

RELATIONSHIP OF HOFSTEDE'S DIMENSIONAL CULTURE TOWARDS  
PERFORMANCE (FINANCIAL) OF MELAKA SME'S SERVICE SECTOR COMPANY


MUHAMAD FIRDAUS ABD. RASHID

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Universiti Teknikal Malaysia Melaka

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I hereby declared this report entitled “*Relationship of Hofstede’s Dimensional Culture towards (Financial) Performance of Melaka SME’s from the Service Sector*” and found that it has comply the partial fulfillment for awarding the degree of *Bachelor of Technopreneurship with Honor*”

Signature : .....  .....

Supervisor’s Name : .....

Date : ..... 28/6/2013 .....

I declared that this report entitle “*Relationship of Hofstede’s Dimensional Culture towards (Financial) Performance of Melaka SME’s of the Service Sector*” is the result of my own research except as cited in the references. The report has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

Signature : .....  .....

Name : .....

Date : ..... 28/6/2013 .....

To Muhammad pbuh, the coming Khilafah governance, my beloved Abdul Rashid Samudin  
and Sa'odah binti Ibrahim also the muslim worldwide

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## ABSTRACT

After 16 years of operation, Small Medium Enterprise (SME) Malaysia have the undeniable great deeds towards supporting Malaysia economic growth, as well as providing a conducive business environment. This draw a big chances for entrepreneurial value to have its sustainability in Malaysia. However, there are few company that meet failure in even though being supervised by SME Corp. Among the factor known that threatened SME's sustainability, is the cultural practiced inside the company itself. What kind of culture plays by a failure company? And what is the culture practiced by the leader company that make them surpassing their competitor? Professor Greet Hofstede's with his cultural dimensions provide a clear way of culture classification, on helping market entity mastering a best way of handling culture problems. With this concept, a best working culture can be extracted and share in order to have a better future of entrepreneurial environment. With Melaka SME as a respondent, this paper focus on enhancing Melaka SME growth.

## **ABSTRAK**

*Setelah 16 tahun beroperasi, Perusahaan Kecil Sederhana (SME) Malaysia tanpa diragukan mempunyai rekod cemerlang terhadap memberikan sokongan dan sumbangan dalam pertumbuhan ekonomi Malaysia, termasuklah menyediakan suasana perniagaan yang kondusif. Ini memberikan peluang yang besar bagi syarikat-syarikat yang bernaung di bawahnya untuk berkembang menjadi lebih pesat. Namun setelah beberapa tahun beroperasi, masih lagi wujud syarikat-syarikat yang gagal menjadi antara yang terbaik, malah ada yang semakin mengecil. Hal ini diakui sendiri oleh pihak pengurusan SME Corp. dan sememangnya berlaku. Di sana pasti wujud beberapa faktor penyebab yang menjadi punca dan mengancam perkara tersebut daripada berlaku. Antaranya adalah budaya kerja yang diamalkan dalam syarikat-syarikat tersebut. Apakah jenis budaya kerja yang menyebabkan gagalnya keberlangsungan syarikat-syarikat di dalam pasaran mereka? Dan apa pula budaya kerja yang diamalkan oleh syarikat-syarikat yang beraksi cemerlang? Professor Greet Hofstede dengan teori dimensi budayanya telah menyediakan jalan yang jelas untuk pengelasan budaya kerja, bagi membantu pengurusan budaya yang lebih berkesan. Melalui konsep-konsep tersebut, suatu budaya kerja yang lengkap dan terbukti berkesan boleh dikeluarkan dan dikongsikan dalam membantu mempergiat dan memperluaskan demi keadaan pasaran yang lebih baik di masa akan datang. Dengan menggunakan syarikat-syarikat SME di Melaka sebagai responden, kajian ini bertujuan untuk mempermudah tumbesaran syarikat-syarikat SME di sekitar Melaka.*

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## LIST OF ABBREVIATIONS

SME	-	Small Medium Enterprise
PDI	-	Power Distance
IDV	-	Individualism
MAS	-	Masculinity
UAI	-	Uncertainty Avoidance
IBM SPSS	-	IBM Statistical Product and Service Solutions

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## SECTION 1

### INTRODUCTION

#### 1.0 Background of the Study

Since the first time of operation on 2 May 1996, Malaysia Small Medium Enterprise (SME) relatively play huge responsibility on developing the best support for small and medium company development. With the importance of developing a group of diverse and competitive small and medium enterprises (SMEs) towards sustainable economic growth, SMEs are crucial to the economic growth process and play an important role in the country's overall production network.

Although the numbers might be lower in Malaysia, SMEs have the potential to contribute substantially to the economy and can provide a strong foundation for the growth of new industries as well as strengthening existing ones, for Malaysia's future development. Thousands of company were success and create a big name under SME Corp. supervision, and some unluckily, only appear on their first step in business.

The year of 1996 witnessed a specialised agency was established to spur the development of small and medium enterprises (SMEs) by providing infrastructure facilities, financial assistance, advisory services, market access and other support programmes. Known as the Small and Medium Industries Development Corporation (SMIDEC), its aim was to develop capable and resilient Malaysian SMEs to be competitive in the global market.

The establishment of the National SME Development Council (NSDC) in 2004 presented yet another chapter in SME development in Malaysia. As the highest policy-making body, its role was to formulate strategies for SME development across all economic sectors, coordinate the tasks of related Ministries and Agencies, encourage partnership with the private sector, as well as ensure effective implementation of the overall SME development programmes in this country. Initiatives under NSDC included enhanced access to financing, financial restructuring and advisory services, information, training and marketing coordination, and a comprehensive SME database to monitor the progress of SMEs across all economic sectors.

2007, the NSDC were then decided to appoint a single dedicated agency to formulate overall policies and strategies for SMEs and to coordinate programmes across all related Ministries and Agencies. SMIDEC was tasked to assume the role and the official transformation into Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia) commenced on 2 October 2009. SME Corp. Malaysia is now the central point of reference for information and advisory services for all SMEs in Malaysia.



Malaysian SMEs can be grouped into three categories: Micro, Small, or Medium. These groupings are decided based on either:

- The numbers of people a business employs OR

	<b>Primary Agriculture</b>	<b>Manufacturing (including Agro-Based) &amp; Manufacturing-Related Services</b>	<b>Services Sector (including Information and Communications Technology )</b>
<b>Micro</b>	Less than 5 employees	Less than 5 employees	Less than 5 employees
<b>Small</b>	Between 5 & 19 employees	Between 5 & 50 employees	Between 5 & 19 employees
<b>Medium</b>	Between 20 & 50 employees	Between 51 & 150 employees	Between 20 & 50 employees

*Table 1.0: The numbers of people a business employs based on the number of full-time employees*

- Or Annual Sales Turnover

	<b>Primary Agriculture</b>	<b>Manufacturing (including Agro-Based) &amp; Manufacturing-Related Services</b>	<b>Services Sector (including Information and Communications Technology)</b>
<b>Micro</b>	Less than RM200,000	Less than RM250,000	Less than RM200,000
<b>Small</b>	Between RM200,000 & less than RM1 million	Between RM250,000 & less than RM10 million	Between RM200,000 & less than RM1 million
<b>Medium</b>	Between RM1 million & RM5 million	Between RM10 million & RM25 million	Between RM1 million & RM5 million

*Table 1.1: Annual sales turnover that act as a guide on SME classification. (Source: [smeinfo.com.my](http://smeinfo.com.my))*

## 1.1 Problem Statement

SME's programme is such a brilliant idea and also an excellent ways on supporting the small and medium business growth and sustainability. Through all this year of operation, Malaysian SME's company, as research focus, Melaka SME's exposed freely to exchange happen in the global market. Foreign Direct Investment (FDI) repeatedly occur and penetrating local market, threatening local product existence. This is the effect of globalization era, where technology has brought the world much closer together. As the effect, local company and product does not have a place on the market of their own country.

Only few SME's famously known with their comprehensiveness. All the company develops themselves under one same aim, to become a successful company at the end of the day. But, important thing like working culture rather turning their path to go down. A déjà vu on failure is unforgiveable, due to the cost of money and time it takes. Preventing a same failure to be happen again is one of the aims of this research, in order to have a best organizational culture develop on the company. This research focusing on exploring the practised culture on high performance company.

## 1.2 Research Questions

The research questions will basically rolling on:

- 1.2.1 What is the culture practised by successful SME's company in Melaka?
- 1.2.2 How well do culture contribute to the sustainability of the Melaka SME?

### **1.3 Research Objectives**

This research mainly focusing on this objectives as the guidance of its approval:

- 1.3.1 Identifying the working culture that proven effective in contribution of the comprehensiveness of any service sector company of Melaka SME's.
- 1.3.2 Suggesting a best working culture to be implemented in new SME's service sector company.

### **1.4 Scope, Limitation and Key Assumption**

This research will only providing and suggesting the best culture to be developed in order to increasing the performance service sector SME's company in Melaka context, according to Professor Geert Hofstede's culture dimensions. There are lot of culture views to be focused in comparison with Hofstede's. The finding of this research will only valid in usage new comer under SME's company. Thus its affectivity on SME's of other region is uncertain. Furthermore, the result of this findings only proven effective for business of the same sector, as SME Corp has other two class of company and three level of company classification criteria which not be covered on this study.

## **1.5 Importance of the Research**

This project importance clearly seen as it is focusing on providing the guidelines of best culture implemented in high performance company, thus make swift of the new comer or newly develop company to act without the necessity of experimenting the best culture to be used in order to reach the optimum performance. In short, this project a best solution of cutting the cost of finding a best culture to be implemented and becoming a high performance company in shorter time period.

## SECTION 2

### LITERATURE REVIEW

#### 2.1 Hofstede's Cultural Dimensions

These inputs were gathered from books, journals and few reliable academics websites. On understanding the importance of developing one culture, it was a necessity to understand the meaning of organizational culture.

Pettinger (2000) states that culture in organization is a summary of the ways in which activities are conducted and standards and values adopted. It encompasses the climate or atmosphere surrounding the organization, prevailing attitudes within, standards, morale, strength of feeling towards it and general levels of goodwill present. It is an essential feature of effective organization creation and performance. (Pettinger, 2000)

The culture of a company normally comes from the ultimate source of an organizations; the founders. Founders of an organization traditionally have major

influence as they are the one who start all the process, initiatives from the very scratch. (Robbins & Judge, 2008). They owned a vision of what organization should be. The culture at Hyundai, the giant Korean conglomerate, is largely a reflection of its founder Chung Ju Yung. Hyundai's fierce competitive style and its disciplined, authoritarian nature are the same characteristics often used to describe Chung. (Robbins & Judge, 2008).

How could the management team deal with critical stakes like culture? The fact is that culture defines company's future existence. All this questions were then answered by a psychologist, named Dr Geert Hofstede, have done an internationally recognized standard on the best method to mastering one culture, managing without losing company identity as well as developing a perfect company culture for company purposes. (Mind Tools). Professor Geert Hofstede conducted one of the most comprehensive studies of how values in the workplace are influenced by culture.

Through the publication of his scholarly book "Culture's Consequences" (1980, new edition 2001), Geert Hofstede in title of Philosophy Doctor at the time became the founder of comparative intercultural research. His most popular book "Cultures and Organizations: Software of the Mind" (1991, new edition 2010, co-authored with Gert Jan Hofstede and Michael Minkov) has so far appeared in about 20 languages.

With access to people working for the same organization in over 40 countries of the world, Hofstede collected cultural data and analysed his findings by initially identified four distinct cultural dimensions that served to distinguish one culture from another. Later he added a fifth dimension and that is how the model stands today. He scored each country using a scale of roughly 0 to 100 for each dimension. The higher the score, the more that dimension is exhibited in society. Those studies focused on



identified cultural similarities and difference among the 116 000 staff of IBM located in 40 countries. (Pettinger, 2000)

Developing a culture of a company take a few factors of consideration, which include the bad and benefit contains in that particular culture. Mastering the dimensions ruled by Hofstede's is the most simplest and reliable way of classifying organizational culture of working.

## **2.2 Performance**

The primary target of adopting effective management is measured by the company performance. What actually the performance, how to tell about its measure ability and what is the best way of looking towards it. As such, some methods of measuring performance are needed to determine how well an organization functioning as the result of implementing the best culture dimensions studied by Hofstede's.

Good performance is the criterion whereby an organization determines its capability to prevail. Performance measurement estimates the parameters under which programs, investments, and acquisitions are reaching the targeted results (OCIO, 2007). Mandy 2009 identified company performances can be measured in many criteria which including the effectiveness, growth and productivity. Several performance measurement systems are in use today, and each has its own group of supporters. For example, the Balanced Scorecard (Kaplan and Norton, 1993, 1996, 2001)

Although the Balanced Scorecard has become very popular, there is no single version of the model that has been universally accepted. The diversity and unique

requirements of different enterprises suggest that no one-size-fits-all approach will ever do the job. Gamble, Strickland and Thompson (2007, p. 31) list ten financial objectives and nine strategic objectives involved with a balanced scorecard.

On measuring the company performance, this study will focus on financial scope as the measurement of performance, using the guide provided by SME Corp.

### **2.3 Theory Research and Review**

Pettingger (2000) on his books state that, Professor Geert Hofstede's on his global culture study and classification, classified the world culture into four reliable dimensions. Starting with four dimensions - Individualism, Power Distance, Uncertainty avoidance, and Masculinity - Hofstede's were then found another new dimensions which also viable in term of cultural analysing and classification; the so called Long Term Orientation.

The dimension that Hofstede's came out with is basically used for a company with the vision of penetrating foreign market, which has different culture like they did. In other words, these dimensions are used as a tool to understanding the foreign culture, so the management can easily engage and penetrating that particular market with the warranty of sustainability.

Hofstede's came with the conclusions as stated below:

#### **2.3.1 Power Distance (PDI)**

The study looked at the extent to which managers and supervisors were encouraged or expected to exercise power to provide order and discipline among workers. In other words, power and influences distributed across the