

Investigating the Impact of Organizational Culture on the Performance of Insurance Companies in Iran

¹Parastoo Moradi, ²Ali Safari and ³Mohammad Saleh Torkestani

¹Department of Management, University of Science and Research, Esfahan, Iran

²Department of Economics, Faculty of Management, University of Esfahan, Esfahan, Iran

³Department of Management, University of Allameh Tabataba'i, Tehran, Iran

Abstract: Any society, in which the organizations do their duties in a more appropriate way, provides a better welfare for its people. Finding detailed understanding of organizations functions will be a major instruments in order to ensure the welfare of the communities. Towards recognizing the elements that influence the performance of the insurance industry can grow and develop domestic companies and insurance industry. The paper aimed to find whether a better fit between firm's strategy and culture and organizational performance. Identifying culture of Iranian insurance companies, as one of the aspects of the organization, can assist them in selecting the right strategy. Competitive strategy has been considered as a mediating variable. The analyzed statistical society was the managers and vice presidents of 15 Iranian private insurance companies. To gather information, 200 questionnaire were distributed which 84% was retrieved and analyzed. The effect of organizational culture test was conducted through patterning structural equations. The results indicate that organizational culture impacts competitive strategy directly and organizational performance indirectly. This study confirmed that a firm's competitive advantage can be enhanced by culture and strategy fit. Strategy fit could also moderate the relationship between organizational culture and organizational performance.

Key words: Organizational Culture • Organizational Performance • Competitive Strategy • Insurance Companies

INTRODUCTION

Today's world is a world dependent on organizations -places to meet the needs of modern humans- in different aspects. Human's life is indispensably intertwined with the organizations' functions so that any society, in which the organizations do their duties more appropriately, provides better levels of welfare for its people. So, finding detailed understanding of organizations' functions will be a major instrument to ensure the welfare of the communities. One of the important issues in organizational theory and management body of knowledge is the concept of strategy. Most researchers emphasize the impact of the strategies implemented in the organizations on their functions [1, 2]. Thus, research and thought on the concept of strategy is one of the noticeable fields to improve the organizations, insurance companies and finally the community. A competitive

strategy focuses on understanding sources of sustained competitive advantage like the organizational culture [3, 4]. In the present research, organizational cultural is considered as the independent variable and competitive strategy as the meditating variable.

Since the effectiveness of organizational culture on Iranian insurance companies' performance is investigated in this study, review of related literature, the designed conceptual framework, methodology, assumption analyses and finally the final model would be discussed and presented in the following sections.

Literature Review

Organizational Culture: There are many scientific definitions of culture by humanities scholars, some are as follow:

Analyzing hundreds of different definitions, Kroeber and Kluckhohn defines culture as:

Table 1: The patterns of organizational culture

No.	Pattern	Presenter	Year	Cultures and variables
1	AGIL	Parsons	1956	Adaptation- goal attainment- integration- latency
2	Litwin and Stringer	Litwin and Stringer	1968	structure, responsibility, reward, risk, warmth, standards, conflicts, identity
3	Hofstede and Harrison	Hofstede and Harrison	1972	Role- achievement-power- support
4	Handy	Handy	1978	Zeus- Athena- Apollo- Dionysus
5	American, Japanese, Z	William Ouchi	1981	Commitment to employees- evaluation- careers- control- decision making- responsibility- concern for people
6	Peters and Waterman	Peters and Waterman	1982	Bias for action- stay close to customer- autonomy and entrepreneurship- productivity through people- hands-on management- stick to the knitting- simple form, lean staff
7	Strong and weak cultures	Deal and Kennedy	1984	values, heroes, rites and rituals and communication networks
8	Edgar Schein	Edgar Schein	1984	visible artifacts- espoused values- the basic underlying assumptions
9	Robbins	Robbins	1991	Innovation, Risk taking, Leadership, Integration Management support, Control, Identity, Reward system, Compromise with conflicts, Communication patterns
10	Furnham and gunter	Furnham and gunter	1993	Humanistic- affiliative- approval- conventional- dependent- avoidance- appositional- power- competitive- perfectionist- achievement-self expression
11	Jeffrey Sonnenfeld	Jeffrey Sonnenfeld	1994	Academy culture-club culture- baseball team culture- fortress culture
12	Denison	Denison	2000	involvement, consistency, adaptability and mission

Culture consists of patterns, explicit and implicit, of and for behavior acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artifacts; culture consists of traditional ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other hand as conditioning elements of further action [5].

Many researchers have defined organizational culture as values, ideology, philosophy, reputation, customs, symbols and the norms affecting organizational performance [6-11].

Organizational culture is not a tangible phenomenon and is not recognized easily. Moreover, familiarity with each and every one of staff in different career levels and recognizing their needs and motivation is a very difficult task. For this reason, their general trend of thinking should be sought and their group culture should be recognized in the organization they are working as groups. Based on their own definition of organizational culture, management scholars and researchers prepared some patterns and presented a general framework to describe the values of organizational culture.

Table 1 demonstrates the most important patterns of organizational culture description introduced in theories.

[13] introduces the four ancient Greek gods, Zeus, Apollo, Athena and Dionysus. He attributed each god to a school of management philosophy or an organizational culture. In this research, to investigate the culture of organizations, Charles Handy's model is used.

The management culture in Greek organizations has been researched by the first author and his colleagues [6]. The conceptual framework for this research has been provided by [12, 13].

Handy has used the ancient Greek gods, i.e., Zeus, Apollo, Athena and Dionysus as the symbols to introduce four types of management and organization cultures.

Zeus (the king of the gods) is the symbol of club culture. The organization using this type of culture, like other organizations, has divisions of work based on functions or products. Spider web is used to represent Zeus. This type of culture demonstrates a patriarchal management and relies on the mutual trust between management and the employees. Club culture is very effective when speed of decisions matters. Historically, club culture is seen mostly in small entrepreneurial organizations [14].

Apollo is the symbol of role culture. In this type of culture, it is assumed that the man is a rational creature so that anything can be analyzed logically. The symbol to represent role culture is a Greek temple because its power and beauty lies in its pillars. The pillars represent the functions and divisions. In this type of culture, the employees' duties are precisely defined in terms of roles. There is a set of prescribed rules for any tasks and the organizational stability is provided by manuals, budgets, information systems, etc. It is a picture of a bureaucratic organization. Role culture is effective when the basis is on the assumption that tomorrow will be like yesterday (predictability) [13].

Athena is the symbol of task culture or better to say task groups. In this type of culture management is viewed as being basically concerned with the continuous and successful solution of problems in a logical fashion. When locating a problem, people and appropriate resource are used to solve the problem. In the Athena culture, expertise in a specific field is the source for the

power. Net is used to represent task culture because it draws resources from various parts of the organization and focuses them on a particular knot or problem [13].

Dionysus is the symbol of existential culture. In the first three cultures, the individual is subordinate to the organization, but in this type of culture, the organization tries to satisfy the individual. In the organizations with this type of culture, the individual preserves his identity and is not owned by another. Existential culture is excellent for the professionals and experts and to Handy is perfect for working [13].

The reasons to choose this model are as follow:

Organization management is not a precise science but a strategic and creative process which in scale is affected by the dominant culture and traditions in a particular time and place. Organizations have their own strategies to fulfill their functions, the functions which are useful and the functions which are useless to them. The effective use of cultures needs a correct perception and interpretation of them. Using metaphors enhances the individuals' ability to analyze and understand the complexities of organizational issues.

The previous studies have gone through the competitive strategy alignment, which affects the organizational performance through the contingency variables like culture. Some experts such as [11, 15-21] have done some studies which show there is a

relationship between competitive strategy and contingency variables like culture. Generally the findings indicate that alignment between competitive strategy and contingency variables affects the performance. Increasing this alignment improves the performance and vice versa [14].

Some other experts like [11, 16, 17, 20, 21] have found that organizational culture has a meaningful effect on the long term stability of the organization, economical performance, different outcomes such as profitability, turnover and commitment. They show that the congruence of beliefs creates a unifying force that enhances organizational performance. Thus, hypothesis 1a-b is presented.

H1a: Organizational culture has a meaningful impact on cost leadership competitive strategy.

H1b: Organizational culture has a meaningful impact on differentiation competitive strategy.

Strategy: Strategy determines the functions in a complicated and dynamic environment and is an instrument giving life to the human elements in an organization and moves them. In Table 2, other definitions of strategy are presented.

There are different categories and typologies of generic strategies in management literature, four of the generic strategy typologies which are of more attention to the researchers are introduced in Table 3.

Table 2: Definitions of strategy

No.	Presenter	year	Strategy definition
1	Chandler	1962	A unified, comprehensive and integrated plan designed to link the strengths and weaknesses to the environmental opportunities and threat in order to achieve the main organizational goals
2	Tilles	1963	a set of major goals and policies that outline what an organization is trying to achieve
3	Andrewz	1971	the pattern of major objectives, purposes or goals and essential policies and plans for achieving those goals
4	Mintzberg	1978	a pattern in a stream of decisions
5	Hofer&Schendel	1979	the match an organization makes between its internal resources and skills and the opportunities and risks created by its external environment
6	Enz	2010	1. a pattern that emerges in a sequence of decisions over time 2. an organizational plan of action that is intended to move a company toward the achievement of its shorter term goals and, ultimately, its fundamental purposes

Table 3: Strategic classification

No.	Presenter	Year	Strategic Classification
1	Miles and Snow	1976	Prospectors, Defenders, Analysers, Reactors
2	Porter	1980	Cost Leadership, Diffrentiation, Focus
3	Mintzberg	1988	Price Differentiation Strategy, Image Differentiation Strategy, Support Differentiation Strategy, Quality Differentiation Strategy, Design Differentiation Strategy, Undifferentiation
4	Parnell and Karaher	2002	First Mover, Second Mover, Segment Control, Product/Service Breadth, Percieved Uniqueness, Production/Distribution Efficiency

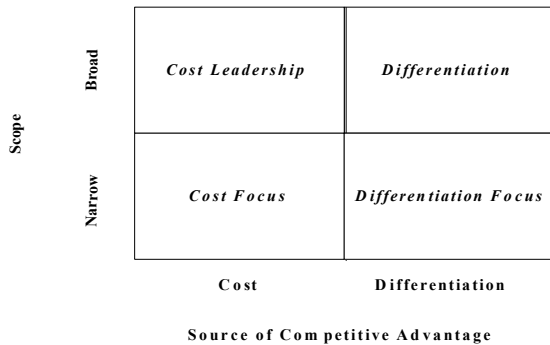


Fig. 1: Porter's Generic Strategies

In this article, Porter's generic strategies are used as the theoretical basis for recognizing the implemented strategies in the insurance industry. Of the reasons to choose them is the simplicity, the vastness of literature and many theoretical sources about Porter's generic strategies.

Cost leadership strategy was increasingly common in the 1970s because of popularization of experience curve. This strategy requires construction of efficient facilities, vigorous pursuit of cost reduction from experience, tight control and overhead control, cost minimization in areas like R&D, service, sales force, advertising and so on. Having a low-cost position yields the firm above average returns despite the presence of strong competitive forces [22].

The second strategy is differentiation which brings the competitive advantage for the firms, i.e., different or unique products or service offerings. Approaches to differentiating can take many forms, for example through design, brand image, technology, features, production customer service and dealer network. Ideally, the firms differentiate themselves along several dimensions [22].

The final generic strategy is focusing on a particular buyer group, a segment of product line, or geographic market. The findings of the study done by [23] show that there is not much stress on using Porter's focus strategy in the insurance companies. Thus, focus strategy is not discussed in this article.

The difference of the three generic strategies is shown in Figure 1.

[24] showed that alignment of the strategies has a positive impact on the performance of organizations. [25] investigated the impact of cost leadership, differentiation, or a combination of both on the financial performance and progress of the companies. Many researchers showed the positive impact of Porter's generic strategies on the better performance of companies [1, 26-31]. However, the findings are different in different industries. Regarding this, the following hypotheses are presented:

H2a: Cost leadership strategy has a meaningful impact on behavioral performance.

H2b: Cost leadership strategy has no meaningful impacts on behavioral performance.

H3a: Differentiation strategy has a meaningful impact on behavioral performance.

H4b: Differentiation strategy has no meaningful impacts on behavioral performance.

Organizational Performance: In most technical terms, organizational performance is defined as the output of the strategy used as a tool in organization. Strategic management is a tool for managers; they should measure the effectiveness of the organization by collecting and using performance data [32, 33] suggested that the performance is a complex (combined) and multidimensional phenomenon consisting of several objects. Depending on the implemented strategies, the selected structure and competitive power of organization in implementing the strategies, the important coordination of performance indicators can be met [34]. In what comes next, two important types of performance are discussed:

Behavioral performance refers to performing work-related functions [35, 36]. Behavioral performance is measured when evaluating performance results is difficult and an effective relation exists between the functions and results [37, 38] stated that welfare is important in the motivation of service workers (satisfaction and commitment). The reports of some researchers showed the increase of implementing non-financial performance measures in the recent years [39-41].

[42] defines financial performance as "profit in excess of the cost of capital, depends upon the attractiveness of the industry in which the firm operates (industry-effect on performance) and the firm's competitive advantage". Financial ratios are used to determine: 1. the firm's position in its industry, 2. The degree to which strategic objective are accomplished, 3. Firm's vulnerability to revenue decrease, 4. The growth potential of the firm, 5. The firm's ability to react to unpredicted changes in the environment [37, 43, 44].

Research Hypotheses and the Conceptual Model:

Considering organizational culture and Porter's generic strategies as the recognition basis of Iranian insurance companies and also the impact of strategy on the performance and research hypotheses, the theoretical framework is presented as shown in Figure 2.

Methodology

Research Population and Sample: Regarding the purpose, the present research is an applied one and taking data

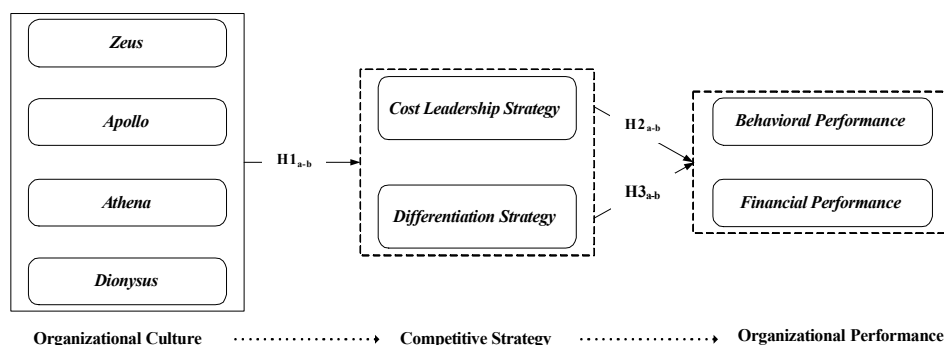


Fig. 2: Model

Table 4: Information demographic variables

Characteristic	Frequency	Percentage
Gender		
Male	102	60
Female	67	40
Work Experience		
1 and lower	4	2
1-5	36	21
6-10	42	25
11-15	33	20
16-20	35	21
More than 20	19	11
Age		
30 and lower	7	4
31-40	40	24
41-50	97	57
More than 50	25	15
Education		
Bachelor	95	56
Master	66	39
PhD	8	5

collection into account, it is a descriptive and survey type. The unit of analysis is the organization. To collect the data, the library studies and also a field study in the insurance companies were done. The senior vice presidents and managers of these companies comprised the statistical population of this research. It used census sampling method and the insurance companies to be analyzed were Alborz, Asia, Dana, Moalem, Parsian, Karafarin, Sina, Toseeh, Razi, Saman, Dey, Novin, Mellat, Pasargad and Mihan. Due to the low number of managers and vice presidents, the insurance companies of Kousar, MA and Iranian were omitted from the statistical population. Another reason for omission was observing the homogeneity of the analyzed companies.

Financial and behavioral performances were the dependent variables, organizational culture was the independent variable and cost and differentiation strategies were the mediating variables. Time period to collect the data was from February to September 2012. To collect the required data in this industry,

questionnaires were used. 200 questionnaires were distributed among the senior managers and vice presidents of these companies of which 169 questionnaires were retrieved. The questionnaires were comprised of two sections. The first section embraced the demographic variables of gender, education, age, date of foundation and the number of staff. The information related to demographic variables is shown in Table 4. The second section evaluated the intended variables of this research. The rating scale for each question ranged from strongly agree to strongly disagree based on the points of 1 to 5.

Testing the Research Variables: Before finding any cause and effect relationship among the organizations, the mean of the four cultures of Zeus, Apollo, Athena and Dionysus were calculated to recognize the dominant organizational culture in the statistical population; in the end, Zeus culture with the mean of 3.65 was selected. Content validity of the questionnaire was confirmed by scholars and professors. Cronbach's alpha was used to determine the reliability of the test. To do so, at first, 30 questionnaires were distributed in the companies. Using the obtained data, Cronbach's alpha was calculated, the results showed the adequate reliability of the questionnaires. For the all the questions related to the variables of the analytic model, Cronbach's alpha was calculated 84% which is an acceptable percent. The alpha of each variable is separately shown in Table 5.

Conformity Factor Analysis: The results of factor analysis, done to determine the accuracy of proposed models, show several indicators. The used indicators in this research indicate the suitability of measurement models since the level of significance is more than 0.05; RMSEA of models ranges from 0.00 and 0.08 and close to zero; GFI is more than 0.9 and so is CFI indicator. All the values are acceptable. The results of conformity factor analysis are seen in Table 6.

Table 5: Cronbach's alpha

Construct	Items	Cronbach's α
Zeus culture	1-2-3-4-5-6-7-8-9	0.88
Cost leadership strategy	10-11-12-13	0.81
Differentiation strategy	14-15-16-17-18	0.78
Behavioral performance	19-20-21	0.85
Financial performance	22-23-24	0.79

Table 6: The results of factor analysis

Construct	RMR	CFI	P	GFI	RMSEA	CMIN
Zeus culture	006/0	00/1	65/0	97/0	00/0	90/18
Cost leadership strategy	008/0	99/0	28/0	99/0	03/0	49/2
Differentiation strategy	000/0	00/1	48/0	99/0	00/0	45/1

Table 7: Model fit statistics

CMIN	Df	CMIN/df	RMSEA	GFI	IFI	CFI	RMR
46/280	113	48/2	09/0	86/0	92/0	92/0	03/0

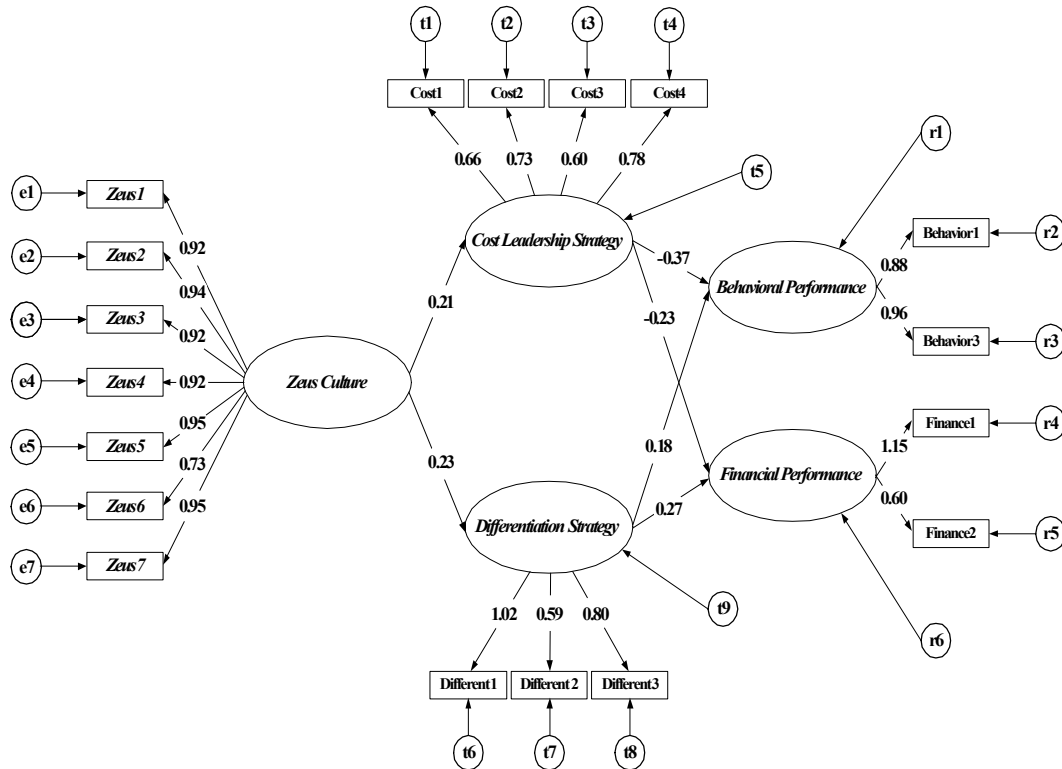


Fig. 3: Final model

Findings of the Conceptual Model Analysis: After confirming the measurement models of research variables, the conceptual model was analyzed by structural equation modeling. To determine the suitability of model, CMIN path analysis and other suitability criteria of model fitting were investigated. The results are presented in Table 7. The final model was created as seen Figure 3.

Amos outputs, in model standard estimation section, show that structural equation model is an appropriate model. RMSEA of the model equals 0.09 which is almost

appropriate; GFI also is close to 90%. The two indicators of IFI and CFI are more than 90% and RMR is close to zero.

To compare the latent variables in the structural equation model, model estimation was analyzed in standard scales. Calculation of significance values shows that the cause and effect relationship of Zeus culture and cost and differentiation strategies, cost and differentiation strategies and financial and behavioral performance is meaningful in this industry (to determine the significance

Table 8: The results of hypotheses testing

Hypothesis		P-Value	Regression coefficients	Result
H1 _a	169	014/0	21/0	Yes
H1 _b	169	004/0	22/0	Yes
H2 _a	169	000/0	37/0-	Yes
H2 _b	169	000/0	23/0-	Yes
H3 _a	169	016/0	18/0	Yes
H3 _b	169	000/0	27/0	Yes

value of the model, its significance value should be more than 2 and less than -2). The results of hypotheses testing can be observed in Table 8.

CONCLUSION AND DISCUSSION

Insurance industry is undergoing structural changes and clearing tariff rates. These changes have caused competitiveness in the industry. The other issue to be considered in the insurance industry is the number of different insurance majors which each one is performing as strategic business unit in these companies. Thus, in each insurance company, several strategies are used simultaneously so that based on the available majors and sources of each unit, a different strategy is implemented.

Hypothesis 1: Organizational culture has a meaningful impact on the competitive strategy of Iranian insurance companies.

The findings of the present research are the same as the findings in [14, 45]. Working in Zeus culture is good provided that individual belongs to the club, because it values individual, gives him a free rein and reward their efforts [46]. Money is highly valued in Zeus cultures, but it is usually used as an enabling factor or as a symbol of purposes achieved [46]. Thus, leadership strategy is used in Zeus culture. To succeed in differentiation strategy, individual should be given enough power to reach creativity. As the above mentioned matches Zeus culture, the relationship is confirmed.

Hypothesis 2: Cost leadership strategy has a meaningful impact on the performance of insurance companies in Iran.

Strategy is an essential management instrument and affects the performance of the companies. In addition, achieving competitive advantage by strategic plans is increasing [30]. The differentiation strategy's impact on behavioral performance was shown in a study by [41]. It can be said when an organization uses differentiation strategy correctly, employees' creativity and satisfaction, different products and service and along with customers' needs and in turn, customer satisfaction will increase.

On the other hand, when cost leadership strategy is used, the employees' creativity and satisfaction, as a result of working based on some rules and regulations, will decrease. So, there is a reversed relationship between cost leadership strategy and behavioral performance.

Hypothesis 3: Differentiation strategy has a meaningful impact on the performance of insurance companies in Iran.

The findings of competitive strategy's impact on financial performance are the same as the studies done by [11, 14, 39, 40, 41, 47]. The more different products/services a company offers, the more prices and profit it can make which improves the performance of the company. It should be noticed that reliance on cost competitiveness alone without considering technical and insurance based principles may cause problems in the solvency of insurance companies. Amateur price competitiveness effects also cause problems to the durability of insurance companies in the medium term and long term. Deprecations without observing technical and insurance principles cause the performance to decrease. So, there is a reversed relationship between cost leadership strategy and financial performance.

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