

# Management Styles and Performance of Diversified Firms: A Comparison of Structural Approach and Cultural Approach

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## I. ABSTRACT

This research project aims to examine and compare the efficacy of two different approaches to managing diversified firms, by using Taiwanese business groups as the sample. This project finds that both management styles can lead to satisfied economic performance and they are supplementary. Diversified firms employing simultaneously two management logics will outperform firms with only one management logic.

### Keywords

Management Styles, Performance, Diversified Firms, Structural Approach, Cultural Approach, Taiwanese Business Groups

## II. MOTIVATION AND BACKGROUND

Since the 1960s, the diversified corporation has become a dominant form of business organizations. This trend starts in the U.S.A. and spread through the important economic regions of the world, such as Europe, Japan, East and South East Asia. It is no exaggeration to argue that the economics of the industrial world now depend crucially on the performance of large diversified

companies (Chandler, 1991). Therefore, the strategies, management styles and economic performance of diversified firms have become a significant research question.

Although diversification has been the focus of extensive research in the strategic management literature for more than 3 decades, research focusing on the internal management process within diversified firms is comparatively limited (Hill, Hitt & Hoskisson, 1992; Ramanujan & Varadarajan, 1989). With regard to the management styles within diversified firms, literature from the West has proposed a *structural approach* to managing diversification. This approach focuses on the appropriate design of headquarters (HQ)-division relationships in order to implement firms' strategic objectives effectively. Under this line of reasoning, HQ-division relationships are determined by a variety of contingency factors, such as corporate strategy (Vancil, 1980), competitive strategy of divisions (Govindarajan, 1988), and some divisional characteristics (Gupta, 1987). These contingency factors, together, determine the appropriate management styles of a diversified firm. If a firm shows a "fit" between its management style and these contingency factors, it is expected to deliver superior economic performance. This stands for the central theme of the *structural approach* to managing diversification.

Another approach discussed in the literature to managing diversified firms is the *cultural approach*, or shared values. This approach emphasizes on the development of strong shared values among organizational members in order to

integrate divisional behaviors and to minimize their propensity to opportunistic behaviors (Ghoshal & Moran, 1996; Ouchi, 1984). The stronger the shared values among organizational members, the higher the possibility they are willing to work hard to maximize organizational benefits. Also, a firm with strong shared values is expected to show superior economic performance (Deal & Kennedy, 1987). This stands for the central theme of the *cultural approach* to managing diversification.

The structural approach and the cultural approach represent *two different logics* of managing a complex organization. In the existing literature, we can find different authors building their research on different logics, implicitly or explicitly, and there exists little integration between these two approaches. This may be a reason why some research findings are inconsistent.

Therefore, this research projects aims to answer the following questions: (a) What is the economic implication of the structural control approach? (b) What is the economic implication of the cultural control approach? (c) What are the interaction effects of these two management logics? Are they exclusive (i.e. a firm can only employ one single logic)? Or are they supplementary (i.e. a firm can simultaneously employ two logics)? (d) If it is possible for a firm to simultaneously employ two logics, what will be its performance outcome? Is the combination of two logics more profitable than any single logic?

### III. RESULTS AND DISCUSSIONS

Data were collected via a questionnaire survey supplemented by in-depth interviews. The top 100 business groups in Taiwan were asked to participate in this research. An invitation letter was sent to the HQs of the top 100 business groups. Of these, 34 business groups agreed to participate, 32 finally responded and 31 cases were useable. For each business group, the CEO or a single manager/staff member from the corporate HQ, who had comprehensive knowledge about the management of the whole business group, was the

respondent.

With respect to the analytical method, given the small size of this study, t-test was used as main analytical tool to compare the performance difference between ideal-type and non-ideal-type firms, and between high and low shared values firms. For the intersection effects of contingency organizations and shared values, we utilized multivariate analysis of variance (MANOVA) and Duncan's test.

#### A. Structural Approach and Performance

To test whether firms employing the structural management approach (Group 1) will outperform firms without this approach (Group 2), t-test was used to compare the economic performance between the two groups of firms. If the average performance of Group 1 is significantly higher than that of Group 2, the hypothesis is supported. It is found that Group 1 significantly outperforms Group 2 on all of the performance variables. This strongly supports our prediction. (See **Table 1**)

#### B. Cultural Approach and Performance

It is found that the overall mean score on "cultural approach" of the 31 business groups is 5.46 (s.d. = .56), on a seven-point scale. This shows a fairly high level of the employment of shared values and indicates explicitly that Taiwanese business groups make considerable use of culture and shared values as a control mechanism. Again, I used t-test to compare the economic performance of firms employing the cultural control approach (Group 3) and firms without using this management approach (Group 4). As expected, all of the *t*-values are positive, but only one scale yield statistical significance (i.e. ROE). This provides moderate support to our prediction that diversified firms with a high level of cultural control will outperform diversified firms with a low level of cultural control. (See **Table 2**)

#### C. Interaction Effects of Two Approaches

Using structural management logic (Approach

One) and cultural management logic (Approach Two) as two dimensions for the typology, four categories of firms can be developed: (1) firms with both two management logics (Category 1); (2) firms with only the structural approach but without the cultural approach (Category 2); (3) firms with only the cultural approach but without the structural approach (Category 3); and (4) firms without following any of the management approaches (Category 4). According to the literature, this thesis predicts that firms in Category 1 will show the highest performance; firms in Categories 2 and 3 are expected to show medium performance, while firms in Category 4 will perform worst. (See Table 3)

MANOVA was used to compare the economic performance among the four categories, with results provided in Table 4. As expected, almost all of the  $F$ -values are significant (which means that there indeed exists performance difference among categories). To further examine where and how much the performance difference exists, Duncan's multiple comparison test was utilized. The pairs listed in Table 4 are those groups for which the means are significantly different at the  $p < 0.05$  level. Again, the results match well with the predicted performance relations among the four categories of diversified firms.

#### IV. EVALUATIONS

This project found that structural approach is used by Taiwanese business groups as control mechanisms, and they contribute to performance positively. Hill et al.'s arguments are found to be applicable to Taiwanese cases. Also, as predicted, cultural control can be utilized to manage effectively the complex organizations such as multibusiness firms. Also the findings support the proposition of *simultaneity* and *equifinality* of structural approach and cultural approach.

This study also involves several limitations. First, it depends on a single respondent to measure

the overall management style of a business group. Second, the useable sample size is only 31, so the overall tendency may be influenced by individual observations. Finally, limited sample size also constrains the use of statistical methods. This study would provide richer and more interesting information if moderate regression models can be computed.

#### V. REFERENCES

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**TABLE 1**

Structural Approach and Performance n = 31 Business Groups

Classification	Performance Index			
	ROA (mean s.d.)	ROE (Mean s.d.)	ROS (Mean s.d.)	Growth on Sales (%) (Mean s.d.)
Group 1 (n=8)	8.45 (6.72)	19.25 (14.28)	10.36 (6.97)	31.25 (42.78)
Group 2 (n=23)	4.15 (3.13)	8.96 (6.52)	3.97 (3.56)	14.26 (13.12)
t – value	2.45**	2.78**	3.37**	1.73*

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01 (two-tail significance).

**TABLE 2**

Cultural Approach and Performance n = 31 Business Groups

Classification	Performance Index			
	ROA (mean s.d.)	ROE (Mean s.d.)	ROS (Mean s.d.)	Growth on Sales (%) (Mean s.d.)
Group 3 (n=10)	6.42 (4.11)	15.09 (7.51)	7.39 (4.85)	24.17 (30.14)
Group 4 (n=21)	4.70 (4.75)	9.90 (7.47)	4.78 (5.50)	16.00 (22.00)
t – value	.97	1.81*	1.28	.86

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01 (two-tail significance).

**TABLE 3**

Relationships between Contingency Organization, Shared Values and Performance

**Approach Two**

		With cultural control	Without cultural control
Approach One	With structural control	High Performance > 1 > 0	Medium Performance > 2 > 0
	Without structural control	Medium Performance > 3 > 0	Low Performance > 4 > 0

Hypothesis: Performance Group &gt; 1 &gt; 0 Group(2) &gt; 1: X, ^f &gt; 3 &gt; 0 Group &gt; 4 &gt; 0

**TABLE 4**

Performance Comparison of Four Categories -- MANOVA and Duncan's Test

Statistics	Performance Index			
	ROA	ROE	ROS	Growth on Sales
F – value	2.78*	5.23**	5.23**	1.99
Duncan's test	(3 > 0)	(3 > 0) (3 > 1) (3 > 2)	(3 > 0) (3 > 1) (3 > 2)	(3 > 0)

\*p&lt;0.1; \*\*p&lt;0.05; \*\*\*p&lt;0.01 (two-tail significance).