

## The Impact of Local Culture on Financial Performance in Property Firms in Bali

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### Abstract

The research studies local culture reflected through pray, hard work, honesty, tatwamasi and gotong royong influencing property sales and company assets. Fifty companies are qualified as sample of sixty one property companies actively operated in 2013. Data is collected through questionnaire having tested for its reliability and validity before distributed to those fifty companies. The collected data is analyzed with multiple regression. Result shows that hard work, honesty, tatwamasi and gotong royong culture that well implemented are able to improve property sale and assets ownership. Result of the study has implication that in order to improve financial performance, local culture should be included as variable in performance measurement. Result of the study gives contribution to Schein's organizational culture (2004) that colored with local culture; therefore, values believed in an organization are able to improve performance.

### Keywords

Local culture, property, financial performance

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### Introduction

Culture is an interesting point to study until now since it is related to human behavior. What human did in an organization could influence the organizational culture. Human itself will depend on the environment; thus, an environment where a company located will influence the company (Sangkula, 2009). Davidson, 2000; Carl F. Fey and Denison, 2000; Raka S., 2003 and Marina H. Onken, 1998 found positive and significant relationship between organizational

culture and company performance. It is different to what Denison et al. (2004) found for Asia; organizational culture has no significant influence on company performance. Organizational culture is an important variable in creating company performance (Lee & Yu, 2004) and it is not only an important factor as the main driver for the development and success of big companies but it is also important for small companies. Schein (2004) stated that organizational culture is a key to achieve company excellence.

Local culture, such as harmonization concept in Bali that has been synthesized with organizational culture of Schein (2004), is able to improve financial performance of Village Credit Institution (Astawa et al., 2013). Another study by Astawa et al. 2012 found that a company implemented harmonization cultural concept that set out harmony relationship between human and God (parahyangan), human and human (pawongan) and human and environment (palemahan) tends to have small bad debt. The harmonization culture is an interesting point so that through ethnomethodology approach, Astawa (2013) found that companies' owner consciously encourages the implementation of harmony culture sincerely without economic consideration since they believe that if those three relationships work well the customers will pay the credit willingly without any pressure.

Harmony culture developed in Bali supports argument from Brooks (2008) that culture should exist as a function of cognitive tools. It shows that there exist ideal cultural elements where those various elements indicate values, attitudes, beliefs or a norm. Culture involves physical elements and the aspect is variously showed as action, reaction, practice and convention on how to act. Cultural phenomenon could occur inside and outside individual cognitive tools. A culture has various terms such as collective awareness, base of assumption, collective thought or group value. Combination of various cognitive, physic, and collective elements has made some researchers concluded that a culture should have layers like onion. Brooks (2008) stated that functional grouping of sub-culture in an organization could partially be reflected and it is determined by sub-culture in society.

Sub-culture in Balinese such as hard work, honesty, *tatwamasi* and *gotong-royong* will be synthesized toward harmony culture as local culture with universal nature. Pray and honesty is part of harmony culture related to God. Work hard, *gotong royong* and *tatwamasi* are part of harmony culture related to human. Both harmony cultures will be studied to find out their influence on financial performance of property companies. Fifty property companies actively operated in Bali in 2013 were chosen as research sample. Regression analysis was used to see the influence of harmony culture variables (local culture) on financial performance.

The purpose of this study was to determine the effect on the financial performance of local culture. Local culture such as hard work, honesty, *tatwamasi* and mutual help, and pray a cultural variable Schein (2004) associated with the basic assumption and value system. The local culture that influence organizational culture can encourage the achievement of financial performance. These conditions provide a unique in motivating employees who are non-material. Understanding of the local culture better by management will facilitate the attainment of performance .

## Theoretical Study

### Organizational Culture and Local Culture

Culture has various meanings; however, traditionally culture means view of life of a society or symbol and value system prevailed in a society. Schein (2004) stated that organizational culture is based on three levels. First, artifact, which is something modified by human for certain purpose that can be seen directly from a structure of and process conducted by an organization. Artifacts are easy to

capture when we enter an organization since it is related to what we see, hear and feel when we are in the environment of an organization. Second, espoused belief and values, which are supported values including strategy, goal, and basic philosophy owned by an organization that can be understood if we start to delve into the organization and stay longer in it. These supported values are usually written and a guidance for every step

conducted by members of organization. Third, underlying basic assumptions are implicit and believed shared assumption. Values, beliefs and assumptions used by the founders are considered as important things to bring organization to success.

Local culture summarized in harmonization culture can be synthesized to Schein's (2004) culture is described in Table 1.

**Table 1. The Comparison of Schein's Culture (2004), Harmony Culture, and Harmony Sub-culture**

Schein	Harmony Culture	Harmony Sub-culture
Basic Assumption	<i>Parahyangan</i>	Pray and honesty
Value System	<i>Pawongan</i>	Work hard, <i>gotong royong</i> , and <i>tatwamasi</i>
Artifact	<i>Palemahan</i>	-

### **Organizational Culture and Company Performance**

Various studies had proven that organizational culture could bring a company to create superior performance (Kotter and Heskett 1997). A study conducted by Kotter & Heskett concluded that organizational culture has positive impact on business performance. Further, it was stated that in the next decade, organizational culture will be more important as a factor in determining the success or failure of an organization. Michie and A. West (2004); Lee and Yu (2004); Onken (1998); Davidson et al.(2000); Fey and Denison (2000), concluded that organizational culture influences organization performance. Studies on the relationship between local culture values summarized in Tri Hita Karana culture (Harmony Culture) and business performance had been conducted by: Gunawan (2009); Riana (2010); Astawa et al. (2012); and Astawa et al.

(2013) and found that Tri Hita Karana culture has positive and significant influence on organization performance. Based on previous researches, a hypothesis can be proposed as follow: local culture (pray, honesty, hard work, gotong royong and tatwamasi) influences financial performance of property companies in Bali.

### **Value System In Bali**

Social culture is very important in building human behavior both inside and outside perusahaan. Hal has been proved by several researchers such as Jensen and Meckling (1976) regarding the agency problem that is rooted in the behavior of managers. Manager's behavior is influenced by values, social and cultural normative values (Ekanayake, 2004 ; Johson and Droege, 2004). The behavior of managers is a predominant source in terms of organizational culture formation (David Drennan, 1992).

Related to human behavior is equal to discuss value system (Schein, 2004). The value system gives the characteristics of human in action in the community and within the organization. Gotong royong and Tatuamasi is the value system of the people of Bali in the relationship between human beings. This relationship is called pawongan while maintaining a harmonious relationship between the company and employees' and companies with the community (Astawa, 2011, Astawa et al. 2012, 2013, Surpha, 2001; Wiana, 2004; Ashrama, 2005). In business need to build a harmonious relationship between employees and management of the company and between the company's management with the public (Ashrama, 2005). Ashrama (2005) stated that the harmonious relationship can be indicated on several things, for example: the existence of groups in organizations such as unions and companies to maintain harmonious relations with the community

through poverty alleviation programs, utilizing local labor and training skills.

## Methodology

The research was conducted on sixty six property companies in 2013. Sampling was conducted using purposive sampling method with criteria of having financial report for three years in a row from 2011, 2012 and 2013. Fifty companies were selected as sample. Questionnaire was used to collect data using five Likert Scale and assessment interval ranged from score 1 (very disagree) to score 5 (very agree) for local culture. Financial performance used the same five Likert Scale with assessment interval ranged from score 1 (sharply decline) to score 5 (sharply increase). Before distribution, questionnaire was tested for its validity and reliability (Ghozali, 2005). Multiple regression analysis and testing were conducted using SPSS for window software. Research variables are described in Table 2.

**Table 2. Research Variables**

Research Variables	Measurement	Source
<b>Pray</b>	Praying together before activities	Riana (2010) and <i>Astawa et al.</i> (2013)
<b>Honesty</b>	Give understanding that all activities should be conducted with honesty	Gunawan (2009); Riana (2010); <i>Astawa et al.</i> (2012); and <i>Astawa et al.</i> (2013)
<b>Hard work</b>	Give understanding that all activities should be conducted with hard work	Riana (2010); <i>Astawa et al.</i> (2012); and <i>Astawa et al.</i> (2013)
<b>Gotong Royong</b>	Give understanding to all employees to build togetherness in conducting activities	Gunawan (2009); Riana (2010); <i>Astawa et al.</i> (2012); and <i>Astawa et al.</i> (2013)
<b>Tatwamasi</b>	Give continues understanding to employees to respect each other in company environment	Riana (2010); <i>Astawa et al.</i> (2012); and <i>Astawa et al.</i> (2013)
<b>Financial performance</b>	Sale volume per year for the last three years Company asset per year for the last three years	Anderson, and Eshima, Y (2011) Allen, <i>et al.</i> ,(2012)

Result of normality test of data with one-sample Kolmogorov-Smirnov shows that p value is 0.196, which is above

0.05; therefore, data in the research has distributed normally. Model developed in the research is as follow:

$$KK = \acute{a} + b1BD + b2JJ + b3KR + b4GR + b5TM + e$$

Keterangan :

$\acute{a}$  = Constant

b1-b5 = Regression coefficient for each variable

KK = Financial performance

BD = Pray

JJ = Honesty

KR = Hard work

GR = Gotong royong

TM = Tatwamasi

## Research Result and Discussion

### Descriptive of Respondents

Perception of respondents presented in Table 3 is dominated by pray together before conducting activities. It is indicated by around 98 percent of respondent give good to very good response on variable of pray together before conducting activities with average score of 4.34. By praying, they believe that their job will work well. Activities conducted continuously every day is a habit that is believed to reflect the true value of good culture.

**Table 3. Description of Harmony Culture Indicator**

Instrument Item Harmony Culture	Proportion of Respondent Perception (%)					Average
	Very Bad	Bad	Fair	Good	Very Good	
Pray together before conducting activities	0,0	0,0	2,0	62,0	36,0	4,34
All business activities should be conducted with hard work	0,0	0,0	8,0	54,0	38,0	4,30
All activities should be conducted with honesty according to religious teachings.	0,0	0,0	0,0	52,0	48,0	4,48
Build togetherness in conducting activities	0,0	0,0	2,0	54,0	44,0	4,42
Respect each other in company's environment	0,0	0,0	10,0	40,0	50,0	4,40
<b>Average of harmony culture</b>						<b>4,39</b>

Hard work was responded with good to very good by respondents around 92 percent with average of 4.30. Honesty as the main capital for respondent in conducting business activities also has good to very good response. It is indicated by a hundred percent of respondent agree with statement of honesty with average score of 4.48. According to the respondent if they work honestly according to their religion, it can make their business activities work well, easy and no burden and so do the need for building cooperation with others

in the company when conducting the job. The indicator related to the ability to build cooperation was responded by 98 percent of respondent with good to very good response and average score of 4.42. In addition, regarding the information on the importance of respecting others in company environment the response was good. 90 percent of the respondents view that mutual respect is a very important instrument of cultural indicator to be implemented for business sustainability.

General description shows that financial performance of property companies is fluctuated since it is between the range of 3 – 3.99 with average of 3.66. Most of the respondent gave response that both sales and assets were relatively increasing for the last three years with 62 percent for asset and 40 percent for sales for respondents interviewed with average

of 3.80 and 3.52, respectively. Only 12 percent of respondents show increase in sales and assets level for the last three years. Whereas, 38 percent and 20 percent of respondent stated that sales and assets were fluctuated. Respondent stated that sales and assets were relatively decreasing for the last three years of 8 and 6 percent, respectively. The condition is explained in Table 4.

**Table 4. Description of Financial Performance Variable**

Indicator Financial Performance (Y <sub>3</sub> )	Proportion of Respondent Perception (%)					Average
	Sharply decrease	Relatively decrease	Fluctuated	Relatively increase	Sharply increase	
Sales volume for the last three years	2,0	8,0	38,0	40,0	12,0	3,52
Company's assets per year for the last three years	0,0	6,0	20,0	62,0	12,0	3,80
<b>Financial Performance</b>						3,66

### Hypothesis Test

Result of determination coefficient test shows R square value of 0.363. It means that 36.3 percent variation in company financial performance can be explained by pray, honesty, hard work, gotong royong, tatwamasi and for the remaining 63.7 percent change in financial performance was influenced by other factors external to

the research model. F regression value is aimed to test the influence of independent variable simultaneously on dependent variable (Ghozali, 2005). Result from F test shows value of 5.487 with p value Of 0.001; therefore it can be concluded that pray, honesty, hard work, gotong royong and tatwamasi has simultaneous influence on financial performance. Result of t statistic test can be described in Table 5.

**Table 5. t-regression Value**

Variable	Regression	Standard	Correlation	t-count	p-value
	Coefficient	Error	Coefficient		
Constant	1,916	0,899		2,131	0,034
Pray	1,691	0,501	0,254	3,378	0,001
Honesty	1,563	0,481	0,224	3,327	0,002
Hard word	1,761	0,582	0,325	3,624	0,004
<i>Gotong royong</i>	1,560	0,483	0,256	3,925	0,043
<i>Tatwamasi</i>	1,463	0,464	0,277	3,327	0,014

\*. Correlation is significant at the 0.05 level

Based on the test in Table 1.5, it can be explained that pray, honesty, hard work, gotong royong and tatwamasi culture implemented in property companies in Bali have positive and significant influence on financial performance. Therefore, result of the study supports the hypothesis that local culture influences company financial performance. It strengthens the influence of local culture on organizational culture. Result of the study has implication that local culture should be considered in running a property business in Bali. Bali has cultural diversity developed in the society. Understanding these local cultures will be an additional lesson that should be worked seriously by investors.

### **The Impact of Local Culture on Financial Performance**

The Company can not be separated from the environment in which the company was established so that the cultural influence firm performance (Baker and Sinkula, 2009). Balinese culture fused with religious activities impact the corporate culture through believing the greatness of God. Employees believe that what is gained from the hard work is a gift of God and is also a prostrate devotion to God (Astawa, 2013). A strong boost confidence in the Lord will accelerate the achievement of predetermined performance (Davidson, 2003). The results showed that the culture of hard work and obedience to God hasten the achievement of financial performance. These results are consistent with research Oswari (2011) and Aktas et al. (2011) which says that through the contingency variables such as local culture can change employee behavior to achieve better performance.

The local culture of respect for human (pawongan) reflected by mutual cooperation and tatwamasi effect on

financial performance. This concept is described in the organizational culture Schein (2004) is a value system. Value systems formed by people's behavior will affect the company in Bali through employees. Employees are part of a society that often berinteraksi in social tatatanan will affect the company's performance (Brooks, 2008). Local culture is also a social capital for companies in developing usahan (Chua, JH et al. (2011) and Bates (1997).

Hofstade (1998) argues that three essential components in explaining the power of a corporate culture that is the attitude, values, and culture of the organization. Sebagimana culture proposed by Brooks (2008), there should be a function of the cognitive tools that show that of the elements of these cultures have values, attitudes, beliefs, or sometimes a norm. Culture deemed important included as intangible capital such as social capital and local culture affect its financial performance.

### **Conclusion**

The local culture that affects financial performance through the culture of the organization has provided new insights for companies to take seriously as in advancing the company's capital. This concept has supported the view Brooks (2008) that local culture which contains values, attitudes, beliefs, and norms become an important element in creating access to the company's competitiveness. The values of the local culture is a force within the organization (Hofstade (1998) in achieving the company's performance better. The strength of non-financial is one of the capital necessary social in building corporate excellence (Anderson, and Eshima, Y (2011), and Nofsinger and Weicheng (2011). Cultural cooperation

and *tatwamasi* a value system (Schein, 2004) gives a significant influence in achieving financial performance. Respect for fellow human beings and work together to foster a sense of consumer confidence in the company. The trust that has been built providing space to make a profit because it will create loyal customers to products owned (Astawa, 2013).

### Implication

Result of the research gives encouragement to the property companies in Bali to consider local value in advancing their company. Another implication that local culture provide color in the implementation of culture Schein (2004) within the organization.

### Limitation

The research will be better if it is involving cultural village factor as independent variable since it arranges the village area in Bali. Property is closely related to land as a business product.

### Notes on Contributors

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