Can a specific Icelandic organizational culture explain the success of Icelandic businesses in foreign expansion?

Gylfi Dalmann Adalsteinsson  
Assistant professor  
Faculty of Economics and Business Administration  
University of Iceland  
Oddi v/Sturlugata  
IS-101 Reykjavik  
Iceland  
Tel: +354 525 4554  
gylfidal@hi.is

Thorhallur Gudlaugsson  
Associate professor  
Faculty of Economics and Business Administration  
University of Iceland  
Oddi v/Sturlugata  
IS-101 Reykjavik  
Iceland  
Tel: +354 525 4534  
th@hi.is
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Gylfi Dalmann Adalsteinsson, assistant professor University of Iceland
gylfidal@hi.is
Thorhallur Gudlaugsson, associate professor University of Iceland
th@hi.is

Abstract:

Iceland is a small country with a small economy, small population and a small workforce. Despite this the international growth of Icelandic companies has been enormously fast in the last 10 years. This crystalizes by the fact that the direct investment outflow in Iceland was 42.3% of GDP in 2005, compared to 19.1 for the Netherlands, the second highest OECD country, 4.6% for the UK and 0.07% for USA. The Iceland’s advance on foreign markets has been a rapid process that arose from a number of external factors such as the membership of the European Economic Area which opened up new markets to Icelandic companies, strong pension funds which supported new capital for investments as well as the privatization of the banking system which provided new sources of financing for companies wishing to expand operation abroad. Under such a favourable circumstances, Icelandic companies were encouraged to invest abroad mainly in Scandinavia and UK.

Despite these external factors there are some internal factors that can explain this success. In 2006 a research project was established at the Institute of Business Research in the University of Iceland with the aim of bringing into light the success factors of the foreign expansion of the Icelandic companies. This paper investigates the organizational culture of the Icelandic companies doing business abroad. By using theoretical concepts, definitions and typology of organizational culture (Schein, 1981, 1984, 2004; Deal and Kenendy, 2000; Jaques, 1952; Denison, 1990, 1995, 1998, 2000, 2002 and 2003; Hofstede, 1980, 1991, Ott, 1989; Trompenaars, 2003 Peters and Waterman, 1982; Handy, 1995, 1999 and 1995) we try to bring into light a specific Icelandic organizational culture which is shared to a greater degree among Icelandic companies being successful in their foreign investment.

We also look at some tools that has been used to measure organizational culture and we use the model of Denison’s (2003) which measures 4 dimensions of the organizational culture. These Icelandic cultural factors are being described as a family culture which is based on small community were everybody knows everybody, or to say at least are related to each other, communicational channels are short, managers are informal and they have an easy access to political and business leaders especially in the financial sector. Geographical locations of the country has created an isolations for more than 11 centuries, the struggle for existence has been rough, the community is relatively homogenous, there is no class division, and decision making is quick, organizational communications are informal and employees as well as managers and entrepreneurs are willing to take risks and flexibility of the workforce is great.
Introduction

The concept of corporate culture or organizational culture has played an important part in management research in recent decades. Researchers have been intrigued by this phenomenon and generally agreed that organizations whose culture is strong tend to be more successful than ones whose culture is weak. However, researchers have not come to an agreement on a single definition of the concept; Ott (1989) identified 164 different definitions. He does point out though that all the major definitions are based on the assumption that organizational culture exists in the same way as national culture; each corporate culture is a unique socially constructed system that enables organizational members to perceive and make sense of events and symbols.

When writing about organizational culture, most theorists (Deal and Kennedy, 2000; Jaques, 1952; Hofstede; 1991; Schein, 2004; Ouchi, 1981; Peters & Waterman, 1982) view culture as a system of values, beliefs, attitudes, perceptions, symbols, communication patterns and behaviours. Organizational culture is embedded in the surrounding societal context, an invisible, intangible force that drives the organization. Elliot Jaques (1952) describes organizational culture as a collection of customs, values, strategies, ideas and attitudes that together form a continuous context for all actions within the organization and that is introduced to newcomers as the only correct culture. Edgar H. Schein (1981, 1983, 1984, and 2004) considers organizational culture the foundation for all organizational success. According to Schein, the culture is also what is most difficult to change in the organization. He defines three levels of organizational culture. Figure 1 shows Schein’s model.

![Levels of Culture Diagram](image-url)

Figure 1: Levels of Organizational Culture.
The first level consists of artifacts that can be seen, discerned, and perceived by outsiders. The next level consists of espoused values, the conscious elements of the organization’s culture, such as goals and strategies. The third level consists of basic underlying assumptions. These underlying assumptions of the organizational culture are intangible and difficult to discern in daily interactions between organizational members.

Drinnan (1992) and Handy (1999), along with Peters and Waterman (1982), point out that factors such as the history of the organization, customs, age, and conditions of their establishment, all affect how the organization’s culture develops. It is furthermore affected by the ideology, values, and vision of the founder. Of importance are also the goals and strategies of the organization, along with core competencies on which the organization is based. In their work, In Search of Excellence, Peters and Waterman report on their study where they searched for the best managed companies in the US, focusing on 62 companies that had reported excellent results. Peters and Waterman represented the McKinsey consulting firm and along with this study developed the “McKinsey 7-S framework,” a framework based on the seven key factors that determine the success of all organizations. The key factors are structure, strategy, staff, style, skill, system and shared values, or culture, the interconnecting center of the framework. These key factors have been widely used in organizational research (Pettinger, 2000); the skills of the staff, management style and the staff can be viewed as the soft factors of organizations, while strategy, structure and systems are the hard factors.

One of the aims of the research project of the Institute for Business Research on the success and fast international growth of Icelandic companies is to explain their success and thus poses a number of hypotheses on the fast growth of Icelandic companies. The project identifies four key causes. The first is a favourable business environment for fast growing international companies, the second is the determination of many companies, company leadership and owners to seek international growth, the third is strong leadership, and finally, the organizational culture is favourable for fast international growth. This study focuses on organizational culture and whether a unique Icelandic organizational culture can be identified. Although the culture differs from one organization to the next, and even within the same organization, there may exists some form of a common Icelandic organizational culture as figure 2 shows.
The figure shows the cultures of three organizations, each of which has its own unique culture. What the current study aims to reveal is whether there is an overlap, such as the shadowed area in the figure, which could be identified as a unique Icelandic organizational culture, common to all Icelandic organizations. In discussing an organizational culture unique to a nation it is important to relate the discussion to the concept of national culture. Hofstede (1980 and 1991) has put great emphasis on the importance of national culture. He emphasizes what it is that defines a nation; a common language, a shared literary heritage, written language, education system, media, and legal system.
Methods for assessing organizational culture

As has been discussed, the concept of organizational culture is rather intangible and elusive, making all categorization of the concept complicated (Ott, 1989). Scholars (Brown, 1998) agree that the broad social environment in which organizations operate greatly affects their culture. The following section describes four common methods for assessing or analyzing organizational culture.

Hofstede’s cultural dimensions

One of the best known methods for studying organizational culture is the methodology developed under the guidance of Geert Hofstede. Hofstede (1980 and 1991) analyzed different management styles in different countries and based on his research developed four dimensions for analyzing culture, later adding a fifth dimension. The dimensions are power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance, and long-term orientation.

The Trompenaars method

Trompenaars’ method for analyzing organizational culture is based on one of the most extensive studies on cultural differences where the goal was to gain understanding of business in an international environment (Lloyd and Trompenaars, 1993). The study was based on in-depth interviews with fifteen thousand employees in more than 50 countries aiming to analyze the cultural differences that can exist in international business. Based on this and other studies (c.f. Hampden-Turner & Trompenaars, 2000, and Smith, Dugan & Trompenaars, 1997) Trompenaars and Woolliams (2003) have developed an instrument for measuring organizational culture.

To analyze organizational culture Trompenaars and Woolliams (2003) use an instrument termed CCAP (Corporate Culture Assessment Profile), but on the website www.cultureforbusiness.com sample questions from the questionnaire can be found. The questionnaire has been extensively developed for reliability and consistency and the four culture types, or corporate ideologies, are based on extensive research (c.f. Harrison, 1972; Handy, 1999, Cameron & Quinn, 1999). Research results, based on a database of over 65,000 cases, reveal that the most common culture type is the so-called guided missile. It is furthermore the culture type preferred by most. It should be kept in mind though that tension often arises between the culture types, overly strong characteristics of one culture type often require the organization to adopt a different culture type. Thus it is possible that the advantages of a culture may become disadvantages, if taken too far. In their consulting work concerning organizational culture, Trompenaars and Woolliams often tackle tensions between the current culture type and the preferred, ideal culture type. Dilemmas deriving from the tensions between the culture types often require some type of culture change or reconciliation (c.f. Trompenaars & Woolliams, pp. 113-151). The CCAP model is related to the method of Hampden-Turner and Trompenaars to assess personal and national culture, consisting of seven bi-polar cultural dimensions.

The first dimension, termed universalism vs. particularism, concerns rules and relationships or the question whether general rules and obligations take precedence
over particular relationships, such as obligations towards friends or family. The second dimension, individualism vs. communitarianism, concerns whether individuals place more emphasis on their own individual needs or on the interests of the general society. In individualistic cultures the individual takes the responsibility for the course of his or her own life. The third dimension relates to the specificity or diffuseness of the society. In specific-oriented cultures the society is divided into defined subgroups or sub-cultures. The fourth dimension considers whether status is achieved or ascribed. Here the tension lies in whether a person is esteemed based on achievement or whether family ties and origins matter more. The fifth dimension concerns locus of control, inner vs. outer direction, or orientation towards nature and the environment. While inner-directed cultures believe that nothing happens by fate or luck but by self-determination, outer-directed cultures believe that everything has a purpose, the individual must rely on external factors, fate and luck, for success. The sixth dimension relates to time orientation, or sequential vs. synchronous time. At one end of the dimension time is linear, strictly divided into periods like weeks, months and years while at the other end time is recurrent and cyclical. The seventh and final dimension concerns emotion, or affective vs. neutral cultures. It addresses the question of how easily and readily people express emotions. In some cultures it is considered inappropriate, or even rude, to express one’s emotions.

The Organizational Culture Inventory Method - OCI

The Organizational Culture Inventory, or OCI (Cooke & Lafferty, 1989), is an instrument aimed at assessing organizational culture based on behaviours that individuals in organizations believe are required and expected of them. The OCI essentially measures what individuals and groups within the organization believe is expected of them and will be rewarded and reinforced. The OCI provides a picture of the current organizational culture, in addition to enabling organizational members to determine the ideal culture for the organization and how to change the current culture towards the ideal culture.

Results from the OCI are plotted on a circumplex based on 120 items, such that 10 items address each culture style. The 12 culture styles are organized into three general types of cultures.

The 12 culture styles form three general types of cultures. The first is constructive cultures, characterized by encouraging employees to interact with others and approach tasks in such a way that they will maximize their satisfaction with the results (Cooke & Lafferty, 1989; Cooke & Rousseau, 1988; OCI, 1998). Constructive cultures include the Achievement, Self-Actualizing, Humanistic Encouraging, and Affiliative styles.

The second general culture type is passive/defensive cultures, characterized by members interacting in ways that allow them not to be threatened by their environment, trying to avoid confrontation and to establish security (Cooke & Lafferty, 1989; Cooke & Rousseau, 1988; OCI, 1998). The four passive/defensive culture styles are Approval, Conventional, Dependent, and Avoidance.

The third general culture type is aggressive/defensive culture, where members approach tasks forcefully in order to protect their status and security (Cooke &
Lafferty, 1989; Cooke & Rousseau, 1988; OCI, 1998). The four aggressive/defensive culture styles are Oppositional, Power, Competitive, and Perfectionistic.

The OCI has been widely used in organizational culture research and is one of the most commonly used instruments today. Research has shown it to compare favourably to other instruments (OCI, 1998). This research is based on data from thousands of employees at 1,082 organizations. The instrument has been tested and its consistency, reliability and validity established (Cooke & Szumal, 1993). A possible weakness has been pointed out in regard to discriminant validity or overlap of some of the culture styles on two of the three general culture types (Cooke & Szumal, 1993).

The Denison method, OCS


Research by Denison (1982, 1984) on 34 companies has shown that the performance results were strongly correlated to the assessment of certain behavioral traits. This database has subsequently been enlarged to include 765 organizations (Denison & Mishra, 1995) and is still growing (Mobley, Wang & Fang, 2005). These research results show that certain cultural traits, such as adaptability, mission, involvement, and consistency, were significantly related to the organizations’ performance results. Performance measures consisted of sales growth, return on assets (ROA), quality, profits, employee satisfaction, customer satisfaction, and overall performance. However, the effect that the four cultural dimensions have on performance varies (Denison & Mishra, 1995). A strong correlation can be seen between profits and the cultural traits of mission and consistency, a strong correlation between innovation and the cultural traits of involvement and adaptability, and the cultural traits adaptability and mission are strong predictors of sales growth. Denison, Haaland and Neale (2002) have furthermore demonstrated a link between the cultural traits and customer satisfaction.

As stated above, the model consists of four cultural traits, each of which is divided into three sub-dimensions. Denison’s model is shown in figure 3.
The first cultural trait, adaptability, is a measure of the organization’s ability to quickly adapt to changes in the business environment, such as customer needs and the market environment. Organizations that demonstrate strong adaptability are driven by customer needs, willing to take risks, and learn from their mistakes (Nadler, 1988; Senge, 1990). These organizations follow a marketing strategy and are highly market oriented (Kohli & Jaworski, 1990; Jaworski & Kohli, 1994; Narver & Slater, 1990). Kohli and Jaworski define market orientation as comprehensive generation of intelligence about changes in the market, dissemination of that intelligence within the organization, and organization-wide responsiveness to that intelligence. Narver and Slater (1990) and Narver, Slater and Tietje (1998) define market orientation as an organizational culture characterized by employees being responsible for the creation of superior value for customers. The sub-dimensions are creating change, customer focus, and organizational learning.

According to the second cultural trait, mission, successful organizations have a clear sense of purpose and future direction (Hamel & Prahalad, 1984; Mintzberg, 1987). This dimension assesses whether the company is hampered by short-term orientation, whether it is well prepared, and whether it has developed a clear strategy and action plan (Denison & Mishra, 1995). The sub-dimensions are vision, clear strategic direction and intent, and goals and objectives.

The third cultural trait, involvement, primarily relates to the development of employees’ capabilities, skills, and sense of empathy and responsibility. It measures
the extent to which the organization seeks to enlighten and involve its members. Successful organizations empower their members, emphasize teamwork, and develop members’ capabilities at all levels (Lawler, 1996). Sub-dimensions are empowerment, team orientation, and capability development.

The fourth cultural trait, consistency, is an assessment of the strength of the culture and sense of traditions within the organization. Successful organizations are consistent, well coordinated and integrated (Davenport, 1993; Saffold, 1988). The organization is based on strong core values, with leaders and other members trained in reaching agreement, even in the face of conflicting interests. This type of consistency encourages the stability that is based on a shared way of thinking, order, and loyalty to the organization. The sub-dimensions are core values, agreement, and coordination and integration.
Conclusion

Organizational culture is a complex concept and this study will rely on the definition by Edgar Schein, based on employees’ underlying assumptions, the beliefs, attitudes and values espoused by the organization and the interactions and communication patterns that have evolved within the organizations and can be considered uniquely Icelandic. To shed light on these factors, a research method developed by Denison will be applied. Other possible research methods were considered and are discussed in the paper, but upon careful consideration the authors found Denison’s method to be best suited for revealing the factors that can explain the international success of Icelandic companies. The Denison method takes into account the majority of the factors that the research project covers; such as the organization’s adaptability, mission, involvement, and consistency. It also includes measures of performance, which neither the Hofstede method nor the OCI method does. Performance measures, such as sales growth, return on investment, quality, profits, employee and customer satisfaction, along with overall performance, are all critical elements that warrant further study and can cast light on how the organization as a whole is performing. Hofstede’s method is based on the comparison and connections between organizational culture and national culture and has more to do with values and behaviours relating to the national culture. The OCI assesses organizational culture at a point in time, thus describing a certain situation at a certain time. It focuses on measuring the behavioural patterns of individuals to assess the match between the employees and the requirements set by management and the ideal culture. Trompenaars’ method is effective for the assessment of organizational culture at a single point in time. It has been developed specifically for organizational culture, but does not take performance into account to the same extent as Denison’s method does. Finally, it is not as accessible as Denison’s method.

Thus it is the authors’ conclusion to rely on Edgar Schein’s definition of organizational culture and to use Denison’s instrument for its assessment.
References


