



UNIVERSITI PUTRA MALAYSIA

**CORPORATE CULTURE, LEADERSHIP STYLE, AND
PERFORMANCE OF FOREIGN AND LOCAL ORGANIZATIONS
IN MALAYSIA**

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OF FOREIGN AND LOCAL ORGANIZATIONS IN MALAYSIA**

By

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October 2003

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This study examined the relationship between corporate culture, leadership style, and performance in Malaysia. This research also investigated the corporate culture and leadership style in local and foreign organizations. Organizational culture was measured by using the Competing Values Framework (Quinn and Rohrbaugh, 1983; Cameron and Quinn, 1999), leadership style was measured by using the model developed by Javidan & Dastmalchian (1993) and Dastmalchian (2000), while performance was measured in terms of profitability. A total of 134 companies, comprising of 60 foreign companies and 74 local companies participated in the study. The Chi-square tests, Pearson correlation, and cross tabulation tests analysis were carried out to measure the significant association between the variables. The findings showed that local companies tend to have a hierarchical culture, while foreign companies tend to have a clan and result-oriented culture. As for the leadership style, the results showed the similarity of both local and foreign companies in practicing an auditor style of leadership. Cross-tabulation results also



revealed that there is an association between organizational culture and leadership style in foreign organizations but no association was found in local organizations. With regards to the relationship between organizational culture and performance, it was found that there is no association between them in foreign or local companies due to other influencing external factors. In addition, no significant relationship was found between leadership style and performance in foreign or local companies.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi sebahagian keperluan untuk ijazah Master Sains

**KAJIAN BUDAYA ORGANISASI, CARA KEPIMPINAN, DAN
PENCAPAIAN ORGANISASI ASING DAN TEMPATAN DI MALAYSIA**

Oleh

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Oktober 2003

Pengerusi: Raduan Che Rose, Ph.D.

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Kajian ini meneliti pengaruh budaya organisasi dan cara kepimpinan ke atas pencapaian sesuatu organisasi di Malaysia. Penyelidikan ini juga mengkaji perkaitan di antara budaya organisasi dan cara kepimpinan dalam konteks organisasi tempatan dan organisasi asing. Bagi budaya organisasi ianya diukur menggunakan model "Competing Values Framework" hasil penemuan Quinn and Rohrbaugh (1983) dan Cameron and Quinn (1999); dan cara kepimpinan pula diukur dengan menggunakan model Javidan & Dastmalchian (1993), dan Dastmalchian (1999). Sementara pencapaian pula diukur berdasarkan kepada keuntungan syarikat dari jumlah jualan. Sejumlah 134 buah syarikat yang berdaftar, terdiri dari 60 buah syarikat tempatan dan 74 buah syarikat asing telah mengambil bahagian di dalam kajian ini. Ujian ki kuasa dua, korelasi Pearson, dan penjadualan bersilang telah dijalankan untuk mengukur perkaitan di antara variabel. Hasil kajian menunjukkan bahawa syarikat tempatan cenderung mengamalkan budaya hirarki, sementara syarikat asing pula berkecenderungan mengamalkan budaya kumpulan dan

budaya orientasi-hasil. Hasil keputusan juga menunjukkan bahawa terdapat persamaan cara kepimpinan iaitu cara pengaudit di antara organisasi tempatan dan asing. Keputusan penjadualan bersilang turut mendapati bahawa terdapat perkaitan di antara budaya organisasi dan cara kepimpinan di dalam organisasi asing tetapi tiada perkaitan di dalam organisasi tempatan. Bagaimanapun, keputusan penjadualan bersilang menunjukkan tiadanya perkaitan diantara budaya organisasi ke atas pencapaian syarikat asing dan tempatan kerana mungkin terdapat factor-faktor luaran lain yang mempengaruhi. Kajian ini juga mendapati tidak wujud perkaitan di antara cara kepimpinan terhadap pencapaian sesebuah organisasi.

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TABLE OF CONTENTS

	Page
ABSTRACT	ii
ABSTRAK	iv
ACKNOWLEDGEMENTS	vi
APPROVAL SHEETS	ix
DECLARATION FORM	x
LIST OF TABLES	xiv
LIST OF FIGURES	xvi
CHAPTER	
I INTRODUCTION AND RESEARCH OVERVIEW	01
Introduction	01
Background	02
Malaysian Development Program	03
Foreign Direct Investment in Malaysia	03
Malaysian Labor Market	05
Workforce Diversity	07
The Overview of Culture, Leadership, and Performance	08
Statement of the Problem	12
Objectives of the Study	15
Significance of the Study	16
The Scope of the Study	17
Assumptions	18
Limitations of the Study	19
Organization of the Thesis	19
II LITERATURE REVIEW	21
Introduction	21
Organizational Culture	21
Definitions and Concepts	21
The Nature of Organizational Culture	26
Organizational Culture and Performance	38
Leadership Style	51
Definitions and Concepts	51
The Nature of Leadership Style	53
Leadership Style and Performance	55
Relationship between Corporate Culture, Leadership Style and Organizational Performance	59
Conclusions	63
III THEORETICAL FRAMEWORK	66
Introduction	66
Theoretical Framework	68



	Corporate Culture and Competing Values Framework	68
	Leadership Style	74
	Organizational Performance	76
	Hypothesis Development	77
IV	RESEARCH METHODOLOGY	80
	Introduction	80
	Sources of Research Data	80
	Primary Data	81
	Secondary Data	82
	Sampling Process	82
	The Relevant Population	82
	The Sampling Frame	83
	The Sampling Method	83
	Sample Size	85
	Data Collection	86
	Questionnaire Design	87
	Measurement Design	90
	Measurement Methods	90
	Data measurement Scale	92
	Validity and Reliability Test	95
	Validity Test	95
	Reliability Test	98
	Data Analysis	100
	Conclusion	101
V	FINDINGS AND DISCUSSION	103
	Profile of the Respondents	103
	Background of Companies	103
	Demographic Characteristics of the Respondents	107
	Corporate Culture of Local and Foreign Companies	123
	Leadership Style of Local and Foreign Companies	127
	Association between Corporate Culture and Leadership Style	131
	Association between Corporate Culture and Performance	138
	Association between Leadership Style and Performance	144
VI	CONCLUSION AND RECOMMENDATION	150
	Introduction	150
	Summary	150
	Implications of the Findings	154
	Managerial Implications	154
	Theoretical Implications	157
	Limitations of the Study	159
	Suggestions for Future Research	159



REFERENCES	161
APPENDICES	174
BIODATA OF THE AUTHOR	180



LIST OF TABLES

		Page
Table 1	Likert scale scores	94
Table 2	Root Mean Square Error of Approximation (RMSEA) and Goodness-of-Fit Index (GFI)	98
Table 3	Reliability Coefficients for corporate culture	100
Table 4	Reliability Coefficients for leadership styles	100
Table 5	Distribution of respondents according to company type	105
Table 6	Distribution of respondents according to company size	105
Table 7	Distribution of respondents according to company profitability	106
Table 8	Distribution of respondents according to gender	108
Table 9	Distribution of respondents according to ethnicity	109
Table 10	Distribution of respondents according to age	111
Table 11	Distribution of respondents according to education level	113
Table 12	Distribution of respondents according to monthly income	115
Table 13	Distribution of respondents according to job position	116
Table 14	Distribution of respondents according to area of responsibility	118
Table 15	Distribution of respondents according to total working experience	120
Table 16	Distribution of respondents according to working experience in present company	122
Table 17	Corporate culture of local and foreign companies	126
Table 18	Chi-Square test between culture and company type	127
Table 19	Leadership style of local and foreign companies	130
Table 20	Chi-Square test between leadership style and company type	131
Table 21	Results of cross tabulation between corporate culture and leadership style in foreign organizations	134
Table 22	Chi-Square test between corporate culture and leadership style in foreign organizations	135
Table 23	Pearson Correlation between corporate culture and leadership style in foreign organizations	135
Table 24	Results of cross tabulation between corporate culture and leadership style in local organizations	136
Table 25	Chi-Square test between corporate culture and leadership style in local organizations	137
Table 26	Pearson Correlation between corporate culture and leadership style in local organizations	138
Table 27	Results of cross tabulation between corporate culture and performance in foreign organizations	140
Table 28	Chi-Square test between corporate culture and	



	performance in foreign organizations	141
Table 29	Results of cross tabulation between corporate culture and performance in local organizations	142
Table 30	Chi-Square test between corporate culture and performance in local organizations	143
Table 31	Results of cross tabulation between leadership style and performance in foreign organizations	146
Table 32	Chi-Square test between leadership style and performance in foreign organizations	147
Table 33	Results of cross tabulation between leadership style and performance in local organizations	148
Table 34	Chi-Square test between leadership style and performance in local organizations	149



LIST OF FIGURES

		Page
Figure 1	Theoretical framework on the relationship between corporate culture, leadership style, and performance of local and foreign organizations in Malaysia	67
Figure 2	Competing Values Framework (CVF) – Quinn and Rohrbaugh (1983)	71

CHAPTER I

INTRODUCTION AND RESEARCH OVERVIEW

Introduction

Research on leadership and organizational culture has attracted considerable interest from both academics and practitioners. However, the link between leadership and performance, and between culture and performance, has often been studied independently. For example, researchers have examined the links between leadership styles and performance (Bycio et al, 1995; Avolio and Bass, 1993), and between organizational culture and performance (Deal and Kennedy, 1982; Denison, 1990; Peters and Waterman, 1982; Kotter and Heskett, 1992). There were also other studies on organizational culture and quality management (Lewis, 1998; Sousa-Poza, Nystrom, and Wiebe, 2001; Chang, 1996), and national culture (Hofstede, 1980; Trompenaars, 1993; Joiner, 2001).

Deal and Kennedy (1982) in their book "*Corporate Cultures: The Rites and Rituals of Corporate Life*", were possibly the pioneering authors who had successfully changed the perspective of managers about the importance of corporate culture, by linking it to the company's performance. They were able to attract not only academics, but also managers to be more serious about culture due to their findings that a strong culture was important to organizational success.

Since then, a shift of interest has been apparent in the studies of culture



and its relationship on leadership style as another factor contributing toward organizational performance. Numerous aspects of the organizational culture literature allude to the role of leaders in creating and maintaining particular types of culture (Schein, 1992). Equally, literature on leadership suggest that the ability to understand and work within a culture is a prerequisite to leadership effectiveness (Hennessey, 1998).

This study plays an important role in presenting a review of the empirical evidence of the links between the different types of organizational culture, a range of leadership styles, and organizational performance in local and foreign companies across Malaysia.

Background

Malaysia is located and strategically positioned in the heart of Southeast Asia. Measured by the size, it is a relatively small country, with a land area of 329,733 km² (about 127,000 square miles) compared to its neighboring countries such as Thailand, Indonesia, and Burma.

The total population of Malaysia was about 21.5 million in 1997, consisting of a mix of three main races (Malay, Chinese, and Indian). Malays and the indigenous peoples account for fifty-eight percent, Chinese thirty-one percent, Indians nine percent, and others two percent (Malaysia, Jabatan Perangkaan 1996). Malaysia's population now at an average rate of 2.6 percent in the 1980s, and about 2.3 percent in the 1990s. The country's total labor force is estimated at eight million in various sectors such as the manufacturing, service, agriculture, and construction.

Malaysia is also a multi-religious country based on the ethnic origin. Islam

is the official religion, while Buddhism, Christianity, Hinduism, and other religions are widely practiced in the country. The national language is Bahasa Malaysia, but English language is widely spoken and used as a second language. Other spoken language includes various Chinese dialects and Tamil.

Malaysian Development Program

Malaysia is a relatively new nation, which attained independence from Great Britain on August 31st, 1957 through peaceful negotiations. Since then, Malaysia has sustained and enjoyed a considerable degree of political stability.

The introduction of the New Economic Policy (NEP) in 1970 marked the beginning of Malaysia's attempt to use socio-economic engineering in an effort to create a more equitable distribution of wealth between all races in the society. The main objective of the program was to restructure the pattern of the economic activities, eliminating the identification of race with economic function, and eradicating poverty irrespective of race (Malaysia, 1975). A structured periodic framework known as the First Outline Perspective Plan (OPP1) covering a period of twenty years was introduced to outline certain policies and strategies under the NEP. After the end of the NEP in 1990, the Malaysian government launched OPP2 from 1991 to 2000. Since the introduction of OPP1 in 1970, Malaysia has achieved a relatively rapid and sustained economic growth.

Foreign Direct Investment in Malaysia

Since Independence, the Malaysian government has been aware of the



importance of the private sector and multinational corporations (MNC's) for capital accumulation and technology transfer, which was recognized as being indispensable for the attainment of economic development (MITI, 1996). Emphasizing on export-led industrialization was seen as the way to compete in the international market place. As such, Malaysia actively sought out foreign capital by deregulating and expanding incentives to attract foreign enterprise in industrial development. The early 1970's witnessed a rapid inflow of foreign investment into the Malaysian economy (MITI, 1996). This was shown by the growth in the number of multinational organizations such as Ericsson, Nokia, Motorola, National Panasonic, Sony, Samsung, and others, which had diversified their markets in Malaysia.

At the end of 1995, there were more than 3,000 international companies from over fifty countries operating in Malaysia with a total investment of US\$5.2 billion (MITI, 1996:45). Malaysia was among the top ten host developing economies in terms of Foreign Direct Investment (FDI) flows and stock. According to the World Bank (1995), when compared to other ASEAN countries in the top ten, Malaysia was second in terms of FDI inflow (US\$5.2 billion), behind Singapore (US\$6.8 billion), but ahead of Indonesia (US\$2 billion) and Thailand (US\$1.7 billion). Japan was the leading investor in Malaysian economy during that period, followed by the USA, Taiwan and Singapore.

Accordingly, the main factor contributing to foreign investment is the government's full commitment to create an investment environment and policies that provide businesses with opportunities for growth and profits

(MITI, 1996). Malaysia's policy regarding foreign investors can be traced to as early as 1965 with the establishment of the Federal Industrial Development Authority (FIDA), now known as Malaysian Industrial Development Authority (MIDA) whose main duty was to promote, coordinate and accelerate overall industrial development in Malaysia.

The Capital Issues Committee (CIC) and the Foreign Investment Committee (FIC) were established with the main responsibility of identifying new industrial projects, providing specific investment promotion programmes, advising the private sectors on participation in new ventures, and coordinating industrial development strategies. In addition, industrial infrastructure and various other incentives ranging from equity ownership policy and tax relief to the relaxation of laws governing commercial activity have been introduced by the Malaysian government, reflecting the policy of welcoming FDI.

Accordingly, the government attempted to create conditions and a climate hospitable to foreign business enterprises by creating Free Trade Zones (FTZs) with infrastructural facilities and the enactment of the Investment Incentives Act (1968)- measures intended mainly to encourage foreign investors and companies to operate in Malaysia. The entry of foreign MNCs, especially from USA and Europe, in the early 1970s marked a shift in the Malaysian economy, followed by a significant inflow of Japanese FDI from late 1980.

Malaysian Labor Market

Out of a population of 21.5 million, the Malaysian labor force currently

stands at more than 7.9 million, or 36.7 per cent of the total. However, despite the government's effort to produce needed skilled manpower, rapid economic growth has not been balanced by the current labor supply. During the early 1990s, when economic growth was high, the labor market continued to tighten further, especially in the manufacturing and construction sectors (Malaysia Department of Statistics, 1996). The unemployment rate reached an unprecedented low of 2.8 percent in 1994 and since then Malaysia has attained virtually full employment.

Therefore, efforts were taken by the Malaysian government to ensure that Malaysians are trained and employed at all levels of industry. In certain circumstances as stipulated in the guidelines for FDI (MITI, 1996), permission is given to the companies to recruit foreign personnel in areas where there is a shortage of trained Malaysians. Moreover, certain key posts are allowed to be filled permanently by expatriates.

Companies are also encouraged to make every effort to train Malaysians so that the employment pattern at all levels of organization will reflect the multi-racial composition of the country. The guidelines for the employment of expatriate personnel were set up by the government to be followed by all MNCs (MITI, 1996).

As labor shortages, of both skilled and unskilled workers, have become more prevalent, especially in the more industrialized states of the country, the government has started to allow the recruitment of foreign workers. Many unskilled laborers from Indonesia, Bangladesh, Thailand, Philippines, and Pakistan, as well as expatriates from other countries and

highly skilled manpower were recruited. As a result, a high level of economic growth based on industrialization and foreign investment has created a diverse workforce.

Workforce Diversity

As the composition of the Malaysian workforce has changed dramatically since about 1950 due to the Chinese and Indian migration, and since then by other minority races as well, the workforce diversity has brought different cultural values and leadership styles to organizations in Malaysia. This has been further added through the globalization of business of foreign and local organizations in Malaysia.

For organizations with diverse workforces in place, the challenges of creating a positive organizational culture and using diversity to create economic value are substantial. With a diverse workforce and positive organizational culture in place, many managers believe their companies will be able to:

- i. Develop products and services for new markets.
- ii. Attract a broader range of customers.
- iii. Improve customer satisfaction.
- iv. Reduce cost (associated with litigation)

For example, Ericsson Telecommunications, which has been established for the past 125 years in over 140 countries, had employed an international workforce of over 100,000 employees. Workforce diversity brought benefits to the organizations because it increases the range of choices. For example, Ericsson

43 countries who work together towards developing new technologies, solutions and applications. Their ability to work as a team despite the cultural differences shows the importance of managing diversity in global businesses (Ericsson Homepage, 2001)

Managing cultural diversity is not a one-time program, but a continuing process due to the changes in the economy, technology, environment, and others. Therefore commitments from the top management as leaders are needed to institute a positive organizational culture, and use diversity to create economic value for the firms.

The Overview of Culture, Leadership and Performance

In Malaysian society, shared assumptions, values, socialization experiences, symbols, language, narratives, and practices are some of the cultural elements that unite members of different cultural backgrounds based on ethnicity, and maintain a distinction between members and non-members in organization. Similarly, an organization may have its own unique culture while also having distinctive subcultures in some departments or among members of some professions. People from different corporate and industry cultures may be brought together through mergers, acquisitions, joint ventures, and other form of strategic alliances. This is how culture play an important role in the organization's daily life.

Corporate culture can be defined as the pattern of shared beliefs, attitudes, assumptions and values in an organization, which may not have been articulated (Schein, 1992; Denison, 1990). However, in the absence of direct instructions and written procedure, culture can shape the way