The Effect of Organizational Culture, Ethical Orientation, Strategic Orientation, and Strategy Implementation on Financial Performance in Manufacturing Companies: a Research on Food and Beverage Manufacturing Companies in Indonesia

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Abstract. This research aims to obtain empirical evidence about organizational culture, ethical orientation, strategic orientation, and strategy implementation effect on manufacturing companies' financial performance. The results are expected to contribute to the development of management accounting, strategic management, and business ethics. In addition, companies and practitioners can utilize the provided information in choosing a strategic orientation and implementation to improve the company's financial performance. The research was conducted on food and beverage companies registered at GAPMMI. The method used was the census method, a type of descriptive verification research. Furthermore, the hypothesis is tested by using Structural Equation Modeling. The first hypothesis testing results showed that there was a simultaneous effect of organizational culture and ethical orientation on strategic orientation. The second hypothesis testing proved that strategic orientation had a positive effect on strategy implementation. Moreover, the third hypothesis testing proved that there was an effect of organizational culture and ethical orientation on financial performance. The fourth hypothesis testing proved that strategic orientation and implementation influenced financial performance, and the fifth hypothesis testing proves that there was an influence of organizational culture, ethical orientation, strategic orientation, and strategy implementation on financial performance both simultaneously and partially.

1. Introduction

In mid-1997, the economic crisis accompanied by a crisis of confidence swept through Indonesia. It affected various business sectors, one of which was the food and beverage manufacturing sector. This phenomenon can be seen in the decline in companies' net profit after 1997, especially the food and beverage manufacturing companies listed on the IDX. Based on the results of the conducted pre-survey, the decline in the average performance of the food and beverage manufacturing sector was indicated by the inaccuracy in implementing strategy and inability to anticipate relatively fast environmental changes. In other words, the companies had not been able to choose the appropriate strategy. Most respondents in all three strategic orientation dimensions (innovative, proactive, and risk-taking) answered that the dimensions did not change or lack of changes. Generally, experts and researchers agreed that companies that succeed in aligning strategies or showing high adaptation and flexibility level with their environment showed better performance than companies that were less able to align strategies [1,2].

Based on the phenomena, this research focuses on the financial performance of food and beverage companies, which needs to be improved because they contribute prominently to the lives of Indonesians. The 1997 financial crisis decreased their financial performance, which was allegedly caused by the misalignment between strategy formulation and its implementation, and the inaccuracy of strategy selection. This means that in the strategic orientation, there was a lack of adherence to organizational culture and ethical orientation.

2. Methodology

This research utilizes the descriptive and verification method. Descriptive research is research that aims at obtaining a description of the variable's characteristics. Meanwhile, verification research aims at determining the relationship between variables through a hypothesis test. Thus, descriptive and verification research naturally aims at testing the truth of a hypothesis based on analysis of field data. The type of investigation used is causality, which determines the causal relationship between organizational culture and business ethics orientation towards corporate financial performance, strategic orientation, and implementation. In addition, this research utilizes observations of company organization as the units of analysis. Furthermore, based on the time horizon, this research is a cross-sectional research, in which information from the population is collected directly and empirically at the scene, to uncover the opinions towards the object.

This research also utilizes census techniques. The population in this research are all food and beverage manufacturing companies registered in the Indonesian Food and Beverage Companies Association (hereinafter abbreviated GAPMMI, *Gabungan Perusahaan Makanan dan Minumaman Indonesia*) existing until 2004, totaling in 147 companies. The hypothesis is tested by using Structural Equation Modeling (hereinafter abbreviated SEM). SEM or also known as LISREL (Linear Structural Relationship) is used to explain the causal relationship between latent variables that cannot be measured directly.

3. Results

The tests proved that organizational culture, ethical orientation, strategic orientation, and strategy implementation had an effect on the companies' financial performance. Based on the results of statistical analysis using SEM, the simultaneous effect of organizational culture, ethical orientation, strategic orientation and strategy implementation on the companies' financial performance was 86% and the other 14% was influenced by other factors.

4. Discussion

4.1. The effect of organizational culture and ethical orientation on strategic orientation partially and simultaneously

The test results proved that organizational culture and ethical orientation affected strategic orientation both partially and simultaneously. Simultaneous influence of organizational culture and ethical orientation on strategic orientation was 65%. While 35% was influenced by other variables. Other variables considered to influence the companies' strategic orientation were external variables such as the social/macro environment and task environment.

Partial testing proved that organizational culture affected strategic orientation by 26.01%. This finding is in line with the research by Gordon [3], which stated that the success of the strategy depended on the success of the company in creating a culture that was in accordance with its strategic orientation. Furthermore, it also agreed by O'Reilly, et al [4]. They stated that strategies combined with culture would affect the companies' effectiveness; so that applying a culture that fits the strategy was the correct step to take.

The influence of ethical orientation on strategic orientation was 32.49%, which was consistent with Moon [5] who believed that ethics could increase the level of organizational integration, which provided a good basis for flexible and innovative decisions. Furthermore, it clearly indicated that ethics did affect the company's strategic orientation.

The ability to explain the biggest ethical orientation variables is the most dominant dimension of relativism. This explained that the respondents tended to reject absolute moral values in directing behavior. Ethics is motivated by culture. Whereas, culture generally has different rules, which cannot necessarily be applied in a place that has a different culture [6].

4.2. The effect of strategic orientation on strategy implementation

The results proved that strategic orientation influenced strategy implementation by 67% and the other 33% was influenced by other variables. Other variables that might influence strategy implementation were structure, system, culture, skills, leadership style, and staff.

This finding agrees with Hill and Jones [7] who believed that strategy did not only include planning that integrated the company's main objectives, but also the self-awareness of its personnel to implement its strategic steps to build the company's future. Glueck dan Jauch[8] added that good achievement was a combination of strategic orientation and strategy implementation. In other words, if the company has the appropriate strategy but an inadequate implementation, it will harm the company. Thus, there must be continuity between the two.

Generally, looking at the companies incorporated in GAPMMI in this research, it was proven that the most dominant dimension in strategic orientation variables was the willingness to innovate. This implied that a company is expected to be one step ahead of competitors and a company that can produce products or services unique from those of the competitors will survive.

The most dominant dimension strategy in the implementation was the program. This indicated that programming is the most crucial factor in strategy implementation because the program provides guidance for the next step.

4.3. The influence of organizational culture and ethical orientation on corporate financial performance partially or simultaneously

The third hypothesis test proved that organizational culture and ethical orientation had both partial and simultaneous effects on companies financial performance. The simultaneous effect was as much as 35% while 65% was influenced by other variables. Other variables considered to affect financial performance were structures and resources.

Organizational culture partially affected the companies' financial performance by 16% while 84% was influenced by other variables. This is in line with Indriantoro [9] who stated that organizational culture is an intangible asset that can improve financial performance.

This finding is also in line with Kotter & Heskett[10] and Key & Popkin [11], who believed that organizational culture has an impact on the company's economic performance. This was because organizational culture could influence employee behavior, work methods, and the motivation of managers and subordinates to achieve the goals. Organizational culture in GAPMMI fostered the identity and attachment to the company so that the employees would be loyal. The loyalty motivated the employees to give their best effort. For example, PT Coca-Cola and KFC's managers had a high commitment and loyalty that grew from a strong company culture. Hence, it improved the companies' financial performance. Essentially, the company required its employees to act and work in accordance with the organizational culture in the hope that the company could generate the best products. Ethical orientation was proven to have a partial effect on the positive corporate financial performance of 8.41% while 91.59% was influenced by other variables. This is in accordance with Frooman [12] who believed that actions that are not ethically oriented would cause a decrease in performance. Evidently, the higher the ethical awareness of GAPMMI members, the higher the financial performance was.

Otherwise, unethical companies experienced a decline in financial performance. This was because the consumers lacked trust in the company. In the case of Ajinomoto, for example, the management on an interview said that their financial performance began to increase along with the implementation of business ethics in the company by guaranteeing the halal of materials and production processes.

4.4. The effect of strategic orientation and implementation on corporate financial performance partially or simultaneously

The simultaneous effect of strategic orientation and implementation on the company's financial performance was 44%, while 56% was influenced by other variables. Strategic orientation had a partial positive effect on the company's financial performance by 13%. Covin and Slevin (2006)[13] stated that small companies that have aggressive strategic behavior (proactive, innovative, and bravery in confronting competitors) show better performance than passive companies. Other variables that allegedly affected the companies' financial performance were policies and strategy implementations determined by the company.

This is in line with Luo [14], with a sample of 63 small companies in China, which showed that strategic orientation had a strong influence on performance. Furthermore, Tan [15] research proved that strategic orientation had positive implications for the company's financial performance as seen from position and profitability. The fourth hypothesis testing also strengthened the arguments of some western experts [16,17,18] stating that strategic orientation with all three dimensions such as proactive, innovative, and bravery in taking risks were the key to the company's success in improving performance. Having these three dimensions, the company is one step ahead of competitors, so that the company has the opportunity to dominate the market and the company's financial performance is automatically increase.

Among the three dimensions, the one that has the strongest ability to explain the effect was the willingness to innovate, which was 74%. Furthermore, the weakest was proactive by 57%. Innovation is a tool for adapting to changes in the environment [19]. Innovation is measured by the number of new products launched by the company, the frequency of changes in the product line, and R&D costs. Innovation is believed to be the main step for companies to compete in business.

The effect of partial strategy implementation on the company's financial performance was 16.81%. Yeoh and Jeong [20] stated that the combination of strategic planning and its implementation is a determinant of the company's financial performance. This is in line with research conducted by Fishar (2000)[21], that the implementation of strategies influences company performance. The implementation of the correct strategy improves the company's performance.

As an example, PT Garuda Food implemented an innovation strategy by creating peanuts of various flavors and shapes. This chosen strategy put Garuda Food one step ahead of its competitors to attract customers so that its financial performance increased.

4.5. The effect of organizational culture, ethical orientation, strategic orientation and strategy implementation on corporate financial performance.

The fifth hypothesis testing proved that organizational culture and ethical orientation affected the companies' financial performance through strategic orientation and positive strategy implementation by 86%. This means that the influence of organizational culture and ethical orientation on the company's financial performance through strategic orientation and strategy implementation was rather high, where only 14% was influenced by other variables. Other variables that allegedly affect the company's financial performance were economic factors, political and legal factors, and education and sociological factors [22].

The partial effect of organizational culture on performance was 16%, the effect of ethical orientation to performance was 8.41%, strategic orientation to performance was 12.96%, while strategy implementation to performance was 16.81%. This showed a significant influence when these four variables were simultaneously combined to influence performance, compared to each variable partially affecting performance.

The SEM calculation showed that the correlation between organizational culture and ethical orientation was 47%. It proved that there was a strong relationship between organizational culture and ethical orientation. Referring to Trevino & Nelson [23], ethics must be cultivated by companies. Among the four variables that affected performance, strategy implementation affected the company's performance the most because it determined whether organizational culture, ethics, and strategic orientation were successful or not. Wheleen & Hunger [24] and Miller [25] believed that strategy implementation is the key to successful strategic management.

The results indicated that if the strength of culture is combined with ethics in the strategy orientation and implementation, the company's performance will increase. This is in accordance withNur Indriantoro; Koetin; Mulyamah; Key & Popkin; Yeoh & Jeong; O'Reilly; and Wheleen & Hunger [9,26,27,11,20,4,24]. They also agreed with Shaub et al. [28] who stated that ethical orientation, influenced by culture applied in the company's strategy, will influence the organizational commitment. It has a prominent impact on improving performance. Therefore, it was expected that companies incorporated in GAPMMI will cultivate ethics in their companies, accompanied by a strategic orientation, and implement the strategy appropriately so that the company's financial performance will increase. Other variables that were considered to affect the company's financial performance other than the four variables were external and internal factors outside the organizational culture and ethical orientation such as technology, uncertainty, and competence [29].

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