic</td>
<td>Emphasize basic research to provide them with future competitive edge and “What-if” analysis of critical issues. Emphasize effective coordination among different functional areas</td>
</tr>
<tr>
<td>Aggressive</td>
<td>Sacrificing profitability to gain market share and setting prices below competition. Cutting prices to increase market share</td>
</tr>
<tr>
<td>Defensive</td>
<td>Significant modifications to the manufacturing technology. Use of cost control systems for monitoring performance</td>
</tr>
<tr>
<td>Adventurous</td>
<td>Their operations can be generally characterized as high-risk. New projects are approved with &quot;blanket&quot;</td>
</tr>
<tr>
<td>Conservative</td>
<td>They seem to adopt a rather conservative view when making major decisions. Operations have generally followed the &quot;tried and true&quot; paths</td>
</tr>
</tbody>
</table>

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be a source of sustainable competitive advantage.\textsuperscript{19} That said, researchers cannot agree on the relationship between strategic orientation and corporate culture. Some authors think organizational strategy arises out of corporate culture.\textsuperscript{20} Others, including Deshpande and Webster, argue that corporate culture directly affects business outcomes and also interacts with strategic orientation.\textsuperscript{21} For the purposes of this study, we take the view that corporate culture can be positioned as an antecedent, a moderator, or an intervening variable in the relationship between market (strategic) orientation and business performance, as indicated in the model in Exhibit 1.\textsuperscript{22}

Research Methodology

We created a questionnaire that was divided into the following three sections. The first section drew from Cameron and Quinn's Organizational Culture Assessment Instrument (OCAI), which rates organizations on the following dimensions: internal focus and integration, stability and control, flexibility and discretion, and external focus and differentiation.\textsuperscript{23} The OCAI consists of six questions relating to an organization's dominant characteristics, leadership, management of employees, organizational "glue," strategic emphasis, and criteria for success. For each question, respondents are asked to divide 100 points among four possible alternatives, depending on the extent to which a particular alternative describes their organization in each question. So, for example, on a particular question, if you think alternative A strongly describes your organization, while alternative B and C less so but are somewhat similar, and alternative D hardly fits at all, you might give fifty-five points to A, twenty points each to B and C, and five points to D.

The second section of our questionnaire was composed of questions related to measurement of strategic orientation of business enterprises developed by Venkatraman.\textsuperscript{24}

The third section of the questionnaire assessed financial performance based on subjective measures scored by the respondents. We would have liked to collect objective financial performance measures, but Korea has nothing like the uniform system of accounts found in the U.S., and firms are reluctant to share their financial data, since this can reveal marketing strategies. We should note, however, that

\textsuperscript{19} Barney. \textit{op.\ cit.}


\textsuperscript{24} Venkatraman, \textit{op.\ cit.}
Exhibit 4 shows the demographic profile of the sample. The bulk of the 211 respondents were 30 to 49 years old, and women constituted just 28.7 percent of this sample. Nearly half of the respondents (47.4%) had been in their career for five to nine years, and over one-third (34.6%) were extremely experienced, with fifteen or more years in the business. Fifty-five percent of respondents worked in the front office, 36 percent worked for back office, and 9 percent were executives.

This was a well educated group. Roughly half of the respondents had a bachelor’s degree, 28 percent had an associate’s degree, and 16.1 percent had a graduate degree or higher. The largest single position category for respondents was assistant manager (41.7%), while 38.4 percent were managers and 10.9 percent were senior managers, in addition to the 9 percent who were executives.

Sample and Data Collection
In 2009, the Korean Hotel Association listed 139 five-star hotels and 172 four-star hotels in South Korea. From this list we chose 190 hotels having more than 100 guest rooms, on the theory that these are large enough to have both an express strategic orientation and a corporate culture. We contacted hotel managers in various Korean cities, including Seoul, Busan, Daegu, and Inchon, and we also included resort areas, such as Jeju Island and Korea’s east coast. We interviewed managers who agreed to the study and delivered a total of 260 questionnaires to the managers of 120 hotels. Each participating manager was employed as a senior executive and had at least five years of working experience with the same companies. Completed questionnaires were returned directly to us during a four-month period. This approach gave us 226 questionnaires from 101 hotels, but we had to exclude fifteen questionnaires due to irregularities, missing data, or unrealistic responses. Our final sample was 211 responses from 99 hotels.


Analysis and Results
Exhibit 4 shows the demographic profile of the sample. The bulk of the 211 respondents were 30 to 49 years old, and women constituted just 28.7 percent of this sample. Nearly half of the respondents (47.4%) had been in their career for five to nine years, and over one-third (34.6%) were extremely experienced, with fifteen or more years in the business. Fifty-five percent of respondents worked in the front office, 36 percent worked for back office, and 9 percent were executives.

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Corporate Culture and Financial Performance
Exhibit 5 shows the direct statistical relationship between corporate culture and financial performance based on a series of linear regression models. When analyzing the impact of corporate culture types on financial performance, the family-like Clan culture and the entrepreneurial Adhocracy culture had a positive impact on growth-oriented financial performance. In contrast, the rule-bound Hierarchy culture had negative impact on growth-oriented financial performance. We found no significant relationship between the task-oriented Market culture and financial performance. None of the corporate culture dimensions showed a statistically significant relationship with profit-oriented performance.

Note: Significance levels: * p > .05; ** p > .01; *** p > .001.
Corporate Culture and Strategic Orientation

Exhibit 6 shows the result of the regression analysis between corporate cultures and the hotels’ strategic orientations. This analysis found relationship-oriented (Clan) companies most strongly associated with a leading orientation, followed by future-analytic, aggressive, and defensive strategic orientations. Innovation-oriented (Adhocracy) companies likewise were most strongly associated with a leading orientation, followed by future-analytic, aggressive, conservative, and defensive strategic orientations—all significant.

Task-oriented (Market culture) companies showed significant but negative connections with the strategic orientations, with conservative most negative, followed by future-analytic, leading, aggressive, conservative, and defensive strategic orientations. Hierarchy-oriented companies showed a significant positive conservative orientation, but a negative influence on three other strategic orientations, with leading being most negative, followed by aggressive and defensive strategic orientation.

Strategic Orientation and Financial Performance

Four strategic orientations had significant effects on both growth-oriented and profit-oriented financial performance, three of them positive and one negative, as shown in Exhibit 7, on the next page. Leading, future-analytic, and defensive strategic orientations had a positive impact on both growth- and profit-oriented financial performance. The adventurous strategic orientation, however, showed a negative impact on fi-
We found no significant effect of either an aggressive and conservative strategic orientation on these hotels’ financial performance.

Discussion and Implications

In general, our study showed that culture and strategic orientation make a difference in hotels’ profit performance, but not all strategies or cultures are created equal. The task-oriented Market culture, which focuses on hitting targets and performance had no significant effect on financial performance. To improve their financial performance, these companies should consider changing their corporate culture. One point about the task-oriented culture is that it requires employees to “win” in the market competition. We think that development of individual employees or relationships among employees can be neglected in such an environment.

Managers could draw from the Clan culture, for instance, to take more interest in mentoring employees, as well as heed employees’ opinions. The resulting mutual trust should improve the hotels’ results.

Second, certain strategic orientations enhanced financial performance for the other three cultures, but they could go further. We found that Clan (relationship), Adhocracy (innovation), and Hierarchical culture companies could enhance their financial performance through both leading and defensive strategic approaches. Given our findings regarding the value of other strategic orientations, we suggest that companies seek new market opportunities, take leading actions to respond to the changing environment, and put more effort in production technology improvement, cost control systems, manufacturing management methods, quality management circles, cost reduction, and operational efficiency.
Third, some strategic orientations worked against certain cultures. For example, innovation-oriented companies that pursued an adventurous strategic orientation acted in a high-risk fashion rather than abide by business authorization processes to choose appropriate actions, and they followed unproven procedures. The result for those companies appears to be diminished financial performance. Companies that focus on innovation and development should establish a project authorization process and a system to examine the efficacy of action plans.

Fourth, companies with a Hierarchical culture also could draw on practices from other cultures. We found that this culture, which pursues control and efficiency and integrates employees through formalized standards and policies, saw a negative impact on the financial performance. As we noted above, however, when these companies pursued a leading strategic orientation, they enhanced their financial performance. In addition, even when Hierarchical hotels pursued defensive, adventurous, or conservative strategic orientations, they saw partial enhancement of their financial performance. In this regard, Hierarchical companies could seek market opportunities for expanding and acquiring business fields and drastically eliminate and modify projects through periodic analysis to enhance their financial performance.

Fifth, the aggressive strategic orientation, which focuses on setting lower prices than competitors or giving up profits to acquire market share, did not have a significant impact on any culture’s financial performance. This implies that rather than focus on acquiring market share by price reductions, these companies should select and focus on other, more worthwhile strategies. This finding echoes numerous other studies that used other methodologies and also concluded that discounting does not ultimately improve a hotel’s bottom line.26

In conclusion, we first must acknowledge that this study’s findings could be limited by the fact that we studied only hotels in South Korea and only large, upscale hotel properties. Certainly, this study should be replicated in other locations, but we see no reason that the core conclusions should not apply fairly universally. It is clear from this study that for Korean hotels, at least, a strong, appropriate culture has an effect on financial performance. That relationship is direct, but it is also moderated by the effects of a hotel’s strategic orientation. Just as not all cultures drive strong financial performance, neither do all strategic orientations have a favorable effect on financial results. Moreover, some strategic orientations are a poor fit for certain cultures. Certain strategic orientations, such as the leading strategy, seem to be effective for most cultures, while we found that the aggressive approach was essentially ineffective for all the hotels, regardless of culture. Based on these implications, we suggest that managers should put more effort into creating a corporate culture which can contribute to enhanced performance through taking interest in cultures that employees prefer, and at the same time, should seek new market opportunities, and select and pursue action plans to respond to the changing environment. ■

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