

Organizational culture and company values: a cross-sectional study on public companies in Indonesia

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Abstract

Purpose – This study examined the effect of corporate culture (the availability of corporate pages on the website of the company) on the corporate value (Tobin's Q) of the companies listed on the Indonesia Stock Exchange.

Design/methodology/approach – The study uses secondary data extracted both from the company website and the financial reports for the year 2019. There are 530 companies that met the selection criteria. The hypothesis is tested using the cross-sectional ordinary least square (OLS) regression.

Findings – The results show a modest positive effect of corporate culture on corporate value. The robustness test reveals that the finding is more pronounced among small companies. The study also includes four other variables, namely employee activities, employee training programs, honors earned, and charity programs. It was found that only honors earned have a significant positive effect on corporate value.

Research limitations/implications – This study uses a cross-sectional-based analysis, making it lack of capability to look for the multi-years effect of the variables being investigated. It measures Tobin's Q using the end of the fiscal year stock price. Using one single day as the base of calculation may ignore the fluctuation of the stock prices over the whole year.

Practical implications – Given the findings, it is recommended that the company shall disclose and promote its corporate culture as a means of informing potential investors about the company's strong commitment to doing business with a specific culture.

Originality/value – The study examines the issue using cross-sectional data and divides the sample based on the size of the companies allowing it to seek more evidence on whether the main issue under investigation is sensitive to the size of the company.

Keywords: corporate culture, corporate value, charity.

Introduction

Organizational culture has been recognized to be related to performance. Surveys and interviews conducted by Graham et al. (2017) of 1,348 companies in North America concluded that corporate culture is an important part of success. In particular, it is reported that more than 90 percent of top executives recognize culture as a fundamental element, and more than two-thirds place culture as one of the main factors determining the value of the company. The findings of Graham et al.

(2017) clearly show that organizational culture is an important part of an investor's appraisal of a company.

The importance of organizational culture as an important driver of corporate value has long been advocated by various scholars, see for example (Denison, 1990; Schein, 1985). They believe that core corporate values are significant factors to establish an effective organizational culture and improve its performance. In an effective organizational culture, employees perform in a way that is unswerving of the core values of an organization (Givens, 2012). This affirms the view that the core values of a corporation are how the management organizes business and treats employees, suppliers, customers, community, and other stakeholders.

The research of Graham et al. (2017) has inspired a number of studies to prove the relationship between corporate culture and corporate values. There is mounting evidence of a positive association between organizational culture and corporate performance. For example, Cameron & Quinn (2006) show that organizational culture is the main distinction that differentiates successful companies. For example, when a firm has a high degree of culture, its whole performance also escalates (Kirkman et al. 2016; Oberföll et al. 2018). A study by Tulcanaza-Prieto et al. (2021) shows a statistically positive association between organizational culture and firm performance.

However, the available evidence is not always consistent. When most of the literature contends that organizational culture will have a positive influence on the value of the organization, empirical evidence suggests the opposite. For example, Zhao et al. (2018) researched public companies in China and found strong evidence that corporate culture promotion was not a supporting factor for company value, where they found a negative influence. They conclude that investors do not value a company's commitment to employee and community relations as an important factor. The finding of Zhao et al. (2018) supports the results reported by Bird et al. (2007). Relatively similar evidence is shown by Guiso et al. (2015). They examine S&P 500 firms in the United States on the connection between corporate culture and firm performance. These studies usually use questionnaire-based data except Zhao et al. (2018) who employ secondary data.

Given this mixed finding, the current study tries to examine the evidence using Indonesian public companies by employing a cross-sectional study. The data are generated from the company's annual reports. Thus, the study employs secondary data. The main evidence suggests that corporate culture is positively related to the company value measured as Tobin's Q.

The remainder of the paper is organized as follows. The next section provides the literature review and hypothesis development. Section three presents the research methods followed by the presentation of results and discussion. The final section concludes the paper and offers suggestions.

Literature Review and Hypotheses

Organizational culture or corporate value is an imperative issue and an understudied area in accounting. Karim & Qamruzzaman (2020) summarize that corporate culture is a set of interconnected activities between organizations and managers. It encompasses many issues such as commitment, consistency, involvement, and adaptability. Organizational culture has an excessive impact on all the business activities as it is closely interconnected with the rest of the functions. We may argue that a corporation having well managed and appreciated culture will be able to accelerate its operational performance. It will also be able to enhance the process of organizational efficiency. Kilmann et al. (1985) assert that corporate culture has been regarded as something to do with people. It is also bound the distinctive quality and style of the organization. Whilst, Deal and Kennedy (1982) add that it provides the way things are carried out and implemented in the organizations. Deal and Kennedy (1982) contend that organizational culture is also known as corporate culture. For the purpose of the analysis, the current study uses the term corporate culture rather than organizational culture as it examines public corporation which is a more commercialized meaning and profit-oriented entity.

Cremer (1993) posits that culture characterizes the undeclared code of statement among members of an organization. Some argue that culture is a concord that supports coordination. O'Reilly & Chatman (1996) assert the notion of culture the defined it as a set of norms and values

that are widely shared. In addition, culture must be strongly held throughout the organization. With respect to the employees, O'Reilly (1989) and Kreps (1990) contend that culture is highly related to the way how corporation values its employees. The corporate value will drive employees on valuing and behaving in their day-to-day activities. It must be shared and enforced by employees in terms of a social norm. In particular, in a corporation, it must be shared and practiced not only by the top leader but also among the leaders. This is what we call leading by example. A strong culture with the best talents helps promote positive changes, such as idea exchange, communication, continuous improvement, problem-solving, and teamwork. This all will lead to creating value not only for the business but also for the community.

Baker (2002) affirms that organizational culture turns out to be a business phenomenon in the early 1980s. Corporate culture is a key to organizational performance. It could be managed and organized to improve a company's competitive advantage.

Schein (2010) suggests that today's organizational culture is even more significant. It is driven by competition, globalization, buyouts, alliances, mergers, acquisitions, and takeovers. Even, numerous workforce developments have shaped a greater need for its importance. Accordingly, there seems to be a greater need for an organization to adapt to these changes. In addition, it has become more important for a company to gear up toward a knowledge-based economy. Further, Schein affirms that organizational culture is strongly related to efforts to optimize the role of employees. As intellectual assets, employees' value demands a culture that stimulates new knowledge construction and solicitation, intellectual participation, and the willingness to share knowledge with others, and facilitates not only individual but also organizational learning. The strong organizational culture of employees is responsible for a clear path to consider how the organization runs. Like nations, organizations have a distinctive culture. Organizational culture affords basic assumptions and norms. They guide and direct the behavior and attitude. Separating organizational culture from the national culture is difficult.

Corporate culture serves three important functions (McShane & Glinow, 2005). Firstly, it is a deeply entrenched form of social resistor that affects behavior and employee decisions. Secondly, it is the social glue binding people together and making them a fragment of the organization. Third, it helps the sense-making process. It assists employees to realize organizational events and delivering information and other issues more efficiently and effectively. These three functions are important to enable the company to reach higher levels of competition because employees share common mental models of realities. In addition, Saffold (1988) recognizes two relevant facts about culture. First, it can shape organizational processes. Second, it links to performance.

Organizational culture is closely related to various measures of company performance. For example, it has the potential to impact the organization's environment, productivity, profitability, work habits, or other performance measures (Linnenluecke & Griffiths, 2010). With respect to operational activities, Shahzad et al. (2012) suggest that managers shall use an effective organizational culture to influence productivity and performance.

The importance of the existence of organizational culture has been undeniable. Top leaders of the organization must play an important role in delivering a culture to the subordinates (employees). They have to be able to assimilate the corporate culture to sustain effective communication between employees. Kenny (2012) posits that it is a unifying element for various units and divisions. Eaton & Kilby (2015; Weber & Tarba, 2012) conclude that without organizational culture support, top leaders of a company would fail to successfully implement and maintain their strategy.

To summarize, every corporation must have a corporate culture. A corporate culture possesses integrity and must be translated into positive effects for the shareholders. Thus, top management of companies, in particular, public companies, with better corporate governance shall preserve such corporate value. Joseph & Kibera (2019) analyze microfinance institutions and find strong evidence that organizational culture is a major foundation of sustainable competitive advantage.

Being a public corporation, the owners consist of various individuals as well as institutions.

This means it has public ownership that has concerned with generating profits to satisfy its shareholders. The corporation must focus on managing the balance between the costs incurred and benefits received from stringent integrity norms. The public listing creates the stock market participants to value the shares using all available information. Thus, the corporation's stock price reflects how investors value it. In other words, to the extent this price incorporates all pertinent information, the management must utilize all the resources to maximize the value of shareholders by sustaining internal norms unswerving with increased value.

At first, the argument of whether corporate culture relates to corporate performance is contentious. For example, in their meta-analysis study, Hartnell et al. (2011) conclude the lack of comprehensive and compelling theory on the organizational culture linkage with financial performance. Yet, Barney (1986) argues that many researchers support a direct positive relationship. This highlights the support that certain types of cultures lead to better financial performance. On the other hand, Sørensen (2002) suggests the relationship is not straightforward. Further, Sørensen (2002) advocates a possibility of the existence of contingent on exogenous conditions. Sørensen (2002) believes that strong cultures could drive consistency in performance. It can be attained by reducing uncertainty through goal clarity, increasing motivation, willingness to endorse organizational goals, and increasing employee consensus. In addition, Lim (1995) conducts a literature review and concludes that the understanding of the organizational culture effect on corporate performance seems to be a predictive if not a descriptive and explanatory tool.

In his editorial comments on the journal of financial economics, a special edition of studies on culture, Zingales (2015) points out the importance of the study on culture and company financial performance. This comment has raised concern about the potential effect of corporate culture on the performance of the public corporation as the competition is getting wider and intensified. Thus, a call for further studies merits intention among academics.

Many studies have been directed to test whether corporate culture affects corporate performance. For example, Gordon & DiTomaso (1992) conduct a survey on 11 US insurance companies in 1981. They examine the relationship between corporate culture and performance. The finding indicates that a strong culture regardless of content is associated with better performance. Corritore et al. (2019) test whether intrapersonal cultural heterogeneity assists creativity and bolsters success and provides more positive market assessments. They examine nearly 500 publicly traded firms on their cultural content in employee reviews extracted from the leading company review website. They find support for the prediction.

Chatman et al. (2014) on the study of high-technology firms document support for the direct association of corporate culture on financial performance. In particular, they argue that companies with strong cultures will have improved financial performance even in dynamic environments. Yet, they note that it can be evident when the norm content intensely emphasizes adaptability among parties involved in the company.

Some studies do not find clear evidence that corporate culture affects corporate performance. A study among managers in Turkey shows no effect on the perception of corporate culture and financial performance (Yesil & Kaya, 2013). As shown in Zhao et al. (2018), corporate culture has a negative impact on the corporate values measured using Tobin's Q. The finding is surprising as it contradicts the previous belief that a corporation with strong corporate value would be valued better or above average by investors. For example, a case study shows the decision to change organizational culture prior to selling the shares to the public (going public) the value of the company increases in the after-market (Silva, 2017). Silva asserts that improving company value through a new culture reflects the significant role of culture that increase investors' confidence in the company.

There are few studies looking at the impact of corporate culture on corporate performance. Most of the studies use the survey method, that is they are based on perception. Yet the finding seems to provide no support to the contention. For example, Heryanto & Agustine (2017) employ survey-based research on the 100 public corporations listed on the Indonesian Stock exchange (IDX). They show that there is a negative but insignificant relationship between corporate culture and performance. Yet, another survey-based study on the perception of state-owned enterprises

shows that corporate culture has a positive and significant impact on performance (Muslih & Halliawan, 2021).

The aforementioned discussion suggests that there are still conflicting findings on the effect of organizational culture on corporate performance. But, given the expectation that corporate culture should enhance employee's engagement and promote common terms to stand together for the success of the company, we predict that companies having clear corporate culture will be valued better by the market participant, and thus the company value, as measured using Tobin's Q, will increase.

Research Methods

The population of the study is all public companies listed on the IDX in 2019. By the end of 2019, there were 671 companies listed on the exchange. The selected companies must have information on the corporate culture. A close examination of the company's financial report as well on the website of each company shows that there were 572 companies with available data. After considering a company with missing and extreme data, we came to a final sample of 530 companies.

Following Zhao et al. (2018), the dependent variable of the study is Tobin's Q measured as the ratio between the market value of equity and its assets' replacement cost. All data are based on end of year report, that is the year 2019.

The definitions for each of the independent variables are as follows. Corporate culture is defined as whether the company has a page containing culture on its website. If so, the value of one is assigned and zero otherwise. Other variables examined in the study include the number of employee activities, whether the company has an employee training program, honors earned by the company, and whether the company has a charity program. The number of employee activities is measured as the number of employee activities presented on the website. The employee training program is measured as the number of employee training programs presented on the website. The honor is measured as the number of honors earned by the company shown on the website. Charity is measured as the number of charity activities presented on the website of the company.

The number of employee activities is included in the analysis as it has a direct connection with the corporate culture. Givens (2012; Zhao et al. 2018) assert that employees working in an effective organizational culture will perform in a way that is consistent with the core values of the organization. Employee activities and training programs reflect the direct involvement of employees in the effort to support the organizational culture. Investors would value such a company better than a company that has few employee activities and training programs. If a company has received many honors, it is regarded as a well-managed organization and thus the market shall value it better than a company that does not have recognition. Similarly, a company having a recognizable charity program would be valued better by investors (Zhao et al., 2018). All the independent variables are expressed in a ratio scale except corporate culture which is a dummy (categorical scale).

The hypothesis is tested using ordinary least square regression. A number of assumption tests were performed to meet the requirement of a good model that includes heteroskedasticity, multicollinearity, and normality. The following cross-sectional regression model is employed.

$$CV_i = \alpha + \beta_1 CC_i + \beta_2 EA_i + \beta_3 TP_i + \beta_4 NH_i + \beta_5 CP_i + \epsilon_i$$

Where: CV is a corporate value, CC is corporate culture, EA is the number of employee activities, TP is the number of the training program, NH is the number of honors, and CP is the number of charity programs.

Results and Discussion

As described previously, a total of 530 companies met the criteria from a total of 671 companies listed in IDX in the year 2019. Table 1 presents the descriptive statistics of the variables under investigation. Not reported in Table 1, from the total of 530 companies, there are 38 companies that provide cultural information on their web. This number represents 7.17 percent of the total

of 530 companies. The figure indicates that the number of companies showing cultural information is limited which means that the awareness of having cultural-related activities is not common.

Table 1. Descriptive Statistics of Variables (n= 530).

| No. | Variable | Mean | Median | Minimum | Maximum | Standard Deviation |
|-----|-------------------------------|---------|--------|---------|---------|--------------------|
| 1 | Tobin's Q | 10.2004 | 1.4596 | 0.0921 | 99.8324 | 18.6175 |
| 2 | Number of employee activities | 0.5792 | 0 | 0 | 100 | 6.1153 |
| 3 | Number of a training program | 0.2264 | 0 | 0 | 23 | 1.3796 |
| 4 | Number of honors earned | 5.3358 | 0 | 0 | 225 | 14.0854 |
| 5 | Number of charity programs | 3.7811 | 2 | 0 | 54 | 6.0086 |

As can be seen in Table 1, on average the examined companies have Tobin's Q values of greater than one indicating that the market value of the companies is higher than their book value of assets. Most of the companies do not provide information or conduct concerning the employee activities (only 27 companies or 5.10 percent), training programs for the employees (32 companies or 6.04 percent), and receive honors (240 companies or 45.28 percent). Interestingly, there are 337 companies, or 63.58 percent report they have performed a charity program. The findings reported in the table clearly indicate that a very small number of companies have reported any information related to employee activities and employee training programs. A charity program seems to be informative as more than 60 percent of the companies reported that they have such kind of activities.

The results of checking the correlation between variables show that none of the variables has a correlation coefficient of greater than 60 percent. This finding reveals that multicollinearity is not present in the model. Table 2 present the results of the correlation between variables.

Table 2. Matrix Correlation of Variables

| Variable | Culture Page | Employee Activities | Employee training programs | Honor Earned | Charity |
|----------------------------|---------------------|---------------------|----------------------------|---------------------|---------|
| Employee Activities | 0.0934 ^a | | | | |
| Employee training programs | 0.0446 | 0.0454 | | | |
| Honors Earned | 0.0963 ^a | 0.0708 ^a | -0.0074 | | |
| Charity | 0.1088 ^a | 0.0309 | 0.0644 | 0.1297 ^b | |
| Tobin's Q | 0.0519 | -0.0426 | 0.0121 | 0.0886 ^a | 0.0072 |

Note: ^a and ^b denote significant at 10% and 5%, respectively.

Table 3 presents the results of Cross-Sectional Ordinary Least Square Regression. The test is based on a one-tail test as we predict that the direction of the coefficient is warranted. As can be seen in table 3, corporate culture has positive and significant at the 10 percent level. This indicates that cultural information provided on their web is regarded as good information that would affect investor valuation. In other words, investors regard information on corporate culture as a significant factor in the determination of corporate value. The finding reported here is in contrast to Zhao et al. (2018). Zhao et al. (2018) report a negative effect of cultural information on the value of a company.

Other finding reported in Table 3 shows that the number of honors received by the company is regarded as a good signal that will make investor place their money in the company. This finding indicates that the higher number of honors granted to the company is associated with higher corporate value as measured using Tobin's Q.

Three other variables, namely the number of employee activities, employee training programs, and the number of charities are not related to corporate value. Even, the coefficient of the number of charity activities is negative.

Table 3. Results of Cross-Sectional Ordinary Least Square Regression (n=530)

| Variable | Coefficients | t-Stat | p-value | Conclusion | VIF |
|--|--------------|---------|---------|------------|-------|
| Intercept | 9.1898 | 9.2079 | 0.0000 | | |
| Culture page | 5.1734 | 1.6355 | 0.0501 | Sig.10% | 1.028 |
| Employee activities | 0.1439 | 1.0849 | 0.1392 | Not. Sig | 1.015 |
| Employee training programs | 0.4134 | 0.7051 | 0.2405 | Not. Sig | 1.008 |
| Honors earned | 0.1186 | 2.0444 | 0.0207 | Sig. 5% | 1.028 |
| Charity | -0.0450 | -0.3305 | 0.3706 | Not. Sig | 1.031 |
| Adj. R ² = 0.0093; F-value = 1.9951; (p= 0.0778); D-W= 1.82 | | | | | |

Note: The t-test of hypotheses is based on the one-tailed test.

To check whether the finding of the study is sensitive to the size of the company, the sample is divided into two groups. The first group consists of 265 companies with low total assets separated based on the median value. The second group consists of the companies with larger total assets. Table 4 presents the results of the robustness test by dividing the sample into two groups.

The results of the study suggest that the findings are more pronounced among small companies, as the generated coefficients are similar to the whole sample. Cultural information (corporate culture) and honors earned by the company are found to have a significant effect on corporate value. Interestingly, employee activities become significant explanatory of the variation of corporate value but the coefficient is negative. This finding suggests that when a company provides information on employee activities, the market value is less than a company that does not do.

Table 4. Robustness Test splitting the Sample Based on Median Total Assets

| Variable | Small Size Companies (n=265) | | | Large Size Companies (n=265) | | |
|-------------------------------|------------------------------|---------|-------------------------------|------------------------------|---------|------------|
| | Coeff. | t-stat | Conclusion | Coeff. | t-stat | Conclusion |
| Intercept | 5.5670 | 4.7219 | Sig. <1% | 12.1090 | 7.3042 | Sig. <1% |
| Cultural page | 5.8104 | 1.3176 | Sig. 10% | 2.0324 | 0.4653 | Not Sig. |
| Employee activities | -1.4007 | -1.5067 | Sig. 10% | 0.1524 | 1.0412 | Not Sig. |
| Employee training programs | 0.1523 | 0.2743 | Not Sig. | 2.2046 | 1.5158 | Sig. 10% |
| Honors earned | 1.3272 | 5.6550 | Sig. 1% | 0.0425 | 0.6455 | Not Sig. |
| Charity | -0.0016 | -0.0072 | Not Sig. | -0.2523 | -1.3938 | Sig. 10% |
| Adj. R ² = 0.1176; | | | Adj. R ² = 0.0035; | | | |
| F-value = 8.0413 (p= 0.0000) | | | F-value = 1.1849 (p= 0.3169) | | | |

Note: the t-test of hypotheses is based on the one-tailed test.

The findings reported in the current study to a certain extent confirm the expectation that corporate culture, measured using the availability of information on corporate culture on the website of the company, is regarded as valuable information. In this respect, we posit providing information on the corporate culture seems to add value to the investors. The investors would utilize it as information in judging the company so as to make decisions regarding buying, holding, or selling the company shares.

Relying on the study by Chatman et al. (2014) who report a direct association between corporate culture and financial performance, the results shown in the current study may be in the same spirit although it does not directly examine the financial performance. However, Tobin's Q is known as the proxy for corporate value and its calculation involves accounting or financial data, we may argue that financial performance and Tobin's Q are closely related.

Theoretical Implication and Managerial Implication

This study adds empirical evidence on whether corporate culture could affect the stakeholders, in particular, the investor or potential investors, in valuing the future prospect of the company. Understanding this issue would provide us with evidence of the importance of possessing values by the corporation as a means to bring the stakeholders, especially, the employees to achieve the ultimate goal of the organization.

In terms of managerial implication, the study adds to our understanding that having corporate culture could stimulate employees to work in a healthy environment. Companies that have a good and strong organizational culture will be able to make employees work better. Employees will feel part of the organization and have their own pride as a contributor of energy and thoughts to the organization. Managers could use organizational culture as a means to further strengthen employee participation and a sense of belonging to work together to achieve company goals. Managers could also understand that there are certain aspects of the organizational culture that need attention, such as employee training programs or other employee activities that reflect their care and participation.

Referring to the findings that not many companies presented information on employee activities and employee training programs, it shall be noted for the policy maker that this information could be beneficial to the potential investors in valuing whether the company has good concern on the employee activities. Thus, the finding of the study could be used as a consideration to ask public companies to provide employee-related activities so that parties external to the companies could have better and more valuable information when looking at the companies' concerns about their employees.

Conclusion and Future Direction

This study tests whether corporate culture affects corporate value. Corporate value is measured using Tobin's Q whilst corporate culture is a dummy variable indicating the presence of the culture page on the website of the company. It employs secondary data based on the public company website and the financial reports for the year 2019. A total of 530 companies met the selection criteria. The cross-sectional OLS regression generates a modest significant positive effect of corporate culture on corporate value. Further analysis reveals that the finding is more driven by small company size. Apart from corporate culture, other examined variables include employee activities, employee training programs, honors earned, and charity programs. The study documents that honors earned have a positive and significant effect on corporate value.

Two limitations are identified in this study. First, we notice that this study uses a cross-sectional-based analysis, that is a single financial year. Thus, it is able to assess the effect of current corporate changes on the next period. It could be the case that stakeholders would see a good effort to have an effect on the future period. Accordingly, future studies analyze the issue using pooled data covering a number of periods. Secondly, the current study uses Tobin's Q as the dependent variable of which the value is deeply affected by the stock price at the end of the fiscal year. The study ignores the movement of stock prices for the whole year. Using one single day as the base of calculation may ignore the fluctuation of the stock prices. Thus, the future study may use balance stock prices or explore other measures of corporate value, such as profitability or the presence of innovation as examined in Zhao et al. (2018). In addition, the future study may use survey-based data as also been carried by some studies, such as Gordon and DiTomaso (1992), Yesil & Kaya (2013), Chatman et al. (2014), Heryanto & Agustine (2017), Corritore et al. (2019) or Muslih & Halliawan (2021).

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