



Managing governmental business relationships: The impact of organisational culture difference and compatibility



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ABSTRACT

Public administration requires close cooperation between many actors within a network of governmental departments, agencies and external stakeholders. Reflecting on these critical interrelationships, we investigate the impact of the related yet under-researched concepts of organisational culture difference and organisational culture compatibility on relationship outcomes in a public sector setting. The research hypotheses draw on the prolific relationship marketing and organisational culture literature streams and an exploratory study. Data gathered on the relationships between public sector agencies and their business partners show perceived organisational culture difference negatively influences relationship performance, with perceived compatibility directly and positively impacting both performance and the certainty of the relationship future.

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CHINESE ABSTRACT

公共行政需要在政府部门、代理机构及外部利益相关者之间进行多方密切合作。回顾这些关键的相互关系，我们研究了与此相关、但甚少被探究的组织文化差异及包容度这一概念对公共部门中关系结果的影响。研究假设借鉴了众多市场营销和组织文化方面的文献，并采用了探索性研究。对公共部门代理机构及其商务伙伴之间关系的数据收集显示，对组织文化差异的感知对这一关系有负面影响，对包容度的感知对多方关系及其在未来的确定性具有直接而正面的影响。

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1. Introduction

The concept of organisational culture has received significant research attention in the sociology, management and organisational behaviour literatures since the 1980s (e.g., [Arogyaswamy and Byles, 1987](#); [Ouchi and Wilkins, 1985](#)). However, marketing scholars appear to have overlooked this phenomenon, despite a clear link between organisational culture and the critical areas of services and relationship marketing ([Wilson, 2001](#)). Further, even though the nature of relationships implies a meeting of organisational cultures, few authors examine the impact of organisational culture on relationship management practice ([Jarratt and O'Neill, 2002](#)) or how organisational culture might influence the development of relationships between an organisation and its customers or suppliers ([Winklhofer et al., 2006](#)).

Extant studies on the organisational culture interface commonly focus on organisational culture difference (OCD), with less attention drawn to organisational culture compatibility (OCC). While some report the positive effects of OCD, due to its ability to encourage knowledge transfer ([Vaara et al., 2012](#)), several studies highlight the negative impact of such differences on business performance ([Chatterjee et al., 1992](#); [Pothukuchi et al., 2002](#); [Smith and Barclay, 1997](#)). In comparison, compatibility between organisational cultures (i.e., the level to which the cultures are deemed consistent or mutually tolerant) can lead to stronger relationship performance ([Chen et al., 2009](#); [Sarkar et al., 2001](#)). Nevertheless, our current understanding about the effects of difference (commonly conceptualised as dissimilarity in relation to various functional practices of organisational cultures such as employee empowerment, flexibility, and customer orientation), and compatibility in relation to management philosophies, objectives and goals remains incomplete. Given the lack of visibility of an organisational culture ([Whelan, 2012](#)), additional knowledge about the impact of staff perceptions about OCC and OCD as well as their interaction will be useful for the development of strategies in order to achieve relational success and longevity. In this paper, we examine the extent to which

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perceptions of OCC and OCD can impact relationship performance and a joint future. By doing so, this study responds to Jarratt and O'Neill's (2002) call for more comprehensive research to advance the understanding of the impact of organisational culture in a business relationship context, as well as various calls for further research into the role of OCD in business relationships (Beugelsdijk et al., 2009; Hewett et al., 2002; Sarkar et al., 2001). This much needed research on the effects of the encounters between dissimilar cultures will provide further support that OCD and OCC are highly relevant subject matters in inter-organisational relationships.

Importantly, this research takes a particular focus on public sector relationships. Research examining the meeting of organisational cultures in such relationships is of particular interest, given the significant impetus of public sector organisations to move from the hierarchical culture based strongly on regulations, due processes and political constraints towards a broader set of organisational culture characteristics (Parker and Bradley, 2000). Hence, while comparisons between public and private sector management empirically identified the public sector as more bureaucratic, with its management less materialistic and less committed to their organisations (Boyne, 2002), diverse organisational culture sets within the public sector warrant further investigation on the interface of its partners. Indeed, public administration relies on inter- and intra-sectoral collaborations to address complex and significant societal issues in regional, national and global contexts (Bryson et al., 2006; Hudson et al., 1999; Huxham et al., 2000). Scholars have shown significant interest in various facilitators and barriers to collaborations in between agencies in the public sector and their stakeholders (Warburton et al., 2008). Yet, while previous studies contribute to knowledge on public sector relationships using conceptual and qualitative approaches (i.e., Botterill, 2007; Bryson et al., 2006; Whelan, 2012), quantitative insights on this important topic remain scarce.

The rest of the paper is structured as following. First, we briefly explain the background literature in relation to OCD and OCC. Second, we highlight the findings from our exploratory research phase, leading to the development of the research hypotheses. Third, we examine the proposed hypotheses through the results of the quantitative study on the Australian public sector. The paper concludes with some implications for relationship management practices and future research directions.

2. Background literature

Organisational culture is a complex construct, of which the literature has not achieved any consensus in terms of definition and associated elements (Winklhofer et al., 2006). Culture is typically defined as “a complex set of values, beliefs, assumptions, and symbols that define the way in which a firm conducts its business” (Barney, 1986, p. 657) as a result of it “learning to cope with problems of external adaptation and internal integration” (Schein, 1984, p. 3). It is unique to the organisation, unit or group (Buono et al., 1985). Organisational culture has featured strongly in modern management and marketing literatures due to its pervasive impact on behaviours (Frow, 2007) and dealings with business partners (Winklhofer et al., 2006).

When discussing the contact of two organisational cultures in the literature, researchers use the terms ‘similarity’ and ‘diversity’ when they are actually referring to compatibility and difference. Such inconsistent use of terminologies is confusing and does not allow for a clear differentiation and examination of effects, leading to recent warnings to not confuse cultural difference with compatibility (Beugelsdijk et al., 2009). Reflecting on the definitions of these words, distinct yet related constructs exist. The Oxford Dictionary (Sykes, 1976) defines *different* as “able to be distinguished, unlike, of other nature, form, or quality, distinct separate, unusual” (p. 287), and explains the meaning of *compatible* as “consistent, able to coexist,

mutually tolerant (with), able to be used in combination” (p. 206). In line with this understanding, the definition of difference in this study is the extent to which organisational cultures are unlike each other. In other words, given that culture consists of multiple dimensions, OCD refers to the extent to which the partners’ cultures differ. Compatibility however, indicates harmonising goals and objectives, and congruence in operating philosophies at senior management level (Bucklin and Sengupta, 1993).

2.1. Difference in organisational culture among relationship partners

Relationship partners differ in their organisational cultures (Reynolds, 1986). Noting the constantly changing (Blois, 1997; Egan, 2001), complex, and multi-faceted (Coviello et al., 1997) nature of inter-organisational relationships, it is critical to understand how OCD among relationship partners can impact the dynamics and viability of such relationships. Our review of the literature indicates that the existing knowledge about the impact of OCD on the relationship remains incomplete in the public sector context. Cultural mismatch between private sector organisations, however, has gained significant attention in the mergers and acquisitions literature, which has long recognised the negative impact of OCD on success (Buono et al., 1985; Fralix and Bolster, 1997). The failure of a large number of mergers and acquisitions are commonly explained by a cultural clash or incompatibility (Chatterjee et al., 1992; Weber, 1996). Based on this research stream, OCD slowly arises as an area of concern also for other areas such as strategic alliance (Leisen et al., 2002; Lewis, 2002), supply chains (Rajaguru and Matanda, 2013) and joint ventures (Damanpour et al., 2012). Findings from these studies provide useful knowledge for empirical studies in an inter-governmental or inter-agency context due to the close contact among the relationship partners and their respective cultures.

Empirical studies testing the impact of OCD in the private sector context show a lack of consensus. For example, some studies report negative effects of OCD, measured in terms of shareholder gains or satisfaction in mergers and acquisitions (Chatterjee et al., 1992; Smith and Barclay, 1997), as well as interaction processes (Damanpour et al., 2012). Similarly, when discussed in the public sector literature, OCD is found to cause misunderstandings (Huxham et al., 2000). Interestingly, Vaara et al. (2012) uncover both negative and positive consequences of OCD. On the one hand, OCD increases social conflict between organisations but on the other hand, it opens greater opportunities for learning (knowledge transfer) between organisations (Vaara et al., 2012). However, other studies show that cultural difference does not influence financial performance of a merger (Weber, 1996) nor impact relationship performance in a relationship marketing context (Beugelsdijk et al., 2009). The lack of consensus warrants further research to clarify the potential impact of cultural mismatch on relationship management and performance.

2.2. Compatibility in organisational culture

While the concept of OCC has not been introduced or examined in the public sector context to date, some evidence from the private sector exists. For example, Sarkar et al. (2001) find that the cultural dimension of organisational compatibility significantly relates to mutual trust, reciprocal commitment, bilateral information exchange as well as strategic and project performance in manufacturing alliances. Recently, compatibility has been confirmed as a positive predictor of supply chain capabilities (Rajaguru and Matanda, 2013), trust and information exchange (Chen et al., 2009), as well as perceived effectiveness in strategic alliances (Polonsky et al., 2011). According to Kale et al. (2000, p. 224), “compatibility between partners fosters the ‘chemistry’ between them”. It may thus be proposed that while the existence and sharing of complementary resources promote the formation of alliances (Parkhe,

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